



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**August 11, 2003**

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

**The First National Bank  
Charter Number 7043**

**303 West Main Street  
Artesia, New Mexico 88210**

**Comptroller of the Currency  
ADC-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.**

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## **INSTITUTION'S CRA RATING**

**This institution is rated Satisfactory.**

The First National Bank's lending performance reflects a satisfactory response to community credit needs. This conclusion is based on the following results from our review.

- The loan-to-deposit ratio is reasonable given the bank's size, financial condition and assessment area credit needs.
- The bank originated a substantial majority of loans inside its assessment areas (AA).
- Lending activities represent reasonable penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects a reasonable dispersion throughout the AA.

## **DESCRIPTION OF INSTITUTION**

The First National Bank (FNB) is located in Artesia, New Mexico and is owned by First Artesia Bancshares, Inc., a one-bank holding company. The bank's marketing area includes all of Chaves County, and portions of Eddy, Lea, and Dona Ana Counties. FNB has two AA serviced by five full-service locations. Two banking offices are located in the Las Cruces, New Mexico metropolitan statistical area (MSA). The other three non-MSA offices are located in Artesia, Hobbs and Roswell, New Mexico. Deposit taking automatic teller machines are located at each banking office. The bank also has a drive through operation in Roswell, and a small banking office at the Federal Law Enforcement Training Center in Artesia, which provide teller services two days a week.

With a 10.7% deposit market share as of June 30, 2002, FNB is the second largest financial institution in the area. As of December 31, 2002, the bank had \$283 million in assets and net loans totaling \$180 million or 64% of total assets. The bank's primary lending focus is business and residential lending. In terms of dollars, commercial loans represent 55% of the bank's loan portfolio and residential loans represent 13% of the portfolio, as of December 31, 2002.

The bank provides a full range of depository services and products including trust services. FNB is committed to meeting the housing needs in the community by participating in several special programs including FHA, VA, USDA, Home Choice, and the New Mexico first time homebuyer programs. The bank is also a Small Business Administration (SBA) and Farm Service Agency (FSA) lender.

The economy of the bank's AA is centered in retail and supporting services, oil and gas, agricultural, construction, transportation and government entities. The unemployment rates for the four counties serviced by the bank have averaged 5.6 to 7.5% since 1998. Trends are generally improving over the last five years. During the same time period, the overall state unemployment rate has averaged 5.5%.

The last CRA examination was performed as of February 20, 1998. The bank received a "Satisfactory" performance rating. There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs of its community.

## **DESCRIPTION OF ASSESSMENT AREAS**

The AA described below meets the requirements of CRA and do not arbitrarily exclude any low- or moderate-income (LMI) areas.

### **ROSWELL, ARTESIA, HOBBS ASSESSMENT AREA (NON-MSA)**

FNB has designated census tracts (CT) surrounding and including the cities of Artesia, Roswell and Hobbs as an AA. This non-MSA AA is comprised of 25 CT located in Eddy, Chaves and Lea counties. Seven of the CTs are designated as moderate- income, nine as middle-income, and eight as upper-income. The AA includes one low-income CT that encompasses downtown Roswell, Chaves County. Three of the seven moderate-income tracts are also located in Chaves County. Two are near the main street area in Roswell and one is south of the city in Hagerman. The Roswell full-service operation opened in August 1999 and is FNB's newest banking center in the non-MSA AA. The remaining four moderate-income tracts in the AA are located in Hobbs, Lea County. The banking office in Hobbs opened in October 1996. The other CT's in the city of Hobbs are upper-income. The bank's oldest banking office is the main office located in the city of Artesia, Eddy County, which consists entirely of middle- and upper-income tracts.

According to the 1990 U.S. Census, the total population in the AA is 109,595. There are 45,006 housing units of which, 60% are owner occupied, 26% are rental units, and 14% are vacant. Approximately 20% of the families in the AA are considered low-income. Moderate-income families approximate 15% of the population, while middle- and upper-income families make up the remaining 65%. This is based on the 2002 New Mexico updated non-metropolitan median family income of \$33,700.

Small retail and service businesses, with revenues of less than \$1 million represented 77% of nonfarm businesses in the AA. The banking environment within the AA is moderately competitive. Competition includes branches of two large nationwide banks, several independent community banks, federal savings associations, mortgage companies and credit unions.

One community contact in the non-MSA AA was made during this review. The contact stated that housing, across all income levels, continues to be a need in the community. The contact stated that the local financial institutions are effectively meeting the overall credit needs in the area and provide strong community support.

### **Las Cruces Assessment Area (MSA)**

The bank's second AA is comprised of 18 contiguous CT within Dona Ana County, New Mexico. This AA includes one low-income CT, three moderate-income CT's, nine middle-income CT's, and five upper-income CT's. The sole low-income census tract is located between Interstate 10 and Interstate 25, approximating the New Mexico State University campus. The moderate-income CTs in the AA are located in the central portion of Las Cruces. Middle-income CT's are located from the central to northeastern part of the county and surround the moderate-income tracts in the city of Las Cruces. The upper- income CT's are located in the eastern half of Las Cruces and extend out to the boundaries of the White Sands Missile Range. The AA only includes those tracts around the two banking offices. The banking offices, one in Mesilla and one in the center of Las Cruces, opened in April 1998 and August 1999, respectively.

The bank's AA is primarily in the center of the county, including the city of Las Cruces, and encompasses 70% of the MSA's population of 136,000 based on the 1990 census data. There are 36,937 housing units in the AA, of which, 57% are owner occupied, 35% are rental units, and 8% are vacant. Approximately 21% of the families in the AA are considered low-income. Moderate-income families approximate 14% of the population while middle- and upper-income families make up the remaining 65%. This is based on the 2002 New Mexico updated MSA median family income at \$36,800.

The MSA AA business community is comprised largely of service and retail businesses, with 76% of non-farm businesses reporting revenues less than \$1 million. The AA is experiencing a relatively strong economic environment. The area has a very competitive financial environment, with two major nationwide banks and ten community and savings banks. Also, numerous credit unions and mortgage companies are located within the AA.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **LOAN-TO-DEPOSIT RATIO**

The loan-to-deposit (LTD) ratio of FNB is reasonable given the bank's size, financial condition, and AA credit needs. The bank's quarterly average LTD was 73% over the past 19 quarters ending December 31, 2002. FNB's LTD ratio as of December 31, 2002 was 85%.

In evaluating the bank's LTD ratio, we compared FNB to the one other bank headquartered in the non-MSA, with offices located in the Las Cruces and Hobbs, Artesia, Roswell AA's. We also compared FNB with other similarly sized and situated institutions within each AA. The average LTD for comparable institutions ranged from 39% to 83%.

## LENDING IN ASSESSMENT AREA

FNB originated a substantial majority of loans within its AA's. This exceeds the standards for satisfactory performance.

To assess FNB's performance, we reviewed 40 commercial loans originated from 2000 through 2002. Our sample was derived from available bank data and included 20 loans from the non-MSA and 20 from the MSA. We also reviewed 20 residential refinanced and 20 residential home purchase loans in each of the non-MSA and MSA AA's. Our residential loan sample was derived from the bank's HMDA-LAR and included loans originated from 1999 through 2002. The bank was required to begin HMDA reporting in 1999. A total of 120 loans were reviewed.

Our analysis determined that 91% of the number and 94% of the dollar were made within the bank's two AA's.

## LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

### Roswell, Artesia, Hobbs, Assessment Area (non-MSA)

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

#### *Commercial Loans*

The distribution of business loans reflects excellent penetration to businesses of different sizes. Businesses with gross annual revenues of less than \$1 million are designated as "small businesses." As shown in the table below, small businesses total 77% of AA businesses. We reviewed 20 commercial loans totaling \$3.4 million, originated in 2001 and 2002 and found that 85% in number and 26% in dollar were made to small businesses. The number substantially exceeds the demographics of the AA. Based on dollar volume, FNB's percentage is lower than demographics. However, this number is skewed by one large loan in the sample to a business with revenues greater than a million. The bank's commitment to very small businesses is further demonstrated by the fact that 13 loans, or 65% of our sample, were made to business with gross revenues less than \$500 thousand.

Borrower Distribution of Small Loans to Business (non-MSA)			
Business Revenues	< \$1,000,0000	>\$1,000,000	Not Reported
% of AA Business	77%	5%	18%
% of Bank Loans in AA by #	85%	15%	0%
% of Bank Loans in AA by \$	26%	74%	0%

Source: Loan sample and Dunn and Bradstreet.

*Residential Refinanced And Home Purchase Loans*

The distribution of residential loans reflects reasonable penetration to individuals of different income levels. Our analysis included 20 residential refinanced and 20 residential home purchase loans originated in 2001 and 2002 totaling \$2.5 million. As shown in the table below, 20% of families in the AA are low-income families and 15% moderate-income families. FNB's lending to low-income borrowers is below the demographics of the AA in both number and dollar. This can be mitigated by the fact that 18% of the families in the AA are below poverty level and generally do not qualify for home loans. The number of loans to moderate-income families compares favorably to AA demographics. However, the bank's lending in these tract categories is lower when considering the dollar volume of loans. This is reasonable as low- and moderate-income (LMI) families generally borrower lesser dollar amounts than middle- and upper-income families.

The mortgage loan environment is very competitive in the bank's two AA's. The bank's main competitor is the leader of the New Mexico first time homebuyers program available to both LMI families.

Residential Refinanced and Residential Home Purchase Loans (non-MSA)								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	20%		15%		18%		47%	
	% of Number	% of Dollar						
Residential Refinanced	5%	3%	15%	9%	25%	16%	55%	72%
Residential Home Purchase	10%	3%	20%	12%	20%	17%	50%	68%

Source: Loan Sample, U.S. Census Data

**Las Cruces Assessment Area (MSA)**

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

*Commercial Loans*

The distribution of business loans reflects reasonable penetration of businesses of different sizes. The AA demographics show that small businesses total 76% of AA businesses. We reviewed 20 commercial loans totaling \$5.3 million, originated in 2001 and 2002, and found that 75% in number and 73% in dollar were made to small businesses. As in the non-MSA, 13 loans or 65% of our sample were made to businesses with gross revenues less than \$500 thousand.

Borrower Distribution of Small Loans to Business (MSA)			
Business Revenues	< \$1,000,000	>\$1,000,000	Not Reported
% of AA Business	76%	6%	18%
% of Bank Loans in AA by #	75%	25%	0%
% of Bank Loans in AA by \$	73%	27%	0%

Source: Loan sample and Dunn and Bradstreet.

### *Residential Refinanced And Residential Home Purchase Loans*

The distribution of residential loans reflects reasonable penetration to individuals of different income levels. Our analysis included 20 residential refinanced and 20 home purchase loans originated in 2001 and 2002 totaling \$4.2 million. As shown in the table below, 21% of families in the AA are low-income families. Moderate-income families approximate 14% of the AA population. FNB's lending to low-income borrowers is below the area demographics in both number and dollar. This can be mitigated by the fact that 17% of the families in the MSA AA are below poverty level and generally do not qualify for home loans. The number of loans to moderate-income families is comparable AA demographics. However, the bank's level of lending is lower when considering the dollar volume of loans. This is reasonable as LMI borrowers generally borrow lesser dollar amounts than middle- and upper-income borrowers.

Residential Refinanced and Residential Home Purchase Loans (MSA)								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	21%		14%		18%		47%	
	% of Number	% of Dollar						
Residential Refinanced	15%	8%	15%	7%	15%	10%	55%	75%
Residential Home Purchase	5%	3%	15%	7%	40%	36%	40%	54%

Source: Loan Sample, U.S. Census Data

## **GEOGRAPHIC DISTRIBUTION OF LOANS**

### **Roswell, Artesia, Hobbs, Assessment Area (non-MSA)**

The geographic distribution of the bank's loans within the AA is reasonable. Our analysis included 20 commercial, 20 residential refinanced, and 20 residential home purchase loans originated in 2001 and 2002.

### Commercial Loans

The table below reflects reasonable commercial lending activity throughout the AA. The demographics show 11% of businesses in the AA are located in the low-income tract and 22% are located in moderate-income tracts. The bank's lending to the businesses in the LMI tracts is below AA demographics in both number and dollar. The highest lending activity in both number and dollar is in the middle-income tracts. The city of Artesia where the bank's main office and business lending activity is concentrated is comprised entirely of middle- and upper-income tracts. The low-income tract is in the downtown Roswell area consisting of older businesses. Lending opportunities are limited as business activity is slow. The moderate-income tracts in the AA mainly surround the downtown area of Roswell and Hobbs. Growth and business activity is centered in the northern part of the city in both Roswell and Hobbs in the middle-and upper-income tracts, respectively.

Geographic Distribution of Business Loans (non-MSA)								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Business	11%		22%		32%		35%	
	% of Number	% of Dollar						
Totals	5%	2%	15%	2%	40%	79%	40%	17%

Source: Examiner loan sample and Dunn and Bradstreet

### Residential Refinanced and Residential Home Purchase Loans

The table below reflects a reasonable dispersion of residential refinance and home purchase loans throughout the AA. FNB's residential lending activity is heavily centered in the city of Artesia, as the mortgage loan environment is much less competitive. The city of Artesia is comprised solely of middle-and upper-income tracts. Four of the seven moderate-income tracts in the AA are located in Hobbs, where FNB's primary focus is in commercial and commercial real estate lending. The mortgage loan environment is very competitive in both the Roswell and Hobbs communities.

Geographic Distribution of Residential Refinanced and Home Purchase (non-MSA)								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of Owner Occupied	<1%		17%		37%		46%	
	% of Number	% of Dollar						
Residential Refinanced	5%	3%	5%	3%	35%	18%	55%	76%
Residential Home Purchase	0%	0%	5%	2%	55%	43%	40%	55

Source: Loan Sample, U.S. Census Data

**Las Cruces Assessment Area (MSA)**

The geographic distribution of the bank’s loans within the AA is reasonable. Our analysis included 20 commercial, 20 residential refinanced, and 20 residential home purchase loans originated in 2001 and 2002.

*Commercial Loans*

The table below reflects reasonable commercial lending activity throughout the AA. The demographics show that 2% of businesses in the AA are located in the low- income tract and 22% are located in moderate-income tracts. The bank's lending to the businesses in the LMI categories is reasonable based on limited opportunities, coupled with a strong competitive financial environment. The low-income tract is the University of New Mexico campus. Only 108 of the approximate 6,000 businesses in the AA are located in this tract. The three moderate-income tracts are centered in the oldest and fully developed area of Las Cruces. The main business growth and activity is centered in northern and eastern areas of the city. These areas consist mainly of middle- and upper-income tracts.

Geographic Distribution of Business Loans (MSA)								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Business	2%		22%		51%		25%	
	% of Number	% of Dollar						
Totals	5%	1%	15%	9%	50	20	30	70

Source: Loan sample and Dunn and Bradstreet

*Residential Refinanced and Residential Home Purchase Loans*

The table below reflects a reasonable dispersion of residential refinance and home purchase loans throughout the AA. The low-income tract is the University of New Mexico campus. There are no owner-occupied housing units in this tract. The three moderate-income tracts are centered in the older and fully developed area of Las Cruces. The median age of housing stock within these tracts is 37 years compared to 17 and 13 years in the middle- and upper-income tract areas, respectively. Still, the bank exceeds the demographics in dollar of residential refinances, and exceeds the number of home purchases in the moderate-income tracts.

Geographic Distribution of Residential Refinanced and Home Purchase (MSA)								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of Owner Occupied	0%		8%		64%		28%	
	% of Number	% of Dollar						
Residential Refinanced	0%	0%	5%	12%	55%	53%	40%	35%
Residential Home Purchase	0%	0%	10%	5%	45%	32%	45%	63%

Source: Loan Sample, U.S. Census Data

### Responses to Complaints

FNB has not received any complaints about its performance in helping to meet AA credit needs during this evaluation period.

### Fair Lending Review

An analysis of 1998-2002 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year.