



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

December 04, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Litchfield National Bank
Charter Number 10079

316 North State Street
Litchfield, IL 62056-0000

Office of the Comptroller of the Currency

St. Louis Field Office
2350 Market Street, Suite 100
St. Louis, MO 63103

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.

All of the lending performance criteria meet the standards for satisfactory performance. The major factors that support this rating are:

- The bank's lending to borrowers of different income levels and farms of different sizes is reasonable.
- The geographic distribution of the bank's loans throughout the assessment area (AA) meets the standard for satisfactory performance in all products sampled.
- The bank's loan-to-deposit (LTD) ratio is reasonable. The bank's average LTD ratio for the last 25 quarters is 61.4%. The September 30, 2008 LTD ratio is 72.5%.
- Based on our sample of 60 loans, a majority of loans by number (65%) are made in the AA.

SCOPE OF EXAMINATION

We used small bank procedures to evaluate the performance of The Litchfield National Bank under the Community Reinvestment Act (CRA). We sampled residential real estate, consumer, and agricultural loans originated between January 1, 2006 and December 3, 2008 for our analysis of the bank's lending activity.

DESCRIPTION OF INSTITUTION

The Litchfield National Bank (LNB) is an intrastate bank located in Litchfield, Illinois, situated on Interstate 55, roughly halfway between St. Louis, Missouri, and Springfield, Illinois. LNB is wholly owned by Litchfield Bancshares Company, a one-bank holding company located in the city of Litchfield, Illinois. LNB's assets, approximately \$81 million as of September 30, 2008, represent substantially all of the holding company's assets. There have been no changes in the bank's corporate structure since the last CRA evaluation.

The bank operates three offices in Litchfield, one in each of the census tracts (CTs) within the AA. The main office is located in a moderate-income geography, CT 9578. Depository ATMs are located at the main office and drive-in facility, and a cash-dispensing ATM is located at the Wal-Mart branch. Management has not opened or closed any branches since the last evaluation, but a cash-dispensing ATM was removed from the local McDonalds.

As of June 30, 2008, LNB had an 11% deposit market share in Montgomery County, which placed LNB second out of thirteen banks with offices in that county. LNB offers a full range of retail and commercial banking products normally associated with a

community bank. The bank's primary business focus is residential real estate and agriculture. As of September 30, 2008, net loans totaled approximately \$51 million or 63% of total assets, total deposits were \$70 million, and Tier 1 Capital was \$6.2 million. The composition of the loan portfolio consisted of 34% agricultural, 32% residential real estate, 22% commercial, 10% consumer, and 2% other loans.

There are no known constraints placed on the bank's ability to meet the community credit needs. The type and amount of CRA activities are consistent with the bank's size, financial capacity, and local economic conditions. LNB's last CRA evaluation was July 29, 2002, and rated the bank Satisfactory.

DESCRIPTION OF ASSESSMENT AREA

Bank management has designated its AA as CTs 9576, 9577, and 9578 in southwestern (SW) Montgomery County, Illinois. This is a contiguous area, meets the requirements of the regulation, and does not arbitrarily exclude low- or moderate-income geographies. Montgomery County is a non-Metropolitan Statistical Area (non-MSA). Based on the non-MSA median family income in 2000 (\$43,531), CTs 9576 and 9577 are classified as middle-income and CT 9578 is classified as moderate-income.

The 2000 census demographic data showed the population in the bank's AA totaled 10,002, which included 2,736 families; 22% of these families were classified as low-income, 21% as moderate-income, 24% as middle-income, and 33% as upper-income. Of the 2,957 households in the AA, 26% were classified as low-income, 17% as moderate-income, 21% as middle-income, and 36% as upper-income. About 36% of these households were living in the moderate-income CT. To determine borrower income levels for our analysis, we used the Department of Housing and Urban Development (HUD) 2008 updated median family income of \$51,900.

As of the 2000 census, over 18% of the households were in retirement and 14% of households lived below the poverty level. The median housing value was \$61,539 and the median age of the housing stock was 52 years. Owner-occupied units represented 72% of the housing stock. Over 64% of the owner-occupied units were located in the moderate-income CT.

Farm data as of 2008 shows 95 farms in the AA; all (100%) have revenues less than \$1 million. Only 5 farms (5%) are located in the moderate-income geography.

The local economy is primarily supported by service-related businesses, retail stores, government, and manufacturing. Major employers in Montgomery County are Affina, Wal-Mart, St. Francis Hospital, Litchfield Community School District #12, Schutt Sports Group, Graham Correctional Center, and the CIPS Coffeen Power Station.

The local economy is currently weak. The October 2008 unemployment rate for Montgomery County is 10%. This ratio compares unfavorably to the state rate of 6.8% and the national rate of 6.1%.

Competition is strong. LNB is one of three banks in Litchfield. Of the thirteen banks competing for financial services in Montgomery County, one is a large interstate bank and twelve are smaller community banks. Other competition is provided by credit unions, mortgage companies, farm services and insurance company offices in the area.

To further our understanding of the community’s credit needs, we contacted the local economic development office. Our contact did not identify any unmet credit needs and advised that local banks are involved in the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LNB’s performance is reasonable in meeting the credit needs of its AA, including those of low- and moderate-income borrowers, given the performance context, demographics, economic factors, and competitive pressures faced by the bank.

Loan-to-Deposit Ratio

LNB’s LTD ratio is reasonable. The bank’s average LTD ratio for the last 25 quarters was 61.4%. This quarterly average LTD ratio is lower than the seven similarly situated community banks whose quarterly average ratios ranged from 66.5% to 83.4%. The bank’s quarterly LTD ratios over the last 25 quarters ranged from 57% to 72.5%, which it achieved as of September 30, 2008. This current quarterly LTD ratio ranks the bank fifth amongst the eight ranked banks.

Lending in Assessment Area

LNB’s lending in Southwest (SW) Montgomery County, the bank’s AA, is satisfactory. Based on our sample of 60 loans, a majority of loans by number (65%) and by dollar volume (51%) are made in the AA.

Lending in SW Montgomery County										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total #	Inside		Outside		Total \$
	#	%	#	%		\$(000)	%	\$(000)	%	
Residential RE	15	75%	5	25%	20	572	61%	373	39%	945
Consumer	13	65%	7	35%	20	121	53%	109	47%	230
Farm	11	55%	9	45%	20	521	43%	684	57%	1,205
Totals	39	65%	21	35%	60	1,214	51%	1,166	49%	2,380

Source: Sample of 60 loans.

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

The bank’s lending to borrowers of different income levels and farms of different sizes is reasonable.

Residential Real Estate Loans

Based on our sample, the borrower distribution of residential real estate (RE) loans in the AA meets the standard for satisfactory performance. The percentage of residential RE loans made to moderate-income borrowers (17%) is near the percentage of moderate-income families in the AA (21%). The percentage of residential RE loans made to low-income borrowers (13%) is lower than the percentage of low-income families in the AA (22%); nevertheless, it is a reasonable percentage given that 14% of households live below the poverty level.

Borrower Distribution of Residential Real Estate Loans in SW Montgomery County								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential RE	22%	13%	21%	17%	24%	47%	33%	23%

Source: Sample of 30 Residential RE loans, 2008 HUD updated median family income, and 2000 U.S. Census data.

Consumer Loans

Based on our sample, the borrower distribution of consumer loans in the AA meets the standard for satisfactory performance. The percentage of consumer loans made to moderate-income borrowers (30%) exceeds the percentage of moderate-income households in the AA (17%). The percentage of consumer loans made to low-income borrowers (35%) also exceeds the percentage of low-income households in the AA (26%).

Borrower Distribution of Consumer Loans in SW Montgomery County								
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	26%	35%	17%	30%	21%	20%	36%	15%

Source: Sample of 20 consumer loans, 2008 HUD updated median family income, and 2000 U.S. Census data.

Farm Loans

The distribution of the bank’s loans to small farms is reasonable. The ratio of the bank’s loans to farms with revenues of less than \$1 million (100% of our sample) meets the ratio of small farms in the AA (also 100%).

Borrower Distribution of Loans to Farms in SW Montgomery County				
Farm Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Farms	100%	0%	0%	100%
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%

Source: Sample of 20 farm loans and 2008 Business Geodemographic data.

Geographic Distribution of Loans

The geographic distribution of the bank’s loans throughout the AA meets the standard for satisfactory performance in all products sampled.

Residential Real Estate Loans

The geographic distribution of residential RE loans made in the AA is reasonable. The ratio of residential RE loans made in the moderate-income CT (25%) is near the ratio of owner-occupied housing in this CT (33%).

Geographic Distribution of Residential Real Estate Loans in SW Montgomery County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Residential RE	N/A	N/A	33%	25%	67%	75%	N/A	N/A

Source: Sample of 20 Residential RE loans and 2000 U.S. Census data.

Consumer Loans

The geographic distribution of consumer loans made in the AA is reasonable. The ratio of consumer loans made in the moderate-income CT (45%) exceeds the ratio of households in this CT (36%).

Geographic Distribution of Consumer Loans in SW Montgomery County								
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	N/A	N/A	36%	45%	64%	55%	N/A	N/A

Source: Sample of 20 consumer loans and 2000 U.S. Census data.

Farm Loans

The geographic distribution of farm loans made in the AA is more than reasonable. The ratio of farm loans made in the moderate-income CT (10%) exceeds the ratio of farms located in this CT (5%).

Geographic Distribution of Loans to Farms in SW Montgomery County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Farms	N/A	N/A	5%	10%	95%	90%	N/A	N/A

Source: Sample of 20 farm loans and 2008 Business Geodemographic data.

The bank lends in all CTs. There were no conspicuous gaps noted.

Responses to Complaints

No CRA-related complaints have been received since the prior CRA evaluation.

Fair Lending or Other Illegal Credit Practices Review

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