



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**March 04, 2009**

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

Millbury National Bank  
Charter Number 13835

18 Main Street  
Millbury, MA 01527

Office of the Comptroller of the Currency

NEW ENGLAND FIELD OFFICE  
20 Winthrop Square 2nd Floor  
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 major factors that support this rating include:

- The bank's quarterly average net loan-to-deposit ratio is reasonable based on the bank's size, financial condition, area credit needs, and relevant competitive factors;
- A majority of the bank's loans are made within its assessment area (AA);
- The distribution of loans reflects, given the demographics of the AA, reasonable penetration among businesses of different sizes;
- The bank has received no complaints about its performance in helping to meet the credit needs of its AA; and
- We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

**SCOPE OF EXAMINATION**

We performed a full-scope evaluation of Millbury National Bank's (MNB) performance using small bank Community Reinvestment Act (CRA) examination procedures. Our review covered the bank's CRA performance from January 1, 2006, through December 31, 2008, as this is representative of the bank's lending strategy since the last CRA examination. Based upon the bank's business strategy and the loans originated during the evaluation period, we determined that consumer and commercial loans are the bank's primary loan products. As a result, we reviewed all consumer and commercial loans that the bank originated during the evaluation period.

**DESCRIPTION OF INSTITUTION**

MNB is a \$76 million locally owned community bank headquartered in Millbury, Massachusetts. The bank is a full service, intrastate institution, offering a standard array of traditional loan and deposit products. The bank's website at [www.mnbonline.com](http://www.mnbonline.com) provides a listing and description of all deposit and loan services. MNB is located in Worcester County, and it is about 45 miles west of Boston. MNB is an independently owned bank. There is no holding company structure or any subsidiaries or affiliates. There has not been any merger or acquisition activity, or any branches opened or closed during the evaluation period. MNB has a main office and one branch. Both the main office and Grafton Branch are located in middle-income census tracts in Worcester County. Full service banking is provided at the main office and the branch, which includes drive through and lobby service. Extended banking hours are available during the business week and on Saturday at both locations. Automated Teller Machines (ATMs) are also available at both locations.

As of December 31, 2008, MNB reported \$52 million in net loans representing 68% of

total assets, \$65 million in total deposits, and Tier One Capital of \$8 million. The bank’s loan portfolio consists of residential real estate loans (32%), commercial and commercial real estate loans (50%), construction and development loans (14%), consumer loans (3%), and all other loans (1%). According to the bank’s strategic plan, small to medium sized businesses are the bank’s primary loan product.

Numerous national, state, and savings banks, as well as branches of several regional institutions, provide major deposit and lending competition. The top three competitors in Worcester County are: Sovereign Bank, Bank of America, NA, and TD Bank, NA.

There are no known legal, financial or other factors impeding MNB's ability to help meet the needs of its community. MNB’s last CRA evaluation was performed in February 2005, and MNB was rated “Satisfactory”.

### DESCRIPTION OF ASSESSMENT AREA

MNB has defined the county of Worcester as its AA. This county is located in central Massachusetts, anchored by the city of Worcester. The bank's AA includes all 35 census tracts that make up the Worcester, MA Metropolitan Statistical Area (MSA) #49340. There are 24 middle-income tracts (69%), 10 upper-income tracts (29%), and 1 tract that has not been assigned an income classification (3%). The AA does not have any low- or moderate-income census tracts. The bank's AA complies with the regulation and does not arbitrarily exclude low- or moderate-income areas.

The following table describes the demographics of the AA:

Demographic Information for Full Scope Area: Worcester County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	35	0.00	0.00	68.57	28.57	2.86
Population by Geography	174,564	0.00	0.00	59.88	39.93	0.19
Owner-Occupied Housing by Geography	48,778	0.00	0.00	58.94	41.06	0.00
Business by Geography	13,823	0.00	0.00	55.81	44.08	0.12
Farms by Geography	322	0.00	0.00	49.38	50.31	0.31
Family Distribution by Income Level	47,092	12.41	14.52	23.01	50.06	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	12,680	0.00	0.00	71.39	28.61	0.00
Median Family Income HUD Adjusted Median Family Income for 2008 Households Below Poverty Level		58,426 72,800 5%	Median Housing Value Unemployment Rate (2000 US Census)		175,172 1.48%	

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2000 US Census and 2008 HUD updated MFI

According to the 2000 US Census data, the population of the AA is 174,564. The AA

contains 47,092 families and 65,254 households. The 2000 median income for this AA was \$58,426, and the 2008 HUD updated median family income was \$72,800. Approximately 12% of families are low-income, 15% are moderate-income, 23% are middle-income, and 50% are upper-income. There are 3,579 households below the poverty level.

There are 67,330 housing units, of which, 72% are owner-occupied, 25% are rental-occupied, and 3% are vacant housing units. Approximately 59% of owner-occupied housing is located in middle-income geographies and 41% is located in upper-income geographies. The median housing value was \$175,172.

According to the 2008 business demographics, there are a total of 13,823 businesses in the AA. Approximately 64% of the businesses reporting have revenues less than \$1 million, 6% have revenues greater than \$1 million, and the revenue was not reported for 30% of the businesses. Approximately 56% of businesses are located in middle-income geographies and 44% are located in upper-income geographies.

Numerous national, state, and savings banks, as well as branches of several regional institutions provide major deposit and lending competition. According to the Federal Depository Institution Corporation's (FDIC) Deposit Market Share Report, as of June 30, 2008, MNB ranked thirty out of forty institutions in Worcester County with 0.63% of deposits. Competitors in this market include: Sovereign Bank, ranking first with 11.86% of deposits, Bank of America, NA, ranking second with 11.71% of deposits, and TD Bank, NA ranking third with 9.86% of deposits.

The economy in the AA has slowed somewhat, which is reflective of the nation's economic slowdown over the past year. According to the Bureau of Labor Statistics, the December 2008 unemployment rate for Worcester County was 7% compared to the state unemployment rate of 6.40% and the national unemployment rate of 7.20%. The county's top five industries by distribution of employees are healthcare and social assistance, manufacturing, educational services, retail trade, and accommodation and food services. According to 2009 InfoUSA, the top five employers for the county include: Worcester Medical Center, Recall Document Management Service, University of MA Medical Center, Affiliated Podiatrists, and College of the Holy Cross.

During this examination, we contacted a local Small Business Development Center (SBDC). This SBDC provides management and technical assistance, counseling, and low-cost educational training programs for prospective and existing small businesses. The contact indicated the primary needs of the area are: small loans to small businesses and contributions to help fund and to help keep the costs of the SBDC seminars reasonable for the small business person. According to this contact, local institutions have been contributing to the costs of the SBDC seminars, and three loan funds were established by local banks and development agencies to help meet the small business loan needs. The contact indicated there are opportunities for banks to make small loans to small businesses and to provide contributions, but opportunities to participate in the loan funds are limited.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank’s overall lending performance is Satisfactory. MNB’s net loan-to-deposit ratio is reasonable given the bank’s size, financial condition, area credit needs, and relevant competitive factors. A majority of the consumer and commercial loan originations during the evaluation period were within the AA. The distribution of loans reflects reasonable penetration among borrowers of different incomes and businesses of different sizes. All criteria of the specific lending tests are documented below:

### Loan-to-Deposit Ratio (LTD)

MNB’s net loan-to-deposit ratio is reasonable given the bank’s size, financial condition, area credit needs, and relevant competitive factors. The bank’s quarterly average net loan-to-deposit ratio for the 17 quarters since the last CRA evaluation was 78%. The bank’s net loan-to-deposit ratios ranged from a low of 71% to a high of 85%. The bank’s quarterly average net loan-to-deposit ratio ranks the bank 7<sup>th</sup> among the bank’s peer group. The peer group consisted of 12 similarly sized institutions in the state of Massachusetts. The peer group’s quarterly average net loan-to-deposit ratio was 81% over the same 17 quarters, with peer ratios ranging from a low of 54% to a high of 116%.

### Lending in Assessment Area

A majority of the consumer and commercial loans originated during the evaluation period were within the AA. During the evaluation period, 64% of the number of consumer and commercial loans were originated within the AA and 63% of the dollar volume of consumer and commercial loans were originated within the AA. The following table details the bank’s lending within the AA by number and dollar amount of consumer and business loans.

Table 1 - Lending in Worcester County AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	152	65	82	35	234	\$21,847,491	62	\$13,330,320	38	\$35,177,811
Consumer	118	64	67	36	185	\$2,535,961	72	\$1,009,020	28	\$3,544,981
Totals	270	64	149	36	419	\$24,383,452	63	\$14,339,340	37	\$38,722,792

MNB’s business and consumer data 1/1/06 – 12/31/08

**Borrower Distribution**

The distribution of loans reflects reasonable penetration among borrowers of different incomes and businesses of different sizes and meets the standards for satisfactory performance. More emphasis was placed on the lending to businesses, as this makes up the largest portion of the bank’s portfolio.

Consumer Loans

The distribution of consumer loans reflects excellent penetration among borrowers of different incomes.

The percentage of consumer loans made to low-income borrowers exceeds the percentage of low-income households in the AA. The percentage of consumer loans made to moderate-income borrowers exceeds the percentage of moderate-income households.

The following table details the bank’s performance in lending to borrowers of different income levels.

<b>Borrower Distribution of Consumer Loans in AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	18.08%	28.67%	13.30%	24.67%	17.94%	20.67%	50.68%	26.00%

Source: MNB’s Consumer data 1/1/06 – 12/31/08; 2000 U.S. Census data

Lending to Businesses

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. MNB’s record of lending to businesses of different sizes meets the standards for satisfactory performance. Compared to the percentage of AA businesses with gross annual revenues less than \$1 million, MNB's performance is lower in terms of the number of loans originated and in terms of the dollar amount. MNB’s performance is considered reasonable when taking into consideration the strong competition from larger financial institutions in the AA.

The following table details the bank’s performance in lending to businesses of different sizes.

<b>Borrower Distribution of Loans to Businesses in AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	64%	6%	30%	100%
% of Bank Loans in AA by #	50%	50%	0	100%
% of Bank Loans in AA by \$	43.43%	56.57%	0	100%

Source: MNB's business loan data 1/1/06 – 12/31/08

## **Geographic Distribution of Loans**

There are not any low- or moderate-income geographies in the AA; therefore, an analysis of the geographic distribution of loans would not be meaningful.

## **Responses to Complaints**

MNB did not receive any CRA related complaints during this evaluation period.

## **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.