



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

December 3, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Hugo
Charter Number 8489

321 4th Street
Hugo, CO 80821

Office of the Comptroller of the Currency

1225 17th Street
Suite 450
Denver, CO 80202-5534

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's (FNBH) CRA performance reflects a satisfactory response to its assessment area (AA) credit needs.

- The bank's loan-to-deposit (LTD) ratio is reasonable given area competition and the credit needs of the community. FNBH's quarterly average LTD is 69 percent since the prior CRA examination as of October 27, 2008.
- A substantial majority of loans, 93 percent by dollar and 78 percent by number, were extended to customers who live or operate within the AAs.
- The bank's pattern of lending to small farms reasonably reflects the area demographics.
- The bank's distribution of loans reflects reasonable penetration among individuals of different income levels.

SCOPE OF EXAMINATION

We evaluated FNBH using small bank CRA examination procedures, which included a lending test. The lending test evaluates the bank's record of meeting credit needs in its AAs through its lending activities. The lending test covers the bank's performance from January 1, 2012 through September 30, 2013. This time period is representative of the bank's lending strategy since the previous CRA examination in 2008. The bank has identified two AAs – Lincoln County and Lake County. To analyze lending performance in the Lincoln County AA, we reviewed a sample of consumer and agricultural loans (operating and real estate). To evaluate lending performance in the Lake County AA, we reviewed a sample of consumer loans.

DESCRIPTION OF INSTITUTION

FNBH is a \$110 million community bank headquartered in Hugo, Colorado. Hugo is located in the eastern high plains region of Colorado, approximately 90 miles east of Denver. The main office is located in downtown Hugo. The bank operates a branch in nearby Limon, Colorado and a second branch in the mountain community of Leadville, Colorado. The Leadville branch (First Mountain Bank) was acquired in December 2008. FNBH has an ATM machine at the main office and each branch but none of them accepts deposits. A night drop is also located at the main office and each branch.

FNBH is 100 percent owned by First Liberty Capital Corporation, a one-bank holding company with consolidated assets of \$14.3 million as of December 31, 2012.

FNBH offers a variety of credit products. Net loans represent 46 percent of total assets. The primary product by dollar volume is agricultural loans, which includes farmland real

estate loans, at 66 percent of gross loans and leases. All agricultural loans are originated out of the Hugo and Limon branches. The primary product by number of loans is consumer loans representing 32 percent of the total number of loans. Approximately 50 percent of total consumer loans were originated out of the Leadville branch. Our rating of the bank's CRA performance is based on an analysis of these two loan products. By dollar volume, other loans offered include commercial and industrial (6 percent), non-farm non-residential (11 percent), and 1-4 family residential (13 percent).

The following chart details a breakdown of FNBH's loan portfolio as of September 30, 2013.

Loan Portfolio Composition as of September 30, 2013				
Loan Category	\$ (000)	%	#	%
Agricultural Production	13,231	26	220	27
Agricultural Real Estate	20,143	40	86	11
Commercial Real Estate	5,730	11	56	7
Commercial & Industrial	3,195	6	71	9
Consumer	1,722	3	256	32
Residential Real Estate	6,396	13	115	13
Other	75	1	2	1
Total	50,492	100.00	806	100.00

Source: September 30, 2013 Report of Condition

There are no legal or financial impediments to meeting the credit needs of the AA. The bank is financially capable of meeting the credit needs of their community. FNBH received a Satisfactory rating at the last CRA examination dated October 27, 2008.

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

DESCRIPTION OF ASSESSMENT AREA(S)

Bank management has designated two assessment areas (AA). The AAs are Lincoln and Lake Counties in Colorado. The AAs meet the requirements of the regulation and do not arbitrarily exclude low- or moderate-income geographies.

Lincoln County AA

Agriculture is the backbone of the Lincoln County AA and the largest cities are Hugo and Limon. Hugo is the county seat. Major agricultural products include cattle and crops such as dry land corn and wheat. Economic conditions remain stable in this AA. The largest non-agricultural employers include the Limon Correctional Facility, county government offices, and the Lincoln Community Hospital. The Lincoln County unemployment rate is 5.1 percent and well under the state average of 7.1 percent.

Based on 2010 census data, this AA consists of two middle-income census tracts designated as nonmetropolitan middle-income distressed areas. The Department of Housing and Urban Development (HUD) 2012 updated MSA median family income for this AA is \$61,000. Based on 2010 US Census data, there are 1,222 families residing within the AA, of which 42 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. The population of Lincoln County has been declining since 2000.

Business demographic data for 2010 shows the AA composed of 76 percent businesses and 24 percent farms. The AA consists largely of small businesses and farms. Seventy-three percent of the businesses and farms have less than five employees. Approximately 68 percent of businesses and 98 percent of farms report revenues of less than \$1 million.

There is significant banking and lending competition in the AA. There are three FDIC-insured institutions or branches located in the area with local assets ranging from \$109 million to \$788 million. In addition, there is a Farm Credit lending office in Limon, Colorado.

Lake County AA

Lake County AA has only one municipality, which is the city of Leadville. Leadville is a former silver mining town located in the heart of the Rocky Mountains and the economy is largely supported by tourism and outdoor recreation. Based on 2010 census data, this AA includes one moderate-income census tract and one middle-income tract. The city of Leadville is located within the middle-income census tract with total population of 5,140. The moderate-income tract is largely a rural mountainous area with total population of only 2,170. The HUD 2012 updated MSA median family income for this AA is \$61,000. There are 2,725 households in the AA of which 48 percent are low- and moderate- income. There are 1,536 families residing within the AA, of which 51 percent are deemed low- and moderate-income.

This AA is largely comprised of small businesses. Business demographic data for 2010 shows the AA is composed of 98 percent businesses and only 2 percent farms with all businesses/farms reporting revenues of less than \$1 million. Approximately 21 percent of businesses did not report revenues. Business demographic data indicates that 69 percent of businesses and farms in the AA have less than five employees.

Accommodations and food service is a major industry while the area's largest employers are the Lake County Hospital and the Climax Mine. At its highest output, Climax was the largest molybdenum ore mine in the world. However, the mine was shut down in 1995 due to low metal prices, and its closing severely impacted the economy of Lake County and specifically the city of Leadville. The mine was re-opened in 2012. Economic conditions remain strained in the AA with unemployment rates higher than the national or state average. As of June 2013, Lake County

unemployment rate was 9.3 percent compared to the state unemployment rate of 7.1 percent.

There is competition among FDIC-insured institutions in the AA. There are four FDIC-insured institutions or branches located in the area with total assets ranging from \$197 million to \$316 million.

We made one community contact in Lake County during this examination. They indicated the economy is stabilizing and that local institutions are satisfactorily meeting the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNBH's performance under the lending test is satisfactory. The bank's LTD ratio is reasonable given the bank's size, financial condition, and AA credit needs. A substantial majority of the number and dollar amount of loans were originated inside the bank's AAs. FNBH has a reasonable penetration among borrowers of different income levels. FNBH's geographic distribution of loans represents a reasonable dispersion throughout the AAs. Each area considered in the lending test is discussed below.

Loan-to-Deposit (LTD) Ratio

FNBH's LTD is reasonable given area competition and credit needs of the community. The bank's average quarterly LTD since the previous CRA exam is 69 percent and satisfactorily compares to the 73 percent quarterly average of similarly situated banks. The LTD of similarly situated banks over the same time period ranged between 54 percent and 90 percent. Similarly situated banks are those banks of similar business lines operating within the same geographies.

Lending in Assessment Area

FNBH's lending in the AAs is good given the economic demographics and credit needs of the AAs. A substantial majority of loans by number and dollar volume originated within the bank's AAs. We sampled 20 agriculture loans and 40 consumer loans originated from 2012 through September 30, 2013. Of the 60 loans reviewed, 78 percent by number originated within the AAs. By dollar amount, 93 percent of the \$3.9 million in loans in the sample were made within the AAs.

Lending in Lincoln County and Lake County								
	IN				OUT			
	#	%	\$	%	#	%	\$	%
Agricultural Loans	17	85%	3,370,227	94%	3	15%	201,560	6%
Consumer Loans	30	75%	271,327	77%	10	25%	82,703	23%
Total Reviewed	47	78%	3,641,554	93%	13	22%	284,263	7%

Source: Sample of agricultural and consumer loans from 2012 and YTD 2013.

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

FNBH’s pattern of lending to low- and moderate-income individuals and small farms reflects reasonable performance relative to area demographics and the bank’s performance context.

Lincoln County AA

Agricultural Lending

The distribution of loans to agricultural borrowers originated throughout the AA indicates reasonable penetration in lending to small farms. Based on 2010 Business Demographic Data, there are 154 farms located in Lincoln County and 152 are small farms. Small farms are farms with \$1 million or less in gross annual farm revenue. Of the 20 loans sampled, 90 percent by number and 75 percent by dollar volume were originated to small farms. The percentage of sampled loans to small farms was below 2012 demographic data showing 98 percent of farms in the AA as small farms. However, the bank’s performance is considered reasonable given the significant competition for agricultural loans from other lending institutions in this AA.

Borrower Distribution of Farm Loans - Lincoln County AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown Revenues	Total
% of AA Farms	98%	1%	1%	100%
% of Loans in AA by #	90%	10%	0%	100%
% of Loans in AA by \$	75%	25%	0%	100%

Source: Agricultural loan sample for 2012 and YTD 2013 and 2010 U.S. Business Demographic Data.

Consumer Lending

The distribution of loans to consumer borrowers shows excellent penetration to low- and moderate-income borrowers. By number of loans, 65 percent of the bank’s loans were originated to low- and moderate-income borrowers. This lending performance exceeds AA demographics, which show that 48 percent of the households are low- and moderate-income.

Borrower Distribution of Consumer Loans – Lincoln County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	29	25%	19	40%	19	20%	33	15%

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

Lake County AA

Consumer Lending

The distribution of loans to consumer borrowers in the Lake County AA also shows excellent penetration to low- and moderate-income borrowers. By number of loans, 70 percent of the bank’s loans were originated to low- and moderate-income borrowers. This lending performance exceeds AA demographics, which show that 47 percent of the households are low- and moderate-income. While lending to low-income borrowers reflects performance that is near the demographic comparator, lending to moderate-income borrowers is much higher than area demographics.

Borrower Distribution of Consumer Loans – Lake County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	29	30%	18	40%	23	20%	30	10%

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

Geographic Distribution of Loans

The overall dispersion of loans within census tracts of different income levels is reasonable. Our analysis showed lending within all census tracts in the Lake County AA.

Lincoln County AA

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

Lake County AA

The geographic distribution of 20 consumer borrowers reflects a reasonable distribution within both census tracts including the bank’s only moderate-income tract. The moderate-income tract is largely rural with no municipalities and minimal population. In addition, 30 percent of the households located in the moderate-income tract have income below the poverty level making it difficult to qualify for credit.

Geographic Distribution of Consumer Loans - Lake County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0	0	24	15	76	85	0	0

Source: Loan Sample and 2010 U.S. Census Data

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 CFR 25.28(c), or 12 CFR 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 AA by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

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