



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

April 21, 2008

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-EAST
343 Thornall Street, Suite 610
Edison, NJ 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: Satisfactory

This rating is based on the following factors:

- A substantial majority of loans, 83% by number and 82% by dollar amount, are originated inside the assessment area (AA);
- The distribution of loans to borrowers of different income levels reflects reasonable penetration; and
- No consumer complaints were filed relating to the bank's efforts to meet the credit needs of its assessment area.

SCOPE OF EXAMINATION

We conducted an examination of National Iron Bank (NIB) for the purpose of evaluating the bank's performance in meeting Community Reinvestment Act (CRA) standards. NIB was examined using Small Bank Examination Procedures.

The scope of this CRA examination included a review of NIB's record of originating its primary lending product over the current and prior two calendar years. This period spanned from January 1, 2006 through March 31, 2008. We analyzed lending performance by collecting data from a sample of loans originated by the bank over the aforementioned period. Sampling procedures resulted in a sample of twenty-four loans, upon which we based the bank's performance.

The bank's primary lending products are residential real estate loans (for home purchases, refinancing, and home equity loans). Lending products consist of residential real estate loans (88%), commercial real estate loans (5%), commercial and industrial loans (3%), consumer loans (3%), and construction and development loans (1%).

DESCRIPTION OF INSTITUTION

NIB is a \$95 million community bank focusing on intrastate banking activities in Litchfield County, Connecticut (CT), with its main office in Salisbury, CT. Salisbury is located in a rural setting in northwestern CT. NIB operates three other branch offices (with ATMs) in Litchfield County, in addition to its main branch. There were no branches opened or closed during the evaluation period. NIB is a wholly owned subsidiary of Iron Bancshares, which also operates in Salisbury.

As of December 31, 2007, NIB reported net loans of \$37 million and total deposits of \$87 million. Net loans represented 38% of average assets. Tier one capital was \$7 million.

There are no factors, legal or otherwise, which would hinder NIB's ability to help meet the credit needs of its AA. NIB's last Public Evaluation (PE) was dated June 24, 2002 and the overall CRA rating assigned was "Satisfactory."

DESCRIPTION OF ASSESSMENT AREA(S)

NIB's AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income areas. The AA is comprised of eight contiguous, non-MSA geographies within Litchfield County. Seven of the eight geographies are middle-income and one is upper-income. There are no low- or moderate-income geographies in the AA. NIB operates four full-service branches within the AA. There is one branch located at the bank's headquarters in Salisbury, along with branches in Cornwall Bridge, Norfolk, and Washington Depot. The Washington Depot branch is located in an upper-income geography and the other three branches are located in middle-income geographies.

The total population in the AA is 19,320. The weighted average of MSA/non-MSA Updated Median Family Income is \$67,727. There are 5,171 families, of which 16% are low-income and 17% are moderate-income. There are 7,958 households, all of which are located in middle- and upper-income geographies. Only 5% of households are below the poverty level, while 31% of households derive their income from social security.

Overall, there is a lack of high paying jobs, per our community contacts. The area is losing families moving to neighboring areas where the cost of living is lower. The local job market consists primarily of service related industries. Major employers in the area include three private schools, Sharon Hospital, and town governments. Unemployment is 2.3%, significantly below the national average of 5.1%.

It is difficult for low- and moderate-income families to purchase homes within the AA. The primary factor creating this difficulty is that family income levels are low in relation to housing costs. As stated above, the weighted average MSA/non-MSA Updated Median Family Income is \$67,727. While this is high with respect to other rural areas of New England, it is not high compared to AA housing costs. This is especially true when low-income families earn less than \$33,864 and moderate-income families earn between \$33,864 and \$54,181.

Housing supply in the AA is limited. The AA is a largely rural area, comprised of old farm tracts with declining agricultural activity. This does not lend itself to housing expansion, affordable or otherwise. Housing values have been pushed up significantly by economic and environmental influences coming from outside the area. As a result, the median housing cost has increased to more than \$214,000. The natural environment of mountains, lakes, and forests spawned a tourism industry which is inviting to wealthy urban dwellers for primary and secondary homes. Demographic data shows owner-occupied housing at 58% and vacant housing at 22%. This is likely due to second homes for the wealthy.

Local competition is strong. NIB faces competition from several local, regional, and national banks. NIB's major competitors in terms of deposit market share within Litchfield County are Webster Bank (20%), Torrington Savings Bank (13%), Thomaston Savings Bank (9%), First NB of Litchfield (8%), and Wachovia Bank (8%). NIB is ranked 13th in deposit market share at 2%.

NIB's major competitors in terms of residential real estate loan market share are Washington Mutual Bank (16%), JPMorgan Chase (5%), Salisbury Bank and Trust (5%), Countrywide Home Loans (5%), and Bank of America (4%). NIB's market share information is not included since they are not required to report HMDA data.

We met with two community contacts during the examination. Both contacts worked for local housing trusts operating in the AA. The contacts stated that affordable housing is needed within the AA communities. Without affordable housing, younger families will continue to migrate to areas with more affordable housing options.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The Lending Test is rated satisfactory.

Loan-to-Deposit Ratio

NIB's average loan-to-deposit ratio meets the standard of reasonable performance.

NIB's average loan-to-deposit ratio since the previous CRA examination is 43%. This ratio is down considerably from the previous CRA examination average of 70%. NIB's performance is also below the 73% average loan-to-deposit of a local peer group of banks. The local peer group consisted of six banks that operate within Litchfield County, and have total assets ranging from \$198 million to \$681 million. The period since the previous CRA examination covered a twenty-three quarter period that began April 1, 2002 and ran through December 31, 2007. NIB's ratio ranged from a high of 53% in June of 2002 to a low of 39% in December of 2004. Peer bank averages ranged from 65% to 77%.

NIB's low loan-to-deposit ratio is a product of management's strategy to not take on excessive interest rate risk during a trough in the interest rate cycle. Many residential loan applicants are seeking long-term fixed rate loans as mortgage rates remain low. Management has made a decision to abstain from funding large volumes of long-term fixed rate loans for its portfolio. As a consequence, the bank's loan portfolio size has diminished, and so has the loan-to-deposit ratio.

Other lending-related activities also mitigate NIB's low average loan-to-deposit ratio. Since 2006, NIB has generated \$9.9 million in residential mortgage loans that have been sold in the secondary market. Also, approximately \$30 million, or 31% of bank average assets, is centered in mortgage-backed securities. These lending-related activities are taken into consideration when assessing the bank's loan-to-deposit performance. Considering the significant volume of these lending related activities in relation to the bank's overall size, loan-to-deposit performance is considered reasonable.

Lending in Assessment Area

NIB originated a substantial majority of residential mortgage loans inside its AA.

The bank’s residential real estate loan originations included loans for purposes of home purchase, home improvement, and home refinance. Sampling results revealed that 83% and 82%, respectively, of the number and dollar amounts of home mortgage loans originated were within NIB’s AA during the evaluation period.

Lending in Litchfield County, CT AA										
Loan Type	Number of Loans					Dollars of Loans (\$000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Real Estate Mortgages	20	83%	4	17%	24	\$3,438	82	\$740	18	\$4,178

Source: Data obtained from loan sampling.

Lending to Borrowers of Different Incomes

NIB’s borrower distribution for residential real estate loans meets the standard for reasonable penetration given the bank’s performance context.

We analyzed loan data from the random residential loan sample described above. The analysis was performed to assess the bank’s record of distributing its residential real estate loan originations among borrowers of different income levels. Demographic data compiled during the 2000 Census for NIB’s AA indicates the following stratification:

- 16% of AA families are low-income families
- 17% of AA families are moderate-income families
- 25% of AA families are middle-income families
- 42% of AA families are upper-income families

Low-income AA families, by definition, are families with annual incomes below \$33,864. Moderate-income AA families, by definition, are families with annual incomes between \$33,864 and \$54,181.

The following table details the distribution of residential real estate loans originated by NIB during the evaluation period in its AA among borrowers of different income levels.

Residential Real Estate Loans

Borrower Distribution of Residential Real Estate Loans in Litchfield County, CT AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans						
Real Estate Mortgages	16%	10%	17%	5%	25%	30%	42%	55%

Source: Data obtained from loan sampling.

The bank’s residential mortgage lending to low-income households is lower than the percentage of low-income families in the AA. Residential mortgage lending to moderate-income households is also lower than the percentage of moderate-income families in the AA.

Low levels of affordable housing inventory and comparatively high values of existing housing stock justify NIB’s performance within low- and moderate-income populations. A disproportionate relationship exists between income levels for low- to moderate-income families, and prices of homes in the area. Qualifying for a residential mortgage is a significant financial challenge for low- and moderate-income families in the AA.

Geographic Distribution of Loans

The bank’s assessment area does not contain low- or moderate-income geographies to measure dispersion performance, thus an analysis is not meaningful.

Responses to Complaints

There have not been any complaints regarding the bank’s CRA performance since our previous 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.