

PUBLIC DISCLOSURE

November 16, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Hugo
Charter Number 8489**

**321 Fourth Street
Hugo, Colorado 80821**

**Comptroller of the Currency
Denver Field Office
1099 18th Street, Suite 2650
Denver, Colorado 80202-1926**

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 First National Bank of Hugo** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of November 16, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated “**Satisfactory.**”

The major factor supporting this rating is the bank's lending performance, which reflects satisfactory responsiveness to the community's credit needs. The bank's loan-to-deposit ratio is reasonable and comparable to that of similarly situated institutions. A majority of the bank's loans are made within its assessment area. The bank's loans are well distributed to individuals of different income levels and to businesses and farms of different sizes. Additionally, the bank's lending patterns show a reasonable dispersion of loans in moderate-income geographies.

DESCRIPTION OF INSTITUTION:

The First National Bank of Hugo (FNB Hugo) is a \$44 million community bank located in Hugo, Colorado. Hugo is approximately 130 miles southeast of Denver. The bank is one of three financial institutions with offices in Lincoln County, Colorado. The bank is a full service institution offering a variety of loan products with an emphasis in agricultural lending. In February 1997, the bank opened a branch in Limon, Colorado. FNB Hugo has two automated teller machines, one at the main office and one in the Limon branch. First Liberty Capital Corporation, a one-bank holding company, owns 100% of the bank's stock.

No financial or legal impediments exist that effect the bank's ability to meet the credit needs of its assessment area. The bank received a "Satisfactory Record of Meeting Community Credit Needs" rating at its previous CRA examination dated February 10, 1995.

DESCRIPTION OF ASSESSMENT AREA:

The bank's assessment area includes all of Lincoln County and consists of four Block Numbering Areas (BNAs). Based on 1990 U.S. Census Bureau information, BNA numbers 9916 and 9919 are moderate-income geographies, while BNA numbers 9917 and 9918 are middle-income geographies. The assessment area does not include any low-income or upper-income BNAs. The assessment area meets the requirement of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

The following table shows population distribution by family income level. The updated 1997 weighted average of Colorado non-metropolitan statistical areas median family income is \$39,000.

POPULATION DISTRIBUTION BY FAMILY INCOME LEVEL		
Family Income Level	Number of Families in Assessment Area*	Percent of Families in Assessment Area*
Low	270	21
Moderate	324	26
Middle	291	23
Upper	380	30
Total	1,265	100

* Source: 1990 U.S. Census Data

Livestock production and dry-land wheat farming drive the local economy. Other major employers include the State of Colorado, Colorado Department of Corrections, and the local school district.

We identified community credit needs by interviewing three individuals in the community whom we considered likely to be knowledgeable about community credit needs. According to these individuals, the area's economy remains favorable, although agricultural producers are suffering from poor prices. Along with agricultural credit, the primary credit needs of the assessment area include consumer loans, long-term consumer residential loans, and flexible small business loans.

The bank's business focus is agricultural lending, primarily to small farms. As of June 30, 1998, net loans represented 73% of average assets. Agricultural loans made up more than 76% of the loan portfolio, and loans on farmland comprised an additional 8% of the portfolio. Commercial and commercial real estate loans represented 9% of the outstanding loan portfolio with consumer loans and consumer residential loans totaling 4% and 3% respectively.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

FNB Hugo's loan-to-deposit ratio is reasonable. From September 30, 1996, through June 30, 1998, the bank's quarterly loan-to-deposit ratio averaged 80%. We compared the bank's loan-to-deposit ratio with six similarly situated banks in rural eastern Colorado communities. Their average loan-to-deposit ratios for the eight quarters ending June 30, 1998, ranged from 54% to 88% . FNB Hugo's loan-to-deposit ratio was higher than five of the six banks. However, the bank with a higher loan-to-deposit ratio was the only other bank located in Lincoln County.

Lending in Assessment Area

The bank originates a majority of its loans within its assessment area. We reviewed bank-prepared reports showing the geographic location of 88 consumer and 336 agricultural loans originated from November 1, 1997, through November 16, 1998. Nearly 76% of the bank's loans were extended to borrowers located within the assessment area. We sampled loan files and verified the bank's report identified loan locations correctly.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The bank's lending patterns show a good distribution of loans to individuals of different income levels and to farms and businesses of different sizes. We reviewed a sample of 30 consumer loans originated from November 1, 1997, through November 16, 1998, and compared the borrower's income with the 1997 updated Colorado non-MSA median family income of \$39,000. By number of loans, nearly 27% of the consumer loans we sampled were made to moderate-income borrowers, and 40% were made to low-income borrowers. Based on our sample, 59% of the dollar amount of consumer loans were made to low- or moderate-income borrowers. This distribution represents a very good record of meeting the credit needs of low- and moderate-income families. The following table summarizes the results of this comparison.

LENDING TO INDIVIDUALS OF DIFFERENT INCOME LEVELS					
Borrower Income Designation	Percent of Families in the Assessment Area*	Number of Loans in Sample**	Percent of Loans in Sample	Dollar Amount of Loans in Sample**	Percent of Dollar Amount in Sample
Low	21	12	40	36,219	34
Moderate	26	8	27	26,900	25
Middle	23	6	20	25,637	24
Upper	30	4	13	18,145	17
Total	100	30	100	106,901	100

* Source: 1990 U.S. Census Data

**Source: Bank loan registers

FNB Hugo makes a majority of its commercial and agricultural loans to small businesses and farms. We reviewed a sample of 30 commercial and agricultural loans originated during the period of November 1, 1997, through November 16, 1998. Based on our sample, the bank makes a large majority of its commercial and agricultural loans to borrowers with less than \$500,000 in annual gross revenues. The sample indicated that the bank made 90% of its originations to commercial or agricultural borrowers with annual gross incomes of less than \$1 million. The following table summarizes the results of this review.

LENDING TO BUSINESSES AND FARMS OF DIFFERENT SIZES		
Commercial/Agricultural Borrower Annual Gross Revenues	Number of Loans in Sample*	Percent of Total Originations in Sample
\$0 to \$100,000	14	47
\$100,001 to \$500,000	12	40
\$500,001 to \$1,000,000	1	3
Over \$1,000,000	3	10
Total	30	100

*Source: Bank loan registers

Geographic Distribution of Loans

The bank's lending patterns show a reasonable dispersion of loans in moderate-income geographies. We reviewed the distribution of all agricultural and consumer loans the bank originated during the period of November 1, 1997, through November 16, 1998. Based on our review, about 31% of the

bank's loan originations were made to individuals living in moderate-income areas. The percentage of loans FNB Hugo originated in moderate-income areas is reasonable considering only 24.4% of total assessment area families live in moderate-income BNAs. The following table summarizes the results of this analysis.

GEOGRAPHIC DISTRIBUTION OF LOANS			
Income Characteristic of BNA	Number of Total Loans*	Percent of Assessment Area Families*	Percent of Total Loans
Low	0	0	0
Moderate	100	24	31
Middle	222	76	69
Upper	0	0	0
Total	322	100	100

*Source: Bank loan registers

**Source: 1990 U.S. Census Data

Response to Complaints

The bank has not received any written complaints regarding its CRA performance since the prior CRA examination.

Record of Compliance with Antidiscrimination Laws

Our concurrent fair lending examination did not find any evidence of illegal discrimination or practices intended to discourage applicants from applying for credit. We reviewed a sample of consumer instalment loans and tested for discrimination on the basis of the sex of the applicant. We found that loans to comparably situated male and female applicants had similar rates and terms.