



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 21, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Flagler
Charter Number 11872**

**329 Main Avenue
Flagler, Colorado 80815**

**Comptroller of the Currency
50 Fremont Street, Suite 3900
San Francisco, California 94105**

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 Flagler** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of March 21, 1997. 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 First National Bank of Flagler’s lending performance reflects satisfactory responsiveness to its community credit needs. The loan-to-deposit ratio is reasonable and comparable to that of other local institutions. The bank makes a majority of its loans within its assessment area. In addition, the distribution of loans reflects good penetration among individuals of different income levels and businesses of different sizes.

The following table indicates the performance level of *The First National Bank of Flagler* with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	The First National Bank of Flagler Performance Levels		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio		X	
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans	Not a meaningful analysis		
Response to Complaints	No complaints received since the last examination		

DESCRIPTION OF INSTITUTION:

The First National Bank of Flagler is a \$37 million community bank located in eastern Colorado. The bank serves Kit Carson County, the northern half of Lincoln County, the eastern half of Cheyenne County, and the southern half of Washington County. The bank has only one office located in Flagler, Colorado and does not own any automated teller machines. Flagler Bankshares Inc., a one-bank holding company, is the majority owner of the bank. Remaining ownership is spread among several individuals.

The bank’s primary business focus is agricultural lending. As of December 31, 1996, agricultural loans represented 55% of total loans. The remainder of the portfolio was comprised of commercial loans (29%), loans to individuals (12%), and 1-4 family residential real estate loans (4%). Loans represent 49% of the bank’s total assets. There are no financial or legal impediments that affect the bank’s ability to meet the credit needs of the assessment area.

The last Community Reinvestment Act Examination was performed March 31, 1994. The bank received a Satisfactory rating.

DESCRIPTION OF ASSESSMENT AREA:

The bank’s assessment area consists of Kit Carson County and portions of Cheyenne, Lincoln, and Washington Counties. The community is rural, and none of the four counties are located in a Metropolitan Statistical Area (MSA). According to 1990 Census data, only 12,906 people live in the assessment area. This area consists of nine block numbering areas (BNAs). As shown in the following table, most of the BNAs are middle-income.

BNA	BNA Income as a % of Statewide Non-MSA Income (\$28,258)	U.S. Census Income Designation	County	Towns Included
9907	113%	Middle	Cheyenne	Kit Carson
9921	105%	Middle	Kit Carson	Burlington, Bethune
9922	82%	Middle	Kit Carson	Stratton, Vona
9923	94%	Middle	Kit Carson	Flagler, Seibert
9916	67%	Moderate	Lincoln	Arriba
9917	88%	Middle	Lincoln	Limon, Genoa
9918	91%	Middle	Lincoln	Hugo
9943	93%	Middle	Washington	Cope
9944	95%	Middle	Washington	Lindon

The local economy is tied to agriculture, both crops and cattle. Major crops in the area include wheat, alfalfa, hay, millet, and corn. Other major employers include city, county, and state governments and various services throughout the community. Area unemployment is low at 1%.

First National Bank is the only bank in Flagler. However, the bank faces competition throughout the assessment area. There are eight competing financial institutions in the assessment area including community banks in the towns of Burlington, Limon, Hugo, Kit Carson, and Stratton.

We reviewed the results of four community contacts in the assessment area performed by the Federal Deposit Insurance Corporation (FDIC) from August 1995 through June 1996. The contacts included three local businesses and one economic development organization. Credit needs identified through the contacts were related mainly to small business lending. The contacts stated that financial institutions are sufficiently meeting the credit needs of the assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan- to Deposit Ratio

The First National Bank of Flagler's loan-to-deposit ratio is reasonable. From December 31, 1994, to September 30, 1996, the bank's quarterly loan-to-deposit ratio averaged 60.0%. The ratio is comparable to five other similar size community banks within the assessment area. Their average loan-to-deposit ratios for eight quarters ending September 30, 1996, ranged from 37.6% to 75.7%. In addition, the loan-to-deposit ratio for 29 community banks located in eastern Colorado averaged 64.5% over the same period.

Lending in Assessment Area

A majority of the bank's loans lie within its assessment area. Our review found that 69% of total loans made during 1996, by number and dollar, were within the assessment area.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The First National Bank of Flagler's lending patterns show a good distribution of loans among farms, businesses, and individuals of different income levels. Loan originations show an emphasis towards low-income and moderate-income borrowers and compares favorably to assessment area demographics. We sampled 31 consumer loans made by the bank from July 1996 through December 1996 and compared each borrower's income to Colorado median family income. The 1996 Department of Housing and Urban Development (HUD) Median Family Income for non-MSA areas of Colorado was \$36,300. The results of our sample are summarized in the following table:

Income Designation of the Borrower	% of Families in the Assessment Area	# of Loans Based on Sample	% of Loans Based on Sample
Low	20%	6	19%
Moderate	19%	13	42%
Middle	26%	5	16%
Upper	35%	7	23%
Total	100%	31	100%

Most of the bank's commercial and agricultural loans are to small farms and small businesses. As shown in the following table, 93 % of the business and farm loans in our sample were to entities with gross annual revenues under \$1 million. We sampled 41 commercial and agricultural loans made during 1996 representing approximately 14% of total commercial and agriculture originations. The following table shows the results of our sample:

Gross Annual Revenues	# of Loans Based on Sample	% of Loans Based on Sample
0 - \$100,000	21	51%
\$100,000 - \$250,000	8	20%
\$250,000 - \$500,000	8	20%
\$500,000 - \$1,000,000	1	2%
> \$1,000,000	3	7%
Total	41	100%

This information also compares favorably to assessment area demographics. According to current business demographic data provided by Dunn & Bradstreet, 83 of the 92 farms in the assessment area (90%) have gross annual revenues of less than \$1 million. In addition, 437 of the 612 non-farm businesses in the assessment area (71%) have gross annual revenues less than \$1 million.

Geographic Distribution of Loans

We did not perform an analysis of the geographic distribution of loans. The assessment area does not have sufficient income variation in its geographies for a meaningful analysis. Eight of the nine BNAs within the assessment area are middle-income geographies based on the state non-MSA median family income.

Response to Complaints

There have been no complaints regarding the bank's CRA activities since the last CRA Performance Evaluation dated March 31, 1994.

Record of Compliance with Antidiscrimination Laws

Our Fair Lending examination did not find any evidence of discrimination or practices intended to discourage applicants from applying for credit.