
Comptroller of the Currency
Administrator of National Banks

Boston Duty Station
150 Federal Street, Second Floor
Boston, Massachusetts 02110

PUBLIC DISCLOSURE

October 24, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Lancaster National Bank
Charter Number 2600**

**Post Office Box 109
Lancaster, New Hampshire 03584**

**Office of the Comptroller of the Currency
Boston Duty Station
150 Federal Street
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 Community Reinvestment Act (CRA) performance of **Lancaster National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of October 24, 1996. 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."

Primary factors supporting the bank's overall rating include:

- ▶ An average loan to deposit ratio of 64% for the past eight quarters beginning September 30, 1994;
- ▶ A substantial majority of the residential mortgages and commercial loans are within the assessment area;
- ▶ Lending to borrowers of different income levels is good;
- ▶ The distribution of lending by geography is reasonable; and
- ▶ The bank's lending to small businesses is strong.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>LANCASTER NATIONAL BANK</u> 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		X	
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

Lancaster National Bank (LNB) is a \$38 million bank located in Coos County, which is in northern New Hampshire. The bank does not have a holding company. LNB's main office is located in downtown Lancaster. The bank has two branches, one a deposit-taking facility also in Lancaster, and the other a full service branch located in nearby

Whitefield. The bank has one automated teller machine located at the deposit-taking branch in Lancaster. Competition in the area is moderate. The town of Lancaster has a total of three banks, two of which are headquartered here, and one is a branch of a neighboring community bank.

LNB offers a variety of loan products. As of June 30, 1996, the bank's loan portfolio of \$22 million (comprising 58% of total assets) is primarily made up of 66% residential mortgages, 24% commercial and commercial real estate loans, and 7% installment loans. Loan demand has been low, with a 4% decline in the loan portfolio for the past year. Weak loan demand has been caused primarily by the stagnant local economy. The bank does not sell any of its mortgages into the secondary market, nor does the bank purchase loans. There are no legal impediments which would hinder the bank in helping to meet the credit needs of its assessment area.

DESCRIPTION OF ASSESSMENT AREA

LNB's assessment area meets the requirements of the CRA regulation and does not arbitrarily exclude any low- or moderate-income areas. LNB has defined one assessment area which consists of five block numbering areas (BNAs). This area is not located within any MSA. The geographies by income category within the assessment area consist of one moderate and four middle-income BNA's. There are no low or upper income BNA's.

The total population of the assessment area is 13,909. The statewide nonmetropolitan median family income for New Hampshire is \$41 thousand. Median housing value for the area is \$75 thousand, and median age of the housing stock is 38 years. Owner-occupied housing comprises 52% of the total.

Tourism and the logging industry are the main sources of revenue for the areas. Primary employers in the area are Weeks Memorial Hospital and the paper mills. The local economy is stable, with "bed and breakfast" facilities doing well. Unemployment within the assessment area is 4%.

Small business and housing-related lending were described as the primary needs for the area by community contacts.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

LOAN TO DEPOSIT RATIO

LNB's loan to deposit ratio is reasonable. LNB's average loan to deposit ratio for the past eight quarters was 64%. Average loan to deposit ratios for the twenty-eight small banks in the state of New Hampshire range from 30% to 89%. The four small banks located in Coos County had average loan to deposit ratios from 56% to 72%.

LENDING IN ASSESSMENT AREA

The distribution of LNB's primary loan products (residential real estate mortgages-REM, commercial-Comml, and commercial real estate loans-CRE) shows that 89% of the total by number and 92% by dollar amount are made within the assessment area. The focus of our review was on these products, as this makes up the majority of LNB's loan portfolio. We used a combination of management reports, which we reviewed and found to be accurate, and loan files to assess our sample. Please refer to the table below for percentages of different loan products within the assessment area. (\$ Amt-000's)

Loan Originations - January 1, 1995 - September 30, 1996								
Loan Type	Inside Assessment Area				Outside Assessment Area			
	#Loans	%	\$Amt.	%	#Loans	%	\$Amt.	%
REM	101	92	4,477	95	9	8	240	5
Comml	50	83	992	80	10	17	255	20
CRE	15	94	1,199	96	1	6	48	4
Total	166	89	6,668	92	20	11	543	8

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

LNB's lending to low and moderate income individuals is good. The actual percentages of low, moderate, middle, and upper income families in the assessment area are 24%, 22%, 29%, and 25% respectively. Our analysis of lending to borrowers of different incomes is based on a sampling of the bank's residential real estate lending activity. For the time period beginning January 1, 1995, and ending September 30, 1996, we sampled 33% of originations. The following table indicates the level of residential real estate lending by income levels. (\$Amt-000's)

Residential Real Estate Originations - January 1, 1995 - September 30, 1996				
	# Loans	% of sample	\$ Amt.	% of sample
Low Income	4	11	57	5
Moderate Income	13	36	424	34
Middle Income	12	33	388	30
Upper Income	7	20	391	31

LNB does a significant volume of its commercial lending to small businesses (businesses with less than \$1 million per year in gross annual revenues). There was a total of 76 new business loans made from January 1995 through September 1996. The average commercial loan size was \$33 thousand. Ninety-one percent of the loan originations were for loans less than \$100 thousand. We sampled 18 (24%) of the originations to determine the borrower's gross annual revenues. Our sample disclosed that 98% of business loans originated were to small businesses.

GEOGRAPHIC DISTRIBUTION

An analysis of LNB's lending by number of residential mortgage, commercial, and commercial real estate originations from January 1, 1995, through September 30, 1996, showed there was lending in all BNA's within the assessment area. There were 22% of originations in the bank's one moderate-income BNA and 78% in the remaining four middle-income BNAs. This is a reasonable penetration within the BNA's in the bank's assessment area.

We found no violations of the substantive provisions of the antidiscrimination laws and regulations.