

New England Field Office
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PUBLIC DISCLOSURE

June 15, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

National Bank of Middlebury

Charter Number 1195

**30-32 Main Street, P.O. Box 189
Middlebury, VT 05753**

**Office of the Comptroller of the Currency
New England Field Office
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Boston, Massachusetts 02110-1745**

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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Geography - a census tract or block numbering area delineated by the United States Bureau of the Census.

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.

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.

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 a median family income (MFI) that is less than 50%, 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 that is at least 50% and less than 80%, 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 that is at least 80% and less than 120%, in the case of a geography.

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

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

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

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 Community Reinvestment Act (CRA) performance of **National Bank of Middlebury** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of June 15, 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 Outstanding.

The primary factors supporting this rating are:

A more than reasonable average loan-to-deposit ratio of 72%, which does not take into account \$29 million in residential mortgages sold in the secondary market during the evaluation period;

A high level of loan originations made within the assessment area;

A good record of lending to businesses of different sizes;

A reasonable record of lending to low- and moderate-income borrowers; and,

A strong level of community development activity.

DESCRIPTION OF INSTITUTION

The National Bank of Middlebury (NBM) is a \$126 million institution headquartered in northwestern Vermont in the town of Middlebury, approximately 35 miles south of Burlington. Middlebury National Corporation, a one-bank holding company, wholly owns the bank. NBM does not have any affiliate or subsidiary business relationships. NBM has its main office and

two branches, one full service and one limited service drive-up, in Middlebury. An additional full service branch is located in Bristol, VT. Each of the full service branches, including the main office, offers extended business hours and 24 hour ATMs. ATM service is also available at four remote sites located in the towns of Middlebury, North Ferrisburg, Shoreham and Salisbury, VT.

NBM is primarily a residential mortgage and small business lender. In addition to these loans, NBM offers a full array of loan products. As of March 31, 1999, the loan portfolio totaled \$79.8 million, or 62% of total assets. The loan portfolio consists primarily of first lien residential real estate loans (50%), commercial loans (31%) and commercial real estate loans (6%). The remainder of the loan portfolio consists of residential lines of credit (4%), junior lien residential real estate loans (3%), consumer loans (3%) and other loans (3%). NBM is one of the most active SBA lenders in Vermont and the most active lender in Addison County according to the U.S. Small Business Administration. NBM actively sells mortgages on the secondary market. The bank was assigned an "outstanding" CRA rating at the preceding examination dated February 13, 1996. There are no financial or legal impediments affecting the bank's ability in helping to meet the credit needs of the assessment area.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

NBM defines all of Addison County as its assessment area. Addison County consists of 12 Block Numbering Areas (BNA) including 10 middle-income, one upper-income and one non-applicable tract. There are no low- or moderate-income BNA's in the assessment area. The assessment area is not located within any Metropolitan Statistical Area. This assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

The population of Addison County is nearly 33,000. The Updated Statewide Non-Metropolitan Median Family Income is \$38,200. Families within the assessment area are comprised of 16% low-income, 17% moderate-income, 25% middle-income and 42% upper-income. The median housing value for the area, \$93 thousand based on 1990 Census Data, limits home ownership opportunities for low- and moderate-income families. The median age of the housing stock is 37 years, which can further limit home ownership opportunities by increasing rehabilitation and maintenance costs. Owner occupied housing accounts for 60% of the total, rental housing 21% and vacant housing units 19% of the housing stock.

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NBM is one of only two locally owned banks within Addison County. The other locally owned bank is considerably smaller than NBM and is not considered a direct competitor. However, a number of other bank and non-bank competitors operate branches within Addison County and surrounding communities. NBM's primary competitors include Chittenden Bank, Vermont National Bank, Vermont Federal Credit Union, Albank and Key Bank.

Economic conditions in the assessment area are strong. Unemployment in the area is low.

Management estimates that unemployment in Addison County is consistent with the overall Vermont rate of 2.6%. This compares well with the national unemployment rate of 4.3%. Major employers in the area include Middlebury College, Porter Medical Center, Standard Register and BF Goodrich. Middlebury College is a stabilizing factor for the local economy. Tourism, high technology and agriculture are also significant sectors of the economy and are represented by a number of smaller employers.

Bank management and a community contact indicated that residential real estate loans, both to purchase and improve properties, are a local credit need. The community contact, a director of a local non-profit affordable housing group, also indicated that higher education assistance is a major local credit need for people at all income levels.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

This review covered the time period from January 1, 1996 to March 31, 1999. We based our analysis on a random sample of 40 residential real estate loans and 20 commercial loans originated during 1998. These loan types represent a majority of the bank's lending and on a combined basis account for approximately 87% of the bank's loan portfolio. We used loans originated during 1998 as a proxy for loans originated during the entire assessment period. Management confirmed that 1998 originations are representative of the bank's lending practices throughout the entire evaluation period.

Loan to Deposit Analysis

NBM's loan-to-deposit ratio exceeds the standard for satisfactory performance. NBM's loan-to-deposit ratio is more than reasonable given its size, financial condition and assessment area credit needs. The quarterly average loan-to-deposit ratio over the past 13 quarters is 72%. This is more than reasonable as it does not take into account \$29 million in residential loans sold to the secondary market during the evaluation period. By selling these loans, NBM has been able to continue to make loans within the community while maintaining the bank's liquidity. NBM's loan-to-deposit ratio fluctuated between a high of 78% and low of 61% during this period. The bank's loan-to-deposit ratio as of March 31, 1999 is 75%. While there are no similarly situated institutions in the assessment area, the 13 quarter average loan-to-deposit ratio for 13 Vermont banks with total assets between \$25 million and \$175 million ranges from 57% to 93%.

Lending in Assessment Area

NBM's lending within the assessment area exceeds the standard for satisfactory performance. Our random sample of 20 commercial loans found that 100% of the loans were originated within the bank's assessment area. Our random sample of 40 residential mortgage loans found that 98% of the number and 96% of the dollar volume of real estate loans were originated within the assessment area. Management's tracking of the lending activity indicates that 95% of the number of all loans originated during 1996, 1997 and 1998 were originated within the

assessment area. By all measures, NBM's lending within its assessment area demonstrates a strong commitment to the assessment area.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

NBM's lending to businesses of different sizes and borrowers of different incomes meets the standard for satisfactory performance.

Businesses of Different Sizes

NBM does a good job of lending to small businesses. Small businesses are defined as businesses with total annual revenues of \$1 million or less. As discussed previously in this report, NBM is one of the most active SBA lenders in Vermont and the most active in Addison County. According to the U.S. Small Business Administration (SBA), NBM originated 46% of the number and 52% of the dollar volume of all SBA loans made in Addison County during the SBA's fiscal year ending September 30, 1998. For our review, we sampled 20 commercial loans totaling \$1.3 million. As illustrated in Table 1, 75% of the number and 82% of the dollar volume of commercial loans were made to small businesses. This performance compares reasonably to the 92% of non-farm businesses operating in the assessment area that are considered small businesses.

Table 1

Percentage Distribution of Business Lending By Annual Revenue					
Revenue		< \$1,000,000		> \$1,000,000	
Number		15	75%	5	25%
\$ Amount*		\$1,093	82%	\$235	18%

* Dollar amounts are represented in thousands

We also analyzed NBM's business lending performance based on loan size. As illustrated in Table 2, NBM demonstrates a strong willingness to help meet the credit needs of borrowers with modest financing requirements. Based on our sample, all of the loans were for amounts of less than \$250 thousand.

Table 2

Percentage of Commercial/Commercial Real Estate Loan Originations By Size for 1998							
		< \$100,000		\$100,000 - \$250,000		> \$250,000	
Number		14	70%	6	30%	0	0%
\$ Amount*		\$512	39%	\$816	61%	\$0	0%

* Dollar amounts are represented in thousands

Borrowers of Different Incomes

NBM's lending to borrowers of different incomes is reasonable. Residential mortgage lending is the bank's primary consumer focus and first lien residential mortgage loans comprise 50% of the bank's loan portfolio. Table 3 shows the results of our random sample of 40 first lien residential mortgages originated during 1998. We found that 12.5% were made to low-income borrowers and 10% were made to moderate-income borrowers.

As stated earlier, a factor inhibiting residential lending to low- and moderate-income families is the relatively high cost of housing in the area. Based on an Updated Statewide Non-Metropolitan Median Family Income of \$38,200, low- and moderate-income families earn less than \$30,560 a year. This is less than one-third of the median housing value of \$93 thousand based on 1990 census data. Even without taking into account the increases in housing values since 1990, low- and moderate-income borrowers would find it difficult to afford a home in the area. However, NBM is meeting the housing needs of low- and moderate-income families through Community Development Investments and Loans. These are discussed in further detail below.

Table 3

Analysis of NBM's Lending by Borrower Income				
	Low	Moderate	Middle	Upper
NBM's Lending Pattern	12.5%	10.0%	27.5%	50.0%
Family Distribution of Assessment Area	16%	17%	25%	42%

Community Development Activities

NBM demonstrates a strong commitment to the assessment area through community development activities that assist low- and moderate-income families.

Investments

NBM actively purchases qualified investments to promote affordable housing in the area. NBM invested a total of \$542 thousand in three different investments, including \$290 thousand in two Low Income Housing Tax Credits and \$252 thousand in a Bond, during the evaluation period. These investments contributed to the creation or renovation of 89 low-income housing units, including many that are designed to provide perpetual low-income housing. The Tax Credits involve the investment of \$140 thousand in a 19-unit facility and \$150 thousand in a 25-unit facility, both located in the bank's assessment area. The bond is a Vermont Housing Finance Agency Housing Project Bond, the funds of which were used to purchase and renovate a 45-unit mobile home park for low-income housing.

Prior to this evaluation period, NBM invested \$260 thousand in three different Low Income Housing Tax Credits that contributed to the creation or renovation of 52 low-income housing units. These investments included \$120 thousand in a 34-unit facility, \$40 thousand in a 9-unit facility and \$100 thousand in a 9-unit facility. Two of these properties are located in the assessment area with the third (\$100 thousand) located just outside the area in the town of Brandon. The balance of these investments as of May 31, 1999 is \$120 thousand.

Loans

NBM supplements its direct residential lending to low- and moderate-income families with community development loans made to several non-profit community groups in the area. The groups use these loans to purchase, develop or renovate affordable housing for low- and moderate-income families. NBM made three community development loans totaling \$197 thousand to a local non-profit housing advocacy group during the evaluation period. These loans were used to purchase or renovate 11 residential units for low- or moderate-income housing. One similar loan made to the same group, originated prior to this evaluation period, remains on the books with a balance of nearly \$42 thousand as of March 31, 1999. NBM also made one community development loan totaling \$148 thousand to a second low-income housing advocacy group during the evaluation period. This loan was used, in part, to upgrade 11 residential units for low-income housing. Two similar loans made to this group prior to this evaluation period remain on the books with a combined balance of approximately \$113 thousand as of March 31, 1999.

The bank also maintains a \$10,000 interest free deposit with the Vermont Development Credit Union. This deposit provides funds for loans to assist low- and moderate-income Vermont residents.

Services

NBM personnel provide support for several groups in the area which promote affordable housing or provide other assistance to low- and moderate-income families. The bank's president, G. Kenneth Perine, serves on the boards of Housing Vermont, an organization providing low- income tax credit housing, and the Interfaith Housing Corporation, an affordable housing development. Other senior bank personnel serve on the boards of the Addison County community Trust, an affordable housing advocacy group; and Habitat for Humanity, a housing assistance group. As Board members, bank personnel contribute their financial expertise to help the organizations accomplish their community development goals.

Geographic Distribution of Loans

There are no low- or moderate-income Block Numbering Areas within the bank's assessment area. As a result, an analysis of the geographic distribution of loans would not be meaningful.

Response to Complaints

The NBM has not received any complaints during this evaluation period.

Record of Compliance with Anti-discrimination Laws

A fair lending examination was performed concurrently with this examination. For this review, we compared loan terms given to single women and single men on all residential real estate loans originated from January 1 through June 15, 1999. Based on this review, NBM's performance under the Fair Lending laws is satisfactory. We did not identify any violations of the substantive provisions of the anti-discrimination laws and regulations.