



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

August 24, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The National Grand Bank of Marblehead
Charter Number 676

91 Pleasant Street
Marblehead, MA 01945

Office of the Comptroller of the Currency

New England Field Office
99 Summer Street, Suite 1400
Boston, MA 02110-1213

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 loan-to-deposit ratio is reasonable given the bank's size, financial condition, assessment area credit needs, and relevant competitive factors;
- A majority of the home mortgage loans were originated in the bank's assessment area; and
- The distribution of residential real estate loans reflects reasonable penetration among borrowers of different income levels.

SCOPE OF EXAMINATION

The Community Reinvestment Act (CRA) activities of The National Grand Bank of Marblehead (NGB) were reviewed using the Small Bank CRA examination procedures. Our review covered the bank's performance from January 1, 2007 through June 30, 2009, as this is representative of its lending strategy since the last CRA examination. Residential real estate loans were determined to be the bank's primary lending product and were reviewed as part of this examination. The bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA); therefore, all HMDA data from January 1, 2007 through June 30, 2009 was used to evaluate the bank's home loan performance.

DESCRIPTION OF INSTITUTION

NGB, incorporated in 1831, is a \$243 million intrastate community bank headquartered in Marblehead, Massachusetts. NGB is wholly owned by Grand Bank Corporation, a one-bank holding company headquartered in Marblehead, Massachusetts. Grand Bank Corporation also owns Grand Bank Realty Trust, the entity established to house the bank's operation center. NGB has one subsidiary, Pleasant St. Investment Corporation. This entity was formed to hold the bank's investment securities. Subsidiary and affiliate activities were not considered in this evaluation and had no impact on the bank's capacity to lend in its community.

NGB has two branches in Marblehead, Massachusetts. The main branch is located at 91 Pleasant Street. There is a full-service branch, an Automated Teller Machine (ATM), and a drive-through facility at this location. The lobby hours are from 7:30AM to 3:00PM, Monday through Wednesday; 7:30AM to 5:00PM on Thursdays; 7:30AM to 6:00PM on Fridays; and 9:00AM to Noon on Saturdays. To accommodate the bank's customers, NGB extended the drive-through hours until 5:00PM Monday through Wednesday. In 2002, a branch, with a cash dispensing ATM, was opened at the Marblehead High School located at 2 Humphrey Street. This branch is limited to

students and faculty, and it has limited hours and services. NGB also has two offsite cash dispensing ATMs. One is located at Haley's Market on 114 Washington Street and the other is located at the Community Store at 214 Beacon Street. No branches have been opened or closed since our last CRA examination.

NGB offers a variety of deposit and loan products to meet both consumer and commercial needs. The bank's internet website, www.NGBANK.com, provides detailed information on products and services for both consumers and businesses. In addition to the standard banking services, NGB offers free online banking with the ability to manage accounts or pay bills.

As of June 30, 2009, the bank reported \$176 million in net loans and leases and \$208 million in total deposits. Net loans and leases represented 74% of average assets and total deposits were 87% of average assets. Tier One Capital, as of June 30, 2009, was \$23.5 million. The loan portfolio is comprised of Residential Real Estate Loans (77%), Commercial Loans (19%), and Loans to Individuals (4%).

Competition is strong and includes branches of larger national and regional banks. NGB's primary competitors are: TD Bank, NA, Eastern Bank, Salem Five Cents SB, and Sovereign Bank.

There are no legal, financial, or other factors impeding NGB's ability to help meet the credit needs in its assessment area. At the prior CRA examination, dated February 15, 2005, NGB's CRA performance was rated "Satisfactory".

DESCRIPTION OF ASSESSMENT AREA

NGB has one assessment area (AA) located in the State of Massachusetts. The AA is comprised of three contiguous census tracts in Essex County. These three census tracts include the town of Marblehead and represent a portion of the Peabody, MA Metropolitan Division, which is a part of the larger Boston-Cambridge-Quincy, MA-NH Metropolitan Statistical Area. Due to the size and location of the bank, NGB designated only the portion of the Essex County it could reasonably service. NGB's AA meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income geographies.

The bank's AA is comprised of three upper-income census tracts. According to the 2000 U. S. Census data, the population of the AA is 20,377. The AA contains 8,548 households and 5,692 families. The 2000 median family income was \$63,556, and the 2009 HUD updated median family income was \$83,600. Approximately 10% of the families are low-income, 11% are moderate-income, 16% are middle-income, and 63% are upper-income. There are 418 households below the poverty level. There are 8,906 housing units, of which, 72.24% are owner-occupied, 23.66% are rental occupied, and 4.10% are vacant housing units. The median housing value is \$334,383. The following chart describes the demographics of the assessment area:

Demographic Information for Full Scope Area: National Grand Bank of Marblehead AA					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	3	0	0	0	100
Population by Geography	20,377	0	0	0	100
Owner-Occupied Housing by Geography	6,434	0	0	0	100
Business by Geography	2,051	0	0	0	100
Farms by Geography	37	0	0	0	100
Family Distribution by Income Level	5,692	10.3	10.49	16.37	62.84
Distribution of Low and Moderate Income Families throughout AA Geographies	1,183	0	0	0	100
Median Family Income		63,556	Median Housing Value		334,383
HUD Adjusted Median Family Income for 2009		83,600	Unemployment Rate (Essex County)		9.4%
Households Below Poverty Level		5%			

Source: 2000 US Census and 2009 HUD updated MFI and June 2009 Bureau of Labor Statistics unemployment Rate for Essex County

Competition is strong and comes from branches of larger regional and national banks. According to the June 30, 2008 FDIC Summary of Deposits Market Share Report, NGB was ranked number 20 out of 40 institutions in Essex County, with 1.15% deposit market share. The largest competitors within the county included: Bank of America (12.47% deposit market share), TD Bank, NA (11.90%), Eastern Bank (10.71%), Salem Five Cents SB (10.51%) and Sovereign Bank (10.07%). The 2007 Peer Mortgage Data indicated that in the Peabody, MA Metropolitan Division (MD), NGB was ranked sixth out of 132 lenders in the MD with a 4.09% market share.

The Massachusetts economy has been experiencing a recession, but the recession is moderating. Goods producing industries are still seeing job losses and government employment plunged over the summer with the start of the new fiscal year. According to the Bureau of Labor Statistics, the non-seasonally adjusted June 2009 unemployment rate for Essex County was 9.4%, which was higher than the Massachusetts state unemployment rate of 8.7%, and comparable to the national unemployment rate of 9.5%. Some of the major employers in the Essex County area are: Alcatel-Lucent, North Shore Medical Center, Anna Jaques Hospital, Bay State Gas Company, North Shore Community College, Northern Essex Community College, Salem State College, Analog Devices (signal processing), Polartec LLC (fleece clothing), and Raytheon Integrated Defense (defense technology). The Massachusetts Department of Housing and Community Development have stated that housing affordability remains a major challenge for the State despite the recent decline in housing prices.

In conducting the assessment of the bank's performance, we contacted a local affordable housing organization whose primary purpose is to provide public housing in Marblehead. This contact identified the primary need as affordable housing for low- and moderate-income families and elderly individuals. According to this contact, there have

been limited opportunities for banks to assist in helping the organization meet the affordable housing needs of the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

NGB's performance under the lending test is satisfactory. NGB's quarterly average net loan-to-deposit ratio is reasonable. A majority of NGB's residential mortgage loans were made within the bank's assessment area. The distribution of residential real estate loans reflects reasonable penetration among borrowers of different income levels. All criteria of the lending test are documented below.

Loan-to-Deposit Ratio

NGB's quarterly average net loan-to-deposit ratio is reasonable given the bank's size, financial condition, relevant competitive factors, and assessment area credit needs. The bank's quarterly average net loan-to-deposit ratio was 83.02% over the past 18 quarters since the last CRA examination, with a quarterly low of 73.37% and a quarterly high of 92.16%. The quarterly average net loan-to-deposit ratio for 20 peer banks of similar asset sizes in the New England area was 89.72% over the same time period, with a quarterly low of 47.64% and a quarterly high of 127.70%. NGB's quarterly average net loan-to-deposit ratio is ranked 15th among its peer group. While NGB's quarterly average net loan-to-deposit ratio is lower than the group of 20 peer banks, it is considered reasonable when taking into consideration the bank's size, relevant competitive factors, and assessment area credit needs.

Lending in Assessment Area

A majority of residential mortgage loans were originated inside the bank's assessment area, meeting the standard for satisfactory performance. During the evaluation period, 72.61% of the number and 72.49% of the dollar amount of total home mortgage loans were originated within the assessment area.

The following table details the bank's lending within the AA by number and dollar amount of loans.

Table 1 - Lending in Marblehead AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchases	45	68.18	21	31.82	66	17,020	66.46	8,589	33.54	25,609
Home Improvement	17	65.38	9	34.62	26	6,011	76.01	1,897	23.99	7,908
Home Refinance	158	74.88	53	25.12	211	49,023	74.41	16,861	25.59	65,884
Totals	220	72.61	83	27.39	303	72,054	72.49	27,347	27.51	99,401

Source: 2000 Census Data & The National Grand Bank of Marblehead HMDA data for 1/1/07-6/30/09

Lending to Borrowers of Different Incomes

The distribution of residential real estate loans reflects reasonable penetration among borrowers of different income levels and meets the standard for satisfactory performance.

In our analysis, we took the affordability of housing in the AA into consideration. Based on the 2000 U.S. Census data, the median cost of housing in the AA is \$334,383. The 2009 HUD updated median family income was \$83,600, which means a low-income borrower earned less than \$41,800. Based on these statistics, it would be difficult for low-income borrowers to purchase housing in the AA and this limits the opportunities for home purchase, home improvement, and home refinance lending to low-income borrowers. Therefore, we placed more emphasis on the moderate-income performance.

The percentage of home purchase loans originated to low-income borrowers is lower than the percentage of low-income families in the AA. The percentage of home purchase loans originated to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

The percentage of home improvement loans originated to low-income borrowers is lower than the percentage of low-income families in the AA. The percentage of home improvement loans originated to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

The percentage of home refinance loans originated to low-income borrowers is lower than the percentage of low-income families in the AA. The percentage of home refinance loans originated to moderate-income borrowers is near the percentage of moderate-income families in the AA.

The following table shows the distribution of home loan products among borrowers of different income levels for the period of January 1, 2007 through June 30, 2009 as compared to the percent of families in each category.

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
Home Purchase	10.30	4.44	10.49	17.78	16.37	11.11	62.84	66.67
Home Improvement	10.30	5.88	10.49	17.65	16.37	11.76	62.84	64.71
Home Refinance*	10.30	4.58	10.49	7.84	16.37	18.95	62.84	68.63

Source: 2000 Census Data & The National Grand Bank of Marblehead HMDA data for 1/1/07-6/30/09.

* As a percentage of loans with borrower income information available. No information was available for five or 3.16% of the home refinance loans originated.

Geographic Distribution of Loans

There are no low- or moderate-income geographies in the AA. Therefore, a geographic distribution of loans would not be meaningful and was not performed.

Responses to Complaints

The bank has not received any CRA-related consumer complaints since the last CRA examination.

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.