



## **PUBLIC DISCLOSURE**

January 14, 2013

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

Bank'34  
Charter Number 702889

50010th Street  
Alamogordo, NM 88310

Office of the Comptroller of the Currency

Phoenix Field Office  
9633 South 48th Street, Suite 265  
Phoenix, AZ 85044-8629

**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**

Bank'34's CRA performance reflects a satisfactory response to its assessment area (AA) credit needs.

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

## **SCOPE OF EXAMINATION**

Our examination of Bank'34 consisted of a full scope review of the bank's designated AA. The evaluation period for this CRA examination covered loan originations from January 1, 2010, through December 31, 2011. We identified 1-4 single-family residential real estate loans as the bank's primary product based on the total number and dollar amount of loans originated during the evaluation period. During the evaluation period, the bank's residential real estate loan originations represented 59 percent by number and 37 percent by dollar of total loan originations. Within that category, home purchase and home refinance loans comprised the majority of lending activity. There were no affiliate loans to review.

We analyzed Home Mortgage Disclosure Act (HMDA) data from 2010 and 2011, to assess residential real estate loans originated by the bank during the evaluation period. We used this data to calculate the inside/outside AA ratio. The review of residential real estate loans is representative of the bank's business strategy since the last CRA examination. Our review also included contacting a community representative in the AA to assist us in determining the credit needs of the AA.

## **DESCRIPTION OF INSTITUTION**

Bank'34 is a federally chartered stock savings association, headquartered in Alamogordo, New Mexico, a non-metropolitan area in the southeastern part of the state. Bank'34 is a wholly owned subsidiary of Alamogordo Financial Corporation.

As of September 30, 2012, Bank'34 had \$187 million in total assets and net total loans of \$119 million, or 64 percent of total assets. Bank'34 operates a main office in

Alamogordo, Otero County, and one branch Las Cruces, Doña Ana County. The bank has one deposit-taking automated teller machine (ATM) located at the main office. The bank also operates three other cash dispensing ATMS, two of which are located in Alamogordo and one that is located in Las Cruces. In January 2008, the bank opened the Las Cruces branch and closed a branch located inside a Wal-Mart store and closed one deposit-taking ATM in Alamogordo. In 2009, the bank removed an ATM from the campus of New Mexico State University in Alamogordo. In November 2010, the bank moved the branch in Las Cruces to the present location along with one non deposit-taking ATM.

Bank'34's strategic focus is to continue supporting the economic growth and development of both Otero and Doña Ana counties by providing competitive banking services for mortgage, commercial, and consumer customers. The bank's primary lending focus is mortgage loans, followed by commercial loans and consumer loans. The bank sells all long-term fixed rate mortgage loans into the secondary market.

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 the January 18, 2006 CRA examination.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

Bank'34 has defined its AA as all of Otero County plus the Las Cruces metropolitan statistical area (MSA). 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 our examination. The contact indicated that Bank'34 strongly supports the contact's agency, providing financial assistance and supporting the agencies goals. The contact also stated Bank'34 has a strong outreach program and is very active in promoting small businesses and participating in local organizations.

### **Description of Otero County AA**

Bank'34 has designated all census tracts (CT) in Otero County, New Mexico for the AA. This county includes 14 contiguous CTs according to the 2000 Census data. CT designations include no low-income CTs, two moderate-income CTs, 10 middle-income CTs, and one upper-income CT. The entire area is a non-metropolitan statistical area. This AA meets the legal requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

The bank's main office and its only deposit-taking ATM are located in Alamogordo, which is the county seat of Otero County. The bank also has two non deposit-taking ATMs within Alamogordo city limits. During the evaluation period, the bank closed the branch located in the Alamogordo Wal-Mart store and one additional deposit-taking ATM in Alamogordo. The AA includes the towns of Alamogordo, Tularosa, Mescalero, and La Luz. The area includes government owned-land in which fee simple title does

not exist. These include the Mescalero Apache Indian Reservation, which covers the northeast portion of the county, portions of the White Sands Missile Range, the White Sands National Monument, and Holloman Air Force Base. Otero County borders the New Mexican counties of Doña Ana, Lincoln, Chaves, Sierra, and Eddy. In addition, Otero County also borders three counties in southwest Texas.

The 2011 U.S. Department of Housing and Urban Development (HUD) estimated statewide non-MSA median family income (MFI) was \$47,100. The number of households below the poverty level in 2011, was 17 percent. The economy of Otero County is based in government, agriculture, and services. Major employers in the AA include Holloman Air Force Base, the Gerald Champion Regional Medical Center, and various other governmental employers including the local school district and college; and federal, state, county, and local government. Various service-related industries also employ many local residents in the area. In addition, tourism plays a large part in the local economy. Tourism supports additional employment centered in the accommodation and food services industries and retail trade.

Competition for financial services is strong. The June 30, 2011 FDIC Deposit Market Share Report identifies nine financial institutions competing for \$525 million of insured deposits in Otero County. Bank'34 had 21.5 percent of the local deposit market share in Otero County. Other significant competitors include two local banks. One local bank has five offices in Otero County and an additional three branches outside the county. The other similarly situated bank has three local branches, no outside area branches, and represents 9 percent of the local deposit market share. In addition, one branch of a nationwide financial institution accounts for 38 percent of the local deposit market share. Other local competitors have a significant presence and access to other loans and deposits outside of the Otero County AA.

### **Description of the Las Cruces MSA AA**

The Las Cruces MSA AA includes all CTs located in Doña Ana County. According to the 2000 Census data, there are 32 contiguous CTs. The 2000 Census data includes one low-income, 10 moderate-income, 11 middle-income, and 10 upper-income CTs. This AA meets the legal requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

One bank branch is located in Las Cruces, which is the county seat of Doña Ana County. This branch opened in January 2008, subsequent to the bank's last CRA examination. The bank has no deposit-taking ATMs located in the Las Cruces MSA. In addition to Las Cruces, Doña Ana County also includes the towns of Mesilla, Doña Ana, Hatch, Santa Teresa, Sunland Park, Anthony and Organ, New Mexico. Doña Ana County also shares the White Sands National Monument with Otero County. Doña Ana County borders Otero, Luna, and Sierra counties of New Mexico. In addition, Doña Ana County borders the states of Texas and Chihuahua, Mexico. Doña Ana County includes the Mesilla Valley, or Rio Grande flood plain, and various mountain ranges.

The 2011 HUD estimated statewide non-MSA MFI is \$43,200. The number of households below the poverty level according to the 2000 Census data was approximately 22 percent. The main employment activities include education, defense/aerospace, agriculture, and commerce. The area's largest employers are New Mexico State University and White Sands Missile Range. New Mexico State University located in Las Cruces has been an important factor attributing to area growth. NASA and White Sands Missile Range are two important government entities employing many community residents under civil service, contracts, and armed forces categories. At present, the economy also includes a growing manufacturing segment, a retail hub, and a scientific community involved in development in such areas as telecommunications, avionics, and solar energy. Las Cruces, as part of the Rio Grande Research Corridor, has high tech facilities located at NASA's Johnson Space Center, White Sands Test Facility, White Sands Missile Range, the Physical Science Laboratory, and Centers of Technological Excellence at New Mexico State University. The Las Cruces economy is experiencing expansion in the southern part of the county. Expanding trade and the resulting office, retail, and warehouse industries in this regional market is significant. Various service-related industries also employ many local residents in the area.

Competition for financial services is strong. The June 30, 2011 FDIC Deposit Market Share Report identifies 16 financial institutions competing for \$2 billion of insured deposits in the Las Cruces MSA. Bank'34 has only 1.57 percent of the local deposit market share in Las Cruces MSA. Significant competitors include one nationwide financial institution that accounts for almost 27 percent of the local deposit market share with nine offices in the local area. Another large competitor includes one local bank that accounts for almost 20 percent of the local deposit market share with five local branches. Almost all local competitors have access to loans and deposits outside of the Las Cruces MSA.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank's performance under the lending test is satisfactory. The bank's LTD ratio is more than reasonable given the bank's size, financial condition, and AA credit needs. A substantial majority of the number and dollar amount of residential real estate loans were originated inside the bank's AA. Bank'34 has a reasonable penetration among borrowers of different income levels. Bank'34's geographic distribution of loans represents a reasonable dispersion throughout the AA. Each area considered in the lending test is discussed below.

### **Loan-to-Deposit Ratio**

Bank'34's LTD ratio is more than reasonable given the bank's size, financial condition, and credit needs of the AA. Bank'34's performance exceeds the standard for satisfactory performance for this lending test category. The bank's average LTD for the previous 31 quarters since the last CRA examination is 105 percent. The four peer banks considered during the LTD test returned an average of 68 percent for the same

period. The average quarterly low LTD ratio among peers was 44 percent, and the average quarterly high LTD among peers was 81 percent. Over this time, the bank’s quarterly low LTD was 80 percent and the bank’s quarterly high LTD was 135 percent.

Bank	Average Quarterly Loan-to-Deposit Ratio
Bank’34	105%
Average of 4 other banks in the AA	68%
Highest bank LTD in range	81%
Lowest bank LTD in range	44%

Source: Uniform Bank Performance Report and Thrift Financial Reports

### Lending in Assessment Area

Bank’34 makes a substantial majority of its loans to borrowers inside the AA. Ninety-seven percent of the number and dollar of residential real estate loan originations were to borrowers within the AA. These results exceed the standard of satisfactory performance for this lending test category.

Table 1 - Lending in Las Cruces County and Otero County										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	322	97	10	3	332	51,756	97	1,468	3	53,224
Home Refinance	281	97	9	3	290	43,809	96	1,737	4	45,546
Home Improvement	5	100	0	0	5	86	100	0	0	86
Total	608	97	19	3	627	95,651	97	3,205	3	98,856

Source: 2010 and 2011 HMDA data; 2000 U.S. Census Data

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

The borrower distribution of residential real estate loans originated in the bank’s AA reflects reasonable penetration among individuals of different income levels. Lending opportunities to low- and moderate-income borrowers are limited in both AAs. The demographics of the Las Cruces MSA reveal 22 percent of the number of households are below the poverty level, making home ownership difficult for families to qualify for residential real estate loans. The median housing cost is \$82 thousand. The demographics of Otero County reveal 17 percent of the number of households are below the poverty level with a median housing cost of \$68 thousand. In addition, nine of the ten middle-income CTs in Otero County are designated as distressed due to poverty levels. Bank’34’s distribution of home purchase, home refinance, and home improvement loans to borrowers of different income levels is poor compared to AAs

demographics; however, according to 2011 HMDA peer mortgage data, Bank'34 outperformed or was comparable to peers for loans originated to low- and moderate-income borrowers. The following discusses the bank's performance compared to AA demographics and 2011 HMDA peer performance.

Otero County AA

The borrower distribution of residential real estate loans originated in the Otero AA reflects reasonable penetration among individuals of different income levels. Bank'34's lending performance to low-income families for home purchase loans is significantly lower than the Otero County AA demographics. However, the bank's performance meets the ratio of the 2011 HMDA peer performance at 3 percent. The bank's home purchase lending performance to moderate-income families in the AA is lower than Otero County AA demographics at 10 percent, but is near to 2011 HMDA peer performance of 13 percent.

Bank'34's lending performance to low-income families for home refinance loans is lower than Otero County AA demographics. However, the bank's performance exceeds 2011 HMDA peer performance with 5 percent of the number of home refinance loans originated to low-income families compared to 3 percent for the peer group. The bank's home refinance lending performance to moderate-income families in the AA was significantly lower than Otero County AA demographics at 9 percent, but near to 2011 HMDA peer performance of 13 percent. An analysis of home improvement loans was not meaningful as the total volume of home improvement loans was very low in relation to the bank's primary products.

According to Otero County HMDA market share reports, Bank'34 is ranked second out of 37 HMDA lenders that originate residential real estate loans to moderate-income borrowers with a market share of 11 percent, and ranked first out of 18 HMDA lenders that originate residential real estate loans to low-income borrowers with a market share of 16 percent. Bank'34's lending to low- and moderate-income borrowers outperforms overall HMDA market share of 12 percent.

<b>Borrower Distribution of Residential Real Estate Loans in Otero County</b>										
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
		Bank	2011 HMDA Agg		Bank	2011 HMDA Agg				
Home Purchase	20	3	3	17	10	13	22	27	41	59
Home Refinance	20	5	3	17	9	13	22	11	41	60

Home Improvement	20	33	7	17	33	17	22	33	41	0
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Source: 2010 and 2011 HMDA data; 2000 U.S. Census data

**Las Cruces AA**

The borrower distribution of residential real estate loans originated in the Las Cruces AA reflects reasonable penetration among individuals of different income levels. As explained in the performance context for this bank, Bank’34 has only one branch in the Las Cruces MSA, with significant local competition having a larger presence. As of June 30, 2011, Bank’34’s overall deposit share was 1.57 percent. Bank’34’s lending performance to low- income families for home purchase loans is significantly lower than the Las Cruces MSA demographics. However, the bank’s performance slightly exceeds 2011 HMDA peer performance with 4 percent of the number of home purchase loans originated to low-income families in the AA. The peer group originated or purchased 3 percent of home purchase loans to low-income families in the AA. The bank’s home purchase lending performance to moderate-income families in the AA exceeds the Las Cruces MSA demographics and 2011 HMDA peer performance.

Bank’34’s lending performance to low-income families for home refinance loans is significantly lower than the Las Cruces MSA demographics. However, the bank’s performance is near to 2011 HMDA peer performance with 1 percent of the number of home refinance loans originated to low-income families compared to 4 percent for the peer group. The bank’s home refinance lending performance to moderate-income families in the AA was significantly lower than Las Cruces MSA demographics and 2011 HMDA peer performance. An analysis of home improvement loans was not meaningful, as the total volume of home improvement originations was very low in relation to the bank’s primary products.

<b>Borrower Distribution of Residential Real Estate Loans in the Las Cruces MSA</b>										
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
		Bank	2011 HMDA Agg		Bank	2011 HMDA Agg				
Home Purchase	23	4	3	16	18	14	19	28	42	48
Home Refinance	23	1	3	16	3	8	19	25	42	62
Home Improvement	23	0	7	16	0	16	19	50	42	50

Source: 2010 and 2011 HMDA data; 2000 U.S. Census data



## Geographic Distribution of Loans

Bank'34's geographic distribution of residential real estate loans reflects reasonable dispersion throughout its AAs. Our analysis focused on the bank's lending performance to borrowers who have owner occupied residential real estate in moderate-income CTs, as the Las Cruces MSA has only one low-income CT and Otero County AA does not have any low-income CTs. The single low-income CT in the Las Cruces MSA 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. Lending opportunities to middle-income CTs in Otero County are limited as this area is sparsely populated. Only 6 percent of the available housing is owner occupied, which limits the number of homes eligible for residential mortgages. The following discusses the bank's performance in each of their AAs.

### Otero County AA

Bank'34's geographic distribution of residential real estate loans in the Otero County AA reflects reasonable dispersion throughout the AA. There are no low-income CTs in this AA, and one of the two moderate-income CTs is located on government-owned land in which fee simple title does not exist. Only six percent of the AA owner-occupied housing is located in moderate-income CTs. For home purchase loans, Bank'34's geographic lending performance to borrowers located in moderate-income CTs is lower than Otero County AA demographics and 2011 HMDA peer performance. For home refinance loans, Bank'34's geographic lending performance to borrowers located in moderate-income CTs is lower than Otero County AA demographics. The bank's performance meets the 2011 HMDA peer performance, as both reflect 1 percent of home refinance loans were made in moderate-income CTs. The analysis of home improvement loans was not meaningful, as the total volume of home improvement loans was very low in relation to the bank's primary products. According to 2011 HMDA geographic market share reports, Bank'34 is ranked third out of 13 HMDA moderate-income CT lenders with an 11 percent market share.

It should be noted that Bank'34's lending performance to the 10 middle-income CTs, of which nine CTs are designated as distressed due to poverty levels, is near to AA demographics for both home purchase and home refinance loans originated in middle-income geographies.

Geographic Distribution of Residential Real Estate Loans in Otero County										
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
		Bank	2011 HMDA Agg		Bank	2011 HMDA Agg				
Home Purchase	0	0	0	6	1	4	85	84	9	15
Home Refinance	0	0	0	6	1	1	85	82	9	17
Home Improvement	0	0	0	6	0	0	85	100	9	0

Source: 2010 and 2011 HMDA data; 2000 U.S. Census data

Las Cruces AA

Bank’34’s geographic distribution of residential real estate loans in the Las Cruces AA reflects reasonable dispersion throughout the AA. As explained in the performance context for this bank, Bank’34 has only one branch in the Las Cruces MSA with significant local competition having a larger presence. Analysis of lending in low-income tracts was not meaningful as there was no owner occupied housing located in the AA’s one low-income CT. For home purchase loans, Bank’34’s geographic lending performance to borrowers located in moderate-income CTs is significantly lower than the Las Cruces MSA demographics. However, the bank’s performance in the Las Cruces MSA outperformed 2011 HMDA peer performance with 8 percent of the number of loans originated to borrowers located in moderate-income CTs. The peer group originated or purchased 7 percent. For home refinance loans, Bank’34’s geographic lending performance to borrowers located in moderate-income CTs is significantly lower than Las Cruces MSA demographics. Performance is near to 2011 HMDA peer performance with 5 percent of the number of loans originated in moderate-income CTs. The peer group originated or purchased 8 percent. The analysis of home improvement loans was not meaningful, as the total volume of home improvement loans was very low in relation to the bank’s primary products. According to 2011 HMDA geographic market share reports, Bank’34 is ranked twenty-fifth out of 70 HMDA moderate-income CT lenders with a 1.33 percent market share.

Geographic Distribution of Residential Real Estate Loans in the Las Cruces MSA										
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
		Bank	2011 HMDA Agg		Bank	2011 HMDA Agg				
Home Purchase	0	0	0	28	8	7	38	55	35	37
Home Refinance	0	0	0	28	5	8	38	39	35	56
Home Improvement	0	0	0	28	0	21	38	0	35	100

Source: 2010 and 2011 HMDA data; 2000 U.S. Census data

## Responses to Complaints

We reviewed the bank’s public file for complaints, and complaints reported to the OCC through the Customer Assistance Group. There were no complaints received by the bank or the OCC relating to the bank’s CRA performance during the evaluation period.

## Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank’s (bank) or Federal savings association’s (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet the community credit needs.