



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

September 01, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank in Alamogordo
Charter Number 14786**

**414 Tenth Street
Alamogordo, New Mexico 88310**

**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.

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INSTITUTION'S CRA RATING

This institution is rated Outstanding.

The First National Bank in Alamogordo's (FNBA) lending performance in relation to assessment area (AA) credit needs is outstanding. The bank has demonstrated its ability to meet the credit needs of the AA through more than reasonable performance in lending to small businesses and low- and moderate-income (LMI) individuals. The following information further describes the bank's performance under the Community Reinvestment Act (CRA):

- A substantial majority of loans are in the bank's assessment area,
- Given the demographics of the AA, the distribution of loans reflects excellent penetration among individuals of different income levels (including LMI), and businesses of different sizes; and
- The geographic distribution of loans reflects excellent dispersion throughout the AA. The bank's community development loans enhance the quality of the geographic distribution analysis.

DESCRIPTION OF INSTITUTION

FNBA is a \$176 million community bank located in Otero County in Alamogordo, New Mexico. FNBA operates out of six offices: its main office and three branches in Alamogordo plus a branch in Cloudcroft and Tularosa, New Mexico. It also has five deposit taking ATMs in those locations. The Tularosa branch was opened in 1997, subsequent to the last CRA examination. The bank has not closed any branch offices or deposit taking ATMs during the evaluation period.

The bank is a subsidiary of a \$234 million two-bank holding company, First Alamogordo Bancorp of Nevada, Inc., which owns 100% of the bank's stock. The affiliate bank is First National Bank of Ruidoso, located in Ruidoso, New Mexico.

The bank's primary lending focus is commercial and consumer loans. In terms of dollars, commercial and commercial real estate loans represent 49%, and consumer loans represent 23% of the bank's total loan portfolio as of December 31, 2002. As of December 31, 2002, the bank's net loans to total assets ratio was 43%.

There are no financial or legal impediments that hinder the bank's ability to help meet the credit needs of the AA. The September 30, 1996, CRA examination resulted in an outstanding rating.

DESCRIPTION OF OTERO COUNTY

FNBA has designated all of Otero County, New Mexico as its AA. This includes the towns of Alamogordo, Tularosa, Mescalero, Cloudcroft, and La Luz, as well as Holloman Air Force Base. There are 2 moderate-, 8 middle-, and 3 upper-income tracts. There are no low-income tracts. The AA meets the legal requirements of the regulation and does not arbitrarily exclude LMI geographies.

This table outlines some of the pertinent demographic and economic information for the AA.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA		
Population (based on 1990 Census)		
Number of individuals	51,928	
Median Family Income (MFI) and % of families by income level		
2002 HUD-adjusted statewide non-MSA MFI	\$33,700	
Percentage of low-income families	15%	
Percentage of moderate-income families	17%	
Percentage of middle-income families	23%	
Percentage of upper-income families	45%	
Housing		
Number of housing units	23,177	
Percent Owner Occupied	48%	
1990 Median Housing Value	\$58,615	
Geographies		
	Number	Percent
Number and percentage of low-income tracts	0	0
Number and percentage of moderate-income tracts	2	15
Number and percentage of middle-income tracts	8	62
Number and percentage of upper-income tracts	3	23
Economic Indicators		
Unemployment Rate (as of 12/31/02)	5.9%	
% of Households Below Poverty Level	15%	

Source: U.S. Census Bureau, and Bureau of Labor Statistics

The economy of the AA is based in government and tourism. The major area employers are White Sands Missile Range with over 6,000 military and civilian employees, Holloman Air Force Base with nearly 5,000 military and civilian employees, and the German Air Force Flying Training Center with nearly 800 military and civilian employees. The Alamogordo Public Schools are the next major employer, followed by the Inn of the Mountain Gods Resort. Over the last four years, unemployment for Otero County has gradually risen from 4.9 to 5.9%.

Competition for financial services is strong. In addition to FNBA, there are three other banks,

including a branch of a nation-wide financial institution, four savings associations, and two credit unions. The June 30, 2002, FDIC deposit Market Share Report shows eight financial institutions competed for \$442 million of insured deposits. This does not include the area credit union deposits. FNBA has the largest share, 33%, followed by a local savings and loan association at 30%. These two similarly sized institutions account for over half of the local market share between them. Another smaller local bank has just a 13% market share, but we include it because each of these three financial institutions have all their offices and deposits inside the AA. The majority of the other competitors are nation-wide or larger regional banks with significant presences and access to loans and deposits outside the local market.

During this examination, we contacted one community leader in the area to discuss economic conditions and credit needs. The contact indicated that jobs were the predominant need in the community. The contact is involved in attracting new industry to the AA to provide these jobs. The president of FNBA is on the executive board of this organization, which has brought in two call centers during the evaluation period. The two call centers have added in excess of 400 jobs to the community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The evaluation period for this CRA examination was the last five years. We looked at both the dollar amount of loans and the number of loans originated. An evaluation of the originations during the five year period showed FNBA’s primary product lines to be commercial and consumer loans.

Loan Originations for Evaluation Period	Percentage of Dollar Amount of Loans	Percentage of Number of Loans
Commercial Loans	49%	17%
Consumer Loans	38%	76%
Percent of Total Originations	87%	93%

Source: Loan Originations 1998-2002

After identifying primary products, we took a random sample of 20 loans from each primary product for a total of 40 loans. We used these 40 loans to determine the ratio of loans inside the AA. To evaluate the geographic and borrower distribution of loans, additional loans were then selected to comprise a sample of 40 loans from loans originated in the last two years. Based on these samples, and the bank’s community development loans, the bank’s CRA performance in meeting the credit needs of the community remains Outstanding, as supported below.

Loan-to-Deposit Ratio

The bank’s loan-to-deposit (LTD) ratio of 58% is reasonable given the bank’s size, financial condition, and AA credit needs. It meets the standard for satisfactory performance. Uniform Bank Performance Reports were only available back to the second quarter of 1998. Therefore, we used the full 20 quarters of available data to make this calculation.

As noted in the description of the AA portion of this evaluation, there are only two other

financial institutions in the AA we can reasonably use for comparison. The two financial institutions are not similarly situated. The savings and loan association's market niche is mortgage lending. The other bank is just over a third of the size of FNBA. Using the same time period, the local savings and loan association LTD ratio is 93% and the small local bank's LTD ratio was 84%.

While FNBA's LTD ratio was lower than these two competitors, there are a number of mitigating factors. FNBA has originated and sold over \$30 million of residential real estate loans into the secondary market in the last five years. Therefore, the LTD ratio is not fully reflective of the lending activity of FNBA. Many borrowers request small dollar loans that do not result in a significant increase in the LTD ratio. FNBA routinely makes these small dollar loans in order to meet the credit needs of the community. FNBA also bid on a large time deposit of New Mexico state public funds in 1998. They have retained this out of AA deposit, which increased their deposit level by \$10 million throughout the period.

Lending in Assessment Area

A substantial majority of the number and 100% of the 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.

Table 1 – Lending in Otero County AA										
Loan Type	Number of Loans					Dollar Amount of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$(000)	%	\$(000)	%	
Coml	20	100%	0	0%	20	1502	100%	0	0%	1502
Cons	19	95%	1	5%	20	138	97%	4	3%	142
Totals	39	98%	1	2%	100%	1640	100%	4	0%	1644

Source: Loan Sample

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

Given the demographics of the AA, the distribution of loans reflects an excellent penetration among individuals of different income levels, and businesses of different sizes.

Business Loans

Lending patterns to small businesses exceed the standard for satisfactory performance.

- The table on the following page reflects the bank's lending to small businesses by both number and dollar amount for 19 of the 20 loans in the sample. Based on those 19 loans, the percentage of FNBA loans substantially exceeds the demographic percent of AA businesses with revenues of \$1 million or less by dollar amount, and meets the demographic percent by number of loans.
- One loan in the business loan sample did not have revenue reported because the loan was an interest-free loan to a non-profit organization, and the bank did not obtain its financial

information. In the AA demographics reported by Dunn & Bradstreet, there were also 17% of businesses that did not report revenue information. Typically, these are smaller businesses or non-profit organizations. The bank's consideration to a non-profit borrower to help them provide their services to the community is an additional reflection of the bank's commitment to meeting the credit needs of its community.

Borrower Distribution of Loans to Businesses in Otero County AA		
Business Gross Revenues:	< or = \$1,000,000	> \$1,000,000
% of AA Business Demographic	79%	4%
% of Bank Loans in AA by #	80%	15%
% of Bank Loans in AA by \$	92%	8%

Source: Loan Sample; Dunn & Bradstreet data

Consumer Loans

Lending patterns to consumers with incomes of different sizes also exceed the standards for satisfactory performance. The performance was more difficult to evaluate because the bank typically retains only net income information for its consumer borrowers, and the analysis requires gross income. First, we attempted to gross-up the net-income, using a 28% tax rate. This produces the table below, where loans to moderate-income individuals exceed the standards for satisfactory performance and loans to low-income individuals meet the standard for satisfactory performance with mitigating factors.

- As shown in the table below, loans to moderate-income consumers significantly exceed the demographics of the area in both number and dollar.
- The bank lending pattern to low-income consumers falls short in the dollar amount of loans, but slightly exceeds the demographic in the number of loans to low-income individuals. The performance can also be mitigated by the fact that 19% of the households in the AA live below the poverty level, and if they qualified for loans, the dollar amounts would be very small.

Borrower Distribution of Consumer Loans in Otero County AA								
Borrower Income Level	Low % of AA Households 17%		Moderate % of AA Households 15%		Middle % of AA Households 22%		Upper % of AA Households 46%	
	% 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	% of Dollar of Loans
Consumer Loans	20%	8%	40%	31%	25%	31%	15%	30%

Source: Loan Sample; U. S. Census Data

Because the borrower income analysis is based on a tax rate that may not be appropriate for all borrowers, we also did an analysis of the size of individual consumer loans as a proxy for borrower income. The following table reflects the distribution of consumer loans in the sample by size of loan. This analysis also supports that the bank exceeds the standards for satisfactory performance in this area, as the substantial majority of loans in the sample are less than \$10,000, and a majority are very small loans less than \$5,000, including four loans that were \$1,000 or less.

This represents a more than reasonable performance for consumer lending, as not all banks make very small loans to consumers because of the cost of “booking” a loan. FNBA regularly makes a significant number of very small loans to meet the credit needs of the community.

Distribution of Consumer Loans by Size in Otero County AA				
Loan Size	\$0 – 4,999	\$5,000-9,999	\$10,000-20,000	Over \$20,000
Number of Consumer Loans	11	6	2	1
% of Number of Consumer Loans	55%	30%	10%	5%

Source: Loan Sample

Geographic Distribution of Loans

The geographic distribution of loans reflects an excellent dispersion throughout the AA. We used a combined analysis of both loans to businesses and consumer loans to come to this conclusion. We also considered community development loans, which are outside of the original sample.

Business Loans

Lending to businesses in moderate-income tracts appears light in number and dollar of loans based on our sample. However, the bank was able to demonstrate that a number of business loans have been made in two moderate-income census tracts (downtown Alamogordo and the Mescalero Indian Reservation) in AA.

In addition, we reviewed community development loans the bank made during the evaluation period. The CRA regulatory definition of community development includes activities that revitalize or stabilize moderate-income geographies, and provide community services targeted to LMI individuals. Four community development loans the bank made during the evaluation period, totaling nearly \$4 million, met this definition. This demonstration of commitment to community development lending helps mitigate the apparent low numbers in our sample.

Geographic Distribution of Loans to Businesses in Otero County AA								
Census Tract Income Level	% of AA Businesses in Low 0%		% of AA Businesses in Moderate 21%		% of AA Businesses in Middle 59%		% of AA Businesses in Upper 20%	
Business 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	% of Dollar of Loans
		0%	0%	5%	3%	55%	68%	40%

Source: Loan Sample; Dunn & Bradstreet Data

Consumer Loans

Lending to consumers in moderate-income tracts exceeds the demographics in the percentage of the number of loans, but not in the percentage of the dollar amount of loans. The high number of low dollar loans mitigates the lower percentage of the dollar amount. The bank's actual lending practices are reflected in the percent of the number of loans to consumers in moderate-income tracts substantially exceeding the demographics. It is a function of the naturally smaller size of loans that makes the percent of dollar slightly below the tract demographics.

Geographic Distribution of Consumer Loans in Otero County AA								
Census Tract Income Level	% of AA Households in Low 0%		% of AA Households in Moderate 7%		% of AA Households in Middle 55%		% of AA Households in Upper 38%	
Consumer 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	% of Dollar of Loans
		0%	0%	15%	5%	75%	89%	10%

Source: Loan Sample; U.S. Census Data

Responses to Complaints

FNBA has not received any complaints about its performance in helping to meet AA needs during this evaluation period.

Fair Lending Review

An analysis of the last five years of public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year.