



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

June 1, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Litchfield
Charter Number 3962**

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

**Comptroller of the Currency
St. Louis Field Office
2350 Market Street, Suite 100
St. Louis, Missouri 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 the lending performance components meet the standards for satisfactory performance. The major factors that support this rating are:

- The level of lending is reasonable. The bank's average loan-to-deposit ratio is 78.16% and compares well to the similarly situated banks in the assessment area (AA).
- A substantial majority of the bank's loans are in the AA.
- The bank's lending distribution to borrowers of different income levels is reasonable.

DESCRIPTION OF INSTITUTION

The First National Bank (FNB) of Litchfield is a \$75 million bank, owned by First Montgomery Bancorp, Inc., a one-bank holding company located in Litchfield, Illinois. FNB's main office is in downtown Litchfield, IL. The only branch is located on the western edge of Litchfield near Interstate 55. The bank has two automated teller machines (ATMs), one at the local branch and the other at St. Francis Hospital. No branches were opened or closed during this evaluation period.

The evaluation period covers the time from January 1, 2000, to December 31, 2002.

FNB offers a full range of retail and commercial banking products. Net loans represented 59% of total assets as of December 31, 2002. The bank's primary business focus is in residential real estate lending and agriculture-related lending. At December 31, 2002, the loan portfolio consisted of 37% agriculture-related loans, 26% 1-4 family residential real estate loans, 21% commercial real estate/business loans, and 12% consumer loans.

No financial or legal constraints impede the bank's ability to meet the credit needs of the AA. The type and amount of CRA activities are consistent with the bank's size, financial capacity, and local economic conditions.

FNB's last CRA evaluation was December 8, 1998, and rated the bank Satisfactory.

DESCRIPTION OF ASSESSMENT AREA

The AA consists of the southeastern section of Macoupin County and all of Montgomery County except for the eastern-most portion of the county. The AA includes Block Numbering Areas (BNAs) 9563 and 9569 through 9572 in Macoupin County, and 9575 through 9580 in Montgomery County. This is a contiguous area, meets the requirements of the regulation, and does not arbitrarily exclude low- or moderate-income geographies. FNB's main office is located in BNA 9578 and the sole branch is in BNA 9576.

Montgomery and Macoupin Counties were non-Metropolitan Statistical Areas (non-MSAs) as of December 31, 2002. Based on the non-MSA median family income for the entire AA in 1990, all eleven BNAs are middle-income. The economic base in the AA is diversified. Primary industries are manufacturing, health care, retail, and service-related businesses. Agriculture also continues to be a significant economic contributor. Major employers in the AA include Dana Brake Parts, Inc., with 600 employees; St. Francis Hospital, with 400 employees; Wal-Mart, with 400 employees; Schutt Mfg. Co., an athletic equipment manufacturer, with 200 employees; and Sierra International, Inc., a marine engine parts manufacturer, with 150 employees. Economic conditions in Macoupin and Montgomery Counties are stable. As of April 30, 2004, the unemployment rate for Montgomery County was 6.9%, and for Macoupin County it was 5.3%. This compares to unemployment rates of 5.9% for the State of Illinois and 5.4% for the nation. Montgomery County has historically had high unemployment rates relative to state and national levels. No significant economic changes have occurred during the rating period.

The AA population was 42,729 at the 1990 census, which included 11,574 families. Of these families, 2,299 or 20% were considered low-income, 2,034 or 18% moderate-income, 2,917 or 25% middle-income, and 4,324 or 37% upper-income. The updated non-MSA median family income in Illinois for 2002 was \$46,700. Demographic data for the AA from the 1990 census shows 19% of the population age 65 and over, 17% of households in retirement, and 13% of households below the poverty level. The 1990 census information also shows a median housing value of \$40,257 and the average age of housing to be 39 years. The local housing stock is 87% 1-4 family units of which 71% are owner-occupied.

There is strong competition within the financial services industry in the AA. Eight offices of four different banks operate in Litchfield. The entire AA includes approximately twenty-eight offices of seventeen banks. This number does not include credit unions, mortgage companies, insurance offices, and farm services that also offer loan products.

To further our understanding of the community's credit needs, we performed two community contacts during this examination. We contacted a local government official and a local insurance agent. Both of these individuals are actively involved with the Litchfield Economic Development Commission. The contacts noted that the primary credit needs of the community are for residential real estate and agricultural loans. Business loans are a secondary credit need. Both contacts felt that local financial institutions are extremely dedicated to meeting the credit needs of the community and are very involved in local economic development initiatives.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

FNB does a reasonable job of meeting the credit needs of its AA. FNB's lending reflects an adequate dispersion among borrowers of different income levels given the strong competitive factors faced by the bank. A geographic distribution of loans was not performed since all BNAs in the AA are middle-income tracts.

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio is reasonable. As of December 31, 2002, the bank's quarterly average ratio calculated since the 1998 CRA evaluation was 78.16%. This compares favorably with ratios ranging from 61.49% to 81.30% for five similarly situated banks in the area. These banks are considered similarly situated because of their size, lending opportunities, and location.

Lending in the Assessment Area

Lending in the AA is satisfactory. A substantial majority of the bank's loans originated between January 1, 2000 and December 31, 2002 were in the AA. A sample of 20 residential real estate and 20 agriculture-related loans taken from loans originated throughout the evaluation period shows that 82.50% of the number and 77.74% of the dollar amount of the loans were in the AA.

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 reasonable.

During this evaluation period, FNB's primary loan products, by dollar and number, were residential real estate and agriculture-related loans. Using only loans made in the AA, we sampled 30 residential real estate loans and 20 agricultural loans. Based on this sample, the bank's residential lending reflected adequate penetration to borrowers of different income levels compared to the AA family income demographic data.

The bank's percentage of residential real estate loans to low-income borrowers is below the percentage that low-income families represent in the demographic composition of the AA. Because it can be difficult for a household with income below the poverty level to afford home ownership, the bank could fall below the demographic percentage but still have a reasonable record of lending to low-income borrowers. Our review concluded that the bank's lending pattern to low-income borrowers is adequate.

| Borrower Distribution of Residential Real Estate Loans in the AA | | | | | | | | |
|---|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| | % 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 Real Estate | 20% | 7% | 18% | 20% | 25% | 37% | 37% | 36% |

Sources: Loan Sample and 1990 US Census Information. The updated 2002 non-MSA median family income is \$46,700. The income categories are defined as: less than 50%, 50% to 80%, 80% to 120%, and over 120%, respectively, of \$46,700.

Based on the sample of agriculture-related loans, 95% of the loans were to farms with gross annual revenues of less than \$1 million. One loan, or 5%, had gross annual revenues over \$1 million. Based on 1990 business demographic data, 98% of all farms within the AA had gross annual revenues of less than \$1 million.

| Borrower Distribution of Loans to Farms in the AA | | |
|--|--------------|--------------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 |
| % of AA Farms | 98% | 2% |
| % of Bank Loans in AA by # | 95% | 5% |
| % of Bank Loans in AA by \$ | 85% | 15% |

Geographic Distribution of Loans

Montgomery and Macoupin Counties are not located in a Metropolitan Statistical Area (MSA). Based on the non-MSA median family income for the entire AA in 1990, all eleven BNAs are middle-income. A geographic distribution would not be a meaningful analysis for this bank since no low- or moderate-income BNAs were identified in the AA.

Response to Complaints

FNB has not received any complaints about its performance in helping to meet community credit needs since the last CRA examination.

Fair Lending or Other Illegal Credit Practices

We found no evidence of illegal discrimination or other illegal credit practices.