



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

January 12, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Litchfield
Charter Number 3962

324 North State Street
Litchfield, IL 62056

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.

The major factors that support this rating are:

- The geographic distribution of the bank's loans reflects an excellent dispersion throughout the assessment area (AA).
- The bank's loan-to-deposit (LTD) ratio is more than reasonable. The bank's average quarterly LTD ratio for the last 25 quarters is 86.9%.
- The bank's distribution of loans reflects a reasonable penetration among individuals of different income levels and farms of different sizes.
- A majority of the bank's loans were made within the AA.

SCOPE OF EXAMINATION

We used small bank procedures to evaluate the performance of the First National Bank of Litchfield (FNB) under the Community Reinvestment Act (CRA). We sampled residential real estate and agricultural loans originated between January 1, 2009 and December 31, 2010 for our analysis of the bank's lending activity.

DESCRIPTION OF INSTITUTION

FNB is an intrastate bank located in Litchfield, Illinois, situated on Interstate 55, roughly halfway between St. Louis, Missouri, and Springfield, Illinois. FNB is wholly owned by First Montgomery Bancorp, Inc., a one-bank holding company located in the city of Litchfield, Illinois. FNB's assets, approximately \$83 million as of September 30, 2010, 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 two offices: the main office in downtown Litchfield is located in the only moderate-income census tract (CT) 9578, and the branch is located on the western edge of Litchfield, in CT 9576. A depository ATM is located at the drive-in facility. Management has not opened or closed any branches since the last evaluation, but a cash-dispensing ATM was removed from the St. Francis Hospital lobby.

As of June 30, 2010, FNB had a 9% deposit market share in Montgomery County, which placed FNB fourth out of thirteen banks with offices in the county. FNB 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, 2010, net loans totaled approximately \$64 million or 77% of total assets, total deposits were \$67 million, and Tier 1 Capital was \$7.5 million.

The composition of the loan portfolio consisted of 57% agricultural, 19% residential real estate, 17% commercial, 6% consumer, and 1% 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. FNB's last CRA evaluation was June 1, 2004, and rated the bank Satisfactory.

DESCRIPTION OF ASSESSMENT AREA

Bank management has designated its AA as CTs 9574, 9575, 9576, 9577, 9578, 9579, and 9580 in Montgomery County, Illinois. This AA encompasses all of Montgomery County except the eastern-most portion of the county (CT 9573). The AA 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 (\$43,613), CT 9578 is classified as moderate-income and the other six CTs are middle-income.

The 2000 census demographic data showed the population in the bank's AA totaled 27,089, which included 6,999 families; 20% of these families were classified as low-income, 21% as moderate-income, 25% as middle-income, and 34% as upper-income. Approximately 11% of the families live below the poverty level. To determine borrower income levels for our analysis, we used the Department of Housing and Urban Development (HUD) 2010 updated median family income of \$54,600. To help meet the community's needs, FNB is an approved lender for the federal Home Affordable Modification Program (HAMP). The program assists qualified individuals who have lost their job or experienced other extenuating circumstances with reduced interest rates and extended loan terms.

As of the 2000 census, approximately 19% of the households were in retirement and 34% received social security. The median housing value was \$57,178 and the median age of the housing stock was 46 years. Owner-occupied units represented over 71% of the housing stock. Approximately 13% of the owner-occupied units were located in the moderate-income CT.

Farm data as of 2010 shows 318 farms in the AA; 99.7% have revenues less than \$1 million. Only 7 farms (2%) are located in the moderate-income geography. To help meet the community's farm credit needs, FNB is an approved lender for the Illinois Finance Authority Beginning Farmer Loan Program. This program enables qualified new farmers to obtain financing. Under the program guidelines, FNB made 11 loans during the evaluation period totaling \$1,869,408 in 2009 and \$708,650 in 2010.

The local economy is primarily supported by service-related businesses, retail stores, government, and manufacturing. Major employers in Montgomery County are Wal-Mart, St. Francis Hospital, Litchfield Community School District #12, Schutt Sports

Group, Graham Correctional Center, and the CIPS Coffeen Power Station. Affinia, previously listed as a major employer in Montgomery County, closed in 2009 and further stressed the local economy. The plant employed approximately 250 workers when it ceased operations.

The local economy is currently stressed and weak. The December 2010 unemployment rate for Montgomery County is 12.7%. This ratio compares unfavorably to the state rate of 8.8% and the national rate of 9.1%.

Competition is strong. FNB 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 housing authority office. Our contact did not identify any unmet credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNB’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

FNB’s LTD ratio is more than reasonable. As of September 30, 2010, FNB’s LTD ratio was 95%. The bank’s quarterly average LTD ratio since the last CRA evaluation was 86.9%. This ratio is higher than six comparable banks. The quarterly average LTD ratios of these banks, which are comparable in size and location, range from 64% to 77% for the same time period.

Lending in Assessment Area

FNB’s lending in Montgomery County, the bank’s AA, is satisfactory. Based on our sample of 40 loans, a majority of loans by number (60%) and by dollar volume (69%) are made inside the AA.

Lending in Montgomery County										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total #	Inside		Outside		Total \$
	#	%	#	%		\$(000)	%	\$(000)	%	
Residential RE	12	60%	8	40%	20	733	87%	112	13%	845
Farm	12	60%	8	40%	20	1,788	63%	1,031	37%	2,819
Totals	24	60%	16	40%	40	2,521	69%	1,143	31%	3,664

Source: Sample of 20 residential real estate and 20 farm 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 (12%) is lower than the percentage of moderate-income families in the AA (21%). The percentage of residential RE loans made to low-income borrowers (8%) is lower than the percentage of low-income families in the AA (20%). In evaluating the borrower distribution, we considered the percentage of families (11%) who live below the poverty level and the barriers this may have on home ownership. We also considered the local economy, which is currently stressed as reflected in the high unemployment rate in the AA.

Borrower Distribution of Residential Real Estate Loans in 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	20%	8%	21%	12%	25%	32%	34%	48%

Source: Sample of 25 Residential RE loans, 2010 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 (85% of our sample by number) is near the ratio of small farms in the AA (99.69%).

Borrower Distribution of Loans to Farms in Montgomery County				
Farm Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Farms	99.69%	0%	0.27%	100%
% of Bank Loans in AA by #	85%	15%	0%	100%
% of Bank Loans in AA by \$	69%	31%	0%	100%

Source: Sample of 20 farm loans and 2010 Business data.

Geographic Distribution of Loans

The geographic distribution of the bank’s loans reflects excellent dispersion throughout the AA. There were no conspicuous gaps noted in the bank’s lending.

Residential Real Estate Loans

The geographic distribution of residential RE loans made in the AA is more than reasonable. The ratio of residential RE loans made in the moderate-income CT (20%) exceeds the ratio of owner-occupied housing in this CT (13%).

Geographic Distribution of Residential Real Estate Loans in 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	13%	20%	87%	80%	N/A	N/A

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

Farm Loans

The geographic distribution of agricultural loans is more than reasonable based on a sample of 20 loans originated or purchased during the evaluation period. The percentage of agricultural loans originated or purchased in moderate-income geographies is higher than the percentage of farms within those geographies.

Geographic Distribution of Loans to Farms in 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	2%	5%	98%	95%	N/A	N/A

Source: Sample of 20 farm loans and 2010 Business data.

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.