



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**October 6, 2003**

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

**The Edgartown National Bank  
Charter Number 7957**

**2 South Water Street  
Edgartown, MA 02539**

**The Office of the Comptroller of the Currency  
New England Field Office  
20 Winthrop Square, Suite 200  
Boston, MA 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, 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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## **INSTITUTION'S CRA RATING**

**This institution is rated Satisfactory.**

The lending performance of Edgartown National Bank is satisfactory given its size, financial condition, and the credit needs of its assessment area. The primary factors supporting the bank's overall rating include:

- The average loan-to-deposit ratio is more than reasonable and averaged 99% since the last CRA examination.
- A substantial majority of the banks' loans, 99% by number and 98% by dollar amount, are within the designated assessment area.
- The distribution of residential mortgage and home equity loans reflects reasonable penetration to low- and moderate-income individuals given the historically high cost of housing in Dukes County.
- The distribution of loans to small businesses with revenues of less than \$1 million is reasonable.

## **DESCRIPTION OF INSTITUTION**

Edgartown National Bank (ENB) is a nationally chartered commercial bank headquartered in Edgartown on the island of Martha's Vineyard in Dukes County, Massachusetts. As of December 31, 2002, ENB had total assets of \$125 million. The bank is owned by Island Bancorp, Inc., a one-bank holding company. ENB has five banking offices. The main office and one branch are located in Edgartown, one branch is in Oak Bluffs and two branches are in Vineyard Haven. The Vineyard Haven branches were opened since the last CRA examination. All of the branches are full service and have 24-hour automated teller machines (ATMs). There are five free-standing ATM cash dispensers at the following locations: Stop & Shop store in Edgartown, Steamship Authority Terminal in Oak Bluffs, Alley's General Store in West Tisbury, Chilmark Store in Chilmark, and Menemsha Deli in Chilmark. No offices have been closed since our last CRA examination dated February 2, 1998.

ENB offers a wide variety of loan and deposit products to meet consumer and commercial banking needs. The bank offers standard personal banking deposit products. Business products include checking and money market accounts. ENB also offers customers access to accounts through debit cards and telephone banking. Additional products include safe deposit boxes and Christmas club accounts. The bank's Internet website, [www.edgartownnationalbank.com](http://www.edgartownnationalbank.com), provides detailed information on products and services for both consumers and businesses.

ENB is primarily a residential lender and offers a variety of mortgages for home purchase, refinance, home equity and construction of one-to-four family homes, including a first time

homebuyer program. Other consumer loans include automobile, collateral loans, and loans for personal needs. The bank offers a variety of commercial lending products including working capital lines of credit, equipment loans and commercial real estate mortgages. The bank participates in government guaranteed programs with the Small Business Association (SBA) products. As of December 31, 2002, the bank had total deposits of \$88.5 million and net loans of \$88.9 million, representing 68% and 70% of total assets, respectively.

The distribution of the bank’s loan portfolio, at December 31, 2002, is reflected in **Table 1**, below:

<b>Table 1 – Loan Category – 12/31/02 Year-End Call Report</b>	<b>\$ (000)</b>	<b>%</b>
Residential Real Estate Loans	68,161	76.55
Commercial Real Estate Loans	12,177	13.68
Home Equity Loans/Lines	7,149	8.03
Consumer Loans	745	0.84
Commercial Loans	502	0.56
Other	306	0.34
<b>Total</b>	<b>89,040</b>	<b>100.00</b>

The bank was assigned a “Satisfactory” CRA rating at the previous examination dated February 2, 1998. ENB faces no legal or financial restrictions that would impede its performance and ability to meet the credit needs of its assessment area.

**Table 2** reflects the volume of lending since the previous CRA performance evaluation. Based on the number and dollar volume of loans originated, the heaviest volume of loan originations is residential mortgage and home equity loans. We focused our lending sample on these primary loan products. Although commercial lending was not identified as a primary product, we included a sample of commercial loans to assess the volume of lending to businesses of different sizes.

<b>Table 2 - Loan Originations By Product Type – From January 1, 1998 through December 31, 2002</b>				
<b>Loan Type</b>	<b>Number</b>	<b>% of Total</b>	<b>Dollars (000s)</b>	<b>% of Total</b>
Consumer	268	22.24%	2,455	2.19%
Consumer Residential	379	31.45%	77,951	69.38%
Home Equity	467	38.76%	19,052	16.96%
Commercial/CML RE	91	7.55%	12,890	11.47%
<b>Total</b>	<b>1,205</b>	<b>100.00%</b>	<b>112,348</b>	<b>100.00%</b>

## DESCRIPTION OF EDGARTOWN NATIONAL BANK ASSESSMENT AREA

Edgartown National Bank has one defined assessment area (AA), defined as Dukes County, Massachusetts. Dukes County includes the island of Martha's Vineyard and the sparsely populated Elizabeth Islands, and it is not part of a Metropolitan Statistical Area (MSA). The following Martha's Vineyard communities are included in the bank's assessment area: Edgartown, Oak Bluffs, Tisbury, West Tisbury, Chilmark and Aquinnah. Cuttyhunk, the larger of the Elizabeth Islands, consists of one community, Gosnold.

ENB's assessment area is comprised of four middle-income census tracts. The bank's assessment area meets the technical requirements of the regulation and does not arbitrarily exclude any low- to moderate-income tracts.

**Table 3** reflects the assessment area demographic and economic characteristics of the assessment area based on 1990 Census Bureau data and the 2002 Housing and Urban Development Agency (HUD) data.

<b>Table 3 - DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS</b>	
<i>Population</i>	
Number of Families	2,977
Number of Households	5,076
<i>Geographies</i>	
Number of Census Tracts/BNA	4
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	0%
% Middle-Income Census Tracts/BNA	100%
% Upper-Income Census Tracts/BNA	0%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$40,349
2002 HUD-Adjusted MFI	\$52,100
<i>Economic Indicators</i>	
Unemployment Rate as of August 2003: Dukes County	3.0%
2002 Median Housing Value (weighted average)	\$204,633
% of Households Below Poverty Level	8%

The year round population of the assessment area has remained fairly stable at approximately 12 thousand individuals since the prior CRA examination. The seasonal population swells to over 100 thousand during the summer. There are no areas of dense population or concentrations of low or moderate-income families within the assessment area. There are 2,977 families of various income levels. Low-income families total 387 or 13%, moderate-income families total 497 or 17%, middle-income families total 836 or 28% and upper income families total 1,257 or

42% of total families.

There are approximately 11,604 housing units within the bank's assessment area, of which 30% are owner occupied, 13% are rented and 56% are vacant. The vacancy percent is high due to the seasonality of the island and the high volume of vacation homes. Of the total housing units available, 96% are 1-4 family units and only 2% are multi apartments or mobile home/trailers.

The median housing value in the assessment area is \$204,633 and the median gross rent is \$652 per month based on HUD statistics. The median age of the housing stock is 32 years. The housing affordability ratio in the assessment area, calculated by dividing median family income by median housing value, was 25.0 percent, indicating greater challenges for low- and moderate-income borrowers to purchase a home.

U.S. Department of Labor, Bureau of Labor Statistics show the unemployment rate in the bank's assessment area compares favorably overall to the state of Massachusetts. The AA unemployment rate fluctuates with the tourist season. The assessment area has no single large employer. Major employers in the assessment area are primarily tourism-related and include lodging, restaurants, and small retail shops. Workers in this industry are not typically well paid.

In conjunction with this Public Evaluation, we made a community contact to assist in gauging the credit needs of the community. The contact was a non-profit organization that aids in building homes and providing zero interest financing of low- to- moderate mortgage loans. According to the contact, affordable housing is one of the assessment area's greatest needs given the historically high cost of housing and the substantial increase in housing prices over the past few years. Overall, housing prices have risen well above the resources of low- and moderate-income individuals and families. The U.S. Census Bureau sites the median housing value for Dukes County, Massachusetts, the bank's assessment area, as \$304,000 in 2002, which exceeds the statewide housing value of \$225,000. Dukes County is comparable to Greater Boston with regard to the challenge in locating affordable housing.

There are three other island banks that ENB considers to be competitors. These banks are: Dukes County Savings Bank, Martha's Vineyard Cooperative Bank, and Compass Bank. Compass Bank is considerably larger than the others and is based off island.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

The loan-to-deposit (LTD) ratio reflects strong lending performance given the bank's balance sheet structure, available lending opportunities and high competition among the four island banks. The LTD ratio of 99% was calculated using an average of 20 consecutive quarters since the last CRA examination. The bank's LTD ratio fluctuated between a low of 78.29% at September 30, 1998, to a high of 113.7% at December 31, 2001. Massachusetts's banks with total assets less than \$250 million reflected an average peer LTD ratio of 76.01%, and two similarly situated banks on Martha's Vineyard reflected an average peer LTD ratio of 75.49% over the same timeframe.

## Lending in Assessment Area

A substantial majority of ENB loans were made to borrowers within the AA. The loan products sampled and the results of our analysis are detailed in **Table 4** below. Our sample of 82 loans represented 11% of the dollar volume of loans originated for the period since the previous CRA evaluation. Based on our limited sample, we concluded that 99% by number and 98% by dollar volume were within the bank's AA.

Our sample was comprised of 30 residential mortgages, 28 home equity loans and 24 commercial/commercial real estate loans. Internally generated reports also reflected a substantial majority of loans made to borrowers within the AA.

LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential Mortgages	29	96.67	7,103	97.43	1	3.33	187	2.57
Home Equity	28	100	2,598	100	0	0	0	0
CML/CML RE	24	100	2,406	100	0	0	0	0
Total Reviewed	81	98.78	12,107	98.48	1	1.22	187	1.52

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

ENB's lending to low- and moderate-income families is satisfactory overall. Our analysis was based on the same time period and loan sample in the bank's AA as described in **Table 4** above. Residential mortgage, home equity and commercial loan originations are broken out below by income levels in **Tables 5, 6 and 7**, respectively.

Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	13.00%		16.69%		28.08%		42.22%	
LOANS BY PRODUCT	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Residential mortgages	6.9%	3.51%	10.34%	7.46%	13.79%	8.32%	68.91%	80.71%

**Table 5** reflects the bank’s residential mortgage lending to low-income families is significantly less than the distribution of low-income families in the bank’s AA. The very limited volume of low-income housing stock and the high median price of homes makes it difficult for this income group to purchase a home. Although less than demographics, lending to moderate-income families is reasonable given the limited stock of moderate-income housing.

<b>Table 6 – HOME EQUITY LOANS (From January 1, 1998 through December 31, 2002)</b>								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	13.00%		16.69%		28.08%		42.22%	
LOANS BY PRODUCT	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Home Equity	0%	0%	10.71%	4.81%	21.43%	16.24%	67.86%	78.95%

**Table 6** reflects an absence of home equity lending to low-income families. Low-income borrowers would have difficulty making payments on a second mortgage. Although less than demographics, lending to moderate-income families is reasonable given the limited stock of moderate-income housing.

<b>Table 7 - BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES (From January 1, 1998 through December 31, 2002)</b>		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	94.98%	5.02%
% of Bank Loans in AA #	79.17%	20.83%
% of Bank Loans in AA \$	58.86%	41.14%

**Table 7** reflects reasonable penetration of ENB’s lending activity to small businesses. Small businesses are defined as those with gross annual revenues of one million dollars or less. Further analysis found that 6 loans or 25% of the number of commercial loans sampled were made to businesses with revenues of less than \$100 thousand and 10 or 42% of the loans sampled were made to businesses with revenues of less than \$250 thousand.

### **Geographic Distribution of Loans**

An analysis of the geographic distribution of loans would not be meaningful. The bank’s assessment area consists of four census tracts (CTs), all of which are middle-income tracts.

### **Community Development Activities**

ENB is active in its assessment area through outreach activities. The activities allow the bank to identify opportunities to meet the credit and other needs of low- and moderate-income residents.



Affordable housing is lacking on the island and area organizations, donations, and programs in each town present unique but limited opportunities for local financial institutions to participate.

### **Community Development Lending**

ENB originated 3 community development loans totaling \$386,280 during the evaluation period. A description of the loans follows:

- A \$4,580 term loan to an after school program for disadvantaged island children.
- A \$234,000 commercial real estate mortgage to a local housing authority that is dedicated to finding affordable housing for low- and moderate-income families.
- A \$147,700 loan to renovate a home by a non-profit group that sells the residence to low- and moderate-income buyers through the area housing authority.

### **Community Development Lending Programs**

ENB participated in several innovative programs with area towns that resulted in residential mortgage loans to low- and moderate-income families, such as:

- A program that provides permits to build on an undersized lot. Deed restrictions ensure the lot remains in the affordable housing pool and cannot appreciate in value or sell above a level that moderate-income borrowers could afford. The bank originated two construction/permanent loans for \$170,000 and \$195,000 in this program.
- The bank originated a \$194,750 loan to allow a moderate-income borrower to purchase a home from an affordable housing authority.
- A West Tisbury lottery program offered through the affordable housing committee allows low- and moderate-income participants to buy a home. The bank provided a \$203,750 loan for the winner of this lottery.
- ENB financed two loans, \$130,500 and \$184,000, for the winners of an Edgartown affordable housing lottery.

### **Community Development Investments**

The bank made ten qualifying investments, in the form of grants or contributions, during the evaluation period totaling \$24,676. The funds were directed to local organizations providing social services to low- and moderate-income residents of the bank's AA.

### **Community Development Activities by Bank Employees/Directors**

The bank has demonstrated a commitment to participate in community development activities in support of low- and moderate-income residents within the bank's AA. Examples of such support include:

- Four bank employees donated their banking skills to operate Master Card/Visa terminals and count money during an auction to raise money for an affordable housing program targeted to low- and moderate-income residents of Martha's Vineyard.

- A bank employee serves on an Affordable Housing Committee and various affordable housing projects. Responsibilities include reviewing applications to determine who qualifies for assistance from the various Affordable Housing Programs, as well as which projects should be funded.
- The president serves with a group that looks for solutions to housing problems. He solicits funds and determines how the funds will be distributed to different affordable housing agencies in the bank's assessment area.

In addition, several other officers and directors serve as Board members for non-profit groups that aid low- and moderate-income residents. Their responsibilities include acting as treasurer, reviewing budgets, and offering guidance to raise funds.

### **Responses to Complaints**

Neither the bank nor the OCC received CRA related complaints on ENB since the prior examination of February 2, 1998.

### **Fair Lending Review**

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