



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

July 7, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of New Mexico
Charter Number 15259

201 Main Street
Clayton, New Mexico 88415

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.

The First National Bank of New Mexico (FNBNM) is rated outstanding because of its responsiveness in meeting the assessment area (AA) credit needs. The following summarizes the performance for each criterion upon which the CRA rating is based.

- The bank's average loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and AA needs.
- FNBNM granted a substantial majority of its loans within its AA.
- FNBNM demonstrated an excellent record regarding the penetration of loans to small farms and businesses.
- Geographic distribution of loans reflects an excellent dispersion throughout its AA, which is largely composed of nonmetropolitan middle-income distressed and underserved census tracts, and one moderate-income census tract.

SCOPE OF EXAMINATION

This examination consisted of a full scope review of the bank's single AA. The lending test covers the evaluation period of January 2006 through May 2008. We identified business and agricultural 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 commercial and agricultural sectors for a total of 40 loans. The data from the original business and agricultural 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 20 business and agriculture loans inside the AA. The sample is representative of the bank's business strategy since the last examination.

DESCRIPTION OF INSTITUTION

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 rated Satisfactory at the March 1, 2004 CRA examination.

FNBNM is a community bank headquartered in Clayton, New Mexico, which is a non-metropolitan area in the far northeastern part of the state bordering Texas and Oklahoma. As of March 31, 2008, FNBNM had \$156 million in average assets and net total loans of \$104 million, or 65 percent of total assets. FNBNM operates the main office, and four other full-service offices in Raton, Tucumcari, Logan, and Angel Fire, New Mexico. The bank also operates a loan production office (LPO) in Santa Rosa, New Mexico. The bank has deposit-taking ATMs in Raton, Tucumcari, and Logan. The bank has not opened any branches since the last CRA examination. The bank is a subsidiary of Union BancShares, Inc., a bank holding company.

The bank's primary lending focus is agricultural and commercial loans. In terms of dollars, commercial loans represent 33 percent of the loan portfolio and agriculture loans represent 58 percent of the loan portfolio based on 2006-2007 loan originations. Commercial and agricultural loans combined make up only 41 percent of the number of loans. Consumer loans represent a higher percentage of the number of loans (56 percent), but only six percent of the dollar amount of loans, so we did not consider them as a primary product.

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

DESCRIPTION OF FNB OF NEW MEXICO ASSESSMENT AREA

FNBNM has designated 13 census tracts (CTs) in New Mexico, Texas, and Oklahoma as its AA, including Union, Colfax, Quay, and Guadalupe Counties in NM; Dallam County in TX, and Cimarron County in OK. The entire area is a nonmetropolitan statistical area. There are zero low-, one moderate-, 12 middle-, and zero upper-income tracts. The AA meets the legal requirements of the regulation and does not arbitrarily exclude low- or moderate-income (LMI) geographies.

CRA has traditionally focused on LMI people and CTs. Since 2005 an additional designation for distressed and underserved nonmetropolitan middle-income geographies was established. A nonmetropolitan middle-income geography is designated as distressed if it meets one or more of the following triggers: (1) an unemployment rate of at least 1.5 times the national average; (2) a poverty rate of 20 percent or more; or (3) a population loss of 10 percent or more. A nonmetropolitan middle-income geography is designated as underserved based on definitions maintained by the Economic Research Services of the U. S. Department of Agriculture. Generally, it meets the definition if an area's population is sufficiently small, thin, and distant from a population center such that the geography is likely to have difficulty in financing the fixed costs of essential community needs.

A list of such geographies is published every year in June and is available on the FFIEC.gov web site. The following table shows that all the counties in the bank's AA have some degree of underserved or distressed status during the evaluation period (or some portion of it, as noted by the years listed). Three of the counties are designated as underserved; three others have suffered significant population loss, and three meet the poverty trigger.

| Counties | Unemployment % | | Distressed Middle-Income CTs 2006-2008 | | | Underserved Middle-Income CTs 2006-2008 |
|--------------|----------------|------|---|-------------------|--------------------|---|
| | 2004 | 2007 | Poverty | Unemploy- ment | Population Loss | |
| Union NM | 3.6 | 2.3 | 2008 | | | X |
| Colfax NM | 5.9 | 3.3 | | | | X |
| Quay NM | 6.1 | 4.2 | X | | X | |
| Guadalupe NM | 7.2 | 5.3 | 2006, 2008 | 2006 | 2006 | |
| Cimarron OK | 3.1 | 4.3 | | | X | X |
| Dallam TX | 3.9 | 2.9 | | | X | |

Other economic indicators in these agricultural communities are mostly stable to improving, with unemployment falling in nearly all sectors, as reflected in the table on the previous page, and the comments below.

- In Clayton, major local employers include the local school district, hospitals, and new state prison. Local businesses also play a large part in the local economy, but there is no single employer to identify with that segment of the economy. The improved unemployment figures in Union County are due in part to the construction of new schools and the new state prison.
- Tucumcari and Santa Rosa have a diversified economy with both agriculture and local businesses. These local businesses are a result of the tourism from Highway 40 and Historic Route 66. The Tucumcari and Logan branches are in Quay County. The Santa Rosa LPO is in Guadalupe County. Unemployment fell in both counties during the evaluation period.
- The bank has two branches in Colfax County: Angel Fire's economy thrives on the tourism industry which plays a very large part in the community. Raton's economy is agriculturally based with some local businesses.
- Dallam County in Texas, where ranching is the dominant industry, has also had an improvement in the unemployment rate.
- Cimarron County in Oklahoma is the only county in the bank's AA to have experienced worsening unemployment during the period.

Competition for financial services is moderate. The June 30, 2007 FDIC Deposit Market Share Report shows seven financial institutions competed for over \$559 million of insured deposits in the New Mexico counties of FNBNM's AA. The nature of the competition includes branches of nation-wide financial institutions and other local banks. FNBNM is second largest with a 23 percent share in the marketplace and does not operate outside the area. Two of the other competitors are nation-wide mega banks which have significant presences and access to other loans and deposits outside the local market, and one local bank has 2 offices outside the AA. The contiguous Texas and Oklahoma counties in the AA add five more local banks to the competition.

There is only one similarly situated bank to FNBNM in the marketplace. The similarities are identified in terms of size, geographic presence, and line of business. The similarly situated bank is a slightly larger local state bank that also operates only inside the AA. However, since a comparison with just one bank would tell us little, we also used nine other banks from the AA, including two Federal Savings and Loans, as near competitors to arrive at the bank's LTD ratio. We excluded the nation-wide banks from the comparison.

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 reported economic conditions were satisfactory and that there were no unmet credit needs in the community. The contact is in natural resource conservation and identified the primary credit need as being in agricultural lending. The contact said that the major long-term issue facing Clayton is the arrival of many investors who are buying land, making it more expensive for locals to purchase land of their own.

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 ABOUT PERFORMANCE CRITERIA

Loan-to Deposit Ratio

FNBNM's LTD ratio is reasonable given the size, credit needs, and financial condition of the institution. The quarterly average LTD ratio over the evaluation period was 76 percent. This ratio, computed over 17 quarters was compared with nine other financial institutions within their AA. The average of the other institutions was also 77 percent, with a high LTD ratio of 104 percent and a low of 60 percent for the same period. Five of the banks had a higher ratio than FNBNM and four had a lower ratio. Its most similarly situated competitor was slightly higher.

Lending in Assessment Area

Based on our original sample, a substantial majority of loans were from inside the AA. Eighty percent of the number and 90 percent of the dollar amount of the combined agricultural and business loans were inside the AA.

Lending to Borrowers of Different Incomes and Business of Different Sizes

The distribution of agriculture and business loans shows excellent penetration to businesses of different sizes. The Borrower Distribution tables show that the credit needs of small farms and businesses in the communities within the AA are being met by the bank.

Agricultural Loans

The table below shows that FNBNM's lending penetration to small farms compared to the AA demographics is excellent. The bank's performance reflected in the percent of number of loans to small farms significantly exceeds the demographic. We focus on the number of loans because in a small sample, one or two large dollar loans can significantly distort the results. That is the case in this sample where two of the large businesses (which may need and can qualify for larger loans) had loans of over \$1 million in a sample that was only \$5 million total loans.

| Borrower Distribution of Loans to Farms in FNB New Mexico AA | | | | |
|---|--------------|--------------|-----------------------|-------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable / Unknown | Total |
| % of AA Farms | 54 | 3 | 43 | 100% |
| % of Bank Loans in AA by # | 80 | 20 | 0 | 100% |
| % of Bank Loans in AA by \$ | 32 | 68 | 0 | 100% |

Source: Loan sample; Dunn and Bradstreet data.

Business Loans

The table below shows that FNBNM's lending penetration to small businesses is also excellent. The bank's performance reflected in the percent of number and dollar of loans to small businesses exceeds the demographic.

| Borrower Distribution of Loans to Businesses in FNB New Mexico AA | | | | |
|--|--------------|--------------|-----------------------|-------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable / Unknown | Total |
| % of AA Businesses | 94 | 3 | 3 | 100% |
| % of Bank Loans in AA by # | 95 | 5 | 0 | 100% |
| % of Bank Loans in AA by \$ | 83 | 17 | 0 | 100% |

Source: Loan sample; Dunn and Bradstreet data.

Geographic Distribution of Loans

The bank’s AA includes one moderate-, and nine middle-income CTs. Because there is only one moderate-income CT, lending opportunities are limited. However, as detailed in the *Description of Assessment Area* section above, the bank also operates in an AA that is almost exclusively made up of nonmetropolitan distressed or underserved middle-income geographies. This has a significant impact on the overall conclusion below.

Agricultural Loans

The farm demographics for the area indicate that two percent of AA farms are inside the moderate-income CT. The moderate-income CT is also in the town of Tucumcari. None of the bank’s agricultural loans in our sample were in the town of Tucumcari. Since the demographic percentage was so low, we determined that testing the bank’s performance for agricultural lending in this moderate-income tract would not be meaningful. However, the bank’s dispersion in nonmetropolitan middle-income geographies is considered excellent since 100 percent of the agricultural loans were in CTs so designated.

Business Loans

The table below shows that FNBNM’s lending dispersion in moderate-income CTs compared to the AA demographics is reasonable. There are no low-income CTs. The bank’s performance reflected in the percent of number of loans to small businesses in the moderate-income CT is very near the demographic, which meets the standard.

| Table 3A - Geographic Distribution of Loans to Business in FNB of New Mexico’s 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 |
| | N/A | 0 | 6 | 5 | 94 | 95 | N/A | 0 |

Source: Loan sample; Dunn and Bradstreet data.

Again, however, the rest of the loans in the sample were in nonmetropolitan middle-income distressed or underserved geographies, so by virtue of the communities it serves, we consider the bank’s dispersion of loans to be excellent.

Responses to Complaints

FNBNM has not received any complaints about its performance in helping to meet AA credit needs 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.