



## **PUBLIC DISCLOSURE**

December 01, 2014

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The First National Bank of New Mexico  
Charter Number 15259

201 Main Street  
Clayton, NM 88415

Office of the Comptroller of the Currency

Denver Field Office  
1225 17th Street, Suite 450  
Denver, Colorado 80202

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

**INSTITUTION'S CRA RATING: This institution is rated Satisfactory**

- The First National Bank of New Mexico (FNB) adequately meets the needs of the community as demonstrated by its quarterly loan-to-deposit (LTD) ratio of 67 percent during the evaluation period.
- FNB originates a majority of loans by both number (75 percent) and dollar volume (80 percent) within the bank's assessment area (AA).
- The borrower distribution of FNB's loans to farms of different revenue levels is reasonable and meets the standard for satisfactory performance. The bank's distribution of consumer loans reflects excellent penetration among persons with different incomes.
- The geographic distribution of loans within the AA reflects a reasonable dispersion of loans to borrowers in different geographies in the AA.

**SCOPE OF EXAMINATION**

Our objective was to assess the bank's performance in meeting the credit needs of the communities in which it operates. The evaluation period for this examination is from the start date of the bank's prior CRA examination, July 7, 2008 to the start date of this examination, December 1, 2014. Our review period, the time-period from which we selected our loan samples, is from January 1, 2012 to June 30, 2014 and is representative of the bank's lending activities since the 2008 examination. We evaluated FNB using Small Bank CRA procedures, which include only a lending test as described in the regulation. As seen in the table below, based on loan originations during the review period, FNB's primary products are agricultural loans by dollar amount and consumer loans by number of loans originated. We selected random samples of 20 loans per product. If any loans chosen were to entities or persons outside the AA, we used the loan in our determination of the In/Out ratio. We then deleted any out of AA loans from the sample and randomly selected other in/AA loans to complete the samples of 20 per product. All financial information and ratios are as of June 30, 2014 or the review period, unless otherwise stated.

<b>LOAN PORTFOLIO ORIGINATIONS January 1, 2012 through June 30, 2014</b>		
	<b>Originated Loans by Number</b>	<b>Originated Loans by Dollar Amount</b>
Agricultural Loans	651	<b>\$209,401,868</b>
Commercial Loans	462	\$40,904,734
Consumer Loans	<b>1,749</b>	12,150,288
Residential RE Loans	135	12,309,711

*Source: Bank reports*

## **DESCRIPTION OF INSTITUTION**

FNB is a community bank headquartered in Clayton, New Mexico, which is located in the far northeastern part of the state bordering Colorado, Texas, and Oklahoma. Union BancShares, Inc., a one-bank holding company also located in Clayton, New Mexico, wholly-owns FNB. As of June 30, 2014, FNB had \$191 million in average assets and \$17 million in tier one capital. FNB operates its main office in Clayton, New Mexico and has five other full-service branches in Raton, Tucumcari, Logan, Angel Fire, and Santa Rosa, New Mexico. Each branch location includes a deposit-taking ATM. Banking hours do not vary in a way that inconveniences individuals in its AA. The Santa Rosa location converted from a loan production office (LPO) to a full-service branch during the assessment period. FNB has had no merger or acquisition activities since the last CRA examination.

FNB is a full-service banking institution. The bank offers a variety of loan and deposit products at all of its locations. The bank's loan portfolio by dollar volume consisted of 58 percent agricultural loans, 25 percent business loans, 13 percent home loans, four percent consumer loans, and less than one percent other loans.

FNB has no legal, financial, or other constraints that impede its ability to help meet the credit needs in its AA. The bank received an "Outstanding" rating at its last CRA evaluation dated July 7, 2008.

## **Description of the FNB of New Mexico Assessment Area**

FNB has designated all of Union, Colfax, Quay, and Guadalupe counties in New Mexico as its AA. The AA meets the legal requirements of the regulation and does not arbitrarily exclude low- or moderate-income (LMI) geographies. The AA is not located in a metropolitan statistical area and consists of one moderate-income census tract (CT) and seven middle-income CTs. There are no low- or upper-income tracts in the AA.

The 2010 U.S. Census lists the population of the AA as 32,027. The Census identified the weighted average median family income in the AA as \$44,332. The median housing value was \$90,746, and approximately 36 percent of housing units in the AA are vacant. The percentage of households below the poverty level is 20 percent. The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation's 2014 list of distressed or underserved nonmetropolitan middle-income geographies includes all seven middle-income census tracts in the AA.

The AA's economic base consists primarily of agricultural, educational and health services, construction, tourist retail trade, and public administration industries. As of June 30, 2014, the unemployment rate for the state of New Mexico was 6.5 percent, while the unemployment rate was 5.9 percent in Colfax County, 8.3 percent in Guadalupe County, 6.5 percent in Quay County, and 5.6 percent in Union County.

Competition for financial services is moderate. The June 30, 2014 FDIC Market Share Report shows eight financial institutions competed for \$594 million of insured deposits in the four-county area that makes up FNB's AA. Competition includes branches of nationwide and regional institutions and other community banks. FNB has the largest share percentage of AA deposits at nearly 29 percent.

We contacted a local community development organization to identify credit and banking needs in the AA. The contact indicated primary lending needs are in small business loans; and, while banks had to be very careful in choosing credit customers under current economic conditions, the local financial institutions support the community very well and satisfactorily meet its credit needs.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

FNB's loan-to-deposit (LTD) ratio is reasonable and reflects satisfactory performance relative to the bank's size, financial condition, and competition within the AA. The bank's average quarterly LTD ratio averaged 67 percent over the 20 quarters from July 1, 2009 to June 30, 2014, and showed a quarterly low of 60 percent and high of 73 percent.

The bank's quarterly average LTD ratio for the 20 quarters ranks toward the bottom of four other community banks' LTD ratios for banks of generally similar size, location, and product offerings. The four comparable banks have an average net LTD ratio of 74 percent, with a range from 68 percent to 80 percent for the same 20 quarters. The trend in FNB's LTD ratio over the past two years compares favorably with that of the other banks. In the past two years, FNB's LTD ratio has steadily increased and ranks second among the four competing financial institutions for that period.

### **Lending in Assessment Area**

FNB originates a majority of its loans within the AA. The bank originates a substantial majority of its consumer loans, by number of loans and by dollar amount, within the AA and originates a majority of agricultural loans by dollar amount to borrowers within the AA. FNB's percent of agricultural loans by number of loans originated in the AA is a majority of agricultural loans originated.

We also considered FNB's agricultural credit relationships with cattle operations in Dallam County, Texas, and Cimarron County, Oklahoma. These counties are sparsely populated with the closest population centers capable of supporting financial institutions located farther away from the large agricultural borrowers than FNB's Clayton, New Mexico, branch location. The bank meets the credit needs of these customers even though Dallam and Cimarron Counties are not in FNB's designated AA and are not

separate AAs by themselves as FNB has no branch location or deposit-taking ATM in the areas.

Please refer to the table below for more information.

<b>Table 1 - Lending in the FNB of New Mexico AA</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural	11	55	9	45	20	2,980	80	765	20	3,745
Consumer	19	95	1	5	20	103	97	3	3	106
Totals	30	75	10	25	40	3,083	80	768	20	3,851

Source: Bank reports

### Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Overall, the borrower distribution of FNB's loans to farms of different revenue levels is reasonable and meets the standard for satisfactory performance. We gave greater weight to the number of loans originated because one or two large loans can greatly change the overall characteristics of the bank's lending. By number of loan originations, FNB's distribution of loans to farms with less than \$1 million in revenues is close to demographic characteristics. While the percentage of loans to small farms is near demographic data, FNB made 71 percent of these loans to very small farms with revenues less than \$250,000.

FNB's distribution of loans by dollar amount in our sample is well below AA demographics. By dollar amount, the bank originated just less than half its total loan proceeds to farms with revenues less than \$1 million, which compares unfavorably with the AA demographic of nearly 98 percent.

<b>Table 2A - Borrower Distribution of Loans to Farms in the FNB of New Mexico AA</b>				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	98	2	0	100
% of Bank Loans in AA by #	85	15	0	100
% of Bank Loans in AA by \$	50	50	0	100

Source: 2010 U.S. Census data and our sample of loans from January 1, 2012 to June 30, 2014.

FNB's performance in lending to consumers with different incomes exceeds the standard for satisfactory performance. The percentage of the number of consumer loans the bank originated to both low- and moderate-income borrowers exceeds the demographic comparator. Please refer to Table 2B for more information.

<b>Table 2B - Borrower Distribution of Consumer Loans in the FNB of New Mexico AA</b>				
Borrower Income Level	Low	Moderate	Middle	Upper

	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	27	35	18	25	18	10	37	30

Source: 2010 U.S. Census data and our sample of loans from January 1, 2012 to June 30, 2014.

### Geographic Distribution of Loans

FNB’s record of lending to agricultural and consumer borrowers in different income tracts is reasonable and meets the standard for distribution of credit within the AA. Our sample of farm loans did not include any loans in the moderate-income area, which is near AA demographics of three percent. Likewise, our sample of consumer loans did not include any loans to households in the moderate-income census tract, which is less than AA demographics of 16 percent of AA households. This is partially mitigated by the fact that the moderate-income tract’s median income is substantially less than any other census tract in the AA.

Table 3A - Geographic Distribution of Loans to Farms in the FNB of New Mexico AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Farm Loans	0	0	3	0	97	100	0	0

Source: 2010 U.S. Census data and our sample of loans from January 1, 2012 to June 30, 2014.

Table 3B - Geographic Distribution of Consumer Loans in the FNB of New Mexico AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0	0	16	0	84	100	0	0

Source: 2010 U.S. Census data and our sample of loans from January 1, 2012 to June 30, 2014.

### Fair Lending or Other Illegal Credit Practices Review

Write a paragraph about the institution's record of complying with the laws relating to discrimination and other illegal credit practices inconsistent with helping to meet community credit needs using the following guidelines:

FNB has not received any Community Reinvestment Act related complaints since the last performance evaluation.