



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

August 7, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

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

**13 North Street - P.O. Box 578
Litchfield, Connecticut 06759**

**Comptroller of the Currency
New York Metro Field Office
343 Thornall Street - Suite 610
Edison, New Jersey 08837**

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 Lending Test is rated: Outstanding.

The Community Development Test is rated: Satisfactory.

The major factors supporting this overall rating include:

- The loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, assessment area (AA), credit needs, and relevant competitive factors.
- The bank made a substantial majority of its loans within its AA.
- Lending to businesses of different sizes is more than reasonable.
- The distribution of borrowers reflects reasonable penetration among individuals of different income levels, given the demographics of the AA.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA.
- The bank's community development performance demonstrates adequate responsiveness to community development needs in the AA.

SCOPE OF EXAMINATION

This Performance Evaluation assesses the bank's performance under the Lending and Community Development Tests. The evaluation under the Lending Test covers the bank's performance from January 1, 2004 through June 30, 2006 for home mortgage products and small business lending. Loans to small farms and multi-family dwellings were excluded due to the low volume. For the Community Development (CD) Test, the evaluation period is from October 1, 1999 to June 30, 2006, which represents the end date of the prior CRA review through the start date of this current review. We considered qualified CD loans, investments, and services in conducting this test.

As part of this CRA evaluation we conducted a data integrity review. The accuracy and applicability of lending activities for loans originated during the evaluation period was verified and found to be accurate. CD loans, investments, and services submitted by management were also verified to ensure that they met the regulatory definition for CD.

DESCRIPTION OF INSTITUTION

The First National Bank of Litchfield (FNBL) is a \$494 million institution headquartered in Litchfield, Connecticut. The bank is owned by First Litchfield Financial Corporation, a one bank holding company. FNBL is a full service community bank offering a wide array of loan and deposit products. The bank currently operates nine branches, all of which are located in Litchfield County. Two of the nine branches were opened in 2006. The Canton branch opened in February and the New Milford branch opened in July. A tenth branch is due to open in Torrington in late 2006.

FNBL is primarily a residential mortgage lender with a focus on serving the needs of its community. Business strategies are targeted to servicing the needs of the Assessment Area (AA) rather than investment in state or outside AA opportunities. As of June 30, 2006, net loans and leases represented 55% of total assets. Total loans have been increasing steadily to \$271 million, a 12.5% increase from 2005 and a 36% increase from 2004. The loan portfolio is composed of mostly residential mortgages and home equity loans (61%), commercial real estate loans (17%), construction and development loans (13%), commercial and industrial loans (7%), and individual loans (2%). Tier 1 capital was \$35 million (12.21% of Risk Weighted assets) as of June 30, 2006, compared to \$31 million (12.57% of Risk Weighted assets) for the same period last year.

FNBL continues to experience growth. Total assets increased 12.5% from \$439 million on June 30, 2005 to \$494 million on June 30, 2006. Growth between 2004 and 2005 was marginal with a 1.4% increase. There are no legal, financial or other factors impeding the bank's ability to help meet the credit needs of its AA. FNBL received a "Satisfactory" CRA rating at the preceding examination dated November 8, 1999.

DESCRIPTION OF FNBL ASSESSMENT AREA (AA)

FNBL defines all of Litchfield County, Connecticut as its assessment area. The AA consists of 53 Census Tracts (CTS) including 4 moderate-income, 35 middle-income, and 14 upper-income tracts. There are no low-income CTS in the AA. Litchfield County is located in a non-Metropolitan Statistical Area (MSA). Economic conditions within the AA are stable. The unemployment rate was 2.07%, which is just below the state unemployment rate of 2.3%, according to 2000 census data. The majority of businesses in the AA are in the service industry, followed by retail trade and construction. The major employers in Litchfield County include various State and Local Government Entities, numerous individual retailers, Litchfield District Schools, and Stop and Shop.

The AA meets all regulatory guidelines and does not arbitrarily exclude low and moderate-income areas. According to the 2000 Census data, the total population of the AA was 191,033 with 75,087 households. The 2000 weighted average median family income (MFI) for the AA is \$68,564. The 2005 Housing and Urban Development Agency (HUD) updated MFI is \$72,358. The CTS within the AA are 26.42% upper-income, 66.04% middle-income, 7.55% moderate-income, and 0% low-income.

The table below reflects the assessment area demographics based on 2000 Census results and updated 2005 HUD data:

Assessment Area Demographic Information						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	N/A % of #
Geographies (Census Tracts)	53	0%	8%	66%	26%	0
Population by Geographies	191,033	0%	6%	62%	32%	0
Owner-Occupied Housing by Geography	56,651	0%	4%	62%	34%	0
Businesses by Geography	16,810	0%	7%	60%	33%	0
Family Distribution by Income Level	52,277	14%	17%	26%	43%	0
Census Median Family Income = \$68,564 2005 HUD Updated Median Family Income = \$72,358 Households below the Poverty Level = 5%			Median Housing Value = \$166,737 Unemployment Rate = 2.07%			

Source: 2000 U.S. Census and 2005 HUD Updated MFI

In the AA, banking competition is very strong for deposits, loans, CD loans, and investments, which present limited opportunities for small institutions with a limited geographic presence. FNBL competes with regional banks as well as local community banks. The bank ranked 6 out of the 19 institutions in the market with a 7.66% market share in its AA. As of June 2005, the major competitors in the bank's market are Webster Bank, N.A. with a 13.62% market share, Torrington Savings Bank with a 12.42% market share, and Bank of America, with a 9.21% market share. Locally, the bank directly competes with Thomaston Savings Bank, which has an 8.64% market share and Salisbury Bank and Trust Co., with 7.40% market share.

Bank management indicated that small business loans are a primary credit need in the AA. Because many large firms have left the area in recent years, a growing number of small

businesses have opened and are in need of funding. During the course of this examination, two community contacts were performed. One of our contacts was with a local government agency and the second was with a local business association. Our contacts also identified small business lending as the primary credit need in the area. They stated that Litchfield County's historical nature attracts many tourists to the area and small businesses are the backbone of the local tourist industry. The county encourages small business development and discourages large shopping developments. Additionally, our contacts commented positively on FNBL involvement with the community. They were familiar with the bank and commended their efforts in the area.

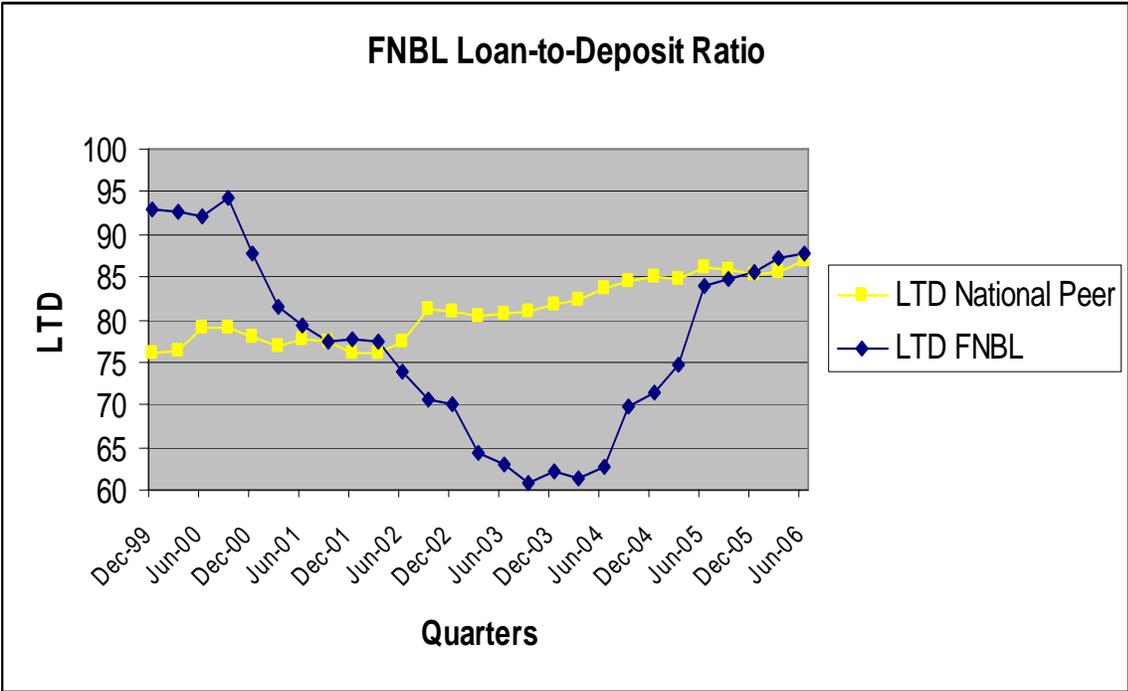
CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The bank’s performance under the Lending Test is rated **outstanding**. Performance for the loan-to-deposit ratio is reasonable. Lending in assessment area is excellent. Additionally, performance is excellent for lending to borrowers of different incomes and businesses of different sizes. Given the bank’s performance context factors, namely the identified need for small business lending, small business loans were given more weight than home mortgages. The geographic distribution of loans is good.

Loan-to-Deposit Ratio

The First National Bank of Litchfield’s loan-to-deposit ratio (LTD) is considered reasonable given the bank’s size, competition, and market loan demand. The average LTD ratio was calculated using the net loans and leases to deposit figures reported in the Uniform Bank Performance Report (UBPR), which is derived from the call report submitted by financial institutions to the Federal Financial Institutions Examinations Council (FFIEC) quarterly. The LTD ratio average for FNBL was 77.32 for the last 27 quarters (from December 31, 1999 to June 30, 2006) since the last CRA examination. The LTD ratio average for the bank’s national peer group was 80.96 during the same period. The lowest LTD ratio for the period was 60.87 as of September 30, 2003. The highest LTD ratio for the period was 94.29 as of September 30, 2000.

The following chart displays the bank’s historical performance for the period as compared to the national peer group:



Lending in Assessment Area (AA)

A substantial majority of FNBL loans were within the assessment area. We reviewed the distribution of loan originations for FNBL primary loan categories for the time period beginning January 1, 2004 and ending June 30, 2006. Based on a statistical sample of 40 loans, we concluded that 93% by number and approximately 80% by dollar volume of loans and commitments were within the bank's assessment area.

Lending in the Assessment Area										
(Dollar Amounts in Thousands)										
Primary Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Mortgages	17	85%	3	15%	20	\$4,381,900	72%	\$1,733,000	28%	\$6,114,900
Loans to Businesses	20	100%	0	0%	20	\$2,389,233	100%	0	0%	\$2,389,233
Total	37	93%	3	7%	40	\$6,771,133	80%	\$1,733,000	20%	\$8,504,133

Source: Bank Data/Loan Sample

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes in the AA

An analysis was performed on FNBL home mortgage lending in the AA, which represents a significant portion of its loan portfolio. Although commercial lending was not identified as a primary loan type by the bank, the bank has increased the volume of commercial loans in recent years and they were included in our review at the bank's request. The distribution of borrowers reflects reasonable penetration among individuals of different incomes. The distribution of borrowers reflects more than reasonable penetration among businesses of different sizes.

During the evaluation period, we sampled 20 residential mortgage loans originated in the AA. Our sample included 12 loans in middle income census tracts and 8 loans to upper income tracts. This sample did not include any loans to low- or moderate-income tracts. Although the percent of loans made to low-to-moderate-income (LMI) borrowers fell below the percent LMI families in the AA, the bank's performance is considered reasonable given the areas demographics. According to 2000 census data, the median cost of housing in the AA is \$166,737. The median family income average for the years 2004-2006 was \$68,564. A low-income individual earns less than \$34,282 annually. A moderate-individual earns at least \$34,282 annually, but less than \$51,423 annually. This income, relative to the median value of housing, presents limited opportunities for low- and moderate-income individuals to own housing. In addition, 5% of households in the area are below the poverty level.

Borrower Distribution of Residential Real Estate Loans in AA								
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
Home Mortgages	13%	5%	17%	15%	26%	10%	44%	70%

Source: 2000 U.S. Census data and loan sample.

During the evaluation period, we sampled 20 commercial loans originated in the Litchfield County AA. The bank's performance in lending to businesses is excellent. All of the loans that we sampled were made to small businesses, which are defined as businesses with annual revenue of \$1 million or less. According to 2000 U.S. Census data, small businesses comprise 69%, or 12,071, of total (17,615) businesses within the assessment area. Additionally, 100% by dollar volume of loans originated were made to small businesses in the AA.

Distribution of Loans by Business Revenue Size (Dollar Amounts in Thousands)					
Business Revenues (Or Sales)	Percentage of Businesses in AA	Number of Loans	Percent of Total Number of Loans	Dollar Amount of Loans	Percent of Dollar Amount of Loans
≤ \$1,000,000	96%	20	100%	\$2,389,233	100%
> \$1,000,000	4%	0	0%	\$0	0%
Totals*	100%	20	100%	\$2,389,233	100%

Source: 2000 U.S. Census data and loan sample *There were 4,682 businesses in the AA that were not classified.

Geographic Distribution of Loans in Litchfield County AA

The geographic distribution of loans reflects reasonable dispersion throughout the AA. The distribution of Home Mortgage Loans was adequate. The distribution of loans to businesses was excellent.

The main focus of this portion of the review is to assess the bank's lending to borrowers in low- and moderate-income areas. However, FNBL lending to low-income areas in the AA is not applicable since there are no low-income tracts in the AA. In addition, none of the loans included in our sample were in moderate-income geographies. However, it is important to note that a review of the aggregate loans generated by the bank in 2004 and 2005 shows a high number of residential mortgage loans in moderate-income areas. In both years, the percent of loans made in moderate-income census tracts exceeded the percent of owner occupied housing in moderate-income tracts. In addition, within these moderate income tracts, owner-occupied housing represents only 4%, or 215 of the 5,387 housing units in the AA. Considering the limited opportunities available to lend in low- and moderate-income areas, the competitive lending environment, and our sample size, lending in the low- and moderate-income tracts is considered satisfactory.

Geographic Distribution of Residential Real Estate Loans in AA								
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
Home Mortgage	0%	0%	4%	0%	62%	75%	34%	25%

Source: 2000 U.S. Census Data and loan sample

The geographic distribution of loans to businesses in low income tracts is not applicable as there are no low-income tracts in the AA. However, the distribution in moderate income tracts is excellent. The percent of loans made in these geographies greatly exceeds the percent of businesses. See table below for specific information.

Geographic Distribution of Loans to Businesses in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business loans & commitments*	0%	0%	7%	40%	60%	45%	33%	15%

Source: 2000 U.S. Census Data and loan sample.

Responses to Complaints

There were no complaints regarding the bank's CRA performance during the evaluation period.

COMMUNITY DEVELOPMENT TEST

The Community Development (CD) test in the Litchfield AA is rated “Satisfactory.” FNBL community development performance demonstrates adequate responsiveness to the CD needs of its designated AA through community development loans, qualified investment, and CD services, considering the bank’s capacity and the need and availability of such opportunities for CD in the bank’s CT AA.

Community Development Loans

The number and amount of CD loans made by the bank is good. As of our evaluation period, the bank originated 14 CD loans within the AA for approximately \$2.6 million that qualified under the CD definition in the CRA regulation. The CD loan proceeds were used to finance affordable housing and support economic development by creating long-term jobs for LMIs, and business opportunities in the bank’s AA. None of these loans are innovative or complex in nature.

Qualified Investments and Donations

Investment and donation activities are adequate given the benefits to the AA and FNBL size and capacity. The bank has one qualified community development investment totaling \$1.9 million. This investment is the CRA Qualified Investment Fund, which is designed to support CRA efforts on a countrywide basis. The Fund is composed of \$650 million in fixed income securities used to finance a wide range of community development activities, which include housing, healthcare, and job creation projects throughout the country. To date, the securities within the Fund have finance more than 117,000 affordable rental housing units, 3,500 home mortgages for low and moderate income families, \$220 million in down-payment assistance programs, and \$63 million job creation programs. The bond is rated ‘AAA’ by all rating officials and has a current yield of 4.53%.

From 2000 - 2005, the bank had over 80 separate qualified grants and donations totaling \$144.3 thousand within the CT AA (Litchfield County). These grants and donations made during the evaluation period were to local community organizations for different CD initiatives throughout the AA. None of the investments were considered innovative or complex in nature.

Community Development Services

The level of CD services provided by the bank in the CT AA is excellent. During the evaluation period 13 bank employees provided support and services to 9 different community development organizations. The following are the CD services provided by FNBL in which employees hold positions of leadership. In addition to these positions of leadership, a number of bank employees and officers also volunteer at local clubs and organizations as regular members.

Northwest CT Chamber of Commerce

- Vice Chair – Joe Greco

- Treasurer – Bob Teittinen
- Manufacturers Coalition – Celeste Echlin
- Membership – Gina Scherbner

Northwest Economic Development Corporation.

- Vice President – Revere Ferris
- Member – René Fisher
- Incorporator – David Oliver

Litchfield Area Business Association

- Vice Chair – David Oliver
- Director – Revere Ferris

Litchfield Housing Trust

- Director and treasurer – Revere Ferris
- Loan Application reviewer – Chery Federico

New Milford Chamber of Commerce

- Director – Dawn White

Connecticut Business Development Corp.

- Director – Revere Ferris

Goshen Agricultural Society

- Director – Cindy Showalter
- Member – Suzette Baker

Winchester Youth Services

- Director – Lou Helt

River Park elderly Housing

- Director – Art Stowe

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.