



## **PUBLIC DISCLOSURE**

July 9, 2018

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

The National Bank of Middlebury

Charter Number: 1195

30-32 Main Street, Middlebury, VT 05753

Office of the Comptroller of the Currency

99 Summer Street, Suite 1400, 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, and should not 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.

## Table of Contents

<b>OVERALL CRA RATING: THIS INSTITUTION IS RATED SATISFACTORY. ....</b>	<b>3</b>
<b>DEFINITIONS AND COMMON ABBREVIATIONS .....</b>	<b>4</b>
<b>DESCRIPTION OF INSTITUTION .....</b>	<b>8</b>
<b>DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW .....</b>	<b>12</b>
<b>LENDING TEST .....</b>	<b>13</b>
<b>APPENDIX A: SCOPE OF EXAMINATION.....</b>	<b>A-1</b>
<b>APPENDIX B: COMMUNITY PROFILES FOR FULL-SCOPE AREAS.....</b>	<b>B-1</b>

**Overall CRA Rating: This institution is rated Outstanding.**

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Outstanding.**

The primary factors supporting the CRA rating are as follows:

- The National Bank of Middlebury's ("NBM" or "the Bank") level of lending, as reflected by its loan-to-deposit (LTD) ratio, is considered reasonable when compared to both local and national peer averages.
- A substantial majority of the Bank's originated and purchased loans are made within the Bank's delineated assessment area (AA).
- The overall borrower distribution of loans reflects reasonable penetration among borrowers of different income levels and businesses of different sizes.
- The Bank demonstrates excellent responsiveness to community development needs in its AA.

## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Census Tract (CT):** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community Development:** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the Bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

**Community Reinvestment Act (CRA):** the statute that requires the OCC to evaluate a Bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor

vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Full Review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

**Home Mortgage Loans:** Such loans include home purchase, home improvement and refinancing, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited Review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Median Family Income (MFI):** The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

**Metropolitan Area (MA):** Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget and any other area designated as such by the appropriate federal financial supervisory agency.

**Metropolitan Division:** As defined by Office of Management and Budget, a county or group of counties within a Metropolitan Statistical Area that contains a population of at least 2.5 million. A Metropolitan Division consists of one or more counties that represent an employment center or centers, plus adjacent counties associated with the main county or counties through commuting ties.

**Metropolitan Statistical Area:** An area, defined by the Office of Management and Budget, as having at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other Products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated Area:** A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

**Small Loan(s) to Business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

**Small Loan(s) to Farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Tier One Capital:** The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

**Upper-Income:** Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

## Description of Institution

The National Bank of Middlebury is a \$358 million community bank headquartered in Middlebury, Vermont. The Bank is a wholly owned subsidiary of Middlebury National Corporation. The Bank has one-third ownership in an operating subsidiary, Community Financial Services, LLC, which was created in partnership with two other financial institutions for the purpose of offering trust and investment services to bank customers. Affiliate activity was not considered as part of this evaluation.

In addition to the Bank's main office in Middlebury, VT, the Bank has six full service branches located in Brandon, VT; Bristol, VT; Hinesburg, VT; Middlebury, VT; and Vergennes, VT. Additionally, the Bank operates ten automated teller machines (ATMs) which include four stand-alone ATMs located at the Middlebury drive-up location, Middlebury Market and Café, and two ATMs located on the Middlebury College campus. As there are no low- or moderate-income geographies within the Bank's assessment areas (AAs), all of NBM's branches and ATMs are located in middle- and upper-income geographies. Two AAs were used during the evaluation, with AA1 comprised primarily of census tracts located in Addison County and AA2 comprised primarily of census tracts located in Chittenden County.

NBM is a full service, intrastate institution, offering a standard array of traditional loan and deposit products for retail and business customers. Additionally, NBM offers a variety of consumer and commercial products and services including personal and business checking and savings accounts, mortgage loans, commercial loans, and electronic banking. The Bank's website, [www.nbmyt.com](http://www.nbmyt.com), provides a listing and description of its loan and deposit services. The Bank offers a variety of different account access alternatives including telephone banking, online banking with bill pay options, mobile banking, and e-statements. In addition to the above services for personal account customers, the Bank also offers account access alternatives for its business customers, including eCorp (online banking for business customers), eDeposit (remote deposit capture), merchant credit card processing, automated clearinghouse (ACH) origination, and bill pay service.

NBM's balance sheet has continued to grow steadily since the previous CRA evaluation. Total assets as of March 31, 2018, were \$358.0 million compared to \$314.8 million as of March 31, 2015. Total loans of \$243.8 million and total deposits of \$312.8 million represent 68.1 percent and 87.4 percent of total assets, respectively, compared to 62.9 percent and 86.2 percent of total assets, respectively, at the time of the previous evaluation. The following table provides a summary of the loan mix:

<b>Table 1 - Loan Portfolio Summary by Loan Product March 31, 2018</b>	
<b>Loan Category</b>	<b>% of Gross Loans and Leases</b>
Residential – 1-4 Family	57
HELOC	7
Commercial Real Estate	21
Construction	4
Commercial & Industrial	6
Consumer	2
Other	3
<b>Total</b>	<b>100%</b>

Source: Federal Deposit Insurance Corporation (FDIC) Call Report

There are no legal, financial, or other factors impeding the Bank's ability to help meet the credit needs in its AA. Using Small Bank (SB) CRA procedures, the Bank was rated "Outstanding" at its last performance evaluation dated June 29, 2015.

## Scope of the Evaluation

NBM's CRA performance was evaluated using Intermediate Small Bank (ISB) CRA evaluation procedures. The ISB procedures include a lending test and a community development (CD) test. The lending test evaluates the Bank's record of performance in meeting the credit needs of its AA during the evaluation period through its record of lending. The CD test evaluates the Bank's responsiveness to the community development needs in its AA through qualified community development loans, investments, and services.

The evaluation period for the lending test covers the Bank's performance from January 1, 2015, through December 31, 2017. Due to updates made to the demographic information during the evaluation period, the Bank's 2015 and 2016 performance was evaluated independently of the 2017 metrics. The Bank's lending performance between January 1, 2015 and December 31, 2016 was compared to the 2010 U.S. Census Data. The Bank's performance for 2017 was compared to the 2015 American Community Survey (ACS) data.

When evaluating the Bank's overall lending performance, a significant emphasis was placed on loans originated during 2015-2016 timeframe. The Bank originated and/or purchased a majority of their primary products during that timeframe, with home loans and commercial loans originated during 2015-2016 accounting for 70 and 67 percent of overall purchases/originations, respectively.

The Bank's primary loan products, based on loan originations and purchases during the evaluation period include HMDA-reportable residential loans and commercial loans. Among all loans originated and/or purchased during our evaluation period, HMDA-reportable loans and commercial loans accounted for approximately 42 and 14 percent, respectively. Within NBM's AA, among HMDA-reportable residential lending, home purchase, improvement, and refinance loans accounted for approximately 46, 20, and 33 percent, of all home lending. Consequently, the most emphasis was placed on NBM's record of lending home purchase loans when determining lending test conclusions. During the evaluation period, ten HMDA-reportable loans were identified as multifamily loans and consequently were omitted from our analysis as this product type did not account for a materially significant portion of the Bank's lending

We included all HMDA-reportable residential loans and a random sampling of commercial loans originated and/or purchased within the Bank's AA during the evaluation period to evaluate the Bank's lending performance. These results were appropriately weighted as previously discussed to reflect each product's level of lending relative to the Bank's overall lending activity during our evaluation period.

The evaluation period for the CD Test covers the Bank's performance from June 29, 2015, the date of the last CRA evaluation, through June 30, 2018. Community development loans, investments, and services submitted by NBM were verified to ensure they met the regulatory definition for community development.

## **Data Integrity**

The Bank reports data under the requirements of the HMDA. Prior to the start of this evaluation, we reviewed the accuracy of HMDA data for residential real estate loans originated and/or purchased, and found the data to be reliable. All residential real estate loans originated and/or purchased during the evaluation period were included in our evaluation of the Bank's lending. To evaluate the Bank's level of commercial lending inside its AA we selected an initial random sample of 20 commercial loans originated and/or purchased during January 1, 2015 through December 31, 2017. Additional sampling was performed, as needed, and resulted in a total of 40 commercial loans sampled within the full-scope AA, and 16 commercial loans (entire population) sampled within the limited-scope AA. The activities presented for CD consideration by the Bank were also reviewed to determine whether the activities met the regulatory definitions.

## **Selection of Areas for Full-Scope Review**

The CRA requires an institution to define its AA in which it will be evaluated. NBM has delineated their AA to appropriately meet the regulatory definition, and does not arbitrarily exclude any low- or moderate-income census tracts. NBM's entire AA is composed of two separate AAs, both of which comply with regulatory definitions. To determine which AAs would receive full- versus limited-scope reviews, we considered both volume and dollar amount of loans and the Bank's deposit market share amongst both AAs. This resulted in the designation of one full-scope (AA1) and one limited scope (AA2) AA.

The full-scope AA1 is a Vermont-based, nonmetropolitan statistical area (#99999) and consists of the entirety of Addison County and portions of Rutland County. As of June 30, 2017, this full-scope area contained five of six NBM branches and approximately 97 percent of the Bank's total deposits. Additionally, amongst home loans originated and/or purchased within the entire AA for the full evaluation period of January 1, 2015 through December 31, 2017, the full-scope AA1 accounted for approximately 96 percent of all residential mortgage lending. Conversely, the limited-scope AA2 consists of portions of Chittenden County, part of the Burlington-South Burlington VT MSA (#15540). This limited-scope AA2 contains the remaining branch, three percent of total deposits, and four percent of all residential mortgage lending as of the same time periods listed above. Consequently, more weight was attributed to the full-scope AA1 when drawing conclusions regarding the Bank's CRA performance.

Please refer to Appendix B of this evaluation for further discussion surrounding the Community Profiles of the Bank's full- and limited-scope AAs.

## **Ratings**

The Bank's overall rating is a blend of the lending test and the CD test ratings. The Bank's performance during the 2015-2016 evaluation period was more heavily weighted when arriving at overall conclusions as the substantial majority of loan originations and/or purchases occurred during this period. Home loans and commercial loans originated during 2015-2016 represented 70 percent and 67 percent of total originations, respectively. Refer to the "Selection of Areas for Full-Scope Review" above and the "Scope" section for information regarding how each product was weighted in arriving at the respective ratings for the lending test.

## **Discriminatory or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. §25.28(c), in determining a national bank's CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

## Conclusions with Respect to Performance Tests

### LENDING TEST

The Bank's performance under the Lending Test is rated 'Satisfactory'. The Bank's loan-to-deposit (LTD) ratio is reasonable and a substantial majority of the Bank's lending was made within the delineated AA. Overall, the Bank's distribution of lending among borrowers of different income levels and businesses of different sizes is considered reasonable. An analysis of the geographic distribution of loans was not performed, as there are no low- or moderate-income census tracts within the Bank's AA, and there were no CRA-related complaints received by the Bank or the OCC during the evaluation period.

### Loan-to-Deposit Ratio

The Bank's LTD is considered reasonable given the Bank's size, financial condition, and the credit needs of its AA. NBM's net LTD ratio averaged 74.10 percent over the 12 quarters since the last CRA evaluation. During this period, the LTD ratio ranged from a quarterly low of 71.38 percent and a quarterly high of 77.79 percent. The Bank's average LTD ratio is lower than the assessment area peer bank quarterly average of 90.46 percent over the same period. Additionally, the Bank's average LTD ratio is also below the national peer bank comparator of 80.55 percent.

### Lending in Assessment Area

A substantial majority of the Bank's primary lending products were made inside the delineated AA and meets the standard for excellent performance. NBM originated and/or purchased approximately 88 percent by number and 98 percent by dollar amount of loans in the AA from 2015 to 2017. The following table details the Bank's lending within the AA by number and dollar amount of loans:

Table 2 - Distribution of Loans Inside and Outside of Assessment Area										
Loan Category of Type	Number of Loans					Dollar Volume				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$(000s)	%	\$(000s)	%	\$(000s)
Home Mortgages	688	87.87	95	12.13	783	139,196	78.23	38,739	21.77	177,935
Commercial Loans	20	100.00	0	0.00	20	1,506,845	100.00	0	0.00	1,506,845
Total Lending	708	88.17	95	11.83	803	1,646,041	97.70	38,739	2.30	1,684,780

Source: HMDA-reportable loans and randomly selected sample of 20 commercial loans originated and/or purchased from 1/1/2015 – 12/31/2017.

## **Lending to Borrowers of Different Incomes**

The National Bank of Middlebury's distribution of lending to borrowers of different incomes and to businesses of different sizes, overall, reflects reasonable penetration. Overall, the level of lending among borrowers is considered reasonable when considering demographic and competitive performance context factors which limit the overall opportunity for lending. The level of lending among businesses of different sizes is considered excellent.

### **Conclusions for Full-Scope AA1**

Within the full-scope AA1, the distribution of lending across both evaluation periods, 2015-2016 and 2017, reflects reasonable penetration amongst borrowers of different income levels and excellent penetration amongst businesses of different sizes.

More weight was given to the Bank's lending performance during the 2015-2016 evaluation period when drawing conclusions, as a substantial majority of originations/purchases occurred during this period.

#### *Home Loans 2015-2016*

The overall distribution of home mortgage lending during the 2015-2016 evaluation period reflects reasonable penetration amongst borrowers of different income levels given the demographic characteristics of the AA and significant market competition. As previously discussed, the majority of the Bank's lending products were home purchases, therefore this product type was given the most weight when drawing conclusions surrounding the Bank's performance under the lending test. The percentage of home purchase loans, home improvement loans, and home mortgage refinance loans made to both low- and moderate-income borrowers falls within a reasonable range below peer aggregate lending data.

The Bank's performance is considered satisfactory given the significant local market competition for home mortgage lending and lack of affordable housing options for low- and moderate-income borrowers. According to the 2016 Peer Mortgage Market Share data, amongst all home mortgage lending to low- and moderate-income borrowers, NBM was ranked first out of 43 lenders in the market with 16.02 percent market share. When considering each individual home lending product, to either low- or moderate-income borrowers, the Bank was consistently ranked amongst the top lenders for overall market share. The Bank's lowest ranked performance during this evaluation period was for home mortgage refinance loans made to low-income borrowers. Within this category, NBM ranked sixth among 17 lenders, with 7.14 percent market share. Within this same market, no lenders outside of the top seven maintained more than four percent market share.

A lack of affordable housing limits lending opportunities for low- and moderate-income borrowers. The \$209,329 median housing value within AA1 during 2016 is high when compared to the median family income in the AA. The 2016 FFIEC adjusted median family income is \$64,400, which means that a low-income borrower would earn less than \$32,200, making it difficult to qualify for a home loan. A moderate-income borrower would also encounter difficulty qualifying for a home loan with an income between \$32,201 and \$51,520.

The following table illustrates the distribution of home loans to borrowers of different income levels within the AA during 2015 – 2016:

<b>Table 3A - Borrower Distribution of Residential Real Estate Loans in the NBM Full-Scope AA1 – 2015-2016</b>								
<b>Borrower Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
<b>Loan Type</b>	<b>% of Aggregate Lending Data</b>	<b>% of Bank Loans</b>	<b>% of Aggregate Lending Data</b>	<b>% of Bank Loans</b>	<b>% of Aggregate Lending Data</b>	<b>% of Bank Loans</b>	<b>% of Aggregate Lending Data</b>	<b>% of Bank Loans</b>
<b>Home Purchase</b>	3.35	2.97	16.74	12.87	29.24	18.81	50.67	65.35
<b>Home Improvement</b>	5.02	3.57	15.07	14.29	23.74	22.62	56.16	59.52
<b>Home Refinance</b>	5.75	3.07	14.17	10.43	25.87	17.18	54.21	69.33

*Source: HMDA-reportable loans originated and/or purchased during 2015 – 2016; 2016 Peer Mortgage Data.*

*Home Loans 2017*

The overall distribution of home mortgage lending during the 2017 evaluation period reflects reasonable penetration amongst the borrowers of different income levels given the demographic characteristics of the AA and significant market competition. The majority of the Bank's lending was concentrated within home purchase loans, therefore we weighed the Bank's performance amongst this product type more heavily when concluding on the Bank's overall performance. The percentage of home purchase and home improvement loans made to both low- and moderate-income borrowers falls within a reasonable range below the aggregate peer lending data. The percentage of home refinance loans made to both low- and moderate-income borrowers is significantly below the aggregate peer data.

This performance is considered satisfactory given sustained local market competition and elevated housing prices within the Bank's full-scope AA during 2017. According to the 2017 Peer Mortgage Market Share data, amongst all home mortgage lending to low- and moderate-income borrowers, NBM was ranked second among 40 lenders in the market with 11.11 percent market share. When considering each individual home lending product, to either low- or moderate-income borrowers, NBM was consistently ranked amongst the top lenders within those markets for overall market share. The Bank's lowest 2017 Peer Mortgage Market Share rank among these product types was

home refinance lending to low-income borrowers, where the Bank was ranked eighth of ten lenders with 3.57 percent market share, having made only one loan. Within the same lending space, the top three lenders accounted for approximately 64 percent of the market.

In 2017, affordable housing remains a need of NBM's local area, as the disparity between housing costs and family incomes continues to limit opportunity. The median housing value within AA1 in 2017 is \$229,121, which is high when compared to the median family income of \$64,700. This means that a low-income borrower would earn less than \$32,350 annually, making it difficult to qualify for a home loan. Additionally, a moderate-income borrower may also have difficulty qualifying for a home loan with an income between \$32,351 and \$51,760.

The following table illustrates the distribution of home loans to borrowers of different income levels within the AA during 2017:

<b>Table 3B - Borrower Distribution of Residential Real Estate Loans in the NBM Full-Scope AA1 – 2017</b>								
<b>Borrower Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
<b>Loan Type</b>	<b>% of Aggregate Lending Data</b>	<b>% of Bank Loans</b>	<b>% of Aggregate Lending Data</b>	<b>% of Bank Loans</b>	<b>% of Aggregate Lending Data</b>	<b>% of Bank Loans</b>	<b>% of Aggregate Lending Data</b>	<b>% of Bank Loans</b>
<b>Home Purchase</b>	2.89	1.15	15.70	13.79	23.14	16.09	58.26	68.97
<b>Home Improvement</b>	6.03	4.65	13.57	11.63	23.62	23.26	56.78	60.47
<b>Home Refinance</b>	7.37	2.13	15.53	6.38	24.47	23.40	52.63	68.09

Source: HMDA-reportable loans originated and/or purchased during 2017; 2016 Peer Mortgage Data.

*Business Loans 2015-2016 and 2017*

The Bank's distribution of commercial loans to businesses originated and/or purchased during the evaluation period is considered excellent. NBM's level of lending to small businesses significantly exceeds the percentage of peer aggregate lending data, our primary comparator. Among all commercial lending, loans to small businesses (businesses with annual revenues less than \$1 million) accounts for 95 and 100 percent of our randomly selected sampling of 20 commercial loans originated in 2015-2016 and 2017, respectively. This is significantly higher when compared to the full-scope AA1's aggregate comparator of 43 percent represented by the 2016 peer small business lending data.

Distribution by size of loans originated/purchased by NBM indicates that 90 percent of commercial loans during 2015-2016 and 70 percent during 2017 were for \$250 thousand or less. During this same period, no loans were originated and/or purchased for greater than \$500 thousand.

The following tables show the distribution of small business loans among businesses of different sizes by count and dollar amount of loans:

<b>Table 3C - Borrower Distribution of Commercial Loans to Businesses in the NBM Full-Scope AA1 – 2015-2016</b>				
<b>Business Revenues (or Sales)</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>Unavailable/Unknown</b>	<b>Total</b>
<b>% Peer Aggregate Lending to AA Businesses</b>	42.59	57.41	0.00	100.00
<b>% of Bank Loans in AA by #</b>	95.00	5.00	0.00	100.00
<b>% of Bank Loans in AA by \$</b>	94.74	5.26	0.00	100.00

*Source: Selected Sample of 20 commercial loans originated and/or purchased during 2015 – 2016; 2016 Peer Small Business Data.*

<b>Table 3D - Borrower Distribution of Commercial Loans to Businesses in the NBM Full-Scope AA1 – 2017</b>				
<b>Business Revenues (or Sales)</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>Unavailable/Unknown</b>	<b>Total</b>
<b>% Peer Aggregate Lending to AA Businesses</b>	42.59	57.41	0.00	100.00
<b>% of Bank Loans in AA by #</b>	100.00	0.00	0.00	100.00
<b>% of Bank Loans in AA by \$</b>	100.00	0.00	0.00	100.00

*Source: Selected sample of 20 commercial loans originated and/or purchased during 2017; 2016 Peer Small Business Data.*

### **Conclusions for Limited-Scope AA2**

Based on a limited-scope review, the Bank's performance under the lending test in AA2, for both HMDA-reportable residential and commercial loans, is not inconsistent with the Bank's overall lending performance within the full-scope AA1.

### **Geographic Distribution of Loans**

An analysis of the geographic distribution of loans was not performed, as there are no low- or moderate-income census tracts within the Bank's AA.

### **Responses to Complaints**

There were no CRA-related complaints received by the Bank or the OCC during the evaluation period.

## **COMMUNITY DEVELOPMENT TEST**

The Bank's performance under the CD test is rated 'Outstanding'. The Bank's community development performance demonstrates excellent responsiveness to the community development needs in its assessment area through CD loans and investments, and reasonable responsiveness through CD services.

### **Number and Amount of Community Development Loans**

The National Bank of Middlebury originated a significant level of CD loans during the evaluation period, reflective of excellent performance. The Bank originated 13 loans totaling \$3.6 million during the evaluation period that qualified as CD loans. These CD loans provided financing for local community groups and organizations that support affordable housing, promote economic development, and/or support community services specifically targeted towards low- and moderate-income borrowers.

The highlights of the Bank's CD loans are as follows:

- A \$300 thousand line of credit to support a local community organization whose primary purpose is to provide assisted living and hospice care to the elderly located within the Bank's AA, with the majority of elderly tenants designated as low- and moderate-income.
- A \$117 thousand loan to finance the purchase of property within the AA for a local emergency shelter whose primary purpose is serving at risk low- and moderate-income groups. The purchase of property will create additional housing units for tenants by providing food, shelter, and housing.
- An extension of credit consisting of an equipment loan, construction loan, and line of credit totaling \$1.27 million to a local pediatric dentist/surgeon whose client base is predominantly low- and moderate-income families. This extension of credit enables the dentistry to continue offering affordable community services benefiting low- and moderate-income groups while increasing their geographic footprint within the Bank's AA.
- A \$1.12 million line of credit to provide financing for a locally based career development organization whose primary purpose is to provide technical skills training to adolescents whom may otherwise lack the means of finding employment. The majority of students who participate in this technical skills training are designated as low- and/or moderate-income.

## **Number and Amount of Qualified Investments**

NBM's level of CD investments and donations during the evaluation period is considered excellent when considering the institution's capacity, competitive and demographic characteristics of the market, and the opportunities for CD investments. During our evaluation period, the Bank's investments/donations totaled \$2.42 million, and were comprised of ten CD investments to a variety of suitable programs or qualifying customers within the AA. While the actual level of Bank donations made was higher, the following investments/donations met the definition for CD.

- An \$11 thousand 'Equity Builder' program grant to a low- and moderate-income borrower that is a first time homebuyer within the AA.
- Two limited partnership CD investments totaling \$417.6 thousand in government sponsored affordable housing programs targeted towards low- and moderate-income families within Bank's AA.
- An \$842 thousand dollar CD investment in a local commercial real estate developer who constructs housing units within the AA that are subsidized by the Federal Home Loan Bank of Boston (FHLB) Affordable Housing Program. The majority of housing units are occupied by low- and moderate-income tenants.
- Four FHLB Affordable Housing Program CD investments totaling \$468 thousand, made to two different local organizations whose mission is provide affordable housing and community services throughout the Bank's AA. Housing programs offered by these two entities are tailored specifically towards low- and moderate-income families.

## **Extent to Which the Bank Provides Community Development Services**

The Bank's level of community development services is reasonable. During the evaluation period, the Bank had 11 different officers/employees provide financial expertise amongst eight distinct local community development organizations totaling 491 hours. The organizations that officers/employees participated in promoted affordable housing, economic development, and community services targeted towards low- and moderate-income individuals.

The highlights of the Bank's CD services are as follow:

- A Bank Officer serves as a board member for a local community organization that promotes economic development and helps to retain and grow local businesses that employ low- and moderate-income individuals.
- Several bank employees volunteer their time to perform community services as part of a 'First Time Homebuyer' series of seminars targeted towards low- and

moderate-income groups within the AA. Specifically, these employees provided counseling for first time home buyers who had qualified for affordable housing.

- A Bank Officer serves on the board of a local chamber of commerce within the delineated AA. This business network serves the local community by fostering needed investment in local area businesses that predominantly employ both low- and moderate-income individuals.
- A Bank employee serves as a board member for a local community organization whose primary purpose is to promote affordable housing catered to low- and moderate-income groups within the AA.
- A Bank Officer serves on the board for a local city council group whose primary purpose is to promote nutrition awareness and meet the hunger needs of Vermonters. The lack of affordable housing, low wages, and increasing food costs within the AA contribute to this growing need, as the participating organization implements various community services and initiatives to meet this need, specifically by targeting low- and moderate-income groups.

Additionally, the Bank also implements an internal 'School House Savings' program that is offered to local K-8 schools. The program allows students the opportunity to participate in financial literacy courses and begin their own savings account with NBM's employees onsite at these schools. The majority of these students are low- and moderate-income and qualify to participate in the reduced lunch program. Over 660 hours were allocated to this program during our entire evaluation period of 2015-2017.

### **Responsiveness to Community Development Needs**

Considering the Bank's capacity, the need, and the availability of CD opportunities, NBM's CD performance, through CD loans and investments demonstrates excellent responsiveness, while CD services demonstrates reasonable responsiveness, to the needs of the AA.

# Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

<b>Time Period Reviewed</b>	Lending Test: (1/1/15 to 12/31/17) Community Development Test: (6/29/15 to 6/30/18)	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
The National Bank of Middlebury ("NBM" or "the Bank") Middlebury, Vermont	Residential mortgage loans (home loans) via HMDA LAR, commercial loans via sampling procedures, and community development loans, investments, and services.	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
None reviewed.		
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
Middlebury_AA1 VT nonMSAs (#99999)	Full-Scope	<ul style="list-style-type: none"> <li>• VT nonMSAs (#99999):               <ul style="list-style-type: none"> <li>○ Addison County</li> <li>○ Rutland County                   <ul style="list-style-type: none"> <li>▪ Chittenden Town</li> <li>▪ Pittsfield Town</li> <li>▪ Brandon Town</li> <li>▪ Benson Town</li> <li>▪ Sudbury Town</li> <li>▪ Hubbardton Town</li> <li>▪ Pittsford Town</li> <li>▪ West Haven Town</li> </ul> </li> </ul> </li> </ul>
Middlebury_AA2 Burlington-South Burlington VT MSA (#15540)	Limited-Scope	<ul style="list-style-type: none"> <li>• Burlington-South Burlington VT MSA (#15540):               <ul style="list-style-type: none"> <li>○ Chittenden County                   <ul style="list-style-type: none"> <li>▪ Richmond Town</li> <li>▪ Williston Town</li> <li>▪ Shelburne Town</li> <li>▪ Charlotte Town</li> <li>▪ Hinesburg Town</li> <li>▪ St George Town</li> <li>▪ Huntington Town</li> <li>▪ Buels Gore</li> </ul> </li> </ul> </li> </ul>

## Appendix B: Community Profiles for Full-Scope Areas

---

### The National Bank of Middlebury's Assessment Area

NBM's aggregate AA is composed of two separate AAs, the full-scope AA1 and limited-scope AA2, and includes all of the Bank's branches and deposit-taking ATMs. The AA is composed of fully contiguous geographies, cities/towns, and does not arbitrarily exclude any census tracts. The full-scope AA1 is a Vermont-based, nonmetropolitan statistical area (#99999) and consists of the entirety of Addison County and portions of Rutland County. As of June 30, 2017, this full-scope area contained five of six NBM branches and approximately 97 percent of the Bank's total deposits. Conversely, the limited-scope AA2 consists of portions of Chittenden County, part of the Burlington-South Burlington VT MSA (#15540), and contains the remaining branch and three percent of total deposits as of the same time period previously discussed.

According to the Moody's Analytics economic report on the state of Vermont as of May 2018, Vermont's economy is advancing at a slow rate as the labor market grows increasingly tight. While the unemployment rate in Vermont is among the lowest in the United States, at 2.8 percent, job growth and population growth remain slow. Tourism continues to be a prominent sector in Vermont and is projected to drive the economy through resorts and tourist attractions. Healthcare is also expected to outperform other sectors, as healthcare and social assistance firms employ one in five workers in Vermont. Overall, Vermont's expansion is projected to improve slightly in the coming quarters, but high business costs and slow population growth will hinder the state's growth from keeping up with national averages (Source: Brady Seitz, Moody's Analytics May 2018).

The major employers in NBM's market area are primarily in the education and healthcare sectors and include Middlebury College, Middlebury Interactive Languages, Porter Medical Center, and United Technologies Corporation. Per Moody's Analytics, other major employers in the state include the University of Vermont Medical Center, the University of Vermont, Global Foundries, and Rutland Regional Medical Center.

There are several banks in the area that compete with NBM for loans and deposits. The Bank's loan and deposit market share performance is relatively consistent across both the 2015-2016 and 2017 evaluation periods. According to Peer Mortgage Data for 2016, amongst the Bank's full AA, NBM was ranked third out of 117 lenders with a market share of 9.84 percent. The Bank also ranks third according to the Peer Mortgage Data for 2017, with a 9.61 percent market share among 121 lenders. For peer mortgage lending during both 2016 and 2017 within the entire AA, the top five lenders accounted for 47.30 and 49.25 percent, respectively, of the entire market, with all lenders outside of the top five maintaining less than four percent market share. The FDIC Deposit Market Share report for both June 30, 2016 and 2017 illustrates that competition for local deposits within the AA is significant, with the top three lenders across both years remaining unchanged and accounting for approximately 65 percent of all deposits. NBM

is ranked sixth among all lenders within this selected market for both time periods, maintaining approximately five percent market share as of both June 30, 2016 and 2017. Specific competitors identified by the Bank include community banks such as Community Bank N.A. and Bar Harbor Bank, large banks such as Citizens Bank and Peoples United Bank, and several area credit unions such as VT State Employees Credit Union and North Country Federal Credit Union.

To assess the Bank's lending performance we contacted a local organization based within NBM's delineated AA to assist in identifying community credit needs. This community organization's mission is to create and provide affordable housing and community services predominantly within both Addison and the surrounding counties of Vermont. The contact believes that due to a prolonged expensive housing market, affordable housing, particularly for low- and moderate-income seniors, is an emerging need within the local market area. The contact discussed several opportunities and programs that banks within the community are able to participate in relating to affordable housing and community service, specifically by partnering with locally based organizations that work to connect financial institutions with low- and moderate-income borrowers. The contact noted that local financial institutions are supportive in meeting the community development needs of the surrounding market area; however, continued support is needed to curtail rising credit needs.

Due to updates made to the demographic information during the evaluation period, the Bank's 2015 and 2016 performance was evaluated independently of the 2017 metrics. NBM's lending performance between January 1, 2015, and December 31, 2016, was compared to the 2010 U.S. Census data, while the Bank's performance for 2017 was compared to the 2015 ACS data. The following descriptions break out the demographic information for the Bank's AA specific to the 2015-2016 evaluation period and the 2017 evaluation period.

#### The National Bank of Middlebury: Full-Scope AA1 2015-2016

In 2015 and 2016, AA1 was a nonmetropolitan statistical area (#99999) and consisted of all of the cities and towns in Addison County as well as portions of Rutland County that are contiguous to the Bank's branches. The AA is comprised of 14 census tracts, of which none are low- or moderate- income tracts, 11 (79 percent) are middle-income tracts, and three (21 percent) are upper-income tracts. As of the 2010 U.S. Census, the population of AA1 was 48,168 and included 18,855 households and 12,799 families. The FFIEC Adjusted Median Family Income (MFI) for 2016 was \$64,400 and the 2010 Median Housing Value was \$209,329. Within AA1, 15.11 percent of families are low-income, 18.31 percent are moderate-income, 23.90 percent are middle-income, and 42.68 percent are upper-income. The AA demographics indicate that approximately 10 percent of the households within AA1 are below the poverty level.

Demographic information of NBM's full-scope AA1 during 2015-2016 is detailed in the table below:

Demographic Information for Full Scope Area: Middlebury_15-16 FS AA1 nonMSAs						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	14	0.00	0.00	78.57	21.43	0.00
Population by Geography	48,168	0.00	0.00	77.88	22.12	0.00
Owner-Occupied Housing by Geography	14,476	0.00	0.00	75.26	24.74	0.00
Business by Geography	3,804	0.00	0.00	79.47	20.53	0.00
Farms by Geography	454	0.00	0.00	69.60	30.40	0.00
Family Distribution by Income Level	12,799	15.11	18.31	23.90	42.68	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	4,277	0.00	0.00	81.48	18.52	0.00
Median Family Income		\$60,519	Median Housing Value		\$209,329	
FFIEC Adjusted Median Family Income for 2016		\$64,400	Unemployment Rate (2010 US Census)		3.15%	
Households Below Poverty Level		9.75%	(BLS Average Addison & Rutland Counties 3/31/18)		3.18%	

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2010 US Census and 2016 FFIEC updated MFI

The National Bank of Middlebury: Full-Scope AA1 2017

During 2017, AA1 was a nonmetropolitan statistical area and consisted of 14 census tracts, 12 (86 percent) of which were middle-income tracts and two (14 percent) of which were upper-income tracts. Based on the 2015 ACS update, the population of AA1 is 48,010 and includes 18,976 households and 12,506 families. The FFIEC Adjusted MFI for 2017 was \$64,700 and the 2015 Median Housing Value was \$229,121. Within AA1, 17.10 percent of families are low-income, 16.76 percent are moderate-income, 22.41 percent are middle-income, and 43.74 percent are upper-income. The AA demographics indicate that around 10 percent of the households within AA1 are below the poverty level.

Demographic information of NBM's full-scope AA1 during 2017 is detailed in the table below:

Demographic Information for Full Scope Area: Middlebury_2017 FS AA1 nonMSAs						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	14	0.00	0.00	85.71	14.29	0.00
Population by Geography	48,010	0.00	0.00	81.45	18.55	0.00
Owner-Occupied Housing by Geography	14,297	0.00	0.00	79.11	20.89	0.00
Business by Geography	3,876	0.00	0.00	83.38	16.62	0.00
Farms by Geography	446	0.00	0.00	73.09	26.91	0.00
Family Distribution by Income Level	12,506	17.10	16.76	22.41	43.74	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	4,234	0.00	0.00	83.54	16.46	0.00
Median Family Income		\$64,849	Median Housing Value		\$229,121	
FFIEC Adjusted Median Family Income for 2017		\$64,700	Unemployment Rate (2015 ACS US Census)		3.04%	
Households Below Poverty Level		9.70%	(BLS Average Addison & Rutland Counties 3/31/18)		3.18%	

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2015 ACS US Census and 2017 FFIEC updated MFI

The National Bank of Middlebury: Limited-Scope AA2 2015-2016

AA2 consists of portions of the Burlington-South Burlington MSA (15540). AA2 includes portions of Chittenden County that are contiguous to the Bank's branches. The AA is comprised of six census tracts, none of which include any low- or moderate-income tracts. The AA includes two middle-income tracts (33 percent) and four upper-income tracts (67 percent). As of the 2010 U.S. Census, the population of AA2 was approximately 31 thousand and included 12,257 households and 8,776 families. The FFIEC Adjusted Median Family Income (MFI) for 2016 was \$84,000 and the 2010 Median Housing Value was \$309,641. Approximately 10.13 percent of the families

within AA2 are low-income, 13.76 percent are moderate-income, 20.44 percent are middle-income, and 55.66 percent are upper-income. The AA demographics indicate that approximately 4 percent of the households within AA2 are below the poverty level.

Demographic information of NBM's limited-scope AA2 during 2015-2016 is detailed in the table below:

<b>Demographic Information for Limited Scope Area: Middlebury_15-16 LS AA2 Chittenden County</b>						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	6	0.00	0.00	33.33	66.67	0.00
Population by Geography	30,715	0.00	0.00	19.69	80.31	0.00
Owner-Occupied Housing by Geography	10,267	0.00	0.00	21.00	79.00	0.00
Business by Geography	3,394	0.00	0.00	14.26	85.74	0.00
Farms by Geography	183	0.00	0.00	22.95	77.05	0.00
Family Distribution by Income Level	8,776	10.13	13.76	20.44	55.66	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	2,097	0.00	0.00	23.18	76.82	0.00
Median Family Income FFIEC Adjusted Median Family Income for 2016 Households Below Poverty Level		\$72,928 \$84,000 4%	Median Housing Value Unemployment Rate (2010 US Census) (BLS Average Chittenden County 3/31/18)		\$309,641 1.68% 2.14%	

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2010 US Census and 2016 FFIEC updated MFI

The National Bank of Middlebury: Limited-Scope AA2 2017

During 2017, AA2 consisted of portions of the Burlington-South Burlington MSA (15540) and was comprised of six census tracts including two (33 percent) middle-income tracts and four (67 percent) upper income tracts. Based on the 2015 ACS update, the population of AA2 is approximately 32 thousand and includes 12,657 households and 8,717 families. The FFIEC Adjusted MFI for 2017 was \$82,400 and the 2015 Median Housing Value was \$330,470. Approximately 15.98 percent of the families within AA2 are low-income, 12.99 percent are moderate-income, 19.59 percent are middle-income, and 51.44 percent are upper-income. The AA demographics indicate that 6 percent of the households within AA2 are below the poverty level.

Demographic information of NBM's limited-scope AA2 during 2017 is detailed in the table below:

<b>Demographic Information for Limited Scope Area: Middlebury_2017 LS AA2 Chittenden County</b>						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	6	0.00	0.00	50.00	50.00	0.00
Population by Geography	31,707	0.00	0.00	35.53	64.47	0.00
Owner-Occupied Housing by Geography	10,113	0.00	0.00	34.73	65.27	0.00
Business by Geography	3,474	0.00	0.00	26.05	73.95	0.00
Farms by Geography	190	0.00	0.00	39.47	60.53	0.00
Family Distribution by Income Level	8,717	15.98	12.99	19.59	51.44	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	2,525	0.00	0.00	49.03	50.97	0.00
Median Family Income FFIEC Adjusted Median Family Income for 2017 Households Below Poverty Level		\$82,811 \$82,400 6%	Median Housing Value Unemployment Rate: (2015 ACS US Census) (BLS Average Chittenden County 3/31/18)		\$330,470 2.12% 2.14%	

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2015 ACS US Census and 2017 FFIEC updated MFI