



SMALL BANK

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

PUBLIC DISCLOSURE

July 12, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Commonwealth National Bank
Charter Number 24119**

**33 Waldo Street
Worcester, MA 01608**

**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.

INSTITUTION'S CRA RATING

This institution is rated "Satisfactory."

The primary factors supporting this rating are:

- The average loan-to-deposit ratio is reasonable considering this is a newly formed institution. The average loan-to-deposit ratio for ten quarters is 68% and compares reasonably to peer banks at 72%.
- The majority of loans originated are within the bank's assessment area. Of the loans sampled, 76% of the number and 56% of the dollar volume are to borrowers inside the assessment area.
- Lending to businesses of different sizes and to borrowers of different income levels is reasonable.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.

DESCRIPTION OF INSTITUTION

Commonwealth National Bank (CNB), established December 2001, is an independent commercial bank headquartered in Worcester, Massachusetts. CNB is a nationally chartered institution that operates three branches in Worcester County. The bank has two offices in Worcester, the main office and a branch, and one branch in Shrewsbury. The newest branch in Shrewsbury opened in 2003. Each branch is full service with drive-up facilities and automated teller machines (ATMs). CNB is in process of building a new branch in the town of Northbridge.

The primary business focus of the institution is to serve the deposit and credit needs of its local community. CNB is a \$164 million financial institution with a strategic focus on business lending. Given the commercial customer focus, consumer and residential mortgage lending activity is limited. Detailed information on products and services can be found at the bank's Internet website located at www.commonwealthworchester.com.

As of the March 31, 2004 Call Report, the bank had total assets of \$164 million and total deposits of \$133 million. Net loans comprise 71% of total assets. The bank's loan portfolio mix is centered in commercial loans as shown in the table below.

Loan Portfolio Mix

Loan type	\$ Outstanding (000s)	% of portfolio
Commercial	81,552	69.8%
Residential R.E.	29,003	24.9%
Consumer	5,630	4.8%
Other	624	.5%
Total	116,809	100%

This Performance Evaluation is an assessment of the bank's CRA performance from December 2001 through December 31, 2003. This is the bank's first CRA evaluation. There are no legal or financial impediments to the bank's ability to meet the credit needs of the assessment area.

DESCRIPTION OF CNB AA

The CRA requires financial institutions to define an assessment area (AA) within which its CRA performance will be evaluated. CNB has a single AA that includes thirteen cities and towns in the Metropolitan Statistical Area (MSA) for Worcester, Massachusetts. The AA meets the legal requirements of the regulation, and does not arbitrarily exclude any low- and/or moderate-income areas. The AA consists of seventy-five census tracts in the city of Worcester and the towns of Auburn, Boylston, Grafton, Holden, Leicester, Millbury, Northborough, Paxton, Shrewsbury, Westborough, and West Boylston. All of the low- and moderate-income tracts are located in the city of Worcester.

Competition

The bank operates in a highly competitive market with 20 banks operating 98 offices within the assessment area according to the Federal Deposit Insurance Corporation's Summary of Deposits. CNB was ranked ninth for total deposits with a market share of 1.99% as of June 30, 2003. The following banks, in order by size, are some of CNB's larger competitors for both loan and deposits: FleetBank, Banknorth, Sovereign Bank, Flagship Bank & Trust, and Westborough Savings Banks. Other competitive entities include captive finance companies, mortgage companies, credit unions and brokerage firms. Several of the large banks offer flexible lending programs for home purchase, home equity, and consumer loans.

Economy

The AA contains a diverse industry base predominantly made up of medical care and research facilities, education, and manufacturing. Two of the largest employers in the Worcester region are UMASS Healthcare Systems and UMASS Medical School with over 13,000 employees, per a Worcester Regional Chamber of Commerce report dated June 2004. Per third quarter 2003 data, the unemployment rate in central Massachusetts is 6.5% and, more specifically for Worcester is 7.4%.

The Worcester regional economy has remained relatively stable in comparison to the national and state economies. Contributing to that stability is the growing housing market. According to

a March 2002 report by the National Association of Realtors, the Worcester area was the second fastest growing market in the country with a one-year increase in home values of 25%.

Business development activity appears strong in the Worcester region despite the struggling national economy. The 2003 “Comprehensive Economic Development Strategy” report by the Worcester Regional Chamber of Commerce identified 25 new or expanded manufacturing facilities in the region during the past year, 47 small businesses established or expanded, and 17 industrial parks that are in the planning stages. Business credit needs are evident.

Several significant commercial projects are under way to rehabilitate and revitalize the Worcester region. These include the Gateway Park, a mixed-use office space; the Hilton Gardens hotel; redevelopment of Lincoln plaza; and expansion of several industrial parks. The long-term strategy of the local chamber of commerce is to develop the marketplace to recruit and retain commercial businesses.

Demographic Data: CNB Assessment Area	1990 U.S. Census	2000 U.S. Census
<i>Population</i>		
Total Persons	299,251	321,844
Total Families	76,170	79,958
Number of Households	111,227	122,721
Percentage of Low-Income Households	25%	26%
Percentage of Moderate-Income Households	15%	16%
Percentage of Households below Poverty Level	10%	11%
<i>Census Tracts</i>		
Total number of census tracts (CT)	74	75
Percentage of Low-Income tracts	8%	13%
Percentage of Moderate-Income tracts	15%	18%
Percentage of Middle-Income tracts	51%	44%
Percentage of Upper-Income tracts	23%	24%
Percentage of NA tracts	3%	1%
<i>Economic Indicators</i>		
Median Family Income (MFI) *	\$58,400	\$68,000
Median Housing Value	\$138,990	\$142,635
Number of Housing Units	119,028	127,888
Number of Owner Occupied Units	63,280	71,783
Number of Rental Units	48,006	50,830
Average monthly gross rent	\$540	\$610
<i>Business Indicators</i>		
Number of Businesses (non-farm)	17,184	17,789
Percentage of small businesses**	77%	63%

Source: U.S. Census Data

* Updated HUD-adjusted figures for 2002 and 2003

** Businesses which reported annual revenues of less than or equal to \$1 million.

The Median Family Income (MFI) figure is used to determine the income level for each census tract. Based on estimates by the Department of Housing and Urban Development (HUD), the adjusted MFI figure for 2002 is \$58,400 and is \$68,000 for 2003.

Of the total households, 26% are low-income and 16% are moderate-income. Notably, 11% of

households live under the poverty level in this AA. The largest proportion of low-income households resides in the middle-income tracts where the median housing value is \$131,307. Additionally, since 14% of the households pay greater than 30% of income towards rent, the availability of income for other credit needs is limited.

According to the U.S. 1990 Census Data, there were 119,208 housing units in the AA; these units increased by 7% to 127,888 in 2000. Of these units, 56% are owner-occupied and 40% are rentals. Opportunities for home ownership are limited in the low- and moderate-income census tracts due to the high proportion of rental units, 79% and 63%, respectively. The highest proportion of owner occupied and single-family homes is in the upper income geographies.

Community Contact

We contacted a local community development corporation in order to identify community credit needs. The organization concentrates its efforts on home ownership projects, creating affordable housing units, as well as employment assistance counseling, in eastern Worcester. Our contact stated that affordable housing and rehabilitation of the older housing stock is a credit need for families in their area. The contact stated that local financial institutions provide low interest and/or flexible lending programs to assist low- and moderate-income borrowers.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

We evaluated the bank’s lending record using two evaluation periods. All loan activity for 2001 and 2002 was compared to 1990 U.S. Census Data, while loan activity in 2003 was compared to the updated 2000 U.S. Census Data. Based on volume of loans and through management discussions, we identified commercial loans as the bank’s primary product, as they represent 83% of the volume of originations. We also selected for analysis consumer loans due to the high number of originations, 20%, as shown in the table below.

A sample of residential real estate loans would not have provided a meaningful analysis of the bank’s performance during this start-up period. The bank purchased \$17.2 million in residential loans to grow the bank, a strategy not uncommon for new banks. Other residential loans originated were through relationships established with existing commercial loan customers, employees, and investors.

Total originations between 2001 and 2004

Type of Loan	# of Originations	% of Total	\$ of Originations (000s)	% of Total
Commercial	531	71%	\$158,878	83%
Residential R.E.	68	9%	\$20,511	11%
Consumer	151	20%	\$12,279	6%
Total	750	100%	\$191,668	100%

Our conclusions were drawn from sample of bank loans tested. To determine the level of lending activity within the AA, we sampled commercial and consumer loans originated from the bank opening through March 31, 2004. For the Lending to Borrowers of Different Incomes and to Businesses of Different Sizes and the Geographic Distribution of Loans analyses, we replaced

loans originated outside the AA with loans originated within the AA. For these analyses, we sampled loans through December 31, 2003.

Loan-to-Deposit Ratio

CNB’s loan-to-deposit ratio meets standards for satisfactory performance. The average quarterly loan-to-deposit ratio since opening is 68%. This is reasonable given its size and condition as a newly formed bank. The bank’s loan-to-deposit ratio ranks closely to the average of 72% for its peer group of 11 banks chartered in Worcester County with assets between \$100 million and \$500 million. For the bank, the most recent five quarters results in an average loan-to-deposit ratio of 83%. The bank demonstrates the willingness to extend credit in its community.

Lending in Assessment Area

CNB’s lending inside its AA meets the standards for satisfactory performance. Conclusions are drawn from a sample of 45 commercial loans and 41 consumer loans, originated between the bank’s opening through March 31, 2004. As shown in **Table 1** below, of the sample, 76% of the number of loans and 56% of the dollar amount of loans originated are to borrowers inside the AA. This represents a majority of loans made inside the AA. Management is reviewing its options for expanding the AA to include the surrounding areas as business continues to grow and expand and the new branch is completed.

Table 1 – 2001 through March 31, 2004 Lending in CNB AA

Loan Type	Number of Loans				Total	Dollars of Loans (\$000s)				Total
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Commercial	31	69%	14	31%	45	\$6,893	54%	\$5,831	46%	\$12,724
Consumer	34	83%	7	17%	41	\$1,074	75%	\$360	25%	\$1,434
Totals	65	76%	21	24%	86	\$7,967	56%	\$6,191	44%	\$14,158

Source: Sample of loans

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

CNB’s lending patterns to borrowers of different incomes and to businesses of different sizes meets the standards for satisfactory performance. Its lending activity reveals a reasonable penetration among borrowers of different income levels and businesses of different sizes. Weight is given to the commercial loans, given the bank’s focus on business lending.

Commercial

Table 2A – 2001 and 2002				
Borrower Distribution of Loans to Businesses in CNB AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	77%	8%	15%	100%
% of Bank Loans in AA by #	55%	45%	0%	100%
% of Bank Loans in AA by \$	51%	49%	0%	100%

Source: Loan sample; Dunn and Bradstreet data; 1990 U.S. Census Data.

Table 2B – 2003				
Borrower Distribution of Loans to Businesses in CNB AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	63%	8%	29%	100%
% of Bank Loans in AA by #	60%	40%	0%	100%
% of Bank Loans in AA by \$	42%	58%	0%	100%

Source: Loan sample; Dunn and Bradstreet data; 2000 U.S. Census Data.

Based on the sample for 2001 and 2002, CNB originated 55% of the number of loans and 51% of the dollar of loans to small businesses. While the bank's performance is lower than the business area demographics, the penetration among businesses of different sizes is reasonable given that the bank opened less than three years ago in a highly competitive market. In addition, the bank was formed with four commercial lenders from a larger, area bank. These lenders recruited each of their former lending relationships, including some of the largest, to CNB when it opened in 2001.

As shown **Table 2B**, the bank's performance is near to the area demographics in 2003. The bank made 60% of the number of loans to small businesses in 2003, which meets the area business demographics. This is reflective of the bank's strategic focus and demonstrates an improved trend as the bank grew. Of the dollar volume, 42% was to small businesses. While performance is lower than the area demographics, this appears reasonable considering this is a newly formed institution.

Consumer

Table 3A – 2001 and 2002								
Borrower Distribution of Consumer Loans in CNB AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans						
Consumer Loans	25%	10%	15%	20%	20%	35%	40%	35%

Sources: Loan sample, 1990 U.S. Census data.

Table 3B – 2003								
Borrower Distribution of Consumer Loans in CNB AA								

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans						
Consumer Loans	26%	30%	16%	25%	18%	20%	40%	25%

Source: Loan sample, 2000 U.S. Census data.

CNB's lending to borrowers of different income levels is adequate for 2001 and 2002. Originations to moderate-income households, at 20%, exceeded the percentage of moderate-income households in the AA. The bank originated 10% of its consumer loans to low-income households. Although lower than the area demographics for low-income households, the bank's performance is reasonable due to its limited branch network, lack of marketing for consumer products, and heavy local competition. CNB had only two branches opened during this period, one of which was located in downtown Worcester. In addition, heavy competition stems from captive finance companies and larger regional banks, which currently offer flexible lending programs for consumer loans geared towards low-income borrowers.

For 2003, CNB's distribution of consumer loans to borrowers of different income levels is good. Of its loans, the bank provided 30% to low-income households and 25% to moderate-income households. This exceeds the area demographics for low-income and moderate-income households. As the bank continued to grow through 2003 and added an additional branch, the distribution of loans better reflected the demographics.

Geographic Distribution of Loans

CNB's lending activity meets the standards for satisfactory performance. The bank's loans are reasonably dispersed within its AA. No conspicuous gaps were identified. Analysis was based on commercial and consumer loans made to borrowers located inside the assessment area. Weight was given to the commercial loans due to the volume of lending.

Commercial

Table 4A – 2001 and 2002 Geographic Distribution of Loans to Businesses in CNB AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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	13%	30%	12%	25%	46%	35%	29%	10%

Source: Loan sample, Dunn & Bradstreet data; 1990 U.S. Census data.

Table 4B – 2003 Geographic Distribution of Loans to Businesses in CNB 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	12%	10%	20%	25%	36%	25%	32%	40%

Source: Loan sample, Dunn & Bradstreet data; 2000 U.S. Census Data

As shown in **Table 4A** above, CNB’s commercial loans for 2001 and 2002 are well dispersed to different geographies within its AA. The distribution of commercial loans to borrowers located in low- and moderate-income tracts exceeds the area demographics. Of the bank’s loans, 30% were to borrowers located in low-income geographies and 25% to borrowers in moderate-income geographies. For 2003, CNB’s distribution of commercial loans to borrowers located in low-income tracts meets the demographics, and the distribution exceeds the demographics in the moderate-income geographies in the AA.

Consumer

Table 5A – 2001 and 2002 Geographic Distribution of Consumer Loans in CNB AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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 Loans	7%	5%	16%	5%	53%	63%	24%	27%

Source: Loan sample, 1990 U.S. Census data.

Table 5B – 2003 Geographic Distribution of Consumer Loans in CNB AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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 Loans	11%	0	19%	15%	41%	55%	29%	30%

Source: Loan sample, 2000 U.S. Census data.

As shown in **Table 5A** in 2001 and 2002, CNB had low penetration of consumer loans in low- and moderate-income tracts. Of all the AA households, 7% and 16% are located in low-income and moderate-income geographies, respectively. The bank originated 5% of loans to borrowers in low-income geographies and another 5% of loans to borrowers in moderate-income geographies.

CNB's distribution of 2003 consumer loans reflects no loans originated in low-income census tracts and adequate penetration in moderate-income census tracts. Although the consumer loan distribution is less than area demographics, the dispersion of consumer loans is consistent with the CNB's business focus of primarily lending to commercial customers. Other factors affecting the bank's performance are its limited branch network, lack of marketing, and heavy competition.

These data also reflect the higher proportion of home equity loans that comprise the bank's consumer portfolio. CNB's AA is comprised of a significant number of renter households. Generally, low- and moderate-income households meet barriers to home ownership in this area given the median house value. The largest proportion of low-income households is in the middle-income tract where the median housing value is \$131,107 per 2000 U.S. Census Data. In addition, 11% of households live under the poverty level.

Responses to Complaints

Neither the bank nor the OCC received CRA related complaints on CNB since the establishment of the bank.

Fair Lending or Other Illegal Credit Practices Review

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