



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 24, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Ruidoso
Charter Number 21109**

**451 Sudderth Drive
Ruidoso, New Mexico 88345**

**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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

The First National Bank of Ruidoso's (FNB) lending performance reflects a satisfactory response to community credit needs. This is based on the following:

- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs.
- A majority of loans and other lending-related activities are in the bank's assessment area.
- The distribution of loans reflects, given the demographics of the assessment area (AA), excellent penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.

DESCRIPTION OF INSTITUTION

FNB is a full service retail community bank with \$50 million in total assets and \$27 million in net loans, or 54% of total assets, as of December 31, 2002. FNB is a subsidiary of a two-bank holding company. The holding company, First Alamogordo Bancorp of Nevada, Inc. has \$233 million in total assets and owns a majority of the bank's stock. The affiliate bank is First National Bank in Alamogordo.

FNB's main office is located in the eastern part of Ruidoso and there is a branch located at the west end of town. The bank has three automatic teller machines (ATM) located at the bank's main office, and the north side and center of town. An additional seasonal ATM is located at the Ski Apache Recreation Area.

The bank's primary lending focus is commercial and consumer lending. In terms of dollars, commercial loans represent 70% and consumer loans represent 16% of the bank's total loan portfolio as of December 31, 2002. The bank has a variety of other banking services to meet the needs of the community. In addition to direct lending, the bank offers indirect lending which includes a variety of home loan products, funded primarily through a third party. There are no financial or legal impediments that hinder the bank's ability to help meet the credit needs of its AA. The previous CRA examination dated May 2, 1997, resulted in a satisfactory rating.

DESCRIPTION OF ASSESSMENT AREA

FNB has designated all of Lincoln County and the Mescalero Apache Reservation in Otero County as its AA. Lincoln County consists of nine contiguous block-numbering areas (BNA) including two upper-income BNA's, six middle-income BNA's and one moderate income BNA. Adjacent to Ruidoso, in Otero County, is the Mescalero Apache Reservation, which is designated a moderate-income BNA. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

According to the 1990 US Census the total population of Lincoln County and the Mescalero Reservation totaled 14,883. The most populated areas are the Village of Ruidoso and the city of Ruidoso Downs. Approximately 60% of the Lincoln County population resides in these two areas. Other populated areas are located 10 to 25 miles from Ruidoso and include Carrizozo, Hondo, Capitan, Corona and the Apache Reservation. The AA is comprised of 39% upper-income families, 18% middle, 19% moderate, and 24% low. The 2002 HUD-Adjusted Median Family income is \$33,700.

Ruidoso, Ruidoso Downs and the Mescalero Apache Reservation economy depends on tourism for it's primary source of income generation. Largest employers include the hospital, school systems, casinos, resorts and lodging establishments. There are no dominant industries outside of tourism. Unemployment rates have remained stable over the past three years at 4.1% compared to the state unemployment rate of 5.4%.

Competition for financial services is strong. In addition to FNB there are three other banks, including a branch of a nation-wide company, three savings associations, and six mortgage companies.

We contacted one community leader in a village government office during this examination to gather more current information on the nature of the community and potential lending opportunities in the AA. The contact reported no unmet credit needs in the community. The major issue facing Ruidoso and the surrounding area is affordable housing.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Our review of the bank's lending performance focused on the bank's primary products, commercial loans and consumer loans, originated since the last CRA examination. To obtain our sample we randomly selected 20 commercial loan originations and 20 consumer loan originations.

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is reasonable in light of the bank's performance context, given the bank's size, financial condition, and AA credit needs. As of December 31, 2002, the bank's 22 quarter average loan-to-deposit ratio is 52.17%. Other mortgage products offered by the bank, if funded, would on average increase the bank's loan-to-deposit ratio by 3%. There are no comparable community banks in the AA. One community bank's main office is located in Lubbock with many branches outside the local community. Another is a new bank.

Lending in Assessment Area

A majority of loans and other lending-related activities are in the bank's AA. Our analysis determined that 98% of the number and 99% of the dollar amount of the 40 loans sampled within the evaluation period were made in the bank's AA.

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

The distribution of business loans reflects excellent penetration of businesses of different sizes given the demographics of the AA. Businesses with annual gross revenues of \$1 million or less are designated as "small businesses." The AA demographic data shows 78% are small businesses. Our sample showed that the bank originated 95% by number and 94% by dollar to small businesses.

The distribution of consumer loans reflects reasonable penetration among individuals of different income levels when compared to demographics in the AA. The table below shows that the bank's penetration to low-income households is lower than the AA demographics. On the other hand, the bank's penetration to moderate-income households is higher than AA demographics.

Borrower Income Level	Loan Distribution Percentages by Number and Dollar of Loans				Percent of Households in AA
	\$ Volume	% \$	# Of loans	%#	
Low	2,750	2%	2	10%	26%
Moderate	24,435	14%	6	30%	18%
Middle	7,832	5%	3	15%	17%
Upper	136,118	79%	9	45%	39%
Totals	171,135	100%	20	100%	100%

Based on HUD 2002 Updated Median Family Income

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the AA. While no areas have been excluded, the bank had a lower penetration of loans in moderate-income BNA's both in number and dollars.

The AA demographics show 19% of households in the AA reside in moderate-income BNA's. Our consumer loan sample showed the bank originated 10% in number and 6% in dollars in moderate-income BNA's. The lower consumer loan penetration is due to both location and population within the moderate-income tracts. Hondo has a very small population with regard to the bank's AA and is closer in proximity to Roswell, New Mexico. Many people shop and bank in Roswell, minimizing the bank's lending opportunities. The Mescalero Apache Reservation also has a small population in relation to the bank's AA and is located over the summit. The bank's lending opportunities on the reservation are limited to indirect dealer paper for auto loans.

In our sample of commercial loans, we identified no penetration in the moderate census tract areas. This is reasonable based on the low number of businesses in moderate areas, limiting the bank's opportunities to lend. The business demographics show 3% of total businesses in the bank's AA are located in the moderate-income BNA's.

Response 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 Review

An analysis of 1997-2003 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 determined that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The last comprehensive fair lending exam was performed in 1997.