



**Comptroller of the Currency
Administrator of National Banks**

PUBLIC DISCLOSURE

May 31, 1997

COMMUNITY REINVESTMENT ACT Performance Evaluation

**CARLSBAD NATIONAL BANK
Charter Number 12569**

**202 West Stevens
Carlsbad, New Mexico 88221**

**OFFICE OF THE COMPTROLLER OF THE CURRENCY
Western District
50 Fremont Street, Suite 3900
San Francisco, California 94105**

Note: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority, when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the CRA performance of **Carlsbad National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **May 31, 1997**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated "**satisfactory**."

Carlsbad National Bank's loan-to-deposit ratio is reasonable. The majority of their loans are made within the bank's assessment area. The geographic distribution reflects a good penetration among low, moderate, middle and upper income individuals. In addition, small business loans made during the period of May 1, 1997 to July 23, 1997 reflect a strong penetration among businesses of various sizes.

The following table indicates the performance level of **Carlsbad National Bank** with respect to each of the five performance criteria.

CARLSBAD NATIONAL BANK Performance Levels			
Small Institution Assessment Criteria	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-deposit ratio		✓	
Lending in assessment area	✓		
Lending to borrowers of different incomes and to businesses of different sizes		✓	
Geographic distribution of loans		✓	
Response to complaints	No complaints relating to CRA activities were received since the prior examination		

DESCRIPTION OF INSTITUTION

Carlsbad National Bank, which is a wholly owned subsidiary of Carlsbad Bancorporation, Inc., provides banking services to the City of Carlsbad. As of May 31, 1997, the bank had \$173 million in total assets. Its primary operation is at its main office located in the business district of Carlsbad. In addition to the main office, the bank has one branch and five automatic teller machines (ATMs). The branch and ATMs are located within the city limits of Carlsbad, with the exception of one ATM located at a waste isolation plant. No offices were opened or closed since the last examination.

The bank's lending focus is primarily residential mortgages and business loans. Net outstanding loans as of March 31, 1997 were \$71 million. Of these, 59% were real estate, 28% commercial, and 13% consumer loans. The bank is not restricted in its ability to meet community credit needs. There are no legal impediments or other factors preventing the bank from lending in its assessment area.

DESCRIPTION OF ASSESSMENT AREA

Carlsbad National Bank has defined their assessment area as the City of Carlsbad, which is a non-metropolitan area. The population of the assessment area was 27,454 per 1990 census data. The City of Carlsbad is comprised of seven census tracts. Of these, two are designated as upper income and five are middle income. There are no low or moderate income census tracts in the bank's assessment area. This is based on the statewide non-metropolitan family income (from the 1990 census) within each individual census tract. If the census tract is less than 50% of the statewide income non-metropolitan median family income, it is categorized as low income; moderate is between 50% and 79%; the middle income range is 80% to 119%; and, the upper range is income of 120% and above the median family income. The New Mexico statewide of non-metropolitan median family income is \$26,744. The median housing value is \$42,500.

Primary employers are the potash mines, gas and oil companies, Westinghouse, Department of Energy, Carlsbad Public Schools, and city/county government. Employment has been stable for the last ten years. Potash employment has been somewhat volatile, but overall employment numbers did not fluctuate significantly.

The banking environment within Carlsbad National Bank's assessment area is highly competitive. Competition includes one branch of a national bank, one state chartered bank, one savings and loan, numerous credit unions and other non-bank financial institutions. Carlsbad National Bank is the third largest independent financial institution in the area.

Community members contacted identified affordable housing and development of the downtown business district as the two most pressing issues in the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan To Deposit Ratio

The bank's loan-to-deposit ratio is reasonable. As of March 31, 1997 it was 51.9%. Over the last ten quarters, the evaluation period for this rating, the average ratio was 50.6%. Two local competitors had loan-to-deposit ratios of 88% and 81% at December 31, 1996. The ratio of 159 similarly sized banks nationwide was 64.1%.

Lending in the Assessment Area

Carlsbad National Bank has done an outstanding job of lending within its assessment area. As of July 21, 1997, 93% of the total number of loans in the bank's consumer and commercial loan portfolio originated in the bank's assessment area. This translates to approximately \$80 million or 86% of the bank's dollar loan volume inside the assessment area. We verified the accuracy of this information by testing the bank's automated loan reports.

Lending to Borrower's of Different Incomes and Businesses of Different Sizes

Overall, lending to individuals of various income levels and businesses of different sizes is satisfactory. The demographics of the bank's assessment area reflect a presence of all income levels within the population. Our analysis revealed that the bank lends in all areas of its community equitably.

The bank did not conduct an internal analysis based on borrower's income. Therefore, we reviewed consumer, residential real estate, and business loans made during May 1, 1997 to July 23, 1997 focusing on the amount of borrower income and business revenues. The tables below illustrate our findings in each area.

LOAN DISTRIBUTION BY BORROWER INCOME LEVEL				
Loan Type	LOW	MODERATE	MIDDLE	UPPER
(# of loans)	<\$13,372	13,373-21,128	21,129-32,093	\$32,094+
Consumer (129)	27%	21%	30%	22%
Residential Real Estate (935)	0%	6%	16%	78%

Our analysis of residential real estate loans did not appear to reflect the demographics of the bank's assessment area. Therefore, we expanded our review to include consumer loans made

during the same period. Consumer loan findings revealed that the bank has a stronger penetration to low, moderate, and middle income individuals in comparison to the demographics of Eddy County. The 1990 Census shows Eddy county has 18% low, 14% moderate and 19% middle income families within each tract category.

Loan Type (# of loans)	Business Income (000s)					
	0 - 25	26 - 50	51 - 75	76 - 100	101 - 200	200+
Business (97)	23%	34%	19%	7%	13%	4%

The bank’s data of commercial loans reflects that the distribution of loans to small businesses is very good. Over 50% of the commercial loan portfolio is to small businesses with revenues up to \$50,000. Approximately 70% of the total number of loans granted during our sample period had original loan amounts of \$30,000 and below. The bank’s average commercial loan is \$37,000.

Geographic Distribution of Loans

Carlsbad National Bank’s distribution of loans within its geographic area is reasonable. An internal map designating loan originations for real estate and consumer loans was reviewed to determine how the bank’s loans are distributed among census tracts of different income levels. As discussed in the Description of Assessment Area section of this report, there are seven census tracts in the city: two upper income and five middle income. There are no low to moderate income census tracts in Eddy County. The bank’s internal tracking map revealed that loans were made in all census tracts within the City of Carlsbad. No areas have been excluded.

Response to Complaints

During the evaluation period, Carlsbad National Bank did not receive any complaints from the public regarding their CRA performance. The bank is in compliance with the substantive provisions of anti-discrimination laws and regulations.