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Comptroller of the Currency  
Administrator of National Banks

**LARGE BANK**

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Northeastern District  
1114 Avenue of the Americas, Suite 3900  
New York, New York 10036

## **PUBLIC DISCLOSURE**

January 25, 1999

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Community National Bank  
Charter Number 2618  
17 Pope Street  
Hudson, Massachusetts 01749**

**The Office of the Comptroller of the Currency  
New England Field Office  
150 Federal Street, Second Floor  
Boston, Massachusetts 02110**

**NOTE: 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.**

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## General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency, when examining financial institutions subject to its supervision, to use its authority to assess the 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. Upon the examination's conclusion, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **Community National Bank** prepared by the **Comptroller of the Currency**, the institution's supervisory agency, as of **January 25, 1999**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all, of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in appendix A to 12 CFR Part 25.

**Institution's CRA Rating:** This institution is rated **Satisfactory**. Factors supporting the overall rating include:

- C A good responsiveness to credit needs in the assessment area;
- C A majority of loans made in the assessment area;
- C A good distribution of loans to individuals of different income levels and businesses of different sizes;
- C A majority of small business loans originated in the assessment area are to small businesses;
- C A reasonable level of community development lending; and,
- C Delivery systems that are reasonably accessible to geographies and individuals of different income levels in its assessment area.

The following table indicates the performance level of **Community National Bank** with respect to the lending, investment, and service tests.

Performance Levels	Community National Bank Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High satisfactory	X		
Low satisfactory			X
Needs to improve		X	
Substantial noncompliance			

\* Note: The lending test is weighted more heavily than the investment and service tests in the overall rating.

### ***Description of Institution***

Community National Bank, (CNB) headquartered in Hudson, Massachusetts, is a wholly owned subsidiary of Community National Bancorp, Inc., a one bank holding company. CNB has two subsidiaries, Community Benefits Consulting, Inc., a human resource and benefits consulting firm, and Community Securities Corporation, established to minimize state income tax on securities income. There are no financial or legal obstacles impacting CNB's ability to help meet the community's credit needs.

As of September 30, 1998, CNB had total assets of \$300 million, which includes \$139 million in loans and \$118 million in investments. Total deposits amounted to \$250 million. The bank offers a wide range of loan products including residential mortgage, commercial and consumer loans. The following chart details the mix of the loan portfolio.

<b>Loan types outstanding at September 30, 1998</b>		
<b>Type</b>	<b>Amount (000's)</b>	<b>%</b>
<b>Residential Real Estate</b>	55,292	39.8%
<b>Commercial real estate</b>	45,625	32.8%
<b>Commercial</b>	22,344	16.1%
<b>Consumer</b>	13,770	9.9%
<b>Other</b>	1,920	1.4%
<b>Total</b>	138,951	100%

CNB elected to help meet the needs of its assessment area by the physical presence and financial commitment of full service branches. There are eight branches including the main office. These facilities serve the towns of Acton, Boxborough, Concord, Hudson, Marlborough and Stow. All branches have 24 hour automatic teller machines (ATMs) and CNB operates three remote ATMs in Marlborough and Hudson. Two of these ATMs were opened since the last CRA examination. There have been no full service branches opened or closed since the last evaluation.

CNB operates in a very highly competitive marketplace. Competition comes from larger financial institutions, smaller, locally owned institutions and credit unions as well as non-bank financial intermediaries. Primary competition for residential real estate mortgages comes from Hudson Savings Bank, Metrowest Savings, Middlesex Savings, Peoples Heritage Savings Bank, Countrywide Home Loans and Bank of America. Competition for commercial loans comes from larger, regional institutions such as Fleet Bank, Citizen's Bank and UTrust as well as smaller institutions such as Metrowest Savings and Northern Trust.

There were 311 mortgage lenders active in CNB's 13 town assessment area in 1997, evidencing the highly competitive nature of the market. A majority of the competing mortgage lenders do not have a physical presence in the assessment area. Market share reports show that CNB had 2.1% of the residential mortgage market based on number of applications and 1.1% of the market based on dollar volume. Over half of the mortgage lenders had less than 0.5% of the market share based on dollar volume.

### ***Description of the Assessment Area***

CNB has defined one assessment area consisting of a portion of western Middlesex and eastern Worcester counties. These counties are located in the Boston, MA Metropolitan Statistical Area (MSA).

The assessment area meets regulatory guidelines and does not arbitrarily exclude any low- or moderate-income areas (LMI). Throughout this document, LMI is referred to when describing low- and moderate-income individuals and/or geographies (census tracts). The assessment area consists of 25 census tracts. There are no low income tracts. There is one moderate income tract, 10 middle income tracts and 14 upper income tracts. The moderate income tract is located in the city of Marlborough.

The population of the assessment area consists of 126 thousand individuals. The Housing and Urban Development (HUD) MSA updated 1998 median family income is \$60 thousand. The HUD MSA census median family income is \$48,688. The median age of the housing stock is 38 years and the

median housing price is \$215 thousand. Ninety-five percent of the housing stock is occupied, of which 67% is owner occupied housing and 28% is rental housing. Vacant housing units comprise 5% of the assessment areas housing stock.

Job growth has occurred along the Interstate 495 corridor, which passes through the assessment area. Employment in the assessment area consists of jobs in the manufacturing, service and retail sectors, with a heavy reliance on technology and technology related businesses. Major employers in the area consist of Staples, Inc., 3-Com, EMC Corp., and Compaq Computer Corp. For many years before Compaq's purchase, Digital Equipment Corp. was the region's largest employer. Within the assessment area there are 6,142 businesses, of which 74% are considered small businesses. A small business is defined as a company with gross annual revenues of \$1 million or less. Many of these small businesses are manufacturing subcontractors for original equipment manufacturers.

Employment levels are high. The unemployment rate in the assessment area is 2.76%. This compares favorably with the state unemployment rate of 3.4% as of October 1998 and the national unemployment rate of 4.6%.

Management indicated the credit needs of the assessment area consist of small business loans, auto loans, home equity lines and home mortgages. Discussions with community contacts revealed that access to credit for small businesses and affordable housing were primary credit needs of the area. CNB's understanding and use of SBA loan programs was viewed positively by a community contact. Additionally, CNB's efforts to use flexible mortgage underwriting criteria for low-and moderate-income borrowers was also viewed positively by a community contact.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:**

### ***Scope of Review:***

This review covers the time period from January 1, 1997 to September 30, 1998 for all Home Mortgage Disclosure Act (HMDA) reportable loans, which consist of home purchase, home improvement and mortgage refinancing. The small business loans reviewed in our evaluation were originated January 1, through September 30, 1998. There are no farm loans. Bank management requested that we review consumer loans. The consumer loans reviewed in our evaluation cover the time period from January 1, through September 30, 1998. We were also requested to review the activity of the bank's investment subsidiary from January 1, 1998 to September 30, 1998. As this entity exists only for tax considerations under state law, all activity of this subsidiary was included in our analysis. CNB was evaluated under large bank performance criteria for the first time. Based on asset growth, it became a large bank on December 31, 1996. As such, management was required to begin collecting small business and community development data on its lending activity as of January 1, 1998, in accordance with the regulation.

## LENDING TEST

### *Performance Criteria*

#### **Lending Activity**

The volume of originations demonstrates a good responsiveness to meeting the lending needs of the assessment area. During the evaluation period, CNB originated 432 HMDA reportable loans for \$49 million. Market share data were not available for this period. However, we compared CNB's 1997 HMDA reportable originations to all HMDA reporters in the assessment area. CNB ranked twelfth in originations with 2.1% market share. Six of the mortgage lenders ahead of CNB were nationally known competitors.

CNB is also an active commercial lender as well as active lender to individuals. In the evaluation period, CNB originated 176 commercial loans for \$15 million. Overall, commercial loan balances were 14.05% higher at September 30, 1998 than they were a year earlier. Further, 380 consumer loans, consisting of automobile, consumer secured and home equity lines of credit, were originated in the evaluation period for \$9.4 million. Overall, lending balances for these loans were 3.89% higher at September 30, 1998 than reported one year earlier.

#### **Lending Concentration**

As indicated in the next table, CNB demonstrates a good level of lending within the assessment area. On a combined basis for the evaluation period, 70% by number and 68% by dollar volume of HMDA, small business and consumer loans were originated within the assessment area. This level of lending is reasonable considering the high level of competition from the large number of financial institutions serving the assessment area.

<b>Distribution of loan originations in the assessment area during the evaluation period*</b>				
<b>Loan Type</b>	<b># loans</b>	<b>% inside AA</b>	<b>\$ Amount (000's)</b>	<b>% inside AA</b>
<b>HMDA Loans</b>	293	68%	32,375	66%
<b>Commercial loans</b>	121	69%	10,711	72%
<b>Consumer loans</b>	282	74%	6,878	73%

<b>Total</b>	696	100%	49,964	100%
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\* Evaluation period for HMDA loans is 1-1-97 to 9-30-98. The evaluation period for commercial and consumer loans is 1-1-98 to 9-30-98.

## **Geographic Distribution**

CNB has only one moderate income geography in its assessment area, equating to 4% of the total 25 geographies comprising the assessment area. As such, detailed analysis comparing lending activity in 10 middle-income geographies to lending activity in one moderate income geography is not meaningful.

CNB achieved modest loan penetration in the moderate income geography. Of the home mortgage loans, nine loans or 3.0% by number and \$766 thousand or 2.3% by dollar volume were originated in the moderate income geography. CNB originated six consumer loans for \$77 thousand in the moderate income geography. Small business lending also evidences modest loan activity with two loans made for \$20 thousand. According to management, this geography is primarily a residential area with limited business activity.

## **Borrower Characteristics**

### ***Home Mortgage Loans***

CNB's home mortgage lending to borrowers of different income levels is strong. For the period reviewed, management originated 21 loans for \$846 thousand or 7.2% of total mortgage activity by number and 2.6% by dollar volume to low income applicants. An additional 48 loans for \$3.6 million were originated to moderate income applicants, which represents 16.4% of total mortgage activity by number and 11.4% by dollar volume. This level of lending to LMI applicants is favorable given the performance context of high median housing costs to median family income. The median housing value in the assessment area is \$215 thousand, which could make home ownership virtually prohibitive for low income individuals earning below \$29,400. Additionally, home ownership could be very difficult for moderate income individuals earning between \$29,500 and \$47,400. CNB does significantly better in lending to LMI applicants than its peer HMDA reporters active in the assessment area. As stated above, CNB's HMDA loans to low income applicants totaled 7.2% of its residential real estate originations while data for all other HMDA reporters showed that 3.9% of total loan originations were to low income applicants. Lending to moderate income applicants was also stronger than peer institutions as 16.4% of CNB's residential real estate originations were to moderate income applicants versus 11.8% reported by peer institutions.

We used the HMDA loan application register to review 100% of the home mortgage lending activity from January 1, 1997 to September 30, 1998. The following table illustrates home mortgage lending performance to borrowers of different income levels using the number and dollar amount of originations during the evaluation period.

<b>Residential Real Estate Originations</b>						
<b>Income characteristics of applicant</b>	<b># loans</b>	<b>%</b>	<b>\$ Amount (000's)</b>	<b>%</b>	<b>Family income distribution of assessment area</b>	<b>1997 HMDA data for other mortgage lenders</b>
<b>Low</b>	21	7.2%	846	2.6%	12.2%	3.9%
<b>Moderate</b>	48	16.4%	3,691	11.4%	14.0%	11.8%
<b>Middle</b>	91	31.0%	9,047	27.9%	21.4%	20.3%
<b>Upper</b>	130	44.4%	18,533	57.3%	52.4%	49.4%
<b>N/A</b>	3	1.0%	258	0.8%	0.0%	14.6%
<b>Total</b>	293	100%	32,375	100%	100%	100%

***Consumer Loans***

CNB’s distribution of consumer loans to borrowers of different income levels is strong. We evaluated three consumer loan types (automobile, consumer secured and home equity lines of credit) to determine the level of lending to borrowers of different income levels in comparison to the income distribution of the families of the assessment area. As outlined in the table below, 16% of the bank’s consumer loan originations by number were made to low income applicants, versus 12% of the assessment area’s population falling into a low income category. An additional 16% of consumer loans originations by number were made to moderate income applicants, versus 14% of the assessment area’s population falling into a moderate income category. This favorably demonstrates management’s lending efforts to the LMI portion of its assessment area.

<b>Consumer Loan Originations</b>					
<b>Income characteristics of applicant</b>	<b># loans</b>	<b>%</b>	<b>\$ Amount (000's)</b>	<b>%</b>	<b>Family income distribution of assessment area</b>
<b>Low</b>	46	16.3%	362	5.3%	12.2%
<b>Moderate</b>	46	16.3%	541	7.9%	14.0%
<b>Middle</b>	102	36.2%	2,410	35.0%	21.4%
<b>Upper</b>	88	31.2%	3,565	51.8%	52.4%
<b>Total</b>	282	100%	6,878	100%	100%

### ***Small Business and Small Farm Loans***

The origination of small business loans among all business lending is good. The following table illustrates that 75% by number and 65% by dollar volume are to businesses with revenues of \$1 million or less. This compares favorably to the percentage of businesses in the assessment area as 73% of businesses are considered small businesses with revenues of \$1 million or less.

<b>Small business loan originations to all business</b>					
<b>Revenue size</b>	<b># of loans</b>	<b>% of total</b>	<b>\$ Amount (000's)</b>	<b>% of total</b>	<b>Business size in assessment area</b>
<b>Less than or equal to \$1 million</b>	91	75.2%	7,010	65.4%	72.7%
<b>Greater than \$1 million</b>	30	24.8%	3,701	34.6%	11.7%
<b>Income not available</b>	0	0%	0	0%	15.6%
<b>Total</b>	121	100%	10,711	100%	100%

The origination of loans less than \$100 thousand represent a substantial portion of loans to businesses with gross annual revenues of \$1 million or less. The table below shows that 77% by number and 33% by dollar amount were loans less than \$100 thousand in size.

<b>Small business loan originations to small businesses</b>				
<b>Loan size (000's)</b>	<b># of loans</b>	<b>% of total</b>	<b>\$ Amount (000's)</b>	<b>% of total</b>
<b>Less than \$100</b>	70	77%	2,335	33.3%
<b>\$100-\$250</b>	15	16%	2,279	32.5%
<b>\$250-\$1,000</b>	6	7%	2,396	34.2%
<b>Total</b>	91	100%	7,010	100%

## COMMUNITY DEVELOPMENT LENDING

CNB demonstrates a reasonable level of community development lending. Community development loans are those loans that do not meet the definition of home mortgage, small business or small farm loans but do meet the definition of community development in the CRA regulation [12 CFR 25.12(h)]. During the period of review, the bank originated \$365 thousand in community development loans and committed to lending an additional \$384 thousand. These loans are described below:

- C A \$25 thousand loan to a non profit organization to purchase a condemned building in a moderate income geography. The building was renovated and converted to commercial space for small businesses. As this building will provide incubator facilities for small business, it is promoting economic development.
- C A \$60 thousand commercial mortgage to purchase and renovate a two-family home in a moderate income geography. The renovation will create three Section 8 rental units for low-and moderate-income tenants.
- C A \$280 thousand commercial mortgage to purchase a multi-family apartment building in a moderate income geography. The units are rented at a below market rate to low-and moderate-income tenants.

During the period of review, management made the following community development loan commitments:

- C A \$135 thousand mortgage to a non profit organization which is constructing a residence for low income, mentally handicapped adults in Marlborough. This project is the first of its kind for the city of Marlborough, joining together the state's Local Initiative Program for Affordable Housing, the Department of Mental Retardation, and private financing. As a result, we consider this commitment innovative.
- C A \$249 thousand commercial mortgage to renovate a home in a moderate income geography and convert it to rental space for small businesses. The property is located in an area of Marlborough that is targeted for rehabilitation and revitalization.

### **Innovative or Flexible Lending Practices**

CNB participates in several programs which provide flexible underwriting for low-and moderate-income individuals and geographies. All lending under the affordable mortgage programs has been evaluated under the HMDA loan activity. These programs are outlined below:

The First Time Home Buyer Program has more flexible underwriting criteria than normal bank underwriting standards, financing up to 95% and reduced closing costs for first time home buyers. In 1997 and 1998, CNB originated 22 loans for \$2.7 million under this program.

The CNB Affordable Housing Program is a mortgage product offered through FNMA. This program offers more flexible borrowing guidelines, reduced closing costs and financing up to 95%. There are specific income and property eligibility requirements. In 1997 and 1998, CNB originated 12 loans for \$1.3 million under this program.

The FNMA '97 program has reduced closing costs, income and property location eligibility requirements, flexible qualifying ratios, smaller reserve requirements and financing up to 97%. Additionally, the loan requires prepurchase home buyer education sessions. There have been no loans originated under this program.

The FNMA Soft Second Program is a state-sponsored program designed to promote urban revitalization. CNB, in partnership with the city of Marlborough, offers this program which combines a first mortgage with a simultaneous second mortgage. Points are waived on the first mortgage and the second mortgage is offered at a reduced rate. The state could subsidize a portion of the second mortgage if the applicant meets certain underwriting criteria. In 1997 and 1998, CNB originated three loans for \$294 thousand under this program.

CNB Community Outreach is a bank designed program which provides up to 95% financing and follows flexible underwriting guidelines similar to FNMA affordable mortgage underwriting standards. Loans made under this program are retained by the bank. In 1997 and 1998, CNB originated nine loans for \$901 thousand under this program.

CNB is an active lender in several programs administered by the U.S. Small Business Administration (SBA). During 1997 and 1998, CNB originated 14 loans for \$2.0 million.

The Massachusetts Capital Access Program (CAP) is for small businesses and offers flexible underwriting criteria for business loans that may not meet traditional underwriting standards. In 1997 and 1998, CNB made 23 loans totaling \$978 thousand under CAP.

## **INVESTMENT TEST**

CNB has a low level of qualified investments when considering the bank's capacity. The bank made \$3,242 in qualified grants during the period of review. These donations were made to organizations that provide community services to people of low-or moderate-income. Our review included subsidiary investments, however none qualified.

## **SERVICE TEST**

CNB's delivery systems are reasonably accessible to geographies and individuals of different income levels in its assessment area. No branches have been opened or closed since our prior CRA examination. Branch hours are convenient to CNB customers. All branches offer drive up facilities and 24 hour ATMs. The range of financial services provided at all branches is consistent throughout its assessment area.

All eight of the bank's branches and the three free standing ATMs reflect the geographies in the assessment area as shown in the following table.

<b>Distribution of Delivery Systems (Branches and ATM Facilities)</b>				
<b>Income characteristics of the geography</b>	<b>Branches and Proprietary ATM Facilities</b>			<b>Number and % of geographies in AA</b>
	<b>Branches</b>	<b>ATM's</b>	<b>%</b>	
<b>Moderate</b>	1	0	9%	1 / 4%
<b>Middle</b>	3	1	36%	10 / 40%
<b>Upper</b>	4	2	55%	14 / 56%
<b>Total</b>	8	3	100%	25 / 100%

CNB developed an Internet web site which provides information on products and services offered by the bank as well as rates on loan and deposit products. For account holders, CNB offers several electronic banking services as follows:

- C Telebanc - 24 hour, toll-free access to current account balances and account activity. This allows the account holder the ability to transfer funds between accounts and make payments on loans.
- C Execubanc - a computer banking service for businesses which offers cash management capabilities, account information, the ability to open new accounts, and make loan payments.
- C Homebanc - a computer banking service for personal accounts which permits 24 hour account information, transfer of funds between accounts and payments on loans.

We could not place significant weight on these delivery systems when drawing our conclusions of service performance because the bank does not maintain statistics on how well these alternative systems reach low and moderate income individuals.

CNB was recognized by the Massachusetts Community and Banking Council as a provider of low cost banking products and services which meet the Basic Banking for Massachusetts guidelines. The program was established to expand access to bank products and services for individuals with modest incomes.

## **COMMUNITY DEVELOPMENT SERVICES**

CNB has limited participation in community development services. The following is a description of community development services provided in the assessment area:

A branch officer volunteers at the Hudson Senior Citizens Housing complex on a monthly basis. Residents of the complex are predominately low- and moderate-income individuals. The officer assists residents with banking needs and provides information on bank products and services.

Marlborough Neighborhood Conference - a bank officer is involved with this organization which was formed to address the decay in the French Hill section of Marlborough, a moderate income area targeted for revitalization.

Additionally, CNB provides free check cashing of government benefit checks regardless of account holder status.

**FAIR LENDING EXAMINATION**

A concurrent fair lending review did not identify any violations of the various anti-discrimination laws and regulations. CNB has effective policies, procedures and training in place to comply with fair lending regulations.

**Scope of Examination**

<b>Time Period Reviewed</b>	1/1/97 to 9/30/98		
<b>Financial Institution</b> Community National Bank, Hudson, MA			<b>Products Reviewed</b> Mortgages, small business, and consumer loans
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>		
Community Securities Corporation, Inc.	Bank Subsidiary		Investments
Community Benefits Consulting, Inc.	Bank Subsidiary		None
<b>List of Assessment Area and Type of Examination</b>			
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Branches Visited</b>	<b>Other Information</b>

Massachusetts MSA 1120, portions of Middlesex and Worcester Counties	On-site	Main Office	None
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