



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

April 18, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First Liberty National Bank
Charter Number 18739**

**1146 19th Street, NW
Washington, DC 20006**

**Office of the Comptroller of the Currency
Maryland/National Capital Area Field Office
250 E Street, SW, Mail Stop 3-5
Washington, DC 20219**

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 major factors supporting the bank's overall rating include:

- A satisfactory loan-to-deposit ratio of 68%;
- A majority of loans originated within the assessment area;
- A satisfactory record of lending to businesses of different sizes; and
- A satisfactory geographic distribution of loans throughout the assessment area.

DESCRIPTION OF INSTITUTION

First Liberty National Bank (FLNB) is a qualified minority bank headquartered in Washington, DC. The bank is a wholly owned subsidiary of First Liberty Bancorp, Incorporated, a one-bank holding company. As of March 31, 2005, FLNB had total assets of \$89 million, net loans of \$27 million, total deposits of \$73 million and total risk based capital of \$7 million. FLNB offers traditional bank services and loan products normally associated with a community bank with an emphasis to serving small businesses. As of March 31, 2005, net loans represented 31% of total assets. The loan portfolio consisted of 36% commercial real estate loans, 19% other loans, 14% commercial and industrial loans and 12% residential real estate loans. Commercial real estate loans represent the majority of the loans originated during the evaluation period. Management has identified small business as one of the primary credit needs within the bank's assessment area. This need was also reiterated by a community contact from the local area Chamber of Commerce.

In March 2003, FLNB acquired Enterprise Federal Savings Bank (EFSB), a troubled financial institution as determined by their primary regulator. The branch network grew from one to four locations and expanded the bank's market into Prince Georges County, Maryland. At the time of acquisition, EFSB had total assets of \$38 million, net loans of \$15 million, total deposits of \$36 million and total equity capital of \$1.8 million.

FLNB operates a main office located in downtown Washington, DC and three branch offices in Prince Georges County, Md. The bank also operates three depository automated teller machines (ATMs) available 24 hours a day at the main office and at the Hyattsville and Oxon Hill branches. Extended hours are offered at the Hyattsville, Oxon Hill and Greenbelt branches. One of the branches, Hyattsville, is located in a moderate-income area.

During the rating period, FLNB was subject to a consent order to restore the bank back to a safe and sound condition. The order presented some obstacles in meeting the credit needs of the assessment area. The new management team is working diligently to address regulatory

concerns and improve the loan-to-deposit ratio.

FLNB’s last Community Reinvestment Act assessment was performed in January 1999 when the bank was rated satisfactory.

DESCRIPTION OF ASSESSMENT AREA

FLNB is located within the Washington, D.C.-MD-VA Metropolitan Statistical Area (MSA) 47894. The assessment area consists of the District of Columbia and Prince Georges County in Maryland. The assessment area was expanded during the evaluation period to Prince Georges County, Maryland to capture the areas surrounding the branches acquired through EFSB acquisition. It complies with the legal requirements of CRA and does not arbitrarily exclude low- and moderate- income areas. According to 2000 Census Bureau data, the population of the assessment area is 1.4 million individuals of which 12% are below the poverty level and 4% are on public assistance. The 2000 Census median family income in the MSA used to assess geographic distribution was \$61,814 with an updated HUD median family income of \$84,800.

The local area economy is considered stable with some modest growth. Unemployment has risen in recent years but still remains low. There are approximately 99 thousand revenue-reporting businesses in the assessment area, of which 62% have annual revenues less than \$1 million. The largest employer is the U.S. Government and related agencies. The largest industries by type are the service sector, retail trade, finance/insurance/real estate, public administration, and transportation/communication. FLNB operates in an extremely competitive financial services market with competition from community banks and large commercial banks, as well as from non-bank financial institutions.

The following table details the breakdown of census tract characteristics within the MSA based on 2000 Census Bureau information.

ASSESSMENT AREA DEMOGRAPHICS

Designation	# Census Tracts	% of Total Tracts
Low Income	70	19%
Moderate Income	139	37%
Middle Income	101	27%
Upper Income	54	15%
Not Applicable*	7	2%
Totals	371	100%

* No income reported for these tracts

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FLNB's loan-to-deposit ratio is satisfactory and commensurate with its size and financial condition. The loan-to-deposit ratio averaged 67% over the last 24 quarters from March 31, 1999 through March 31, 2005. This reasonably compares to the 72% average loan-to-deposit ratio for similarly sized banks during the same time period. The loan-to-deposit ratio has been negatively impacted by the acquisition of EFSB, which had a low loan-to-deposit ratio of 41% as of 12/31/02. In addition, other problem loans identified by FLNB were sold in an effort to improve the overall asset quality of the bank. The loan-to-deposit ratio ranged from 29% to 40% during the period of March 31, 2003 to March 31, 2005. Management has developed a strategic plan to improve the negative trend.

Lending in Assessment Area

Lending in the assessment area is satisfactory. A majority of the bank's lending activity since the last CRA evaluation was made in the assessment area. We analyzed bank prepared reports to review all loans originated since the last CRA examination. The data shows that 63% of the loans sampled were within the assessment area.

Our focus was on small business lending, as 1-4 family residential loans only represented 12% of the total loan portfolio and is not considered a major line of business.

Lending to Businesses of Different Sizes

FLNB's distribution to businesses of different sizes is satisfactory. During this evaluation period, FLNB's primary loan products were business loans consisting of commercial real estate and commercial loans. Using only loans made in the assessment area, we sampled 20 business loans. As illustrated in the table below, 75% of FLNB's business loans were to small businesses. Small businesses are defined as those with gross annual revenues of \$1 million or less.

Borrower Distribution of Loans to Businesses					
	Business Revenues		Loans by Original Amount Regardless of Business Size		
	≤\$1,000,000	>\$1,000,000	\$100,000 or less	>\$100,000 to <\$250,000	>\$250,000 to <\$1,000,000
% of AA Businesses*	63	7	N/A	N/A	N/A
% of Bank Loans in AA by #	75	25	37	16	47
% of Bank Loan in AA by \$	68	32	N/A	N/A	N/A

Demographic Data Source: Dunn and Bradstreet

**30% of AA businesses did not report revenue data*

Geographic Distribution of Loans

FLNB’s geographic distribution of loans reflects a satisfactory dispersion throughout its assessment area. Using the sample of 20 business loans, the table below shows that 15% of the loans were originated in low-income census tracts. Also, the bank shows satisfactory penetration in moderate-income tracts, with 35% of the business loans in the moderate-income census tracts.

Geographic Distribution of Loans to Businesses			
Tract Characteristics	% of AA Tracts	Percentage of # of Loans	Percentage of \$ of Loans
Low	19%	15%	16%
Moderate	37%	35%	39%
Middle	27%	10%	4%
Upper	15%	30%	40%
Unknown	2%	10%	1%

Demographic Data Source: 2000 U.S. Census Data

Responses to Complaints

FLNB has not received any complaints about its performance in helping to meet community credit needs since the last CRA examination.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.