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Comptroller of the Currency  
Administrator of National Banks

**SMALL BANK**

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

## **PUBLIC DISCLOSURE**

March 8, 1999

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Ledyard National Bank  
Charter Number 22210  
320 Main Street  
Norwich, Vermont 05055**

**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.**

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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 **Ledyard National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **March 8, 1999**. 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**.

This rating is based primarily on small business lending.

Ledyard National Bank has demonstrated a sound commitment to CRA through:

- C An adequate average loan to deposit ratio of 66.8% since our prior examination;
- C A reasonable level of loan originations, 80.5%, within the assessment area; and
- C A good record of lending to businesses of different sizes.

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

Small Institution Assessment Criteria	<b><u>Ledyard National Bank</u></b> 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**

Ledyard National Bank (LNB) is a \$161 million community bank located in east-central Vermont. The bank, established in 1991, was originated in Hanover, New Hampshire by business people with local interests. LNB's main office is now located in Norwich, VT, which is directly across the New Hampshire state line from Hanover and serves as the only Vermont office. In addition to its former headquarters, through which the majority of business is conducted, LNB operates a second Hanover branch and a stand alone automated teller machine (ATM). There are three other New Hampshire branches. They are located in West Lebanon, Lyme and New London. The New London branch was opened in February 1999. All branches have ATM's which are accessible 24 hours a day. LNB is well situated to compete in the highly competitive market which surrounds Dartmouth College.

LNB is the only locally owned bank in Norwich, Vermont or Hanover, New Hampshire. It is considerably smaller than any of the 84 banks and mortgage companies operating in its assessment areas. Primary competition comes from three local banks, branches of the two largest banks in Vermont, branch operations of New England's largest bank and many well known regional and national mortgage companies.

A market share review of Home Mortgage Disclosure Act (HMDA) reporting institutions showed 88% of 1997 originations were made by the top 20 underwriters. It was due to the high level of competition, as evidenced by this data, that LNB decided in 1993 to focus lending activity on small businesses. This is a market that larger, out of area, banks had difficulty serving. As an example, LNB is an active participant in Small Business Administration (SBA) programs. They originated 13 loans, for a total of \$1,884,840, during 1997 and 1998.

LNB is in sound financial condition and there are no financial or legal impediments limiting the bank's ability to help meet the credit needs of its two assessment areas. December 31, 1998 total assets of \$161 million were comprised of \$83.3 million in loans, \$63.4 million in investments and \$14.3 million in cash and premises. The bank's loan portfolio is 29% residential real estate mortgages and 71% commercial loans. This does not include \$15.1 million in residential real estate loans that were originated and sold. Loan growth was 5.2% in 1998 and 20% in 1997.

For this examination, we evaluated LNB's CRA performance based on lending performance in commercial loans and residential mortgage originations. Random sampling was used to gather data. January 1, 1998 to December 31, 1998 was used as our proxy to cover the entire review period of July 1996 to December 1998.

The prior CRA examination was dated June 20, 1996 and the rating was Satisfactory.

### **Description of Vermont Assessment Area (AA)**

The Vermont AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies. LNB selected three towns in Vermont representing four Block Numbering Areas (BNAs). The combined population of the BNAs is 15,000. The statewide Average Non-MSA Census Median Family Income was \$32,454 and the statewide Average Non-MSA Updated Median Family Income is \$38,200. Three BNAs are upper income and account for 71% of the population. The fourth BNA is middle income. There are no low- or moderate-income BNAs in the AA.

This AA is largely a residential area and comprised of recently constructed higher cost houses. The average age of housing stock is 30 years and the median value is \$127,000. Housing is 80% one to four family units, and 53% of all housing types are owner occupied. More than any other factor, the popularity of second homes in the area accounts for 21% of the housing stock which is categorized as vacant.

The median population age is 21 years. Unemployment averages 2.7%, reflecting economic stability fostered by Dartmouth College and the Dartmouth Hitchcock Medical Center, both of which are located in New Hampshire, two miles from LNB's Vermont headquarters. There are 583 local businesses. Of these, 471 employ up to 9 people and 424 have annual revenues less than \$1 million. Service providers, wholesale and retail trade and construction are the major business groups.

## **Description of New Hampshire Assessment Area (AA)**

The New Hampshire AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies. LNB has selected twelve towns in New Hampshire representing six Block Numbering Areas (BNAs). This AA is contiguous to the VT AA, separated only by the state line. The combined population of the BNAs is 30,000. The statewide Average Non-MSA Census Median Family Income was \$36,623 and the statewide Average Non-MSA Updated Median Family Income is \$43,400. Five BNAs are middle income and account for 69% of the population. The sixth BNA is upper income. There are no low- or moderate- income BNAs in the AA.

The average age of housing stock is 40 years and the median value is \$134,000. Housing is 78% one to four family units, and 54% of all housing types are owner occupied. The popularity of second homes in the area accounts for 16% of the housing stock which is categorized as vacant.

The median population age is 31. Unemployment averages 2.4% exhibiting economic stability fostered by Dartmouth College and the Dartmouth Hitchcock Medical Center. The AA has a mix of large and small employers, which vary widely by the length of time in business and level of revenues produced. Of the nearly 1,400 businesses, Dartmouth Hitchcock Medical Center, with 4,000 employees, and Dartmouth College, with 3,400 employees, are the largest employers. Businesses in the area with up to nine employees total 1,100. While the college has been here since 1769, new medical technology and business software companies have found development and growth opportunities in the region as well. Businesses with sales revenue over \$1 million totaled 143, and included six with annual revenue of \$25 million or more. 1,025 businesses report revenue under \$1 million. Service providers, wholesale and retail trade and construction are the major business groups.

To help us to better assess the needs of the community, we contacted a representative of a local social service organization. This organization provides housing and utility assistance, food assistance and money management programs to families and individuals in both assessment areas. Priority is given to low-income households. The community contact stated that the number one financial need is micro-loans for individuals. While the economic base provides many job opportunities, under-employed and poorly prepared workers live paycheck to paycheck. Public transportation is weak placing heavy reliance on automobile transportation to work. Many families have no financial reserve for automotive repairs. When this type of need arises, some may fall behind in housing expenses. A solution that the community contact suggested was bank supplied seed money for small-dollar loans ranging from \$250 to \$1,000, which banks say are not profitable. The contact also said that cars repossessed by banks would be a good source of additional transportation units.

The next most significant need is money management, which is a service provided by the organization. It includes a budget counseling program for all income levels and age groups. Low income families, elderly and handicapped are frequent recipients of this service. The program could be expanded if local bankers volunteered to help families budget, provide budget counseling and help individuals qualify for loans.

## Conclusions with Respect to Performance Criteria

### Loan to Deposit Ratio

LNB's loan to deposit ratio is reasonable given its size, lending capacity and competitive market area. The average loan to deposit ratio for the past ten quarters ending December 31, 1998 was 66.8%. The bank's loan to deposit ratio has fluctuated between 70.3%, its highest point, and 60.7%, its lowest point. The overall trend is down due to strong growth in deposits. Similarly situated banks, headquartered in Vermont, with assets less than \$250 million had loan to deposit ratios ranging from 60.88 % to 96.18% during the same period.

### Lending in Assessment Area (AA)

We found that a majority of loans were originated in the two AAs. A random sample of commercial loans identified 80% of the number and 95% of the dollar volume as of December 31, 1998 were within the two AAs. In addition, a random sample of residential mortgages identified 81% of the number and 84% of the dollar volume of mortgages as of December 31, 1998 were within the two AAs.

### Lending to Borrowers of Different Incomes and Businesses of Different sizes.

#### *Businesses of Different Sizes*

We used a sample of 20 new commercial loans to analyze originations to small businesses as defined by the regulation. Performance is good, as shown in Tables 1 and 2. Table 1 identifies the number and percentage of loans from our sample that meet the definition of loans to small businesses. These are be businesses with gross revenues of \$1 million or less. This performance reflects that LNB provides a good level of originations to help meet credit needs of small businesses. This is evidenced by 75% of the originations are to small businesses where 72% of all businesses meet the definition of a small business.

**Table 1**

Percentage Distribution of Small Business Borrowers by Annual Revenues		
Revenue	< \$1,000,000	> \$1,000,000
Number	15	5

Percentage	75%	25%
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We also utilized this same random sample of 20 commercial loans to analyze performance of small business lending based on loan size. Table 2 reflects LNB's strong willingness to help meet the credit needs of borrowers with modest financing requirements.

**Table 2**

Percentage of Commercial Loan Originations by Loan Size for 1998			
	<\$100,000	\$101,000 to \$250,000	\$251,000 to \$1,000,000
Number	13	3	4
Percentage	65%	15%	20%

*Borrowers of Different Incomes*

We analyzed residential mortgage originations using a random sample of 20 originations in 1998 as proxy for the entire evaluation period. Given the demographics and median housing values in the two assessment areas, the level of distribution is adequate, even though only one loan was originated to low-income families and no loans were originated to moderate-income families. Low-income families, defined as 49% or less of the Average Non-MSA's Updated Family Income of \$41,320, have annual incomes of approximately \$20,247 or below. With a median housing value of \$131,823, qualifying for a mortgage is difficult for this segment of the population. At 50% of the median housing value, mortgage qualification begins to become more attainable, but the number of opportunities are few according to bank management. Median-income families, defined as 50% to 79% of the Average Non-MSA's Updated Family Income of \$41,320, have incomes of approximately \$32,643 to \$20,247. Because of higher housing costs, they also face similar loan qualification difficulties. Table 3 reflects the breakdown of real estate mortgage originations among borrowers of different income levels in the combined assessment areas by number and dollar amount.

**Table 3**

Real Estate Originations									
		Low		Moderate		Middle		Upper	
# Lns	%	1	5%	0	0	1	5%	18	90%
\$Amt*	%	50	2%	0	0	62	2%	2,753	96%



Family Income Distribution	13%	14%	22%	51%
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\*Thousands

As stated earlier, mortgage lending is not an area on which LNB focuses. Its strategy and demonstrated strength are loan originations to businesses in the assessment area.

### **Community Development**

LNB is a member of the New Hampshire Community Reinvestment Corporation, a \$30 million statewide, multi-bank initiative to fund affordable housing. In this evaluation period, LNB has participated in 12 developments, which encompassed 405 units and totaled \$12.6 million. Of the total units financed, 53% are dedicated to low- and moderate-income families. LNB's individual participation was \$92,900.

In addition, LNB continues to offer a consumer loan product with a Community Development purpose. It is based on income requirements which primarily address low- and moderate-income people. The product, titled the Improve-It-Loan, is an unsecured loan up to \$10,000 for home owners with incomes less than \$40,000. Proceeds are used to repair roofs or heating systems, replace windows or add insulation. From the pool of funds originally established, \$240,000 remains available. The number and dollar amount of loans originated under this program was not readily available.

### **Geographic Distribution**

Tracking borrowers by geographic distribution was not meaningful as there were no low- or moderate-income BNAs.

### **Response to Complaints**

LNB has not received any complaints relating to CRA performance since the prior examination.

### **Fair Lending Examination**

During the concurrent Fair Lending examination, no violations of substantive provisions of the anti-discrimination laws or regulations were noted.

## State Rating

The following is a discussion of the bank's performance specifically within the State of Vermont.

**CRA Rating for Vermont is: Satisfactory.**

This rating is based primarily on small business lending.

Factors supporting LNB's **Satisfactory** rating include:

- C An adequate average loan to deposit ratio of 66.8% since our prior examination;
- C A high level of loan originations, 70.2%, within the assessment area; and
- C A good record of lending to businesses of different sizes.

### **Description of Institution's Operations in Vermont**

LNB commenced operations in Vermont shortly after the bank was originated in 1991. In 1996, as partial fulfillment of its strategic goal, LNB moved its headquarters to Norwich, Vermont and business volume increased. LNB's assessment area is in a non metropolitan statistical area and composed of three towns: Norwich, Hartford and Thetford. This AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

To summarize our earlier discussion, the population of the geography is 15,000. The statewide Average Non-MSA Census Median Family Income is \$32,454 and the statewide Average Non-MSA Updated Median Family Income is \$38,200. The AA has four BNAs. Three are upper income and account for 71% of the population. The fourth is middle income. There are no low- or moderate-income geographies.

The average age of housing stock is 30 years, and the median value is \$127,000, which makes qualifying for a mortgage by low-income borrowers, those with 49% or less of the Average Non-MSA's Updated Family Income, difficult. Moderate-income families, with 79% to 50% of the Average Non-MSA's Updated Family Income, face similar loan qualification difficulties.

Unemployment averages 2.7%, reflecting economic stability. There are 583 local businesses. Of these, 471 employ up to 9 people and 424 have annual revenues less than \$1 million. Services, wholesale and retail trade and construction are the major business groups.

The credit needs for Vermont are the same as the overall AA and competition is strong. Vermont's two largest banks, several locally owned banks and nationally known mortgage companies are active in this AA. While LNB offers a variety of credit products, the focus of has been on small business lending. This is due to the strong competition for other types of consumer loans; and that out-of-area banks have more difficulty servicing these loans.

## **Conclusions with respect to performance tests in Vermont**

### **Loan to Deposit Ratio**

LNB's loan to deposit ratio is reasonable given its size, lending capacity and competitive market area. The average loan to deposit ratio for the past ten quarters ending December 31, 1998 is 66.8%. The bank's loan to deposit ratio has fluctuated between 70.3%, its highest point, and 60.7%, its lowest point. The overall trend is down due to strong growth in deposits. Similarly situated banks in Vermont, with assets less than \$250 million, during the same period had loan to deposit ratios ranging from 60.88 % to 96.18%.

### **Lending in the Assessment Area**

A majority of lending is inside LNB's assessment area, as reflected by 70% of the loans by number and dollar amount were made within the AA during 1998. This period is a proxy for the entire evaluation period.

### **Lending to Borrowers of Different Incomes and to Borrowers of Different Sizes**

#### *Borrowers of Different Incomes*

We did not analyze residential mortgage lending and lending to borrowers of different income levels as LNB focuses its lending programs on small business loans. Please refer to the section of this report which discusses the bank's general performance.

#### *Businesses of Different Incomes*

We used a random sample of 20 new commercial loans to analyze originations to small businesses as defined by the regulation. Performance is good, as shown in Tables 1 and 2. Table 1 identifies the number and percentage of loans from our sample that meet the definition of loans to small businesses (companies with gross revenues of \$1 million or less). This performance reflects that LNB provides a good level of originations to help meet the credit needs of small businesses. It also compares favorably

to overall business demographic data in which 69% of the nonfarm businesses meet the regulation's definition of a small business.

**Table 1**

Percentage Distribution of Small Business Borrowers by Annual Revenues		
Revenue	< \$1,000,000	> \$1,000,000
Number	17	3
Percentage	85%	15%

We also utilized this same random sample of 20 commercial loans to analyze performance of small business lending based on loan size. Table 2 reflects LNB strong performance helping meet the credit needs of borrowers with modest financing requirements.

**Table 2**

Percentage of Commercial Loan Originations by Loan Size for 1998			
	<\$100,000	\$101,000 to \$250,000	\$251,000 to \$1,000,000
Number	15	5	0
Percentage	75%	25%	0%

### **Geographic Distribution**

Tracking borrowers by geographic distribution was not meaningful as there were no low- or moderate-income BNAs.

### **Response to Complaints**

LNB has not received any complaints relating to CRA performance since the prior examination.

### **Fair Lending Examination**

During the concurrent Fair Lending examination, no violations of substantive provisions of the anti-discrimination laws or regulations were noted.

## **State Rating**

The following is a discussion of the bank's performance specifically within the State of New Hampshire.

**CRA Rating for New Hampshire is: Satisfactory.**

This rating is based primarily on small business lending.

Factors supporting LNB's **Satisfactory** rating include:

- C An adequate average loan to deposit ratio of 66.8% since our prior examination;
- C A high level of loan originations, 88.3%, within the assessment area; and
- C A good record of lending to businesses of different sizes.

### **Description of Institution's Operations in New Hampshire**

LNB commenced operations in 1991 in Hanover, NH. The bank's assessment area is in a non-metropolitan statistical area and is composed of 12 towns, the largest of which are Hanover and Lebanon. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

To summarize our earlier discussions, the population within the AA is approximately 30,000. Statewide Average Non-MSA Census Median Family Income is \$36,623; statewide Average Non-MSA Updated Median Family Income is \$43,400. The AA has six BNAs. Five BNAs are middle income and account for 69% of the population. The sixth BNA is upper income. There are no low- or moderate-income BNAs.

The average age of housing stock is 40 years, and the median value is \$134,000. It is difficult for low-income families with 49% or less of the Average Non-MSA's Updated Family Income to qualify for a

residential real estate mortgage with housing at these values. Moderate-income families, with 79% to 50% of average income, face similar loan qualification difficulties.

Unemployment averages 2.4%, which is reflective of economic stability. The assessment area is a mix of large and small employers, which vary widely in the length of time in business and in the level of revenues produced. Of the nearly 1,400 businesses, Dartmouth Hitchcock Medical Center, with about 4,000 employees, and Dartmouth College with 3,400 employees, are the largest employers. 1,100 businesses employ up to nine employees.

The credit needs of this area are the same as the overall institution. While LNB offers a variety of credit products, the focus is on small business loans. Competition is strong.

## **Conclusions with respect to performance tests in New Hampshire**

### **Loan to Deposit Ratio**

LNB's loan to deposit ratio is reasonable given its size, lending capacity and competitive market area. The average loan to deposit ratio for the past ten quarters ending December 31, 1998 is 66.8%. The bank's loan to deposit ratio has fluctuated between 70.3%, its highest point, and 60.7%, its lowest point. The overall trend is down due to strong growth in deposits.

### **Lending in the Assessment Area**

A substantial majority of lending is inside LNB's assessment area, as reflected by 88% of the loans by number and 96% by dollar amount that were originated within the AA during 1998. This period is a proxy for the entire evaluation period.

### **Lending to Borrowers of Different Incomes and to Borrowers of Different Sizes**

#### *Borrowers of Different Incomes*

We did not analyze residential mortgage lending and lending borrowers of different income levels as LNB focuses its lending programs on small business lending. Please refer to the section of this report that discusses the bank's overall performance.

#### *Businesses of Different Incomes*

We used a random sample of 20 new commercial loans to analyze originations to small businesses as defined by the regulation. Performance is good, as shown in Tables 1 and 2. Table 1 identifies the number and percentage of loans from our sample that meet the definition of loans to small businesses (companies with gross revenues of \$1 million or less). This performance reflects that LNB provides a good level of originations to help meet the credit needs of small businesses. It also compares favorably to overall business demographic data in which 71% of the nonfarm businesses meet the regulation's definition of small business.

**Table 1**

Percentage Distribution of Small Business Borrowers by Annual Revenues		
Revenue	< \$1,000,000	> \$1,000,000
Number	16	4
Percentage	80%	20%

We also utilized this same random sample of 20 commercial loans to analyze performance of small business lending based on loan size. Table 2 reflects LNB's strong performance in helping meet the credit needs of borrowers with modest financing requirements.

**Table 2**

Percentage of Commercial Loan Originations by Loan Size for 1998			
	<\$100,000	\$101,000 to \$250,000	\$251,000 to \$1,000,000
Number	15	3	2
Percentage	75%	15%	10%

### **Community Development**

LNB is a member of the New Hampshire Community Reinvestment Corporation, a \$30 million statewide, multi-bank initiative to fund affordable housing. In this evaluation period, LNB has participated in 12 developments, which encompassed 405 units and totaled \$12.6 million. Of the total units financed, 53% are dedicated to low- and moderate-income families. LNB's individual participation was \$92,900.

### **Geographic Distribution**

Tracking borrowers by geographic distribution was not meaningful as there were no low- or moderate-income BNAs.

### **Response to Complaints**

LNB has not received any complaints relating to CRA performance since the prior examination.

### **Fair Lending Examination**

During the concurrent Fair lending examination, no violations of the substantive provisions of the anti-discrimination laws or regulations were noted.