
Comptroller of the Currency
Administrator of National Banks

Small Bank

New England Field Office
150 Federal Street, Second Floor
Boston, Massachusetts 02110-1745

Public Disclosure

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Community Reinvestment Act Performance Evaluation

**First National Bank of Litchfield
Charter Number: 709**

**13 North Street
Litchfield, CT, 06759**

**Office of the Comptroller of the Currency
New York District Office
1114 Avenue of the Americas
Suite 3900
New York, NY, 10036**

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.

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DEFINITIONS

Geography - a census tract or block numbering area.

HMDA loan - a **A**home improvement loan[@], **A**refinance loan[@] or **A**home purchase loan[@] that is reported on the Home Mortgage Disclosure Act Report.

Home improvement loan - any loan that is for the purpose in whole or in part of repairing, rehabilitating, remodeling or improving a dwelling or the real property on which it is located and is classified by the financial institution as a home improvement loan.

Home purchase loan - any loan secured by and made for the purpose of purchasing a dwelling.

Low income - an individual income that is less than 50% of the area median income, or median family income (MFI), in the case of a geography.

Middle income - an individual income that is at least 80% and less than 120% of the area median income, or a MFI in the case of a geography.

Moderate income - an individual income that is at least 50% and less than 80% of the area median income, or a MFI in the case of a geography.

Refinance loan - any loan in which the existing obligation, involving either a home purchase or a home improvement loan, is satisfied and replaced by a new obligation.

Small Business - a business with annual revenues of \$1 million or less.

Small Business Loan - a business loan for \$1 million or less.

Upper income - an individual income that is 120% or more of the area median income, or a MFI in the case of a geography.

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 CRA performance of **First National Bank of Litchfield**, as of **November 8, 1999**, prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency. 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 primary factors supporting this rating are:

- A strong loan to deposit ratio of 91% as of September 30, 1999 and a reasonable 13 quarter average loan-to-deposit ratio of 80%.
- A majority of loan originations made within the assessment area;
- A strong record of lending to businesses of different sizes; and,
- A reasonable record of lending to low- and moderate-income borrowers.

DESCRIPTION OF INSTITUTION

The First National Bank of Litchfield (FNBL) is a \$226 million institution headquartered in northwestern Connecticut, roughly 34 miles west of Hartford. The bank is wholly owned by First Litchfield Financial Corporation, a one-bank holding company headquartered in Litchfield. FNBL does not have any affiliate or subsidiary business relationships. FNBL's main office and five branches are all located in Litchfield County. The main office is located in the town of Litchfield, while the branches are located in the towns of Goshen, Torrington, Marble Dale, Roxbury and Washington Depot. The Torrington branch is located in a supermarket and all but the Roxbury branch offer 24-hour ATM service. All of the branches are full service branches. FNBL also offers limited banking services on the Internet.

FNBL is primarily a residential mortgage and consumer installment lender but offers a full array of loan products. As of September 30, 1999, the bank's loan portfolio totaled \$178.5 million, or 73% of total assets. The loan portfolio consists primarily of residential loans (72%), installment loans (17%) and commercial/commercial real estate loans (11%). FNBL's business focus during the past two years has been primarily consumer installment lending. FNBL offers first time homebuyer seminars and reduced fee loans. The bank also participates in Small Bank Administration (SBA) lending. The bank was assigned an "Outstanding" CRA rating at the preceding examination dated May 14, 1996. There are no financial or legal impediments affecting the bank's ability in helping to meet the credit needs of the assessment area.

DESCRIPTION OF ASSESSMENT AREA (AA)

FNBL defines all of Litchfield County as the bank's assessment area. Litchfield County includes 51 Census Tracts (CT) including 1 moderate-income, 44 middle-income and 6 upper-income tracts. There are no low-income census tracts in the AA. While a majority of Litchfield County is located in a non-Metropolitan Statistical Area (MSA), a portion of the AA is located in 3 different MSAs. This assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

The population of Litchfield County is approximately 174,000. The Assessment Area Median Family Income is \$59,890. Families within the assessment area are comprised of 13% low-income, 19% moderate-income, 30% middle-income and 38% upper-income. The median housing value for the area, \$173 thousand, limits home ownership opportunities for low- and moderate-income families. The median age of the housing stock, 41 years, further limits home ownership opportunities by increasing rehabilitation and maintenance costs. Owner occupied housing accounts for 65% of the total, rental housing 24% and vacant housing units 11%.

Competition in the area is strong and comes from smaller local institutions and branches of larger regional institutions. Local competitors include Litchfield Bancorp, Torrington Savings Bank, New

Milford Savings and Thomaston Savings Bank. Regional competitors include Webster Bank, People's Bank and Fleet Bank.

Economic conditions in the assessment area are strong. Management estimates that unemployment in Litchfield County is consistent with the overall Connecticut unemployment rate of roughly 3%. This compares well with the national unemployment rate of 4.3%. Tourism, retail, professional services and light manufacturing are reported to be the main industries in the area. Major employers in the area include BE Aerospace, Torrington Company, numerous individual retailers and state and local government entities.

Bank management indicated that consumer loans are a primary local credit need. A community contact, a local town selectman, indicated that there are currently no unmet credit needs in the area. Additionally, the community contact stated that low-income housing is not in great demand as a local credit need. As an example, he pointed out that a local affordable housing program, "Small Cities," was required to refund \$80 thousand dollars of government grant money in 1998 because the program could not find opportunities to fund housing for low income families.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Scope of Review

This review covered the period from the date of the prior examination, May 14, 1996, through September 30, 1999. For the loan-to-deposit ratio, we based our analysis on the 13 quarters ending September 30, 1999. Our analysis of the bank's residential mortgage, home equity and consumer lending was based on management reports detailing 100% of the bank's originations in these categories during 1998 and year-to-date September 30, 1999. The management reports were reviewed and found to be accurate. Our analysis of the bank's commercial lending was based on a random sample of 20 commercial/commercial real estate loans originated during 1999. We used commercial loans originated during 1999 as a proxy for commercial loans originated during the entire evaluation period. Management confirmed that 1999 originations are representative of the bank's commercial lending practices throughout the entire evaluation period.

Loan-to-Deposit Ratio

FNBL's loan-to-deposit ratio meets the standard for satisfactory performance. FNBL's loan-to-deposit ratio is reasonable given its size, financial condition and assessment area credit needs. During the 13 quarters of this review, FNBL's loan-to-deposit ratio rose from 79% on June 30, 1996 to 91% on September 30, 1999, with an average loan-to-deposit ratio of 80%. The 13-quarter average loan-to-deposit ratio for 31 Connecticut banks with total assets between \$100 million and \$400 million ranges from 55% to 100%. FNBL's 91% loan-to-deposit ratio as of September 30, 1999 gives the bank one of the highest of the statewide peer group, including the highest in Litchfield County. The peer group range was from 53% to 119%.

Lending in the Assessment Area (AA)

FNBL's lending in the assessment area meets the standard for satisfactory performance. FNBL's lending within the assessment area is reasonable. As indicated in Table 1, 60% of originations by number and 80% of origination by dollar volume were within FNBL's assessment area. Consumer installment originations accounted for a majority of the FNBL's lending activity during the evaluation period. In this category, roughly half of the originations by number, and slightly more than half by dollar volume, were outside the assessment area. However, a significant majority of mortgages and home equity loans (HE), and all of the commercial loans sampled, were originated in FNBL's assessment area. Furthermore, since consumer installment loans are generally smaller dollar volume than the other loan types, FNBL maintained a significant majority, 80%, of the dollar volume of originations within the assessment area.

Table 1

Loan Originations - (000's) 1998 and Year-to-Date September 30, 1999								
Type	Inside Assessment Area				Outside Assessment Area			
	# Loans	%	\$ Amt.	%	# Loans	%	\$ Amt.	%
Cons	1078	51%	12,538	47%	1020	49%	14,303	53%
Mtgs	290	94%	42,023	95%	17	6%	2,426	5%
HE	167	95%	10,591	96%	8	5%	472	4%
Comml*	20	100%	1,563	100%	0	0%	0	0%
Totals	1,555	60%	66,715	80%	1045	40%	17,201	20%

*Based on a sample of 20 commercial loans.

Lending to Businesses of Different Sizes and Borrowers of Different Incomes

FNBL's lending to businesses of different sizes and borrowers of different incomes is strong.

Businesses of Different Sizes

FNBL does a very good job of lending to small businesses. Small businesses are defined as businesses with total revenue of \$1 million or less. For our review, we sampled 20 commercial/commercial real estate loans totaling \$1.6 million. As illustrated in Table 2, 95% of the number and 74% of the dollar volume of commercial/commercial real estate loans were made to small businesses. This performance compares very well to the 82% of non-farm businesses operating in the assessment area that report gross revenues of \$1 million or less.

Table 2

Percentage Distribution of Business Lending By Annual Revenues (\$000s)					
Revenue		<\$1,000,000		>\$1,000,000	
Number		19	95%	1	5%
\$ Amount		\$1,163	74%	\$400	26%

We also analyzed the bank's business lending performance based on loan size. As illustrated in Table 3, FNBL demonstrates a strong willingness to help meet the credit needs of commercial borrowers with modest financing requirements. Based on our sample, 90% of the number of commercial/commercial real estate loan originations were for amounts of less than \$250 thousand. The average loan size in our sample of 20 commercial/commercial real estate loans was \$78 thousand.

Table 3

Percentage of Commercial/Commercial Real Estate Loan Originations By Loan Size for 1999 (\$000's)							
		<\$100,000		\$100,000 - \$250,000		>\$250,000	
Number		15	75%	3	15%	2	10%
\$ Amount		\$466	30%	\$397	25%	\$700	45%

Borrowers of Different Incomes

FNBL's lending to borrowers of different incomes is reasonable. Consumer installment and residential mortgage lending are the bank's primary credit focus. Table 4 shows the results of our review of mortgage and home equity loan originations during 1998 and year-to-date September 30, 1999. We found that 24% of originations by number and 14% by dollar amount were made to low- and moderate-income borrowers. These results are below the demographics of the assessment area. However, as discussed earlier, the relatively high cost of housing and the lack of affordable housing opportunities in the area inhibit residential lending to low- and moderate-income families. Based on an Assessment Area Median Family Income of \$59,890, low- and moderate-income families earn less than \$47,912 a year. This is less than one-third of the median housing value of \$173 thousand. Given this disparity, low- and moderate-income borrowers would find it difficult to afford a home in the area. Consequently, FNBL's residential lending to borrowers of different incomes is considered reasonable.

Table 4

Residential Mortgage/Home Equity Loans - (\$000's) 1998 and Year-to-Date September 30, 1999					
	# Loans	%	\$ Amt	%	Demographics
Low	31	7%	1,857	4%	13%
Moderate	79	17%	5,158	10%	19%
Middle	127	28%	11,188	21%	30%
Upper	221	48%	34,411	65%	38%
Totals	458	100%	52,614	100%	100%

FNBL's consumer installment lending to borrowers of different incomes is strong. As demonstrated in Table 5, FNBL supports the consumer installment credit needs of low- and moderate-income families within the assessment area. Based on both the number and dollar volume of consumer installment loan originations in the assessment area during the evaluation period, FNBL's lending exceeded the low- and

moderate-income demographics of the assessment area.

Table 5

Consumer Installment Loans - (\$000s)					
1998 and Year-to-Date September 30, 1999					
	# Loans	%	\$ Amt	%	Demographics
Low	218	20%	1,866	15%	13%
Moderate	295	27%	2,949	24%	19%
Middle	294	27%	3,538	28%	30%
Upper	271	26%	4,185	33%	38%
Totals	1078	100%	12,538	100%	100%

Geographic Distribution of Loans

An analysis of the geographic distribution of loans would not be meaningful. The bank's assessment area includes 51 census tracts. Of these, only one is designated as moderate-income and none are designated low-income.

Responses to Complaints

FNBL has not received any complaints during this evaluation period.

Fair Lending Examination

A fair lending examination was performed concurrently with this examination. For this review, we compared loan terms given to single women to the loan terms given to single men and joint applicants on a sample of "indirect" used car loans originated year-to-date 1999. Our sample included 5 individual female, 20 individual male and 6 joint applicant used car loan originations. Based on this review, FNBL's performance under the Fair Lending laws is satisfactory. No violations of the substantive provisions of the anti-discrimination laws and regulations were identified.