



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

April 6, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Rockport National Bank
Charter Number 1194

16 Main Street
Rockport, MA 01966

Office of the Comptroller of the Currency

NEW ENGLAND FIELD OFFICE
20 Winthrop Square 2nd Floor
Boston, MA 02110-1229

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 supporting the institution's rating include:

- The bank's quarterly average net loan-to-deposit ratio is more than reasonable;
- A substantial majority of the bank's loans were originated in the assessment area;
- The distribution of loans reflects reasonable penetration among borrowers of different incomes;
- The geographic distribution reflects a reasonable dispersion throughout census tracts of different income levels; and
- The bank has not received any consumer complaints regarding its community reinvestment performance.

SCOPE OF EXAMINATION

Rockport National Bank (RNB) was evaluated under the Small Bank Community Reinvestment Act (CRA) examination procedures. The evaluation period for the lending test is January 1, 2006 through December 31, 2008, as this is representative of the bank's lending strategy since the last CRA examination. Residential mortgages were determined to be the bank's primary loan product and were reviewed as part of this examination. The bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). Therefore, HMDA data from January 1, 2006 through December 31, 2008 was used to evaluate the bank's home mortgage loan performance.

DESCRIPTION OF INSTITUTION

RNB, founded in 1851, is an independent, intrastate community bank located in Rockport, Massachusetts. Rockport, Massachusetts is a coastal community located 40 miles north of Boston, and it is located in the Cape Ann region in Essex County. RNB is wholly owned by Rockport National Bancorp, a single-bank holding company with no other subsidiaries or affiliates. There have not been any changes in the corporate structure since the previous examination.

The bank has three branches, with two branches located in Rockport and one branch located in Gloucester. All branches are located in Essex County. Each office is equipped with ATMs and drive-up facilities. Two additional ATMs are located in Gloucester. Extended daily banking hours and Saturday and Sunday hours are offered at the Gloucester branch. The two branches in Rockport offer Saturday morning hours. During the evaluation period, the bank opened one branch and closed one branch. The Parker Street branch in Gloucester was opened in June 2007. The Railroad Avenue branch in Gloucester was closed in April 2008, and the customers were merged into the new Parker Street branch.

RNB is a full-service bank serving the city of Gloucester and the town of Rockport. RNB offers a variety of deposit and loan products to meet consumer and commercial banking

needs. The bank’s Internet website, www.rockportnational.com, provides detailed information on products and services for both consumers and businesses.

As of December 31, 2008, RNB reported total assets of \$144 million. Net loans and leases were \$111 million or 77% of total assets. Total deposits were \$126 million, and net tier one capital was \$10 million as of that same date. The loan portfolio is comprised of: 48% one to four family residential real estate loans, 38% commercial real estate loans, 7% commercial and industrial loans, 4% construction and development loans, 2% individual loans, and 1% other loans. The bank’s primary lending product is residential mortgages.

Competition in the area is strong and includes numerous locally based state chartered banks and regional banks. According to the June 30, 2008 FDIC Summary of Deposits Market Share Report for Essex County, RNB ranked 23rd out of 40 institutions with 0.76% of deposits. Competition in the county is strong, particularly around the city of Gloucester. Bank of America, N.A. ranked first with 23 offices and 12.47% of the market share. Other financial institutions include TD Bank, N.A. with 32 offices and 11.9% of the market share, and Eastern Bank with 23 offices and 10.71% of the market share.

There are no known legal, financial, or other factors impeding RNB’s ability to help meet the credit needs of its community. RNB’s last Public Evaluation was dated February 7, 2005, and the overall CRA rating assigned was “Satisfactory”.

DESCRIPTION OF ASSESSMENT AREA(S)

RNB has one assessment area (AA). RNB has defined nine census tracts (CTs) in Essex County as its AA. The nine CTs include the town of Rockport and the city of Gloucester in the Cape Ann area of the state. These CTs represent a portion of the Peabody, MA Metropolitan Division 37764, which is a part of the Boston-Cambridge-Quincy MA-NH MSA 14460. Due to the size and location of the bank, the bank is unable to service all 156 CTs in Essex County. This AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies. The following contains the demographic information for the AA:

Demographic Information for Full Scope Area: Rockport-Gloucester						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	9	0.00	44.44	55.56	0.00	0.00
Population by Geography	38,040	0.00	32.87	67.13	0.00	0.00
Owner-Occupied Housing by Geography	9,768	0.00	21.97	78.03	0.00	0.00
Business by Geography	3,314	0.00	33.65	66.35	0.00	0.00
Farms by Geography	98	0.00	31.63	68.37	0.00	0.00
Family Distribution by Income Level	9,947	20.27	19.96	25.29	34.48	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	4,001	0.00	45.01	54.99	0.00	0.00
Median Family Income HUD Adjusted Median Family Income for 2008 Households Below Poverty Level		63,556 78,800 9%	Median Housing Value Unemployment Rate Feb 2009 National MA State Rockport Town Gloucester City		221,075 8.1 7.8 8.5 11.3	

(*) The NA category consists of geographies that have not been assigned an income classification. Source: 2000 US Census and 2008 HUD updated MFI

Based on the 2000 U.S. census data, the bank's AA includes four moderate-income CTs (44.44%) and five middle-income CTs (55.56%). There are no low- or upper-income tracts in the AA. The total population in this AA is 38,040, and the median cost of housing in the AA is \$221,075. The percentage of households below the poverty level is 9%. The AA's population was comprised of 9,947 families with the following income distribution: 20.27% are low-income, 19.96% are moderate-income, 25.29% are middle-income, and 34.48% are upper-income. The HUD adjusted median family income for 2008 is \$78,800.

The town of Rockport is a coastal community located 40 miles northeast of Boston, Massachusetts, at the tip of Cape Ann. The town is known for its scenic beauty and as a summer tourist destination. Today, Rockport is primarily a suburban residential and tourist town, but it is still home to a number of lobster fisherman and artists.

Gloucester is a port city located on Cape Ann just 35 miles north of Boston. It is an important center of the fishing industry and a popular summer destination. Gloucester also supports large regional companies such as Gorton's of Gloucester. There are five industrial parks which bring a variety of businesses to the area.

Massachusetts is currently experiencing job losses and declining industrial production. This is affecting the state's major job markets in the service industry, financial services, education, health services, and construction areas. State employment has heavy exposure to financial market companies. This is causing recovery to be slower than other areas due to the current financial crisis, recession, and downturn in the housing market. As of February 2009, the Massachusetts average state unemployment rate was 7.8%. The local area is experiencing unemployment rates that are higher than the state average. The unemployment rate is 8.5% for Rockport and 11.3% for Gloucester.

In addition, the area also has relied upon the exporting market for computer and electronic products. This market is being negatively affected by the financial problems abroad. The Massachusetts Department of Housing and Community Development has stated housing affordability remains a major challenge for the state despite the recent decline in housing prices. In 2007, 175 lenders originated HMDA loans in the MSA AA, according to HMDA Peer Mortgage Data. RNB was ranked 11th with a market share of 2.14%. Cape Ann Savings Bank was ranked first with a market share of 11.08%. Countrywide Home Loans ranked second with a market share of 7.68%.

Major employers in the Essex County area are North Shore Community College, Northern Essex Community College, Salem State College, Alcatel-Lucent (communications), Analog Devices (signal processing), Bay State Gas Company, Polartec LLC (fleece clothing), and Raytheon Integrated Defense (defense technology). Both Rockport and Gloucester have daily commuter rail service into Boston, along with bus transportation.

During this examination we contacted a local organization whose purpose is to promote business development throughout the Cape Ann area (Rockport and Gloucester). The contact stated there is a need for affordable housing in the area. The contact further stated area banks have been in the forefront of expanding opportunities for people to purchase homes. RNB was mentioned as being one of the area leaders in facing this

challenge of affordable housing for low- and moderate-income families. Lastly, the contact stated area banks work closely with local organization in promoting small business development.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

RNB’s performance under the lending test is satisfactory. RNB’s quarterly average net loan-to-deposit ratio is more than reasonable. A substantial majority of loans were originated within the bank’s assessment area. The distribution of loans reflects reasonable penetration among borrowers of different incomes. The bank’s geographic distribution of home mortgage loans reflects a reasonable dispersion throughout CTs of different income levels. All criteria of the lending test are documented below.

Loan-to-Deposit Ratio

RNB’s quarterly average net loan-to-deposit ratio is more than reasonable given the bank’s size, financial condition, and credit needs, and it exceeds the standard for satisfactory performance. The bank’s quarterly average net loan-to-deposit ratio for the 17 quarters since the last CRA evaluation is 86%. This ratio ranged from a quarterly low of 80% to quarterly high of 93% during the 17 quarters since the last CRA evaluation.

RNB’s quarterly average net loan-to-deposit ratio exceeds the quarterly average net loan-to-deposit ratio of five peer banks located in Essex County, Massachusetts with total assets less than \$250 million. The quarterly average net loan-to-deposit ratio for these five institutions was 84% over the same 17 quarters.

Lending in Assessment Area

A substantial majority of RNB’s home mortgage loans originated during the evaluation period are located within the bank’s AA, exceeding the standard for satisfactory performance. During the evaluation period, 91% of the total home mortgage loans were originated within the bank’s AA.

Lending to Borrowers of Different Incomes

The distribution of loans reflects reasonable penetration among borrowers of different income, meeting the standard for satisfactory performance.

The percentage of home purchase loans originated to low-income borrowers is lower than the percentage of low-income families in the AA. However, the percentage of home purchase loans originated to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

The percentage of home refinance loans originated to low-income borrowers is lower than the percentage of low-income families in the AA, and the percentage of home refinance loans originated to moderate-income families exceeds the percentage of moderate-income families in the AA.

The percentage of home improvement loans originated to low-income borrowers is lower than the percentage of low-income families in the AA. The percentage of home improvement loans originated to moderate-income borrowers is lower than the percentage of moderate-income families in the AA.

When considering the affordability of housing in the AA, this performance is satisfactory. The median cost of housing in the AA is \$221,075. The HUD updated median family income for 2008 is \$78,800, which means a low-income borrower earns less than \$39,400. This lack of affordability and availability limits the opportunities for home mortgage lending to low-income individuals and families.

The following table shows the distribution of home loan products among borrowers of different income levels for the period of January 1, 2006 through December 31, 2008 as compared to the percent of families in each income category.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Rockport-Gloucester 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 Purchase	20.27	6.00	19.96	20.00	25.29	22.00	34.48	52.00
Home Refinance	20.27	12.00	19.96	32.00	25.29	28.00	34.48	28.00
Home Improvement	20.27	6.25	19.96	6.25	25.29	43.75	34.48	43.75

Source: data reported under HMDA.

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout census tracts of different income levels, meeting the standard for satisfactory performance. We did not identify any unexplained conspicuous gaps.

There are no low-income tracts in RNB's AA. The percentage of home purchase loans originated in moderate-income geographies is lower than the percentage of owner-occupied housing units in these geographies. The percentage of home refinance loans originated in moderate-income geographies is lower than the percentage of owner-occupied housing units in these geographies. The percentage of home improvement loans originated in moderate-income geographies is significantly lower than the percentage of owner-occupied housing units in these geographies.

While 21.97% (2,146 units out of 9,768 units) of owner-occupied units were located in moderate-income geographies, home mortgage lending opportunities were limited. This is due to the high level of competition for these loans. The bank was unable to compete for these loans based on its size and resources. The majority of the lending was dominated by large national banks, national mortgage companies and large regional banks. Of the 494 loans made in moderate-income geographies, 274 loans were made by the top ten lenders. The bank ranked 28th out of 91 lenders making a total of four loans. This performance is considered satisfactory given, the high level of competition and limited lending opportunities.

The following table, details the bank's performance as compared to the percentage of owner-occupied housing units in each census tract income level for the period of January 1, 2006 through December 31, 2008.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Rockport-Gloucester 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 Purchase	0	0	21.97	16.00	78.03	84.00	0	0
Home Refinance	0	0	21.97	9.62	78.03	90.38	0	0
Home Improvement	0	0	21.97	2.86	78.03	97.14	0	0

Source: data reported under HMDA.

Responses to Complaints

The bank has not received any CRA-related consumer complaints since the last 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..