



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

January 23, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Santa Fe
Charter Number 1750**

**62 Lincoln Avenue
Santa Fe, New Mexico 87501**

**Comptroller of the Currency
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.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The Lending Test is rated: **Satisfactory**

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

The overall performance of The First National Bank of Santa Fe (FNBSF) is satisfactory. Performance context also provides significant input into the rating in several categories. Primary factors contributing to the bank's rating follow:

- The loan to deposit (LTD) ratio is reasonable considering performance context issues detailed in this report.
- A majority of the bank's loans are made inside the Assessment Area (AA).
- Borrower distribution of loans, including loans to low- and moderate-income (LMI) borrowers, reflects reasonable penetration given the demographics of the AA.
- Geographic distribution of loans, including loans in LMI census tracts (CTs), falls below area demographics. Mitigating factors support the reasonable performance.
- Community development (CD) lending demonstrates excellent responsiveness to needs in the bank's AA.
- Qualified investments demonstrate adequate responsiveness to needs in the AA.
- Considering the type and delivery of retail services, and CD services provided to various community organizations and programs, the bank demonstrates adequate responsiveness to the CD needs in the AA.

SCOPE OF EXAMINATION

This Performance Evaluation (PE) evaluates information since the January 6, 2003 Community Reinvestment Act (CRA) examination.

We identified business loans (including commercial real estate) and mortgage loans as the bank's primary products based on the number and dollar amount of loans originated in 2004 and 2005. The evaluation period for our review of FNBSF's Home Mortgage Disclosure Act (HMDA) and small business loan originations covers those two years.

We pulled an original sample of 20 business loans, and used all of the HMDA Loan Application Register (LAR) originations for the evaluation period. We reviewed the data integrity audit of the bank's HMDA LAR.

The data from the HMDA LAR and the business loan sample was used for the inside/outside AA ratio. To perform other lending tests, we eliminated loans outside the AA from the sample and

added enough loans to provide a sample of 20 business loans in each metropolitan statistical area (MSA) of the AA. Santa Fe and Albuquerque are both MSAs within the bank's AA. Each MSA has a distinct median family income (MFI) and is evaluated separately. Los Alamos is no longer part of an MSA, and all of the CTs are upper-income, so there would be no benefit to analyzing the area separately.

For the geographic distribution of loans to small businesses, we used an expanded sample of 60 loans in Santa Fe. We wanted to ensure a reflective sample was used for the bank's primary lending focus.

DESCRIPTION OF INSTITUTION

FNBSF, an intrastate bank headquartered in Santa Fe, New Mexico, was chartered in 1870 and is the oldest bank in the Southwest. FNBSF is a wholly owned subsidiary of New Mexico Banquest Corporation, a one-bank holding company, headquartered in Santa Fe, New Mexico. The bank has a main office and six physical branches in Santa Fe, one office in Albuquerque, one in Los Alamos, and a mobile office license. All branches are in middle- or upper-income CTs, but are readily accessible to adjacent or nearby LMI CTs. The bank has no deposit taking ATMs. They had one in an upper-income CT, but it was removed.

FNBSF's most significant AA continues to be the Santa Fe MSA where the bank's headquarters and majority of branch offices are located. The Albuquerque branch opened in February 2002. The Albuquerque branch office specializes in delivering trust, investment advisory, brokerage and insurance services.

As of December 31, 2005, the bank's net loans totaled \$323 million, representing 68 percent of total assets. The bank's focus is business lending, with the majority being commercial real estate. The loan mix is heavily weighted in real estate with 61 percent commercial, including construction and land development, and 31 percent in 1-4 family residential loans including home equity lines of credit. Commercial and industrial loans represented 4 percent, loans to individuals 3 percent, and 1 percent other. The bank had total assets of \$472 million and \$40 million in Tier 1 capital.

The bank received a rating of "Satisfactory" at the prior evaluation dated January 6, 2003. There are no financial or legal impediments impairing the bank's ability to perform under the CRA.

DESCRIPTION OF SANTA FE AND LOS ALAMOS COUNTIES, AND THE CITY OF ALBUQUERQUE

The bank's AA includes the Santa Fe MSA, the portion of the four-county Albuquerque MSA comprising all of the CTs within the city of Albuquerque, and the non-metropolitan county of Los Alamos adjacent to Santa Fe. For ease in reference in the PE, the two main components of the AA are simply referred to as "Santa Fe" and "Albuquerque." The AA meets the legal requirements of the CRA and does not arbitrarily exclude LMI geographies. For additional details on the CTs and income designations, see the bank's public file. The demographic highlights of Santa Fe and Albuquerque are summarized below.

Santa Fe has a population of 129 thousand. There are 40 CTs designated as follows: one low-income, nine moderate-income, 13 middle-income, 14 upper-income, and three NA where no income information is available. The Housing and Urban Development (HUD) updated MFI for Santa Fe in 2005 was \$58.5 thousand, and the weighted average of median housing was \$197 thousand. Local housing organizations dispute this, and put the median nearer \$375-475 thousand.

Santa Fe unemployment for 2003-2004 is reported at 4.3 percent. Data for 2005 was not available at the time of this report. The primary employment base in Santa Fe is government (including federal, state and local), followed by services.

FNBSF has the largest deposit market share in Santa Fe, at 19 percent. However, there are four other depository competitors in Santa Fe with over 10 percent of deposit market share each, including branches of nationwide institutions. The market share for loans is more competitive, with FNBSF holding sixth place out of 61 small business lenders, and 14th place out of 345 mortgage lenders.

During our evaluation of FNBSF, we contacted a community organization to determine the needs and opportunities in the AA. The contact was an affordable housing organization, through which we determined that there is a continuing need for affordable housing in the LMI range. Other contacts during the evaluation period were also reviewed. Another affordable housing organization serving the Santa Fe and Albuquerque markets, and a contact with a government official, both reiterated the need for affordable housing and non-conforming mortgages. One of these contacts thought that investment opportunities in the affordable housing area were fairly limited, and that affordable housing was hampered by land and water issues. Two other contacts were made with economic and small business development organizations – one in Albuquerque and one in Santa Fe. They felt the needs were for very small business loans, and if the banks would not make them, then grants to organizations that do make the very small business loans.

Albuquerque has a population of 535 thousand. In the city, there are 131 CTs designated as follows: 3 low-income; 31 moderate-income; 56 middle-income; and 41 upper-income. The HUD updated MFI for Albuquerque in 2005 was \$53.5 thousand and the weighted average of median housing was \$125 thousand.

Albuquerque’s unemployment, as reported for all of Bernalillo County for 2003 and 2004, was 5.3 percent and 5.1 percent, respectively. Data for 2005 was not available at the time of this report. The primary employment base in Albuquerque is also government.

FNBSF has less than 1 percent of the deposit market share in Albuquerque. There are 24 other institutions in the market, topped by multiple branches of two nationwide institutions which have over 50 percent of the market between them. The market share for loans is even more competitive, with FNBSF holding 26th place out of 84 small business lenders, and 182nd place out of 467 mortgage lenders.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The bank’s overall CRA performance is *Satisfactory*. This is supported by separate conclusions for both the lending test and the community development test, details of which follow.

Lending Test

The bank’s performance under the lending test is rated *Satisfactory*. Three of the five components of the lending test are applied to FNBSF as a whole: the LTD ratio, lending in the AA ratio, and complaints. Santa Fe and Albuquerque are rated separately for the borrower distribution and geographic distribution, since the demographics against which loan performance is measured are different in each area.

Loan-to-Deposit Ratio

FNBSF’s LTD is reasonable given the bank’s size, financial condition, and credit needs of the AA. As of December 31, 2005, the bank’s quarterly average LTD for the last 12 quarters was compared with other financial institutions operating within their AA. The results are summarized below.

SUMMARY	
FNBSF Avg. LTD Ratio	67%
Other Institutions - Avg. LTD Ratio	94%
Other Institutions - High Avg. LTD Ratio	111%
Other Institutions - Low Avg. LTD Ratio	85%

There are no true comparables for FNBSF in their AA. The competitors used in the comparison above include a bank twice the size of FNBSF, two federal savings associations, and a bank headquartered in Albuquerque with only an incidental presence in Santa Fe.

Although the bank's LTD ratio falls below other financial institutions in the AA, there are mitigating circumstances and performance context that make this reasonable. The bank’s LTD

ratio increased during the evaluation period. It moved from a low of 60 percent at December 2002 to a high of 75 percent at September 2005. Discussions with management indicate the trend should continue.

In discussions with management, it appears that the LTD ratio was "artificially low" during the early part of the evaluation period. Two large nationwide organizations had just completed a series of mergers and acquisitions in the community. Customers who were used to dealing with local bankers found themselves disenfranchised at the large banks. Many deposits were rapidly moved into FNBSF, which was one of the remaining local banks.

The bank also sells loans into the secondary market. The numeric adjustment to the LTD when we added these loans back in did not result in a dramatically higher LTD ratio. However, one of the results of these secondary market sales (to one of the federal savings associations used as a comparable in this test) is to increase their LTD ratio at the expense of FNBSF's LTD ratio. In combination with the other factors, we concluded that the performance was lower than the other financial institutions, but still reasonable.

Lending in Assessment Area

With 91 percent of the number and 94 percent of the dollar amount of loans, FNBSF's inside/outside ratio reflects that a substantial majority of loans are inside the bank's AA.

Lending inside Santa Fe & Albuquerque										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage	468	91	46	9	514	80,148	94	5,086	6	85,284
Business	18	90	2	10	20	3,127	92	275	8	3,402
Totals	486	91	48	9	534	83,275	94	5,361	6	88,686

Source: Home mortgage loan data is from 2004-2005 HMDA LAR; business loan data is from our original sample of 20 loans for 2004-2005.

Although the totals are strongly influenced by the home mortgage data over the business loan data because of the small sample size, the results are comparable, with over 90 percent in both number of loans and dollars of loans for both loan products made inside the AA.

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

Given the demographics of the AA, the borrower distribution reflects overall reasonable penetration among individuals of different income levels and businesses of different sizes. The residential mortgage lending statistics in the tables are offset by the excellent penetration in the loans to small businesses. The residential and business loans in the Santa Fe and Albuquerque markets are analyzed separately against each area's own demographics in the following tables. The rating reflects the combined borrower distribution in mortgage loans with the borrower distribution in loans to small businesses.

Borrower Distribution of Residential Real Estate Loans in Santa Fe								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	22	7	18	7	19	20	41	57
Home Improvement	22	16	18	18	19	28	41	35
Refinancing	22	11	18	13	19	23	41	47
Total	22	12	18	13	19	24	41	45

Source: Data reported under HMDA; U.S. Census data. Total number of loans does not add up to 100 percent because some loans do not have income information.

Borrower Distribution of Residential Real Estate Loans in Albuquerque								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	21	9	18	9	20	9	41	73
Home Improvement	21	0	18	17	20	17	41	50
Refinancing	21	9	18	0	20	18	41	64
Total	21	7	18	7	20	14	41	64

Source: Data reported under HMDA; U.S. Census data. Total number of loans does not add up to 100 percent because some loans do not have income information.

Performance for total residential mortgage lending to borrowers of different income levels falls below AA demographics. The bank's performance is strongest in the category of home improvement loans to LMI borrowers in Santa Fe, and to moderate-income borrowers in Albuquerque. The opportunities for affordable housing lending are limited in the Santa Fe area. The Albuquerque branch's business focus also limits such opportunities.

Borrower Distribution of Loans to Businesses in Santa Fe				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	67	4	29	100%
% of Bank Loans in AA by #	71	24	6	100%
% of Bank Loans in AA by \$	66	31	3	100%

Source: Loan sample; Dunn and Bradstreet data. Sample unknown represents a CD secured loan with no financial statement information provided.

Borrower Distribution of Loans to Businesses in Albuquerque				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	65	6	29	100%
% of Bank Loans in AA by #	75	25	0	100%
% of Bank Loans in AA by \$	71	29	0	100%

Source: Loan sample; Dunn and Bradstreet data. Sample unknown represents a CD secured loan with no financial statement information provided.

Performance for lending to businesses of different sizes is excellent. In the Santa Fe MSA and the city of Albuquerque, both the percentage of the number and dollar amount of loans meets or exceeds the demographic of the percentage of AA businesses with gross revenues of less than \$1 million.

Geographic Distribution of Loans

The geographic distribution of loans falls below area demographics, but because of factors described in this section, we concluded that the performance was reasonable. The geographic distribution of loans is weighted more to business loans, reflective of the bank's lending focus. The residential and business loans in the Santa Fe and Albuquerque markets are analyzed separately against each area's own demographics in the tables below.

Geographic Distribution of Residential Real Estate Loans in Santa Fe								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	1	2	25	20	36	26	38	52
Home Improvement	1	1	25	9	36	30	38	60
Refinancing	1	0	25	15	36	28	38	57
Total	1	1	25	14	36	28	38	57

Geographic Distribution of Residential Real Estate Loans in Albuquerque								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	1	0	21	18	42	46	36	36
Home Improvement	1	0	21	17	42	50	36	33
Refinancing	1	0	21	0	42	45	36	55
Total	1	0	21	11	42	46	36	43

Source for both tables: data reported under HMDA; U.S. Census data.

Performance for total residential mortgage lending in LMI CTs falls below AA demographics. In the Santa Fe and Albuquerque markets, the opportunities for residential lending in low-income CTs are low, evidenced by the demographic distribution of owner occupied housing. In Santa Fe, the bank's performance is considered excellent, meeting or exceeding the low demographic. In Albuquerque, the bank was unable to make any loans in the low-income CTs, reflective of the demographics.

In Santa Fe, total residential loans in moderate-income CTs are lower than the demographic in moderate-income CTs, due to the lower performance in home improvement and refinance loans. Home purchase loans are near the demographic. According to bank management, one factor impacting this performance comes from an affordable housing organization. They used to supply the bank with opportunities to make LMI mortgage loans, but they recently began making such loans directly, providing competition instead of being a source. We reviewed the 2003 HMDA data for the bank and found that the performance in LMI tracts was considerably stronger than it was for 2004-2005.

Geographic Distribution of Loans to Small Businesses in Santa Fe								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Small Business	2	0	20	13	26	27	52	60

Source: *expanded* loan sample; D & B data

Geographic Distribution of Loans to Small Businesses in Albuquerque								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Small Business	2	0	26	25	48	40	24	35

Source: *loan sample*; D & B data.

As with the residential lending demographic, there are very limited opportunities to lend to businesses in low-income CTs in Santa Fe or Albuquerque. This fact was reflected in our sample, with no loans in the sample in low-income CTs.

In moderate-income CTs, the geographic distribution of loans reflects a reasonable dispersion. In the Santa Fe MSA the percentage of the number of loans is near the demographic. In Albuquerque, the percentage of the number of loans meets the demographic.

Responses to Complaints

We reviewed the bank's public file for complaints, and complaints reported to the OCC through the customer service hotline. There were no complaints relating to the bank's meeting of the community credit needs through the CRA.

Community Development Test

The bank does not have a formal assessment of the CD needs in its communities. However, given the need and availability for CD opportunities in the bank's AA as determined through community contacts, FNBSF made an adequate response to the CD needs through CD loans, qualified investments, and CD services.

Number and amount of community development loans

CD lending demonstrates excellent responsiveness to needs in the AA. FNBSF was able to fund CD loans meeting both the size and purpose tests in both Santa Fe and Albuquerque during the evaluation period. Loans totaling over \$3 million were made to two borrowers in Santa Fe that helped to meet affordable housing needs in the area. One loan over \$2 million was made to a borrower in Albuquerque for a formalized redevelopment project in downtown. This is an improvement over the last evaluation period when FNBSF made one CD loan in Albuquerque that had paid down to less than \$1 million, and none in Santa Fe.

Number and amount of qualified investments

Qualified investments demonstrate adequate responsiveness to needs in the AA. FNBSF made \$897 thousand in qualified CD investments and donations in the AA.

- There were two prior period investments with outstanding balances of \$300 thousand benefitting the Santa Fe area.
- One new investment of \$525 thousand was purchased in a Federal National Mortgage Association (FNMA) "low mod pool" mortgage backed security of loans to borrowers in Santa Fe with less than 80% of the MFI of the AA.
- The other new investment is a \$100 thousand commitment in a venture capital fund that provides equity investments and loans to small businesses in New Mexico. Only \$8 thousand has been drawn for two investments to date. One for a business in Albuquerque, and the other in a New Mexico community outside the bank's AA.
- The rest of the qualifying investments are donations and grants to 24 organizations totaling \$64 thousand. Most of these organizations benefit Santa Fe.

Extent to which the bank provides community development services

Considering both the type and delivery of retail services, and CD services provided to various community organizations and programs within the AA, the bank demonstrates adequate responsiveness to the CD needs in Santa Fe and Albuquerque.

Retail banking services are reasonably accessible to all members of the community in Santa Fe. None of their branches are in LMI CTs. However, the main office and a motor branch are adjacent to Santa Fe's only low-income CT and four other branches are in middle- or upper-income CTs adjacent to moderate-income CTs. In Albuquerque, the bank's single branch in a middle-income CT is surrounded by other middle-income CTs. The focus of the Albuquerque branch on trust, investment, and insurance products, and the location in a high rise office building with limited parking would not encourage walk-in traffic from LMI applicants.

We identified 18 organizations where bank employees and officers have donated a substantial amount of service time through their involvement in providing technical assistance. These activities provided financial expertise to organizations that help meet the credit needs of LMI individuals or small businesses by facilitating affordable housing, small business development and community service. Donated time of over 1,300 hours reflects an increase over the previous CRA examination. The bulk of the hours donated served the Santa Fe area, with 79 hours benefitting Albuquerque, and 205 hours benefitting the broader statewide area. Examples of these types of services include the following.

- Serving on boards, in various officer capacities, as instructors, and fund raisers; volunteering nearly 900 hours to seven different organizations which provide shelter, food, education, and other services to LMI individuals.
- Serving on boards and providing lender and other technical assistance, including bilingual expertise to assist in understanding loan closings, to organizations that provide small business loans and training to entrepreneurs, and promote the creation of jobs; volunteering over 100 hours to 5 different organizations which promote economic development.
- Serving on boards, loan committees, and assisting in loan closings; volunteering over 300 hours to 5 different organizations that facilitate affordable housing.

Bank's responsiveness, through community development activities, to community development lending, investment, and services needs

In summary, the bank demonstrates adequate responsiveness to the CD needs considering both Santa Fe and Albuquerque. CD lending levels have improved, and benefit needs in both Santa Fe and Albuquerque. CD investments are slightly lower, especially considering that some are prior period investments, and largely benefit only the Santa Fe area. Service needs are divided between retail delivery and CD services. Retail delivery is adequate, and CD services represent excellent responsiveness to needs in Santa Fe and adequate responsiveness to Albuquerque and the broader statewide area.

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.