



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

March 11, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Milford National Bank and Trust Company
Charter Number 866

300 East Main Street
Milford, MA 01757

Office of the Comptroller of the Currency

Boston Field Office
99 Summer Street, Suite 1400
Boston, MA 02110

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 Community Reinvestment Act (CRA) Rating: This institution is rated **Outstanding.**

The major factors supporting the institution's CRA Ratings are:

- The Milford National Bank and Trust Company's (MNB or Bank) level of lending, as reflected in its loan-to-deposit ratio, is more than reasonable.
- A substantial majority of originated loans are within the Bank's assessment area.
- The distribution of loans reflects excellent penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects excellent dispersion in the moderate-income census tracts.

Scope of Examination

MNB was evaluated using Small Bank examination procedures, which includes a lending test. The evaluation period for the lending test covers the Bank's performance from January 1, 2010, through December 31, 2012. The lending test evaluates the Bank's record of meeting the credit needs of its assessment area (AA) through its lending activities. The Bank also provided us with optional community development (CD) information to evaluate their responsiveness to CD needs within its AA through qualified investments. The evaluation period for the CD information is from January 25, 2010, the data of the prior Performance Evaluation (PE) through March 11, 2013. CD investments submitted by management were verified to ensure they met the regulatory definition for community development.

MNB's primary loan products, based on loan originations during the evaluation period are one-to-four family residential mortgage loans (including home purchase, home improvement, and refinance), and commercial loans (including commercial real estate and commercial and industrial loans). As indicated by the December 31, 2012, Uniform Bank Performance Report, residential loans represent approximately 47% of the overall loan portfolio at the Bank, and commercial loans represent approximately 43% of the portfolio.

The Bank reports data under the requirements of Home Mortgage Disclosure Act (HMDA). We reviewed the testing results of the Bank's HMDA data and found the data was reliable. All residential mortgage loans originated during the evaluation period were included in our analysis of the Bank's lending. We also used Bank data to select a random sample of 68 commercial loans originated in the AA during the evaluation period to evaluate the Bank's lending to businesses.

A full scope review was performed on AA1 – Worcester County, while a limited scope review was performed on AA2 – Norfolk County. Four of the five Bank's full service branches are

located within AA1. The majority of the Bank's deposits, 96%, and approximately 76% in loans are attributable to AA1.

Description of Institution

MNB is a \$273 million national bank headquartered in Milford, Massachusetts. As of December 31, 2012, MNB had Tier 1 Capital of \$24 million. MNB Bancorp, a one-bank holding company, wholly owns MNB.

The Bank has four branches located in Worcester County, MA, and one in Norfolk County, MA. The Bank's 256 Main Street branch in Milford, MA is located in a moderate-income tract. The other two branches located in Milford, MA and one in Bellingham, MA are located in middle-income geographies. The branch in Mendon, MA is located in upper-income geography. Branch hours are typically 9:00 am to 4:00 pm, Monday through Wednesday, with extended hours on Thursdays and Fridays. Weekend branch hours are typically 9:00 am to noon. No branches were open or closed during the evaluation period.

MNB is a full service, intrastate institution, offering a standard array of traditional loan and deposit products for both personal and business customers. Retail loan products include residential mortgages, auto loans, home equity loans, and personal loans. Commercial loan products include short term and long term commercial mortgages, lines of credit, Small Business Administration loans, and letters of credit. The Bank also offers asset management services through the trust department. Detailed product information can be found on the Bank's Internet website, www.milfordnational.com.

Loan Portfolio Summary by Loan Product December 31, 2012	
Loan Category	% of Gross Loans and Leases
1-4 Family Residential Mortgage – Closed End	41%
Home Equity	6%
Commercial & Industrial	9%
Other Real Estate	34%
Construction and Development	3%
Consumer	7%

Source: FDIC Call Report

The Bank has no financial or legal impediments to meeting the credit needs of the community. The Bank was rated "Satisfactory" using intermediate small bank procedures at the last CRA examination dated January 25, 2010.

Description of Assessment Area

The CRA requires a bank to define the AA in which it will be evaluated. MNB has two AAs that include all branches and deposit-taking ATMs, as well as, the contiguous towns/cities around these offices. The Bank's AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income tracts.

Full Scope AA1 – Worcester County

AA1 is part of the Worcester MA Metropolitan Statistical Area (MSA) and comprises part of Worcester County. AA1 includes the towns/cities of Blackstone, Douglas, Grafton, Hopedale, Mendon, Milford, Millbury, Millville, Sutton, Upton, and Uxbridge. In 2010 and 2011, AA1 is comprised of 24 census tracts. There is one moderate-income tract, 15 middle-income tracts, and seven upper-income tracts. One of the tracts contains no income information, as the population is very low, therefore, this tract is excluded from our analysis. In 2012, AA1 is comprised of 25 census tracts. There are two moderate-income tracts, 12 middle-income tracts, and 11 upper-income tracts.

Demographic Information for MNB AA1 2010-2011					
Borrower Income Level	Total #	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	24	0%	4%	63%	29%
Population by Geography	122,473	0%	3%	59%	38%
Owner-Occupied Housing by Geography	\$46,767	0%	2%	56%	42%
Family Distribution by Income Level	\$33,131	15%	15%	23%	47%
2000 Census Median Family Income (MFI)		58,426	2011 Median Housing Value*		\$240,500
HUD Updated MFI: 2011		82,500	Households Below Poverty Level		6%

Source: 2000 U.S. Census data

*Data from Zillow.com

Demographic Information for MNB AA1 2012					
Borrower Income Level	Total #	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	25	0%	8%	48%	44%
Population by Geography	134,072	0%	7%	44%	49%
Owner-Occupied Housing by Geography	\$36,863	0%	4%	43%	53%
Family Distribution by Income Level	\$35,609	14%	15%	23%	48%
2010 Census Median Family Income (MFI)		79,121	2012 Median Housing Value*		\$246,430
HUD Updated MFI: 2012		83,600	Households Below Poverty Level		5%
			Unemployment Rate**		7.1%

Source: 2010 U.S. Census data

*Data from Zillow.com

***Data from US Bureau of Labor Statistics as of 12/31/2012. Rate is for Worcester County.*

Limited Scope AA2 – Norfolk County

AA2 is part of the Boston-Quincy MA Metropolitan Division and comprises part of Norfolk County. AA2 includes the towns/cities of Bellingham, Franklin, Medfield, Medway, Millis, Norfolk, Plainville, and Wrentham. In 2010 and 2011, AA2 is comprised of 16 census tracts, with five middle-income tracts and 11 upper-income tracts. In 2012, AA2 is comprised of 18 census tracts, with six middle-income tracts and 12 upper-income tracts.

Demographic Information for MNB AA2 2010-2011					
Borrower Income Level	Total #	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	16	0%	0%	35%	65%
Population by Geography	106,194	0%	0%	34%	66%
Owner-Occupied Housing by Geography	36,810	0%	0%	35%	65%
Family Distribution by Income Level	28,168	10%	13%	22%	56%
2000 Census Median Family Income (MFI)		\$62,948	2011 Median Housing Value*		\$336,386
HUD Updated MFI: 2011		\$87,600	Households Below Poverty Level		3%

Source: 2000 U.S. Census data

*Data from Zillow.com

Demographic Information for MNB AA2 2012					
Borrower Income Level	Total #	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	18	0%	0%	33%	67%
Population by Geography	111,080	0%	0%	41%	59%
Owner-Occupied Housing by Geography	32,215	0%	0%	41%	59%
Family Distribution by Income Level	28,672	12%	13%	21%	54%
2010 Census Median Family Income (MFI)		\$83,664	2012 Median Housing Value*		\$355,286
HUD Updated MFI: 2012		\$88,800	Households Below Poverty Level		4%
			Unemployment Rate**		5%

Source: 2010 U.S. Census data

*Data from Zillow.com

**Data from US Bureau of Labor Statistics as of 12/31/2012. Rate is for Norfolk County.

MNB operates in a highly competitive market with competition from regional commercial banks, local savings banks, and credit unions. The Federal Deposit Insurance Corporation's Deposit Market Share Report for June 30, 2012, indicates that 38 financial institutions operate within Worcester County. MNB ranks 19th with a deposit market share of 1.8%. The Bank's local competitors include, but are not limited to: Milford Federal Savings and Loan Association; UniBank Savings; Commerce Bank and Trust Company; Webster Five Cents Savings Bank; Clinton Savings Bank; Fidelity Cooperative Bank; and Southbridge Savings Bank. Larger regional banks provide further competition and include Bank of America, National Association (N.A.); TD Bank, N.A.; Sovereign Bank, N.A.; People's United Bank; and RBS Citizens, N.A.

Eight nationwide entities provide additional competition for mortgage and business loans including Wells Fargo, N.A.; Bank of America, N.A.; J.P. Morgan Chase, N.A.; GMAC Mortgage, LLC; Ally Bank; Citimortgage, Inc.; US Bank, N.A.; and Master Mortgage, Inc. The 2011 Institution Market Share report indicates that MNB competes with 269 lenders within its AA1. The top ten lenders dominate the market with overall market share of approximately 49%. MNB ranks 34th with a market share of approximately 0.7%.

Economic indicators suggest payroll growth in MA slowed since summer and is lagging the national average. Professional and businesses services, which were driving the recovery, lost jobs during the third quarter of 2012. Even as payroll growth slowed, positive trends in household employment has driven the unemployment rate to 6.5%, two percentage points below the peak reached in late 2009 and 1.3 percentage points below the national unemployment rate.

The unemployment rate of 7.1% as of December 2012 for the Worcester MSA remains above the pre-recession levels; however, the unemployment figures have declined significantly from the peak levels reached during the recession. As of December 2012, the unemployment rate remains higher than the state average of 6.7%. The unemployment rate in AA1 compares favorably to the national average of 7.8%.

We reviewed a recent community contact with a local organization operating in AA1 whose purpose includes administering state and federal grant programs from agencies such as the Department of Housing and the Massachusetts Housing Finance Agency. Many of the projects managed by the organization benefit low- to moderate-income persons and families. The contact indicated that in addition to the continued need of affordable housing, social services for low- and moderate-income individuals continues to be an ongoing need.

Conclusions with Respect to Performance Criteria

MNB's performance under the lending test is outstanding. MNB's loan-to-deposit ratio is more than reasonable and a substantial majority of the loans are originated inside the Bank's AAs. Overall, the distribution of loans reflects excellent penetration among individuals of different income levels. The geographic distribution of loans reflects excellent dispersion in the low- and moderate-income census tracts.

Loan-to-Deposit Ratio

The Bank's net loan-to-deposit ratio is more than reasonable given the Bank's size, AA credit needs, significant market competition, and current economic factors. The Bank's net loan-to-deposit ratio has averaged 88% over the last 12 quarters since the previous CRA examination dated January 25, 2010. Since the last examination, the loan-to-deposit ratio ranged from a quarterly low of 86% to a high of 94%. MNB's loan-to-deposit ratio is higher than the similarly situated financial institutions' quarterly average, which was 75% over the same period.

Lending in Assessment Area

A substantial majority of the Bank's primary loan products were originated inside its assessment area. MNB originated 78% by number and 81% by dollar amount of loans in the AAs.

The following table details the Bank's lending within the AAs by number and dollar amount of loans.

Lending in MNB AAs (000's)										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate Loans	168	82%	35	18%	203	33,249	82%	7,170	18%	\$40,419
Commercial Loans	14	67%	7	33%	21	3,535	73%	1,330	27%	\$4,865
Totals	182	78%	42	24%	224	36,784	81%	8,500	19%	\$45,284

Source: HMDA-reported data and a sample of commercial loans from 1/1/2010-12/31/2012.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Conclusions for Full-Scope AAI – Worcester County

Home Loans

The distribution of home loans to borrowers reflects excellent penetration among borrowers of different income levels. The percent of home purchase loans made to both low- and moderate-income borrowers significantly exceeds demographics when compared to low- and moderate-income families within AA1.

The Bank did not make any home improvement loans to low-income borrowers during the evaluation period. The percent of home improvement loans made to moderate-income borrowers is lower than the moderate-income families residing there.

The percent of home refinance loans to low-income families is significantly lower than the low-income families within AA1. However, home refinance loans to moderate-income borrowers exceeds demographics when compared to moderate-income families within AA1.

MNB's performance is considered outstanding given the high competition and lack of affordable housing within the AA. The downturn in the national economy continues to weigh down the real estate prices in the area; however, median housing prices remain high relative to median incomes. The lack of affordable housing also limits lending opportunities. As of December 31, 2011, the average median home price in AA1 was \$240,500. The HUD median family income is \$82,500, which means the maximum income that is considered low income is \$41,250; therefore, low-income borrowers would have difficulty qualifying for home loans.

The following table shows the distribution of home loan products among borrowers of different income levels compared to the percent of families in each income category.

Borrower Distribution of Residential Real Estate Loans in AA1 (2010 & 2011)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of Families	% of Number of Loans	% of Families	% of Number of Loans	% of Families	% of Number of Loans	% of Families	% of Number of Loans
Home Purchase	15%	25%	15%	25%	23%	25%	47%	25%
Home Improvement	15%	0%	15%	7%	23%	29%	47%	64%
Home Refinance	15%	2%	15%	18%	23%	28%	47%	52%

Source: HMDA-reported data from 1/1/2010-12/31/2011; 2000 U.S. Census data.

The borrower distribution of home loans originated during 2012 reflects excellent penetration among borrowers of different income levels. The percent of home refinance loans to low-income families is significantly lower than the low-income families within AA1. The Bank did not originate any home purchase or home improvement loans to low-income borrowers during the evaluation period.

The percent of home purchase loans and home improvement loans made to moderate-income borrowers significantly exceeds the percent of moderate-income families. The percent of home refinance loans made to moderate-income borrowers equals the percent of moderate-income families in AA1.

MNB's performance is considered outstanding given the high market competition and lack of affordable housing within AA1. Lack of affordable housing limits lending opportunities for low- and moderate-income borrowers. Even with the increased 2012 HUD median family income, the median housing value remains higher relative to income levels. Based on data collected from Zillow.com, the average median home price in AA1 is \$246,430. The 2012 HUD median family income is \$88,800, which means the maximum income that is considered low income is \$44,400; therefore, low-income borrowers would have difficulty qualifying for home loans.

The following table shows the distribution of home loan products among borrowers of different income levels compared to the percent of families in each income category.

Borrower Distribution of Residential Real Estate Loans in AA1 (2012)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of Families	% of Number of Loans	% of Families	% of Number of Loans	% of Families	% of Number of Loans	% of Families	% of Number of Loans
Home Purchase	14%	0%	15%	50%	23%	50%	48%	0%
Home Improvement	14%	0%	15%	43%	23%	14%	48%	43%
Home Refinance	14%	4%	15%	15%	23%	22%	48%	59%

Source: HMDA-reported data from 1/1/2012-12/31/2012; 2010 U.S. Census data.

Business Loans

The distribution of loans made in 2010 and 2011 to businesses reflects reasonable penetration among businesses of different sizes. The Bank originated 64% in number of loans to small businesses with gross annual revenues of \$1 million or less. Performance is considered satisfactory as it is near the demographic data with 71% of the businesses being considered small businesses.

The following table shows the distribution of commercial loans among businesses of different sizes in AA1 in 2010 and 2011.

Borrower Distribution of Loans to Businesses in AA1 (2010 & 2011)				
Business Revenues (or Sales)	≤ \$1,000,000	>\$1,000,000	Unavailable / Unknown	Total
% of AA Business	71%	3%	26%	100%
% of Bank Loans in AA by #	64%	36%	0%	100%
% of Bank Loans in AA by \$	59%	41%	0%	100%

Source: Loan sample (1/1/2010-12/31/2011); 2000 U.S. Census data.

The distribution of loans made in 2012 to businesses reflects excellent penetration among businesses of different sizes. The Bank originated 77% in number of loans to small businesses with gross annual revenues of \$1 million or less. This performance is considered outstanding as it exceeds the demographic data with 74% of the businesses being considered small businesses.

The following table shows the distribution of commercial loans among businesses of different sizes in AA1 in 2012.

Borrower Distribution of Loans to Businesses in AA1 (2012)				
Business Revenues (or Sales)	≤ \$1,000,000	>\$1,000,000	Unavailable / Unknown	Total
% of AA Business	74%	4%	22%	100%
% of Bank Loans in AA by #	77%	23%	0%	100%
% of Bank Loans in AA by \$	85%	15%	0%	100%

Source: Loan sample (1/1/2012-12/31/2012); 2010 U.S. Census data.

Conclusion for limited-scope AA2 – Norfolk County

Based on a limited-scope review, MNB's borrower distribution of home loans and business loans in AA2 is not inconsistent with the Bank's overall performance in the full scope area.

Geographic Distribution of Loans

The geographic distribution of loans reflects excellent dispersion in the moderate-income tracts in AA1. There are no low-income tracts in AA1. We found no conspicuous gaps or areas of low penetration in the Bank's lending patterns.

Conclusions for full-scope AA1 – Worcester County

Home Loans

The Bank's geographic distribution of home loans originated during 2010 and 2011 reflects excellent dispersion in the moderate-income census tract. The percent of home purchase and home improvement loans both significantly exceeds the percent of owner-occupied housing in the tract. The percent of home refinance loans made meets the percentage of owner-occupied units in the tract.

The Bank's geographic distribution of loans is considered outstanding given the lack of affordable housing and high market competition for home loans. Further, the percent of owner-occupied housing in the moderate-income tract is very low at 2%, limiting the opportunities for home ownership.

The following table compares dispersion of home loan products to the percentage of owner-occupied housing units in each census tract income level.

Geographic Distribution of Residential Real Estate Loans in AA1 (2010 & 2011)								
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%	2%	10%	56%	50%	42%	40%
Home Improvement	0%	0%	2%	7%	56%	47%	42%	47%
Home Refinance	0%	0%	2%	2%	56%	49%	42%	49%

Source: HMDA-reported data from 1/1/2010-12/31/2011; 2000 U.S. Census data.

The Bank's geographic distribution of home loans originated during 2012 also reflects excellent dispersion in the moderate-income census tracts. The percent of home purchase and home improvement loans significantly exceeds the percent of owner-occupied housing in the moderate-income geographies. No home refinance loans were made in the moderate-income geographies; however, the percent of owner-occupied housing is low at 4%, limiting opportunities for home ownership.

The following table compares the dispersion of home loan products to the percentage of owner-occupied housing units in each census tract income level.

Geographic Distribution of Residential Real Estate Loans in AA1 (2012)								
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%	4%	33%	43%	33%	53%	33%
Home Improvement	0%	0%	4%	14%	43%	14%	53%	71%
Home Refinance	0%	0%	4%	0%	43%	41%	53%	59%

Source: HMDA-reported data from 1/1/2012-12/31/2012; 2010 U.S. Census data.

Business Loans

The Bank's geographic distribution of business loans originated during 2010 and 2011 reflects excellent dispersion in the moderate-income census tract. The percent of business loans made in the moderate-income census tract meets the percent of businesses located in that geography.

The following table compares the dispersion of business loans to the percentage of businesses in each census tract income level.

Geographic Distribution of Commercial Loans in AA1 (2010 & 2011)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
% of Total	0%	0%	5%	5%	54%	59%	40%	36%

Source: Loan sample (1/1/2010-12/31/2011); 2000 U.S. Census data.

The Bank's geographic distribution of business loans originated during 2012 reflects excellent dispersion in the moderate-income census tracts. The percent of business loans made in the moderate-income census tracts exceeds the percent of businesses located in the moderate-income geographies.

The following table details the Bank's performance compared to the percentage of businesses in each census tract income level during 2012.

Geographic Distribution of Commercial Loans in AA1 (2012)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
% of Total	0%	0%	10%	14%	42%	36%	48%	50%

Source: Loan sample (1/1/2012-12/31/2012); 2010 U.S. Census data.

Conclusion for limited-scope AA2 – Norfolk County

An analysis of the distribution of loans by income level of geography is not meaningful, as Norfolk County AA2 contains no low- or moderate-income geographies.

Community Development: Qualified Investments and CD Services

The following qualified investments and donations reflect the Bank's responsiveness to CD needs within its AAs.

MNB made a \$1.5 million investment in the prior evaluation period in a senior housing crime prevention program that benefits primarily low- and moderate-income senior citizens residing in two nursing homes in the AAs.

Qualifying community development grants and donations totaled \$72 thousand and benefited numerous community development organizations within the AAs. While the actual level of donations made was higher, these donations met the definition of community development. Included in the Bank's total qualifying donations are several large donations to local organizations that provide basic human services to low- and moderate-income individuals, an identified need within the AAs.

MNB's delivery systems are accessible to geographies and individuals of different income levels throughout the AA. The Bank has four full-service branch locations within AA1. Of the four branches, the 256 Main Street Milford branch is located in a moderate-income tract.

Response to Complaints

There were no CRA complaints received by the Bank or the agency during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank's CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the Bank, or in any assessment area by an affiliate whose loans have been considered as part of the Bank's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.