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Comptroller of the Currency  
Administrator of National Banks

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Northeastern District  
1114 Avenue of the Americas, Suite 3900  
New York, New York 10036

## **PUBLIC DISCLOSURE**

April 18, 1997

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

**First National Bank of Bar Harbor  
Charter Number 3941  
102 Main Street  
Bar Harbor, Maine 04609**

**The Office of the Comptroller of the Currency  
Boston Duty Station  
150 Federal Street, Second Floor  
Boston, Massachusetts 02110**

**NOTE: 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.**

## GENERAL INFORMATION

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of the **First National Bank of Bar Harbor** prepared by **the Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **April 18, 1997**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

**INSTITUTION'S CRA RATING:** This institution is rated “**Satisfactory**”.

The following primary factors support this bank’s overall rating:

- The average loan to deposit ratio exceeds national and local institution’s at 95%.
- More than 96% of residential mortgage, home improvement, and commercial loans are in the bank’s assessment area.
- The distribution of credit to borrowers of different income levels in the assessment area is reasonable.
- A strong record of lending to small businesses.
- The geographic distribution of loan originations throughout the assessment area is reasonable.

The following table indicates the performance level of the **First National Bank of Bar Harbor** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>First National Bank of Bar Harbor</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the prior examination.		

## DESCRIPTION OF INSTITUTION

The First National Bank of Bar Harbor (FNB) is a \$120 million bank located along the northeastern seaboard of Maine. It is wholly owned by FNB Bankshares, a one bank holding company. FNB's main office is located in downtown Bar Harbor in Hancock County. In addition, there are five branches: two in Hancock County in Southwest

Harbor and Ellsworth, two in Washington County in Calais and Eastport, and one in Penobscot County in the Town of Holden. The Eastport branch is located in a moderate income census tract. No branches have closed since our last CRA examination. All locations have convenient banking hours, drive-up automated teller machines (ATMs) and drive-up teller facilities.

Loans comprise 75% of average assets. The loan portfolio is primarily real estate at 83%, which consists of 42% residential real estate and 41% commercial real estate. Commercial loans and consumer loans, respectively, represent 9% and 6%. Agricultural and municipal loans are nominal at 2%. There are currently no financial or legal impediments that would prevent FNB from helping to meet the credit needs of its community.

Primary competition is provided by the small community banks, Bar Harbor Bank and Trust Company, Union Trust Company, and Calais Federal Savings and Loan. Additionally, Bangor Savings Bank, Machias Savings Bank, BANCO, and Peoples Heritage Bank provide further competition.

## **DESCRIPTION OF ASSESSMENT AREA**

FNB's assessment area meets the criteria of the regulation and does not arbitrarily exclude low or moderate census tracts. One assessment area has been defined. The area consists of 11 census tracts located within the Penobscot metropolitan statistical area (MSA) and 22 block numbering areas (BNA's) within Hancock and Washington Counties. Approximately 70% of the area is made up of middle income geographies. Eight moderate income geographies account for 24% and the remaining 6% is upper income. There are no low income geographies.

The population of the assessment area is made up of 90 thousand individuals. The Housing and Urban Development (HUD) statewide median family income is \$35,066. In the assessment area, low income families comprise 19% of the population, moderate income families 20%, middle income families 24%, and upper income families at 37%. The median housing value for the area is \$80 thousand and the median age of the housing stock is 38 years. Owner occupied housing is 50% of the total. Rental occupied housing is 21% of the total. At 28%, a significant number of housing units are vacant.

Seasonal tourism, forestry, and fishing are the main sources of revenue for the area. Jackson Laboratory, a research center, and Mount Desert Island Hospital are the largest employers in Bar Harbor. As of February 1997, the state unemployment rate was 5.7%, down from 6.8% in February 1996. This is in line with the national rate of 5.7%. The unemployment rate for Washington County is 13%. This county ranked last in the state in all categories of economic growth and development, and per capita income has always been below that of the state.

Affordable housing and small business loans were described as the primary credit needs for the assessment area by both bank management and community contacts.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :**

### **Loan to Deposit Ratio**

The high level of FNB's loan to deposit ratio is more than reasonable and indicates a firm commitment to meeting the credit needs of the community. The loan to deposit ratio was 91% as of December 31, 1996. This ratio greatly exceeds the national peer of 71%. For the seven calendar quarters since the last CRA examination, the average loan to deposit ratio equaled 95%. FNB ranked second when compared to seven local peer banks with average loan to deposit ratios ranging from 59% to 103%. Average loan to deposit ratios for thirty-six banks less than \$250 thousand in Maine range from 56% to 109%. FNB exceeded all but three of these institutions.

### **Lending in the Assessment Area**

The major loan products are Home Mortgage Disclosure Act (HMDA) reportable real estate mortgages and home improvement loans (HIL's), commercial and commercial real estate, and consumer loans. An analysis of calendar years 1995 and 1996 real estate mortgage and home improvement originations, and a sample (20% in number and 9% in dollar amount) of commercial loans made in 1996 shows that a substantial majority of lending is within FNB's assessment area. Table 1 depicts the actual numeric results of our analysis and indicates that more than 96% of HMDA reportable transactions were made within the assessment area both in 1995 and 1996. Similar data for consumer loans (in 1996 and 1995) and commercial loans (in 1995) was not available.

**TABLE 1**  
**PERCENTAGE OF LENDING WITHIN THE ASSESSMENT AREA**

<b>Loan Originations - (000's)</b> <b>Calendar Years 1995 &amp; 1996</b>								
<b>Loan Type</b>	<b>1995 - Inside Assessment Area</b>				<b>1996 - Inside Assessment Area</b>			
	<b>#Loans</b>	<b>%</b>	<b>\$ Amt</b>	<b>%</b>	<b>#Loans</b>	<b>%</b>	<b>\$ Amt</b>	<b>%</b>
<b>Mtge's</b>	66	<b>93%</b>	4,473	<b>96%</b>	74	<b>93%</b>	5,940	<b>96%</b>
<b>HIL's</b>	55	<b>100%</b>	604	<b>100%</b>	81	<b>98%</b>	1,269	<b>97%</b>
<b>Comml</b>	NA	NA	NA	NA	55	<b>100%</b>	1,262	<b>100%</b>
<b>Total</b>	121	<b>96%</b>	5,077	<b>97%</b>	210	<b>96%</b>	8,471	<b>97%</b>

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

Our analysis of lending to borrowers of different incomes is based on FNB's residential mortgage and home improvement lending activity and lending to small businesses. Table 2 below reflects the breakdown of the 1995 and 1996 HMDA reportable mortgage originations and home improvement loans in the bank's assessment area by number and dollar amount. The data represented in this table indicates that the distribution among borrowers of different income levels is reasonable, given the demographics of the assessment area.

**TABLE 2  
LENDING TO BORROWERS OF DIFFERENT INCOMES**

<b>Residential Real Estate Mortgage Originations - (000's)</b>									
	<b>1995</b>				<b>1996</b>				<b>HUD Family Distribution</b>
	<b># Loans</b>	<b>%</b>	<b>\$ Amt</b>	<b>%</b>	<b># Loans</b>	<b>%</b>	<b>\$ Amt</b>	<b>%</b>	
<b>Low</b>	2	3%	90	2%	0	0%	0	0%	19%
<b>Mod</b>	11	17%	262	6%	16	22%	731	12%	20%
<b>Middle</b>	17	26%	930	21%	25	34%	2,001	34%	24%
<b>Upper</b>	36	54%	3,191	71%	33	44%	3,208	54%	37%
<b>Total</b>	66	100%	4,473	100%	74	100%	5,940	100%	100%
<b>Home Improvement Loans - (000's)</b>									
<b>1995</b>					<b>1996</b>				
<b>Low</b>	9	17%	77	13%	13	16%	64	5%	19%
<b>Mod</b>	15	27%	151	25%	24	30%	310	25%	20%
<b>Middle</b>	20	36%	157	26%	19	23%	285	22%	24%
<b>Upper</b>	11	20%	219	36%	25	31%	610	48%	37%
<b>Total</b>	55	100%	604	100%	81	100%	1,269	100%	100%

We reviewed 20% (based on number) and 9% (based on dollar amount) of FNB's commercial lending activity for calendar year 1996 by reviewing bank management prepared reports. This report data was cross-referenced for accuracy. Similar data for 1995 was not available. Small business loans, defined as businesses with gross annual revenues below \$1 million, account for 93% (in number) and 90% (in dollar amount) of the sample reviewed. This reflects a high level of attention to small business credit needs within the community. The average size of all commercial loans made in 1996 was \$49,000, and for 1995 was \$58,000.

## Geographic Distribution of Loans

FNB's assessment area is comprised mainly of middle income geographies at 70%. Eight moderate income geographies represent 24%. The remaining 6% is upper income. An analysis of originations for HMDA reportable real estate mortgages and home improvement loans in calendar years 1995 and 1996, and a sample of small business loans in 1996 showed that there was a reasonable penetration within the geographies by number and dollar amount, as depicted in Table 3 below. Similar data for small business loans in 1995 was not available. Representation in the moderate income tracts is impacted by the depressed economic conditions in Washington County. The five-year-old Holden branch has low market presence and contends with strong competition from nearby Bangor.

TABLE 3  
GEOGRAPHIC DISTRIBUTION OF LOANS

1995 Originations - (000's)					
	# Loans	%	\$ Amt	%	Loan Product
Moderate	14	21%	489	11%	<i>Real Estate Mortgages</i>
Middle	52	79%	3,984	89%	
Upper	0	0%	0	0%	
Moderate	10	18%	102	17%	<i>Home Improvement Loans</i>
Middle	45	82%	502	83%	
Upper	0	0%	0	0%	
1996 Originations - (000's)					
Moderate	5	7%	383	6%	<i>Real Estate Mortgages</i>
Middle	69	93%	5,557	94%	
Upper	0	0%	0	0%	
Moderate	14	17%	118	9%	<i>Home Improvement Loans</i>
Middle	66	82%	1,138	90%	
Upper	1	1%	13	1%	
Moderate	5	9%	92	7%	<i>Small Business Loans</i>
Middle	50	91%	1,170	93%	
Upper	0	0%	0	0%	



## **Response to Complaints**

FNB has received no consumer complaints since the prior CRA examination.

## **Fair Lending Examination**

A fair lending examination was performed concurrently with this examination. The bank's performance under the Fair Lending laws is satisfactory. We found no violations of the substantive provisions of the antidiscrimination laws and regulations.