



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

July 07, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Valley National Bank
Charter Number 15395

333 Riverside Drive
Española, New Mexico 87532

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 outstanding.

Valley National Bank's (VNB) lending performance reflects an outstanding response to community credit needs. This conclusion is based on the following results from our review.

- The loan-to-deposit (LTD) ratio is more than reasonable given the size, financial condition and assessment area (AA) credit needs.
- A substantial majority of the number of loans is inside the 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 a reasonable dispersion throughout the AA.

SCOPE OF EXAMINATION

This examination consisted of a full scope review of the bank's single AA. The lending test covers the previous two years (2006-2007) and year-to-date through May 31, 2008 (referred to in this report as the evaluation period). We identified business loans and consumer loans as the bank's primary products, based on the number and dollar amount of loans originated in the evaluation period. There were no affiliate loans to review.

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

DESCRIPTION OF INSTITUTION

VNB is a community bank located in Española, New Mexico. This is a non-metropolitan area in the northern part of New Mexico. As of March 31, 2008, VNB had \$297 million in average assets and net total loans of \$190 million, or 63 percent of total assets. VNB operates only a main office, and does not have any deposit taking ATMs. The bank has neither opened nor closed any branch offices during the evaluation period. The bank is independent and not a subsidiary of a bank holding company. There are no affiliates.

The bank's primary lending focus is commercial and consumer loans. Commercial loans represent 23 percent of the number of originations, and 70 percent of the dollar amount of loans made during 2006 and 2007. Consumer loans represent 71 percent of the number of originations, and 8 percent of the dollar amount of loans made in the same time period.

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 at the February 24, 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 VALLEY NATIONAL BANK ASSESSMENT AREA

VNB has designated all of Rio Arriba County, all of Los Alamos County, four contiguous tracts in Taos County, and five contiguous tracts of Santa Fe County as its AA. This includes the pueblos of San Juan, Pojoaque, Nambé, Tesuque, San Ildefonso, and Picuris. There are two low-, three moderate-, 14 middle-, and five upper-income tracts. In 2008, all of the middle-income CTs in Rio Arriba County were designated as distressed non-metropolitan middle income census tracts (CTs). A non-metropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following: An unemployment rate of at least 1.5 times the national average, a poverty rate of 20 percent or more, or a population loss of 10 percent or more. Rio Arriba County was designated as distressed because the poverty level was over 20 percent. The AA meets the legal requirements of the regulation and does not arbitrarily exclude low- or moderate-income (LMI) geographies.

The designated AA is large, considering it is served by only one office and no deposit taking ATMs. Rio Arriba County alone is nearly six thousand square miles. The AA area is largely rural and sparsely populated. The branch is located in the southeast corner of Rio Arriba County. The only two low-income tracts in the AA are in the far west portion of Rio Arriba County. Therefore, VNB has much less reasonable lending opportunity due to its large AA.

Income varies widely in the AA. The 2007 Housing and Urban Development updated statewide non-metropolitan statistical area (MSA) median family income (MFI) was \$39,700 for 2007. However, the five CTs in Santa Fe County are part of a MSA. The MFI is significantly higher in the Santa Fe MSA at \$57,000. However, the five contiguous CTs in Santa Fe are also north of the city, and represent the three moderate-income CTs of the AA.

The major employers of the local economy are the federal government (including Los Alamos National Laboratory), state and local governments (including local school districts), and Casinos. Local economic conditions have improved during the assessment period. Over the last three years, unemployment in the area has fallen. In Rio Arriba and Santa Fe Counties, unemployment fell from 7 percent to 4 percent. In Los Alamos County, unemployment fell from 3 percent to 2 percent, and unemployment dropped from 5 percent to 2 percent in Taos.

Competition for financial services is strong. The June 30, 2007 FDIC Deposit Market Share Report shows 14 financial institutions competed for over \$3.8 billion of insured deposits. The nature of the competition includes 44 branches of nation-wide financial institutions comprising over 80 percent of the deposit market share. The majority of the other competitors have a significant presence and access to other loans and deposits outside the local market.

There are two similarly situated banks to VNB in the marketplace. The similarities are identified in terms of size, geographic presence, and lines of business. One is similar in asset size and does not operate outside the AA. The other is smaller in size, but does have a branch outside of the AA.

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 stated that there are some credit needs that are unmet, but for the most part, local financial institutions are supportive in meeting the credit needs. The contact is part of an economic development group and identified the primary credit need as small business loans. The contact stated that the major long-term issue facing north central New Mexico is unemployment. The contact also emphasized the importance of the Los Alamos National Laboratory and described it as the economic engine for the AA.

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

VNB’s LTD ratio is more than reasonable given the bank’s size, financial condition and AA credit needs. VNB’s average quarterly LTD ratio was 83 percent, compared to an average of 74 percent for its two competitors. One of the competitor banks is slightly larger than VNB and has an average quarterly LTD of 73 percent. The other is just over half VNB’s size and has a quarterly LTD of 75 percent. Both competitors have multiple offices within the AA and one also has another office outside the AA. The superior LTD ratio combined with the advantages the other banks have in the geographic footprint contribute the bank’s strong performance. VNB exceeds the standard for satisfactory performance.

Lending in Assessment Area

A substantial majority of the number of loans from the sample is inside the AA; however, a substantial majority of the dollar amount of loans is outside the AA. The vast difference in number of loans and dollars is attributable to two things: a small sample size, which allows for larger loans to heavily influence the results, and an AA with few large businesses requiring larger loans. One loan outside the AA in this sample is for \$5.5 million and is more than all the other loans combined. The lack of substantial lending opportunities in the AA forces a bank to choose between investing and generating loans elsewhere.

Lending in Valley National Bank AA										
Results	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
	33	83	7	17	100%	1,852,351	20	7,200,375	80	100%

Source: Loan Sample.

Based on this analysis of the reasons behind the substantial majority of the dollar amount of loans outside the AA, we will rely on the percent of the number of loans for our rating of this component. Therefore, the number of loans made inside the AA exceeds the standard for satisfactory performance.

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

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

Business Loans

Lending activity to small businesses exceeds the standard for satisfactory performance. The percentage of the dollar amount of loans generated to businesses with revenue of \$1 million or less exceeds that of the AA, and is near the demographic percentage for the number of loans.

Borrower Distribution of Loans to Businesses in Valley National Bank AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable / Unknown	Total
% of AA Businesses	67	4	29	100%
% of Bank Loans in AA by #	65	15	20	100%
% of Bank Loans in AA by \$	75	18	7	100%

Source: Loan sample; Dunn and Bradstreet data.

Consumer Loans

Consumer lending to individuals with different income levels exceeds the standard for satisfactory performance. Both the percentage of the number of loans and the dollar amount of loans significantly exceed the demographic percentage for consumer lending. Three of the loans in our sample did not contain financial data because the loans were secured by cash deposits. Therefore, borrower distribution of consumer loans is based on the remaining 17 in the loan sample.

Borrower Distribution of Consumer Loans in Valley National Bank AA				
Borrower Income Level	Low	Moderate	Middle	Upper
% of AA Households	23	14	17	46
% of Bank Loans in AA by #	40	20	15	25
% of Bank Loans in AA by \$	57	28	12	3

Source: Loan sample; US Census data.

Geographic Distribution of Loans

The geographic distribution of loans within the AA reflects reasonable dispersion. Because the primary lending need of the AA is commercial, more emphasis is placed on the geographic dispersion of business lending in the tables below.

Business Loans

None of the business loans in the sample were in LMI areas; therefore we conclude that the percentage of business loans in our sample to LMI tracts is near the business demographic. This is

in part because there are so few opportunities to lend to businesses in LMI CTs: only one percent of businesses are in low-income CTs, and only five percent of businesses are in moderate-income CTs.

In addition, over one third of the loans in the sample were in the distressed middle-income tracts of Rio Arriba County. Business lending activity meets the standard for satisfactory performance.

Geographic Distribution of Loans to Businesses in Valley National Bank AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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	1	0	5	0	64	100	30	0

Source: loan sample; U.S. Census data

Consumer Loans

As indicated in the table below, the bank's opportunity to lend in a low-income CT is extremely limited due to the low number of households present in low-income tracts. There is somewhat more opportunity in moderate income tracts, but even that modest level of households with credit needs can be difficult for the bank to identify. Consumer loans to LMI tracts are close to the AA demographic, but do not meet the standard for satisfactory performance. None of the consumer loans were in distressed middle-income CTs.

Geographic Distribution of Consumer Loans in Valley National Bank 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	<1	0	9	5	65	95	26	0

Source: loan sample; U.S. 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.