



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

July 07, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank in Alamogordo
Charter Number 14786

414 10th Street
Alamogordo, New Mexico 88310-6766

Office of the Comptroller of the Currency

Arizona/New Mexico Field Office
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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 First National Bank in Alamogordo's (FNBA) lending performance in relation to assessment area (AA) credit needs is Outstanding. The bank has demonstrated its ability to meet the credit needs of the AA through more than reasonable performance in lending to small businesses and low- and moderate-income (LMI) individuals. The following information further describes the bank's performance under the Community Reinvestment Act (CRA):

- A substantial majority of loans are in the bank's AA;
- The distribution of loans throughout the AA reflects excellent penetration among individuals of different income levels, and businesses of different sizes; and
- The geographic distribution of loans reflects excellent dispersion throughout the AA. The bank's community development loans enhance the quality of the geographic distribution analysis.
- The bank's record of providing branches, ATMs and alternative delivery systems enhances credit availability in the AA, including LMI areas.

SCOPE OF EXAMINATION

This examination consisted of a full scope review of the bank's designated AA. The lending test covers the previous three years (2007-2009) and year-to-date through April 30, 2010 (referred to in this report as the evaluation period). We identified business and consumer loans as the bank's primary products based on the number and dollar amount of loans originated in the evaluation period. We also included Community Development loans since the last examination in our review.

We sampled 20 loans from each of FNBA's primary loan products, for a total of 40 loans. The data from the business and consumer loan sample was used to calculate the inside/outside AA ratio. To perform other lending tests, we eliminated loans outside the AA from the sample and added additional loans to provide a sample of 20 business and 20 consumer loans inside the AA. The sample is representative of the bank's business strategy since the last examination.

Our review also included contacting a community representative in the AA.

DESCRIPTION OF INSTITUTION

FNBA is a community bank located in Alamogordo, New Mexico, a non-metropolitan area in the southeastern part of the state. As of March 31, 2010, FNBA had \$258 million in average assets and net total loans of \$85 million, or 33% of total assets. FNBA operates out of seven offices, with its main office and three branches in Alamogordo plus branches in Tularosa, Cloudcroft, and Artesia, New Mexico. FNBA

also has seven deposit-taking ATMs in these locations. The Artesia branch was opened in 2005, subsequent to the last CRA examination. The bank did not close any branch offices or deposit-taking ATMs during the evaluation period.

The bank is a subsidiary of a two-bank holding company, First Alamogordo Bancorp of Nevada, Inc., which owns 100% of the bank's stock. The affiliate bank is First National Bank of Ruidoso, located in Ruidoso, New Mexico.

The bank's primary lending focus is small business and consumer loans. In terms of dollars, commercial and commercial real estate loans represent 56%, and consumer loans represent 27%, of the bank's total loan portfolio as of December 31, 2009.

Additional details about the bank may be found in its Public File, maintained at the main office of the bank.

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 Outstanding at its last CRA examination as of September 1, 2003.

DESCRIPTION OF OTERO, EDDY, AND LINCOLN COUNTIES IN NEW MEXICO, AND PART OF CHAVES COUNTY, NEW MEXICO

FNBA designated all of Otero, Eddy, and Lincoln counties in New Mexico, and eleven census tracts from Chaves County, New Mexico as its AA. The entire area is a non-metropolitan statistical area. There are 6 moderate-, 27 middle-, and 8 upper-income tracts in the AA. There are no low-income tracts. The AA meets the legal requirements of the regulation and does not arbitrarily exclude low or moderate income (LMI) geographies.

This table outlines some of the pertinent demographic and economic information for the AA.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
Population (based on 2000 Census)	
Number of individuals	183,935
Median Family Income (MFI) and % of families by income level	
2009 HUD-adjusted statewide non-MSA MFI	\$44,100
Percentage of low-income families	19%
Percentage of moderate-income families	17%
Percentage of middle-income families	21%
Percentage of upper-income families	43%
Housing	
Number of housing units	88,362
Percent Owner Occupied	46%
2000 Median Housing Value	\$68,667
Economic Indicators	
Unemployment Rate (as of 12/31/09)	6.1%
% of Households Below Poverty Level	17%

Source: U.S. Census data.

FNBA is in an area with a diversified employment base. The economy of the AA is widely based in government, education, and tourism. The bank has six of its seven branches located in Otero County. Therefore, we reviewed the local economy in Otero County in more depth. The major employers in Otero County are White Sands Missile Range, Holloman Air Force Base, the German Air Force Flying Training Center, and Alamogordo Public Schools. Otero County also includes government-owned lands, primarily the Mescalero Apache Indian Reservation, which covers a major portion of the county. Local economic conditions in Otero County have remained relatively stable over the last few years primarily due to the large presence of government jobs in the area. However, over the last four years, unemployment for the bank's entire AA rose from 4% to 6.1%.

Competition for financial services is strong. The June 30, 2009 FDIC Deposit Market Share Report shows eight financial institutions competed for over \$1.4 billion, or 57% of insured deposits. This does not include the area credit union deposits. The nature of the competition includes two branches of nationwide financial institutions, two local banks, four savings associations, and local credit unions. FNBA has 8% of the market share and is the fourth largest institution in the area. The two large multi-state financial institutions account for 18% of the market share and have significant presences and access to other loans and deposits outside the local market. The four savings associations account for another 24% of the market share.

There are three similarly situated banks to FNBA in the marketplace. The similarities are identified in terms of size, geographic presence, and line of business. Two are local banks in the AA and one is a savings association. These institutions were used to evaluate the bank's loan-to-deposit (LTD) ratio.

To gather more current 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 stated that economic conditions are improving, and local financial institutions are very supportive in meeting the credit needs of the area. The contact works for an organization designed to meet community and area business needs. The contact identified the primary credit need as small business loans, including loans to builders. The contact said that the long-term issue facing the community is affordable housing.

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.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Based on the loan sample, and the bank's community development loans, the bank's CRA performance in meeting the credit needs of the community remains Outstanding. The bank's LTD ratio was reasonable given its size, financial condition, and AA credit needs. We found FNBA to have excellent penetration among borrowers of different income levels and businesses of different sizes. FNBA's geographic distribution of

loans represents an excellent dispersion throughout the AA. More weight was given to the distribution of business loans as this was identified as the primary credit need for the bank's AA.

All criteria of the lending test are documented below.

Loan-to-Deposit Ratio

The bank's LTD ratio is reasonable given area competition and the credit needs of the community.

The bank's average quarterly LTD ratio since the previous CRA exam is 46%. It meets the standard for satisfactory performance.

Bank	Average Quarterly Loan-to-Deposit Ratio
FNB in Alamogordo	46%
Bank A	83%
Bank B	115%
Bank C	86%

Source: Uniform Bank Performance Report

While FNBA's LTD ratio was lower than these competitors, there are a few mitigating factors. FNBA originates and sells residential real estate loans into the secondary market. Therefore, the LTD ratio is not fully reflective of the lending activity of FNBA. Additionally, many borrowers request small dollar loans that do not result in a significant increase in the LTD ratio. FNBA routinely makes these small dollar loans to meet the credit needs of the community.

Lending in Assessment Area

A substantial majority of the number and 100% of the dollar amount of loans in the loan sample are inside the bank's AA. This exceeds the standards for satisfactory performance. Refer to the table below.

Lending in FNBA's AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$(000)	%	\$(000)	%	
Commercial	20	100%	0	0%	20	1,955	100%	0	0%	1,955
Consumer	19	95%	1	5%	20	145	95%	7	5%	152
Totals	39	98%	1	2%	100%	2,100	100%	7	0%	2,107

Source: Sample of loans.

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

Given the demographics of the AA, the distribution of loans reflects an excellent penetration among individuals of different income levels, and businesses of different sizes.

Business Loans

Lending patterns to small businesses exceed the standard for satisfactory performance. Based on the distribution of loan originations sampled, the percentage of FNBA loans substantially exceeds the demographic percent of AA businesses with revenues of \$1 million or less by both the dollar amount and number of loans. This loan penetration into small businesses reflects a responsiveness on the bank’s part, as the primary credit need identified in the AA was loans to small businesses.

Gross annual revenue (GAR) of the business is used as the primary indicator of the bank’s performance in meeting the credit needs of small businesses. Small business loans are those loans made to businesses with revenues of \$1,000,000 or less. The table below depicts the distribution of FNBA’s business loans among businesses of different revenues.

Borrower Distribution of Loans to Businesses in FNBA’s AA				
Business Gross Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	73%	4%	23%	100%
% of Bank Loans in AA by #	90%	10%	0%	100%
% of Bank Loans in AA by \$	90%	10%	0%	100%

Source: Loan sample; Dunn and Bradstreet data.

Consumer Loans

Lending patterns to consumers with incomes of different sizes also exceed the standards for satisfactory performance. The performance was more difficult to evaluate because the bank typically retains only net income information for its consumer borrowers, and the analysis requires gross income. First, we attempted to gross-up the net-income, using a 28% tax rate.

As shown in the table below, the distribution of loans to moderate-income individuals exceed the standards for satisfactory performance and loans to low-income individuals meet the standard for satisfactory performance with mitigating factors. The performance can be mitigated by the fact that 17% of the households in the AA live below the poverty level, and if they qualified for loans, the dollar amounts would be very small.

Borrower Distribution of Consumer Loans in FNBA’s 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	21%	0%	16%	40%	19%	20%	44%	40%

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

Because the borrower income analysis is based on a tax rate that may not be appropriate for all borrowers, we also did an analysis of the size of individual consumer loans as a proxy for borrower income.

As shown in the table below, the substantial majority of loans in the sample are less than \$10,000, and further the majority of those are very small loans less than \$5,000. This represents a more than reasonable performance for consumer lending, as not all banks make very small loans to consumers because of the cost of “booking” a loan. FNBA regularly makes a significant number of very small loans to meet the credit needs of the community.

Borrower Distribution of Loans to Consumers by Loan Size in FNBA’s AA				
Loan Size	\$0 - \$4,999	\$5,000 - \$10,000	\$10,000 - \$20,000	Over \$20,000
Number of Consumer Loans	10	5	2	3
% of Number of Consumer Loans	50%	25%	10%	15%

Source: Loan sample.

Geographic Distribution of Loans

The geographic distribution of loans reflects an excellent dispersion throughout the AA. FNBA’s geographic distribution of both business and consumer loans is excellent given its branch locations, product offerings, and staffing. No unexplained lending gaps were identified. We also considered community development loans, which were outside of the original sample.

Business Loans

The geographic distribution of loans to businesses reflects excellent dispersion among businesses located within moderate-income census tracts. There are no low-income census tracts in the AA. FNBA originated 20% of its business loans to businesses located in moderate-income census tracts. This is excellent considering that 10% of the businesses in the AA are located within moderate-income census tracts.

The following table shows the distribution of business loans throughout the AA, based

on our sample.

Geographic Distribution of Loans to Businesses in FNBA's 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
Business Loans	0%	0%	10%	20%	65%	60%	25%	20%

Source: Loan sample; Dunn and Bradstreet data.

In addition, the bank originated \$3.5 million in community development loans during the evaluation period that revitalize or stabilize distressed areas and moderate-income geographies, and provide community services targeted to LMI individuals. This demonstration of commitment to community development lending enhances the bank's ability to meet the credit needs of the AA.

Consumer Loans

The bank's geographic distribution of consumer loans in this AA reflects an excellent dispersion throughout census tracts of different income levels with the consideration of community development loans. The distribution of consumer loans reflects a reasonable dispersion in the moderate-income census tracts, as 10% of consumer loans originated were in moderate-income census tracts compared to the 10% demographic comparative.

Following is a table that details the bank's performance as compared to the percentage of households located in each census tract.

Geographic Distribution of Consumer Loans in FNBA's 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	0%	0%	10%	10%	65%	75%	25%	15%

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

Qualified Services

FNBA provides branches, delivery, and alternative delivery systems that enhance credit availability to its AA. Alternative delivery systems include, but are not limited to, Internet banking, on-line statements, banking by telephone, ATMs at all branches and several throughout the AA, and accommodation services with its affiliate bank. The bank's main office is located in a moderate-income census tract. Additionally, one of the branches is located in a middle-income geography that is designated as a distressed area. One of the deposit-taking ATMs is located in a moderate-income census tract and another deposit-taking ATM is located in a middle-income geography designated as distressed.

Responses to Complaints

FNBA has not received any CRA-related complaints since the previous examination.

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.