



SMALL BANK

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

PUBLIC DISCLOSURE

February 17, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Portales National Bank
Charter Number 8348**

**109 East Second Street
Portales, New Mexico 88130**

**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. Portales National Bank's (PNB) 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 substantial majority 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 reasonable dispersion throughout the AA.

DESCRIPTION OF INSTITUTION

PNB is a community bank in Portales, New Mexico with reported total assets of \$88 million as of December 31, 2002. PNB operates two full service offices; its main office in Portales and one branch in Clovis, New Mexico. The Clovis branch opened in 2000. A Roswell branch was opened in 2003, subsequent to this evaluation period. The bank has not closed any branches or deposit taking ATMs during the evaluation period. The bank is a subchapter S corporation, 100% owned by Portales National Bancshares, Inc., a one-bank holding company.

The bank's primary lending focus in 2001-2002 was commercial and consumer loans. In terms of dollars outstanding, commercial and commercial real estate loans represent 32%, consumer loans represent 25%, residential mortgage loans represent 27%, and agriculture loans including farmland represent 16% of the bank's total loan portfolio as of December 31, 2002. The bank's net loans to total assets ratio was 42%. With a 12% deposit market share as of June 30, 2002, PNB was the fourth 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 July 20, 1998.

DESCRIPTION OF ASSESSMENT AREA

As of December 31, 2002, PNB designated the two contiguous counties of Roosevelt and Curry as its AA. Roosevelt County includes the town of Portales, the main office location and the communities of Elida, Floyd, Dora, and Causey. Curry County includes the town of Clovis, and the communities of Melrose, Grady, Broadview, and the Cannon Air Force Base.

There are four moderate-income, nine middle-income, and three upper-income census tracts in the AA. There are no low-income census tracts. The AA meets the legal requirements of the regulation and does not arbitrarily exclude low or moderate income (LMI) geographies. The 2002 HUD updated statewide non-MSA median family income is \$33,700. Nineteen percent of the households in the assessment area are below poverty level.

Competition for financial services is moderate. The June 30, 2002, FDIC Deposit Market Share report shows nine financial institutions competed for \$634 million of insured deposits. The nature of the competition includes other community banks, and branches of large nation-wide corporations. Five of the nine competitors have significant presences and access to other loans and deposits outside the local market.

The largest local employment sectors include local government (including school districts), retail trade (including Wal-Mart), health care (including the Regional Medical Center), lodging and food service, agriculture, state government (including Eastern New Mexico University), and federal government (including Cannon Air Force Base). Unemployment figures for Roosevelt County ranged from 3.4% in 1999 to 3.5% in 2002. The unemployment figures for Curry County were slightly higher, ranging from 4.2% in 1999 to 4.1% in 2002.

During this examination we contacted one community leader in the area to discuss economic conditions and credit needs. The contact indicated economic conditions were satisfactory, with an agricultural base of peanut farming and dairies, although some small family farms were unable to remain viable. While acknowledging the riskiness of such ventures, he thinks that start-up business financing is a need that is not always being met by local financial institutions.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The evaluation period for this CRA examination focuses on loan originations during 2001 and 2002. The December 31, 2002, cut-off date is used because of the impact of the 2000 Census changes that 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.

We evaluated both the dollar amount of loans and the number of loans originated. An evaluation of the originations showed PNB's primary products to be commercial and consumer loans, which is representative of the bank's business strategy for the period.

Loan Originations for Evaluation Period	Percentage of Dollar Amount of Loans	Percentage of Number of Loans
Business Loan Originations as a % of Total Originations	33%	11%
Consumer Loan Originations as a % of Total Originations	29%	79%
Total Primary Products as a % of Total Originations	62%	90%

Source: Loan Originations for evaluation period

We reviewed a random sample of 20 business loans and 20 consumer loans 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 sample 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.

Loan-to-Deposit Ratio

The bank's average quarterly loan-to-deposit (LTD) ratio of 47% 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 third quarter 1998 through the fourth quarter 2002 were used to compare PNB with three similarly situated banks. The banks share the same community bank status, geographic locality, and have no offices outside the AA. There are four other financial institutions that operate both inside and outside the AA, but they include branches of nation-wide or regional banks, and their higher LTD ratios reflect an access to other markets from which to draw loans and deposits.

As indicated in the table below, PNB is on the low end of the range of LTD ratios for similarly situated banks. One mitigating factor for this is found in one of the bank's primary products, consumer loans. These types of loans tend to be smaller than real estate or commercial loans. In the case of PNB, they are significantly smaller, as the bank regularly makes loans less than \$1 thousand. As noted above, the number of consumer loans is high, compared to the dollars that they represent. This contributes to a lower LTD ratio.

Bank	Average Quarterly LTD Ratio
PNB	47%
Three other financial institutions average LTD ratios	57%
Highest LTD ratio in range of other three institutions	78%
Lowest LTD ratio in range of other three institutions	36%

Source: Uniform Bank Performance Report

In addition to our sample, we reviewed Community Development loan information provided by the bank. In November 2001, the bank originated a \$680 thousand qualifying low-income multi-family residential construction loan for "Main Street Townhomes" in Clovis.

Lending in Assessment Area

A substantial majority of the number and dollar amount of loans in the loan sample are inside the bank's AA. This exceeds the standards for satisfactory performance. Refer to the table below.

Lending in Roosevelt and Curry County AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total #	Inside		Outside		Total \$000
	#	%	#	%		\$000	%	\$000	%	
Business	19	95%	1	5%	20	\$1,124	94%	\$68	6%	\$1,192
Consumer	19	95%	1	5%	20	\$122	91%	\$12	9%	\$134
Totals	38	95%	2	5%	40	\$1,247	94%	\$80	6%	\$1,327

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 meets the business demographic for loans to borrowers with revenues of \$1 million or less. As shown in the table below, the loan sample exceeds the demographic by the percent of the number of loans, and is lower than the demographic by the percent of the dollar amount of loans. Overall this is reasonable. The lower performance by the dollar amount of loans can generally be explained by the larger businesses qualifying for larger loans. In our sample, there was also one large loan that skewed the percentages.

Borrower Distribution of Loans to Businesses in Roosevelt and Curry County AA		
Business Revenues (or Sales)	≤ \$1,000,000	> \$1,000,000
% of AA Businesses*	74%	4%
% of Bank Loans in AA by #	80%	10%
% of Bank Loans in AA by % \$	47%	50%

Source: Loan sample; Dunn & Bradstreet data. *22% of AA businesses did not report revenue data.

The loan sample also has two loans, representing 10% by number and 3% by dollar amount of loans, where the revenues for the businesses were unknown. This generally occurs when there is a cash secured loan or other similar specific identifiable source of repayment, and the bank does not request financial information.

Consumer Loans

The bank meets the standard for satisfactory performance in borrower distribution for consumer loans. Performance of the sample against the consumer demographic for low-income borrowers is lower in the dollar amount of loans, but very near to the number of loans. Performance in loans to moderate-income borrowers is better. The sample significantly exceeds the demographic by number of loans, and is also very near by the dollar amount of loans.

The sample for both low- and moderate-income borrowers is skewed by the inclusion of six very small (\$500) “Christmas Cash” loans. The bank is an active participant in the Chamber of Commerce Christmas Cash program every year, which promotes shopping at local merchants. The merchant-redeemable coupons are bought in \$500 to \$1000 increments as “no cost loans” payable in 12 equal installments. In 2002 the bank funded \$119,500 of these loans.

Borrower Distribution of Consumer Loans in Roosevelt & Curry County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
% of AA Households by income level	22%		16%		20%		42%	
	% 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%	20%	13%	25%	43%	40%	35%	15%

Source: loan sample; U.S. Census data

Geographic Distribution of Loans

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

Business Loans

The table below reflects reasonable commercial lending activity throughout the AA. The loan sample reflects a higher percentage in the number of loans than the moderate-income tract demographic, but a much lower percentage of the dollar amount. This is due in part to one significantly larger business loan (in an upper-income census tract), which skews the sample. The loans in the business sample range from \$3 thousand to \$550 thousand, with only three loans over \$100 thousand and seven under \$10 thousand.

Geographic Distribution of Business Loans in Roosevelt and Curry County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
% of AA Business	0%		37%		40%		23%	
	% of Number	% of Dollar						
Business Loans	0%	0%	45%	12%	30%	27%	25%	61%

Source: loan sample and Dunn and Bradstreet Data

Consumer Loans

The table below reflects a reasonable dispersion of consumer loans throughout the AA. PNB's consumer lending activity matches the moderate income demographics in dollar of loans and is very close in number of loans.

Geographic Distribution of Consumer Loans in Roosevelt & Curry County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
% of AA Households by income tract level	0%		27%		48%		25%	
	% of Number	% of Dollar						
Consumer Loans	0%	0%	25%	27%	25%	40%	50%	33%

Source: Loan Sample, U.S. Census Data

Responses to Complaints

PNB 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.