



Comptroller of the Currency
Administrator of National Banks

Small Bank

Northeastern District
New England Field Office
150 Federal Street, Second Floor
Boston, MA 02110-1745

PUBLIC DISCLOSURE

November 16, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First Brandon National Bank
Charter Number 278**

**2 Park Street
Brandon, Vermont 05733**

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.

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 **First Brandon National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of November 16, 1998. 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 following factors support the bank's overall rating:

- A strong average loan to deposit ratio of 91% over the past seven quarters.
- A high ratio of loan originations, 92.7%, made within the assessment area.
- A strong distribution of credit to borrowers of different income levels which materially exceeds other lenders in the marketplace.
- A significant percentage, 87.2%, of commercial lending is to small businesses.

The following table indicates the performance level of **First Brandon National Bank** with respect to each of the five performance criteria.

Small Institution Assessment Criteria	First Brandon National Bank Performance Levels		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-deposit ratio	X		
Lending in assessment area	X		
Lending to borrowers of different incomes and to businesses of different sizes	X		
Geographic distribution of loans	Not meaningful		
Response to complaints	No CRA related complaints were received since the prior examination		

DESCRIPTION OF INSTITUTION

First Brandon National Bank (FBNB) is a \$66 million community bank located in Rutland County in western Vermont. The bank is not owned by a holding company. FBNB's main office is located in downtown Brandon. The bank has one full-service branch in Pittsford and a remote drive in facility in Brandon. The main office and the Pittsford branch have automated teller machines. A third ATM was opened in Middlebury in July 1998.

There are no other banks located within the towns of Brandon and Pittsford. However, competition comes from larger financial institutions, credit unions, and other mortgage and non

bank finance companies located in towns adjacent to Brandon. These include Vermont National Bank, Chittenden Bank, Middlebury National Bank and General Motors Acceptance Corp.

FBNB offers a wide variety of loan products. As of September 30, 1998, the loan portfolio totaled \$49.2 million or 74.5% of total assets. The loan portfolio was segmented as follows: 57% or \$28 million in residential mortgages, 21% or \$10.3 million in commercial and commercial real estate loans, 17% or \$8.5 million in consumer loans and 5% or \$2.4 million in municipal loans. The bank does not sell mortgages on the secondary market. The bank participates in loan programs with the Vermont Housing Finance Authority, the Small Business Administration and the Vermont Economic Development Authority.

There are no legal or financial impediments that would prevent FBNB from helping to meet the credit needs of the community.

DESCRIPTION OF ASSESSMENT AREA

FBNB has defined one assessment area which consists of 20 block numbering areas (BNA's) located in Rutland and Addison counties. The assessment area is not located within any Metropolitan Statistical Area. The BNA's making up the assessment area consist of 16 middle income, three upper income and one BNA where income information was unavailable. There are no low- or moderate-income BNA's.

The total population of the assessment area is 61,567. The 1998 statewide nonmetropolitan median family income for Vermont is \$38,200. Median housing value for the area is \$94 thousand, and the median age of the housing stock is 44 years. Owner occupied housing comprises 56% of the total housing stock. The high average housing cost limits home ownership for low income families.

The principal economic sectors in the town of Brandon consist of local government, services and retail trade. Agriculture is becoming a decreasing portion of the economy. Major employers in the Brandon area include the manufacturing firms of Nexus Custom Engineering, Carris Reels, Vermont Tubbs and New England Woodcraft. There are approximately 2,100 businesses within the assessment area. 91% of these businesses are considered small businesses with annual revenues of \$1 million or less. 80% of the businesses have a total employee size of 1-4 individuals.

The seasonally adjusted state unemployment rate of 3.2%, as of September 1998, was slightly better than the comparable national average unemployment rate of 4.6%. The unemployment rate for the assessment area was 2.8%.

Management has identified affordable housing as a primary credit need. The need for affordable housing and rehabilitation loans was echoed by the community contact meeting.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

SCOPE OF REVIEW

We based our analysis on a random sample of 137 loans originated between October 1, 1996 to November 16, 1998. The sample consisted of residential real estate mortgages, commercial loans and consumer instalment loans. When combined, these three loan types make up 95% of the loan portfolio. We included ballooned residential real estate mortgages in our sample as management requires a new application and financial information prior to terming out the principal balance into a new note. The consumer instalment loan portion of the sample consisted of consumer secured, unsecured and motor vehicle loans. We included consumer loans as part of our sample due to the growth in consumer lending over the past two years. Consumer loans increased from 9% to 17% of the total loan portfolio.

LOAN TO DEPOSIT RATIO

FBNB's average loan to deposit ratio for the past seven quarters of 91% is strong. This ratio is the fourth highest average for the 16 small banks in Vermont (defined as banks with total assets less than \$250 million). Small banks in Vermont had loan to deposit ratios ranging from 60% to 97%.

LENDING IN ASSESSMENT AREA

We reviewed the distribution of the bank's primary loan products over a 25-month period between October 1, 1996 and November 16, 1998. An analysis of the primary loan products show that 93% by number and 96% by dollar volume were originated in the assessment area. The following table reflects the loan originations in the bank's assessment area for the period reviewed. (Dollar amounts are represented in thousands).

Loan Originations - October 1, 1996 - November 16, 1998								
Loan Type	<i>Inside Assessment Area</i>				<i>Outside Assessment Area</i>			
	# Loans	%	\$ Amt	%	# Loans	%	\$ Am	%
REM	51	92.7	2,215	95.6	4	7.3	102	4.4
Comml	39	92.9	1,422	95.2	3	7.1	72	4.8
Cons. ISL	37	92.5	474	97.5	3	7.5	12	2.5
Total	127	92.7	4,111	95.7	10	7.3	186	4.3

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

FBNB's lending to borrowers of different income levels is strong. From our random sample of 51 residential mortgages originated in the assessment area, we determined that 11.8% were made to low income borrowers and 25.5% were made to moderate income borrowers. This level of mortgage lending compares favorably to other mortgage lenders in the area. The 1997 peer data for Home Mortgage Disclosure Act (HMDA) reportable lenders who originated mortgages in the assessment area show that 7.9% were to low income borrowers and 19.6% were to moderate income borrowers. In both cases, FBNB's lending pattern to low-and moderate-income borrowers exceeds other mortgage lenders active in the bank's assessment area.

Analysis of FBNB's Lending by Borrower Income October 1, 1996 - November 16, 1998					
	Low	Moderate	Middle	Upper	Not available
FBNB's Lending Pattern	11.8%	25.5%	27.4%	35.3%	0%
Other HMDA Reporters in Market	7.9%	19.6%	28.6%	38.1%	5.2%
Family Distribution of Assessment Area	16%	18%	26%	40%	0%

We reviewed a sample of 37 consumer instalment loans to evaluate lending to borrowers of different incomes. For consumer loans, 21.6% by number were made to low income borrowers and 19% were made to moderate-income borrowers. This level of lending exceeds the area's distribution of low-and moderate-income families. (Dollar amounts are represented in thousands).

Consumer Loan Originations									
		Low		Moderate		Middle		Upper	
# loans	%	8	21.6%	7	19%	13	35.1%	9	24.3%
\$ Amt	%	25	5.2%	96	20.2%	177	37.3%	177	37.3%
Family Distribution		16%		18%		26%		40%	

The bank does a good job of lending to small businesses. Our loan sampled included 39 commercial loans totaling \$1.4 million. The sample disclosed that 34 loans or 87.2% of loans were made to small businesses, defined as businesses with annual revenues less than \$1 million.

As described earlier in this report, a significant portion of all businesses operating in the Brandon area are small businesses. This lending volume exhibits management's efforts to address the credit needs of small businesses. The following chart details the loan size at origination. (Dollar amounts are represented in thousands).

Commercial Loans Loan Size at Origination							
Loan size		< \$100,000		\$100,000 - \$250,000		>\$250,000 - \$1,000,000	
# loans	%	37	94.8%	1	2.6%	1	2.6%
\$ Amt	%	978	68.8%	163	11.5%	281	19.7%

GEOGRAPHIC DISTRIBUTION OF LOANS

An analysis of the geographic distribution of loans by census tract/BNA was not meaningful as there are no low- or moderate-income BNA's in the bank's assessment area.

RESPONSE TO COMPLAINTS

FBNB has received no complaints relating to CRA performance since the prior CRA examination.

FAIR LENDING EXAMINATION

A fair lending examination was performed concurrently with this examination. FBNB's performance under the fair lending laws is satisfactory. The institution is in compliance with all substantive portions and technical provisions of the anti-discrimination laws and regulations. No disparate treatment was noted.