



## **PUBLIC DISCLOSURE**

May 12, 2014

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

The Edgartown National Bank  
Charter Number 7957

2 S. Water Street  
Edgartown, MA 02539

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, 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 Outstanding**

The major factors supporting the institution's CRA Ratings are:

- Edgartown National Bank's level of lending, as reflected in its loan-to-deposit ratio, is more than reasonable.
- A substantial majority of originated and purchased loans are within the Bank's assessment area (AA).
- The distribution of loans reflects reasonable penetration among individuals of different income levels given the Bank's size, financial condition, AA, credit needs, and relevant competitive factors.
- A strong level of community development activities as evidenced by qualified community development loans, investments, and services.

## **SCOPE OF EVALUATION**

Edgartown National Bank (ENB) was evaluated using Small Bank examination procedures, which includes a lending test. The evaluation period for the lending test covers the Bank's performance from January 1, 2012, through December 31, 2013, and ENB's performance was compared to 2010 U.S. Census data. The lending test evaluates the Bank's record of meeting the credit needs of its AA through its lending activities. Residential mortgage loans were determined to be the Bank's primary loan product and 20 loans were sampled as part of this evaluation.

The Bank also provided us with optional community development (CD) information to evaluate their responsiveness to CD needs within its AA through qualified loans, investments and services. The evaluation period for the CD information is from December 9, 2008, the date of the prior Performance Evaluation (PE), through May 12, 2014. CD information submitted by management was verified to ensure loans, investments and services met the regulatory definition for community development.

In assessing the Bank's performance, we contacted two local organizations that operate in the AA and focus on affordable housing for low- and moderate-income individuals and families. Our contact indicated that the local economy has recently started to recover from the recent economic recession. Both contacts indicated that affordable housing remains the largest and most pressing need in the AA. ENB was perceived favorably, more so than other local institutions, for their involvement with both the organizations and in the community.

## DESCRIPTION OF INSTITUTION

ENB is an intrastate Bank headquartered in Edgartown on Martha's Vineyard Island in Dukes County, Massachusetts. As of March 31, 2014, the Bank's total assets were \$161 million, and Tier 1 Capital was \$18.2 million. The Bank first opened its doors on November 16, 1905 and is the oldest banking institution on the island. The Bank is wholly owned by Island Bancorp, Inc., a one-bank holding company, also headquartered in Edgartown. ENB has four banking offices. The main office and one branch are located in Edgartown, one branch is in Oak Bluffs, and one is in Vineyard Haven. The Oak Bluffs branch relocated to a nearby location since our last CRA examination. All of the branches are full service and have 24-hour automated teller machines (ATMs). There is one freestanding ATM located at Alley's General Store in West Tisbury, and the Bank plans to put an additional ATM in Oak Bluffs in July 2014.

ENB offers a wide variety of loan and deposit products to meet consumer and commercial banking needs. The Bank offers standard personal banking deposit products. Business products include checking and cash management services. ENB also offers customers access to accounts through debit cards and online banking. The Bank's Internet website, [www.yourislandbank.com](http://www.yourislandbank.com), provides detailed information on its products and services for both consumers and businesses.

ENB is primarily a residential lender and offers a variety of mortgages for home purchase, refinance, and home equity. The Bank also offers a variety of commercial lending products including commercial real estate mortgages, construction loans, lines of credit, letters of credit, and term notes.

As of March 31, 2014, ENB reported \$124 million in net loans and \$136 million in total deposits. Net loans represent 77% of average assets, as of March 31, 2014. The Bank's loan portfolio consists of residential real estate loans, representing 58%, and commercial and industrial, commercial real estate and construction and development loans, representing 41%. This represents a change from the previous CRA exam, as the Bank's commercial portfolio expanded.

The following table provides a summary of the loan mix.

<b>Loan Portfolio Summary by Loan Product: March 31, 2014</b>	
<b>Loan Category</b>	<b>% of Gross Loans and Leases</b>
1-4 Family Residential Mortgage – Closed End	45%
Home Equity	13%
Commercial & Industrial	5%
Commercial Real Estate	32%
Construction and Development	4%
Consumer	<1%
Other	<1%

*Source: Federal Deposit Insurance Corporation Call Report*

According to the June 30, 2013 Federal Deposit Insurance Corporation Summary of Deposits Market Share Report, ENB was ranked second out of three institutions in the Dukes County AA with 18.4% of the deposit market share. According to the 2012 Peer Mortgage Market Share Data, ENB has less than 3% of the 2012 market share for mortgage originations, with 54 originations totaling \$11.8 million in 2012. Comparatively, the top three institutions hold 38% of the market share for mortgages.

ENB was rated Satisfactory at the previous evaluation, dated December 9, 2008, using small bank procedures. The Bank has no financial or legal impediments to meeting the credit needs of the community.

## **DESCRIPTION OF ASSESSMENT AREA**

The CRA requires a Bank to define an AA in which it will be evaluated. ENB has one defined AA consisting of the entirety of Dukes County, Massachusetts. Dukes County includes the island of Martha's Vineyard and the sparsely populated Elizabeth Islands. Dukes County is not part of a Metropolitan Statistical Area (MSA). The following Martha's Vineyard communities are included in the Bank's AA: Aquinnah, Chilmark, Edgartown, Oak Bluffs, Tisbury, and West Tisbury. Cuttyhunk, the larger of the Elizabeth Islands, consist of one community, Gosnold.

ENB's assessment area is comprised of four middle-income census tracts. The Bank's assessment area meets the technical requirements of the regulation and does not arbitrarily exclude any low- to moderate-income tracts. While there are no low- or moderate-income geographies, the entire county has been classified as an underserved nonmetropolitan middle-income county by federal banking agencies.

The following table reflects the assessment area's demographic and economic characteristics based on 2010 Census Bureau data and the 2013 Housing and Urban Development Agency (HUD) data.

<b>Demographic Information for ENB AA: Dukes County</b>					
Borrower Income Level	Total #	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	4	0%	0%	100%	0%
Population by Geography	16,535	0%	0%	100%	0%
Owner-Occupied Housing by Geography	4,485	0%	0%	100%	0%
Business/Farms by Geography	2,644	0%	0%	100%	0%
Family Distribution by Income Level	3,697	22%	19%	24%	35%
Household Distribution by Income Level	5,530	27%	19%	18%	36%
2000 Census Median Family Income (MFI)		\$82,669	2010 Median Housing Value		\$695,863
HUD Updated MFI: 2013		\$52,400	Median Age of Housing		37
Households Below Poverty Level		9.19%	Unemployment Rate*		9.2%

Source: 2010 U.S. Census data

\*Data from U.S. Bureau of Labor Statistics as of December 2013. Rate is for Duke County. Massachusetts unemployment rate as of December 2013, 6.0%.

The year-round population of the AA has increased from 15 thousand to approximately 16.5 thousand individuals since the prior CRA evaluation in 2008. The seasonal population swells to over 100 thousand during the summer. There are no areas of dense population or concentrations of low- or moderate-income families within the AA. Support of small businesses is needed to employ the growing resident population.

The island is driven by the seasonal resort economy and most of the revenue for the year is generated during a 12-week period. Major employers in the AA are primarily tourism-related and include lodging, restaurants, and small retail shops. Major year-round employers include the seven townships and the Martha's Vineyard Hospital. As of December 2013, the unemployment rate in Dukes County was 9.2% compared to Massachusetts, which was 6.0%. The unemployment rate fluctuates seasonally.

The island suffered for the last several years during the economic downturn. Tourism suffered from a reduction in vacationers during the past few summers, straining many island businesses and resident workers. Some improvement was seen during the summer of 2013 and further improvements and increased activity is expected.

There are approximately 16.8 thousand housing units within the AA, of which 27% are owner occupied, and 7% are rented. Vacancy can be high due to the seasonality of the

island and the high number of vacation homes. Of the total housing units available, 95% are 1-4 family units and only 5% are multifamily units or mobile homes/trailers. According to the June 2013 Martha's Vineyard Housing Needs Assessment, there are two distinct homeownership markets on the island. One market resembles other off-island affluent communities with a concentration of houses in the \$300 to \$600 thousand range, and a luxury market with houses averaging about \$2 million for single-family homes. With the bursting of the housing bubble in 2008, average median prices decreased to a low of \$512 thousand by 2011. This price requires an income of approximately \$126,000, more than double the median income.

According to a 2013 study by the Martha's Vineyard Commission, more than one-quarter of all households earned less than \$35 thousand. The Martha's Vineyard Housing Needs Assessment from June 2013 states, "The island's average weekly wage was 71% of the state average, the median home price was 54% above the state's, and the median rent exceeded the state's by 17%. This in essence describes the Vineyard's affordable housing problem." Rent prices exceed what a median income household can afford, leaving those earning less than the median income priced out of the rental market. While winter rentals might be a bit more affordable, individuals and families who rent these units become veritably homeless during the summer. The lack of affordable housing has forced many people to move off the island. Many residents work several jobs to make ends meet, while others ferry to the island to work for the day rather than live on the island.

The affordability gap, as defined by the June 2013 Martha's Vineyard Housing Needs assessment, is the difference between what a median household can afford to buy and the median house price. As of June 2013, the affordability gap was determined to be \$225 thousand, the difference between what a median income household of two can afford to buy, \$310 thousand, and the medium house price, \$535 thousand. The gap increases to \$297 thousand for those earning 80% of the average median income, assuming 95% financing. The affordability gap exemplifies the challenge for local financial institutions to make home loans to low- and moderate-income (LMI) families and individuals on the island. The affordability gap is amplified by the seasonality of income for LMI workers making it extremely challenging for LMI island families to buy on the island. One of our community contacts indicated that while some larger institutions are no longer funding affordable housing activities sponsored by the local non-profits, the smaller institutions, namely ENB, are continuously offering support.

There are two island banks that ENB considers competitors. These banks are the Martha's Vineyard Savings Bank and the Santander Bank, N.A.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

ENB's performance is Outstanding. ENB's loan-to-deposit ratio is more than reasonable and all of loans sampled were originated inside the Bank's AAs. Overall, there was a reasonable penetration of loans to individuals of different income levels, given the Bank's size, the AA's economy, credit needs, lack of affordable housing, and competitive factors. Although the AA does not have any low- and moderate-income census tracts, Dukes County is considered an underserved nonmetropolitan middle-income geography by the federal banking agencies. Given the Bank's size, relative to its competitors, the level of community development loans, investments and services to low- and moderate-income individuals offers further support for the outstanding rating. Our analysis of the Bank's performance for the respective evaluation factors is described below.

### Loan-to-Deposit Ratio

The Bank's loan-to-deposit ratio is more than reasonable. The Bank's loan-to-deposit ratio averaged 95% over the last 22 quarters, since the previous CRA evaluation dated December 9, 2008. During the period between evaluations, the loan-to-deposit ratio ranged from a low of 87% to a high 105%. ENB's ratio exceeded the national peer average over the same period. The peer average was 74% over the same period, with a low of 69% to a high of 82%.

### Lending in Assessment Area

ENB's level of lending in its AA is more than reasonable. All of the loans sampled were within the AA. The sample of 20 loans was from the evaluation period of January 1, 2012 to December 31, 2013.

The following table details the Bank's lending within the AA by number and dollar amount of loans.

<b>Lending in ENB AA: Dukes County</b>										
Type of Loan	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate Mortgages	20	100%	0	0%	20	\$5,468	100%	\$0	0%	\$5,468

*Source: Random sample of 20 loans from 1/1/2012 to 12/31/2013*

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

The Bank's record of lending represents a reasonable level of penetration to borrowers of different incomes.

While only one loan in our sample was originated to low-income borrowers, when considering the affordability of housing in the AA and the current economic conditions, this performance is reasonable. The 2010-weighted average median housing value was estimated to be \$695,863. The HUD updated median family income for 2013 is \$52,400. This means that a low-income person earns approximately \$26 thousand. Based on these statistics, it would be difficult for a low-income individual to purchase housing in the AA. Also, as previously mentioned, competition in the AA is strong with the top three lenders holding 38% of the market share.

The percentage of loans made to moderate-income borrowers is less than the percentage of moderate-income families in the AA. Based on the 2013, HUD updated median family income; a moderate-income person earns approximately \$42 thousand, making it difficult for a moderate-income individual to purchase a house in the AA. Therefore, the Bank's performance is reasonable given the limited stock of moderate-income housing and the ability of a moderate-income individual to purchase in the AA.

The following table details the Bank's lending to borrowers of different incomes within the AA.

<b>Borrower Distribution of Residential Real Estate Loans in Duques County</b>								
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
Residential Real Estate Mortgages	22%	5%	19%	10%	24%	25%	35%	60%

*Source: Random sample of 20 loans from 1/1/2012 to 12/31/2013 and 2010 U.S. Census Data*

**Geographic Distribution of Loans**

We did not perform an analysis on the geographic distribution of loans, as there are no low- or moderate-income census tracts within the Bank's AA. However, the AA was designated by federal banking agencies as an underserved nonmetropolitan middle-income county. Therefore, the Bank received positive consideration for lending in the middle-income, underserved geographies.



### **Qualified Investments and CD Services**

The following qualified loans, investments, and services reflect the Bank's excellent responsiveness to CD needs with its AA.

ENB originated 11 CD loans totaling \$5.7 million during the evaluation period. These CD loans provided financing for organizations involved in affordable housing for low- and moderate-income individuals. Qualifying community development grants totaled \$165 thousand, and donations totaled \$16 thousand. These grants and donations benefitted numerous community development organizations within the AA. While the actual level of Bank donations was higher, these donations met the definition of community development.

ENB sponsored several community development events throughout the evaluation period, including an affordable housing fundraiser. ENB hosted a free small business seminar on starting and growing an island business, an identified need in the AA. ENB's President participated in a local non-profit's affordable housing meeting and discussed the partnership between the Bank and the organization, as well as the Bank's commitment to affordable housing and meeting the credit needs of lower income applicants.

### **Responses to Complaints**

ENB did not receive any complaints about its performance in helping to meet credit needs in the AA during this evaluation period.

### **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c), in determining a National Bank CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the Bank, or in any assessment area by an affiliate whose loans have been considered as part of the Bank's lending performance. We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.