



SMALL BANK

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

PUBLIC DISCLOSURE

October 18, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Bank of the Rio Grande, National Association
Charter Number 20439**

**421 North Water
Las Cruces, New Mexico 88001**

**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 Outstanding.

The Bank of the Rio Grande, N.A.'s (BORG) lending performance reflects an outstanding response to community credit needs. This is based on the following information.

- The loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- A substantial majority of the number of loans are inside the bank's AA.
- The distribution of loans reflects excellent penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects an excellent dispersion throughout the AA.

DESCRIPTION OF INSTITUTION

BORG is a community bank in Las Cruces, New Mexico with total assets of \$70 million as of December 31, 2002. As of that date, the bank operated out the main office and one branch in Las Cruces, New Mexico. The deposit taking ATMs are located at the main office and branch. The bank has not closed any branches or deposit taking ATMs during the evaluation period. BORG is a member of Las Cruces B.R.G., Inc., a one-bank holding company which owns 100% of BORG. The bank is the holding company's primary asset.

The bank's primary lending focus using both number and dollar amount of loan originations during the 2001-2002 evaluation period is in commercial and consumer loans. In terms of dollars outstanding as of December 31, 2002, commercial and commercial real estate loans represented 47%, consumer loans represented 18%, and residential mortgage loans represented 16% of the bank's total loan portfolio. The bank's net loans to total assets ratio as of the same date was 61%. With a 6% market share as of the June 30, 2003 report, BORG had the sixth largest number of deposits in the AA.

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 previously rated Satisfactory as of July 26, 1999.

DESCRIPTION OF ASSESSMENT AREA

As of December 31, 2002, and using 1990 census data, BORG had designated all twenty-three census tracts (CTs) in Doña Ana County, New Mexico as its AA. The Las Cruces MSA is located in the county. The MSA includes the moderate-income CT where the bank's main office is located, and the middle-income CT where the branch is located.

The single low-income CT in the AA is known as University Park, a triangular area bounded by two freeways and University Avenue. The area consists of the New Mexico State University (NMSU) campus and student housing. There are limited lending opportunities in this low-income CT. Moderate-income CTs are located in downtown Las Cruces, Southern Doña Ana (including the Sunland Park and Anthony communities), and the community of Hatch in the far northeast corner of the county. Remaining CTs in the AA are middle- or upper-income.

The 2002 HUD updated MSA median family income (MFI) for the Las Cruces MSA was \$36,800. The percentage of households in the AA defined as low-income is 25%, moderate-income is 16%, middle-income is 17%, and upper-income is 42%.

Competition for financial services is high. There are 14 financial institutions in Doña Ana County, not including credit unions. The June 30, 2003 FDIC Deposit Market Share report shows that the financial institutions in the AA competed for \$988 million of insured deposits. BORG has the sixth largest deposit market share, with 6% of the deposits in the market. Two banks account for over 40% of the market between them. None of the other banks has more than 10% of the market. The nature of the competition includes 14 financial institutions ranging from multiple branches of two mega-banks with a nation-wide presence, all the way down to a very small community bank with only one office. The bank considers its true competition to be in the middle range, with six banks and savings and loans (S&L) that are comparable to BORG. There is one other bank, three times the size of BORG, with all of its offices in the AA. All the other banks in the group have multiple offices outside the market.

The largest local employment sectors are state and local government; federal government, with the spin-off aerospace industry services and contractors; healthcare; and retail. Agriculture also plays a part in the economy, with greenhouses and farms, and food processors. Major crops in the area include chile, pecans, and dairy. Proximity to the border and a large bilingual population has also led to a number of call-centers locating to the area. Unemployment figures for Doña Ana County were benchmarked at 6.7% in 2002, down from a 4-year high of 8% in 1999.

During this examination we made one community contact to discuss economic conditions and credit needs. The contact said local and regional banks in the area were generally responsive to meeting the small business loan needs of the community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The evaluation period for this CRA examination focuses on loan originations during 2001 and 2002. The December 31, 2002 cut-off date is used because of the impact of the Census 2000 changes that were effective in 2003. Loans made through 2002 are compared to 1990 census demographics, while loans made in 2003 and forward will need to be measured against demographic comparators from the 2000 census. Using only one census demographic period for this evaluation provides a more consistent analysis.

To determine the sample for this 2001-2002 period, we looked at both the dollar amount of loans and the number of loans originated. An evaluation of the originations showed BORG's primary products to be commercial and consumer loans, which is representative of the bank's current business strategy.

| Loan Originations for Evaluation Period as a % of total originations | Percentage of Dollar Amount of Loans | Percent of Number of Loans |
|---|---|-----------------------------------|
| Business Loan Originations | 71% | 37% |
| Consumer Loan Originations | 13% | 54% |
| Total Primary Products | 84% | 91% |

Source: Loan Originations for evaluation period

After identifying the two primary products, we took a random sample of 20 business loans and 20 consumer loans to determine the ratio of loans inside the AA. To evaluate the borrower distribution of loans, loans outside the AA were discarded and additional loans were then selected to fill in the samples of 20 business and 20 consumer loans. Based on these samples, the bank's CRA performance in meeting the credit needs of the community is outstanding, as supported below.

Loan-to-Deposit Ratio

The bank's average quarterly LTD ratio of 70% from the last CRA examination through December 2002 is reasonable given the bank's size, financial condition, and AA credit needs. It meets the standard for satisfactory performance.

| Loan-to-deposit Ratio for Competing Financial Institutions in the Las Cruces MSA 4100 AA | | | |
|---|------------|-----------------------|-----|
| BORG | 70% | | |
| Average of 6 other financial institutions | 84% | Average without S&Ls | 68% |
| High LTD of other financial institutions | 137% | High LTD without S&Ls | 77% |
| Low LTD of other financial institutions | 62% | Low LTD without S&Ls | 62% |

Source: Uniform Bank Performance Report(UBPR); Savings & Loan (S&L) Performance and Condition Ratios

As noted in the table above, UBPR and S&L Performance and Condition Ratios from the third quarter 1999 through the fourth quarter 2002, were used to compare BORG with six other financial institutions that also do business in the AA. There are 14 other financial institutions in the AA, but the bank does not consider all of them competitors. There are only two financial institutions that, like BORG, exclusively serve the local community, with no branches outside the Las Cruces MSA AA. The AA also includes multiple branches of two nation-wide banks. These mega banking organizations have the ability to draw loans and deposits from a much wider base, and their LTD ratio at a local level is not available.

The average quarterly LTD ratio of the other financial institutions, when including S&Ls, has a broader range, and BORG falls within the range, but below the average. However, although the S&Ls compete with the banks, their ratios are very different. Thus, we also calculated LTD ratios for just the four banks in the AA. In this scenario, BORG falls in the mid-range of the ratios, and is above average based on the combined bank ratio.

Lending in Assessment Area

A substantial majority of both the number (90%) and dollar amount (98%) of loans are inside the AA. This exceeds the standard for satisfactory performance under this factor.

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

Given the demographics of the AA, the combined distribution of business and consumer loans originated reflects an excellent penetration. Our analysis included 20 commercial and 20 consumer loans originated in 2001 and 2002 inside the AA.

Business Loans

The bank's lending activity to businesses of different sizes reflects excellent penetration to small businesses. The table below measures the bank's performance in lending to small businesses, defined as businesses with gross annual revenues of \$1 million or less. The percentage of loans to small businesses exceeds the business demographic by the percent of number of loans in the sample, and is near the percent of dollar amount of loans. More weight is given to the percentage of number of loans, since the lower percentage by dollar amount actually reflects a commitment to small business loans. None of the loans in the sample, including those to large businesses, are over \$200 thousand, and includes business loans less than \$5 thousand.

| Borrower Distribution of Loans to Businesses in the Las Cruces MSA 4100 AA | | |
|---|---------------|---------------|
| Business Revenues (or Sales) | ≤ \$1,000,000 | > \$1,000,000 |
| % of AA Businesses* | 76% | 6% |
| % of Bank Loans in AA by # | 80% | 20% |
| % of Bank Loans in AA by % \$ | 65% | 35% |

*Source: Loan sample; Dunn & Bradstreet data. *18% of AA businesses did not report revenue data.*

Consumer Loans

The bank's consumer lending activity to borrowers of different incomes reflects excellent penetration. The following table focuses on the measure of the bank's performance in lending to low- and moderate-income (LMI) borrowers. Low-income is defined as 50% or less of the HUD updated median family income (MFI) for the area in which the borrower resides. Moderate-income is defined as between 50-80% of the HUD updated MFI.

For low-income borrowers, the sample of the bank's consumer loans exceeds the area demographic in the number of loans extended, and substantially exceeds the demographic for moderate-income borrowers. This is achieved despite the additional demographic that identifies 23% of the AA households living below the poverty level. Generally households below the poverty level are not able to qualify for even small loans.

| Borrower Distribution of Consumer Loans in the Las Cruces MSA 4100 AA | | | | | | | | |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| 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 | 25% | 30% | 16% | 30% | 17% | 35% | 42% | 5% |

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

Geographic Distribution of Loans

The geographic distribution of the combined business and consumer loans reflects excellent dispersion throughout the AA. There were no loans in either the business or consumer sample in the low-income CT. As explained in the performance context for this bank, the single low-income CT is comprised of the NMSU campus and student housing, so opportunities for lending are very limited. Also noted earlier in the performance context for the bank, the bank's primary product is commercial loans. Consumer loans are a significant product based only on the number of loan originations, but more weight is given in this analysis to the commercial loans, which represent a larger combined percent of both the dollar and number of loans.

Business Loans

The bank's commercial lending activity reflects excellent dispersion to small businesses in moderate-income CTs. The table below measures the bank's performance in lending to businesses in each tract by income level of the tract. The percentage of loans in the sample that were in moderate-income CTs exceeds the demographic number of AA business in moderate-income CTs. This exceeds the standards for satisfactory performance.

| Geographic Distribution of Loans to Businesses in Las Cruces MSA 4100 AA | | | | | | | | |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| 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 |
| Commercial | 2% | 0% | 34% | 40% | 44% | 60% | 20% | 0% |

Source: Loan sample; Dunn & Bradstreet data.

Consumer Loans

The banks consumer lending activity in moderate-income CTs reflects a reasonable dispersion throughout the AA. Although the percentage of loans in the sample also exceeds the demographic for the AA, the standards for consumer lending are higher than that for loans to businesses because traditionally it has been easier to qualify for consumer loans than for home or small business loans. This meets the standard for satisfactory performance.

| Geographic Distribution of Consumer Loans in Las Cruces MSA 4100 AA | | | | | | | | |
|---|---------------------|----------------------|---------------------|----------------------|---------------------|----------------------|---------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA House-holds | % of Number of Loans | % of AA House-holds | % of Number of Loans | % of AA House-holds | % of Number of Loans | % of AA House-holds | % of Number of Loans |
| Consumer Loans | 1% | 0% | 31% | 35% | 46% | 55% | 22% | 10% |

Source: loan sample; U.S. Census Data

In addition to its small business lending, the bank made two qualified community development loans since the last CRA examination. Both loans were to local non-profit organizations. One organization provides affordable housing services. The other loan was to an organization that provides healthcare services to LMI individuals including migrants, seasonal farm workers, the low-income rural population, and other medically underserved persons in Doña Ana County.

Qualified Community Development Investments

The bank's qualified investments for the evaluation period were appropriate. These consisted of a number of small grants and donations totaling over \$6 thousand to qualifying organizations. Most of that financial support has gone towards a special project voted on by the bank employees for children at a non-profit safe haven facility in a LMI neighborhood. Other donations include homeless and transitional centers, and healthcare for women and children who do not have health insurance.

Responses to Complaints

BORG has not received any CRA related complaints since our last examination.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.