



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**July 07, 2008**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The James Polk Stone National Bank  
Charter Number 8348

109 E. Second Street  
Portales, New Mexico 88130

Office of the 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.**

James Polk Stone National Bank's (JPSNB) lending performance reflects a satisfactory response to community credit needs. This is based on the following factors.

- The loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and assessment area (AA) needs.
- A substantial majority of loans are inside the bank's AA.
- Borrower distribution of loans reflects reasonable penetration of the AA.
- Geographic distribution of loans reflects reasonable dispersion within the AA.

## **SCOPE OF EXAMINATION**

This examination consisted of a full scope review of JPSNB's performance in its single AA. The evaluation period for this CRA examination focused on the bank's lending from January 2006 through May 2008. Through discussions with management and a review of bank reports, we determined the bank's primary products are commercial and consumer loans.

We sampled 20 loans from each of the primary loan products to help evaluate the bank's lending performance. The data from the original business and consumer loan sample was used to calculate the inside/outside AA ratio. To perform other lending tests, we eliminated two loans outside the AA from the original sample and added two additional loans to provide a sample of 20 business and 20 consumer loans inside the AA. Based on the results from these samples and other lending tests, the bank's lending performance is satisfactory.

## **DESCRIPTION OF INSTITUTION**

JPSNB is a community bank headquartered in Portales, New Mexico, which is in a non-metropolitan area in the eastern part of the state. As of March 31, 2008, JPSNB had \$135 million in average assets and net total loans of \$78 million, or 58 percent of total assets. JPSNB operates five full service offices. Its main office is located in Portales, with other locations in Clovis, Roswell, Hagerman and Hobbs. The Hagerman and Hobbs branches were opened in 2007. The bank is a subchapter S corporation wholly owned by Portales National Bancshares, Inc., a one bank holding company. There are no affiliates.

The bank's primary lending focus during the evaluation period was commercial and consumer loans. In terms of dollars, commercial loans represent 46 percent of the bank total loan originations and consumer loans represent 27 percent in 2006 and 2007. Consumer loans also represent 67 percent of the number of loans for the same period, while commercial loans only represent 17 percent of the number of loans. 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 rated Satisfactory at the February 17, 2004 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**

JPSNB has designated the Clovis-Portales Micropolitan Combined Statistical Area (MCSA), plus Chaves, and Lea counties in New Mexico, as its assessment area (AA). Curry County, the city of Clovis, Cannon Air Force Base and Roosevelt County are all included in the new MCSA. According to the census.gov website, a MCSA is defined by the U.S. Office of Management and Budget (OMB) for use by federal statistical agencies in collecting, tabulating, and publishing federal statistics. A MCSA contains an urban core of at least 10,000 (but less than 50,000) population. The bank's entire AA is a non-metropolitan statistical area (non-MSA).

Within the AA, there are 12 moderate-income, 22 middle-income, and 5 upper-income census tracts (CTs). There are no low-income CTs. The AA meets the legal requirements of the regulation and does not arbitrarily exclude low- or moderate-income (LMI) geographies. The 2007 Housing and Urban Development updated statewide non-MSA median income is \$39,000. Twenty percent of the households in the AA are below the poverty level.

JPSNB is in an area with a diversified employment base. Major employers in the area include local government, retail trade, healthcare, lodging, food service, agriculture, state government, and federal government. Local economic conditions are stable. Over the last three years, unemployment for the area has fallen from 3.8 percent to 3.2 percent, due in part to growth in agricultural industries in the AA. The dairy industry, specifically cheese production, plays a significant role with Glanbia Cheese Factory moving into the area.

Competition for financial services is strong. The June 30, 2007 FDIC Deposit Market Share Report shows 16 financial institutions competed for over \$2 billion of insured deposits. The nature of the competition includes branches of nation-wide financial institutions and other community banks. JPSNB ranks ninth, with a six percent share in the marketplace and does not operate outside the area. The majority of the other competitors have a significant presence and access to other loans and deposits outside the local market.

There are 12 banks in the market place similarly situated to JPSNB. The similarities are identified in terms of size, geographic presence, and line of business. There are 10 state banks, one other nationally chartered bank, and one thrift. These institutions were used to evaluate the bank's LTD ratio.

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 this examination. The contact reported economic conditions were satisfactory. The contact is in economic development and identified a need for additional loans to finance retail businesses, specifically restaurants, in Portales.

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.

## PERFORMANCE CRITERIA CONCLUSIONS

### Loan-to-Deposit Ratio

The bank’s average quarterly LTD ratio of 60 percent during the evaluation period is reasonable given the bank’s size, financial condition and AA needs. It meets the standard for satisfactory performance.

The Uniform Bank Performance reports for the first quarter of 2004 through the first quarter of 2008 were used to compare JPSNB with 12 similarly situated banks. The banks share the same geographic locality. JPSNB is on the lower end of the range for average quarterly LTD ratios, with three of the banks having lower LTDs. This is due in part to management’s conservative approach to lending. The bank also has a high number of consumer loans with smaller dollar amounts which contributes to a lower LTD ratio.

Bank	Average Quarterly Loan-to-Deposit Ratio
<b>JPSNB</b>	<b>60%</b>
Twelve other financial institutions average LTD ratios	72%
Highest LTD ratio in Range of other twelve institutions	98%
Lowest LTD ratio in range of other twelve institutions	21%

Source: Uniform Bank Performance Report

### Lending in Assessment Area

A substantial majority of the bank’s loans are within its AA. This exceeds the standards for satisfactory performance. Refer to the table below.

Lending in Roosevelt, Curry, Chaves and Lea Counties AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$000	%	\$000	%	
Business Loans	19	95%	1	5	20	1,457	98%	30	2	1,487
Consumers Loans	19	95%	1	5	20	278	96%	12	4	290
<b>Totals</b>	<b>38</b>	<b>95%</b>	<b>2</b>	<b>5</b>	<b>40</b>	<b>1,735</b>	<b>98%</b>	<b>42</b>	<b>2</b>	<b>1,777</b>

Source: Loan Sample

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

Given the demographics of the AA, the distribution of business and consumer loans originated reflects reasonable penetration of the AA.

### *Business Loans*

JPSNB exceeds the standard for loans to borrowers with revenues of \$1 million or less. The table below shows the bank has excellent penetration of its AA.

<b>Borrower Distribution of Loans to Businesses in Roosevelt, Curry, Chaves &amp; Lea Counties AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	63	4	33	100%
% of Bank Loans in AA by #	<b>100</b>	0	0	100%
% of Bank Loans in AA by \$	<b>100</b>	0	0	100%

Source: Loan sample; Dunn & Bradstreet data.

### *Consumer Loans*

The bank meets the standard for satisfactory performance in borrower distribution for consumer loans. Performance of the sample against customer demographics for low-income borrowers slightly exceeds the ratio. Performance in loans to moderate-income borrowers also slightly exceeds the ratio. However, consumer loans are held to a higher performance standard than commercial or residential real estate loans because the consumer loans are generally easier to obtain and easier for the bank to make. Thus the fact that the bank’s performance is only slightly greater than the demographic only represents a reasonable performance for this type of loan.

<b>Borrower Distribution of Consumer Loans in Roosevelt, Curry, Chavez,&amp; Lea Counties 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	24	<b>26</b>	15	<b>16</b>	19	<b>21</b>	42	<b>37</b>

Source: Loan sample; U.S. Census data. Percentages based on 19 loans total due to one financial statement waived by the bank.

## Geographic Distribution of Loans

The geographic distribution of the bank’s business and consumer loans within the AA is reasonable. There are no low-income CTs in the AA. There were no gaps or an area of low penetration in the bank’s lending patterns.

### *Business Loans*

The geographic dispersion of commercial loans is reasonable. There is reasonable commercial lending activity throughout the AA. The percentage of number of loans is near the percent of AA businesses located in moderate-income CTs.

<b>Geographic Distribution of Loans to Businesses in Roosevelt, Curry, Chaves, &amp; Lea Counties AA</b>								
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
Business Loans	N/A	N/A	22	<b>20</b>	58	<b>65</b>	20	<b>15</b>

Source: Loan sample, Dunn & Bradstreet

As reflected in the table above, there are a high percentage of loans made to middle-income CTs. A significant number of these loans are located in what is known as distressed middle-income non-metropolitan CTs. A non-metropolitan middle-income geography is designated as distressed if it is in a county that meets one or more of the following triggers: (1) An unemployment rate of at least 1.5 times the national average; (2) a poverty rate of 20 percent or more; or (3) a population loss of 10 percent or more. Six loans were originated in CTs designated distressed due to poverty and population loss in Roosevelt County. Two loans were originated in CTs designated distressed due to population loss in Curry County. Four loans were in CTs designated distressed due to poverty levels in Chaves County. In total, 12 business loans, reflecting 60 percent of the total commercial loans sampled, were made in areas designated distressed during the evaluation period.

*Consumer Loans*

The geographic distribution of consumer loans within the AA is lower than the demographic ratio, and does not meet the standard for satisfactory performance. Although it does not meet the standard for performance in lending to moderate-income levels within its AA, we concluded the geographic dispersion of consumer loans is reasonable due to several factors.

- First, there are no low-income CTs within the AA, so there is no opportunity to lend in low-income CTs.
- Second, the primary credit need for the area is identified as small business loans.
- Finally, a high percentage of consumer loans were made to households located in distressed middle-income non-metropolitan CTs. Eight loans were originated in census tracts designated distressed due to poverty levels and population loss in Roosevelt County. Three loans were originated in CTs designated distressed due to just population loss in Curry County. Two consumer loans are in CTs designated distressed due to poverty levels in Chaves County. In total 13 consumer loans, reflecting 65 percent of total consumer loans sampled were made in designated distressed middle-income CTs during the evaluation period.

Geographic Distribution of Consumer Loans in Roosevelt, Curry, Chaves & Lea Counties 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	N/A	N/A	21	<b>20</b>	60	<b>65</b>	19	<b>15</b>

Source: Loan sample, US Census data

### Responses to Complaints

No complaints have been received by the bank or OCC relating to the bank’s CRA performance during this evaluation period.

### 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.