



SMALL BANK

Comptroller of the Currency
Administrator of National Bank

Washington, DC 20219

PUBLIC DISCLOSURE

July 07, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Ruidoso
Charter Number 21109

451 Sudderth Drive
Ruidoso, New Mexico 88345

Office of the Comptroller of the Currency

ARIZONA & NEW MEXICO
9633 South 48th Street Suite 265
Phoenix, Arizona 85044

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 Ruidoso's (FNBR) lending performance reflects a satisfactory response to community credit needs. This is based on the following.

- The bank's loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and the assessment area's (AA) credit needs.
- The bank originates the substantial majority of their loans inside the AA.
- The distribution of business loans among businesses of different sizes and individuals of different income levels is excellent, given the demographics of the AA.
- The geographic distribution of loans throughout the AA is reasonable.

SCOPE OF EXAMINATION

This examination consisted of a full scope review of the bank's single AA. The lending test covers the evaluation period of January 2006 through May 2008. We identified business and consumer loans as the bank's primary products based on the number and dollar amount of loans originated in this evaluation period. There were no affiliate loans to review.

We sampled 20 loans from each of the bank's primary loan products. The data from the original business and consumer loan sample was used to calculate the inside-outside AA ratio. To perform other lending tests, we eliminated loans outside the AA from the original sample and added enough additional loans to provide a sample of 20 business and 20 consumer loans inside the AA. The sample reflects the bank's business strategy since the last examination.

DESCRIPTION OF INSTITUTION

There are no financial or legal impediments that hinder the bank's ability to help meet the credit needs of the AA. The bank was rated satisfactory at its last CRA examination as of March 24, 2003.

FNBR is a community bank located in Lincoln County, New Mexico, which is a non-metropolitan area in the southern part of the state. As of March 31, 2008, FNBR had \$51 million in average assets and net total loans of \$30 million, or 59 percent of total assets. FNBR operates a main office, one branch, and four ATMs in Ruidoso, New Mexico. None of the ATMs accept deposits. FNBR is a subsidiary of a two-bank holding company, First Alamogordo Bancorp of Nevada, Inc., which has \$258 million in assets. The affiliate bank is First National Bank in Alamogordo. No affiliate lending was considered in this performance evaluation.

The bank's primary lending focus is small business loans. In terms of dollars, commercial loan originations totaled 84 percent of all loan originations during 2006 and 2007. Additional details about the bank may be found in its Public File, maintained at the main office of the bank.

DESCRIPTION OF ASSESSMENT AREA

FNBR has designated five census tracts (CT) in Lincoln County and one CT in Otero County as its AA. Included in the AA are the towns of Ruidoso, Ruidoso Downs, Alto, Hondo, Capitan, Nogal, Arabela, Encinosa, Fort Stanton, Carrizozo, White Oaks, and Corona. The Mescalero Apache Reservation located in Otero County is also included in the AA. The entire area is a non-metropolitan statistical area. There are no low-income CTs located in the AA. There are one moderate-income, one upper-income, and four middle-income tracts located in the AA. The AA meets the legal requirements of the regulation and does not arbitrarily exclude low-or moderate-income (LMI) geographies.

The economy of Ruidoso and the surrounding area is largely reliant on tourism. Major tourism based employers include the Inn of the Mountain Gods Resort and Casino and the Ruidoso Downs Race Track and Casino. Additional major employers include the Ruidoso Municipal Schools, the Lincoln County Medical Center, Wal-Mart, and the Village of Ruidoso. Local economic conditions are stable. Unemployment for the area has fallen from 4.9 percent, as of May 2005, to 3.5 percent, as of May 2008. This is due in part to increasing tourism activities and a healthy construction industry.

Competition for financial services is strong. The June 30, 2007 FDIC Deposit Market Share Report shows 11 financial institutions competed for over \$829 million of insured deposits. The nature of the competition includes four branches of nation-wide financial institutions comprising about 35 percent of the deposit market share. FNBR is the third smallest institution with a six percent share in the marketplace and does not operate outside the area. Seven of the other ten competitors have a significant presence and access to other loans and deposits outside the local market.

The bank has identified four of the local banks in the marketplace as their primary competition. Three are larger regional banks who operate inside and outside of the AA. The other is a state chartered bank which operates solely in the AA. These institutions were used to evaluate the bank's LTD ratio.

To gather more information on the nature of the economic conditions and potential community development opportunities in the AA, we contacted a local community leader during this examination. The contact reported that the economic conditions were satisfactory and that there were no unmet credit needs in the community. The contact identified business loans for construction companies as the primary credit needs for the community. The contact also noted the need for financing of primary residences and secondary vacation homes. The contact said that the major long-term issue facing the community was the seasonality associated with tourism.

Maps and additional information about the bank's AA may be found in the bank's Public File, maintained at the main office of the bank.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's LTD is reasonable given the strong competition for loans and the bank's size and market area in comparison to their competitors. FNBR's average quarterly LTD ratio for March 2003 to March 2008 is 66 percent, while its four primary competitors' LTD ratios average 98 percent. However, FNBR is much smaller in size than their primary competition. They have \$51 million total assets, two branches inside their market area, and no branches outside of their market area. The bank's primary competitors' total assets average about \$767 million, with an average of three local branches inside the market area, and an average of 18 branches outside of the market area.

Lending in Assessment Area

The substantial majority of the bank's loans are within the bank's AA. Our analysis determined that 95 percent of the number of loans and 83 percent of the dollar amount of the loans in our sample were made inside the bank's AA. See Table 1 below.

| Table 1 - Lending in AA | | | | | | | | | | |
|--------------------------------|-----------------|------------|----------|-----------|-----------|------------------|------------|----------------|------------|------------------|
| Loan Type | Number of Loans | | | | | Dollars of Loans | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| Commercial | 19 | 95% | 1 | 5% | 20 | 4,230,808 | 82% | 900,000 | 18% | 5,130,808 |
| Consumer | 19 | 95% | 1 | 5% | 20 | 276,845 | 97% | 7,359 | 3% | 284,204 |
| Totals | 38 | 95% | 2 | 5% | 40 | 4,507,653 | 83% | 907,359 | 17% | 5,415,012 |

Source: Sample of Loans.

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

The distribution of business loans among businesses of different sizes given the demographics of the AA is excellent. Table 2A shows that 71 percent of the businesses in the AA are small businesses (businesses with gross revenues of \$1 million or less). Fifteen of the 20 business loans we sampled, or 75 percent of our sample, were made to small businesses. Sixty-two percent by dollar amount were made to small business, but this number is slightly skewed due to one unusually large loan of about \$1.5 million to a large business included in our random sample. As a result, we relied more heavily on the percent by number as opposed to the percent by dollar.

| Table 2A - Borrower Distribution of Loans to Businesses in the AA | | | | |
|--|--------------|--------------|-------------------------|-------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/ Unknown | Total |
| % of AA Businesses | 71 | 3 | 26 | 100% |
| % of Bank Loans in AA by # | 75 | 20 | 5 | 100% |
| % of Bank Loans in AA by \$ | 62 | 37 | 1 | 100% |

Source: Loan sample; Dunn and Bradstreet data.

The distribution of consumer loans among individuals of different income levels given the demographics of the AA is reasonable. Table 2B below shows that the bank’s penetration of low-income households is 15 percent and slightly lower than the AA demographics. Consumer loans are held to a higher performance standard than commercial or residential real estate loans because the consumer loans are generally easier to obtain and easier for the bank to make when compared to residential real estate loans or commercial loans. Thus, the bank’s performance below this low-income demographic does not strictly meet the standard for reasonable performance. This is somewhat mitigated by the fact that 15 percent of the AA population is below the poverty level, which would make even consumer loans difficult to obtain. In addition, the bank’s penetration in moderate-income households is 20 percent and slightly higher than the AA demographics, which meets the standard satisfactory performance.

| Table 2B - Borrower Distribution of Consumer Loans in the AA | | | | | | | | |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| 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 | 18 | 15 | 16 | 20 | 19 | 25 | 47 | 40 |

Source: Loan Sample; U.S. Census data.

In arriving at an overall conclusion, we weighted the performance in commercial lending more heavily than consumer loans because small business lending is the bank’s main focus. Thus, we concluded that borrower distribution is excellent.

Geographic Distribution of Loans

The overall geographic distribution of loans reflects a reasonable dispersion throughout the AA. There are no low-income geographies in the AA. The bank’s performance in lending to businesses in moderate-income geographies is reasonable, while the lending to individuals in moderate-income geographies is poor. In our conclusion, we relied more heavily on the geographic distribution of business loans as these loans represent the majority of the bank’s loan portfolio.

According to the Dunn and Bradstreet data, only three percent of all businesses in the AA are located in the one moderate-income CT. From our sample of 20 business loans, none were located in the moderated-income CT. See table 3A. Because of the small number of businesses operating within moderate-income tracts in the bank’s AA, the bank has a very limited opportunity to make business loans in the one moderate-income CT. It is also more difficult for a small sample to pick up loans in every CT. When the demographic is so low, even zero loans is “near” the standard. Also, according to management and the bank’s records, they are committed to meeting the credit needs of moderate income areas and they currently do have a limited number of business loans in this moderate- income CT.

| Table 3A - Geographic Distribution of Loans to Businesses in the AA | | | | | | | | |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| CT Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans |
| | n/a | n/a | 3 | 0 | 56 | 45 | 41 | 55 |

Source: Loan Sample; Dunn and Bradstreet data.

The bank's performance in lending to consumers within moderate-income geographies is poor. According to the 2000 U.S. Census, 9 percent of households in the bank's AA are located in moderate-income CTs. From our sample of the 20 consumer loans, none were in moderate-income CTs. These results do not meet the standard for consumer lending. See Table 3B. According to the bank's records as of April 21, 2008, they had 10 personal loans, or 3 percent of total number of personal loans, located in moderate-income CTs, totaling about 1 percent of the dollar amount of these loans. This still would not meet the standard for consumer lending. Lending to consumers in moderate-income CTs represents a lending opportunity for the bank.

| Table 3B - Geographic Distribution of Consumer Loans in the AA | | | | | | | | |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| 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 | n/a | n/a | 9 | 0 | 60 | 50 | 31 | 50 |

Source: Loan Sample; 2000 U.S. Census data

Responses to Complaints

No complaints have been received by the bank or the OCC relating to the bank's CRA performance during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.