



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

Northeastern District
1114 Avenue of the Americas, Suite 3900
New York, New York 10036

PUBLIC DISCLOSURE

July 6, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Orwell
Charter Number 228
Main Street
Orwell, Vermont 05760**

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

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

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of *The First National Bank of Orwell* prepared by *The Office of the Comptroller of the Currency*, the institution's supervisory agency, as of *July 6, 1998*. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

INSTITUTION'S CRA RATING: This institution is rated *Satisfactory*.

Primary factors supporting the bank's overall rating include:

- ▶ A strong loan to deposit ratio of 97%.
- ▶ The majority of loan originations, 72%, are made within the assessment area.
- ▶ The distribution of credit to borrowers of different income levels in the assessment area is reasonable with 17% of the number of home mortgage originations to low-income families and 10% to moderate-income families.
- ▶ A high percentage, 94%, of commercial lending is to small businesses.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>THE FIRST NATIONAL BANK OF ORWELL</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio	X		
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans	Not meaningful		
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

The First National Bank of Orwell (FNB Orwell) is a \$19 million independent community bank with its main office located in the town of Orwell, Vermont. Orwell is in the west central part of the state, 50 miles south of Burlington and 7 miles east of the New York border. There are no branch offices.

The primary focus is on basic products. Residential lending comprises \$9.1 million or 54% of the loan portfolio, while consumer loans are \$3 million or 18%. Agricultural and farmland loans at \$1.8 million (11%), commercial real estate loans at \$1.6 million (10%) and commercial loans at \$1.3 million (7%) comprise the remainder of the portfolio. The bank was assigned a “satisfactory” CRA rating at the preceding examination dated May 31, 1995. There are no financial or legal impediments that would prevent the institution from helping to meet the credit needs of the assessment area.

FNB Orwell’s primary competitors are the National Bank of Middlebury and the First National Bank of Brandon. On the commercial side, principal competition is from Albank, Vermont National Bank and Merchants Bank.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires a financial institution to identify an assessment area in which it intends to focus its lending efforts. The bank has defined one assessment area which consists of six block numbering areas (BNAs), three located within Addison county and three in Rutland county. There are five middle-income tracts and one upper-income tract in the assessment area. There are no low- or moderate-income tracts in the assessment area.

The population of this rural, agricultural assessment area is stable with 22 thousand individuals. The Housing and Urban Development (HUD) non-metropolitan statistical area (MSA) median family income is \$38,200. In the assessment area, low income families comprise 16% of the population, moderate income families 19%, middle income families 25% and upper income families 40%. The median housing value for the area is \$93 thousand and the median age of the housing stock is 38 years. Owner occupied housing is 55% of the total. Rental occupied housing is 22% of the total. Vacant housing units are high at 21%.

The primary industries for the area are agriculture (apple orchards and dairy farms) and related suppliers. Standard Register in Middlebury and General Electric of Rutland are the primary employers. As of April 1998, the state’s seasonally adjusted unemployment rate, at 3.2%, is slightly below the New England states’ averages of 3.4%. The state rate has improved from 4.0% one year ago.

Micro small business loans, home mortgages that are non-conforming to the secondary market and agricultural lending were described as the primary credit needs for the assessment area by both bank management and a community contact involved in a local farming group.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Scope of Review

This review covered the time period from January 1, 1996 to May 31, 1998 for residential real estate mortgages, commercial and consumer loans.

Loan to Deposit Ratio

FNB Orwell's loan to deposit ratio is strong at 97% as of March 31, 1998. This ratio has increased from 86% at our prior examination. For the past eleven quarters, the average loan to deposit ratio equaled 86%. As of March 31, 1998, FNB Orwell ranks first out of the two banks in Addison County, and third for the twenty-four banks less than \$250 million in Vermont. Average loan to deposit ratios for twenty-four banks less than \$250 million in Vermont range from 55% to 103%.

Lending in the Assessment Area

A majority of lending is within FNB Orwell's assessment area with 72% in number and 69% of the dollar amount, for the evaluation period, as reflected in *Table 1*. Information was obtained through bank prepared reports. The major loan products are residential real estate mortgages, commercial and consumer loans. FNB Orwell is not subject to the Home Mortgage Disclosure Act (HMDA) requirements.

TABLE 1
PERCENTAGE OF LENDING WITHIN THE ASSESSMENT AREA

Loan Originations - (000's)							
<i>Inside Assessment Area</i>				<i>Outside Assessment Area</i>			
# Loans	%	\$ Amt	%	# Loans	%	\$ Amt	%
2,041	72%	19,459	69%	792	28%	8,850	31%

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Borrowers of Different Incomes

The distribution of loans among borrowers of different income levels is reasonable, given the demographics of the assessment area. Residential real estate mortgages comprise the majority, 54%, of the loan portfolio. For the evaluation period, 17% of the number of originations were to low-income families and 10% to moderate-income families. This demonstrates satisfactory responsiveness. Our analysis was based on a sample of 27% of the number of originations. **Table 2** reflects the breakdown of residential real estate mortgage originations among borrowers of different income levels in the assessment area by number and dollar amount.

The non-MSA median family income is \$38,200. Low-income is defined as an income below 50% (\$19,100), moderate-income is at least 50% and less than 80% (\$19,100 and \$30,560), middle income is at least 80% and less than 120% (\$30,560 and \$45,840) and upper-income is defined as income 120% or more (\$45,840) of the median family income for the non-MSA.

TABLE 2
LENDING TO BORROWERS OF DIFFERENT INCOMES

Residential Real Estate Mortgage Originations - (000's)					
	# Loans	%	\$ Amt	%	HUD Family Distribution
Low	14	17%	379	14%	16%
Moderate	8	10%	223	8%	19%
Middle	33	41%	1,141	42%	25%
Upper	26	32%	983	36%	40%
Total	81	100%	2,726	100%	100%

Table 3 reflects the breakdown of consumer loan originations among borrowers of different income levels in the assessment area by number and dollar amount. Since consumer loans comprise 18% of loans, we reviewed FNB Orwell's lending to borrowers of different income levels for this loan type. For the evaluation period, 28% of the number of consumer originations were to low-income families and 37% to moderate-income families. This demonstrates excellent responsiveness. Our analysis was based on a sample of 4% of the number of originations.

TABLE 3

LENDING TO BORROWERS OF DIFFERENT INCOMES

Consumer Loan Originations - (000's)					
	# Loans	%	\$ Amt	%	HUD Family Distribution
<i>Low</i>	24	28%	99	18%	16%
<i>Moderate</i>	32	37%	229	42%	19%
<i>Middle</i>	12	14%	80	15%	25%
<i>Upper</i>	18	21%	139	25%	40%
<i>Total</i>	86	100%	547	100%	100%

Businesses of Different Sizes

FNB Orwell's performance reflects a high level of attention to small business and farm credit needs within its assessment area. We analyzed all commercial lending activity for the evaluation period by sampling 13% of the number of originations. Small business loans, businesses with gross annual revenues below \$1 million, account for 94% of the number (51 loans) and 86% of the dollar amount (\$802 thousand) of the sample reviewed. The average size of all commercial loans sampled was \$17,300. Additionally, all of the originations were for loans less than \$100,000.

Geographic Distribution of Loans

There are no low or moderate income BNA's in the assessment area. For this reason, an analysis of the geographic distribution of loans was not meaningful.

Response to Complaints

FNB Orwell has received no consumer complaints since the prior CRA examination.

Fair Lending Examination

A fair lending review was performed concurrently with this examination. FNB Orwell's compliance with the Fair Lending laws is satisfactory. No violations of the substantive provisions of the antidiscrimination laws and regulations were identified. Practices and procedures used by the lending staff in daily activity are adequate.