



Public Disclosure

September 25, 1997

Community Reinvestment Act Performance Evaluation

**Camden National Bank
Charter Number 2311
2 Elm Street, PO Box 310
Camden, Maine 04843**

**The Office of the Comptroller of the Currency
150 Federal Street, Second Floor
Boston, Massachusetts 02110**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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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 *Camden National Bank* prepared by *The Office of the Comptroller of the Currency*, the institution's supervisory agency, as of *September 25, 1997*. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

Institution's CRA Rating: This institution is rated *Satisfactory*.

The factors supporting the bank's overall rating include:

- ▶ an excellent level of lending activity in their assessment area;
- ▶ a substantial majority (96%) of home mortgage and small business/farm loans made within the assessment area;
- ▶ a reasonable geographic distribution of all loans within the assessment area;
- ▶ a reasonable distribution of loans among borrowers of different income levels and an excellent penetration to businesses/farms of different sizes;
- ▶ innovative and complex community development lending totals \$2.05 million;
- ▶ an adequate use of flexible lending practices;
- ▶ an adequate level of investments throughout its assessment area;
- ▶ reasonable access to delivery systems for all segments of the assessment area;
- ▶ a high level of community development services provided.

The following table illustrates the performance level of *Camden National Bank* with respect to the lending, investment, and service tests.

Performance Levels	Camden National Bank Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High satisfactory	X		X
Low satisfactory		X	
Needs to improve			
Substantial noncompliance			

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

Description of Institution

Camden National Bank (CNB) is the principal, wholly-owned subsidiary of Camden National Corporation (CNC), a two-bank \$580 million holding company headquartered in Camden, Maine. On December 31, 1995, United Bank, a savings bank based in Bangor, with four locations in central Maine and one in western Maine, merged into CNC. The holding company also has one non-bank subsidiary, Trust Company of Maine, Inc., with assets of \$247 million, which provides trust and retirement management services throughout central Maine. During mid-1996 CNC's former non-bank subsidiary, Camden Appraisal Company, which engaged in real estate appraisals in mid-coastal Maine, was consolidated into CNB.

In addition to the main office, CNB operates five full service branches in its assessment area. All offices offer 24-hour automated teller machines (ATM's); one branch office has a drive-up and walk-up ATM. The bank is a full-service financial institution focusing on gathering deposits from the general public through branch operations and using such deposits to originate residential mortgage, commercial business, commercial real estate, and a variety of consumer loans.

CNB's assets total \$503 million, as of June 30, 1997. A wide range of loan products is available including residential mortgage, commercial and consumer loans. The loan portfolio at \$289 million represents 57% of total assets. The portfolio is primarily real estate at 59%, or \$167 million, which consists of 44%, or \$125 million, in residential real estate loans and 15%, or \$42 million, in commercial real estate loans. Commercial loans at 29%, or \$88 million, consumer

instalment loans at 10%, or \$24 million, and municipal loans at 2%, or \$10 million, comprise the remainder. There are no financial or legal impediments that prevent CNB from helping to meet the credit needs in the assessment area.

Competition extends from larger regional institutions, Fleet Bank, Key Bank of Maine, and Peoples Heritage, and local banks such as the First National Bank of Damariscotta, Damariscotta Bank & Trust Company, The Waldoboro Bank, Rockland Savings and Loan, Androscoggin Savings Bank, Bangor Savings Bank, and Gardiner Savings Bank. As well, CNB competes with local credit unions, mortgage and finance companies, credit-card companies, and non-bank financial institutions.

Description of Assessment Area (AA)

CNB’s single assessment area comprises 16 contiguous block numbering areas (BNAs). They are not located within a metropolitan statistical area. Knox county and portions of Waldo and Lincoln counties comprise the AA which meets regulatory guidelines and does not arbitrarily exclude any low- and moderate-income neighborhoods. As noted in Table 1, all but one tract are middle-income. The one moderate-income BNA in Waldo County consists of the towns of Waldo, Brooks, Swanville, Monroe, and Jackson.

Sixty-five thousand individuals populate the AA. The Housing and Urban Development (HUD) median family income is \$35,900. As reflected in Table 1, 6% of households in the AA reside in a moderate BNA. The median housing value in the AA is \$83 thousand. The median age of housing stock is 39 years. Total occupied housing units is 76%, with owner-occupied housing at 58% and rental occupied housing at 19%. Vacant housing units are high at 23%. Seventy-eight percent of small businesses/farms in the assessment area have revenues less than \$1 million.

Table 1 Assessment Area Demographics				
<i>BNA Characteristics</i>	<i># BNAs</i>	<i>% of Total BNAs</i>	<i>% of Households Residing in the BNAs</i>	<i>Family Income Characteristics</i>
Low	0	0%	0%	21%
Moderate	1	6%	6%	20%
Middle	14	88%	86%	25%
Upper	1	6%	8%	34%
Total	16	100%	100%	100%

Source: 1990 Census Data, U.S. Bureau of the Census

Tourism is the largest industry. Other industries include fisheries, (the chief lobster centers are in

Rockport and Rockland), and mineral products such as sand and gravel, clay, and crushed stone. Limestone, used in cement making, is mined chiefly in Knox county. The major employers in the assessment area are MBNA of New England, a Delaware-based credit-card bank, the Pen-Bay Medical Center, and numerous seasonally operated hotels, inns, restaurants, and retail shops. Maine's seasonally adjusted unemployment rate is 5.0% as of July 1997, down from 5.2% in July 1996 and 5.7% at our last CRA examination.

Affordable single family housing for home ownership, small business loans, micro business loans for existing and start-up ventures, and construction of rental units, are the primary credit needs acknowledged by bank management and community contacts. Discussions with community contacts revealed that CNB's support of and performance in its communities is highly positive.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

Scope of Review:

This review covered the time period from January 1, 1996 to July 31, 1997 for all residential home mortgages. Commercial and community development loans evaluated covered the time period from January 1, 1996 through June 30, 1997. Future discussion of performance reflects these time periods unless otherwise noted. Our review was enhanced by management's compilation of data, as required by the regulation. Also, investments purchased over the time period and services performed were reviewed.

LENDING TEST

Performance Criteria:

Lending Activity

CNB's lending reflects an excellent level of activity. During the evaluation period, 533 home mortgages were originated totaling \$50 million making CNB the market leader by a wide margin. In both number and a dollar amount of originations, CNB ranked first in both Knox and Waldo counties for 1996 and year-to-date June 30, 1997. Also, 1374 loans to small businesses and farms were originated for \$61 million. The volume of originations demonstrates a high responsiveness to lending needs within the area.

During the evaluation period, CNB's assets increased from \$408 million to \$503 million. Gross loans increased from \$244 million to \$289 million, primarily in real estate and commercial loans of \$20 million and \$26 million, respectively. Consumer loans declined by \$1 million.

The bank's net loan to deposit ratio, averaged 82.2% between September 30, 1995 and March 31, 1997. The national peer group average for the same time period was 74.0%. The average loan to

deposit ratio for all eight Maine banks with assets between \$250 million and \$1 billion ranged from 71% to 97%.

CNB's lending activity was very consistent during this evaluation period. Consequently, the following tables contain combined information on lending activities for 1996 and year-to-date 1997.

Assessment Area Concentration

CNB demonstrates a substantial majority of lending within its AA. Analysis of all originations reveal 96% of the number of home mortgages, small business and small farm loans, and 91% of the dollar amounts are inside AA geographies. Table 2 specifically details home mortgage, small business, and small farm originations.

Table 2 Loan Originations within the Assessment Area				
<i>Loan Type</i>	<i># Loans</i>	<i>%</i>	<i>\$ Amt</i>	<i>%</i>
Home Mortgage	533	98%	\$49,546	98%
Small Business	1,101	95%	\$55,452	86%
Small Farm	273	96%	\$ 5,701	96%
Total	1,907	NA	\$110,699	NA

Source: Bank Internal Reports,
Dollar amounts are in 000's.

For home mortgages, figures are based on loans made in 1996 and year-to-date July 31, 1997 combined.

For small business/farm loans, figures are based on loans made in 1996 and year-to-date June 30, 1997 combined.

Geographic Distribution

CNB has only one moderate income area, equating to 6%, of the total 16 BNAs in the AA. As such, detailed analysis comparing activity in 15 middle-income BNAs to activity in one moderate-income BNA is not meaningful.

Nevertheless, CNB is achieving modest loan penetration in the moderate income BNA; 3% of the number and 2% of the dollar amount of home mortgage loans were made in the moderate-income BNA. Small business and farm lending also evidence loan activity with 14 loans made for \$199 thousand, representing 1% of the number and dollar amount.

Borrower Characteristics

Home Mortgage Loans

CNB's overall lending to borrowers of different income levels for home mortgage loans is adequate. On a combined basis, 6% of the number of originations and 4% of the dollar amount are to low-income individuals. In addition 17% of the number of originations and 10% of the dollar amount are to moderate-income individuals. CNB's lending to low- and moderate- income borrowers is reasonable when considering the median housing values to median family income. The statewide median housing value is \$78 thousand, while this bank's assessment area median housing value is \$83 thousand. As a result, home ownership is out of reach for low- and moderate-income families who would have income between \$17,950 and \$28,720.

We used management reports to review 100% of CNB's residential mortgage lending activity. Table 3 shows CNB's home mortgage lending performance to borrowers of different income levels using the number and dollar amount of originations during the evaluation period.

Table 3 Residential Real Estate Originations					
	<i># Loans</i>	<i>%</i>	<i>\$ Amt</i>	<i>%</i>	<i>*HUD Family Distribution</i>
<i>Low</i>	33	6%	1,868	4%	21%
<i>Mod</i>	85	17%	4,883	10%	20%
<i>Middle</i>	135	26%	9,508	20%	25%
<i>Upper</i>	266	51%	32,099	66%	34%
<i>Total</i>	** 519	100%	** 48,358	100%	100%

Source: Bank Internal Reports

Dollar amounts are in 000's.

Figures are based on loans made in 1996 and year-to-date July 31, 1997 combined.

* The percentage of low, moderate, middle, and upper income families residing in the AA.

** Totals exclude 14 employee loans for \$1,188 million.

Small Business and Small Farm Loans

CNB's distribution of lending to small businesses and small farms by revenue size (gross annual sales) is excellent. Table 4, on the following page, shows 83% of the number of originations and 69% of the dollar amount are to businesses with revenues less than \$1 million. Within small farm loans, 96% of the number and 76% of the dollar amount are to operations with revenues less than \$1 million. This compares very favorably to data on small businesses/farms in the assessment area where 78% have revenues less than \$1 million.

Table 4								
Distribution of Small Business/Small Farms by Revenue Size								
<i>Revenue Size</i>	<i>Small Business</i>				<i>Small Farm</i>			
	<i># Loans</i>	<i>%</i>	<i>\$ Amt</i>	<i>%</i>	<i># Loans</i>	<i>%</i>	<i>\$ Amt</i>	<i>%</i>
<i>Less than \$1 million</i>	915	83%	\$38,134	69%	261	96%	\$4,345	76%
<i>Greater than \$1 million</i>	186	17%	\$17,318	31%	12	4%	\$1,356	24%
<i>Total</i>	1,101	100%	\$55,452	100%	273	100%	\$5,701	100%

Sources: Small Business/Small Farm Data Collection Register
Dollar amounts are in 000's.
Figures are based on loans made in 1996 and year-to-date June 30, 1997 combined.

Table 5 summarizes CNB's small business/small farm lending by loan size. It shows the distribution of small business/farm loans by loan size within the assessment area, based upon the number of originations and dollar amounts. The small business/small farm distribution based on loan size is excellent. Eighty-nine percent of the number of small business loans, and 97% of the number of small farm loans have loan amounts less than \$100 thousand. Further, 85% of the number of small business loans and 97% of the number of small farm loans with loan amounts less than \$100 thousand have been made to businesses/farms with revenues less than \$1 million. This supports CNB's concerted efforts to originate small dollar loans to businesses and farms in their assessment area.

Table 5								
Small Business and Small Farm Loans by Loan Amount at Origination								
<i>Amount</i>	<i>Small Business</i>				<i>Small Farm</i>			
	<i># Loans</i>	<i>%</i>	<i>\$ Amount</i>	<i>%</i>	<i># Loans</i>	<i>%</i>	<i>\$ Amount</i>	<i>%</i>
<i>Less than \$100,000</i>	983	89%	\$ 25,380	46%	265	97%	\$ 4,124	72%
<i>Between \$100,000 and \$250,000</i>	76	7%	\$ 12,226	22%	7	3%	\$ 1,242	22%
<i>Greater than \$250,000</i>	42	4%	\$ 17,846	32%	1	0%	\$ 335	6%
<i>Total</i>	1,101	100%	\$ 55,452	100%	273	100%	\$ 5,701	100%

Source: Small Business/Small Farm Data Collection Register
Dollar amounts are in 000's
Figures are based on loans made in 1996 and year-to-date June 30, 1997 combined.

COMMUNITY DEVELOPMENT LENDING

CNB originates a reasonable level of community development loans considering its size and resources. Community development loans are those that do not meet the definition of home mortgages, small business or small farms loans, but do meet the definition of community development in the CRA regulation [12 CFR 25.12(h)]. Based upon bank generated reports,

CNB originated one community development loan since the prior CRA exam amounting to \$2.05 million. CNB granted this loan in December 1996 to finance construction of Merry Gardens Estates in Camden. This 30-unit affordable housing project is the first of its kind in the state providing assisted living services for low- and moderate-income elderly residents and mentally impaired adults. This venture is innovative as it is the first project of its kind in this state. It is also a complex project for CNB. Senior management spent more than 90 staff-hours working on this project from its inception in September of 1996 through its completion in August 1997. Intricacies entailed consulting with the bank's financial accountants, analyzing the significant factors affecting the project, and determining the appropriate levels of participation. Additional time and expertise involved negotiating with the other groups, evaluating the overall merits of the project, and monitoring the progress of the construction phases. Loan size, construction financing involving highly critical building codes, and permanent financing arranged through tax-incented capital contribution introduced several new lending parameters.

Innovative or Flexible Lending Practices

CNB uses flexible lending practices to address the credit needs of low- and moderate-income individuals and geographies. CNB's flexible lending programs serving low-and moderate-income borrowers include the *Maine State Housing Authority (MSHA) Home Purchase Program, 1/1 ARM Construction One-Time Closing Mortgage Loan Program, Federal Housing Authority (FHA) Loan Program*, and the *Freddie Mac (Federal Home Loan Mortgage Corporation or FHLMC) Affordable Gold 97% Loan Program*.

The *Maine State Housing Authority (MSHA) Home Purchase Program* is only available to first-time home buyers who have not had ownership interest in their principal residence within the past three years. Other features include a lower-than-market fixed interest rate, financing up to 97%, purchase price and net worth limits, and financing for home improvements up to \$20 thousand. Closing costs assistance programs and down payment programs are available for qualified borrowers. Since the prior CRA examination, CNB originated two loans totaling \$105 thousand. In addition, two loans for \$79 thousand are in process.

The *Federal Housing Authority (FHA) Loan Program* offers flexible down payment requirements, full or alternative underwriting documentation, and qualifying ratios of 29% and 41%. CNB has not yet originated any first mortgage loans, as this new program began in July of 1997.

The *Freddie Mac (Federal Home Loan Mortgage Corporation or FHLMC) Affordable Gold 97% Loan Program* is also for first mortgage loans and allows maximum financing of 97% and requires only 3% of the borrower's own funds (closing costs can come from other sources). In addition, full or alternative underwriting documentation is available, and qualifying ratios are not to exceed 38-40% total debt ratios. There is no housing ratio requirement. CNB has not originated any first mortgage loans, as this new program began in May of 1997.

INVESTMENT TEST

During 1996 and year-to-date 1997, qualified investments were modest totaling \$141 thousand.

The largest investment was a capital contribution of \$125 thousand, in two installments of \$75 and \$50 thousand, to Merry Gardens Estates, the previously mentioned 30-unit affordable housing project providing assisted living services for low- and moderate-income elderly residents and mentally impaired adults. This project is considered both innovative and complex, as it was not only the first affordable assisted-living project in the state, but it was also the first investment of this type for the bank. Senior management spent more than 90 staff-hours working on this project as well as meeting with the bank’s financial accountants to assess appropriate levels of participation. The remaining investments were various donations and charitable contributions to affordable housing groups, home ownership counseling groups, and other organizations supporting activities essential to low- and moderate-income individuals.

Below is a breakdown of investments by type:

Merry Garden Estates	\$125,000
Other grants/donations	<u>16,350</u>
	\$141,350

CNB is further committed to the Merry Gardens Estates project by providing equity financing made possible by the Federal Low Income Tax Credit Program. Upon satisfaction of certain conditions (tax credits certification, 90% occupancy, closing and funding of the permanent and secondary loans, certification that representations and warranties remain true and correct, and receipt and review of a legal opinion that the partnership is validly-formed and duly-existing), CNB is committed to making a capital contribution of \$1.357 million plus any post-construction interest. This contribution along with financing by the Maine State Housing Authority (MSHA) will be used to pay off this bank’s construction loan previously discussed in the community development lending section of this report. CNB is also committed to an additional \$67 thousand capital contribution in this project.

SERVICE TEST

The delivery systems are reasonably accessible to all portions of CNB’s assessment area. No branches have been opened or closed since our prior CRA examination. Branch hours are reasonable and convenient to CNB customers. The range of financial services provided is consistent throughout its assessment area and a high level of community development services is provided.

CNB’s branch offices and ATM network reasonably reflect the geographies in the assessment area as shown in Table 6 on the following page. All offices provide 24-hour access via ATM’s. One branch also contains a drive-up ATM facility.

The higher proportion of upper income branches in relation to total assessment area branches is due to the main office and a satellite branch being located in Camden, an upper income tract. There are no branches in the moderate-income area. This BNA is located in the northernmost portion of the AA. Residents are also serviced by numerous financial institutions in nearby Bangor, the business center of eastern Maine.

Table 6 Distribution of Delivery Systems (Branches and ATM Facilities)			
<i>BNA Characteristics</i>	<i>Branches and Proprietary ATM Facilities</i>		<i>Number and % of BNA's in AA</i>
	<i>#</i>	<i>%</i>	
<i>Moderate</i>	0	0	1 / 6%
<i>Middle</i>	4	67%	14 / 88%
<i>Upper</i>	2	33%	1 / 6%
Total	6	100%	16 / 100%

Source: Bank Internal Records

The 24-Hour Telephone Banking automated services was upgraded in 1997, providing loan and deposit balances, deposit transaction history, deposit transfers and loan payments. Complementing this service, in April of 1997, a Call Center was established with two customer service representatives providing full service phone support to customers with questions on accounts or services.

In 1996 and 1997, the residential mortgage department began offering remote loan origination services to consumers. Two full-time mortgage officers make house calls, office calls, and other arrangements as necessary.

COMMUNITY DEVELOPMENT SERVICES

CNB provides a high level of community development services. Primary services include financial planning, credit counseling, and technical assistance on financial matters targeted at low-or moderate-income individuals and small businesses. The following is a listing and description of community development services provided in the assessment area:

- ▶ **Bartlett Woods, Rockland** - A bank officer is a board member of this affordable retirement community organization, designed to serve low- and moderate-income retirees and elderly in the area. Their focus is on controlling unit costs within the cooperative so home ownership remains viable.
- ▶ **Camden Affordable Housing** - A bank officer is treasurer and a board member of this committee that works with the Town of Camden to convert tax acquired property into affordable housing for low- to moderate-income families to purchase.
- ▶ **Eastern Maine Development Corporation** - This group is dedicated to providing loans to businesses and individuals in mid-coast, eastern and northern Maine who cannot qualify for credit on standard terms or conditions with traditional lenders. A bank officer provides technical assistance by reviewing applications from businesses and individuals

seeking assistance.

- ▶ **Elderserve, Rockland** - A bank officer serves as board member and treasurer with responsibility for financial planning and developing financial policies. This group is involved in the development of subsidized and affordable housing for the elderly.
- ▶ **Free Home Buyers Seminars** - Bank mortgage officers offer seminars throughout the year to potential first-time home buyers. Along with a panel of realtors, a building inspector, an attorney, and an insurance agent, they teach various financing options and the entire home buying process.
- ▶ **Mid-Coast Affordable Housing (MCAH) & Realty Resources (RR)** - A bank officer worked with MCAH, a nonprofit group dedicated to finding solutions to affordable housing needs, and with RR, a for profit business, which builds affordable housing. Both groups helped bring the Merry Gardens Estates project to fruition.
- ▶ **Mid-Coast Development Corporation** - This nonprofit, volunteer organization's mission is to expand and retain existing businesses and attract new businesses to the area. A bank officer serves on the board of directors and is involved with fundraising, meeting corporations with potential to relocate or expand, and in discussing SBA loans.
- ▶ **Waldo County Board of Realtors** - A mortgage officer is a member of the Affordable Housing Committee which raises money to help low-income and elderly people buy homes in Waldo county. The group works directly with local contractors to provide lower than market cost repairs on houses to make them saleable.
- ▶ **West Bay Rotary Club, Camden** - A bank mortgage officer serves as treasurer, and gives technical assistance to this group which provides scholarships to low-income students and money to local towns for emergency assistance to low-income residents.

CNB also provides free check cashing of government benefit checks regardless of account holder status. In addition, they offer two affordable personal checking accounts with no monthly service fees and no minimum balance requirements. These are available to nonprofit organizations and customers 62 years of age or over.

FAIR LENDING EXAMINATION

A concurrent fair lending review did not identify any violations of anti-discrimination laws and regulations. CNB's fair lending policies, procedures, and training programs have been effective in assisting lenders on these issues.

