

PUBLIC DISCLOSURE

May 19, 1997

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

THE BANK OF BELEN

1972298
10-35-0066

19339 HIGHWAY 85
BELEN, NEW MEXICO 87002

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 Community Reinvestment Act (CRA) performance of The Bank of Belen, Belen, New Mexico, prepared by the Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of May 19, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S CRA RATING: *This institution is rated:* **Outstanding**

The Bank of Belen's overall performance with respect to the Community Reinvestment Act (CRA) is considered outstanding. The bank's performance was assessed using five core performance criteria for small banks and the optional criteria for community development services. Conclusions for each performance criteria were based on data compiled from a statistically derived sample of files generated from a universe of loans within each major product line. Each universe was comprised of all loans generated for that product type that were originated within the last 6 or 12 months. Three products were sampled including small business loans, instalment consumer loans not secured by real estate (herein referred to as **Aconsumer loans**), and real estate-secured consumer loans, since they were determined to be the bank's major product lines. The criteria reviewed, and a summary of conclusions reached, are as follows:

- C The distribution of loans among borrowers, given the characteristics of the assessment area, reflects excellent penetration among customers of different income levels, including small businesses and low- and moderate-income individuals.

- C A substantial majority of the bank's loans are within the assessment area.

- C The geographic distribution of loans reflects a more than reasonable penetration throughout the assessment area.

- C The bank's loan-to-deposit ratio was found to be more than reasonable given the bank size, financial condition, and assessment area credit needs.
- C The bank's community development services enhance credit availability within its assessment area.
- C The Response to Complaints category is unrated as the bank has not received any complaints about its performance under the CRA.

DESCRIPTION OF INSTITUTION

The Bank of Belen, with total assets of \$30,660,000 per its December 31, 1996 Report of Condition and Income (Call Report), is a locally-owned unit bank. The bank operates out of its main office in Belen, New Mexico, and its branch in Los Lunas, New Mexico. Both the bank and its branch are full-service facilities, offering a broad variety of products and services. The bank also has automated teller machines (ATMs), drive-up facilities, and night depositories at each location.

The bank offers loan products that meet community credit needs including real estate, consumer, and commercial loans. The Bank of Belen primarily serves its assessment area through direct lending, although the bank is becoming more involved with secondary market loan activities. The bank has the ability to meet the credit needs of its defined assessment area based on its financial condition, size, and product offerings. The bank's December 31, 1996 Call Report reflected the following loan distribution:

TABLE-1		
DISTRIBUTION OF LOANS IN THE LOAN PORTFOLIO AS OF DECEMBER 31, 1996		
Loan Type	Dollar Amount (In Thousands)	Percentage of Total Loans
Loans Secured by Real Estate:		
Loans secured by 1-4 family residential properties	6,619	32
Secured by nonfarm, nonresidential properties	2,755	14
Construction and land development	2,763	14
Secured by multifamily (5 or more) residential properties	465	2
Secured by farmland	273	1
Commercial Loans	4,120	20
Consumer Loans	2,641	13
Agricultural Loans	772	4
Total	20,408	100

The bank's performance under the CRA was last evaluated at the June 19, 1995 examination, at which time it was rated as having an Outstanding record of meeting community credit needs.

DESCRIPTION OF THE BANK OF BELEN'S ASSESSMENT AREA

The Bank of Belen's assessment area, which is the geographic area bank management has designated as the bank's primary service area for CRA purposes, incorporates all of Valencia County. Subsequent to the 1990 census, Valencia County was designated as part of the Albuquerque, New Mexico Metropolitan Statistical Area (MSA). Valencia MSA and, presently, does not contain census tracts. Of the 12 County is comprised of 12 Block Numbering Areas (BNAs) located in the southern section of the Albuquerque BNAs in the assessment area, two are classified as low-income, four as moderate-income, and six as middle-income. There are no upper-income BNAs in the assessment area. The assessment area also includes that portion of the Isleta Indian Reservation which is in Valencia County.

To illustrate the bank's assessment area, a map is attached to this performance evaluation.

Valencia County is primarily populated by the five communities of Los Lunas, Belen, Bosque Farms, Rio Communities, and Tome. There are also several unincorporated areas that are part of or in close proximity to these five communities. The Rio Grande River, which runs from north to south near the center of the county and parallels Interstate 25 to the west, essentially divides the county in half. The towns in the assessment area are located east of Interstate 25, with the exception of Los Lunas and Belen, whose boundaries extend east and west of the interstate. Much of the area in the county, particularly to the west of the interstate highway, remains undeveloped or is farmland. These factors result in the majority of the county's population being located east of Interstate 25. According to data provided by a community contact, there are a total of 683,520 acres of land in the county. Of that number, 160,000 acres are within the Isleta Indian Reservation. The state and federal governments own 22,000 acres and 43,291 acres of Valencia County, respectively. The remaining acreage is privately owned.

According to community contacts, Valencia County is the fastest growing county in the state, but has one of the lowest per capita incomes. The 1993 demographic data provided by a community contact indicates that Valencia County's per capita income is estimated to be \$14,489, which represents a 41 percent increase from the 1990 census per capita income of \$10,244. In comparison, the 1993 per capita incomes for Bernalillo, Los Alamos, and Sandoval counties are \$19,854, \$28,753, and \$21,170, respectively. One community contact also noted that 19 percent of Valencia County's population is below poverty level.

The county has experienced significant growth in recent years, particularly in the north central area surrounding Los Lunas. Although most of the growth has been in Los Lunas and Bosque Farms, which serve as bedroom communities of Albuquerque, towns and cities to the south of Los Lunas also have benefitted. A summary of population trends within major communities in the assessment area, as provided by a community contact, is shown in *Table-2*.

TABLE-2			
POPULATION TRENDS IN THE ASSESSMENT AREA			
	1994	1992	1990
Belen	7,295	6,960	6,547
Bosque Farms	4,521	4,050	3,791
Los Lunas	7,319	6,465	6,013
Rio Communities	4,165	3,792	3,565
Tome	Unavailable	Unavailable	1,695
Valencia County	53,808	43,308	45,235
Albuquerque MSA	645,525	630,030	589,131

Community contacts stated that the population growth is primarily due to the availability of affordable housing in the area. This factor, coupled with the close proximity to Albuquerque, attracts residents to Valencia County. Land prices vary throughout the county, but are typically affordable in comparison to nearby counties. For example, mobile home lots can generally be purchased for \$15,000 to \$25,000. According to a community contact, there has been some new residential construction in the area. However, most of the residential growth is in the form of manufactured housing or mobile homes. Although some development has occurred to the west of Interstate 25, most of the growth is concentrated to the east of the interstate. The lack of infrastructure, in part, stymies growth in the western section of the county.

The Central New Mexico Correctional Facility, Los Lunas Hospital and Training School, Santa Fe Railway, Avonite, and local and state governmental agencies are the county's largest employers. Additionally, there is a branch of the University of New Mexico located in Tome, which is located approximately 7 miles southeast of Los Lunas. Agriculture also contributes to Valencia County's economy. Presently, about 11,000 acres are planted in alfalfa; 2,000 to 3,000 acres are in grain crops, including corn, oats and millet; and 5,000 acres consist of irrigated pasture. Vegetables, fruits, and chile also are harvested, but to a much lesser extent.

The numerous branches of large multinational banks as well as one other independent bank located in the bank's assessment area result in considerable

competition within the county. These competitors have significantly more financial resources than The Bank of Belen. Competition also exists from the presence of several finance and mortgage companies, and two credit unions in the county.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Lending to Borrowers of Different Income Levels and Businesses of Different Sizes

This criteria evaluates the bank's loan originations among borrowers of different incomes, particularly small businesses and low- and moderate-income individuals. The distribution of loans sampled showed a more than reasonable penetration among businesses of different sizes and individuals of different income levels, given the demographics of the assessment area and the credit needs in the community. As illustrated in *Tables-3* and *-4*, the loan distribution is particularly notable among small businesses and low- and moderate-income individuals.

The analysis of the small business loans sampled (loans with an original dollar amount of \$1 million or less) showed that the bank is originating loans to small businesses. As can be seen in *Table-3*, 81 percent of the business loans generated in the assessment area were to small businesses. Small businesses are defined as those having gross annual revenues of less than \$1 million. The distribution of the number of loans among different-sized businesses, as categorized by gross annual revenue amounts in *Table-3*, is well in line with the composition of businesses in the community. Community contacts indicated that there are only a few private employers with more than 50 employees. Most of the businesses in the area are family-owned or are sole proprietorships.

TABLE-3				
DISTRIBUTION OF BUSINESS LOANS¹ SAMPLED WITHIN THE ASSESSMENT AREA				
Revenue Category ²	Number of Loans	%	Dollar of Loans	%
Less than \$100,000	31	54	789,818	34
Greater than or equal to \$100,000 but less than \$250,000	4	7	88,767	4
Greater than or equal to \$250,000 but less than \$500,000	8	14	178,660	8
Greater than or equal to \$500,000 but less than \$750,000	3	5	304,484	13
Greater than or equal to \$750,000 but less than \$1,000,000	0	--	0	--
<i>Small Business Subtotal</i>	<i>46</i>	<i>81</i>	<i>1,361,728</i>	<i>59</i>
Greater than or equal to \$1,000,000	11	19	994,973	41

¹ Nonreal estate secured commercial/industrial purpose loans and loans secured by nonfarm, nonresidential real estate.

² Based on Gross Annual Revenue Figures

The bank's origination of consumer loans to individuals of varying incomes is also more than reasonable. *Table-4* shows that 83 percent of the number and 78 percent of the dollar volume of consumer loans in the assessment area were to low- and moderate-income borrowers. These results are noteworthy in comparison to the demographics of the population in the community of which 46 percent is comprised of low- and moderate-income families. Low-income borrowers are those having incomes of less than 50 percent of the Albuquerque MSA median family income. Middle-income borrowers are those having incomes of at least 50 percent but less than 80 percent of the Albuquerque MSA median family income. According to Department of Housing and Urban Development (HUD) estimates, the median family income for the Albuquerque MSA in 1996 was \$42,000, a 31 percent increase from the 1990 Census Bureau data which showed the median family income to be \$31,959.

TABLE-4

**DISTRIBUTION OF CONSUMER LOANS SAMPLED IN THE ASSESSMENT AREA (AA)
BY INCOME LEVEL OF BORROWER**

	Consumer Loans ⁵				Real Estate-secured Consumer Loans ⁶				Total Consumer	
	Number	%	Dollar	%	Number	%	Dollar	%	% of Total Number	% of Total Dollar
Low-Income ¹	20	43	100,115	34	11	24	211,416	12	33	16
Moderate-Income ²	19	40	132,160	44	14	30	472,733	28	36	30
<i>Subtotal</i>	<i>39</i>	83	<i>232,275</i>	78	<i>25</i>	54	<i>684,149</i>	40	69	46
Middle-Income ³	3	6	15,003	5	8	17	359,528	21	12	19
Upper-Income ⁴	5	11	50,270	17	13	29	650,250	39	19	35

¹ Less than 50 percent of the Albuquerque MSA median family income (26.4 percent of families in AA are at this income level)

² 50 to 79.99 percent of the Albuquerque MSA median family income (19.9 percent of families in the AA are at this income level)

³ 80 to 119.99 percent of the Albuquerque MSA median family income (24.4 percent of families in the AA are at this income level)

⁴ 120 percent or more of the Albuquerque MSA median family income (29.3 percent of families in the AA are at this income level)

⁵ Closed-end consumer loans to individuals for household, family, and other personal expenditures that are not secured by real estate.

⁶ Closed-end consumer loans secured by one-to-four family residential units.

The bank's origination of real estate-secured consumer loans to individuals of varying incomes is also more than reasonable. As shown in *Table-4*, 54 percent of the number and 40 percent of the dollar volume of consumer real estate loans in the assessment area were to low- and moderate-income borrowers. These results also compare favorably to the county population which, as mentioned previously, includes a total of 46 percent low- and moderate-income families.

Additionally, it appears that the bank is making the types of loans needed in the community. Community contacts interviewed during the examination confirmed that there is a strong need for the type of products being offered by the bank.

Lending in the Assessment Area

This criteria evaluates the concentration of loans originated by the bank in its assessment area. The sampling showed that a substantial majority of loans are within the bank's assessment area. *Table-5* shows that, overall, 93 percent of the total number of loans and 86 percent of the total dollar volume of loans were within the bank's assessment area. Such a concentration is noteworthy given the strong competition within the assessment area and the bank's resources in comparison to its competitors.

TABLE-5								
DISTRIBUTION OF LOANS IN AND OUT OF THE ASSESSMENT AREA								
	<i>Inside the Assessment Area</i>				<i>Outside the Assessment Area</i>			
	Number of Loans	%	\$ Amount of Loans	%	Number of Loans	%	\$ Amount of Loans	%
Small Business Loans ¹	57	93	2,356,702	90	4	7	254,111	10
Consumer ²	48	92	299,563	90	4	8	33,620	10
Consumer Real Estate ³	46	92	1,693,861	80	4	8	436,487	20
Total	151	93	4,350,126	86	12	7	724,218	14

¹ Nonreal estate secured commercial/industrial purpose loans and loans secured by nonfarm, nonresidential real estate.

² Closed-end consumer loans to individuals for household, family, and other personal expenditures that are not secured by real estate.

³ Closed-end consumer loans secured by one-to-four family residential units.

Geographic Distribution of Loans

This performance criteria focuses on the bank's penetration among low- and moderate-, middle-, and upper-income BNAs considering the demographic characteristics of those BNAs. More favorable consideration is given for loan

penetration among low- and moderate-income geographies. In this case, however, since the low-income BNAs were unpopulated at the 1990 census and have only recently experienced some minor development, the analysis of this criteria focused primarily on the penetration of loans in moderate-income BNAs.

Overall, the consumer and the consumer real estate loan samples showed excellent loan penetration in moderate-income BNAs. *Table-6* details the bank's lending to geographies of different income levels along with relevant demographic data.

Forty-six percent of the consumer loans sampled were within the moderate-income BNAs. This compares favorably to the demographics of these BNAs. As shown in *Table-6*, 40 percent of the families in the assessment area reside in the moderate-income BNAs. The distribution of the consumer real estate loans are comparable.

As *Table-6* shows, 43 percent of the bank's consumer real estate loans are located in moderate-income BNAs. By comparison, demographic figures show that only 38 percent of the total housing units in these BNAs are owner-occupied and; as aforementioned, 40 percent of the families in the assessment area live in moderate-income BNAs.

The small business loan penetration within moderate-income BNAs is somewhat less than for consumer and consumer real estate loans. However, the penetration is well in line with the location of businesses in the county. Because recent development and growth has primarily occurred in the county's middle-income areas which are located to the east of Interstate 25, it appears more than reasonable that business loans would be concentrated in the middle-income BNAs.

TABLE-6

**DISTRIBUTION OF LOANS ACROSS THE ASSESSMENT AREA BY INCOME LEVEL OF
BNAS COMPARED TO CHARACTERISTICS OF THOSE BNAS**

	Low-Income ¹		Moderate-Income ²		Middle-Income ³		Upper-Income ⁴	
	#	\$	#	\$	#	\$	#	\$
Consumer	0	0	22	147,895	26	151,668	*	*
<i>Percent of Total</i>	0	0	46	49	54	51	*	*
Consumer Real Estate	0	0	20	779,664	26	914,263	*	*
<i>Percent of Total</i>	0	0	43	46	57	54	*	*
Small Business	1	10,000	19	648,042	37	1,698,660	*	*
<i>Percent of Total</i>	2	<1	33	27	65	72	*	*
Number of BNAs in Assessment Area	2		4		6		*	
<i>Percent of Total BNAs in Assessment Area</i>	17		33		50		*	
Population in BNAs	0		18,834		26,401		*	
<i>Percent of Population</i>	0		42		58		*	
Number of Families by BNA	0		4,795		7,343		*	
<i>Percent of Families within BNAs</i>	0		40		60		*	
Owner Occupied Households by BNA	0		4,763		7,887		*	
<i>Percent of Owner Occupied</i>	0		38		62		*	

TABLE-6				
DISTRIBUTION OF LOANS ACROSS THE ASSESSMENT AREA BY INCOME LEVEL OF BNAS COMPARED TO CHARACTERISTICS OF THOSE BNAS				
<i>Households</i>				

¹ BNAs having less than 50 percent of the Albuquerque MSA median family income

² BNAs having at least 50 percent and less than 80 percent of the Albuquerque MSA median family income

³ BNAs having at least 80 percent and less than 120 percent of the Albuquerque MSA median family income

⁴ BNAs having 120 percent or more of the Albuquerque MSA median family income

* There are no upper-income BNAs in the bank's assessment area

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, location, and assessment area credit needs. The loan-to-deposit ratio, which contrasts the level of loans to deposits, is a barometer for gauging whether or not the bank is reinvesting deposits it receives from customers in the community in the form of loans.

The bank's average net loan-to-deposit ratio, for the four quarters in 1996, based on Call Reports submitted, is 71 percent. Overall, this reflects a strong lending performance, as the bank's average ratio is higher than that of similarly sized and situated banks in the area at 65 percent. Additionally, a local, independent bank having considerably more resources due to its asset size had a four quarter average net loan-to-deposit ratio of 41 percent for the same time period.

Community Development Services

The bank's community development services also were considered during the examination to determine if they enhance the bank's overall CRA rating. A community development service is defined as a service that has community development as its primary purpose and is related to the provision of financial services. The term community development refers to:

- Affordable housing for low- or moderate-income individuals.
- Community services that target low- or moderate-income individuals.
- Activities that promote economic development by financing small businesses or small farms.
- Activities that revitalize or stabilize low- or moderate-income

geographies.

Providing branches, automated teller machines, and other delivery systems which enhance credit availability in the assessment area are also considered under this criteria.

Overall, the bank's community development services enhance credit availability within its assessment area. Bank management has been active in providing technical assistance and education to local organizations. The Los Lunas branch manager is an active member of the Small Business Development Corporation and has conducted small business finance workshops in conjunction with the Small Business Administration. The president of the bank serves as the board vice chairman for the local chapter of Habitat for Humanity and, thereby, provides financial expertise through assistance with the organization's strategic planning and financing efforts. The local chapter is an affiliate of Habitat for Humanity International, an ecumenical, non-profit program that provides home ownership opportunities to low-income families who cannot afford to purchase homes through conventional methods or government assisted programs.

The Bank of Belen, which opened for business in July 1992, continues to expand its delivery systems to enhance credit availability in the assessment area. The bank opened a branch in Los Lunas in March 1996. The branch is located in a middle-income BNA, but also serves a moderate-income BNA which is in close proximity.

Saturday hours were added at the main bank in March 1997. Expanded hours improve credit availability for the entire community, particularly for those living in the moderate-income BNA where the bank is located. Additionally, loan applications are taken after hours by appointment. Such a practice augments credit availability in the community. The bank also has night depositories at each of its locations. Furthermore, the bank offers ATM and debit cards, both of which allow access to deposit accounts at retail locations.

The bank recently became involved with three secondary market organizations to further enhance credit availability in the community. These alliances enable the bank to expand its product base and offer a broader variety of mortgage loan products than would otherwise have been available. The bank is currently working with Country Wide Mortgage to provide conventional home mortgage loans and with Ford Consumer Finance, Inc. to provide mortgage loans for manufactured housing and mobile homes. Through Specialty Mortgage Company, the bank offers mortgage loans to consumers with severe credit problems.

Response to Complaints

The bank has received no complaints about its performance in meeting assessment area credit needs. Therefore, no assessment of the bank's performance in responding to complaints was made.

Compliance with Antidiscrimination Laws and Regulations

During the compliance portion of the examination, no substantive violations of the antidiscrimination laws and regulations were noted. In general, the bank has adequate policies, procedures, and training in place to ensure nondiscrimination in lending activities.