



**Comptroller of the Currency
Administrator of National Banks**

SMALL BANK

PUBLIC DISCLOSURE

October 5, 1998

COMMUNITY REINVESTMENT ACT Performance Evaluation

**THE FIRST NATIONAL BANK OF NEW MEXICO
Charter Number 15259**

**201 Main
Clayton, New Mexico 88415**

**OFFICE OF THE COMPTROLLER OF THE CURRENCY
Western District
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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.

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 **The First National Bank of New Mexico** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **October 5, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated “**satisfactory.**”

Management is responsive in meeting the credit needs of their assessment area.

- The bank's lending to individuals of various income levels and businesses of different sizes is good. Our analysis revealed the bank lending profile is reflective of the demographics of their assessment area.
- The majority of the bank's loans are originated within their assessment area.
- The bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs.

The following table indicates the performance level of **The First National Bank of New Mexico** with respect to each of the five performance criteria.

THE FIRST NATIONAL BANK OF NEW MEXICO			
Performance Levels			
Small Institution Assessment Criteria	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Lending to borrowers of different incomes and to businesses of different sizes		✓	
Loan-to-deposit ratio		✓	
Lending in assessment area		✓	
Geographic distribution of loans	An analysis of the bank's performance in this category would not be meaningful as the assessment area consists of only middle-income block numbering areas.		
Response to complaints	No complaints relating to the bank's CRA activities were received since the prior examination.		

DESCRIPTION OF INSTITUTION

The First National Bank of New Mexico (FNBNM) is a subsidiary of Union Bancshares, Inc. (UBI), a one-bank holding company owning 91% of FNBNM. As of June 30, 1998, FNBNM had \$38 million in total assets. The bank's main office is located in the downtown business district of Clayton, New Mexico. In addition to the main office, the bank has one branch and two automatic teller machines (ATMs). FNBNM opened a branch in February of 1998 which is located in Raton, New Mexico, approximately 90 miles northwest of Clayton. Both the main office and the Raton branch offer full deposit and loan banking services, drive-in facilities, and ATMs. Additionally, the bank opened a Loan Production Office in Miami, New Mexico on September 8, 1998. However, we did not include this office as part of the bank's assessment area for this examination because it was too new to have an impact.

The bank's lending focus is primarily in agricultural loans. Total outstanding loans as of June 30, 1998 were \$27 million. Of these, 46% were agriculture (ag) loans, 18% ag real estate, 11% residential real estate, 6% commercial real estate, 7% commercial, and 12% consumer. There are no legal or financial impediments preventing the bank from meeting the credit needs of its assessment area.

DESCRIPTION OF ASSESSMENT AREA

FNBNM has defined its assessment area as Union and Harding Counties, and the City of Raton, in New Mexico. The bank has also included Texline, Texas as part of their assessment area. Texline is only twelve miles east of Clayton. The entire assessment area is a nonmetropolitan statistical area. This assessment area comprises six block numbering areas (BNA) which are all designated as middle-income BNAs. If the BNA is less than 50% of the weighted average of nonmetropolitan census median family income of \$23,648, it is categorized as low-income; moderate- is between 50% and 79%; middle- is 80% to 119%; and, upper- is 120% and above. This information is derived from 1990 census information.

Within the six middle-income BNA's, 21% of the families are designated as low-income, 16% moderate-, 21% middle-, and 42% upper-income. These percentages are derived from the updated 1998 Housing and Urban Development weighted average nonmetropolitan median family income of \$30,767 for New Mexico and Texas. The bank's assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

The population of this assessment area is 15,140. Large cattle ranches are important to the economy of this area. Eighty-five percent of Union County is used to produce livestock. Union County produces twice as many cattle as any other county in New Mexico. Major crops include corn, grain sorghum, wheat, alfalfa, and potatoes. Cattle feeding is also a major industry in the area. Five major feedlots located within eight miles of Clayton have a combined capacity of 70 thousand head of cattle and other livestock. There are approximately 58 thousand acres of irrigated cropland and 67 thousand acres of dryland farming. Industrial enterprises include a rock company, a carbon dioxide compressor station, a metal works company, coal mining, and railroad.

The banking environment within the assessment area includes one branch of a regional national bank and three state chartered banks. Community contacts identified home improvement loans and small business loans as the most pressing credit needs in the area. Community contacts also stated that FNBNM is the “most aggressive consumer and commercial lender” and “the only SBA lender in town.”

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The bank's record of lending to individuals of various income levels and businesses of different sizes meets the standards for satisfactory performance. The demographics of the bank's assessment area reflect a presence of all income levels within the population as indicated in the table below. Our analysis revealed the bank lends to all members of its community equitably and its overall lending is reflective of the demographics of the assessment area.

The bank has not conducted an internal analysis based on borrowers' income. Therefore, we reviewed 72% of the commercial loans and 40% of the agriculture loans, 100% of the residential real estate loans and mobile home loans, and 9% of the consumer loans originating between January 1, 1998 through August 31, 1998. We focused on borrowers' income and business gross revenues. During this timeframe, the bank had 995 loan originations centered in the following: commercial (72), agriculture (151), residential real estate/mobile homes (65) and consumer (707). The following tables illustrate our findings in each area.

LOAN DISTRIBUTION BY BORROWER INCOME LEVEL				
	LOW	MODERATE	MIDDLE	UPPER
	<\$15,383	\$15,384-\$24,613	\$24,614-\$36,920	\$36,921+
% of Families within the assessment area by income level (1990 Census Data)	21%	16%	21%	42%
Consumer Loans(63)	43%	20%	24%	13%
Residential Real Estate/Mobile Homes Loans (65)	9%	16%	26%	49%

Consumer loans represented 71% of the total number of loan originations. Our consumer loan analysis revealed that the level of bank loans to low- and moderate-income individuals significantly exceeds the demographics of the bank's assessment area. Our sample showed 63% of consumer loan originations were made to low- and moderate-income individuals. Additionally, the bank does not enforce a minimum loan amount and is therefore able to process loans as small as \$50.

The results of our analysis of residential real estate/mobile home loans show that the bank's lending profile is slightly lower than the demographics of its assessment area. During this rating period, the bank originated 25% of their housing loans to borrowers with low- and moderate-incomes. The demographics of the assessment area indicates that 37% of the families have low- and moderate-income levels. The bank is an approved lender for the Rural Housing Administration and Mortgage Finance Authority's 1st-Time Home Buyers Program.

LENDING TO BUSINESSES OF DIFFERENT SIZES						
Loan Type (# of loans in sample)	Business Gross Revenues (\$000s)					
	<100	100-250	251-499	500-749	750-1,000	1,000+
Agriculture (61)	25%	25%	23%	5%	8%	15%
Commercial (52)	48%	23%	21%	6%	0%	2%

The bank's distribution of commercial and agriculture loans to businesses and farms of different sizes is very good. We reviewed a random sample of business loan originations from January 1, 1998 through August 31, 1998. Of the 113 business loan originations in our sample, 52 were commercial and 61 were agriculture loans. The result of our analysis shows 72% of the agriculture loan originations were made to "small farms" and 98% of the commercial loan originations were made to "small businesses." The Office of the Comptroller of the Currency defines "small business" as a business with gross revenues less than one million dollars and "small farms" as an agricultural operation with gross revenues less than five hundred thousand. During the sample period, the average agriculture loan origination was \$203 thousand and the average commercial loan origination was \$24 thousand. Additionally, the bank is an approved Small Business Administration and Farm Service Agency lender.

Lending in the Assessment area

FNBNM has done a good job of lending within its assessment area. Of the 301 loans in our sample, 251 loans or 83% of the total number of loan originations were in the bank's assessment area. This translates to approximately \$15 million or 79% of the bank's dollar loan volume originated inside the assessment area. We verified the accuracy of this information by testing data in the bank's loan reports.

Loan-To-Deposit Ratio

The bank's loan-to-deposit ratio is reasonable given the bank size, financial condition, and assessment area credit needs. As of June 30, 1998 it was 77.75%. Over the last ten quarters, the evaluation period for this rating, FNBNM's average ratio was 74.93%. Local area competitors had a loan-to-deposit ratio of 76.48% at June 30, 1998 and an average of 69.02% over the last ten quarters. One local financial institution had loan-to-deposit ratios slightly higher than FNBNM's. Additionally, FNBNM had approximately \$12 million in participations sold at September 30, 1998.

Geographic Distribution of Loans

An analysis of the geographic distribution of credit within the bank's assessment area by income level would not be meaningful because the bank's assessment area consists of only middle-income block numbering areas.

Response to Complaints

During the evaluation period, FNBNM did not receive any complaints from the public regarding its CRA performance. The bank is in compliance with the substantive provisions of anti-discrimination laws and regulations. Our Fair Lending review did not indicate any evidence of apparent disparate treatment or other illegal credit practices.