



Comptroller of the Currency
Administrator of National Banks

Public Disclosure

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Community Reinvestment Act Performance Evaluation

**Los Alamos National Bank
Charter Number: 15108**

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Los Alamos, New Mexico 87544**

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NOTE: 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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General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **Los Alamos National Bank (LANB)** prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of **December 18, 1997**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this Performance Evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Community Reinvestment Act (CRA) - The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Metropolitan Statistical Area (MSA) - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Census Tract (CT) - Small, locally defined statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per ten year census and an average population of 4,000.

Home Mortgage Disclosure Act (HMDA) - A statute that requires certain mortgage lenders that do business or have banking offices in a MSA to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, and its disposition (e.g., approved, denied, withdrawn).

Median Family Income (MFI) - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of census tracts. Also, the median income determined by the Department of Housing and Urban Development annually

that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Low-Income - Income levels that are less than 50% of the MFI.

Moderate-Income - Income levels that are at least 50% and less than 80% of the MFI.

Middle-Income - Income levels that are at least 80% and less than 120% of the MFI.

Upper-Income - Income levels that are 120% or more of the MFI.

Small Business Loans - Loans with an original amount of \$1 million or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

Small Farm Loans - Loans with an original amount of \$500 thousand or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

CRA Rating

Institution’s CRA Rating: This institution is rated “Satisfactory.”

The major factors which support this rating include:

- ▶ Lending activity shows good responsiveness to assessment area credit needs. **Los Alamos National Bank (LANB)** is the leader in small business and mortgage-related lending within its assessment area, including lending to low-and moderate-income borrowers and businesses of different sizes.
- ▶ The level of community development lending is good.
- ▶ Investment opportunities in the assessment area are minimal and, as such, the bank has not made any qualified investments.
- ▶ Services delivery systems are reasonably accessible to many portions of the assessment area.

The following table indicates the performance level of LANB with respect to the lending, investment, and service tests:

Performance Levels	Los Alamos National Bank Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High satisfactory	X		X
Low satisfactory		X	
Needs to improve			
Substantial noncompliance			

* Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

Description of Los Alamos National Bank

LANB was established as a national charter in 1963 and is now one of the largest independent community banks in the state. The bank is located in Los Alamos, New Mexico, the county seat of Los Alamos County in the north-central part of the state. LANB is a subsidiary of Trinity Capital Corporation, a local one-bank holding company. Seven percent of Trinity Capital stock is owned by employees. Trinity Capital stock is not publicly traded.

LANB's primary operation is at its main office located in the business district of Los Alamos. In addition to the main office, LANB has one branch office in nearby White Rock. Both offices offer safe deposit box and drive through services. The bank services twelve automated teller machines (ATMs). Seven ATMs are located in Los Alamos - three in White Rock and two in Santa Fe. The bank's current assessment area properly includes all branches and deposit-taking ATMs. In July 1996, the bank moved their operations to a newly constructed facility. No other offices or branches were opened or closed. Three new ATMs were installed in 1997.

The bank provides full-service community banking services which include banking by phone, trust, and brokerage services. It also offers a broad array of home mortgage and commercial purpose products. As of September 30, 1997, LANB had total assets of \$414 million, net loans of \$332 million, net income of \$3.8 million and a return on average assets of 1.28%. The bank is a strong real estate and commercial lender as reflected by the composition of the loan portfolio: residential-related real estate loans 54%, commercial and commercial real estate loans 37%, and instalment loans 9%. A substantial portion of its loans are made to businesses and individuals associated with, or employed by, Los Alamos National Laboratory (LANL).

LANB is not restricted in its ability to meet community credit needs. Although the bank operates in a highly competitive environment, there are no financial conditions or other factors which would impede LANB's lending, investment or service performance.

Description of the Assessment Area

For the majority of the evaluation period, LANB's assessment area was Los Alamos County. There are only two towns in the county - Los Alamos, which is the county seat, and White Rock, a residential suburb. Los Alamos is best known for the LANL. LANL was established in 1943 as the headquarters of the Manhattan Project - the secret effort to develop the first atomic weapons. Los Alamos is essentially a single employer town with approximately 70% of the county's work force employed at LANL, one of the state's largest employers. There are also about forty high-technology service industries which reside in Los Alamos and generate 500 to 600 jobs. The unemployment rate in June 1997 was 2.1%. Community members identified affordable housing as the most pressing community need.

In 1949, Los Alamos became New Mexico's 32nd county. In area, Los Alamos County is the smallest county in New Mexico but one of the most densely populated. The current population is approximately 18,348. Approximately 53% of the population over 25 has a bachelor's degree or higher. More than 80% of the high school graduates go to college. The median family income

for Los Alamos County is \$60,798, the highest median family income in the state. There are no low- or moderate-income geographies in the Los Alamos County as illustrated in the following table:

Distribution of the Number of Businesses, Farms, Housing Units and Households Within Los Alamos County By Income Level of the Census Tracts								
Census Tracts	Low-Income		Mod-Income		Middle-Income		Upper-Income	
	0	0%	0	0%	1	20%	4	80%
Demographic Category	#	%	#	%	#	%	#	%
Number of Businesses	0	0%	0	0%	58	11%	467	89%
Number of Farms	0	0%	0	0%	1	12%	7	88%
Owner-Occupied Units	0	0%	0	0%	793	15%	5,367	85%
Households	0	0%	0	0%	1,319	18%	5,892	82%
Distribution of the Families Within Los Alamos County By Their Income Characteristics								
Families	315	6%	410	8%	802	15%	3,804	71%

Source: Demographic Data - 1990 US Census

On January 1, 1997, in response to changes in the CRA, the bank expanded its assessment area to include two census tracts in Santa Fe County where deposit-taking ATMs were located. Further, on July 15, 1997, the Board of Directors of LANB elected to expand the existing designation of their assessment area to encompass the entire Santa Fe MSA (#7490). LANB's new assessment area is deemed reasonable. The assessment area does not arbitrarily exclude any low- or moderate-income areas and does not reflect illegal discrimination. The bank's assessment area expansion into the entire Santa Fe MSA is considered positive. The area contains significantly more low- and moderate-income individuals and several additional moderate-income areas to serve.

Because of the recent assessment area changes, we focused this analysis on the bank's performance in Los Alamos County. Insufficient time has passed to evaluate the bank's performance in the entire Santa Fe MSA.

Conclusions with Respect to Performance Tests

LENDING TEST

In assessing lending performance, we focused on the lending activity loan data collected and reported by the bank. We verified the accuracy of the reported data through the review of limited samples. The data and analyses were limited to small business loans and home mortgage loan originations. Under the revised CRA, only one year of loan data was required from the bank. However, LANB provided additional data on their loan activities which was considered in their overall performance under CRA. For small business loans, the evaluation period was 1996 through September 1997. For home mortgage loan products, we considered Home Mortgage Disclosure Act (HMDA) data for 1995, 1996, and year-to-date 1997. Instalment consumer loan data was in the process of being compiled by the bank and was not available for review.

Lending Activity and Assessment Area Concentration

LANB is an active lender. Its overall high volume is reflected in its loan growth, peer bank comparisons, and loan-to-deposit ratio. LANB has grown from \$313 million in total assets at the March 1995 CRA examination to a \$414 million financial institution. During this time, LANB realized a 30% loan growth rate. As of September 30, 1997, LANB's loan-to-deposit ratio was 93% (averaging 88%). Small business and residential mortgage loan products represent significant aspects of the bank's lending.

Small Business and Small Farm Loans

Based on bank prepared reports, LANB originated 388 small business loans in 1996 totaling approximately \$48 million and 226 small business loans in year-to-date 1997 totaling \$24 million. Although slightly less than 50% of LANB's small business loans were originated in Los Alamos County, LANB captured 83% of Los Alamos County's small business lending market share in 1996. This reflects a good level of responsiveness to assessment area credit needs. No small farm loans were originated in either year as there are no agrarian or ranching communities in Los Alamos County. The following table illustrates the volume of originations and their location relative to the assessment area:

Volume of Small Business Loan Originations in 1996 and through 9/30/97 Within Los Alamos County						
Product	Total Originations		Within the Assessment Area			
	#	\$ (000)	#	%	\$ (000)	%
Small Business Loans	614	\$72,677	281	46%	\$28,550	39%

Source: Bank prepared Small Business and Small Farm Data Collection Registers

Home Mortgage Loans

LANB originated 2,394 home mortgage loan products totaling \$217 million from 1995 through YTD 1997. A majority of LANB's mortgage home loans are within its assessment area. The ratios in the table below demonstrate that the bank's performance for each mortgage loan product has consistently been strong, both in terms of number and dollar volume. The following table illustrates the volume of origination by mortgage loan product and their location relative to the assessment area:

Volume of Home Mortgage Loan Originations in 1995, 1996 and through 9/30/97 Within Los Alamos County						
Product	Total Originations		Within the Assessment Area			
	#	\$ (000)	#	%	\$ (000)	%
Home Purchase/Refinance	2,060	\$205,253	1,458	71%	\$139,103	68%
Home Improvement	330	\$9,796	217	66%	\$6,535	67%
Multifamily	4	\$1,578	4	100%	\$1,578	100%
Total	2,394	\$216,627	1,679	70%	\$147,216	68%

Source: HMDA Loan Application Registers

LANB is the largest mortgage lender in Los Alamos County and has the largest market share of low- and moderate-income borrowers in the area. LANB's share of mortgage product originations to low- and moderate-income borrowers is near its share of the overall market, reflecting good responsiveness to credit needs throughout the assessment area. The following table illustrates 1996 home mortgage loan origination market share by income level of borrowers:

1996 Home Mortgage Loan Originations Market Share Within Los Alamos County by Income Level of the Borrower									
Loan Product	All Borrowers			Low-Income Borrowers			Mod-Income Borrowers		
	#	% Mkt	Rank	#	% Mkt	Rank	#	% Mkt	Rank
Home Purchase	302	71%	1	7	50%	1	19	49%	1
Refinance	252	74%	1	10	77%	1	24	69%	1
Home Improvement	72	72%	1	3	75%	1	5	71%	1
Total	626	72%	1	20	65%	1	48	59%	1

Source: HMDA Aggregate Data

Distribution of Loans to Businesses of Different Sizes

The distribution of small business loans to business customers of different sizes is good. Eighty-one percent of the number of small business loans originated from 1996 through September 30, 1997 went to companies with less than \$1 million in gross revenues. The distribution also indicates that 73% of the total small loans originated in that time period were under \$100 thousand in size.

Distribution of Small Business Loan Originations in 1996 and through 9/30/97 Within Los Alamos County By Loan Size and Business Revenues				
Loan Size				
	#	%	\$ (000)	%
less than \$100,000	205	73%	\$6,712	24%
\$100,000 to \$250,000	47	17%	\$8,063	28%
\$259,999 to \$1,000,000	29	10%	\$13,775	48%
Total	281	100%	\$28,550	100%

Note: During this time period, 228 loans <\$1 million in size (81%) were made to businesses with annual revenues of <\$1 million.

Source: Business Demographic Data and bank prepared Small Business and Farm Data Collection Register

Distribution of Loans to Borrowers of Different Income Levels

The distribution of mortgage loan originations by borrower's income is reasonable and generally in line with area demographics. Community contacts indicated that the bank has been very responsive to low- and moderate-income borrowers' housing needs. They identified the bank as a leader in assisting low- and moderate-income people in Los Alamos County and surrounding communities to qualify for mortgage loans. They also indicated that it is difficult for low- and moderate-income individuals to find affordable housing as defined by the various federally-funded programs.

Distribution of Home Mortgage Loan Originations in 1995, 1996 and through 9/30/97 Within Los Alamos County By Income Level of the Borrower								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Characteristics of Families	315	6%	410	8%	802	15%	3,804	71%
Loan Product	#	%	#	%	#	%	#	%
Home Purchase/Refi	35	2%	114	8%	308	21%	979	68%
Home Improvement	5	2%	26	12%	46	22%	135	64%
Total	40	2%	140	9%	354	21%	1,114	68%

Source: U.S Census Demographic Data and HMDA Loan Application Registers

Geographic Distribution of Loans within the Assessment Area

Small Business and Small Farm Loans

The geographic distribution of small business loans for 1996 and year-to-date 1997 reflects a reasonable penetration throughout the bank’s assessment area. The distribution of small business loans within the assessment area is skewed toward the upper-income geographies. The distribution parallels the demographics of the county. There are no low- or moderate-income tracts in Los Alamos County.

Distribution of Small Business and Farm Loan Originations in 1996 and through 9/30/97 Within Los Alamos County By Income Level of the Census Tract								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	0	0%	0	0%	1	20%	4	80%
Census Tracts Penetrated (% of tracts in income group)	0	0%	0	0%	1	100%	4	100%
Number of Businesses	0	0%	0	0%	58	11%	467	89%
Number of Farms	0	0%	0	0%	1	12%	7	88%
Loan Product	#	%	#	%	#	%	#	%
Small Business Loans	0	0%	0	0%	25	9%	256	91%

Source: Business Demographic Data and bank prepared Small Business and Farm Loan Data Collection Register

Home Mortgage Loans

The geographic distribution of mortgage loan originations reflects a reasonable penetration throughout the assessment area and is in proportion to the supply of owner-occupied housing in Los Alamos County. There are no low-income and no moderate-income census tracts in Los Alamos County. The following table illustrates the geographic distribution of loan originations by loan type:

Distribution of Home Mortgage Loan Originations in 1995, 1996 and through 9/30/97 Within Los Alamos County By Income Level of the Census Tracts								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	0	0%	0	0%	1	20%	4	80%
Census Tracts Penetrated (% of tracts in income group)	0	0%	0	0%	1	100%	4	100%
#r of Owner- Occupied Units	0	0%	0	0%	793	15%	4,574	85%
Loan Product	#	%	#	%	#	%	#	%
Home Purchase/Refi	0	0%	0	0%	302	21%	1,156	79%
Home Improvement	0	0%	0	0%	54	25%	163	75%
Total	0	0%	0	0%	356	21%	1,319	79%

Source: U.S. Census Demographic Data and HMDA Loan Application Registers

Community Development Lending

Community development loans are those loans whose primary purpose meets the definition of community development contained in the CRA regulation and have not been considered in our assessment of small business, small farm, or home mortgage loans. In 1995 LANB financed the first affordable housing project undertaken in the community in ten years. Presently, the bank has two loans totaling \$1.7 million. Both loans are for affordable housing targeted to low- and moderate-income individuals in the assessment area.

In July 1995, the bank originated a \$1.6 million loan to a limited liability company to finance the construction of an affordable housing project. The 36 unit apartment complex in Los Alamos was specifically earmarked for low- and moderate-income families. The loan was converted to permanent financing upon completion of the construction phase. One of the partners in the company is Los Alamos Housing Partnership, a non-profit corporation created to help develop affordable housing alternatives in the community.

Another loan totaling \$143 thousand for affordable housing was extended to a general partnership in November 1997. The purpose of the loan was to refinance a low-income housing six-plex from another institution. Four of the six units are under the United States Department of Housing Assistance Program and obtain a large portion of the rents from the Housing Authority of Santa Fe.

Product Innovation and Flexibility

LANB uses flexible lending practices to service the credit needs of its assessment area. To meet the needs for affordable housing in its community, LANB offers the following programs:

- New Mexico Mortgage Finance Authority (MFA) - HELP Program - This program offers downpayment and closing cost assistance to low-income borrowers in connection with any fixed-rate mortgage loan product. The maximum amount of the HELP loan is \$4,000 subject to FNMA and private mortgage insurer requirements.
- New Mexico Mortgage Finance Authority (MFA) - The bank participates in MFA's Mortgage Backed Securities (MBS) Program by originating loans to low- and moderate-income borrowers. This program offers below market interest rates to first time homebuyers for the purchase of a residential house in targeted areas or for the qualified rehabilitation of residential housing. Many loan types are available under the program and must either be federally insured, privately insured, or federally guaranteed (VA, HUD, or RHS). Conventional loans are available for as little as 3% down. Sales price limits apply depending on family size. The bank has originated seven loans totaling \$591 thousand.
- United States Department of Agriculture/Rural Housing Services (RHS) - Guaranteed Rural Housing (GRH) This program is restricted to rural areas with populations of under 20,000. The loan combines 100% loan-to-value with the lowest cost mortgage insurance available. HUD/FHA maximum mortgage loan limits apply. These are \$146,300 and \$160,950 for Los Alamos and Santa Fe counties, respectively. The program has sales price and income limitations according to family size. The bank has originated twelve loans totaling \$1.1 million since July 1997. Bank lending officers also counsel and refer applicants to the (RHS) for assistance. RHS offers assistance to low- and moderate-income borrowers with mortgage payments through their GRH Subsidized Program. Bank personnel also refer applicants to the RHS when applicants do not qualify under standard guidelines. RHS offers a Guaranteed Rural Housing Direct Program for home purchases to low and very low-income borrowers.
- FNMA'S Community Homebuyer's Program - This program offers flexible qualifying standards and underwriting guidelines targeted to low- and moderate-income borrowers. No loans have been originated under this program.

LANB also assists low- and moderate-income applicants qualify for mortgage loans by participating with the following non-profit organizations:

- Neighborhood Housing Services of Santa Fe, Inc. (NHS) - Second mortgage financing to assist homebuyers with downpayment and closing costs is provided in the form of two programs. Soft second mortgages up to \$15,000 at 0% interest are available for families up to 80% of median income. The loan is due in full only if the borrower sells the property. Amortizing second mortgages up to \$30,000, rate and term determined by a NHS officer, are available for families up to 100% of median-income. The program is available to Santa Fe and Rio Arriba County residents. The bank has originated two loans with the assistance of this program.
- Los Alamos Housing Partnership - This partnership also offers a soft second mortgage program for downpayment/closing costs. The maximum amount of the assistance program is \$10,000. This program is available only to Los Alamos County residents.

- Tri-County Regional Revolving Loan Fund - This programs seeks to assist small businesses by providing long-term fixed assets and shorter-term working capital financing. The intent of the program is to create and/or retain jobs in the North Central New Mexico area, which includes the bank's assessment area. No loans have been originated.

INVESTMENT TEST

Qualifying investments are investments, deposits, membership shares or grants that have as their primary purpose community development, as defined in the CRA regulation. Based on the information provided by the bank and community contacts, community development investment opportunities are extremely limited in LANB's assessment area. Qualified investments are difficult to obtain since affordable housing is not "affordable" in the MSA.

LANB does not have any community development investments that meet the definition of qualifying investments. Contacts indicate that LANB has demonstrated its willingness to invest in the community through its community economic development lending, investments, and involvement. LANB contributes to various community involvement activities. The dollar amount of qualifying grants in 1996 was minimal.

SERVICE TEST

Retail Banking Services

LANB's delivery systems are reasonably accessible to essentially all portions of the assessment area. In addition to the main office located in downtown Los Alamos, LANB has one branch in White Rock, a surrounding neighborhood in Los Alamos County. Both offices offer safe deposit box and drive through services.

While the bank has two offices located in Los Alamos County, both in upper-income census tracts, its loan originations indicate the bank's activities do reach low, moderate, and middle income persons. No branches have been closed since the previous examination. Three ATMs were opened in 1997: two in Los Alamos and one in White Rock.

LANB operates twelve proprietary automatic teller machines (ATMs). Ten of the ATMs are in Los Alamos County: seven are located throughout the city of Los Alamos (including one at LANL), and three are in White Rock. Two ATMs service Santa Fe County: one located in Tesuque and the other near downtown Santa Fe. The ATMs are networked with the Plus/Bankmate/Lynx ATM system to assure its customers global access to their accounts.

LANB also offers a 24 hour telephone banking service (DATABANK) which provides callers with information on their accounts, interest rates available, account transfers, and bill payments. The bank has established a home page in the Internet which allows inquiries regarding bank, product and service information.

Community Development Services

LANB employees actively participate and provide ongoing guidance to local organizations and programs that benefit the bank's assessment area. These primarily include affordable housing and small business development. Involvement includes contributing technical assistance, staff expertise, education, and counseling regarding credit and financial services. Below are examples of LANB's willingness to reach the needs of the community:

- **Affordable Housing:** Bank President Steve W. Wells serves as Board President of Los Alamos Housing Partnership (LAHP), a non-profit organization which assists in the distribution of Home Funds loans (for closing costs) and Section 8 vouchers (rental assistance). President Wells was instrumental in providing technical assistance to an affordable housing project formed in conjunction with LAHP and ultimately funded by LANB.
- **Home Buyers Seminars:** Mortgage Loan Department employees participated in a recent Pojoaque Pueblo HOME Fair. The Pueblo is the first in New Mexico to sign an agreement whereby lenders are authorized to make home loans on the Indian reservation. The employees provided technical and financial expertise regarding loan programs available through the bank to prospective homebuyers. They also present periodic information to the local realtors on the various programs available to assist low- and moderate-income individuals with closing and downpayment costs.
- Bank employees are also involved in various small business and economic development related community groups. Examples of organizations in which bank personnel are involved include North Central New Mexico Economic Development District and the Tri-Area Association for Economic Development. Periodically they will represent the bank by making financial services or credit related presentation to these groups. LANB employees also participate in banking presentations at local schools.

Fair Lending Review

No violations of the substantive provisions of the antidiscrimination laws and regulations were identified in our Fair Lending review. LANB's fair lending policies, procedures, and training programs have been effective in assisting lenders with these issues.

Appendix A: Scope of Examination

We utilized the CRA Examination Procedures for large retail banks from the Comptroller's Handbook to perform the evaluation. Our evaluation period covered lending activities from 1995 through December 18, 1997.

The evaluation of LANB's lending performance centered on small business and home mortgage loan originations. Loan data collected and reported by the bank for loan originations were verified and utilized in our assessment of the bank's CRA performance. Data regarding home mortgage loan originations was obtained from the bank's HMDA Loan Application Registers for 1995, 1996, and September 30, 1997. Instalment consumer loan products were not reviewed at this examination.

