

Public Disclosure

December 1, 1997

Community Reinvestment Act Performance Evaluation

The Woodstock National Bank

Charter Number: 1133

21 Elm Street

Woodstock, VT 05091

The Office of The Comptroller of the Currency

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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.

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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 CRA performance of *The Woodstock National Bank* prepared by *The Office of the Comptroller of the Currency*, the institution's supervisory agency, as of *December 1, 1997*. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area (AA) evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

Institution's CRA Rating

This institution is rated *satisfactory*. Primary factors supporting the bank's overall rating include:

- ▶ a reasonable responsiveness to credit needs within the AA;
- ▶ an adequate percentage (64%) of home mortgage and small business loans are made within the AA;
- ▶ an adequate distribution of loans among borrowers of different income levels and to businesses of different sizes;
- ▶ sufficient use of flexible and innovative lending practices;
- ▶ a good level of qualified investments that are responsive to the community credit needs in the bank's assessment area; and
- ▶ reasonable access to delivery systems for all segments of the AA.

The following table indicates the performance level of **Woodstock National Bank** with respect to the lending, investment, and service tests.

TABLE 1

CRA Rating Matrix			
Performance Levels	Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory		X	
Low Satisfactory	X		X
Needs to Improve			
Substantial Noncompliance			

* Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

Description of Institution

Woodstock National Bank (WNB) is a wholly-owned subsidiary of Banknorth Group, Inc. (BNG). BNG is a \$2.9 billion holding company headquartered in Burlington, VT, comprised of seven community banks, a mortgage banking company and an investment management affiliate.

WNB is a full service financial intermediary, principally engaged in attracting deposits and making loans to consumers and small- and mid-sized businesses. In addition to the main office, WNB operates two full service branches in its AA. The two branches have drive-up windows, one of which has a 24-hour automated teller machine (ATM). Additionally, WNB owns one remote ATM housed at a local merchant.

As of September 30, 1997, WNB's assets totaled \$75.6 million. WNB offers a wide range of commercial and consumer loans; mortgage loans are provided through an affiliate, Banknorth Mortgage Company (BMC). The loan portfolio at \$57 million represents 75% of total assets. The portfolio is primarily centered in home mortgage loans accounting for \$36 million, or 63% of total loans. Commercial and commercial real estate loans represent \$16.7 million for 29% of total loans, while consumer loans make up the remaining \$4.3 million, or 8%.

Competition in the AA is strong. WNB's primary competitors are regional banks, Vermont National Bank and AIBank, as well as the smaller local financial institution, Bank of Woodstock. There are no financial or legal impediments preventing WNB from meeting the credit needs of its community.

Description of Assessment Area

WNB has one AA that comprises nine block numbering areas (BNAs). The bank does not operate in a metropolitan statistical area. The AA consists of the towns in northern Windsor county Vermont including: Bethel, Royalton, Sharon, Norwich, Stockbridge, Barnard, Pomfret, Hartford, Bridgewater, Woodstock, Hartland, Plymouth, Reading and West Windsor. As noted in Table 2, there are no low or moderate BNAs within the assessment area.

TABLE 2

Assessment Area Demographics			
Designation	# of BNAs	% of Total BNAs	% of Households Residing in the BNAs
Low	No low-income block numbering areas		
Moderate	No moderate-income block numbering areas		
Middle	6	67	62
Upper	3	33	38
Total	9	100	100

Source: 1990 census data, U.S. Bureau of the Census

The population of the AA is 29,399. The 1997 Statewide Nonmetropolitan Median Family Income for Vermont is \$38,200. The weighted average of median housing value in the AA is moderate at \$118,822. As reflected in Table 4, 14% and 16% of the families in the AA are low- and moderate-income families, respectively. The median age of the housing stock is thirty-four years. Total occupied housing units in the AA are 72%, with owner-occupied housing at 50% and rental occupied housing at 22%. Vacant housing in the AA is 27%.

Tourism is the chief industry in the AA. The tourist industry supports the small business nature of the local economy dominated by small retail shops, bed and breakfasts and restaurants. Major employers in the AA include the Veterans Administration Hospital, Windsor Hospital Corporation, Woodstock Resort Corporation, State of Vermont, the U.S. postal distribution center and local school districts. Seasonally adjusted unemployment for the state of Vermont was 3.8% in October, 1997, a decline from 4.6% in October, 1996. Affordable housing loans for purchase and small business loans were identified as primary credit needs by bank management and community contacts.

Conclusions with Respect to Performance Tests

Scope of Review

This review covered the time period from January 1, 1996 through September 30, 1997 for all Home Mortgage Disclosure Act (HMDA) loans, small business loans, and community development loans. Investments purchased and/or held over this time period and services performed were reviewed.

Lending Test

Performance Criteria

Lending Activity

WNB's lending levels reflect a reasonable level of activity overall. During the evaluation period, there were a total of 126 home mortgage loans originated at \$16.5 million, of which 44 loans were in the bank's assessment area at \$6.9 million. Also, WNB originated 108 small business loans totaling \$6.3 million, of which 105 loans totaling \$5.7 million were in the assessment area. The volume of loan purchases and originations demonstrates a reasonable level of responsiveness to the credit needs of the AA given the bank's size and the economic and demographic characteristics of the AA.

WNB's loan-to-deposit (LTD) ratio averaged 90% over the last seven quarters; this represents the third highest average LTD ratio among the thirteen Vermont banks with total assets greater than \$25 million and less than \$150 million. The median LTD ratio for these thirteen banks was 80%.

Assessment Area Lending Concentration

Overall, WNB demonstrates an adequate level of lending within the AA. Analysis of all originations and purchases from January 1, 1996 through September 30, 1997 indicates that 64% of the number and 55% of the dollar amount of home mortgage and small business loans were originated inside the AA. Table 3 details WNB's home mortgage and small business lending inside the AA.

TABLE 3

HMDA and Small Business Loan Originations January 1, 1996 through September 30, 1997								
<i>Loan Type</i>	Inside Assessment Area				Outside Assessment Area			
	# Loans	%	\$ Amount	%	# Loans	%	\$ Amount	%
HMDA Loans	44	35	6,907	42	82	65	9,561	58
Small Business	105	97	5,657	90	3	3	647	10
Total	149	64	12,564	55	85	36	10,208	45

Source: CRA Data Listing Report, HMDA Loan Application Register (LAR), dollar amounts are in 000's

Geographic Distribution

WNB's AA does not include any low- or moderate-income BNAs. Therefore, an analysis of the geographic distribution of loans originated in the various BNAs is not meaningful.

Borrower Characteristics

Home Mortgage Loans

WNB purchases home mortgage loans originated by affiliate BMC. WNB's overall lending to borrowers of different income levels for home mortgage loans is adequate. For the evaluation period, 11% of the number and 3% of the dollar amount of purchased home mortgages were to low income individuals. This is reasonable given that low income families account for 14% of the total families in the AA. For the evaluation period, 7% of the number and 3% of the dollar amount of purchased home mortgages were to moderate income individuals. This penetration is somewhat low given that moderate income families account for 14% of the total families in the AA. Table 4 shows the number and dollar volume of home loans by borrowers of different income categories for 1996 and year-to-date 1997.

TABLE 4

Borrower Characteristics of HMDA Loans within Assessment Area					
Borrower Income Level	1/1/96 through 9/30/97				% of Families within each Income Category
	# of Loans	%	\$ Amount	%	
Low	5	11	231	3	14
Moderate	3	7	196	3	16
Middle	7	16	603	9	23
Upper	28	64	5,444	79	47
Income N/A	1	2	433	6	NA
Totals	44	100	6,907	100	100

Source: HMDA LAR, dollar amounts are in 000's

Small Business Loans

WNB's distribution of lending to small businesses by loan size is very good. Small business loans were identified as a community credit need.

WNB's distribution of lending to small businesses by revenue size (gross annual sales) reflects good penetration among small businesses. For the evaluation period, 97% of the number of originations and 81% of the dollar volume were to businesses with revenues less than \$1 million. This compares favorably to data on small business in the AA where 74% of the businesses have revenues less than \$1 million. Table 5 shows the distribution of small business loans by revenue size within the assessment area, based on the number of originations and volume, during the evaluation period.

TABLE 5

Distribution of Business Loans by Size within Assessment Area				
Business Revenue Size	1/1/96 through 9/30/97			
	# of Loans	%	\$ Amount	%
Less than \$1 Million	102	97	4,575	81
Greater than \$1 Million	3	3	1,082	19
Totals	105	100	5,657	100

Source: CRA Data Listing Report, dollar amounts are in 000's

For the evaluation period, 87% of the number of originations and 38% of the dollar volume were for loan amounts less than \$100 thousand. This correlates well with the actual distribution of small business loans by revenue size and compares favorably to the credit needs within the AA. Table 6 shows WNB's detailed distribution of small business loans by loan size within the AA, based on the number of originations and dollar amounts.

TABLE 6

Distribution of Business Loans by Loan Amount (at Origination) within Assessment Area				
Loan Amount	1/1/96 through 9/30/97			
	# of Loans	%	\$ Amount	%
Less than or equal to \$100,000	91	87	2,173	38
Greater than or equal to \$100,000 and less than \$250,000	8	7	1,381	24
Greater than \$250,000	6	6	2,103	38
Totals	105	100	5,657	100

Source: CRA Data Listing Report, dollar amounts are in 000's

Community Development Lending

A community development loan is a loan that has as its primary purpose community development, has not been reported as a home mortgage, small business or consumer loan (unless it is a multifamily dwelling) and benefits the AA or a larger regional area that includes the AA.

During the evaluation period, WNB originated a number of small business loans that were for community development purposes. These loans have been included in the small business lending test results.

Innovative or Flexible Products

WNB uses flexible lending practices to address the credit needs of low- and moderate-income individuals. Affiliate BMC offers a mortgage product for low- and moderate-income borrowers under their Community Housing Program (CHP). This program was established as a viable option for low- and moderate- income borrowers that do not qualify for Secondary Market Affordable Housing Programs or for Vermont Housing Finance Agency (VHFA) loans. CHP terms allow for a 5% down payment with reduced document preparation fees and flexible underwriting standards.

WNB participates in the VHFA through BMC, which provides a lower rate and flexible underwriting for low- and moderate-income individuals. The program provides a financing opportunity, with WNB as a conduit, that targets low- and moderate-income individuals.

Investment Test

A qualified investment is a lawful investment, deposit, membership share or grant that has as its primary purpose community development as defined in the CRA regulation. WNB has a good amount of qualified investments totaling \$339 thousand. These investments created 17 units of affordable housing, which is responsive to the credit needs in the assessment area. WNB's qualified investments are equity investments in two affordable housing projects.

An equity investment in an affordable housing project totaling \$100 thousand, was made during the evaluation period. This investment is a statewide program to improve accessibility of affordable housing for low-and moderate-income people throughout the entire state, including the bank's assessment area.

WNB also made a \$233 thousand equity investment in an affordable housing project located in Hartford, which is in the assessment area, in June 1995.

The remainder of the qualified investments (\$6 thousand) were various grants and donations to organizations whose primary purpose is community development.

Service Test

WNB's delivery systems are reasonably accessible throughout the AA. The branch network consists of the head office and one branch in Woodstock, both of which have ATM's, and a branch in Quechee. An additional ATM is located in a retail store in Quechee. No branches have been opened or closed during the evaluation period. Branch hours are reasonable and convenient to WNB customers. The geographic distribution of delivery systems (branches and remote ATMs) is not applicable since the AA does not contain any low- and moderate-income BNAs. WNB is a member of the 24 Hour Access ATM network which has over 118 machines located throughout Vermont, New Hampshire and Massachusetts. WNB account holders can use the 24 Hour Access network to perform a variety of banking transactions without paying transaction fees. WNB electronic banking services also include phone access to account information that allows customers to make automated inquiries and fund transfers.

WNB offers a Basic Checking product with low cost for customers requiring fewer checking transactions. WNB also offers a Senior Complimentary Checking product that has no fees, and a Small Business Checking Product specifically designed for small businesses, non-profits and sole proprietorships which have low to moderate account activity and want a low monthly fee.

Fair Lending Examination

A concurrent fair lending review did not identify any violations of anti-discrimination laws and regulations. An effective system is in place to comply with fair lending regulations.

Time Period Reviewed	1/1/96 to 9/30/97		
Financial institution Woodstock National Bank			Products reviewed Mortgage-related loans, Small business.
Affiliate(s)	Affiliate relationship		Products reviewed
Howard Bank, N.A.	Holding Co. Subsidiary--affiliate national bank.		Mortgage-related loans, Small business.
Farmington National Bank	Holding Co. Subsidiary--affiliate national bank.		Mortgage-related loans, Small business.
Banknorth Mortgage Company	Holding Co. Subsidiary		Mortgage-related loans purchased by WNB.
List of Assessment Areas and Type of Examination			
Assessment Area	Type of Exam	Branches Visited	Other Information
Vermont Non-MSA rural Vermont	on-site		