



SMALL BANK

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

PUBLIC DISCLOSURE

July 5, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First Brandon National Bank
Charter Number 278**

**2 Park Street
Brandon, VT 05733**

**Comptroller of the Currency
New England Field Office
20 Winthrop Square, Suite 200
Boston, Massachusetts 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 bank achieved a Satisfactory rating based on the following factors:

- ❑ The bank's average loan-to-deposit ratio is reasonable.
- ❑ A substantial majority of originated and purchased loans are to customers inside the AA. The bank exceeds standards for satisfactory performance.
- ❑ The bank's lending to borrowers of different incomes and businesses of different sizes exceeds standards for satisfactory performance and is highly responsive to low and moderate-income borrowers and to small businesses.
- ❑ Geographic distribution of loans is reasonable and meets standards for satisfactory performance.

DESCRIPTION OF INSTITUTION

First Brandon National Bank (FBNB or “the bank”) is a \$95 million financial institution headquartered in Brandon, Vermont. It primarily operates in Rutland County and the southern portion of Addison County. The bank has the main office in Brandon and three branches located in West Rutland, Pittsford, and at the Otter Valley High School in Brandon. All of the branches are located in middle-income tracts. The limited service branch at the Otter Valley High School was opened November 2003. A loan production office in Rutland was closed February 2004 after the West Rutland branch was opened. The bank's four automated teller machines (ATMs)- in Brandon, Pittsford, Middlebury, and West Rutland - are operational twenty-four hours a day. The bank offers a wide variety of loan and deposit products. Details may be found at the bank's website at www.FBNB.com.

As of March 31, 2005, the bank had total loans of \$61.6 million, or 65% of total assets. Total deposits for the same period was \$80 million. The following table provides a breakdown of the bank's loan portfolio:

	<i>Total Dollar Amount (000s)</i>	<i>Total Percentage of Loan Mix</i>
Residential Real Estate	\$34,052	55.2%
Commercial & Commercial Real Estate	\$23,497	38.1%
Consumer & Other	\$ 4,137	6.7%
Gross Loans	\$61,686	100%

The bank has no financial or legal impediments to meeting the credit needs of the community.

The last performance evaluation, performed as of November 16, 1998, resulted in an Outstanding rating.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires the bank to define its market, called an assessment area (AA). FBNB's AA is comprised of 38 towns and villages located in Addison and Rutland Counties in Vermont. It is comprised of 23 census tracts (CT) and dispersed as follows: 3 moderate-income tracts, 19 middle-income tracts, and 1 upper-income tract. There are no low-income tracts in the AA. Since the last evaluation, the bank added a branch in West Rutland. Given 2000 Census changes, three census tracts, which were middle-income tracts at the prior evaluation, are now categorized as moderate-income. Two moderate-income tracts are located in the downtown area of Rutland and the third is located in Fair Haven.

The town of Brandon is located in Rutland County. Formerly, it was a major area for quarrying and an important mill town. It is a town of 5,616 and is now known for its arts community, as well as its proximity to recreational areas for hiking and skiing. Agriculture, specifically dairy farms, remains vital but a declining force in the economy. The town is considered economically stable and is actively trying to recruit new businesses to the area, employing an Economic Development Director. Manufacturers located in Brandon include New England Slate Company, New England Woodcraft, Nexus Custom Electronics, and Vermont Tubbs.

Rutland County has a diverse employment base with industries ranging from heavy manufacturing to recreation. Businesses range from 1,400 employees to several start-up operations with fewer than 5 employees. According to 2000 Census Data, 59% of reporting businesses have less than four employees while only about 2% report over fifty. Businesses are centered in retail trade and services.

Major employers in Rutland County are GE Aircraft Engines, Killington Ltd, and Rutland Regional Medical Center. Addison County's primary industries include apple growers, dairy farmers, and related suppliers. Unemployment rate in the state of Vermont is 3.1% as of May 2005 as compared to 2.5% for Addison County and 3.7% for Rutland County.

Competition is strong in the AA, especially in the Rutland market. FBNB competes with large regional banks, credit unions, savings banks, national banks, mortgage companies and captive finance companies. According to FDIC market share reports, FBNB ranks sixth in the Rutland and Addison Counties with a deposit market share of 5.9%.

According to 2000 Census Data, the AA has a total population of 78,598 consisting of 20,355 families and 30,974 households. The AA families have the following income distribution: 18% low income, 20% moderate income, 25% middle income, and 37% upper income. Within this population, notably 11% is living under the poverty level. The HUD-adjusted median family income (MFI) for 2003 is \$52,800, for 2004 is \$55,500, and for 2005 is \$55,800. The MFI figure is used to determine the income level for each census tract.

The total housing units in FBNB's AA is 38,599 of which 56% is owner-occupied, 24% rental,

and 20% vacant. The median housing price is \$106,009 with the median housing age of 29 years. Owner-occupied units are predominately located in the middle-income tracts. Of the total population, 80% live in the middle-income tracts. The high level of rental and vacant units can be partially attributed to the recreational skiing and hiking areas in the region, which cater to seasonal visitors.

Less than 45% of the housing units in the moderate-income tracts are owner-occupied units, while the remaining units are rental units (48%) and vacant (7%). With the high level of rental and vacant units, the lending opportunities for home purchase loans are limited. The median housing price is \$82,521 with a median age of 50 years in the moderate-income tracts. Meanwhile, 28% of families located in moderate geographies are low-income (earning less than 50% of the median income) and another 23% is moderate income (earning less than 80% of the median income).

According to the Rutland County Housing Needs Assessment study (January 2005), housing affordability is an issue for many towns in the county and especially the city of Rutland. The city of Rutland has a higher rental population, which contributes to the higher level of low-income residents residing there. However, the report concluded that the distribution of rental units is appropriate for the city as its role as a service and job center for the county. According to the study, Fair Haven – a moderate-income census tract – has a disproportionate level of rental units for the needs in the community and could benefit from increasing home ownership. Also, older rental stock is in need of rehabilitation.

Community Contact

Based on information provided by a community contact, the identified credit needs are affordable housing and small business financing. Our contact stated that real estate prices have increased 20% in the past few years, making it difficult for first time homebuyers. The Town of Brandon is considering various development projects for affordable housing, using existing commercial space, geared towards the elderly and/or younger workers. Housing stock is generally older in Brandon and requires funding for rehabilitation. In regards to businesses, the Town is promoting the area for light industrial companies, retail stores, and service businesses. Our contact stated that FBNB has been very responsive to AA customers.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Scope of Evaluation

We performed a full scope review of FBNB's assessment area (AA). The bank is not located in a Metropolitan Statistical Area (MSA) and, therefore, is not a Home Mortgage Data Act (HMDA) reporter. Because the bank is not a HMDA reporter, peer comparisons by mortgage product are not available. For the other peer comparisons in this PE, the data only include lenders who were required to file small business and small farm reports for this evaluation period.

We sampled 41 mortgage loans, 30 consumer loans, and 40 commercial loans for our analysis.

Mortgage and commercial loans are considered primary products of the bank and bear weight in our analysis. Consumer loans were reviewed at the bank's option given the volume of originations, though it is a small percentage of the overall portfolio. The 2000 Census Data is the source for comparative data.

Loan-to-Deposit Ratio

Based on call report data, the bank's average quarterly loan to deposit ratio since the last examination is 74%. This represents a reasonable volume of lending based on the bank's financial condition, the economic factors, and lending opportunities in the AA. The average loan to deposit ratio for similarly situated banks in the local market is 83%.

Lending in Assessment Area

In order to determine the bank's level of lending inside its assessment area, we reviewed a sample of mortgage, commercial, and consumer loans. Based on our sample, a substantial majority of loans was made to customers within its market area. Approximately 90% of the number of loans and 80% of the dollar of those loans benefited customers inside the AA. This suggests that the bank is meeting the credit needs within its community as shown in the table below.

	Number of loans					Dollar of loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential RE	38	92.7%	3	7.3%	41	2,711	86.3%	432	13.7%	3,143
Consumer	30	100.0%	0	0.0%	30	266	100.0%	0	0.0%	266
Commercial	40	83.3%	8	16.7%	48	3,843	85.4%	655	14.6%	4,498
Total	108	90.8%	11	9.2%	119	6,820	81.8%	1,520	18.2%	8,340

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

The bank's lending to borrowers of different incomes and businesses of different sizes exceeds standards for satisfactory performance. The bank's performance in lending to low and moderate-income residents is evaluated by comparing the median income of bank borrowers with the HUD-adjusted MFI figures. The bank's performance in lending to businesses of different sizes is evaluated by comparing the distribution of businesses in the market area.

Mortgage Loans

Table 2 - Borrower Distribution of Residential Real Estate Loans								
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
Mortgage Loans	18.13%	19.51	20.05	31.71	25.46	14.63	36.35	34.15

The bank's distribution of mortgage loans reflects an excellent penetration to low and moderate-income borrowers. A comparison is made between the bank's distribution of loans and the distribution of AA families by income level per Census Data. The bank originated 19.5% of all sampled mortgage loans to low income borrowers, which compares favorably to the percentage of low-income families in the AA. More significantly, originations to moderate-income borrowers significantly exceed the demographic makeup of the AA. The bank originated 31.7% of its mortgage loans to moderate-income borrowers in comparison to the percentage of moderate-income families located in the AA - 20%.

Despite barriers to affording a home by low and moderate-income borrowers, the bank originated approximately 50% of its home loans to those earning less than 80% of the median income. Significant weight is given to this criterion since mortgage loans are a primary product for the bank and an identified community credit need.

Business Loans

Table 2A - Borrower Distribution of Loans to Businesses/Farms		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	64.5	5.6
% of Bank Loans in AA by #	85.0	5.0
% of Bank Loans in AA by \$	67.7	29.5

* 29.93% of AA businesses did not report revenue information. 2000 Census Data

The bank's distribution of commercial loans to businesses of different sizes is good. The emphasis is on small businesses, or those with gross annual revenues of less than \$1 million. Per Census Data, 64.5% of reporting businesses had revenues less than \$1 million while 5.5% reported revenues over that amount. Of the total businesses, 29.9% did not report revenues. The bank originated 85% of the number of loans to small businesses. More meaningful is that 75% of the sampled loans were made for \$100,000 or less to small businesses. This activity meets a community credit need for micro businesses and start-up operations. Of all reporting businesses, 59% have less than 4 employees.

Consumer Loans

Table 2B - Borrower Distribution of Consumer Loans								
Borrower 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	23.09	33.33	18.20	20.00	20.26	33.33	38.45	13.33

The bank's penetration of consumer loans to borrowers of different income levels exceeds that of demographic indicators. A comparison is made between the bank's distribution of loans and the distribution of AA households by income level. The bank originated 53.3% of loans to low and moderate-income borrowers whereas census data shows that approximately 41.2% of all AA households are low and/or moderate income. Notably, 33% of loans were made to low-income borrowers, which compares favorably to the percentage of low-income households.

Geographic Distribution of Loans

The bank's geographic distribution of loans is reasonable given performance context factors. Emphasis is placed on lending in moderate-income tracts. We found no conspicuous gaps for which management could not provide an explanation. For areas in which a low or no volume of lending is noted, management explained that geographic boundaries limit servicing those areas.

Mortgage Loans

Table 3 - Geographic Distribution of Residential Real Estate Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% 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
Mortgage Loans	N/A	N/A	11.57	0	83.56	100	4.87	0

FBNB's distribution of mortgage loans based on location is reasonable. Comparison is made between the bank's lending pattern and the distribution of owner-occupied units among the various income tracts. Per Census Data, 83.6% of all owner-occupied housing units are located in middle-income tracts. Sampled mortgage loans were 100% in middle-income tracts. While the bank trend is lower than the area demographics for moderate-income tracts, its lending pattern is reasonable given the performance context factors.

None of its branches are in the moderate-income tracts, which are in the city of Rutland and Fair Haven. Considering the bank's limited footprint in Rutland until it opened a branch in West Rutland in May 2004, the significant competition there, and the high percentage of rental units,

the bank's trend is understandable. Additionally, only 3 of 22 tracts in the entire assessment area are moderate income.

The bank does take applications and refer borrowers to a Northeast Home Loan Program, which offers flexible underwriting and thirty year fixed rate products not offered by the bank. Per management, the bank originated \$9.3 million in 2003, \$5.4 million in 2004, and \$2.9 million through June 2005, all of which were booked at Northeast Home Loan.

Commercial Loans

Table 3A - Geographic Distribution of Loans to Businesses/Farms								
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
2003 Loans	N/A	N/A	23.70	16.67	70.10	83.33	6.20	0
2004-2005 Loans	N/A	N/A	24.20	18.18	69.30	81.82	6.50	0

FBNB's distribution of commercial loans based on location is reasonable. A comparison is made between the bank's lending pattern and the distribution of businesses located in the various income tracts. For 2003, the bank originated 17% of its commercial loans to businesses located in moderate-income tracts. This represents a trend lower but near to the area demographics. It is reasonable that the majority of loans are located in middle-income tracts given that over 70% of all businesses are located there. For 2004 and 2005 loans, the bank originated 18% in moderate-income tracts in comparison to 24% per area demographic data. Again, while this is lower than the demographic indicators, the bank's lending pattern is considered reasonable.

Consumer Loans

Table 3B - Geographic Distribution of Consumer Loans								
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	N/A	N/A	16.96	6.25	78.70	90.63	4.34	3.13

FBNB's distribution of consumer auto loans based on location of the borrower is reasonable. Comparison is made between the bank's lending pattern and the distribution of households in each income tract. The bank originated 6% of the sampled consumer auto loans to borrowers residing in moderate-income tracts while 17% of all AA households are located in these tracts. While this represents a trend lower than the area demographics, it is reasonable given the bank's limited time in the Rutland area, significant competition, and low number of moderate-income census tracts in total.

Responses to Complaints

No consumer complaints have been received since the last performance evaluation.

Investments and Services

The bank made a qualified investment for \$147,255 on March 19, 2004 in a limited partnership with a purpose of building affordable housing in West Rutland. The project is to build six units geared towards low- and moderate-income residents. The project was in partnership with the Rutland West Neighborhood Housing Service. This demonstrates the bank's commitment to the community needs.

FBNB also provides a service to customers by acting as agent for Northeast Home Loan to originate Vermont Housing Finance Authority (VHFA) loans. The program is geared towards first time homebuyers with flexible underwriting standards offered. For the evaluation period, the bank originated \$1.3 million VHFA loans for Northeast Home Loan.

FBNB management serve on various community boards in order to better understand credit needs. These organizations include Rutland West Neighborhood Housing Services, Town of Brandon community development, and United Way. The bank management provides technical and financial expertise to several charitable organizations that serve low- and moderate-income individuals or promote economic development.

Fair Lending or Other Illegal Credit Practices Review

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