



PUBLIC DISCLOSURE

July 19, 2016

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

First National Bank
Charter Number 14786

414 10th Street
Alamogordo, New Mexico 88310-6766

Office of the Comptroller of the Currency

Denver Field Office
1225 17th Street, Suite 450
Denver, Colorado 80202-5534

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 Lending Test is rated: Satisfactory

The Community Development Test is rated: Outstanding

The overall performance of First National Bank (FNB) is “Satisfactory”. The primary factors contributing to the bank’s rating are:

- The loan-to-deposit (LTD) ratio is reasonable given the bank’s size, financial condition, and the credit needs of its assessment area (AA).
- A substantial majority of the bank’s loans are made in its AA.
- Lending activities represent an excellent penetration to borrowers of different income levels and businesses of different sizes.
- Geographic distribution represents a reasonable dispersion to census tracts (CTs) of different income levels in the bank’s AA.
- Community development (CD) activities demonstrate excellent responsiveness to the needs in the bank’s AA.

Scope of Examination

This Performance Evaluation (PE) assesses FNB’s Community Reinvestment Act (CRA) performance using the Intermediate Small Bank (ISB) examination procedures. An ISB examination consists of two tests: a lending test and a community development (CD) test.

The lending test evaluates the bank’s record of meeting the credit needs in its AA through its lending activity. We focused our review on loans originated in 2014, 2015, and through June 30, 2016. This is referred to as the evaluation period. We further focused our review on commercial and consumer loans. These loans are identified as the bank’s primary product based on number and dollar volume of loans originated in the evaluation period. To assess lending performance we reviewed a sample of 24 commercial loans and 20 consumer loans.

Table 1 - Loan Originations for Evaluation Period	% of Dollar Amount of Loans	% of Number of Loans
Commercial Loan Originations as a % of Total Originations	91%	36%
Consumer Loan Originations as a % of Total Originations	4%	55%

Source: Loan originations for the evaluation period.

The CD test includes a review of qualified loans, investments and/or donations, and services made in the bank's AA that have the primary purpose of community development. We evaluated CD loans, investments, and services made or provided since the prior CRA examination. The prior CRA examination is dated July 29, 2013.

We used demographic information from the 2010 U.S. Census.

Description of Institution

FNB is a community bank headquartered in Alamogordo, New Mexico, a non-metropolitan area in the southeastern part of the state. The bank is a subsidiary of a one-bank holding company, First Alamogordo Bancorp of Nevada, Inc. The holding company owns 100% of the bank's stock. As of June 30, 2016 FNB maintained \$328 million in total assets and \$139 million (or 43% of total average assets) in loans.

FNB operates seven offices with all offices in New Mexico. Its main office and a branch are located in Alamogordo. Branches are also located in Tularosa, Cloudcroft, and Artesia, and two branches are located in Ruidoso. FNB maintains seven deposit-taking ATMs with a deposit-taking ATM at all locations except the Ruidoso Upper Canyon location. FNB maintains three non-deposit-taking ATMS in Alamogordo and one non-deposit-taking ATM in Ruidoso. FNB closed a branch located in Alamogordo in January 2016 as the land was purchased by the City of Alamogordo as part of a public works project.

FNB's strategic focus is to support the economic growth and development of its AA by providing competitive banking solutions for commercial and consumer customers. The bank's primary lending focus is small business and consumer loans. The bank originates residential real estate loans, the majority of which are sold on the secondary market.

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" under ISB examination procedures at its prior CRA examination. Additional details about the bank may be found in its Public File. The Public File is maintained at the main office of the bank.

Description of Assessment Area

FNB designated all CTs in the four contiguous southeastern counties of Otero, Lincoln, Eddy, and Chaves, New Mexico as its AA. The entire AA is in a non-metropolitan statistical area. The AA consists of 49 CTs and includes 1 low-income tract, 7 moderate-income tracts, 26 middle-income tracts, and 15 upper-income tracts. The 16 middle-income CTs located in Otero and Chaves counties were designated as distressed middle-income non-metropolitan tracts in 2014 and 2015. The AA meets the legal requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

Otero County

Otero County includes the city of Alamogordo, the villages of Tularosa and Cloudcroft, and the Mescalero Apache Indian Reservation. The main office and one branch are located in Alamogordo, and single branches are located in Tularosa and Cloudcroft. Based on the 2010 Census the main office is located in a low-income CT, and the branches in Alamogordo, Tularosa, and Cloudcroft are located in distressed middle-income non-metropolitan CTs.

The economy of Otero County is largely based in government, education, and tourism. Major employers include Holloman Air Force Base, White Sands Missile Range, Alamogordo Public Schools, the U.S. Forest Service, and the U.S. Border Patrol. Government-owned lands include the Mescalero Apache Indian Reservation, White Sands Missile Range, Fort Bliss Military Reservation, White Sands National Monument, and Lincoln National Forest. Local economic conditions are stable with a slight increase in the unemployment rate from 5.7 percent in 2013 to 6.4 percent in June 2016. The median household income was \$40,614 in 2015.

Lincoln County

FNB has two branches in Lincoln County located in a middle-income CT in the village of Ruidoso. The economy of Lincoln County is based in tourism, retail, and government. The Mescalero Apache Tribe operates the Inn of the Mountain Gods hotel, golf course, and casino and Ski Apache Resort, which is the single largest employer. Other major employers include Ruidoso Downs Race Track and Casino, Ruidoso Municipal Schools, and the Lincoln County Medical Center. Government-owned lands include Lincoln National Forest and Cibola National Forest. Local economic conditions are stable with the unemployment rate at 6.0 percent between 2013 and June 2016. The median household income was \$41,710 in 2015.

Eddy County

FNB has one branch located in a middle-income CT in the city of Artesia. The economy is based primarily on the oil and gas industry as well as farming, ranching, dairy, and government. The major employers include Navajo Refining Company, several oil and gas companies, the Federal Law Enforcement Training Center, and Artesia General Hospital. Government-owned lands account for almost 82 percent of the county's 2.7 million acres and include the Waste Isolation Pilot Plant, Lincoln National Forest, Carlsbad Caverns National Park, and Brantley Lake State Park. Local economic conditions have deteriorated slightly due to the decline in the oil industry and consolidation in the local pot ash industry. The unemployment rate increased from 4.0 percent in 2013 to 6.7 percent in June 2016. The median household income was \$51,303 in 2015.

Chaves County

Chaves County is largely rural and sparsely populated. FNB does not have branches in the Chaves County and does not have any plans to open any in the immediate future. The economy is based primarily on the oil and gas industry, farming, and ranching. Major employers include Roswell Independent School District, Eastern New Mexico Medical Center, Eastern New Mexico University-Roswell, and Leprino Foods. Government-owned lands account for approximately 53 percent of the county's 3.9 million acres and include Lincoln National Forest, Bitter Lake National Wildlife Refuge, and Bottomless Lakes State Park. Much of the federal land is managed by the Bureau of Land Management and is leased for rangeland and oil and gas production and exploration. Local economic conditions are relatively stable with the unemployment rate modestly increased from 6.4 percent in 2013 to 7.5 percent in June 2016. The median household income totaled \$40,541 in 2015

Demographic Information for the AA

Table 2 - Demographic Information for the AA						
	#	% Low	% Moderate	% Middle	% Upper	% Unknown
Geographies (Census Tracts)	49	2	14	53	31	0
Population by Geography	203,768	1	17	48	34	0
Owner-Occupied Housing by Geography	53,612	1	14	46	39	0
Businesses by Geography	11,085	3	12	48	37	0
Farms by Geography	627	1	6	53	40	0
Family Distribution by Income Level	51,966	19	18	20	43	0
Distribution of Low and Moderate Income Families Throughout AA Geographies	19,117	1	25	50	24	0
Census Median Family Income (MFI)		\$46,354	Median Housing Value	\$112,926		
HUD- Adjusted MFI: 2014		\$47,100	Households Below the Poverty Level	17%		
HUD- Adjusted MFI: 2015		\$47,700	Unemployment Rate	3.18%		
HUD- Adjusted MFI: 2016		\$47,200				

Source: 2010 U.S. Census Data and HUD Updated MFI

Competition in the AA

There is strong competition for financial services in the AA. The annual FDIC Market Share Report for June 30, 2015 shows 17 financial institutions with a total of 73 branches (not including credit unions and non-financial institutions) competed for almost \$3.1 billion of insured deposits. The competition includes two mega-banks, five regional banks, and three large state banks. FNB is ranked fifth with a 9.15 percent share of the marketplace.

The competitor banks used to evaluate the FNB's LTD ratio are community banks that operate inside the AA and are identified as direct competitors to FNB. However, no

banks are considered truly comparable as the banks differ significantly in size and geographic area served.

Community Contact

To gather current information on the nature of the economic conditions and potential CD opportunities in the AA we contacted two local community officials: one county official and one city official that both serve in the Eddy County region. Each contact described the importance of the oil industry in the area as a primary driver of the local economy. Each contact noted the oil industry downturn in the prior few years reduced tax revenue, increased unemployment, and reduced the area population. Each contact stated that economic conditions improved over the past year and should continue to improve as oil prices increase. Each contact stated local financial institutions are supportive in meeting the small business and community development needs in the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

The bank's overall CRA performance is "Satisfactory". This is supported by separate conclusions for the lending test and the CD test.

LENDING TEST

The bank's performance under the lending test is rated "Satisfactory". The LTD ratio is reasonable given the bank's size, financial condition, and the credit needs of its AA. A substantial majority of the bank's loans are made in its AA. Lending activities represent an excellent penetration to borrowers of different income levels and businesses of different sizes. Geographic distribution represents a reasonable dispersion throughout CTs of different income levels in the bank's AA.

Loan-to-Deposit Ratio

FNB's LTD ratio is reasonable given the bank's size, financial condition, and credit needs of the AA. As of March 31, 2016 the bank's quarterly average LTD ratio over the prior 12 quarters is 47 percent. This compares reasonable to competitor banks that maintained a quarterly average LTD over the prior 12 quarters of 63 percent with a high of 84 percent and a low of 44 percent. The competitor banks are all community banks with similar business models and a substantial portion of their business completed in FNB's AA.

Although FNB's LTD ratio is lower than the competitors, the bank's LTD ratio is not fully reflective of all of its lending activity. FNB originates and sells residential real estate loans into the secondary market. These loans are not included in the LTD ratio. From January 1, 2013 to April 30, 2016 the bank sold 141 loans that totaled \$24 million. Additionally, FNB routinely originates small dollar consumer loans to meet the credit needs of the community. These small dollar loans do not significantly impact the LTD ratio.

Lending in Assessment Area

A substantial majority of the loans in our sample were originated inside the bank's AA. Our random sample of 20 commercial loans and 20 consumer loans originated in the evaluation period showed 90 percent by number and 67 percent by dollar amount of loans were originated in the AA.

Table 3 - Lending in FNB's AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	16	80	4	20	20	2,222,962	65	1,178,789	35	3,401,751
Consumer	20	100	0	0	20	200,008	100	0	0	200,008
Total	36	90	4	10	40	2,422,970	67	1,178,789	33	3,601,759

Source: Loan originations for the evaluation period.

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

The borrower distribution of commercial and consumer loans originated inside the AA reflects excellent penetration among individuals of different income levels and businesses of different sizes.

Commercial Loans

FNB exceeds the standard for loans to borrowers with gross annual revenue of \$1 million or less. Table 4A shows the bank originated 75 percent by number and dollar amount of its commercial loans to businesses with gross annual revenues of \$1 million or less. This exceeds the demographic data that shows 74 percent of businesses in the AA with gross annual revenue of \$1 million or less.

Table 4A - Borrower Distribution of Loans to Businesses in FNB's AA - 2014-2016				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	% Total
% of AA Business	74	5	21	100
% of Bank Loans in AA by #	75	10	15	100
% of Bank Loans in AA by \$	75	15	10	100

Source: Loan sample and 2010 U.S. Census data.

Consumer Loans

FNB excess the standard for consumer loans to individuals of different income levels. Table 4B shows the bank originated 40 percent and 8 percent by number of loans to low- and moderate-income households, respectively. This is comparable to the demographic data that shows 1 percent and 15 percent of households are low- and moderate-income, respectively.

Table 4B - Borrower Distribution of Consumer Loans in FNB's AA – 2014-2016								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	1	40	15	8	49	18	35	33

Source: Loan sample and 2010 U.S. Census data.

Geographic Distribution of Loans

The geographic distribution of FNB's commercial and consumer loans represents a reasonable dispersion throughout CTs of different income levels in the bank's AA.

Commercial Loans

The geographic distribution of commercial loans to businesses in the AA is reasonable. Table 5A shows the bank did not originate any commercial loans in the low- or moderate-income CTs in the AA. This normally reflects poor dispersion. However, as previously discussed there is only 1 low-income CT and seven moderate-income CTs in the AA. Five of the moderate-income CTs are located in Roswell, New Mexico where the bank does not maintain a branch or ATM. Further, the majority of the low- and moderate-income CT are sparsely populated by both people and commerce. In addition, our sample showed 44 percent of commercial loans were originated in the middle-income CTs in Otero and Chaves Counties that are designated as distressed middle-income non-metropolitan CTs.

Table 5A - Geographic Distribution of Loans to Businesses in FNB's AA – 2014-2016								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
Business Loans	3	0	12	0	48	45	37	55

Source: Loan sample and 2010 U.S. Census data.

Consumer Loans

The geographic distribution of consumer loans in the AA is reasonable. Table 5B shows the bank did not originate any consumer loans in the low- or moderate-income CTs in the AA. This normally reflects poor dispersion. However, just one percent of households reside in the low-income CT. This results in limited lending opportunities in this area. Further, the moderate-income CTs are concentrated in Roswell, New Mexico where the bank does not maintain a branch or ATM. In addition, our sample showed 74 percent by number of loans were made to consumers located in Otero County CTs designated as distressed middle-income non-metropolitan CTs.

Table 5B - Geographic Distribution of Consumer Loans in FNB's AA – 2014-2016								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	1	0	15	0	49	84	35	16

Source: Loan sample and 2010 U.S. Census data.

Responses to Complaints

There were no complaints related to CRA or unfair credit practices received by the bank or the OCC in the evaluation period.

COMMUNITY DEVELOPMENT TEST

The bank's performance in the CD test is "Outstanding". FNB demonstrates excellent responsiveness to CD needs in the AA after consideration of the available opportunities and the bank's capacity and business strategy.

Number and Amount of Community Development Loans

FNB's CD lending demonstrates excellent responsiveness to needs in the AA. Since the prior CRA examination FNB funded \$17.3 million CD loans. This amounts to 42 percent of capital as of March 31, 2016. The loans include two loans that created low- or moderate-income jobs in Otero County, a loan for affordable housing in Eddy County, six loans to non-profit organizations that benefit low- or moderate-income individuals, and 56 loans to low- or moderate-income borrowers for affordable housing.

Number and Amount of Qualified Investments

The amount of qualified investments demonstrates adequate responsiveness to needs in the AA. Since the prior CRA examination FNB made \$597 thousand in qualified investments. This amounts to 1.5 percent of capital as of March 31, 2016. The qualified investments include four annual donations to non-profit organizations that provide community services to low- or moderate-income individuals. FNB also purchased municipal securities that meet the CD requirement for community services and donated funds to other community organizations throughout the AA.

Extent to Which the Bank Provides Community Development Services

The bank demonstrates excellent responsiveness to the CD service needs in the AA. Since the prior CRA examination FNB employees provided a combined 4,664 hours of service to seventeen organizations. Participating employees provided CD services in the form of financial expertise to benefit the AA. Bank employees serving in these roles over multiple years is evidence of a continued commitment to CD services. Many other

employees at FNB are highly active in the community and provide non-financial services to the AA.

FNB also offers a variety of alternative delivery systems for retail services that make banking more accessible to low- or moderate-income individuals. The main branch is located in a low-income CT and offers extended hours, including Saturdays, with a full range of services. Six branches are located in middle-income CTs, with three designated as distressed middle-income non-metropolitan CTs. There are also 11 bank-owned no-cost ATMs. A savings product is available that requires only a \$100 minimum balance and no service fees. Other retail services available to low- or moderate-income individuals include reasonably priced checking products, internet and mobile banking, and free telephone banking.

Responsiveness to Community Development Needs

Overall, FNB demonstrated excellent responsiveness to CD needs in the bank's AA through its excellent CD lending practices, excellent CD services, and adequate CD investment activities.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. § 25.28(c) in determining a national bank's (bank) CRA rating the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance.

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