



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

July 18, 2013

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

The National Iron Bank
Charter Number 1214

195 Main Street
Salisbury, CT 06068

Office of the Comptroller of the Currency
New York Metro Field Office
Harborside Financial Center
Plaza Five, Suite 1600
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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 constructed 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 overall rating is based on the following factors:

- The net loan-to-deposit ratio is reasonable given the bank's size, financial condition, lending-related activities, and assessment area (AA) credit needs;
- A high percentage of loans are originated inside the AA;
- The bank's record of lending to borrowers of different incomes meets the standard for satisfactory performance;
- Geographic distribution of loans reflects reasonable dispersion; and
- The bank has no consumer complaints regarding community reinvestment performance.

SCOPE OF EXAMINATION

This Performance Evaluation is an assessment of The National Iron Bank's (NIB) ability to meet the credit needs of the communities in which it operates. The bank was evaluated under the small bank performance criteria. Conclusions regarding the bank's lending performance are based on the bank's primary lending product, residential real estate loans, originated January 1, 2011 through March 31, 2013. We evaluated residential real estate loans from January 1, 2011 through December 31, 2011 separately from loans originated in January 1, 2012 through March 31, 2013. Loan originations from 2011 were evaluated based on 2000 census data and originations from 2012 through March 31, 2013 were evaluated in accordance with 2010 census data.

We assessed the bank's lending performance by evaluating a sample of loans originated during the stated evaluation period. Our sample consisted of 14 residential real estate loans originated in 2011 and 20 residential real estate loans originated in 2012 through March 31, 2013 for the Lending in the AA performance criterion. We modified the sample based on loans originated in the AA for the Lending to Borrowers of Different Incomes and Geographic Distribution of Loans performance criteria. Our modified sample included 10 residential real estate loans originated in 2011 and 15 residential real estate loans originated in 2012 through March 31, 2013.

DESCRIPTION OF INSTITUTION

The NIB, founded in 1847, is a \$112 million intrastate community bank headquartered in Salisbury, Connecticut with banking activities in Litchfield County. Salisbury is located in a rural setting in northwestern Connecticut. The NIB operates three other full service branches in the towns of Cornwall, Norfolk, and Washington, in addition to headquarters. All bank locations have deposit taking ATMs. Since the prior CRA examination, there were no branches opened or closed. The NIB is wholly owned by Iron Bancshares, Inc.

At March 31, 2013, The NIB reported \$58 million in net loans and \$102 million in total deposits. Net loans represented 52% of total assets. The primary lending product is residential real estate loans. Residential real estate loans represent 89.4% of the loan portfolio, followed by commercial real estate loans at 5.4%, commercial and industrial loans at 2%, consumer loans at 1.9%, and construction and development loans at 1.2%. Tier 1 Capital is \$9 million.

The previous Performance Evaluation was issued April 21, 2008 and the overall CRA rating assigned was Satisfactory.

DESCRIPTION OF ASSESSMENT AREA

The NIB's AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies. The AA consists of eight contiguous, non-MSA towns within Litchfield County. Based on the 2010 census data, the bank's AA was revised to include seven census tracts due to the merger of two census tracts (Norfolk and Canaan). The AA continues to include the same areas. The bank's AA included changes to three census tract geographic designations in Washington, Cornwall, and North Canaan.

Based on 2000 census data, the bank's AA included eight census tracts with seven middle-income geographies and one upper-income geography. There were no low- or moderate-income geographies in the AA. The total population in the AA was 19,320. There were 5,171 families and the weighted average median family income was \$82,000. There were 7,958 households, all of which were located in middle- and upper-income geographies. Only 5% of households were below the poverty level.

Based on the 2010 census data, the bank's AA now includes seven census tracts with one moderate-income geography, five middle-income geographies, and one upper-income geography. There were no low-income geographies in the AA. The total population in the AA was 19,240. There were 5,621 families and weighted average median family income was \$83,200. There were 8,472 households in the AA and 6.5% were below the poverty level.

The number of families and households in the AA increased between 2000 and 2010 resulting from an increase in the number of affluent retirees and second homeowners in the community. According to our community contact, the community maintains a gentrified landscape with primary homeowners as upper income residents. This presents a challenge for local banks to lend to low- or moderate-income borrowers given the lack of availability in affordable housing. The median housing cost significantly increased from \$214,752 in 2000 to \$428,171 in 2010. Low-income families earned less than \$41,000 and moderate-income families earned between \$41,000 and \$65,600 as of 2000 census data. The 2010 census data shows, low-income families earned less than \$41,600 and moderate-income families earned between \$41,600 and \$66,560. This makes it difficult for low- or moderate-income borrowers to purchase housing in the AA even with the slight increase in family income between 2000 and 2010 census data.

The local job market consists of service related industries. Major employers include surrounding schools and medical services. Unemployment for Litchfield County as a whole was 1.4% at year-end 2000 and 8.6% as of year-end 2010. This is below the state average of 9.3% in 2010. The significant increase in the unemployment rate for the county is attributed to economic and environmental factors. Our community contact confirmed that the community's future credit needs will include loans for business expansion.

Local competition exists among national and state banks in Litchfield County. The NIB is ranked 12 out of 17 banks in Litchfield County with a deposit market share of 2.3%. The bank's major competitors are Webster Bank with 16.62% of the deposit market share; Torrington Savings Bank with 13.55%; Union Savings Bank with 11.76%; and Thomaston Savings Bank with 11.15%.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The evaluation period covered lending activities for residential real estate loans from January 1, 2011 through March 31, 2013. Loan data was analyzed against applicable demographic data for each year. We compiled separate data tables to evaluate performance against appropriate census data. Loan originations in 2011 were based on 2000 census data and loan originations from 2012 through March 31, 2013 were based on 2010 census data.

Loan-to-Deposit Ratio

The net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. The bank's quarterly average net loan-to-deposit ratio over the 21 quarters since the previous CRA examination in April 2008 is 44.3%. The average net loan-to-deposit ratio is consistent with the prior CRA examination loan-to-deposit ratio of 42.69%. The ratio ranged from a quarterly low of 36.48% to a quarterly high of 56.93% and has improved throughout the assessment period. Management has been able to grow the loan portfolio as the market continues to strengthen.

The NIB's performance is below the 76.77% average net loan-to-deposit ratio of local peer group banks. The range of the ratio based on peer group reflects 61.95% at the low and 81.96% at the high. The local peer group consists of five banks that operate within Litchfield County with total assets ranging from \$207 million to \$791 million. This range of total assets significantly exceeds the size of The NIB which maintains \$112 million in total assets. Lending-related activities mitigate The NIB's low ratio and are taken into consideration when assessing the bank's loan-to-deposit performance. Since 2011, The NIB generated \$4 million in residential real estate loans that have been sold in the secondary market. Approximately \$30 million or 26% of total average assets is centered in mortgage-backed securities. Given the volume of these lending-related activities compared to NIB's overall size of \$112 million, loan-to-deposit performance is reasonable.

Lending in Assessment Area

The bank originated a majority of residential real estate loans inside the AA during the evaluation period. Our sample included 14 residential real estate loans originated in 2011 and 20 residential real estate loans originated in 2012 through March 31, 2013. On a combined basis, the bank originated 74% of the number and 84% of the dollar amount within their Assessment Area.

Lending in AA January 1, 2011 through March 31, 2013										
Loan Type	Number of Loans					Dollars of Loans (\$000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential RE	25	74%	9	26%	34	\$16,919	84%	\$3,278	16%	\$20,196

Lending to Borrowers of Different Incomes

The NIB's record of lending to borrowers of different incomes meets the standard for satisfactory performance given the bank's performance context. We considered the high housing costs compared to family incomes in the AA. Both factors affect low- and moderate-income families' ability to obtain affordable housing and affects the bank's ability to originate loans to these borrowers. The weighted average median cost of housing in 2000 was \$214,752 which increased to \$428,171 in 2010 due to the growth of affluent retirees and second homeowners purchasing in the AA.

Based on 2000 census data, the level of residential real estate loans exceeded the percentage of low- and moderate- income families in the AA during 2011. This reflects excellent penetration as the bank originated 20% and 30% of loans to low- and moderate-income families, respectively, which exceeds the 16.24% and 16.86% of low- and moderate-income families in the AA. By definition, low-income families are families with annual incomes below \$41,000 and moderate-income families are families with annual incomes between \$41,000 and \$65,600.

Based on 2010 census data, the level of residential real estate loans originated is reasonable given the low levels of affordable housing in the AA. Only 3.9% of all housing units are multi-family and 19.3% are rental occupied units. The bank originated 6.67% of residential real estate mortgages during 2012 and thru March 31, 2013 to moderate-income families. This level is less than the percentage of moderate-income families in the AA at 16.52%. By definition, low-income families are families with annual incomes below \$41,600 and moderate-income families are families with annual incomes between \$41,600 and \$66,560.

Borrower Distribution of Residential Real Estate Loans in AA January 1, 2011 through December 31, 2011								
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	16.24%	20.00%	16.86%	30.00%	24.46%	0%	42.43%	50.00%

Source: 2011 Loan Sample; 2000 Census Demographics

Borrower Distribution of Residential Real Estate Loans in AA January 1, 2012 through March 31, 2013								
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	15.97%	0%	16.52%	6.67%	23.28%	26.67%	44.24%	66.67%

Source: 2012-2013 Loan Sample; 2010 Census Demographics

Geographic Distribution of Loans

The geographic distribution of residential real estate loans reflects reasonable dispersion throughout the AA. Less consideration was given to this criterion due to the non-existent or limited number of low- and moderate-income geographies in the AA. The bank’s AA did not include low- or moderate-income geographies based on the 2000 census data. Therefore, an analysis of the bank’s 2011 dispersion performance is not meaningful. Based on the 2010 census data, one of the eight census tracts in the AA is designated as moderate-income. There are no low-income geographies. The percentage of loans originated by The NIB in the moderate-income geography is below the percentage of owner-occupied units in the AA. Lending opportunities for the bank in this moderate-income tract are limited because of the presence of several other community banks and minimal availability of owner-occupied housing.

Geographic Distribution of Residential Real Estate Loans in AA January 1, 2012 through March 31, 2013								
Census Tract	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupie d 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	0.00%	0.00%	17.07%	6.67%	74.57%	93.33%	8.36%	0.00%

Source: 2012-2013 Loan Sample, 2010 Census Data

Responses to Complaints

The bank has had no complaints since our previous CRA examination.

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.