



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

Northeastern District
1114 Avenue of the Americas
Suite 3900
New York, New York 10036-7780

Public Disclosure

March 2, 1998

Community Reinvestment Act Performance Evaluation

**First National Bank of New England
Charter Number: 14750
One Commercial Plaza
Hartford, Connecticut 06103**

**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 CRA performance of *First National Bank of New England* prepared by *The Office of the Comptroller of the Currency*, the institution's supervisory agency, as of **March 2, 1998**. 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 Record of Meeting Community Credit Needs* .

Primary factors supporting the bank's overall rating include:

- ▶ The bank *has been responsive* to the credit needs of the assessment area as demonstrated by:
 - An average loan to deposit ratio of 81% over the past nine quarters *exceeds the expectations for satisfactory performance*, coupled with \$480 million in originations and \$357 million in loan sales in 1996 and 1997.
 - The bank's geographical distribution of small business lending is reasonable.
 - A low percentage (22%) of the bank's lending is in its assessment area. Additionally, there is a low level of lending to businesses of different sizes, only 16% of the bank's commercial loans were to small businesses, and 27% of the loans were of a loan amount less than \$100 thousand. *The impact of these conclusions is mitigated due to the bank's business strategy and performance context issues.*

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

Small Institution Assessment Criteria	<i>First National Bank of New England</i> Performance Levels		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-deposit ratio	X		
Lending in Assessment Area			X
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes			X
Geographic Distribution of Loans		X	
Response to Complaints	No complaints received since the prior examination.		

DESCRIPTION OF INSTITUTION

First National Bank of New England (FNB-NE) is located in the city of Hartford, Connecticut, and is wholly-owned by First International Bancorp, a one bank holding company. FNB-NE has one office which is full service and includes a 24-hour automated teller machine. Limited lobby hours from 10:00 a.m. to 2:00 p.m. are designed to meet the needs of their commercial clientele. The bank's lock-box, electronic transfers and soon to be introduced PC banking meet the other needs of clients. In addition to the Hartford office, FNB-NE has eight regional Loan Production Offices (LPO's) in the Northeast: Boston and Springfield, Massachusetts; Providence, Rhode Island; Morristown, New Jersey; Pittsburgh and Philadelphia, Pennsylvania; Rochester, New York; and Washington, D.C. In an effort to expand its international business, FNB-NE has contractual marketing arrangements with professionals in ten international markets (Brazil, Mexico, Argentina, Central America, Philippines, South Africa, Poland, Turkey, India, and Indonesia).

DESCRIPTION OF INSTITUTION (Continued)

FNB-NE specializes in providing credit, trade and depository services to small and medium size manufacturing companies in the United States and certain foreign "Big Emerging Market" regions (Argentina, Brazil, Mexico, ASEAN, Chinese Economic Area, India, South Korea, Poland, South Africa, Poland, and Turkey). The bank serves its target market through commercial loan guarantee programs available by the Small Business Administration (SBA), United States Department of Agriculture (USDA), and the United States Export-Import Bank (Eximbank). During the evaluation period, these programs accounted for 74% of the dollar volume of FNB-NE's commercial loan originations. The typical client is a privately owned and operated company with annual sales of \$2 to \$25 million, employs 10-175 workers, has been in business for at least three years, and has credit needs of \$250 thousand to \$1 million. FNB-NE has received national recognition under the government programs. Based on dollar volume, FNB-NE was ranked 5th in 1996 and 14th in 1997 by the SBA, and 3rd in 1996 and 1st in 1997 by the USDA. Also, FNB-NE was ranked 2nd in 1996 and 1st in 1997 for the number of Eximbank transactions. The bank also maintains preferred lender status for several jurisdictions and programs.

FNB-NE's strategy is to serve small and medium size manufacturers through expanding domestic loan origination and commercial sale activities, increase its international presence in "Big Emerging Markets", develop new products, and utilize private banking to provide stable, low-cost funding and enhance client relations. The types of commercial loans originated include commercial real estate mortgages, term loans, equipment loans and revolving lines of credit to manufacturers, capital goods wholesalers, distributors and exporters. FNB-NE does offer a full range of consumer-related loan products, as an accommodation to the owners and principals of the commercial clients.

As of December 31, 1997, FNB-NE's total assets were \$215 million. The \$145 million loan portfolio represented 67% of total assets. Commercial loans represented 91% of average loans, residential real estate 7%, home equity 1%, and consumer loans 1%. FNB-NE sells a majority of its loans to the secondary market on a non-recourse, servicing-retained basis. The bank also originates and sells unguaranteed commercial, residential, and consumer loans on a servicing-retained basis. At year-end 1997, FNB-NE serviced \$426 million of loans for others. Since our last CRA examination as of November 31, 1995, the bank closed its only branch, which was located in a middle-income census tract. The branch was sold in September, 1996 as it was not contributing to the overall business strategy. There are no legal impediments preventing FNB-NE from meeting the credit needs of its assessment area.

Competition is provided from other commercial institutions, savings banks, savings and loans associations, credit unions, finance companies, and other nonfinancial institutions throughout the Northeast and nationally.

DESCRIPTION OF ASSESSMENT AREA (AA)

FNB-NE has defined one AA which consists of 221 census tracts in Hartford County and the Hartford Metropolitan Statistical Area. It's AA is primarily (73%) comprised of 161 middle- and upper-income census tracts. The twenty-nine low income census tracts represent 13% of the AA and are located in two geographical areas, the cities of Hartford (26) and New Britain (3). The thirty-one moderate income census tracts comprise 14% of the AA and are located in the cities of Central Manchester (1), Bristol (2), East Hartford (4), Hartford (11), New Britain (11), Thompsonville (1), West Hartford (1).

The population of the AA is 843 thousand individuals. The total number of businesses within the AA is 24,136. Small businesses represent 72% of the total number of businesses. The percentage of businesses by census tract characteristic in the AA are 7% low-income, 12% moderate-income, 54% middle-income, and 27% upper-income. The percentage of small businesses by census tract characteristic in the AA are 7% low-income, 13% moderate-income, 53% middle-income, and 27% upper-income.

The majority of the revenue in the AA is derived from Greater Hartford's diversity in its business and industrial community. Hartford is home to seven major insurance firms: Aetna, Inc., The Travelers Insurance Companies, MassMutual, the Hartford Insurance Group, CIGNA Corporation, Phoenix Home Life Mutual Insurance Company, and the United Health Care Company. The area also includes many Fortune 500 corporations and large multi-national organizations. The best known include: the Barnes Group, Locite Corporation, The Stanley Works and United Technologies Corporation, its divisions Hamilton Standard, Pratt & Whitney, and its subsidiary Otis Elevator. Additional major employers in the area are related to the health care, retail, education, and service industries. State and municipal government offices are also large employers within the area.

The local economy is described by management and community contacts as generally strong. The average unemployment rate for the AA is 3% in comparison to 3.8% for the State of Connecticut as of January, 1998 and 5.7% at the last CRA examination.

Community contacts indicated that credit needs in the AA are affordable housing loans (purchase and rehabilitation), small business and micro loans for established and start-up businesses and economic development / revitalization.

SCOPE OF CRA REVIEW:

Our review covered the time period (evaluation period) from January 1, 1996 to December 31, 1997. We evaluated only FNB-NE's business lending as it is the bank's primary mission and business strategy. Also, over 90% of the bank's portfolio loans and 80% of the number of originations (94% of the dollar amount) in the AA were commercial-related during the evaluation period. The review was assisted by management's CRA self-assessment. The data in the self-assessment was tested and determined to be accurate. Where applicable, community development loans were considered.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan to Deposit Ratio

FNB-NE's loan to deposit ratio exceeds the standards for satisfactory performance given its lending activity during the evaluation period. FNB-NE's loan to deposit ratio was 78% as of December 31, 1997, a slight decrease from 83% at the last CRA examination due to loan sales into the secondary market. For the past nine quarters, FNB-NE's average loan to deposit ratio was 81%. While there are no similarly situated institutions in the AA, the average loan to deposit ratio for the thirty-seven banks in Connecticut with total assets less than \$250 million ranged from a low of 55% to a high of 91%. FNB-NE's average loan to deposit ranked seventh among the thirty-seven banks.

FNB-NE sells a majority of its loans into the secondary market. The bank originates and sells unguaranteed commercial, residential, and consumer loans. During the evaluation period, FNB-NE originated over 530 commercial loans totaling \$480 million, of which loan sales totaled \$357 million.

Lending in the Assessment Area

FNB-NE's lending in its AA does not meet the standards for satisfactory performance, *however, based upon FNB-NE's strategy and business plan, it is not reasonable to expect a majority of the bank's lending will be within its assessment. Therefore, when considering the bank's overall CRA performance, its business strategy mitigates the impact of a low level of lending within the bank's assessment area.*

The bank's primary loan product is commercial loans. Our analysis shows that during the evaluation period, FNB-NE originated **22%** of the number and **16%** of the dollar amount of its commercial loans within its AA. FNB-NE is a niche financier to manufacturers and as a result, the majority of commercial loans are originated through its network of domestic LPO's and international agents, which are outside the AA. Additionally, a recent study conducted by the Manufacturing Alliance of Connecticut noted that high taxes and insurance costs are making it difficult for manufacturers to do business in the State of Connecticut. The table below summarizes the number and volume of commercial loans originated inside and outside of FNB-NE's AA for **1996** and **1997**.

Commercial Loan Originations - (000's)								
Loan Type	Inside Assessment Area				Outside Assessment Area			
	# Loans	%	\$ Amount	%	# Loans	%	\$ Amount	%
Commercial Loans	203	22%	75,507	16%	722	78%	402,898	84%

Source: FNB-NE CRA Self-Assessment

Lending to Businesses of Different Sizes

FNB-NE's lending to businesses of different sizes in its AA does not meet the standards for satisfactory performance. Small businesses are defined as businesses with gross annual revenues of less than \$1 million. During the evaluation period, 16% of the number and 8% of the dollar volume of loans were to small businesses. The table on the following page shows that FNB-NE's lending to small businesses does not compare favorably to the percentage of small businesses and manufacturing businesses in its AA. It further indicates the bank has not been as responsive in addressing small business credit needs as described by community contacts.

Distribution of Loans to Small Businesses - (000's)						
<i>Revenue Size</i>	January 1, 1996 through December 31, 1997				<i>% of Small Businesses in AA</i>	<i>% of Manufacturing Businesses in AA</i>
	<i># Loans</i>	<i>%</i>	<i>\$ Amount</i>	<i>%</i>		
Less than \$1 million	33	16%	5,992	8%	72%	65%
Greater than \$1 million	170	84%	69,515	92%	13%	35%
Revenue Size N/A					15%	0%
Totals	203	100%	75,507	100%	100%	100%

Sources: FNB-NE CRA Self-Assessment, Housing and Urban Development Business Demographic Data, Connecticut Economic Resource Center, Inc. and Dun & Bradstreet.

The table below summarizes FNB-NE's small business lending by varying loan amounts in the AA for 1996 and 1997. We used loan size as a proxy for lending to businesses of different sizes. The CRA regulation assumes that the loan size generally correlates with the size of business or borrower. In the evaluation period, FNB-NE's distribution of business loans of different sizes was generally reasonable. The level of originations for loans less than \$100 thousand (27%) indicates FNB-NE has not been as responsive to credit needs for smaller business and micro loans for start-up and established businesses. However, the bank did originate an additional 24% of the number of loans from over \$100 thousand to \$250 thousand. The average commercial loan size in the evaluation period was \$372 thousand.

Small Business Loans by Loan Amount - (000's)		
<i>Amount of Loan</i>	<i># Loans</i>	<i>%</i>
Less than \$100,000	54	27%
Between \$100,000 and \$250,000	49	24%
Greater than \$250,000	100	49%
Total	203	100%

Source: FNB-NE CRA Self-Assessment

Lending to Businesses of Different Sizes (Continued)

FNB-NE's performance in lending to businesses of different sizes is reflective of its strategy and niche lending to small- and medium-size manufacturing companies. The typical borrower has annual sales of \$2 to \$25 million and credit needs ranging from \$250 thousand to \$1 million.

Geographic Distribution of Loans

FNB-NE's overall distribution of small business loans in all geographies in its AA is reasonable. During the evaluation period, 4% and 17% of both the number and dollar amount of small business loans were in low- and moderate-income census tracts, respectively. The bank's level of lending in low-income census tracts is due to 90% of these census tracts (26) being located in the city of Hartford where the manufacturing sector comprises a limited percentage of the businesses. Further, FNB-NE's distribution of small business loans is reasonable when compared to the percentage of businesses in low-income census tracts (7%). The bank's level of small business loans in moderate-income census tracts compares favorably to the HUD and business census tract distribution. The table below summarizes FNB-NE's distribution of small business loans in its AA by census tract for **1996** and **1997**.

FNB-NE also originated six SBA loans for \$8.735 million in the evaluation period that qualify as community development loans. Community Development loans are those that do not meet the definition of home mortgage, small business or small farm loans but meet the definition of community development in the CRA regulation [12 CFR 25.12(h)]. Each SBA loan was in an amount in excess of \$1 million. Although the community development loans are included in the table below, two of the six SBA loans (33%) were in moderate-income census tracts.

Geographic Distribution of Small Business Loans - (000's)						
<i>Census Tract Characteristics</i>	<i># Loans</i>	<i>%</i>	<i>\$ Amount</i>	<i>%</i>	<i>HUD Distribution of Census Tracts</i>	<i>% of Businesses by Census Tract</i>
Low	9	4%	2,642	4%	13%	7%
Moderate	34	17%	13,064	17%	14%	12%
Middle	102	50%	37,710	50%	49%	54%
Upper	58	29%	22,081	29%	24%	27%
Totals	203	100%	75,507	100%	100%	100%

Source: FNB-NE CRA Self-Assessment and Housing and Urban Development Business Demographic Data

FNB-NE's distribution of loans to small businesses in all geographies in its AA is good. For the evaluation period, 18% of the number and 12% of the dollar amount of loans to small businesses were in low-income census tracts. In addition, 30% of the number and 26% of the dollar amount of loans to small businesses were in moderate-income census tracts. This level of activity compares favorably to the HUD and small business distribution in low- and moderate-income census tracts. The table on the following page summarizes FNB-NE's distribution of loans to small businesses with revenues less than \$1 million by census tract in its AA for **1996** and **1997**.

Geographic Distribution of Loans (Continued)

Geographic Distribution of Loans to Small Businesses - (000's)						
<i>Census Tract Characteristics</i>	<i># Loans</i>	<i>%</i>	<i>\$ Amount</i>	<i>%</i>	<i>HUD Distribution of Census Tracts</i>	<i>% of Small Businesses by Census Tract</i>
Low	6	18%	724	12%	13%	7%
Moderate	10	30%	1,550	26%	14%	13%
Middle	11	34%	2,239	37%	49%	53%
Upper	6	18%	1,479	25%	24%	27%
Totals	33	100%	5,992	100%	100%	100%

Source: FNB-NE CRA Self-Assessment and Housing and Urban Development Business Demographic Data

Response to Complaints

FNB-NE has not received any CRA-related consumer complaints since our last CRA examination. As a result, we did not evaluate responses to complaints.

Fair Lending Examination

A fair lending examination was performed in conjunction concurrently with the CRA examination. No evidence of disparate treatment or impact was noted. FNB-NE is in compliance with all substantive provisions of the fair lending anti-discrimination laws and regulations.