



Small Bank

Comptroller of the Currency
Administrator of National Banks

New England Field Office
150 Federal Street, Second Floor
Boston, Massachusetts 02110

Public Disclosure

July 20, 1999

Community Reinvestment Act Performance Evaluation

**Millbury National Bank
Charter Number 13835
18 Main Street
Millbury, Massachusetts 01527-0318**

**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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Definitions

Geography - a census tract or block numbering area.

HMDA loan - a “home improvement loan”, “refinance loan” or “home purchase loan” that is reported on the Home Mortgage Disclosure Act Report.

Home improvement loan - any loan that is for the purpose in whole or in part of repairing, rehabilitating, remodeling or improving a dwelling or the real property on which it is located and is classified by the financial institution as a home improvement loan.

Home purchase loan - any loan secured by and made for the purpose of purchasing a dwelling.

Low income - an individual income that is less than 50% of the area median income, or median family income (MFI) in the case of a geography.

Middle income - an individual income that is at least 80% and less than 120% of the area median income, or a MFI in the case of a geography.

Moderate income - an individual income that is at least 50% and less than 80% of the area median income, or a MFI in the case of a geography.

Refinance loan - any loan in which the existing obligation, involving either a home purchase or a home improvement loan, is satisfied and replaced by a new obligation.

Small Business - a business with annual revenues of \$1 million or less.

Small Business Loan - a business loan for \$1 million or less.

Upper income - an individual income that is 120% or more of the area median income, or a MFI in the case of a geography.

General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority, when examining financial institutions subject to its supervision, 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 conclusion of such examination, 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 **Millbury National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **July 20, 1999**. 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.

The primary factors supporting the overall rating are:

- ! a strong record of lending to small businesses;
- ! a strong record of making very small dollar volume loans to small businesses;
- ! a good distribution of loans to borrowers of different income levels; and,
- ! modest success of management's efforts to improve its loan to deposit ratio.

Description of Institution

Millbury National Bank (MNB) is a \$43 million independent bank located in the Town of Millbury, Massachusetts, 45 miles west of Boston. MNB has no subsidiaries or affiliates.

MNB is a full service commercial and retail bank operating in Worcester county, Massachusetts. MNB's main branch is located in Millbury, and its one branch is located in the town of North Grafton. No branches were opened or closed during the evaluation period. The Grafton branch was in the process of establishing an on-site ATM during the course of this examination.

As of March 31, 1999, net loans were approximately \$20 million, representing 46% of the bank's total assets. MNB primarily makes commercial loans, which represent over 58% the bank's total loan portfolio. Over 60% of the number of loans originated since the last CRA exam, and 80% of the dollars, were commercial loans. The next largest category of loan originations during the evaluation period is installment loans, representing 31% of the number and only 9% of the dollar volume of loans originated. Loans reportable under the Home Mortgage Disclosure Act (home purchase, refinance and home improvement loans), represent less than 5% of the number and dollars of loans originated during the evaluation period. For this reason, HMDA reportable loans are not considered to be primary product lines.

The bank holds the residential mortgage loans it originates in its portfolio. Residential mortgage loans make up 20% of the portfolio, although, as stated above, home purchase mortgage loans are not a primary product line for the bank (the bank reported only 12 purchase money mortgages for 1-4 family residences during 1997 and 1998 combined, representing only 1% of the number of loans originated and 4% of the dollars). The remainder of the bank's loan portfolio consists primarily of loans to individuals and construction and development loans, with each category representing approximately 10% of the portfolio. There are no legal or financial circumstances impeding the bank's ability to help meet the credit needs of its community.

The last CRA examination was conducted during the fourth quarter of 1996. MNB was rated "satisfactory". Information obtained from bank reports was analyzed during this examination, reviewed for accuracy and found to be reliable.

Description of Assessment Areas

MNB's assessment area meets the criteria of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The bank has delineated its assessment area as the towns in which it has its main office and branch, and the surrounding towns, all in Worcester County, where it conducts most of its lending business. The towns in the bank's assessment area are Auburn, Blackstone, Douglas, Grafton, Hopedale, Manchaug, Mendon, Millbury, Northbridge, North Grafton, North Oxford, Oxford, Shrewsbury, South Grafton, Sutton, Upton and Uxbridge. The assessment area includes all of the census tracts in each of these towns. There are a total of 29 census tracts in the assessment area, none are low or moderate income, 24 are middle income, 4 are upper income and 1 is identified as income not available.

The most recently updated median family income for the assessment area is \$52,241. Income levels are categorized based on the Department of Housing and Urban Development's estimates of median family income. Table 1 indicates the income designations of the census tracts for the assessment area. Table 2 indicates the percentage of total families in each income category, and Table 3 contains additional demographic data.

Table 1

Income Designations of Census Tracts		
	#	%
Low Income Census Tracts	None	
Moderate Income Census Tracts	None	
Middle Income Census Tracts	24	83
Upper Income Census Tracts	4	14
Not Available Census Tracts	1	3

Source: 1990 Census Information

Table 2

Income Level of Families, by Number of Families and Percent of Total Family Population		
	#	%
Low Income Families	4,858	13.51
Moderate Income Families	5,938	16.51
Middle Income Families	9,936	27.62
Upper Income Families	15,238	42.36
Total Families	35,970	100

Source: 1990 Census Information

Table 3

Additional Demographic Data	
Population	130,201
Percent owner-occupied housing	70%
Median housing value	\$147,838
Percent below poverty level	5%

Source: 1990 Census Information.

The unemployment rate in the assessment area has been decreasing steadily for several years. The average annual unemployment rates in the Assessment Area for 1997 and 1998 were 3.7% and 2.9% respectively. This assessment area unemployment data was compiled by averaging the unemployment rates for the six towns within the assessment area with the largest employment base, including the location of the bank's main office and branch (Millbury, Grafton, Shrewsbury, Auburn, Blackstone and Sutton). The source for this information was the Commonwealth of Massachusetts, Department of Housing and Community Development.

Lending competition throughout the assessment area is very strong. Small business loans were described as a primary credit need for the assessment area by both bank management and our community contact. We discussed local community credit needs and financial institution participation with an official from a regional Chamber of Commerce. He noted that there is considerable competition amongst financial institutions in these communities, and that there is a strong need for very small (under \$10,000) business loans. This need includes both working capital and start up financing. He spoke positively about the bank's responsiveness to credit needs and participation within the community.

He particularly noted the bank's participation in the Greater Blackstone Valley Community Loan Consortium, a group of five lending institutions that participate in small business micro lending (\$2,000 - \$15,000 loans with up to five year loan repayment periods). He noted that this program was an attractive alternative to SBA loans for many small business borrowers. Bank management stated that the target borrower is frequently too small to be considered for a loan at the large regional lenders. MNB is the smallest of the banks participating in this consortium, and has committed \$75 thousand to the program. As of June 30, 1999, MNB has disbursed \$52 thousand of its \$75 thousand commitment.

Conclusions with Respect to Performance Criteria

Loan to Deposit Ratio

MNB's loan to deposit ratio does not meet the standards for satisfactory performance. The loan to deposit ratio is 53% as of March 31, 1999. For the ten calendar quarters since the last CRA examination, the bank's average loan to deposit ratio equaled 54%. MNB's average loan to deposit ratio ranked at the bottom of a peer analysis of all banks with assets under \$250 million in Worcester County. The peer bank's average loan to deposit ratio for the ten calendar quarters ranged from 53% to 91%.

Loan growth at the bank is steady, showing a 6% increase from March 31, 1998 to March 31, 1999. However, deposits are growing even more quickly, increasing 10% during that same time period. Several factors work to lower the loan to deposit ratio, including the presence of significant dollar volumes of municipal deposits. Although these deposits fluctuate regularly, the total amount of municipal deposits in demand and time accounts frequently exceeds \$1 million. Additionally, the recent relocation of two competitor institutions from near the North Grafton branch has resulted in an increase in deposits into that branch. Developing those new depository customers into borrowers, however, will take additional time.

Management is concerned about the low loan to deposit ratio and has taken steps to increase this ratio, the results of which are demonstrated by an increase in the ratio from 47% as of September 30, 1998 to 53% as of March 31, 1999. This is a particularly meaningful accomplishment given the fact that the growth rate of deposits has been significantly outpacing the growth rate of loans. Specific actions taken by management which resulted in the increased loan to deposit ratio include an increased advertising campaign targeted at small businesses, a home equity loan promotion which waived the need for an appraisal and which allowed for loan closing at the bank rather than an attorney's office, and most importantly, the lowering of the rate charged on home equity loans from 1 and a half percent over prime to the prime rate. This rate reduction occurred in 1998, and its effectiveness is demonstrated by a doubling of home equity loans from 1997 to 1998, and a corresponding increase in the loan to deposit ratio.

Going forward, management has indicated a desire to increase its home purchase mortgage lending business, and to explore additional opportunities for participating in larger dollar commercial loans with other institutions. Both of these efforts should result in a continued positive loan to deposit trend.

Lending in Assessment Area

MNB's lending in its assessment area exceeds the standards for satisfactory performance. During the two year period of 1997 and 1998, MNB originated a total of 551 commercial loans for \$21.6 million. The vast majority of these loans were to businesses with annual revenues of less than \$1 million. Table 4 shows the number and dollar amount of loans originated inside and outside of the bank's assessment area. Overall commercial lending within the assessment area is particularly strong at 76% of the number and 80% of the dollar volume. Installment lending is also strong with 68% of the number and 72% of the dollar volume of originations being within the bank's assessment area.

Table 4

Commercial and Installment Loan Originations (\$000)								
1997 and 1998								
Inside vs. Outside of Assessment Area								
Loan Type	<i>Inside Assessment Area</i>				<i>Outside Assessment Area</i>			
	# Loans	%	\$ Amt	%	# Loans	%	\$ Amt	%
Commercial Loans	419	76	17,268	80	132	24	4,342	20
Installment Loans	186	68	1,662	72	88	32	662	28

Source: Bank prepared data

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

The distribution of loans to borrowers of different income levels and to small businesses exceeds the standards for satisfactory performance. 95% of the sampled commercial loan files were loans to businesses with annual revenues of less than \$1 million. Nearly half of the sampled commercial loan files were to businesses with annual revenues under \$250,000. Table 5 shows the percent of commercial originations to businesses of varying revenues. Only one of the twenty loans sampled was originated to a business with annual revenues in excess of \$1 million. The largest majority of the originations (70%) were to businesses with revenues less than \$500,000. In addition to the excellent level of lending to small businesses, MNB is also making very small loans to those businesses. The average commercial loan size originated by MNB during the two year period was \$36,000.

Table 5

Commercial Lending to Businesses of Different Revenue Size Originations in 1997 and 1998	
Revenue Size of Business*	Percent of Loan Dollars Originated
Less \$250,000	45%
\$250,001 to \$500,000	25%
\$500,001 to \$750,000	20%
\$751,000 to \$1,000,000	5%
Revenues over \$1 million	5%

* Business revenues are based upon a sample of twenty commercial loans.

Table 6 reflects a strong record of lending to low and moderate income borrowers. Although installment loans are not a primary product line for MNB, accounting for only 9% of the loan dollars originated during 1997 and 1998, we do note that home equity lending has increased in 1998 over 1997, due largely to the bank's lowering of its home equity lending rate in an effort to address its low loan to the deposit ratio. A sampling of 20 home equity loans revealed that the bank's installment loan lending record substantially exceeds the demographics of low and moderate income families in the assessment area.

Table 6

Installment Loans to consumers by family income Originations in 1997 and 1998		
Borrower Income Level*	Percent of Loan Dollars Originated	Percent of families by income level in Assessment Area
Low income	22%	13.51%
Moderate Income	22%	16.51%
Middle Income	17%	27.62%
Upper Income	39%	42.36%

* Borrower incomes were determined from a loan sample of twenty home equity loans.

Geographic Distribution of Loans

There are no low or moderate income census tracts within MNB's assessment area, therefore an analysis of the geographic distribution of loans would not be useful.

Response to Complaints

MNB did not receive any Community Reinvestment Act complaints during the evaluation period.

Results of Fair Lending Review

Our fair lending review did not identify evidence of disparate treatment or violations of the substantive provisions of the antidiscrimination laws and regulations. The scope of our fair lending review compared 5 individual female denials and 20 individual male approvals for personal, unsecured loans.