



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**June 2, 2003**

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

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

**321 Fourth Street  
Hugo, CO 80821**

**Comptroller of the Currency  
Denver Field Office  
1099 18<sup>th</sup> Street, Suite 2650  
Denver, Colorado 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.**

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## INSTITUTION'S CRA RATING

**First National Bank of Hugo (FNB) is rated “Satisfactory.”**

- **The bank originates a majority of its loans in its assessment area.**

FNB originated 77 percent by number and 74 percent by dollar volume of total originated loans within its assessment area. To determine the level of lending in the assessment area, we used bank-prepared reports for all loans originated from December 1, 1999, to April 30, 2003.

- **The average loan-to-deposit ratio since the last examination is reasonable.**

FNB's average loan-to-deposit ratio over the past 18 quarters is reasonable. The ratio of 72 percent satisfactorily compares to the 77 percent average ratio of five area banks of similar asset size and product mix. The average loan-to-deposit ratio for comparable institutions ranges from 60 percent to 89 percent.

- **The bank has an excellent record of lending to farms of different revenue size.**

The distribution of loans to agricultural borrowers reflects excellent penetration among farms of different revenue size. Based on a sample of 23 borrowers, the bank's distribution of loans to small farms exceeds the demographic percentage of small farms located in the assessment area. Dunn & Bradstreet 2002 demographic data shows 98 percent of farms in the area have gross annual revenue of \$1 million or less. Our sample reflects 100 percent of the bank's loans were to small farms. Small farms are defined as those businesses that have annual revenues under \$1 million.

A significant majority of the bank's lending was to borrowers with small- to moderate-sized operations, those with less than \$250 thousand in gross annual revenue. Loans to small- and moderate-sized operations were 83 percent by number and 73 percent by dollar volume. This underscores the bank's commitment to providing loans to small farms in the assessment area. Our sample was randomly selected from loans extended since the last examination and still on the bank's books.

During the evaluation period, the bank also extended two small farm loans totaling \$300 thousand as part of the Beginning Farmer Program for community development purposes. The bank, in cooperation with the Colorado Agricultural Development Authority (CADA), offers this program. It encourages the investment of capital in the farming sector by making low-interest loans available to agricultural producers who meet the program criteria of a beginning farmer purchasing agricultural land or equipment.

- **Geographic distribution of farms loans in the assessment area is adequate.**

Geographic distribution of farm loans in the assessment area is adequate given the rural nature of the assessment area and physical distance of borrowers from the bank and branch office location. The bank's assessment area includes two middle-income and two moderate-income tracts. The moderate-income tracts are the farthest distance from the bank locations. FNB's lending in the moderate-income tracts is below area demographics. Demographics reflect that 54 percent of farms in the assessment area are located in the moderate-income tracts. FNB extended 26 percent by number and 20 percent by dollar volume of the sampled loans to borrowers in the moderate-income tracts. The majority of the bank's loans are originated to small farms in closer proximity to the towns of Hugo and Limon, which are middle-income tracts and where the bank and branch office are located. The bank's level of performance in the moderate-income tracts is also impacted by strong competition from other financial institutions closer to the moderate-income tracts.

- **FNB has not received any consumer complaints regarding its CRA performance during the evaluation period.**
- **We found no evidence of illegal discrimination or other illegal credit practices.**

## **DESCRIPTION OF INSTITUTION**

FNB is a \$49 million bank located in the rural community of Hugo, Colorado. This location includes a full-service automated teller machine (ATM). The bank has a full-service branch, drive-up facility, and ATM located in Limon, Colorado. FNB is owned by First Liberty Capital Corporation, with consolidated assets of \$50 million as of December 31, 2002.

The bank's net loans to total assets are 58 percent as of December 31, 2002. FNB is a full-service bank offering a variety of loan products with an emphasis on agricultural loans. As of December 31, 2002, agricultural loans comprised 77 percent of the dollar volume of loans. Additional loan products include commercial loans representing 13 percent, consumer loans at 4 percent, real estate loans at 4 percent, and other loan types at 2 percent of total loans as of December 31, 2002.

FNB received a "Satisfactory" rating at the last CRA examination, dated November 16, 1998. There are no legal or financial factors that impede the bank's ability to help meet the credit needs of its designated assessment area.

*Refer to the bank's CRA Public File for more information.*

## **DESCRIPTION OF LINCOLN COUNTY**

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

The assessment area is located on the eastern plains of Colorado. The area is rural and is not a designated Metropolitan Statistical Area (MSA). The assessment area consists of four census tracts; two are middle income and two moderate income. The total population of the county is 6,000 according to 2000 U.S. Census Bureau statistics. Towns in the area include Hugo, Limon, Arriba, Genoa and Karval. Hugo is the county seat for Lincoln County. The largest towns are Limon and Hugo. Limon, situated on the I-70 corridor, has a population of 2,000. Hugo, located 13 miles southeast of Limon, has a population of 900. Other towns in the area have populations under 200. The 2002 Department of Housing and Urban Development (HUD) updated median family income for the assessment area is \$46,000. The percent of families by income level in the assessment area is as follows: low income 21 percent, moderate income 26 percent, middle income 23 percent, and upper income 30 percent.

The economy of the area is stagnant, with prolonged drought conditions on the Colorado eastern plains impacting crop production and related service businesses. Agriculture and related service businesses comprise the bulk of employment in the area. Products include livestock and crops such as wheat, dryland corn, and millett. The town of Limon has seen a slight increase in new businesses due to its location on a major interstate transportation route. Many of the new businesses are not locally owned. Major area employers include the Limon Correctional Facility, county government offices, Lincoln Community Hospital, and the Mountain View Electric and KC Electric Cooperatives. According to Colorado Labor Statistics for 2003, area unemployment is low at 3 percent, compared to a 6 percent rate for Colorado.

Competition in the assessment area for financial services is significant. There are three branches of FDIC-insured financial institutions ranging from \$60 million to \$150 million in asset size. In addition, there is strong competition from non-financial institutions that finance farm equipment and other agricultural borrowing needs.

We reviewed a recent community contact with an economic development coordinator and contacted a county official in conjunction with this examination. The contacts indicated that agricultural and small business loans are two of the area's primary credit needs. Area financial institutions are responsive to these needs.

*Refer to the bank's CRA Public File for more information.*