



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**July 29, 2002**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The Litchfield National Bank  
Charter Number 10079**

**316 North State Street  
Litchfield, IL 62056**

**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.**

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## **INSTITUTION'S CRA RATING**

**This institution is rated Satisfactory.**

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

- The bank's lending distribution to borrowers of different income levels and to farms of different revenue sizes is good.
- The bank's level of lending is reasonable. The bank's average loan-to-deposit ratio is 62% and is comparable to similarly situated area banks.
- A majority of the bank's loans were made in the assessment area.

## **DESCRIPTION OF INSTITUTION**

The Litchfield National Bank (LNB) had assets of approximately \$82 million at March 31, 2002. LNB is wholly owned by Litchfield Bancshares Company, a one-bank holding company located in the city of Litchfield, Illinois. LNB assets 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 and four automated teller machines (ATMs), all located in Litchfield. Depository ATMs are located at the main office and drive-in facility and non-depository ATMs are located at the Wal-Mart branch and the McDonalds Restaurant. Management opened the Wal-Mart branch in August 1999. Management has not closed any branches.

LNB offers a full range of retail and commercial banking products normally associated with a small rural community bank. LNB is primarily a residential real estate and agricultural lender. As of March 31, 2002, net loans totaled approximately \$46 million, representing 57% of total assets. The composition of the loan portfolio included 38% residential real estate, 32% agriculture, 16% consumer, 12% commercial, and 2% other loans. Since January 1, 2000, LNB has also originated and sold to the Federal Home Loan Mortgage Corporation (FHLMC) approximately \$6.5 million or 94 long-term fixed-rate residential real estate loans that they continue to service.

There are no legal or financial impediments to the bank's ability to meet community credit needs. The bank has adequate resources to provide for the credit needs of its assessment area. The type and amount of CRA activities are consistent with the bank's size, financial capacity, local economic conditions, and the credit needs of the community. LNB's last CRA evaluation was July 22, 1997, and we rated the bank Satisfactory.

## DESCRIPTION OF ASSESSMENT AREA

LNB designates its assessment area (AA) as Block Numbering Areas (BNAs) 9576, 9577, and 9578 in Montgomery County, Illinois. This is a contiguous area, meets the requirements of the regulation, and does not arbitrarily exclude low- or moderate-income geographies. LNB's three offices are located in BNA 9577. Montgomery County is a non-Metropolitan Statistical Area (non-MSA). Based on the non-MSA median family income in 1990, all three BNAs are classified as middle-income.

As of the 1990 census, the population in the bank's AA totaled 10,268, which included 2,792 families. Of these families, 573 or 21% were classified as low income, 450 or 16% as moderate income, 728 or 26% as middle income, and 1,041 or 37% as upper income. In 1990, the non-MSA statewide median family income for the AA was \$29,693. The 2002 updated figure adjusted for inflation by the Department of Housing and Urban Development is \$46,700. We used the 2002 updated figure in our analysis to determine the borrower income levels.

The 1990 census demographic data for the AA shows that 18% of the population is age 65 and over, 15% of households are in retirement, and 16% of households live below the poverty level. Of that population, approximately 7,000 live in the city of Litchfield. The median housing value is \$43,000 and the median age of the housing stock is 43 years. Local housing is 83% 1-4 family units, with 71% being owner-occupied.

Economic conditions in Montgomery County are stable. The June 2002 unemployment rate for Montgomery County was 6.2%. The June 2002 state and national rates were 6.6% and 6.0%, respectively. The major type of industry in the AA is services, with retail trade, government, and manufacturing the next largest industries. Approximately 7% of the households are farmers. Major employers in the AA include Dana Brake Parts, Inc., with 620 employees; St. Francis Hospital, with 395 employees; Sierra International, Inc., a marine engine parts manufacturer, with 200 employees; and Schutt Mfg. Co., an athletic equipment manufacturer, with 117 employees.

Competitive pressures are strong and come from three local banks and from larger financial institutions located in communities surrounding the bank's AA. There are approximately 21 offices of 12 different banks operating in Montgomery County. This number does not include the sundry credit unions, mortgage companies, farm services, and insurance company offices that now offer loan products.

Bank management stated the primary credit needs of the AA are residential, agricultural, and consumer lending. To further our understanding of the community's credit needs, we performed one community contact with the coordinator of the Economic Development Commission. Our contact identified that small start-up business loans, low-cost housing, small dollar consumer loans, and farm-related loans are the primary credit needs of the community. The community contact feels that LNB and two other financial institutions are very dedicated to meeting these needs.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

LNB does a good job of meeting the credit needs of its AA, including those of low- and moderate-income people.

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

The bank's lending distribution to borrowers of different income levels and to farms of different revenue sizes is good.

LNB's primary loan products are residential real estate loans, farm loans, and consumer personal loans. Residential real estate loans and farm loans comprise the largest portion of the loan portfolio by dollar, and consumer personal loans comprise the largest portion of the loan portfolio by number.

Using only loans made in the AA, we sampled 20 residential real estate loans, 20 farm loans, and 20 consumer personal loans originated from January 1, 2000, through June 30, 2002. The facts and data used to evaluate LNB's lending activity are presented in the following tables.

#### Distribution by Borrower Income Level 1-4 Family Residential Real Estate Loans

Income Levels	# of Loans	% By # of Loans	Loan \$ (000's)	% By \$ of Loans	AA Family Income
<i>Low Income</i>	3	15%	116	10%	21%
<i>Moderate Income</i>	6	30%	239	21%	16%
<i>Middle Income</i>	5	25%	230	20%	26%
<i>Upper Income</i>	6	30%	569	49%	37%

The bank's percentage of residential real estate loans to low-income borrowers is lower than the percentage of low-income families residing within the AA. However, the bank's percentage of residential real estate loans to moderate-income borrowers exceeds the percentage of moderate-income families residing within the AA. The bank's penetration to low-income families is reasonable given that 12% of the families live below the poverty level.

#### Distribution by Borrower Income Level

### Consumer Personal Loans

<b>Income Levels</b>	<b># of Loans</b>	<b>% By # of Loans</b>	<b>Loan \$ (000's)</b>	<b>% By \$ of Loans</b>	<b>AA Household Income</b>
<i>Low Income</i>	4	20%	24	13%	25%
<i>Moderate Income</i>	6	30%	33	18%	15%
<i>Middle Income</i>	8	40%	97	54%	18%
<i>Upper Income</i>	2	10%	26	15%	42%

The bank's percentage of consumer loans to low-income borrowers is lower than the percentage of low-income households living within the AA. However, the bank's percentage of consumer loans to moderate-income borrowers exceeds the percentage of moderate-income households living within the AA. The bank's penetration to low-income households is reasonable given that 16% of the households live below the poverty level.

### Distribution of Loans by Farm Gross Revenue Size

	<b>Under \$100M</b>		<b>\$100M-\$250M</b>		<b>\$250M-\$500M</b>		<b>\$500M-\$1MM</b>		<b>Over \$1MM</b>	
#	6	30%	5	25%	7	35%	2	10%	0	0%
\$ (000's)	360	12%	905	31%	1,238	42%	448	15%	0	0%

Based on 1990 business demographic data, 97% of all farms within the AA have gross revenues of less than \$1 million. LNB is very responsive to the credit needs of small farms in its AA. The majority of the bank's loans to small farms were for amounts of \$100,000 or less.

The bank extends residential mortgage loans through the Rural Development Guaranteed Rural Housing Program, which is administered by the U. S. Department of Agriculture. LNB also makes loans under special programs designed to meet the needs of small farms. These programs are the Illinois Farm Development Authority and the Farm Service Agency.

### Loan-to-Deposit Ratio

LNB's loan-to-deposit ratio is reasonable. As of March 31, 2002, the bank's quarterly average loan-to-deposit ratio since the 1997 CRA examination was 62%. This is comparable to four competing banks in the area whose quarterly average ratios ranged from 66% to 83%. Bank management identified these four competing banks and felt they were similarly situated due to their size, their branching network, and agriculture as an important part of the economy.

It should be noted that since January 1, 2000, LNB has sold to the FHLMC approximately \$6.5 million residential real estate loans. Because these loans have been sold, they are not reflected in the bank's loan-to-deposit ratio.

### **Lending in Assessment Area**

Lending in the AA is satisfactory. A majority of the bank's loans originated since the last CRA examination were made in the AA. A sample of 20 residential real estate loans made since the last CRA evaluation found that 80% by number and 97% by dollar were made within the bank's AA.

### **Geographic Distribution of Loans**

An analysis of LNB's distribution of loans by geography was not performed. Such an analysis would not be meaningful, as the bank's AA does not have any low- or moderate-income BNAs.

### **Responses to Complaints**

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

### **Fair Lending Review**

We analyzed five years of public comments and consumer complaint information according to the OCC's risk-based fair lending approach. Based on our analysis of the information, we determined 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.