



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

May 29, 2012

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Valley National Bank  
Charter Number: 15395

322 N. Riverside Drive  
Española, NM 87532

Office of the Comptroller of the Currency

Phoenix Field Office  
9633 South 48<sup>th</sup> Street, Suite 265  
Phoenix, AZ 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 Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

Summarize the major factors supporting the institution's rating.

- The loan-to-deposit (LTD) ratio is reasonable, and a majority of lending is to borrowers located in the assessment area (AA).
- The distribution of loans reflects excellent penetration among businesses of different sizes and individuals of different income levels. The geographic distribution of loans reflects reasonable dispersion throughout the AA.
- Valley National Bank's community development activities incorporate community development loans, qualified investments, and community development services. These activities demonstrate adequate responsiveness to community development needs of the bank's AA.
- Lending and community development activities adequately meet the identified credit and development needs of the AA: funding for small businesses, consumer lending to low- and moderate income individuals, and more affordable housing for low- and moderate-income individuals.

## **Scope of Examination**

Valley National Bank (VNB) was evaluated under the Intermediate Small Bank examination procedures, which include a lending test and a community development test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The Community Development test evaluates the bank's responsiveness to Community Development needs in its AA through Community Development targeted lending, qualified investments, and community development services.

This examination consisted of a full scope review of the bank's single AA from the date of the last CRA examination on July 7, 2008 to May 29, 2012, also referred to as the evaluation period in this report. The lending test covers the previous two years (2010-2011), which is referred to as the sampling period in this report, and the Community Development test covers the entire evaluation period. We identified business loans and consumer loans as the bank's primary products based on the number and dollar amount of loans originated in the evaluation period as well as the bank's business strategy. We did not sample home loans due to the low number of loans originated during the sampling period, and analysis of home loans would not have affected the overall conclusion. There were no affiliate loans to review.

We used the data from 40 loans originated during the evaluation period to calculate the

inside/outside AA ratio and analyze the geographic distribution of loans. To perform other lending tests, we sampled 40 loans from each of the primary loan products located inside the AA. In order to ensure the integrity of the borrower distribution analysis, each sample included loans from census tracts in a metropolitan statistical area (MSA) and loans from census tracts in a non-MSA. Sample loans in an MSA were compared to that MSA's median family income (MFI) information; sample loans in a non-MSA were compared to the statewide non-MSA MFI. The sample was representative of the bank's business strategy since the last examination.

## Description of Institution

VNB is a community bank located in Española, New Mexico. Española is a non-metropolitan area located in Rio Arriba County in the northern part of New Mexico. As of March 31, 2012, VNB had \$298 million in average assets and net total loans of \$117 million, or 41% of average assets. VNB operates a main office; it does not have any branches or deposit taking ATMs. The bank has neither opened nor closed any branch offices during the evaluation period. The bank is independent and not a subsidiary of a bank holding company. There are no affiliates.

The bank's business strategy focuses on commercial lending and consumer retail lending products such as automobile loans. Commercial loans represent 14% of the number of originations and 66% of the dollar amount of loans made during the period from January 1, 2010 to December 31, 2011. Consumer loans represent 82% of the number of origination and 14% of the dollar amount of loans made during the same period.

<b>Loan Originations by Loan Type from January 1, 2010 to December 31, 2011</b>				
<b>Loan Type</b>	<b>Number of Loans</b>		<b>Dollars of Loans</b>	
	<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>
Home Loans	40	3.87	7,759,809	19.65
Commercial Loans	148	<b>14.31</b>	26,212,662	<b>66.37</b>
Farm Loans	3	0.29	71,914	0.18
Consumer Loans	843	<b>81.53</b>	5,447,501	<b>13.79</b>
<b>Total</b>	<b>1,034</b>	<b>100.00</b>	<b>\$39,491,886</b>	<b>100.00</b>

Source: Bank records.

VNB is currently subject to a formal enforcement action, which places certain restrictions on its loan portfolio. These restrictions took effect on May 29, 2009. As a result, the bank was restricted in its ability to lend during substantially all of the evaluation period. In addition, the bank's financial condition limits the extent to which it can provide community development loans and investments consistent with safe and sound operation of the institution. The bank was previously rated Outstanding at the July 7, 2008 CRA examination.

Additional details about the bank may be found in its Public File, maintained at the main office of the bank.

## Description of Assessment Area

VNB designated a total of 21 contiguous census tracts (CTs) as its AA. The AA consists of eight CTs in Rio Arriba County, all CTs in Los Alamos County, four CTs in Taos County, and five CTs in Santa Fe County. The AA includes the pueblos of Santa Clara, Ohkay Owingeh, Pojoaque, San Ildefonso, and Picuris. There are no low-, three moderate-, 13 middle-, and four upper-income tracts; one CT is labeled NA. In 2009, all middle-income CTs in Rio Arriba County were designated as distressed non-metropolitan middle income CTs<sup>1</sup> because the poverty level was over 20%. This designation did not extend into 2010 or 2011. The AA meets the legal requirements of the regulation and does not arbitrarily exclude low- or moderate-income (LMI) geographies.

The designated AA is large and is mostly rural and sparsely populated. The bank's office is located in Española, which lies in the southeast corner of Rio Arriba County and the northeast corner of Santa Fe County. Given the large geographic size but very sparse population, VNB has less reasonable lending opportunity.

Income varies widely in the AA. The 2011 Housing and Urban Development updated statewide non-MSA MFI is \$47,100. However, the five CTs in Santa Fe County are part of an MSA. The 2011 MFI is significantly higher in the Santa Fe MSA at \$67,800. The five CTs in Santa Fe County are north of the city of Santa Fe, three of which represent the moderate-income CTs of the AA. The census tracts from Santa Fe County included in the bank's AA do not extend substantially beyond the MSA boundary.

The major employers of the local economy are the federal government (including Los Alamos National Laboratory), state and local governments (including local school districts), and casinos. Local economic conditions deteriorated during the assessment period. Over the last three years, unemployment in the area increased, especially in the non-metropolitan areas of the AA.

<b>Unemployment in Valley National Bank AA</b>			
<b>County</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Rio Arriba	6.9%	8.2%	8.3%
Santa Fe	6.0%	6.5%	6.0%
Taos	8.0%	9.4%	9.4%
Los Alamos	2.9%	3.3%	3.2%

Source: U.S. Bureau of Labor Statistics.

Competition for financial services is strong. The June 30, 2011 FDIC Deposit Market Share Report identifies 14 financial institutions competing for over \$4.3 billion of insured deposits. The nature of the competition includes 44 branches of nation-wide financial institutions comprising 39 percent of the deposit market share. Other major local

<sup>1</sup> The Federal Financial Institutions Examination Council (FFIEC) designates non-metropolitan middle-income geographies as distressed if the geography is located in a county that meets one or more of the following criteria: An unemployment rate of at least 1.5 times the national average, a poverty rate of 20% or more, or a population loss of 10% or more.

competitors have a significant presence and access to other loans and deposits outside VNB's AA.

There are three similarly situated banks to VNB in the marketplace. The similarities are identified in terms of size, geographic presence, and lines of business. Two are smaller in asset size and do not operate substantially outside the AA. The other is larger in size and has branches outside the AA.

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 the examination. The contact stated that local community development opportunities in the area are limited. The contact also noted that local financial institutions have tightened underwriting standards since the 2008 recession, which has resulted in lower lending levels. The contact is part of an economic development group and identified credit needs as small business loans, small-dollar consumer loans, and traditional home mortgage loans. The contact stated that the major long-term issue is unemployment and attracting and retaining businesses in the local area. The contact also emphasized the importance of the Los Alamos National Laboratory, the service sector, and local 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 Tests

### LENDING TEST

The bank’s lending performance in meeting the credit needs of the community is Satisfactory. The bank’s LTD ratio is reasonable given its size, financial condition, and AA credit needs, and a majority of the primary loan products originated by VNB are to borrowers within its AA. VNB demonstrates excellent penetration among borrowers of different income levels and businesses of different sizes. The geographic distribution of loans represents reasonable dispersion throughout the AA. More weight was given to borrower distribution, as there are no low-income census tracts and relatively few moderate-income census tracts in the bank’s AA.

All criteria of the lending test are documented below.

#### Loan-to-Deposit Ratio

The LTD ratio is reasonable; VNB meets the standard for satisfactory performance. The bank’s average LTD from quarter-end of the last CRA exam to fourth-quarter 2011 is 70.40% which is comparable to the peer average of 73.85%. Three peer institutions were considered when completing the LTD test. The average quarterly low LTD ratio among peers was 56.96%, and the average quarterly high LTD among peer groups was 85.47%. Over this time, the bank’s quarterly low LTD was 58.27% and the bank’s quarterly high LTD was 89.40%.

#### Lending in Assessment Area

The majority of loans are made inside the bank’s AA; results indicate that VNB meets the standard for satisfactory performance. Of the 80 loans sampled, 63 or 79% were made inside the bank’s AA. By dollar amount, \$3,036 thousand of \$7,816 thousand or 39% were originated inside the bank’s AA. This is attributed to the focus on consumer loans, which are typically smaller in size, and the lack of large businesses within the bank’s AA. Therefore, we placed slightly more weight on the number of loans rather than the dollar amount.

Lending in Valley National Bank AA										
Results	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$ (000s)	%	\$ (000s)	%	
	63	79	17	21	100	3,036	39	4,779	61	100

Source: Loan sample.

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

The borrower distribution of loans reflects excellent penetration among businesses of different sizes and consumers of different income levels.

*Business Loans*

Lending activity to small businesses reflects excellent penetration among business of different sizes. Of the bank’s loans to businesses in the loan sample, 63% percent were made to small businesses. Small businesses are businesses with gross annual revenues of one million dollars or less. This is considered more than reasonable distribution compared to demographic data that show 63% of the area’s businesses are considered small businesses. We lacked revenue data on 22% of the business loans made by the bank. Therefore, we also considered the distribution of loans by dollar amount. We found that 95% of the business loans in our sample were loans under \$200 thousand; the average loan amount was just over \$83 thousand. This provides additional support for a more than reasonable distribution in lending to small businesses.

<b>Borrower Distribution of Business Loans in Valley National Bank AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable / Unknown	Total
% of AA Businesses	63	3	34	100
% of Bank Loans in AA by #	<b>63</b>	15	22	100
% of Bank Loans in AA by \$	<b>64</b>	7	29	100

Source: Loan sample; Dun and Bradstreet data.

*Consumer Loans*

Consumer lending to individuals with different income levels reflects excellent penetration among consumers of different incomes. This is especially true for lending to low-income households, where VNB’s distribution significantly exceeds the demographic comparator. Seven of the loans in our sample did not contain income information because the loans were secured by cash collateral. As a result, the borrower distribution is based on the remaining 33 loans in the sample.

<b>Borrower Distribution of Consumer Loans in Valley National Bank AA</b>								
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	23	<b>45</b>	14	<b>15</b>	17	<b>12</b>	46	<b>27</b>

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

**Geographic Distribution of Loans**

The geographic distribution of loans in VNB’s AA reflects reasonable dispersion. Given the identified need of the AA for small business lending, we placed slightly more emphasis on the geographic dispersion of business loans.

*Business Loans*

The geographic distribution of business loans reflects excellent dispersion throughout the AA. As there are no low-income census tracts in the bank’s AA, more weight was

placed on the moderate-income census tracts. Geographic distribution in the moderate-income census tracts is above the demographic comparator and reflects more than reasonable dispersion.

Geographic Distribution of Business Loans in Valley National Bank AA								
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	0	<b>0</b>	9	<b>11</b>	61	<b>89</b>	30	<b>0</b>

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

**Consumer Loans**

The geographic distribution of consumer loans reflects poor dispersion throughout the AA. Although there are no low-income CTs in VNB’s AA, the distribution of consumer loans in the moderate-income CTs is below the demographic comparator.

Geographic Distribution of Consumer Loans in Valley National Bank AA								
Census Tract 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	0	<b>0</b>	10	<b>8</b>	67	<b>92</b>	23	<b>0</b>

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

**Responses to Complaints**

Neither VNB nor OCC received complaints relating to the bank’s CRA performance during the evaluation period.

**COMMUNITY DEVELOPMENT TEST**

VNB’s performance under the community development test is satisfactory. The bank demonstrated adequate responsiveness to the Community Development needs within its designated AA.

**Number and Amount of Community Development (CD) Loans**

VNB originated six CD loans in its AA during the evaluation period totaling \$2,278,092.

- \$1,910,029 to The Rock Christian Fellowship which provides childcare services in a moderate-income CT.
- \$150,000 to a small business certified by the SBA in a Historically Underutilized Business Zone (HUBZone).
- \$80,000 to a local community development organization. This loan was participated to the North Central New Mexico Economic Development District

(NCNMEDD).

- \$75,000 to a small business that was participated to the NCNMEDD.
- \$63,063 in two loans to a small business operating in a moderate-income CT. One of the loans is a participation with the NCNMEDD.

### **Number and Amount of Qualified Investments**

VNB made 11 qualifying investments totaling \$391,094 during the evaluation period.

- \$387,244 in debt issued by the statewide housing authority. The New Mexico Mortgage Finance Authority provides grants and loans for affordable housing to LMI borrowers throughout the state of New Mexico, including the bank's AA.
- \$3,850 in donations to various organizations that provide community services to LMI families and CTs or support small business in the bank's AA.

### **Extent to Which the Bank Provides Community Development Services**

VNB does not have offices or branches in any LMI CTs in the AA. However, the main office is located directly on the border of a moderate-income CT. As a result, many of the bank's customers include individuals and businesses from this CT. In addition, in 2009 the main office was located in a distressed, middle-income non-metropolitan geography.

One bank officer provides CD services to qualifying programs in the AA. The officer serves as a director of a regional economic development organization. The officer is also involved on their loan committee and provides specific financial expertise in analyzing and approving loan participations for CD projects in the AA.

### **Responsiveness to Community Development Needs**

VNB's CD activities demonstrate adequate responsiveness to the needs and opportunities in the AA. Identified needs include funding for small businesses, affordable housing, and services to LMI individuals and families.

One qualified investment was targeted to an identified CD need for affordable housing. In addition, four CD loans made in the AA were targeted to the CD need for small business funding. VNB also made multiple donations to an organization that supports small business in the bank's AA. Finally, one CD loan and donations to six community organizations were made to organizations focused on providing services to LMI families and individuals.

### **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.