



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

February 24, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Valley National Bank
Charter Number 15395**

**322 Riverside Drive
Española, New Mexico 87532**

**Comptroller of the Currency
ADC-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.

Valley National Bank's (VNB) lending performance reflects a satisfactory response to community credit needs. This is based on the following information.

- The loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- A majority of the number of loans are inside the bank's AA.
- The distribution of loans reflects reasonable penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects excellent dispersion throughout the AA.

DESCRIPTION OF INSTITUTION

VNB is a community bank in Española, New Mexico, with total assets of \$218 million as of December 31, 2002. VNB operates out of one office including two deposit taking ATMs at the main office location and one in a store parking lot less than a mile away. The bank has not closed any branches or deposit taking ATMs during the evaluation period. The bank is an independent community bank with no affiliates or holding company.

The bank's primary lending focus in 2001-2002 loan originations is in commercial and consumer loans. In terms of dollars outstanding, commercial and commercial real estate loans represent 71%, consumer loans represent 10%, and residential mortgage loans represent 17% of the bank's total loan portfolio as of December 31, 2002. The bank's net loans to total assets ratio as of the same date was 67%. With a 14% deposit market share as of June 30, 2002, VNB was the second largest financial institution in the AA.

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 previously rated Satisfactory as of November 9, 1998.

DESCRIPTION OF ASSESSMENT AREA

As of December 31, 2002, VNB had designated the Rio Arriba and Los Alamos contiguous counties and census tracts as its AA. Rio Arriba County includes the town of Española, where the main office is located, and the communities of Chama, Vallecitas, Tierra Amarilla, Dulce, Jicarilla, Coyote, Abiquiu, Alcalde, Dixon, Chimayo, and the pueblos of San Juan and Santa Clara. Los Alamos County includes the town of Los Alamos and the community of White Rock. The three contiguous Santa Fe census tracts include the pueblos of Nambe, Pojoaque, Tesuque, and San Ildefonso. The six contiguous Taos census tracts include the towns of Taos, Penasco, Vadito, Chamisal, and Tres Piedras as well as the Picuris pueblo.

There are seven moderate-income, fourteen middle-income, and four upper-income census tracts in the AA. There is also one "NA" tract, where there is no reported income by the population to allow a designation of low- to upper-income with respect to the area median income. There are no low-income census tracts in the AA. The AA meets the legal requirements of the regulation and does not arbitrarily exclude low- to moderate-income (LMI) geographies.

The 2002 HUD updated statewide non-MSA median family income (MFI) is \$33,700. However, two of the counties in the AA are parts of a metropolitan statistical area (MSA). The updated MSA MFI is significantly higher in those areas, at \$63,100. The percent of households in the AA defined as low-income is 24%; moderate income is 16%; middle-income is 17%; and upper-income is 43%.

Competition for financial services is moderate. The June 30, 2002 FDIC Deposit Market Share report shows nine financial institutions competed for \$1.2 million of insured deposits. The nature of the competition includes one other community bank and branches of larger regional and large nation-wide corporations. All of the other competitors have presences and access to other loans and deposits outside the local market.

The largest local employment sectors are federal government (including Los Alamos National Laboratories), state and local government (including school districts), retail trade (including Wal-Mart), and Indian gaming. Unemployment figures for Rio Arriba County have come down from a high of 9% in 1998 to 7% for 2002. Taos County was even higher, at 12% in 1998 and is down to 9% for 2002. Santa Fe and Los Alamos counties have much lower unemployment rates over the same period, falling from 4% to 3% and 2% to 1%, respectively.

During this examination we contacted one community leader to discuss economic conditions and credit needs. The contact indicated that the need for small business loans was being met by the local community banks.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The evaluation period for this CRA examination focuses on loan originations during 2001-2002. The early December 31, 2002, cut-off date is because of the impact of the Census 2000 changes which were effective in 2003. Loans made through 2002 are compared to 1990 Census demographics, while loans made in 2003 and forward will be compared to 2000 demographic comparators. Using only one census demographic period for this evaluation provides a more consistent analysis.

For this 2001-2002 period, we looked at both the dollar amount of loans and the number of loans originated. An evaluation of the originations showed VNB's primary products to be commercial and consumer loans, which is representative of the bank's current business strategy.

Loan Originations for Evaluation Period	Percentage of Dollar Amount of Loans	Percentage of Number of Loans
Business Loan Originations as a % of Total Originations	66%	26%
Consumer Loan Originations as a % of Total Originations	20%	65%
Total Primary Products as a % of Total Originations	86%	91%

Source: Loan Originations for evaluation period

After identifying the primary products, we took a random sample of 20 business loans and 20 consumer loans, and used them to determine the ratio of loans inside the AA. To evaluate the geographic and borrower distribution of loans, loans outside the AA were discarded and additional loans were then selected to fill in the samples of 20. Based on these samples, the bank's initial evaluation of its CRA performance in meeting the credit needs of the community is Satisfactory, as supported below.

Loan-to-Deposit Ratio

The bank's average quarterly LTD ratio of 86% during the evaluation period is reasonable given the bank's size, financial condition, and AA credit needs. It meets the standard for satisfactory performance.

Uniform Bank Performance Reports from the 3rd quarter 1998 through the 4th quarter 2002 were used to compare VNB with eight other banks that share parts of the same AA.

As indicated in the table below, VNB is on the high end of the range of LTD ratios for similarly located banks. This is good considering the lack of access to loans and deposits outside its AA, which all of the other competitor banks enjoy.

Bank	Average Quarterly LTD Ratio
VNB	86%
Eight other financial institutions average LTD ratios	74%
Highest LTD ratio in range of other three institutions	91%
Lowest LTD ratio in range of other three institutions	60%

Source: Uniform Bank Performance Report

Lending in Assessment Area

A majority of the number of loans from the sample are inside the AA, but a majority of the dollar amount of loans are outside the AA. Normally when a majority of loans inside the AA is not achieved, some need for improvement is indicated. However, in this case the performance of the bank is considered reasonable, with mitigating circumstances. The sample consists only of 20 consumer and 20 business loans. With such a small sample, it is easy for one large loan to distort the sample. In the 40 loans, there is only one loan over \$1 million, and it is outside the AA. In addition, the rest of the loans in the sample are significantly smaller. Only two of the loans are over \$100 thousand, and 19 of the loans are very small: less than \$10 thousand each.

Lending in Rio Arriba & Los Alamos Counties, and 9 CT's in Santa Fe & Taos Counties AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total #	Inside		Outside		Total \$000
	#	%	#	%		\$000	%	\$000	%	
Business	18	90%	2	10%	20	\$937	34%	\$1,855	66%	\$2,792
Consumer	18	90%	2	10%	20	\$322	96%	\$14	4%	\$336
Totals	36	90%	4	10%	40	\$1,259	40%	\$1,869	60%	\$3,128

Source: sample of loans

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

Given the demographics of the AA, the distribution of business and consumer loans originated reflects a reasonable penetration. Our analysis included 20 commercial and 20 consumer loans originated in 2001 and 2002 inside the AA.

Business Loans

The bank's business lending activity to businesses of different sizes is reasonable. This table measures the bank's performance in lending to small businesses, defined as businesses with gross revenues of \$1 million or less. The percentage of loans to small businesses exceeds the business demographic by number, although it does not meet the business demographic by dollar amount of loans in the sample.

Borrower Distribution of Loans to Businesses in Rio Arriba & Los Alamos Counties, and 9 CT's in Santa Fe & Taos Counties AA		
Business Revenues (or Sales)	≤ \$1,000,000	> \$1,000,000
% of AA Businesses*	77%	4%
% of Bank Loans in AA by #	85%	10%
% of Bank Loans in AA by % \$	58%	40%

Source: Loan sample; Dunn & Bradstreet data. 19% of AA businesses did not report revenue data.

More weight is given to the percent of number than the percent of dollar for two reasons. As with the lending inside AA calculation, a small sample is easily distorted by a large loan. All of the loans in the borrower distribution analysis are inside the AA, but in this sample there are only two loans over \$100 thousand, and the larger of the two is to a borrower with gross revenues in excess of \$1 million. Eight of the 20 loans are less than \$10 thousand. The second reason is one of relativity: larger organizations generally qualify for, and have need for, larger loans than smaller businesses.

Consumer Loans

The bank’s consumer lending activity to borrowers of different incomes is reasonable. This table measures the bank’s performance in lending to low- and moderate-income (LMI) borrowers. Low-income is defined as less than 50% of the HUD updated MFI for the MSA or non-MSA area in which the borrower resides. Moderate-income is defined as between 50-80% of the HUD updated MFI. The bank’s AA includes both MSA and non-MSA census tracts, so what is considered LMI for Rio Arriba and Taos county census tracts will be much lower than for the Santa Fe and Los Alamos census tracts.

Borrower Distribution of Consumer Loans In Rio Arriba & Los Alamos Counties, and 9 CT's in Santa Fe & Taos Counties AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
% of AA Households by income level	24%		16%		17%		43%	
	% of Dollar of Loans	% of Number of Loans	% of Dollar of Loans	% of Number of Loans	% of Dollar of Loans	% of Number of Loans	% of Dollar of Loans	% of Number of Loans
Consumer Loans	9%	35%	14%	15%	27%	15%	50%	35%

Source: loan sample; U.S. Census data

For low-income borrowers, the bank significantly exceeds the demographic in the number of loans extended. The percentage of the number of dollars in the sample to low-income borrowers is far less than the demographic. However, 20% of the households in the AA are classified as having income below poverty level, and low-income borrowers and those below the poverty level will generally only qualify for very small loans, so this is not an unreasonable penetration.

For moderate-income borrowers, the bank is below, but very close to the demographic in both the percentage of number, and percentage of the dollar amount of loans. While this does not quite meet the standard for acceptable performance in consumer loans by itself, the bank’s overall performance in this category is still satisfactory.

Geographic Distribution of Loans

The geographic distribution of the bank's business and consumer loans within the AA is excellent. Our analysis included 20 commercial and 20 consumer loans originated in 2001 and 2002 inside the AA. There are no significant gaps or areas of low penetration in the bank's lending patterns.

Business Loans

The bank's business lending activity in moderate-income tracts is excellent. This table measures the bank's performance in lending to businesses in different income tracts. The percentage of loans in moderate-income tracts significantly exceeds the business demographic by percent of number and percent of dollar amount of loans.

Geographic Distribution of Business Loans in Rio Arriba & Los Alamos Counties, and 9 CT's in Santa Fe & Taos Counties AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
% of AA Business	0%		22%		58%		20%	
	% of Number	% of Dollar						
Business Loans	0%	0%	35%	53%	65%	47%	0%	0%

Source: loan sample and Dunn and Bradstreet Data

Consumer Loans

The bank's consumer lending activity in moderate-income tracts is excellent. This table measures the bank's performance in lending to consumers in different income tracts. The percentage of loans in moderate-income tracts significantly exceeds the consumer demographic by percent of number and percent of dollar amount of loans.

Geographic Distribution of Consumer Loans in Rio Arriba & Los Alamos Counties, and 9 CT's in Santa Fe & Taos Counties AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
% of AA Households by income tract level	0%		23%		57%		20%	
	% of Number	% of Dollar						
Consumer Loans	0%	0%	35%	38%	65%	62%	0%	0%

Source: Loan Sample, U.S. Census Data

The bank's AA includes 26 census tracts, 11 of which are new since the performance evaluation in 1998. In a random sample of 40 loans, it would be fairly unusual for all 26 census tracts to appear in such a sample. The bulk of the sample loans are in the bank's geographic core around the town of Española. Moderate-income tracts are represented in the sample, although some of the further distant and newer moderate-income tracts are not represented. These gaps are not considered serious, given the bank's excellent penetration in representative moderate-income census tracts.

Responses to Complaints

VNB has not received any CRA related complaints since our last examination.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.