



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 27, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Hugo
Charter Number 8489

321 4th Street
Hugo, CO 80821-0000

Office of the Comptroller of the Currency

NORTHERN COLORADO
1225 17th Street Suite 450
Denver, CO 80202

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 First National Bank of Hugo (FNB) has a satisfactory record of meeting community needs. We based our conclusions on FNB's lending practices. The rating is based on the following findings.

- The bank's loan-to-deposit ratio is more than reasonable given area competition and credit needs of the community. The bank's quarterly average loan-to-deposit ratio was 80 percent since the prior CRA examination in June 2003.
- The majority of loans, 66.6 percent by number and 39.6 percent by dollar, were extended to customers who live or operate within the assessment area.
- The bank's pattern of lending to small businesses and farms reasonably reflects area demographics.
- An analysis of the geographic distribution of loans was not performed because there are no low – or moderate – income census tracts in the bank's assessment area.

DESCRIPTION OF INSTITUTION

FNB is a \$67 million community bank in Hugo, Colorado. Hugo is located in the eastern high plains region of Colorado approximately 90 miles east of Denver. FNB is wholly owned by First Liberty Capital Corporation, a two-bank holding company with consolidated assets of \$10.898 million as of June 30, 2008.

FNB offers a variety of credit products. The primary loan products by dollar volume are agricultural loans at 61.7 percent of total loans and business loans at 32.8 percent of total loans. Other loans offered include residential real estate—3 percent, loans to individuals—2.5 percent, and all other—0.5 percent. Net loans represent 69.7 percent of total assets.

Our rating of the bank's CRA performance is based on an analysis of agricultural and business loan products. Agricultural loans include agricultural operating loans and agricultural real estate loans. We grouped these two products together due to a common revenue source. Business loans include commercial and industrial loans and commercial real estate loans. We grouped these loans together due to the limited number of business loans made since the last CRA examination. We did not consider residential loans in the performance context due to their very low volume.

There are no legal or financial impediments to meeting the credit needs of the assessment area. The bank is financially capable of meeting the credit needs of their community.

FNB Hugo received a “Satisfactory” rating at the last CRA examination dated June 2, 2003.

The following chart details a breakdown of FNB’s loan portfolio as of September 30, 2008.

Loan Portfolio Composition as of June 30, 2008		
Loan Category	\$ (000)	%
Agricultural	28,946	43.2
Agricultural Real Estate	12,396	18.5
Commercial Real Estate	10,117	15.1
Commercial & Industrial	11,525	17.2
Consumer	1,675	2.5
Residential Estate	2,010	3.0
Other	337	0.5
Total	67,006	100.00

Source: June 30, 2008 Report of Condition

DESCRIPTION OF ASSESSMENT AREA

Management has designated Lincoln County as its assessment area (AA). The designated assessment area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income areas.

Lincoln County is centrally located in the eastern plains of Colorado approximately 90 miles east of Denver. Limon is the largest city in Lincoln County. Other smaller communities include Genoa, Hugo, and Arriba. Hugo is located 13 miles southeast of Limon. Based on 2000 census data, this AA is comprised of two census tracts of which 100 percent are designated as middle-income. The Department of Housing and Urban Development (HUD) 2006 updated non-MSA median-family income for this AA is \$51,500. Based on 2000 US Census data, there are 1,399 families residing within the AA of which 45.89 percent are deemed low- and moderate-income. Income designations are determined based on annual income as a percentage of the non-MSA median-family income.

Economically the assessment area has remained stable with minimal or no growth. Based on 2000 Census data, the AA has a total population of 6,087 persons. There are 2,406 housing units in the AA, of which 58.9 percent are owner-occupied, 26.6 percent are renter-occupied and 14.5 percent are vacant. Local unemployment is low at .97 percent. The local economy has a heavy reliance on agricultural-related activities. Major agricultural products include cattle and crops such as dry land corn and wheat. The largest non-agricultural employers include the Limon Correctional Facility, county government offices, and the Lincoln Community Hospital.

There is competition among FDIC-insured institutions in the assessment area. There are three FDIC-insured institutions or branches located in the area with local deposits

ranging from \$13 million to \$59 million.

We conducted one community contact during the exam. They indicated that the economy is stable with minimal or no economic growth. The banks have reportedly met the lending needs in the community.

Specific demographic data and economic data for this area are listed below.

Demographic and Economic Characteristics of Lincoln County AA	
Population	
Number of Families	1,399
Number of Households	2,056
Geographies	
Number of Census Tracts/BNA	2
% Low-Income Census Tracts/BNA	0
% Moderate-Income Census Tracts/BNA	0
% Middle-Income Census Tracts/BNA	100.00
% Upper-Income Census Tracts/BNA	0
Median Family Income (MFI) data	
1990 MFI for AA	\$39,282
2002 HUD-Adjusted MFI	\$51,500
Economic Indicators	
Unemployment Rate	.97
2002 Median Housing Value	\$78,706
% of Households Below Poverty Level	11.38

Source: CRA Wiz reports from 2000 Census Data

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio of FNB is more than reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly average loan-to-deposit ratio was 80 percent since the prior CRA examination in June 2003. The loan-to-deposit ratio of similarly situated banks over the same time period ranged between 66 percent and 72.07 percent. Similarly situated banks are those banks of similar business lines operating within the same geography.

The quarterly average loan-to-deposit ratio for each similarly situated bank in or contiguous to the assessment area is listed below. Please note that these banks are listed alphabetically by city and that no ranking is intended or implied.

Loan-to-Deposit Ratios		
Institution	Total Assets \$(000's) (As of 6/30/2008)	Average Loan-to-Deposit Ratio
First National Bank of Hugo	67,178	80.2%
The Citizens NB of Akron	47,300	72.07%
First National Bank of Lamar	190,695	71.84%
Wray State Bank	59,108	71.3%
Kit Carson State Bank	53,775	66.5%

Source: Institution Report of Condition 6/30/2003 to 6/30/2008

Lending in Assessment Area

In order to assess performance of lending within the AA, we reviewed 31 Agricultural and 30 Business loans originated between June 2003 and November 2008. 2008 business demographics reflect 510 non-farm businesses and 119 farms in the assessment area.

A majority of the bank’s loans, by number, were made within the assessment area. However, the majority of the bank’s loans by dollar volume were made outside the assessment area. Our analysis determined that 63.9 percent by number and 43.4 percent by dollar were extended within the bank’s AA. This appears to be reasonable given the economic demographics of the community and the credit needs of the AA. Several large agricultural and business credits made outside the assessment adversely affected the dollar volume of loans as a percentage of total loans sampled. We also note several loans made just outside the bank’s assessment area in the adjacent counties of Elbert and Kit Carson. In addition, the volume of credit opportunities available in the assessment area is limited due to minimal or no economic growth as indicated by the community contact.

Lending in the Assessment Areas								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
Loan Type	#	%	\$(000s)	%	#	%	\$(000s)	%
Business Loans	20	66.6%	2,922	39.6%	10	33.33%	4,455	60.4%
Agricultural	19	61.3%	3,127	47.6 %	12	38.7%	3,444	52.4%
Total Reviewed	39	63.9%	6,049	43.4%	22	5.08%	7,899	56.6%

Source: Sample of loans used for CRA performance analysis.

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

FNB’s loan portfolio reflects a reasonable distribution among businesses of different sizes in the assessment area. To perform our analysis, we reviewed revenue information of 20 business loans and 20 agricultural loans.

Agricultural Loans – The distribution of agricultural loans originated throughout the AA indicates strong performance in lending to business of different sizes. Based on 2008

Business Demographic Data, there are 117 farms located within the Lincoln County AA. Of this number, 98.2 percent reported revenues less than or equal to \$1 million. Of the 20 agricultural loans sampled, 100 percent by number and dollar volume were originated to small farms. Of these, 40 percent by number and 42.11 percent by dollar volume were originated to very small businesses with revenues less than \$250,000.

Borrower Distribution of Agricultural Loans in Lincoln County Assessment Area		
Farm Revenues	≤1,000,000	>\$1,000,000
% of AA Farms	98.20%	1.80%
% of Bank Loans in AA by #	100.00%	0.00%
% of Bank Loans in AA by \$	100.00%	0.00%

Source: Loan sample; Dunn and Bradstreet data

Business Loans - The distribution of business loans originated throughout the AA indicates good performance in lending to businesses of different sizes. Based on 2008 Business Demographic Data, there are 283 non-farm businesses located within the Lincoln County AA. Of this number, 92.5 percent of businesses reported revenues less than or equal to \$1 million. Of the 20 commercial business loans sampled, 90 percent by number and 76.9 percent by dollar volume were originated to small businesses. Of these, 40 percent by number and 22.47 percent by dollar volume were originated to very small businesses with revenues less than \$250,000.

Borrower Distribution of Loans to Businesses in Lincoln County Assessment Area		
Business Revenues	≤1,000,000	>\$1,000,000
% of AA Businesses	92.50%	7.50%
% of Bank Loans in AA by #	90.00%	10.00%
% of Bank Loans in AA by \$	76.9%	23.10%

Source: Loan sample; Dunn and Bradstreet data

Geographic Distribution of Loans

We did not perform a geographic distribution analysis. An analysis would not have been meaningful as all census tracts in Lincoln County are designated as middle income.

Responses to Complaints

There were no CRA-related complaints filed since the previous examination.

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.