



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

November 5, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

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

**329 Main Ave
Flagler, CO 80815**

**Comptroller of the Currency
Denver Field Office
1099 18th Street, Suite 2650
Denver, CO 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: This institution is rated Satisfactory.

First National Bank of Flagler (FNB) is committed to serving the communities in its assessment area and demonstrates satisfactory lending performance. A satisfactory rating is appropriate given the bank's demonstrated ability to meet the credit needs of the communities in the assessment area, including loans to small businesses and farms. Specifically:

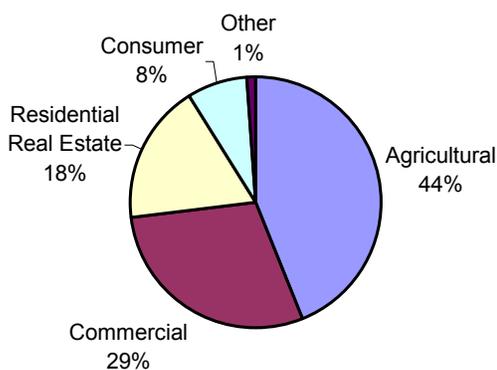
- The substantial majority of loans by number and dollar amount are originated within the bank's assessment area.
- The bank lends to businesses and farms of different revenue sizes.
- The bank's loan-to-deposit ratio is reasonable given area competition and credit needs of the communities it serves.

DESCRIPTION OF INSTITUTION

FNB is a \$57 million bank as of September 30, 2001. The main office is located in Flagler, Colorado. The bank operates a full-service branch in Bennett, Colorado, opened in June 1998, and a full-service branch in Wiggins, Colorado, acquired in August 2001. The bank does not operate any off-site ATMs.

FNB is a subsidiary of Flagler Bankshares Inc., a one-bank holding company located in Flagler, Colorado.

Loan Portfolio Composition



The chart to the left reflects the composition of the bank's loan portfolio by dollar volume. Agricultural loans, consisting of production loans and farm loans secured by real estate, comprise the largest category of loans in the portfolio, followed by commercial loans, consisting of operating loans and loans secured by commercial real estate. Residential real estate loans include loans on 1 to 4 family residential properties and construction loans. Loans represent 73% of the bank's total assets.

This Performance Evaluation is an assessment of the bank's CRA performance from March 21, 1997, through November 5, 2001. FNB received a "Satisfactory" rating at its March 21, 1997 CRA evaluation. There are no legal or financial impediments to the bank's ability to meet the credit needs of the assessment area.

DESCRIPTION OF THE ASSESSMENT AREA

FNB has offices in three distinct and different trade areas. These trade areas are contiguous and combine to form the bank's one assessment area (AA) that covers a large geographic area. There are 20 middle-income, 2 moderate-income, and 1 upper-income Block Numbering Areas (BNAs) in the AA. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. Based on U.S. Census data, there are 16,174 families residing within the AA, of which 19% are low income, 19% are moderate income, 24% are middle income, and 38% are upper income. The Department of Housing and Urban Development (HUD) updated MSA/Non-MSA's median family income for Colorado is \$45,657. Unemployment in the AA averages 2.2%, which is less than the State of Colorado average of 2.8%, and well below the national average of 4.6%.

The main office in Flagler is located along Interstate 70 in eastern Colorado. Economic conditions are stable. The primary industry is agriculture, including livestock and crops. Growth in the area was minimal with one BNA losing population. The major employers in the area are Colorado Birdseed Company, the school district, and the Colorado State Highway Department. FNB faces moderate competition in this part of its AA but maintains a strong presence in agricultural lending. The primary competition comes from six community banks and branches in Stratton, Burlington, Limon, and Hugo Colorado.

The Bennett branch, opened in June 1998, is located on Interstate 70 approximately 20 miles east of the Denver International Airport. It is in the eastern portion of the Denver Metropolitan Statistical Area (MSA). Economic conditions are stable and property values are increasing due to population growth and residential development. Although agricultural operations continue in the area, it is fast becoming a bedroom community for the eastern Denver metropolitan area. The major employer is the school district. The primary competition comes from one community bank in Strasburg that has a branch in Bennett, and a branch of a regional bank in Bennett.

The Wiggins branch, acquired in August 2001, is located on the Interstate 76 corridor northeast of Denver between the small cities of Greeley and Fort Morgan. This area experienced moderate growth and is more populated than the other areas in the AA. The area is widely diversified with agricultural operations, feedlots, dairy operations, oil and gas, and numerous small businesses, retail, and services companies. The University of Northern Colorado, located approximately 30 miles northwest of Wiggins, is a major employer in the area. FNB is not a major player in this market at this time. FNB faces strong competition from other community banks, branches of regional banks, savings and loans, and credit unions in Fort Morgan and Brush, Colorado.

We made one community contact during this review. We interviewed a member of the Flagler Town Council who also owns and operates retail stores in Flagler and Limon. The interviewee indicated the economy in the Flagler area is expected to remain stable. She did not indicate any unfulfilled credit needs in the area.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

FNB does a good job of meeting the credit needs of its AA, including farms and businesses of all sizes.

Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio is reasonable given area competition and lending opportunities. The bank's average quarterly LTD ratio since the previous CRA evaluation is 73%. The average LTD for similarly situated banks is 70%, ranging from 32% to 87%. Similarly situated banks are those banks of comparable asset size operating within the assessment area.

Lending in Assessment Area

The bank's level of lending within the AA is good. Our sample of loans originated and outstanding since the previous CRA evaluation indicates the substantial majority of loans, by number and dollar volume, are originated within the AA. The following table illustrates these findings:

Lending Within the Assessment Area		
Loan Type	Loans Made in AA Based on Number of Loans in Sample	Loans Made in AA Based on Dollar Amount of Loans in Sample
Commercial Loans	91%	99%
Agricultural Loans	100%	100%
Combined Total	95%	99%

Lending to Businesses of Different Sizes

The distribution of loans among agricultural borrowers is reasonable. Farms and businesses with annual gross income of less than \$1 million are designated as “small farms and businesses.” The AA demographic data indicates 94% of all farms and 94% of all businesses have annual revenues less than \$1 million. We sampled 20 farm loans originated within the bank’s AA since the previous CRA evaluation. One hundred percent of the farm loans sampled are to small farms. The following table shows the bank originates a substantial number of loans to farms with revenues less than \$250,000.

Distribution of Agricultural Loans By Annual Revenue					
Gross Annual Revenue \$(000's)	Number of Loans	Percentage of Loans Based on Number	Amount of Loans \$(000's)	Percentage of Loans Based on Revenue Size	Reported Farm Businesses in AA by Revenue Size
0 - 100	13	65%	367	17%	94%
100 - 250	3	15%	186	9%	
250 - 500	3	15%	810	38%	
500 - 1,000	1	5%	750	36%	
>1,000	0	0%	0	0%	6%

Commercial loan originations within the bank’s AA satisfactorily demonstrate that the bank is extending loans to businesses of various sizes, with the majority to small businesses. We sampled 20 commercial loans originated within the bank’s AA since the previous CRA evaluation. The percentages of loans to small businesses by number and dollar amount are 90% and 58% respectively. The lower percentage by dollar volume is reflective of the small sample size, which includes two large loans not typical to this bank.

The following table shows the bank originates a substantial number of loans to businesses with revenues less than \$250,000.

Distribution of Commercial Loans By Annual Revenue					
Gross Annual Revenue \$(000's)	Number of Loans	Percentage of Loans Based on Number	Amount of Loans \$(000's)	Percentage of Loans Based on Revenue Size	Reported Non-Farm Businesses in AA by Revenue Size
0 - 100	12	60%	332	25%	94%
100 - 250	4	20%	295	23%	
250 - 500	1	5%	63	5%	
500 - 1,000	1	5%	60	5%	
>1,000	2	10%	558	42%	6%

Geographic Distribution of Loans

We did not perform an analysis of the geographic distribution of loans. The AA does not have sufficient income variation in its geographies for a meaningful analysis. The AA contains 1 upper-income, 20 middle-income, and 2 moderate-income BNAs. Although a complete analysis of geographic distribution was not performed, we noted that three, or 7.5%, of the 40 loans in our farm and commercial sample were located in moderate-income BNAs. This compares favorably to the 8.7% moderate-income BNAs in the AA.

Responses to Complaints

There have been no CRA-related complaints since the previous evaluation.

Fair Lending Review

An analysis of 1997-2001 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in 1997.