



**LARGE BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

**Public Disclosure**

**August 16, 2005**

**Community Reinvestment Act  
Performance Evaluation**

**Community National Bank  
Charter Number: 1368**

**4811 U. S. Route 5  
Derby, VT 05829**

**Office of the Comptroller of the Currency**

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Boston, Massachusetts 02110**

**NOTE: This document is an evaluation of this 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. This evaluation is not, and should not 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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## Overall CRA Rating

**Institution’s CRA Rating:** This institution is rated **Outstanding**.

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

<b>Performance Levels</b>	Community National Bank of Derby Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding	X	X	X
High Satisfactory			
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			

\* The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

The major factors that support this rating include:

- Excellent lending activity in the bank's assessment area (AA).
- Excellent geographic distribution of loans.
- Excellent distribution of small business loans based on size of business and geography.
- Excellent level of community development lending, which has a positive impact on the Lending Test.
- Product innovation and flexibility, which has a positive impact on the Lending Test.
- Excellent level of community development investments.
- Branches readily accessible to geographies and individuals of different income levels.
- CNB is a leader in providing community development services that are responsive to community credit needs.

## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Census Tract (CT):** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community Development (CD):** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

**Community Reinvestment Act (CRA):** the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Full Review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the U.S. Census Bureau in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn). Beginning in 2004, the reports also include data on loan pricing, the lien status of the collateral, any requests for preapproval and loans for manufactured housing.

**Home Mortgage Loans:** Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited Review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Median Family Income (MFI):** The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

**Metropolitan Area (MA):** Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget and any other area designated as such by the appropriate federal financial supervisory agency.

**Metropolitan Division:** As defined by Office of Management and Budget, a county or group of counties within a Metropolitan Statistical Area that contains a population of at least 2.5 million. A Metropolitan Division consists of one or more counties that represent an

employment center or centers, plus adjacent counties associated with the main county or counties through commuting ties.

**Metropolitan Statistical Area (MSA):** An area, defined by the Office of Management and Budget, as having at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other Products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated Area:** A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

**Small Loan(s) to Business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

**Small Loan(s) to Farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Tier One Capital:** The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

**Upper-Income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.

## Description of Institution

Community National Bank of Derby (CNB) is a financial institution headquartered in Derby, Vermont. It is owned by a single-bank holding company, Community Bancorp, which is also located in Derby. The bank's main office is located in Derby with branches located in the cities and towns of Barre, Barton, Derby Line, Island Pond, Montpelier, Newport, St. Johnsbury, and Troy. The branch locations are located in the Vermont counties of Caledonia, Essex, Orleans, and Washington. The Montpelier branch was opened in 2001 and the Barre branch in 2003. No branches have been closed during this evaluation period. The bank also has automated teller machines (ATMs) at each of the office locations as well as cash machines at offsite locations. The bank has an affiliate, Community Financial Services Group LLC, which provides trust and investment services. However, no consideration was given to this affiliate for analysis of the bank's CRA performance.

CNB is a full-service commercial bank providing consumer and commercial banking products and services. Commercial customers are primarily small and medium size businesses in a variety of industries. Commercial loan products include secured and unsecured business loans, commercial real estate mortgages, farm loans, and commercial leases. Products available to small businesses include guaranteed loan programs through the Small Business Administration, Rural Development, and Northern Community Investment Corporation. Consumer loan products include fixed and adjustable rate mortgages, home equity lines of credit, home improvement, automobile, mobile home, credit cards and personal notes. Bank management has identified affordable housing and assistance to small businesses as primary credit needs in the assessment area.

As of June 30, 2005, CNB has \$320 million in total assets and \$259 million total deposits. Tier one capital is \$29.1 million. Assets are centered in loans that comprise 73% of total assets. The total loan portfolio of \$234.7 million is 82% real estate, 9% commercial, 9% consumer. The bank has no financial or legal impediments to meeting the credit needs of the community.

At the prior CRA Public Evaluation of CNB as of March 30, 1998, we used small bank CRA guidelines that resulted in an "Outstanding" CRA rating.

## Scope of the Evaluation

### Evaluation Period/Products Evaluated

The evaluation period for the Lending Test, with the exception of community development (CD) loans, consisted of a specific period between January 1, 2002 and December 31, 2004. This corresponds to the period in which the bank was considered a large bank for CRA evaluation purposes. We also evaluated the bank's lending performance between the years 1999 to 2001, the period in which it was still a small bank, and found similar results. Information collected for 2002 is compared to 1990 Census Data, while information for 2003 and 2004 is compared to 2000 Census Data. The evaluation period for CD loans, the Investment Test and Service Test is April 1, 1998 through August 15, 2005.



We evaluated home mortgage, small loans to businesses and farms, and home equity loans. Home mortgage (purchase and refinance) and small loans to businesses are considered primary products of the bank given the volume of originations. Our analysis is based on sample testing performed for home mortgage loans as we were unable to segregate home purchase, home refinance, and home improvement loans given the bank's reporting system. We did not identify any home improvement loans in our sample. Therefore, data presented in the Lending Test and tables conclude on home mortgage purchase and home mortgage refinance loans. We reviewed home equity loans, at the bank's option. Our analysis is based on sampled loans.

## **Data Integrity**

CNB's reportable small loans to businesses and small loans to farms were tested for accuracy prior to this evaluation. While CNB is not a HMDA reporter, we did test the accuracy of collected home mortgage information as the bank had collected the appropriate income information for each loan. Testing revealed accurate and reliable information for this CRA evaluation.

## **Selection of Areas for Full-Scope Review**

We performed a full-scope review on the CNB-Derby assessment area (AA). The bank has only one AA, which does not consist of an MSA and that is comprised of the cities and towns in the Vermont counties of Orleans, Caledonia, Essex, and Washington. The AA accounts for the substantial majority of loans made by CNB.

## **Ratings**

The bank's overall rating is based the CNB-Derby AA that received full-scope review.

## **Community Contact**

We made contact with two area community organizations. One organization is a nonprofit agency dedicated to providing affordable housing to low- and/or moderate-income residents. The contact stated that affordable housing remains a critical issue for the area. Home prices have risen significantly in the past few years due to the influx of investors and buyers from out of state who have purchased local properties as second homes and investment properties. The contact did state that CNB is highly active in participating in programs for affordable housing.

The second contact was made with a nonprofit, community-based corporation that focuses on generating and preserving job growth for the region. It provides capital and assistance to a wide range of businesses and community development ventures. The organization works with financial institutions to provide funding for those businesses which typically are unable to access conventional financing. According to this contact, major credit needs in the area are small business financing - especially of micro-businesses - and affordable housing. The contact also stated that given the decline in manufacturing in the state, more individuals are taking the opportunity to start small businesses. This organization has a close working relationship with CNB, who is its major source of referrals of borrowers.

## **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices.

### **Conclusions with Respect to Performance Tests**

#### **LENDING TEST**

##### **Conclusions for Areas Receiving Full-Scope Reviews**

The bank's performance under the lending test is rated "Outstanding." Based on this full-scope review, the bank's performance in its assessment area is excellent.

##### **Lending Activity**

Refer to Tables 1 Lending Volume in appendix C for the facts and data used to evaluate the bank's lending activity.

The bank's volume of lending is reasonable. Data presented in Table 1 provide details on home mortgage loans, small loans to business and farms, and community development (CD) loans made in the evaluation period. The average loan-to-deposit ratio since the last public evaluation is 78%. More recently, the bank's average loan-to-deposit ratio is 81% in the past four quarters. CNB also has a significant volume of secondary mortgage market sales, which we considered in analyzing its overall lending volume.

##### **Distribution of Loans by Income Level of the Geography**

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

Refer to Table 2 and Table 4 in appendix C for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases.

The bank's distribution of home purchase loans to borrowers in different income geographies is excellent. The bank has no low-income geographies in its AA, so this analysis emphasizes the distribution of loans in moderate-income geographies. For each year in the evaluation period, the proportion of home purchase loans in moderate-income geographies exceeds the proportion of owner-occupied housing units that are within those geographies. Notably in 2004, the bank originated 62.5% of its loans in moderate-income tracts compared to 18.3% of all owner-occupied units located there. This reflects a favorable trend for the bank, as only 50% of housing units in moderate-income tracts are owner-occupied; whereas, 31% are vacant and 19% are rentals. As the bank is not a HMDA reporter, no market share data are available for comparison. Within the bank's AA, there are 34,517 owner-occupied housing units, which represent 56% of all housing units per 2000 Census Data.

The bank's distribution of home refinance loans to borrowers in different geographies is excellent. Again, the bank's distribution of loans exceeded demographic indicators for each year in the evaluation period.

### ***Small Loans to Businesses***

Refer to Table 6 in appendix C for the facts and data used to evaluate the geographic distribution of the bank's origination/purchase of small loans to businesses.

CNB's geographic distribution of small loans to businesses is excellent in its AA. Our analysis emphasized performance in the moderate-income geographies, as the bank has no low-income geographies in its AA. The bank's lending to businesses in moderate-income geographies significantly exceeds the portion of businesses located in those geographies for 2002, 2003 and 2004. In addition, the bank's market share in moderate-income geographies for 2002 and 2003 is significantly higher than its overall market share (9.13%) for small loans to businesses. No market share data were available for 2004.

### ***Small Loans to Farms***

Refer to Table 7 in appendix C for the facts and data used to evaluate the geographic distribution of the bank's origination/purchase of small loans to farms.

Though farm loans are not a significant portion of the bank's loan portfolio, we did analyze the bank's trends. CNB's geographic distribution of small loans to farms is excellent in its AA. The bank's lending to farms in moderate-income geographies significantly exceeds the portion of farms located in those geographies for 2002, 2003 and 2004. Notably, the bank's market share in moderate-income geographies for 2002 and 2003 is significantly higher than its overall market share for small loans to farms. No market share data were available for 2004.

### ***Consumer Loans***

Refer to Table 13 in appendix C for the facts and data used to evaluate the geographic distribution of the bank's consumer loan originations and purchases.

The bank's geographic distribution of home equity loans is excellent. The bank has no low-income geographies in its AA, so this analysis emphasizes the distribution of loans in moderate-income geographies. During the evaluation period, the origination of bank loans in moderate-income geographies exceeded the distribution of households located in those tracts. For 2004, 43% of bank loans were made in moderate-income geographies in comparison to 18% of all AA households located there. This demonstrates that CNB has products and services to meet the needs of households in the moderate-income tracts.

### **Lending Gap Analysis**

We reviewed reports detailing CNB's lending activity over the evaluation period for home mortgage loans, small loans to businesses and farms, and consumer loans to identify any gaps in the geographic distribution of loans. We did not identify any conspicuous or unexplained gaps in lending.

## **Inside/Outside Ratio**

CNB-Derby has made 95% of the number of loans reviewed within its AA. This represents an overwhelming majority of loans that benefit the residents in the AA. Specifically, the bank made 93% of mortgages, 95% of small loans to businesses, and 98% of home equity loans to borrowers inside the AA. The bank's lending volume is in line with business strategy and resources.

## **Distribution of Loans by Income Level of the Borrower**

### ***Home Purchase Loans***

Refer to Table 8 and Table 10 in appendix C for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.

CNB's distribution of home purchase loans to borrowers of different income levels is adequate given several performance context factors. For 2002, the bank's distribution of loans to low-income borrowers is lower to near demographic data. However, in 2003 and 2004, our sample revealed no home purchase loans to low-income borrowers. CNB's distribution of mortgage loans to low-income borrowers is unfavorable in comparison to the percentage of low-income families in the AA. Several performance factors make this understandable. In evaluating the bank's performance, we considered the number of households that live below the poverty level, the lack of affordable housing, and the significant increase in home prices in the region. These factors pose barriers to home ownership for a low-income person. It is especially difficult for the low-income population that lives below the poverty line to afford and maintain a home. The median cost of a home is \$94 thousand per 1990 Census Data and approximately \$110 thousand per 2000 Census Data. Information provided by community contacts confirms that home prices have been driven up significantly due to out-of-state retirees and investors purchasing second homes.

In comparison, CNB has done a good job of addressing the home purchase credit needs of moderate-income borrowers in its AA. For 2002, the percentage of bank loans made to moderate-income borrowers is near the portion of moderate-income families in the AA. In 2003, there are no loans to moderate-income borrowers in our sample. However, our sampling only resulted in two loans for that period and with such a small sample, the results are skewed. In 2004, the bank's portion of home mortgage loans to moderate-income borrowers significantly exceeds the portion of moderate-income families in the AA. This represents an excellent lending trend in comparison to demographic data. Across these years, the bank's lending to moderate-income borrowers is good. No market share data are available for analysis.

While the sample testing revealed a low to no penetration of loans to low-income borrowers, the bank is the largest provider of Vermont Housing Finance Agency (VHFA) loans. This loan program offers more flexible underwriting and lower or no down payment requirements. Between the years 1999 to 2005, the bank generated 164 VHFA loans in Orleans County, 31 in Caledonia County, and 96 in Washington County. Across these counties, the bank's share

represents 22% of total VHFA loans originated. Based on this information, it is evident that CNB attempts to make use of various loan programs to assist low-income borrowers. CNB also has significant competition from a large regional bank that offers a competitive product to the VHFA loan program for low-income borrowers.

Our sampling process resulted in a small sample for analysis. A review of the bank’s entire home mortgage population – on a combined basis of both purchase and refinance – yields better results than our sampling. As shown in the tables below, the bank originated 344 loans in 2002, 666 loans in 2003 and 473 loans in 2004. Again, while the penetration to low-income borrowers is low, several performance context issues discussed above explain this result. CNB’s distribution of loans to moderate-income borrowers is near or exceeds demographic indicators.

**2002 MORTGAGE LOANS**

	# OF LOANS	% OF LNS	CENSUS DATA
LOW	16	4.65%	19.36%
MODERATE	62	18.02%	19.57%
MIDDDDLE	110	31.98%	25.85%
UPPER	156	45.35%	35.21%
	344	100.0%	100.0%

**2003 MORTGAGE LOANS**

	# OF LOANS	% OF LNS	CENSUS DATA
LOW	79	11.86%	19.93%
MODERATE	161	24.17%	19.84%
MIDDLE	220	33.03%	23.94%
UPPER	206	30.93%	36.29%
	666	100.00%	100.00%

**2004 MORTGAGE LOANS**

	# OF LOANS	% OF LNS	CENSUS DATA
LOW	43	9.09%	20.00%
MODERATE	147	31.08%	19.88%
MIDDLE	150	31.71%	23.96%
UPPER	133	28.12%	36.15%
	473	100.0%	100.0%

**Home Refinance Loans**

Refer to Table 10 for details. CNB does an excellent job at meeting the home refinance credit needs of low- and moderate-income families in its AA. Refinancing activity was a significant volume of activity during this evaluation period and is considered a primary product. While there were no home refinance loans in our sample made to low-income borrowers in 2002, the bank’s lending pattern improved in more recent years. For 2004, the bank originated 30% of its home refinance loans to low-income borrowers as compared to 20% of low-income families located in the AA. This demonstrates a good responsiveness considering poverty levels and other barriers to home ownership in the AA.

CNB's lending of home refinance loans to moderate-income borrowers is excellent. Again, while the 2002 loan data are below demographic indicators, lending patterns improved in 2003 and 2004. For those years, the proportion of loans to moderate-income borrowers significantly exceeds the proportion of moderate-income families in the AA. The bank made 31% and 20% of its home refinance loans to moderate-income borrowers in 2003 and 2004, respectively.

### ***Small Loans to Businesses***

Refer to Table 11 in appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to businesses.

The bank's distribution of small loans to businesses based on the size of the business is excellent. CNB's percentage of small loans to small businesses, or those with \$1 million or less in annual gross revenues, exceeds that of demographic data for each year in the evaluation period. Additionally, market share performance is good in the AA. CNB's market share of the small business segment exceeds its overall market share of small loans to businesses in 2002 and 2003. This demonstrates that CNB makes a priority of meeting the needs of small business owners. No market share data are available for comparison in 2004.

### ***Small Loans to Farms***

Refer to Table 12 in the appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to farms.

The bank's distribution of small loans to farms based on size is good. CNB's percentage of small loans to farms, or those with \$1 million or less in annual gross revenues, is near the percentage of small farms in the AA in 2002 and 2003. A closer look reveals that market share performance to small farms significantly exceeds the bank's overall market share of small loans to farms. In 2004, the percentage of small loans to farms is lower than the demographic indicators. The proportion of bank loans is 73.3% compared to 91.9% of small farms in the AA.

Discussions with management indicate the following factors explain the lower figure: competition with Vermont Economic Development Authority (VEDA), which increased its agricultural lending; the retirement of a bank lender who originated most of the farm loans; and the successful operations of many regional farms that resulted in less credit demand. Given these factors for 2004 and the market share performance for 2002 and 2003, performance to small farms is considered good. No market share data are available for 2004.

### ***Consumer Loans***

Refer to Table 13 in appendix C for the facts and data used to evaluate the borrower distribution of the bank's consumer loan originations and purchases.

The bank's distribution of home equity loans based on borrower income is excellent. For the evaluation period, the bank's origination of home equity loans is near or exceeds the area demographic data - the distribution of AA households by income level. For 2002, the bank's loans to moderate-income borrowers approximated the portion of moderate-income households in the AA. In 2003 and 2004, the bank's trends improved and exceeded the

demographic data. For 2003 and 2004, the bank originated 20% and 26.7%, respectively, of its loans to moderate-income borrowers in comparison to 17.8% of moderate-income households in the assessment area. While the level of loans to low-income borrowers is low in comparison to the demographic trends, we considered the poverty levels, lack of affordable housing, and lack of equity as critical barriers to home ownership for the low-income population.

## Community Development Lending

Refer to Table 1 Lending Volume in appendix C for the facts and data used to evaluate the bank's level of community development lending. This table includes all CD loans, including multifamily loans that also qualify as CD loans.

During this evaluation period, the bank originated or participated in seven community development loans totaling \$4.0 million. The bank's CD lending had a positive impact on the lending test. These loans meet the community development definition of CRA because each has a purpose in either affordable housing, providing services targeted at low- and/or moderate-income individuals, or stabilizing a low- or moderate-income geography. The loans represent complex and innovative products as each addresses a community credit need and/or has a positive impact on the community. CNB is a leader in providing community development loans in the local market.

A summary of the CD loans follows:

- Four loans for \$770 thousand made to a local affordable housing organization, which develops and rents residential housing to low- and moderate-income residents in Orleans County. The funds were used to develop various multi-family housing projects geared towards low- and moderate-income individuals.
- A \$275 thousand loan to construct a multipurpose community facility in Derby that is geared towards residents in Orleans County. The facility helped to create jobs in the area and stabilize this rural market designated a REAP (Rural Economic Area Partnership) zone as defined by the United States Department of Agriculture (USDA). The REAP program, is established to mitigate the negative effects of a lack of employment opportunities and job losses to rural communities. Essex, Orleans and Caledonia Counties of Vermont are part of the sparsely populated corner of the state. As a result, this region has been economically distressed.
- A \$1.0 million construction loan for a facility that houses an area adult and family literacy program for Caledonia, Essex, and Orleans counties. This nonprofit organization provides services that primarily serve low- and moderate-income residents. In addition, the property is located in a moderate-income tract and the addition of this facility helps to stabilize the community.
- A \$2 million loan participated with another financial institution to construct affordable housing apartments in Middlebury, Vermont. Of the total 26 units, 80% are targeted towards residents earning less than 60% of the area median income. The development is intended to make use of Low-Income Housing Tax Credits and addresses the critical

shortage of affordable rental units. While this housing project is not located in the bank's immediate assessment area, it does benefit a wider regional area within the same state.

## Product Innovation and Flexibility

The bank offers a variety of special credit programs to meet the needs of borrowers in its community. Some examples are as follows:

- ❑ Vermont Housing Finance Agency (VHFA) programs. Home purchase and home improvement loans available as fixed rate mortgages at preferential rates for certain borrowers and no down payment. CNB is among the top five VHFA lenders in the state of Vermont.
- ❑ Weekly payment mortgages. This represents an innovative product that helps serve the needs of local residents who are predominately weekly wage earners and helps individuals build equity in an accelerated fashion.
- ❑ Small Business Administration (SBA) loans. CNB participates with SBA in their loan guarantee and direct lending programs to help finance small businesses in the market area.
- ❑ Federal Home Loan Bank (FHLB) Equity Builder Program. This product is a grant-type program that assists customers with down payments when buying homes. Through a local nonprofit affordable housing agency, the bank offers fixed rate financing and provides for down payment for those in need.
- ❑ Vermont Economic Development Authority (VEDA) Partnership. In partnership with VEDA, the bank provided unique financing in the form of a low-interest loan to a new business start-up in Island Pond.
- ❑ Business Partner Commercial Loan Special. CNB offered low interest, fixed rate-financing plans to small businesses to purchase new or used equipment or to refinance or purchase commercial real estate. The product was designed to meet the needs of small businesses and stimulate economic growth. The bank allocated a pool of \$10 million in funds for commercial real estate, of which 100% was funded, and \$5 million in funds for equipment financing, of which 93% has been funded to date.
- ❑ 5/1 Discounted ARM. In 2005, CNB began to offer this special product made available to those customers who may not qualify for a secondary market fixed rate mortgage. This provides the customer with a fixed rate for up to five years before adjusting annually.



## INVESTMENT TEST

### Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the investment test is rated "Outstanding." Based on this full-scope review, the bank's performance in its assessment area is excellent. Refer to Table 14 in appendix C for the facts and data used to evaluate the bank's level of qualified investments.

CNB has an "outstanding" level of qualified investments given its size, capacity, and the performance context of the market in which it operates. We identified through community contacts that ample investment opportunities exist in the bank's AA. The bank has qualifying investments during the evaluation period totaling \$4.394 million.

Nine investments, for a total of \$4.227 million, are in various limited partnerships working on affordable housing projects in the assessment area. Of that total, two prior period investments total \$411 thousand and one unfunded commitment totals \$494 thousand. Each is a Low-Income Housing Tax Credit project, geared towards improving the housing needs of low-income individuals in the area.

The remaining 47 investments were made in qualifying grants and donations for \$166 thousand during the evaluation period. These dollars were distributed primarily to affordable housing organizations, although small business financiers, social service agencies and a large community center were also grant fund recipients. The social service organizations receiving funding each had target population of low- and moderate-income people, and the community center stabilizes and revitalizes low- and moderate- income geographies. Although the community center is located in a middle-income tract, moderate-income areas surround it and the center is located in a federally identified REAP zone - one of five rural areas identified nationally by the USDA for targeted redevelopment efforts. The center has also generated 26 permanent jobs for the area's low- and moderate-income residents and also qualifies for Community Development Block Grant (CDBG) funds. Some of the organizations with which the bank has partnered and contributed grant dollars to include the Gilman Housing Trust, the VT Land Trust, the Central VT Habitat for Humanity, the VT Affordable Housing Coalition, the VT Community Loan Fund, the VT Homeownership Network the VT Council on Rural development and Central Vermont Community Action.

Also included in the grants and donations total is a \$14 thousand contribution to Community Capital of Central Vermont, which represents a refund by the State of the sales tax it paid on materials, used in construction of its Barre office.

## SERVICE TEST

### Conclusions for Areas Receiving Full-Scope Reviews

Based on this full-scope review, the bank's performance in its AA is excellent. CNB's delivery systems are accessible to low- and moderate-income (LMI) geographies and individuals of different income levels throughout its assessment area. The bank provides an excellent level of community development services.

## Retail Banking Services

Refer to Table 15 in appendix C for the facts and data used to evaluate the distribution of the bank's branch delivery system and branch openings and closings.

The bank's branch offices are accessible to geographies and individuals of different income levels throughout the bank's AA. CNB operates 9 branches with 33 percent of the offices located in moderate-income census tracts. This significantly exceeds the 18 percent moderate-income population in the AA. CNB has no branches in two moderate-income geographies in Essex County, as they have a low population rate. CNB serves persons in the two moderate-income areas with a branch in Island Pond, an adjacent moderate-income geography.

The bank offers a standard array of banking products and services for loan, deposit, and trust customers. CNB has offered flexible payment programs for over twenty years. The bank offers weekly payment plans to benefit those customers who are paid weekly. The bank also offers an individual development account (IDA), designed as a matched savings program account for low- and moderate-income customers. Savings funds are matched and can be allocated towards the down payment on a house or to start a business.

Branch hours are also designed to provide conveniences to individuals of all income levels. All banking offices have the same services and products. Hours differ only at the St. Johnsbury branch to benefit customers who work shifts at an area hospital. This same branch offers later opening and closing hours and also longer hours on Saturday than other CNB banking offices due to needs of area customers.

For the evaluation period, there were no branch closures and one branch was opened in 2003 in Barre, Vermont, a middle-income geography. The newer office provided more accessibility of CNB retail delivery systems to low- and/or moderate-income persons living in Northfield, Whitesfield, Moretown, Middlesex, and Montpelier. CNB's ATM network offers a good alternative delivery system for teller-based services to LMI persons. All ATMs offer 24-hour service and each branch has an ATM. In addition there are eight cash dispensing ATMs at other non-branch locations with two cash machines, or 25%, located in moderate-income tracts in Irasburg and Newport, VT. This also exceeds moderate-income demographics in the AA of 18% of the population.

Other alternative delivery systems include:

- ❑ Xpress 24-Hour Telephone Banking is available by local and toll-free access to bank customers free of charge for customer's convenience. The product is available seven days a week and operates an automated response unit at the Customer Service Center. With Xpress 24, customers can access account balances, obtain information on the status of deposits and withdrawals, and make transfers to other CNB accounts.
- ❑ CNB NetXpress Internet Banking and CNB Bill Pay is available free to CNB customers with internet access, through the bank's website @ [www.communitynationalbank.com](http://www.communitynationalbank.com).

CNB also offers banking by mail and direct deposit. In evaluating the bank's services, no significant weight was given to these systems since the bank does not track how well these services reach low- and moderate-income people and/or small businesses.

## Community Development Services

CNB provides an excellent level of community development services. Management is a leader in seeking and participating in community development services targeted to LMI individuals. The bank supports a number of statewide organizations involved in community development initiatives.

Examples of initiatives are affordable housing for LMI individuals and services to LMI families. CNB provides community development support by making a high number of employees available to:

- (1) Use their financial expertise to support and provide training for community development groups that provide services for LMI persons, and
- (2) Teach first-time home buying and credit management seminars.

CNB's efforts are highly responsive to affordable housing needs, development of small business, and sustaining jobs in the bank's AA and surrounding communities. The following are examples of community development services that bank directors and officers participate with management's full endorsement:

- A senior officer and board member of CNB serves on an executive committee and oversees budget and operations for a non-profit organization dedicated to the support of Vermont rural communities. The organization operates as a partnership of federal, state, local, non-profit, and private partners and targets LMI persons in Vermont's rural communities. The group provides financial support for rural community housing.
- A senior officer and board member of CNB served as a past treasurer and audit committee member, and also served as director emeritus of an organization that supports non-profit groups in Vermont. This statewide public charity builds and manages charitable funds with a mission to ensure effective support for healthy and vital Vermont communities. The group targets LMI persons in Vermont to receive services, education, and shelter.
- A CNB advisory board member serves as an advisor on the Federal Home Loan Bank of Boston program for affordable housing in New England. The program serves in partnership with New England banks and works with local Vermont housing organizations. CNB has received grants through FHLB under an equity builder program, which provides down payment money for affordable housing as well as getting Affordable Housing Program (AHP) funding for a battered women's shelter in Barre, Vermont.
- A CNB advisory board member and a mortgage originator from a central Vermont branch work on the board of directors to advise a non-profit community housing

development organization in acquiring and retaining permanent ownership of land parcels for use with affordable housing programs. The group also participates in Home Buyer Workshops.

- CNB advisory board member serves as the vice-chairman and on the board of commissions of a state housing agency that targets LMI persons for affordable housing. CNB originates affordable housing loans for the agency based on their underwriting criteria. The loans are then sold back to the agency, which lacks sufficient staffing to originate the volume of loans completed by CNB.
- A senior CNB officer serves on an industrial development organization as trustee and treasurer to attract small businesses to relocate to the area, as well as finance small businesses that promote job stability. The organization assisted wood workers to form a new business when a nationally known furniture manufacturer closed its small plant in a northeast community of Vermont.
- A senior CNB officer serves on the executive board of a Vermont development association that promotes sustainable job programs and business development. CNB also provides contracts for technical assistance for the Service Corps of Retired Executives (SCORE) to provide representation from the bank in assisting small businesses.
- A CNB employee has served in several capacities for a regional community action group. Guidance was provided through chairing the group's board, serving on a financial committee, assisting in finding a new CEO, and reviewing financial statements for LMI applicants for loans. The group targets LMI persons to assist them become homeowners and provide rental assistance.
- A CNB employee serves on the mortgage committee of a homeownership counseling center in a northeast community that is owned by a Vermont housing trust. The center provides information for homebuyers and helps people qualify for a mortgage loan. The center empowers LMI Vermonters to become financially self sufficient through the economic benefits of home ownership.
- A CNB employee serves as treasurer of a housing trust that creates and preserves affordable housing for LMI persons. The organization is the largest rural and regional non-profit housing organization in Vermont. The organization serves the counties of Essex, Orleans, and Caledonia by seeking funding for affordable housing projects and working to solve Vermont's housing shortage. LMI savings programs are encouraged to help families save for the costs of homeownership. The bank offers independent development accounts (IDA) for LMI persons. The organization contributes matching funds for each dollar saved toward closing and other costs.

In addition to the staff's technical assistance to community development organizations and activities described above, the bank is actively involved in financial literacy efforts throughout its community. These activities include participating in first time homebuyer seminars and conducting seminars for small business owners focused on business planning, marketing and finance.

## Appendix A: Scope of Examination

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The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and non-metropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

<b>Time Period Reviewed</b>	Lending Test : 1/1/02 to 12/31/04 Investments, Services and CD Loans: 4/1/98 to 8/15/05	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
Community National Bank of Derby (CNB) Derby, VT	Home mortgage loans, small loans to businesses, small loans to farms, and home equity loans.	
<b>Affiliate(s): N/A</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
Caledonia, Essex, Orleans, and Washington counties in Vermont.	Full Scope	

## Appendix B: Market Profiles for Full-Scope Areas

### CNB-Derby Assessment Area (non-metropolitan area)

Demographic Information for Full-Scope Area: <b>CNB-Derby AA 2002</b>						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	43	0.00	18.60	72.09	9.30	0.00
Population by Geography	113,232	0.00	15.50	73.86	10.64	0.00
Owner-Occupied Housing by Geography	30,152	0.00	15.56	73.33	11.12	0.00
Businesses by Geography	9,064	0.00	13.43	70.56	16.01	0.00
Farms by Geography	413	0.00	27.60	65.38	7.02	0.00
Family Distribution by Income Level	29,803	19.36	19.57	25.85	35.21	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	11,603	0.00	20.62	73.14	6.23	0.00
Median Family Income = \$32,453 HUD Adjusted Median Family Income for 2002 = \$43,400 Households Below the Poverty Level = 10.82%			Median Housing Value = \$94,445 Unemployment Rate = 3.33%			

(\*) The NA category consists of geographies that have not been assigned an income classification.  
 Source: 1990 U.S. Census, and 2002 HUD updated MFI.

Demographic Information for Full-Scope Area: <b>CNB-Derby AA 2003</b>						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	43	0.00	20.93	62.79	16.28	0.00
Population by Geography	120,477	0.00	18.10	66.84	15.06	0.00
Owner-Occupied Housing by Geography	34,517	0.00	18.26	65.65	16.09	0.00
Businesses by Geography	9,336	0.00	16.28	62.38	21.34	0.00
Farms by Geography	440	0.00	25.91	63.64	10.45	0.00
Family Distribution by Income Level	32,107	19.93	19.84	23.94	36.28	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	12,770	0.00	24.62	65.65	9.73	0.00
Median Family Income = \$46,103 HUD Adjusted Median Family Income for 2003 = \$52,800 Households Below the Poverty Level = 10.07%			Median Housing Value = \$109,835 Unemployment Rate = 2.33%			

(\*) The NA category consists of geographies that have not been assigned an income classification.  
 Source: 2000 U.S. Census, and 2003 HUD updated MFI.

Demographic Information for Full-Scope Area: <b>CNB-Derby AA 2004</b>						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	43	0.00	20.93	62.79	16.28	0.00
Population by Geography	120,477	0.00	18.10	66.84	15.06	0.00
Owner-Occupied Housing by Geography	34,517	0.00	18.26	65.65	16.09	0.00
Businesses by Geography	9,507	0.00	16.31	62.33	21.35	0.00
Farms by Geography	457	0.00	24.29	64.33	11.38	0.00
Family Distribution by Income Level	32,107	20.00	19.88	23.96	36.15	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	12,805	0.00	24.60	65.68	9.72	0.00
Median Family Income HUD Adjusted Median Family Income for 2004 Households Below the Poverty Level	= \$46,084 = \$55,500 =10.11%				Median Housing Value = \$110,386 Unemployment Rate = 2.35%	

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2000 U.S. Census, and 2004 HUD updated MFI.

The bank operates in a highly competitive market, which includes regional commercial banks, mortgage companies, savings banks, credit unions, and captive finance companies. As of June 30, 2004, the bank's deposit market share was 14.34% for the four counties in which it operates and ranked fifth among all banks operating there. The largest competitors included Chittenden Trust (16.23%), T.D. BankNorth N.A. (16.05%), and Northfield Savings Bank (15.89%). The bank's deposit market share is 52% in Orleans County, in which five of the nine branches are located.

The general market area, the "Northeast Kingdom," is well known as a recreational and tourist destination. Agriculture remains a vital part of the local economy. In the Montpelier region, state government is central to the economy. CNB's AA is comprised of a variety of industries - logging, dairy, furniture making, government, health care, and tourism. A majority of these businesses are located in middle-income geographies. According to 2004 Business Demographic data, 58.6% of all reporting businesses have less than four employees. Historically, the unemployment rate for this region exceeds the state and national averages. Poverty rates, at approximately 10%, are high.

Housing prices in the region have risen in the past few years resulting in few affordable housing options. According to the study, "Between a Rock and a Hard Place," performed by the Vermont Housing Council, a growing gap continues between housing costs and Vermonters' incomes. The housing market has become a magnet for speculation for investors who see Vermont as an attractive place to buy, resulting in an increasing portion of the housing units used for vacation and second homes.

## Appendix C: Tables of Performance Data

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### Content of Standardized Tables

References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the lending test tables, the following are applicable: (1) Purchased loans are treated as originations/purchases and market share is the number of loans originated and purchased by the bank as a percentage of the aggregate number of reportable loans originated and purchased by all lenders in the MA/assessment area; (2) Partially geocoded loans (loans where no census tract is provided) cannot be broken down by income geographies and, therefore, are only reflected in the Total Loans in Core Tables 2 through 7 and part of Table 13; and (3) Partially geocoded loans are included in the Total Loans and % Bank Loans Column in Core Tables 8 through 12 and part of Table 13. Tables without data are not included in this PE.

The following is a listing and brief description of the tables:

- Table 1. Lending Volume** - Presents the number and dollar amount of reportable loans originated and purchased by the bank over the evaluation period by MA/assessment area. Community development loans to statewide or regional entities or made outside the bank’s assessment area may receive positive CRA consideration. Refer to Interagency Q&As \_\_.12(i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such loans. When such loans exist, insert a line item in the MA/Assessment Area column and record the corresponding numbers and amounts in the “Community Development Loans” column with the appropriate caption, such as: “Statewide/Regional,” “Statewide/Regional with potential benefit to one or more AAs” or “Out of Assessment Area.” “Out of Assessment Area” is used ONLY if the bank has otherwise adequately met the CD lending needs of its assessment area.
- Table 1. Other Products** - Presents the number and dollar amount of any unreported category of loans originated and purchased by the bank over the evaluation period by MA/assessment area. Examples include consumer loans or other data that a bank may provide, at its option, concerning its lending performance. This is a two-page table that lists specific categories.
- Table 2. Geographic Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.
- Table 3. Geographic Distribution of Home Improvement Loans** - See Table 2.
- Table 4. Geographic Distribution of Home Mortgage Refinance Loans** - See Table 2.



- Table 5. Geographic Distribution of Multifamily Loans** - Compares the percentage distribution of the number of multifamily loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of multifamily housing units throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.
- Table 6. Geographic Distribution of Small Loans to Businesses** - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because small business data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.
- Table 7. Geographic Distribution of Small Loans to Farms** - The percentage distribution of the number of small loans (less than or equal to \$500,000) to farms originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of farms (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because small farm data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.
- Table 8. Borrower Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MA/assessment area. The table also presents market share information based on the most recent aggregate market data available.
- Table 9. Borrower Distribution of Home Improvement Loans** - See Table 8.
- Table 10. Borrower Distribution of Refinance Loans** - See Table 8.
- Table 11. Borrower Distribution of Small Loans to Businesses** - Compares the percentage distribution of the number of small loans (less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to the percentage distribution of businesses with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the business. Market share information is presented based on the most recent aggregate market data available.

**Table 12. Borrower Distribution of Small Loans to Farms** - Compares the percentage distribution of the number of small loans (less than or equal to \$500,000) originated and purchased by the bank to farms with revenues of \$1 million or less to the percentage distribution of farms with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the farm. Market share information is presented based on the most recent aggregate market data available.

**Table 13. Geographic and Borrower Distribution of Consumer Loans** - For geographic distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of households within each geography. For borrower distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage of households by income level in each MA/assessment area.

**Table 14. Qualified Investments** - Presents the number and dollar amount of qualified investments made by the bank in each MA/AA. The table separately presents investments made during prior evaluation periods that are still outstanding and investments made during the current evaluation period. Prior-period investments are reflected at their book value as of the end of the evaluation period. Current period investments are reflected at their original investment amount even if that amount is greater than the current book value of the investment. The table also presents the number and dollar amount of unfunded qualified investment commitments. In order to be included, an unfunded commitment must be legally binding and tracked and recorded by the bank's financial reporting system.

A bank may receive positive consideration for qualified investments in statewide/regional entities or made outside of the bank's assessment area. See Interagency Q&As \_\_.12(i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such investments. When such investments exist, insert a line item in the MA/Assessment Area column and record the corresponding numbers and amounts in the "Qualified Investments" column with the appropriate caption, such as: "Statewide/Regional," "Statewide/Regional with potential benefit to one or more AAs" or "Out of Assessment Area." "Out of the Assessment Area" is used ONLY if the bank has otherwise adequately met the qualified investment needs of its assessment area.

**Table 15. Distribution of Branch Delivery System and Branch Openings/Closings** - Compares the percentage distribution of the number of the bank's branches in low-, moderate-, middle-, and upper-income geographies to the percentage of the population within each geography in each MA/AA. The table also presents data on branch openings and closings in each MA/AA.

**Table 1. Lending Volume**

LENDING VOLUME												
Geography: CNB-Derby AA												
Evaluation Period: 1/1/02 TO 12/31/04												
MA/Assessment Area:	% of Rated Area Loans (#) in MA/AA <sup>*</sup>	Home Mortgage		Small Loans to Businesses		Small Loans to Farms		Community Development Loans <sup>**</sup>		Total Reported Loans		% of Rated Area Deposits in MA/AA <sup>***</sup>
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$(000's)	
<b>Full Review:</b>												
CNB-Derby AA 2002	100	344	28,403	346	23,564	20	1,464	2	425	712	53,856	100
CNB-Derby AA 2003	100	666	60,703	361	28,699	22	1,165	2	1,360	1,051	91,927	100
CNB-Derby AA 2004	100	473	49,436	396	34,218	15	1,022	3	2,270	887	86,896	100
CNB-Derby AA 2005								1	2,000	1	2,000	

<sup>\*</sup> Loan Data as of 7/1/02-12/31/04. Rated area refers to either the state or multi-state MA rating area.

<sup>\*\*</sup> The evaluation period for Community Development Loans is March 30, 1998 to August 16, 2005.

<sup>\*\*\*</sup> Deposit Data as of June 30, 2004. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

**Table 1. Other Products**

LENDING VOLUME		Geography: CNB-DERBY AA		Evaluation Period: 1/1/02 – 12/31/04	
MA/Assessment Area:	Other Unsecured Consumer Loans*		Other Optional Loans*		
	#	\$ (000's)	#	\$ (000's)	
<b>Full Review:</b>					
CNB-Derby AA 2002			114	4,249	
CNB-Derby AA 2003			176	5,047	
CNB-Derby AA 2004			363	13,948	

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(The evaluation period for Optional Product Line is from March 1998 to August 2005.)

**Table 2. Geographic Distribution of Home Purchase Loans**

Geographic Distribution: HOME PURCHASE		Geography: CNB-DERBY AA				Evaluation Period: 1/1/02 – 12/31/04					Market Share (%) by Geography				
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Over all	Low	Mod	Mid	Upp
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans					
<b>Full Review:</b>															
CNB-Derby AA 2002	9		0	0	15.6	44.4	73.3	55.6	11.1	0					
CNB-Derby AA 2003	2		0	0	18.3	50.0	65.7	50.0	16.1	0					
CNB-Derby AA 2004	8		0	0	18.3	62.5	65.7	25.0	16.1	12.5					
<b>No market share data is available as the bank is not a HMDA reporter</b>															

\* Market share data is not available as the bank is not a HMDA reporter.

\*\* Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by the number of owner occupied housing units in the area based on 1990 & 2000 Census information.

**Table 3. Geographic Distribution of Home Improvement Loans – NOT APPLICABLE**

Geographic Distribution: HOME IMPROVEMENT												Geography:		Evaluation Period:				
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography*							
	#	% of Total**	% Owner Occ Units**	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Over all	Low	Mod	Mid	Upp			
<b>Full Review:</b>																		

\* Market share data is not available as the bank is not a HMDA reporter.

\*\* Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by number of owner occupied housing units in the area based on 1990 Census information.

**Table 4. Geographic Distribution of Home Mortgage Refinance Loans**

Geographic Distribution: HOME MORTGAGE REFINANCE		Geography: CNB-DERBY AA						Evaluation Period: 1/1/02 TO 12/31/04							
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography*				
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Over all	Low	Mod	Mid	Upp
<b>Full Review:</b>															
CNB-Derby 2002	10		0	0	15.6	30.0	73.3	70.0	11.1	0					
CNB-Derby 2003	16		0	0	18.3	25.0	65.7	62.5	16.1	12.5					
CNB-Derby 2004	10		0	0	18.3	40.0	65.7	50.0	16.1	10.0					
<b>No market share data is available as the bank is not a HMDA reporter</b>															

\* Market share data is not available as the bank is not a HMDA reporter.

\*\* Home mortgage refinance loans originated and purchased in the MA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by number of owner occupied housing units in the area based on 1990 & 2000 Census information.

**Table 5. Geographic Distribution of Multifamily Loans – NOT APPLICABLE**

Geographic Distribution: MULTIFAMILY		Geography:				Evaluation Period:					Market Share (%) by Geography*				
MA/Assessment Area:	Total Multifamily Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies						
	#	% of Total**	% of MF Units***	% BANK Loans	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans	Over all	Low	Mod	Mid	Upp
<b>Full Review:</b>															

\* Based on [Year] Peer Mortgage Data

\*\* Multifamily loans originated and purchased in the MA/AA as a percentage of all multifamily loans originated and purchased in the rated area.

\*\*\* Percentage of multifamily units is the number of multifamily housing units in a particular geography divided by number of multifamily housing units in the area based on 1990 Census information.



**Table 6. Geographic Distribution of Small Loans to Businesses**

Geographic Distribution: SMALL LOANS TO BUSINESSES												Geography: CNB-DERBY AA		Evaluation Period: 1/1/02 TO 12/31/04		
MA/Assessment Area:	Total Small Business Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography					
	#	% of Total**	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	Overall	Low	Mod	Mid	Upp	
<b>Full Review:</b>																
CNB-Derby AA 2002	346	100	0	0	13.43	31.21	70.56	67.63	16.01	1.16	9.13	0	24.59	10.29	.92	
CNB-Derby AA 2003	361	100	0	0	16.28	40.17	62.38	57.06	21.34	2.77	8.23	0	23.54	8.14	1.28	
CNB-Derby AA 2004	396	100	0	0	16.31	38.13	62.33	57.58	21.35	4.29	Market share data not available for 2004					

\* Based on 2002 and 2003 Peer Small Business Data: US.

\*\* Small loans to businesses originated and purchased in the AA as a percentage of all small loans to businesses originated and purchased in the rated area.

\*\*\* Source Data - Dun and Bradstreet 2002, 2003, and 2004.

**Table 7. Geographic Distribution of Small Loans to Farms**

Geographic Distribution: SMALL LOANS TO FARMS															Geography: CNB-DERBY AA					Evaluation Period: 1/1/02 TO 12/31/04				
MA/Assessment Area:	Total Small Farm Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography													
	#	% of Total**	% of Farms***	% BANK Loans	% of Farms***	% BANK Loans	% of Farms***	% BANK Loans	% of Farms***	% BANK Loans	Overall	Low	Mod	Mid	Upp									
<b>Full Review:</b>																								
CNB-Derby AA 2002	20	100	0	0	27.60	60.00	65.38	40.00	7.02	0.00	57.14	0	85.71	50.0	0.00									
CNB-Derby AA 2003	22	100	0	0	25.91	45.45	63.64	54.55	10.45	0.00	28.21	0	66.67	25.0	0.00									
CNB-Derby AA 2004	15	100	0	0	24.29	60.00	64.33	40.00	11.38	0.00	No market share data available for 2004.													

\* Based on 2002 & 2003 Peer Small Business Data: US.

\*\* Small loans to farms originated and purchased in the AA as a percentage of all small loans to farms originated and purchased in the rated area.

\*\*\* Source Data - Dun and Bradstreet 2002, 2003, and 2004.

**Table 8. Borrower Distribution of Home Purchase Loans**

Borrower Distribution: HOME PURCHASE		Geography: CNB-DERBY AA						Evaluation Period: 1/1/02 TO 12/31/04							
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share				
	#	% of Total**	% Families***	% BANK Loans****	% Families**	% BANK Loans****	% Families*	% BANK Loans****	% Families*	% BANK Loans****	Over all	Low	Mod	Mid	Upp
<b>Full Review:</b>															
2002	9		19.4	11.1	19.6	11.1	25.8	44.4	35.2	33.4					
2003	2		19.9	0	19.8	0	23.9	0	36.4	100.0					
2004	8		20.0	0	19.9	37.5	24.0	25.0	36.1	37.5					

\* No market share data is available as the bank is not a HMDA reporter.

\*\* As a percentage of loans with borrower income information available.

\*\*\* Percentage of Families is based on the 1990 Census information (for 2002 loan data) and 2000 Census (for 2003 and 2004 loan data).

\*\*\*\* Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

**Table 9. Borrower Distribution of Home Improvement Loans – NOT APPLICABLE**

Borrower Distribution: HOME IMPROVEMENT												Geography:		Evaluation Period:		
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share*					
	#	% of Total**	% Families**	% BANK Loans****	% Families* **	% BANK Loans****	% Families* **	% BANK Loans****	% Families* **	% BANK Loans****	Over all	Low	Mod	Mid	Upp	
<b>Full Review:</b>																

\* No market data is available.  
 \*\* As a percentage of loans with borrower income information available.  
 \*\*\* Percentage of Families is based on the 1990 Census information.  
 \*\*\*\* Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

**Table 10. Borrower Distribution of Home Mortgage Refinance Loans**

Borrower Distribution: HOME MORTGAGE REFINANCE												Geography: CNB-DERBY AA				Evaluation Period: 1/1/02 TO 12/31/04			
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share*								
	#	% of Total**	% Families**	% BANK Loans****	% Families**	% BANK Loans****	% Families**	% BANK Loans****	% Families**	% BANK Loans****	Over all	Low	Mod	Mid	Upp				
<b>Full Review:</b>																			
2002	10		19.4	0	19.6	10.0	25.8	20.0	35.2	70.0									
2003	16		19.9	6.4	19.8	31.2	23.9	31.2	36.4	31.2									
2004	10		20.0	30.0	19.9	20.0	24.0	40.0	36.1	10.0									

\* No market share data is available as the bank is not a HMDA reporter.

\*\* As a percentage of loans with borrower income information available.

\*\*\* Percentage of Families is based on the 1990 Census information for 2002 loan data and 2000 Census information for 2003 and 2004 loan data.

\*\*\*\* Home mortgage refinance loans originated and purchased in the MA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

**Table 11. Borrower Distribution of Small Loans to Businesses**

Borrower Distribution: SMALL LOANS TO BUSINESSES				Geography: CNB-DERBY AA		Evaluation Period: 1/1/02 TO 12/31/04			
MA/Assessment Area:	Total Small Loans to Businesses		Businesses With Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size			Market Share	
	#	% of Total**	% of Businesses***	% BANK Loans****	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$1,000,000	All	Rev \$1 Million or Less
<b>Full Review:</b>									
CNB-Derby AA 2002	346	100	70.74	79.77	82.95	10.98	6.07	9.13	19.45
CNB-Derby AA 2003	361	100	61.28	82.55	81.72	11.63	6.65	8.23	16.59
CNB-Derby AA 2004	396	100	62.79	81.06	79.29	12.63	8.08	Not available	

\* Based on 2002 & 2003 Peer Small Business Data: US.

\*\* Small loans to businesses originated and purchased in the AA as a percentage of all small loans to businesses originated and purchased in the rated area.

\*\*\* Businesses with revenues of \$1 million or less as a percentage of all businesses (Source D&B - 2002, 2003, 2004).

\*\*\*\* Small loans to businesses with revenues of \$1 million or less as a percentage of all loans reported as small loans to businesses.

**Table 12. Borrower Distribution of Small Loans to Farms**

Borrower Distribution: SMALL LOANS TO FARMS									
Geography: CNB-DERBY AA					Evaluation Period: 1/1/02 TO 12/31/04				
MA/Assessment Area:	Total Small Loans to Farms		Farms With Revenues of \$1 million or less		Loans by Original Amount Regardless of Farm Size			Market Share	
	#	% of Total**	% of Farms***	% BANK Loans****	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$500,000	All	Rev \$1 Million or Less
<b>Full Review:</b>									
CNB-Derby AA 2002	20	100	93.95	95.00	85.00	5.00	10.00	57.14	86.36
CNB-Derby AA 2003	22	100	93.64	90.91	81.82	18.18	0.00	28.21	32.36
CNB-Derby AA 2004	15	100	91.90	73.33	93.33	0.00	6.67	Not available	

\* Based on 2002 & 2003 Peer Small Business Data: US.

\*\* Small loans to farms originated and purchased in the AA as a percentage of all small loans to farms originated and purchased in the rated area.

\*\*\* Farms with revenues of \$1 million or less as a percentage of all farms (Source D&B – 2002, 2003, & 2004).

\*\*\*\* Small loans to farms with revenues of \$1 million or less as a percentage of all loans reported as small loans to farms..

**Table 13. Geographic and Borrower Distribution of Consumer Loans**

Geographic and Borrower Distribution: HOME EQUITY LOANS																			Geography: CNB-DERBY AA																			Evaluation Period: 1/1/02 TO 12/31/04																		
MA/Assessment Area:	Geographic Distribution										Borrower Distribution																																													
	Total Consumer Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers																																							
	#	% of Total*	% of Hhlds**	% of BANK Loans	% of Hhlds**	% of BANK Loans	% of Hhlds**	% of BANK Loans	% of Hhlds**	% of BANK Loans	% of Hhlds**	% of BANK Loans	% of Hhlds**	% of BANK Loans	% of Hhlds**	% of BANK Loans	% of Hhlds**	% of BANK Loans																																						
<b>Full Review:</b>																																																								
CNB-Derby AA 2002	15	12.28	N/A	N/A	15.2	40.0	73.9	53.3	10.8	6.7	24.2	7.1	17.9	14.3	21.3	21.4	36.6	57.1																																						
CNB-Derby AA 2003	15	8.52	N/A	N/A	18.2	40.0	66.5	53.3	15.3	6.7	24.5	13.3	17.8	20.0	20.2	33.3	37.6	33.3																																						
CNB-Derby AA 2004	30	8.26	N/A	N/A	18.2	43.3	66.5	53.3	15.3	3.3	24.5	13.3	17.8	26.7	20.2	30.0	37.6	30.0																																						

\* Consumer loans originated and purchased in the AA as a percentage of all consumer loans originated and purchased in the rated area.

\*\* Percentage of Households is based on the 1990 Census Information (for 2002 loan data) and 2000 Census Information (for 2003 and 2004 loan data).



**Table 14. Qualified Investments**

QUALIFIED INVESTMENTS		Geography: CNB-DERBY AA				Evaluation Period: 4/1/98 TO 8/16/05			
MA/Assessment Area:	Prior Period Investments*		Current Period Investments		Total Investments			Unfunded Commitments**	
	#	\$(000's)	#	\$(000's)	#	\$(000's)	% of Total	#	\$(000's)
<b>Full Review:</b>									
CNB-Derby AA	2	411	53	3,489	55	3,900	100	1	495

\* 'Prior Period Investments' means investments made in a previous evaluation period that are outstanding as of the examination date.

\*\* 'Unfunded Commitments' means legally binding investment commitments that are tracked and recorded by the institution's financial reporting system.

**Table 15. Distribution of Branch Delivery System and Branch Openings/Closings**

DISTRIBUTION OF BRANCH DELIVERY SYSTEM AND BRANCH OPENINGS/CLOSINGS																	
Geography: CNB-DERBY AA Evaluation Period: 1/1/02 TO 12/31/04																	
MA/Assessment Area:	Deposits	Branches						Branch Openings/Closings						Population			
	% of Rated Area Deposits in AA	# of BANK Branches	% of Rated Area Branches in AA	Location of Branches by Income of Geographies (%)				# of Branch Openings	# of Branch Closings	Net change in Location of Branches (+ or -)				% of Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
<b>Full Review:</b>																	
<b>1990 Census:</b>																	
CNB-Derby AA 2002	0	8	100	0	13	75	13	0	0	0	0	0	0	0	16	74	11
<b>2000 Census:</b>																	
CNB-Derby AA 2003	0	9	100	0	11	78	11	1	0	0	0	1	0	0	18	67	15
CNB-Derby AA 2004	0	9	100	0	33	56	11	0	0	0	0	0	0	0	18	67	15