



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

February 7, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Rockport National Bank
Charter Number 1194**

**16 Main Street
Rockport, MA 01966**

**Comptroller of the Currency
New England Field Office
20 Winthrop Square, Suite 200
Boston, MA 02110-1229**

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.

INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

The primary factors supporting this rating are:

- The bank's average loan to deposit ratio, 78%, is reasonable given the banks' size, condition and competition.
- Lending inside the assessment area exceeds standards. A substantial majority of the number and dollar of loans benefits customers inside the assessment area.
- Lending to borrowers of different incomes is adequate and lending to businesses of different sizes is good.
- The geographic distribution of loans reflects adequate dispersion throughout the assessment area and meets standards. No conspicuous gaps in lending are noted.

DESCRIPTION OF INSTITUTION

Rockport National Bank (RNB) is nationally chartered commercial bank located in Rockport, Massachusetts; a coastal community located 40 miles north of Boston. Rockport is located in the Cape Ann region in Essex County. RNB is wholly owned by Rockport National Bancorp, a one-bank holding company with no other subsidiaries or affiliates. The main office and one branch are located in Rockport, and two additional branches are located in the city of Gloucester. Since the last CRA examination, the bank opened a branch in Gloucester at Railroad Avenue in 1999. There are automated teller machines (ATMs) located in all of the branches and one additional ATM on Washington Street in Gloucester.

RNB is a \$108 million financial institution that provides a variety of commercial, residential mortgage, and consumer loans. Its primary business focus is to serve the deposit and credit needs of its local community. Detailed information on products, services, and operating hours can be found at the bank's Internet website, www.rockportnational.com.

As of the December 31, 2004 Call Report, the bank had total loans of \$76 million, or 70% of total assets. RNB's primary product lines are home mortgage loans and commercial loans. We focused our analysis on these loan types based on the loan portfolio mix as well as the volume of originations made since the last examination. Information obtained from bank reports was reviewed for accuracy and found to be reliable. The following table provides information on the bank's mix of loans.

Rockport National Bank December 31, 2004		
Loan type	\$ Outstanding (000s)	% Of Portfolio
Commercial	36,317	48%
Residential R.E.	31,465	41%
Consumer	2,920	4%
Other	5,539	7%
Total	76,241	100%

Bank management is involved with a variety of local community organizations in order to better identify the credit needs in market. These organizations include the Rockport Affordable Housing Task Force, Cape Ann Fisherman’s Loan Fund, and Gloucester Investment Corporation, a community development corporation. In addition, the bank offers a first time homebuyer’s mortgage product that features lower down payment requirements and reduced closing costs. Management has identified the following credit needs: affordable housing, loans to finance undercapitalized businesses, and seasonal loans for fishermen.

The last CRA evaluation was performed September 13, 1999, and the bank was assigned a “Satisfactory” rating. There are no legal or financial impediments to the bank’s ability to meet the credit needs of the assessment area.

DESCRIPTION OF ROCKPORT/GLOUCESTER AA

Assessment Area

The CRA requires that financial institutions define their market, known as the assessment area (AA). RNB’s AA is comprised of all the census tracts in the town of Rockport and the city of Gloucester. Based on the 1990 U.S. Census Data, there were 11 census tracts: 5 moderate-income, 5 middle-income, and one tract not available. U.S. Census Data for 2000 shows 9 census tracts: 4 moderate-income tracts and 5 middle-income tracts. In 2004, Metropolitan Statistical Area (MSA) boundaries and definitions were recalculated, and the updated 2000 U.S. Census Data also reflected 9 census tracts with the same breakdown.

The AA meets the requirements of the Act and does not arbitrarily exclude any low- or moderate-income geographies. Rockport is known for its scenic beauty and is a summer tourist destination. According to the Massachusetts Department of Housing and Community Development report, the summer population increases by 20,000 due to tourism. Gloucester, as America’s oldest seaport, remains one of the busiest fishing ports on the Eastern seaboard.

Economy

Economic conditions are stable, though unemployment averages are above that of the state. The average unemployment rates for the past twelve months for Rockport and Gloucester are 5.2% and 6.4%, respectively, as compared to the state average of 5.1%. The local economy largely draws on the tourism and recreational industries, given the proximity to the ocean. Service and retail are the largest employment sectors. While the fishing industry had been a predominant industry in the past, its importance has waned as more manufacturing and high-technology

entities have been drawn to the area. The largest area employers include Varion Corporation, Gorton's, and Gloucester Engineering. Census data indicates that 70% of businesses in the AA employ less than 10 individuals and 68% have less than \$500 thousand in gross annual revenues.

RNB is one of two banks headquartered in Rockport; the other is Granite Savings Bank. Significant competition exists in the Gloucester market with larger regional banks, savings banks, and mortgage companies. Competition in AA also includes BankNorth, Cape Ann Savings Bank, Citizens Bank, Gloucester Co-operative, and Sovereign Bank.

The table below reflects the assessment area demographic and economic characteristics based on 1990, 2000, and updated 2000 U.S. Census Data and the 2002, 2003 and 2004 Department of Housing and Urban Development Agency (HUD) data.

Demographic Data: RNB Assessment Area			
	1990 U.S. Census	2000 U. S. Census	2000 U.S. Census***
<i>Population</i>			
Total Persons	36,145	38,040	38,040
Total Families	9,613	9,947	9,947
Number of Households	14,985	16,060	16,060
Percentage of Low-Income Families	25%	22%	20%
Percentage of Moderate-Income Families	22%	22%	20%
Percentage of Households below Poverty Level	9%	9%	9%
<i>Geographies</i>			
Total number of census tracts (CT)	11	9	9
Percentage of low-income tracts	0	0	0
Percentage of moderate-income tracts	46%	44%	44%
Percentage of middle-income tracts	45%	56%	56%
Percentage of upper-income tracts	0	0	0
Percentage of NA tracts	9%	0	0
<i>Economic Indicators</i>			
Median Family Income (MFI)*	\$74,200	\$80,800	\$76,000
Median Housing Value	\$187,186	\$221,075	\$221,075
Number of Housing Units	17,315	18,160	18,160
Number of Owner Occupied Units	8,671	9,768	9,768
Number of Rental Units	6,276	6,314	6,314
Average Monthly Gross Rent	\$565	\$670	\$670
<i>Business Indicators</i>			
Number of Businesses (non-farm)	2,542	2,624	2,659
Percentage of Small Businesses**	73%	67%	68%

Source: U.S. Census Data

*Updated HUD-adjusted figures for 2002, 2003 and 2004

** Reflects businesses that report annual gross revenues of less than \$1 million

*** 2000 U.S. Census Data updated based on changes in 2004 to MSA boundaries and definitions

Median Family Income

The Median Family Income (MFI) figure is used to determine the income level for each census tract. Based on estimates by HUD, the adjusted MFI figure for 2002, 2003 and 2004 is \$74,200, \$80,800 and \$76,000, respectively. The bank's performance in lending to low-and moderate-income borrowers is evaluated by comparing the median income of bank borrowers with the HUD-adjusted MFI figures. Of the total families in the AA in 2002, 25% were low-income and 22% were moderate-income. In 2003, 22% of families were low-income and 22% were moderate-income, and in 2004, 20% of families were low-income and 20% were moderate-income.

Community Contact

We conducted one community contact. The contact was a local business incubator, serving the needs of micro-businesses and start-up operations. The representative stated that many of the clients are low and moderate-income individuals. This contact mentioned the need for all types of small business loans as these start-up businesses begin to grow, including lines of credit, working capital needs, equipment financing, and real estate loans. The contact also mentioned that affordable housing was a critical issue for the general population in the region. Our contact mentioned that all the local banks are willing to work with borrowers.

According to a survey performed by the non-profit organization, Action Inc, the overwhelming issue facing Gloucester and Rockport is affordable housing. Significant family poverty persists despite decreases in unemployment and increases in median incomes between the 1990 and 2000 U.S. Census Data. A large part of the poverty population is made up of children and elderly. The organization's survey also reports that 48% of low-income households must sacrifice a basic amenity in order to meet rent.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

This Performance Evaluation is an assessment of the bank's CRA performance from January 1, 2002 through December 31, 2004. Lending in 2002 is compared to 1990 U.S. Census Data, and lending in 2003 and 2004 is compared to 2000 U.S. Census Data. The 2004 comparative data is further affected by the 2004 changes to the definitions and boundaries of the MSAs.

Loan-to-Deposit Ratio

The bank's loan to deposit ratio is reasonable. Lending activity reflects a good level of responsiveness to the credit needs of its assessment area based on the size of the bank, its financial condition, and local competition. The average loan-to-deposit ratio for nineteen quarters since the last examination is 78%. This appears reasonable in relationship to the peer average of 80%. The other local bank in Rockport, Granite Savings Bank, had a loan-to-deposit ratio of 76% during the same period. The peer group is comprised of commercial and savings

banks less than \$250 million in assets located in Essex County, Massachusetts.

Lending in Assessment Area

RNB's lending record to borrowers inside the AA is excellent. Both by number and dollar amount, RNB originated a substantial majority of loans inside its AA. The analysis is based on all residential real estate loans reported under the Home Mortgage Disclosure Act (HMDA) and a sample of 60 commercial loans for the years 2002, 2003, and 2004. As shown in **Table 1** below, 97% of the number and 96% of the dollar of loans were originated to borrowers within the bank's AA. According to a 2004 market share report, RNB ranked 13th of 190 lenders in the general market area for HMDA loans. The bank is overwhelmingly serving the credit needs of borrowers inside their assessment area. **Table 1** reveals the dispersion of the number and dollar amount of loans.

Table 1 - Lending in Rockport/Gloucester AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential R.E.	192	96	7	4	199	40,696	97	1,295	3	41,991
Commercial	58	97	2	3	60	10,901	93	845	7	11,746
Total	250	97	9	3	259	51,597	96	2,140	4	53,737

Source: Data reported under HMDA and sample of commercial loans

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

RNB's lending record reflects an adequate penetration among borrowers of different income levels and a good penetration of loans to businesses of different sizes.

Tables 2A, 2B and 2C detail the distribution of the RNB's home mortgage loan originations by borrower income for 2002, 2003, and 2004.

Table 2A – 2002 Borrower Distribution of Residential Real Estate Loans in Rockport/Gloucester AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Purchase		6%		18%		41%		35%
Refinance		7%		20%		37%		37%
Home Improvement		0%		0%		33%		67%
Total	25%	6%	22%	18%	26%	37%	27%	37%*

Source: data reported under HMDA and 1990 U.S. Census Data. *Excludes 2% multifamily loans, not applicable
RNB's home mortgage lending is compared to the distribution of AA families by income level.

For 2002, RNB originated 62 loans reportable under HMDA. As shown in the **Table 2A**, the bank originated 6% of HMDA loans to low-income borrowers and 18% to moderate-income borrowers. Lending to moderate-income borrowers is near to area demographics. While the bank's lending to low-income families is lower than area demographics, this performance is reasonable due to the lack of affordable housing units, high levels of poverty, and the significant costs of home ownership. The median house value is high at \$187,186, making housing less affordable to the low- and moderate-income families. Low-income borrowers, by definition, would earn less than \$37,100 annually, and qualifying for a conventional mortgage would be very difficult.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Purchase		13%		20%		27%		40%
Refinance		23%		20%		32%		23% *
Home improvement		0%		100%		0%		0%
Total	22%	21%	22%	21%	25%	30%	31%	25%*

Source: data reported under HMDA and 2000 U.S. Census Data. *Excludes 2% multifamily loans, not applicable

Per 2003 HMDA data, the bank originated 83 loans. **Table 2B** above shows that the bank's lending to low- and moderate-income families closely resembles the demographic makeup of its community. The bank originated 13% and 20% home purchase loans to low- income and moderate-income borrowers, which reflects favorably on the bank considering the high costs of home ownership. According to bank management, 4 loans were originated under its first time homebuyers program, totaling \$1.2 million in 2003. Notably, its refinance activity exceeded the area demographics for low-income families. Market share reports for 2003 show RNB held a 4.5% market share to low-income borrowers, and the bank originated 21% of its loans to low-income borrowers compared to 8% for that of the peer group. These trends demonstrate the bank's commitment to meeting the credit needs of low- and moderate-income families.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Purchase		0%		6%		33%		56%
Refinance		21%		25%		21%		29%
Home improvement		0%		0%		40%		40%
Total	20%	11%	20%	15%	25%	28%	35%	40% *

Source: data reported under HMDA and updated 2000 U.S. Census Data. *Excludes 6% income not available

Per 2004 HMDA data, the bank originated 47 loans. **Table 2C** above shows that the bank's lending to low- and moderate-income families is less than the demographic makeup of its

community. Notably, its refinance activity significantly exceeded the area demographics for low-and moderate-income families.

Tables 3A and 3B reflect the dispersion of commercial loans to small business customers for the evaluation period. Business geodemographic data was similar for 2003 and 2004, therefore business loans originated by the bank for 2003 and 2004 are combined in **Table 3B** below.

Table 3A – 2002 Borrower Distribution of Loans to Businesses in Rockport/Gloucester AA		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	73%	6%
% of Bank Loans in AA by #	85%	15%
% of Bank Loans in AA by \$	60%	40%

Source: Loan sample; 2002 Business Geodemographic Data.

* 21% of AA businesses did not report revenue data

Table 3B – 2003 and 2004 Borrower Distribution of Loans to Businesses in Rockport/Gloucester AA		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	68%	5%
% of Bank Loans in AA by #	91%	9%
% of Bank Loans in AA by \$	81%	19%

Source: Loan sample; 2003 and 2004 Business Geodemographic Data.

* 27% of AA businesses did not report revenue

For the evaluation period, RNB’s distribution of loans to small businesses is good. Based on both number and dollar of loans, performance exceeded business demographic data. As shown in **Tables 3A and 3B**, a majority of commercial and commercial real estate loans were made to small businesses. Small business loans are originated for a variety of business purposes such as working capital, business expansion, capital improvements, purchase of equipment, and the purchase or refinance of commercial real estate. The CRA regulation defines small businesses as those with gross annual revenues of less than \$1 million. The focus of the bank has been on small business financing, an identified community credit need, which is evident in its lending patterns.

Geographic Distribution of Loans

The bank has a reasonable geographic distribution of loans to borrowers and businesses throughout its AA with no conspicuous gaps noted.

As shown in **Tables 4A and 4B**, the bank’s home mortgage lending in the moderate- and middle-income tracts is compared to the distribution of owner-occupied housing units in those census tracts. RNB’s AA has no low- or upper-income census tracts. In 2003 and 2004, as demographic data were the same and the bank’s originations were comparable in number,

mortgage loans are combined in **Table 4B** below.

Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Purchase	N/A	N/A		24%		76%	N/A	N/A
Refinance				15%		85%		
Home Improvement				0%		100%		
Multifamily				100%		0%		
Total				26%		18%		

Source: data reported under HMDA and 1990 U.S. Census Data

Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Purchase	N/A	N/A		9%		91%	N/A	N/A
Refinance				8%		92%		
Home Improvement				17%		83%		
Multifamily				0%		100%		
Total				22%		9%		

Source: data reported under HMDA, 2000 and updated 2000 U.S. Census Data

RNB demonstrates adequate penetration among borrowers in different census tracts. **Table 4A** reflects that 26% of all owner-occupied units in the AA are located in moderate-income tracts while 74% are in middle-income tracts. The bank originated 18% of its home mortgage loans in moderate-income tracts, less than the demographics. Performance was near to demographics in home purchase loans, which reflects favorably on the bank considering the high costs of home ownership.

As shown in **Table 4B**, RNB's 2003 and 2004 originations were less than demographics in the moderate-income tracts. There is a much higher level of owner-occupied units, compared to rental units, in the middle-income tracts. And, of all housing stock available, 58% of units in the moderate-income tracts are rental units compared to 24% in the middle-income tracts. Fewer owner-occupied units limit opportunities to lend in the moderate-income tracts. In addition, poverty levels are higher in moderate-income tract households, making it more difficult to afford

a house.

Also, the predominant number of loans made in Rockport, a middle-income tract, was primarily based on the historical customer relationships in that market. RNB has been in the Gloucester market for only the past five years. Despite marketing efforts and loan officers in the Gloucester branches, limited presence in the market and the significant competition inhibits the lending opportunities for the bank. While the bank’s distribution of loans is less than AA demographics, it is adequate and responsive to identified credit needs.

Tables 5A and 5B reflect the geographic distribution of small loans to businesses for the evaluation period. Business geodemographic data were the same for 2003 and 2004, therefore business loans originated by the bank for 2003 and 2004 are combined in **Table 5B** below. The CRA defines small loans to business as those less than \$1 million.

Table 5A – 2002 Geographic Distribution of Loans to Businesses in Rockport/Gloucester AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Commercial and Commercial R.E.	N/A	N/A	36	25	64	75	N/A	N/A

Source: Loan sample and 2002 Business Geodemographics

Table 5B – 2003 and 2004 Geographic Distribution of Loans to Businesses in Rockport/Gloucester AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Commercial and Commercial R.E	N/A	N/A	32	23	68	77	N/A	N/A

Source: Loan sample and 2003 and 2004 Business Geodemographics

RNB’s geographic distribution of small loans to businesses throughout its AA is adequate. The bank’s lending to businesses in moderate-income geographies throughout its AA is less than demographics. However, 30% in 2002 and 31% in 2003 and 2004 of the dollar amount of originations were made to businesses located in moderate-income tracts, which approximates the locations of those businesses. Of note, over 60% of businesses are located in the middle-income tracts, comparable to the bank’s lending.

Responses to Complaints

Neither the bank nor the OCC received CRA complaints on the bank since the preceding CRA

examination.

Fair Lending or Other Illegal Credit Practices Review

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