



## **PUBLIC DISCLOSURE**

October 21, 2013

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

The Carlsbad National Bank  
Charter Number 12569

202 West Stevens Street  
Carlsbad, NM 88220

Office of the Comptroller of the Currency

Phoenix Field Office  
9633 South 48th Street, Suite 265  
Phoenix, AZ 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 Satisfactory

The Carlsbad National Bank's (CNB) lending performance reflects a Satisfactory response to community credit needs. This is based on the following factors:

- The bank's loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and the credit needs of the assessment area (AA).
- A substantial majority of the loans were made inside the bank's AA.
- Lending activities represent a reasonable penetration to individuals of different income levels.

## SCOPE OF EXAMINATION

The examination of CNB consisted of a full-scope review of the bank's single AA. The lending test covered January 1, 2011 through August 31, 2013, referred to in this report as the evaluation period. We identified residential real estate 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.

Loan Originations for Evaluation Period	% of Number of Loans	% of Dollar Amount of Loans
Residential RE Loan Originations as a % of Total Originations	60%	47%
Consumer Loan Originations as a % of Total Originations	5%	36%

*Source: Loan originations for evaluation period.*

We sampled 20 loans from each of the bank's primary products. The data from the loan sample was used to calculate the inside/outside AA ratio. All loans in the sample were originated inside the AA, so we did not have to expand the sample to perform the other lending tests. The sample is representative of the bank's business strategy since the last examination.

Due to the U.S. census data changing during the evaluation period, we compared 2000 census data to loans originated from January 1, 2011, to December 31, 2011; and 2010 census data to loans originated from January 1, 2012, to August 31, 2013.

## DESCRIPTION OF INSTITUTION

CNB is a community bank headquartered in Carlsbad, New Mexico, which is a non-metropolitan area in the southeastern part of the state. As of June 30, 2013, CNB had total assets of \$255 million and net total loans of \$104 million, or 41 percent of total

assets. CNB operates a main office, two branches, and three ATMs, one of which is deposit-taking, all located in Carlsbad, New Mexico. The bank has neither opened nor closed any branch offices during the evaluation period.

Carlsbad Bancorporation, a one-bank holding company located in Carlsbad, New Mexico, owns 100 percent of the bank. There are no other subsidiaries or affiliates.

CNB's strategic focus is to continue supporting the economic growth and development of its AA by providing competitive banking solutions for commercial and consumer customers. The bank's primary lending focus is residential real estate and commercial lending. The majority of residential real estate loans originated are sold on the secondary market.

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 July 7, 2008 CRA examination. Maps and additional information about the bank's AA may be found in the Public File, maintained at the main office of the bank.

## **DESCRIPTION OF ASSESSMENT AREA**

CNB designated nine contiguous census tracts (CT) in southern Eddy County, including the cities of Carlsbad and Loving, as its AA. The entire area is a non-metropolitan statistical area. For 2011, the AA consisted of 9 CTs based on the 2000 census data that included no low- or moderate-income (LMI), six middle-income, and three upper-income CTs. The six middle-income CTs were designated as distressed middle-income non-metropolitan CTs due to population loss in 2011. In 2012, based on the 2010 census data, the AA changed to five middle- and four upper-income CTs. The AA still has no LMI CTs. The AA meets the legal requirements of the regulation and does not arbitrarily exclude LMI geographies.

The economy of the AA is concentrated in oil and gas, potash mining, and tourism. Major employers include Nuclear Waste Partnership, LLC (which manages the Waste Isolation Pilot Plant), two potash mines, the school district, and the regional medical center. CNB is in an area with a diversified employment base. Local economic conditions are improving. Over the last five years, unemployment for the area fell from 6.2 percent to 3.1 percent, due primarily to the increase in oil and gas production and potash mining. Currently, unemployment is approximately 4.38 percent in the AA.

Demographic Information for the CNB AA						
	#	% Low	% Moderate	% Middle	% Upper	% Unknown
Geographies (Census Tracts)	9	0	0	56	44	0
Population by Geography	35,805	0	0	48	52	0
Owner-Occupied Housing by Geography	9,849	0	0	43	57	0
Businesses by Geography	2,619	0	0	50	50	0
Farms by Geography	115	0	0	28	72	0
Family Distribution by Income Level	9,004	0	0	45	55	0
Household Distribution by Income Level	13,303	0	0	47	53	0
Census Median Family Income (MFI)		\$46,354	Median Housing Value			\$94,760
HUD- Adjusted MFI: 2011		\$47,100	Families Below the Poverty Level			7.74%
HUD- Adjusted MFI: 2012		\$47,700	Unemployment Rate			4.38%
HUD- Adjusted MFI: 2013		\$47,000				

Source: 2010 U.S. Census Data

Competition for financial services is strong. The June 30, 2013 FDIC Deposit Market Share Report shows three other financial institutions competed with CNB for over \$525 million of insured deposits. Area competition includes one branch of a nation-wide financial institution, one state-chartered financial institution, and one federally-regulated thrift. There are also four credit unions and sixteen non-bank financial institutions in the AA. CNB's market share of 43 percent is the largest of any financial institution within its AA.

There are no similarly situated banks to CNB in the marketplace. The majority of the other competitors have a significant presence and access to other loans and deposits outside the local market.

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 reported economic conditions as strong with continuing growth from the oil, gas, and potash mining industries. The local economy also benefits from the Waste Isolation Pilot Plant, a site where low-level nuclear waste is stored thousands of feet underground in salt beds. This favorable economic climate has created a shortage of lodging accommodations in the hotel and apartment sectors. Tourism also contributes materially to the local economy with Carlsbad Caverns and Guadalupe Mountains National Park nearby. Tourists have difficulty in obtaining lodging at reasonable costs as the majority of hotel rooms are taken up by oil and gas industry employees. The contact person stated that three additional hotel chains intend to break ground in the very near future. Additionally, up to three additional apartment complexes are in the final construction stage with owners indicating all units pre-leased. In addition, the recent tightening in lending practices has made it difficult for individuals to obtain mortgages. The contact is in the economic development business and

identified the primary and continuing credit need as increased financing for lodging accommodations including hotel rooms, apartment complexes, and single-family residential units. The contact also indicated there is a need to improve financial education among individuals seeking to open their own business. The agriculture sector is doing well but is heavily dependent on water availability. Other community banks in nearby locations continue to establish branch locations or loan production offices within the Carlsbad city limits.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

CNB's average LTD ratio is reasonable given the bank's size, financial condition, and the credit needs of the AA. As of March 31, 2013, the bank's quarterly LTD ratio for the last 20 quarters was 47 percent, with a low of 42 percent and a high of 55 percent.

Bank	Average Quarterly Loan-to-Deposit Ratio (7/2008 - 3/2013)
<b>The Carlsbad National Bank</b>	<b>47%</b>
Bank A	70%
Bank B	56%

*Source: Uniform Bank Performance Report.*

There are no similarly situated banks to CNB in the AA. The competitors used in the above comparison are all community banks with similar business models, but also have significant operations outside the AA. Additionally, they are nearly one-half to two-thirds larger in asset size than CNB.

While the bank's LTD ratio is lower than its competitors, there are a few mitigating factors. The bank originates and sells residential real estate loans into the secondary market. From January 1, 2011, through August 31, 2013, CNB sold loans totaling \$62 million, representing 420 loans, on the secondary market. Additionally, many borrowers request small dollar consumer loans that do not result in a significant increase in the LTD ratio. CNB routinely makes these small dollar consumer loans to meet the credit needs of the community.

### Lending in Assessment Area

We calculated the percentage of both the number and dollar amount of loans in our sample of 20 commercial loans and 20 consumer loans made inside the bank's AA. With a combined 100 percent of the number and 100 percent of the dollar amount of loans, CNB's inside/outside ratio reflects a substantial majority of its primary loan products originated within the AA.

Lending in CNB's AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential RE	20	100	0	0	20	10,140	100	0	0	10,140
Consumer	20	100	0	0	20	146	100	0	0	146
<b>Total</b>	<b>40</b>	<b>100</b>	<b>0</b>	<b>0</b>	<b>40</b>	<b>10,286</b>	<b>100</b>	<b>0</b>	<b>0</b>	<b>10,286</b>

Source: Loan originations for the evaluation period.

The loan sample was originated inside the bank's AA, so we did not have to replace any outside loans to arrive at a new sample for both primary loan products. With the original sample, we analyzed the following tests for Borrower Distribution.

### Lending to Borrowers of Different Incomes

The borrower distribution of residential real estate and consumer loans originated in the AA reflects reasonable penetration among individuals of different income levels.

#### Residential Real Estate Loans

The overall distribution of residential real estate loans to LMI borrowers reflects poor penetration among borrowers of different income levels. The 2011 table shows residential real estate loans in our sample from January 1, 2011, through December 31, 2011, compared to the 2000 census data. The bank made no loans to low-income borrowers, thus not meeting the standard. This can be attributed to the fact that in 2011, 13 percent of families in the AA lived below the poverty level. In addition, the median housing value was \$63,324, making it hard for low-income families to qualify for residential real estate loans. Performance for loans to moderate-income borrowers is higher than the ratio, exceeding the standard and reflecting excellent penetration.

Borrower Distribution of Residential Real Estate Loans in CNB's AA - 2011								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential RE	18	<b>0</b>	16	<b>20</b>	20	<b>20</b>	46	<b>60</b>

Source: Loan sample and 2000 U.S. Census data.

The 2012 table below was updated to reflect the 2010 census data and is compared to loans originated from January 1, 2012, through August 31, 2013. The distribution of residential real estate loans to LMI borrowers reflects very poor penetration as the bank did not make any loans to LMI borrowers. However, 8 percent of families in the AA are living below the poverty level. In addition, the median housing value increased to \$94,760 for the AA, an increase of \$31,436 from the 2000 census. These factors make it hard for low-income families to qualify for residential real estate loans.

<b>Borrower Distribution of Residential Real Estate Loans in CNB's AA – 2012</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential RE	14	<b>0</b>	20	<b>0</b>	17	<b>7</b>	49	<b>93</b>

Source: Loan sample and 2010 U.S. Census data.

### Consumer Loans

The overall distribution of consumer loans among individuals of different incomes given the demographics of the AA exceeds the standard. Consumer loans are held to a higher performance standard than commercial or residential real estate loans because they are generally easier to obtain. Consumer loans are also easier for the bank to make compared to other loan types. The 2011 table shows the consumer loans in our sample from January 1, 2011, through December 31, 2011, compared to the 2000 census data. The bank made no loans to the 21 percent of low-income households in the AA, reflecting very poor penetration. However, the penetration of moderate-income households is significantly higher than the ratio, and significantly exceeds the demographic data reflecting excellent penetration.

<b>Borrower Distribution of Consumer Loans in CNB's AA - 2011</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	21	<b>0</b>	15	<b>67</b>	17	<b>0</b>	47	<b>33</b>

Source: Loan sample and 2000 U.S. Census data.

The 2012 table below was updated to reflect the 2010 census data and is compared to loans originated from January 1, 2012, through August 31, 2013. The distribution of consumer loans to low-income households exceeds the demographic data, reflecting reasonable penetration. Although the bank's penetration of moderate-income households is slightly less than the ratio, it still reflects reasonable penetration.

<b>Borrower Distribution of Consumer Loans in CNB's AA - 2012</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	19	<b>24</b>	18	<b>12</b>	16	<b>24</b>	47	<b>41</b>

Source: Loan sample and 2010 U.S. Census data.

### **Geographic Distribution of Loans**

We did not perform an analysis of the bank's geographic distribution of loans. The AA includes only middle- and upper-income CTs and such an analysis would not be meaningful.

### **Responses to Complaints**

We reviewed the bank's public file for complaints, and complaints reported to the OCC through the Customer Assistance Group. There were no complaints received by the bank or the OCC relating to the bank's CRA performance during the evaluation period.

### **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.