



PUBLIC DISCLOSURE

May 02, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Bank of Bennington
Charter Number 705214

155 North Street, Bennington, VT 05201-1826

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 Satisfactory.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Outstanding.

- The loan-to-deposit ratio is more than reasonable.
- A majority of the Bank's primary loan products were originated within its assessment area.
- The distribution of loans reflects reasonable distribution among borrowers of different income levels. The geographic distribution of loans reflects reasonable distribution in the moderate-income census tracts.
- The Bank's Community Development performance demonstrates excellent responsiveness to Community Development needs.

Scope of Examination

The Bank of Bennington ("Bennington" or "the Bank"), headquartered in Bennington, Vermont (VT), was evaluated using Intermediate Small Bank (ISB) evaluation procedures, which include a lending test and a Community Development (CD) test. The lending test evaluates the Bank's record of meeting the credit needs of their assessment area (AA) through lending activities. The CD test evaluates the Bank's responsiveness to CD needs in its AA through qualified CD loans, investments, and services.

The evaluation period for the lending test covers the Bank's performance from January 1, 2014 through December 31, 2015, as this timeframe is representative of Bennington's lending strategy since the prior Community Reinvestment Act (CRA) evaluation. The Bank's performance for the full evaluation period was compared to the 2010 U.S. Census data.

The evaluation period for the CD test is from October 15, 2012, the date of the prior CRA Performance Evaluation (PE), through May 2, 2016. CD loans, investments, and services submitted by management were verified to ensure they met the regulatory definition for community development.

As reported within the December 31, 2015 Uniform Bank Performance Report (UBPR), residential lending constitutes the majority of the Bank's lending operations, representing approximately 79 percent of the overall loan portfolio. Based on loans originated and purchased during the evaluation period, Bennington's primary lending product is residential mortgage loans, including home purchase, refinance, and improvement loans. Bennington originated and/or purchased 399 home mortgages, consisting of 248 home purchase loans, 141 home refinance loans, and 10 home improvement loans in its AA. As home purchase and refinance loans represented the

majority of all residential mortgage loans at 63 and 35 percent, respectively, we placed more emphasis on these lending products to develop conclusions.

The Bank does not have a home office or branch located in a Metropolitan Statistical Area (MSA) and therefore is exempt from data reporting requirements of the Home Mortgage Disclosure Act (HMDA). The institution does, however, maintain HMDA information on its residential loans. We conducted a data integrity review of the Bank's HMDA data for residential real estate loans originated/purchased, and found that the data was reliable. All residential real estate loans originated and purchased during the assessment period were included in our evaluation. Our primary comparator was the aggregate performance of lenders in the area subject to HMDA reporting requirements.

Description of Institution

Bennington is a \$395 million federal stock savings bank, wholly owned by Community Financial Mutual Holding Company (CFMHC). In addition to the Bank's main office located in Bennington, VT, the institution has one other full service branch located in Bennington, VT and two full service branches located in Manchester Center and Arlington, VT. The main office is located in a moderate-income geography; the Bennington, VT and the Arlington, VT branches are located in middle-income geographies; and the Manchester Center branch is located in an upper-income geography. Branch hours typically run from 8:00 AM to 5:00 PM Monday through Friday and 9:00 AM to 12:00 PM on Saturday. No branches were opened or closed during our evaluation period. There have not been any significant changes to Bennington's corporate structure since the previous CRA evaluation.

The Bank of Bennington is a full service, intrastate institution, offering the standard array of traditional lending and deposit products for both business and personal accounts. Bennington's website, www.thebankofbennington.com, provides a listing and description of available lending and deposit product offerings. The Bank also provides its customers various means of account access, including telephone banking, online banking with bill pay options, and a mobile banking application. Bennington operates automated teller machines (ATMs) at all branch locations, and two additional ATMs located in Bennington, VT and Shaftsbury, VT, respectively. The Bank maintains membership in the FALCON ATM network, allowing customers to access their accounts from participating FALCON network ATMs without a surcharge or fee.

As of December 31, 2015, total assets were \$395 million, total deposits were \$254 million, and tier 1 capital was \$38 million. The loan portfolio totaled \$316 million, or 80 percent of total assets.

The following table provides a summary of the loan mix.

Loan Portfolio Summary by Loan Product December 31, 2015	
Loan Category	% of Gross Loans and Leases
Residential Mortgage Loans	71%
Commercial Real Estate	17%
Home Equity	7%
Commercial and Industrial	2%
Construction and Development	2%
Consumer Loans	<1%
Total	100%

Source: FDIC Call Report

There were no financial or legal impediments limiting Bennington’s ability to service the local community credit needs. At the last CRA evaluation, dated October 15, 2012, the Bank was rated “Outstanding” using the Intermediate Small Bank procedures.

Description of Assessment Area

The Bank of Bennington has one AA which includes all branches and deposit-taking ATMs, as well as the contiguous towns/cities around these offices. The AA is located in a non-Metropolitan Statistical Area (non-MSA) and consists of all 12 census tracts within Bennington County. The Bank’s AA is comprised of three moderate-income geographies (25 percent), seven middle-income geographies (58 percent), and two upper-income geographies (17 percent). The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

The following table contains demographic information for the AA:

Demographic Information for Bank of Bennington's AA					
Income Level	Total #	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	12	0%	25%	58%	17%
Population by Geography	37,125	0%	23%	60%	17%
Owner Occupied Housing by Geography	11,291	0%	18%	61%	21%
Family Distribution by Income Level	10,060	19%	20%	21%	40%
2010 Census Median Family Income (MFI)		\$60,519	Median Price of Homes Sold Bennington County 2015**		\$162,710
HUD Updated MFI: 2015		\$64,700	Families Below the Poverty Level		11%
			Bennington County Unemployment Rate*		4.1%

Source: 2010 US Census data

*Data from US Bureau of Labor Statistics as of December 2015

** Data from Vermont Housing Finance Authority

Economic indicators show that although the VT economy continues to recover, performance remains below pre-recession levels. Despite a highly educated population, new job gains are centered in low-wage industries, and income growth and housing demand remains weak. Furthermore, weakening tourism, long-term high business costs, and unfavorable population demographics limit the state's upside growth prospects. With the exception of healthcare services, the level of private sector employment, especially within the manufacturing industry, continues to struggle.

As of December 2015, the unemployment rate in Bennington County was 4.1 percent. The local unemployment rate is higher than the state unemployment rate of 3.5 percent, but compares favorably to the national unemployment rate of 5.0 percent. A shrinking labor force is the major contributor for the unemployment rate remaining below the national average. The state of VT's economy is expected to pick up through 2016, but at a much slower pace than the rest of New England. VT's high business costs make it unattractive to new investments and high-value-added industries. The major employers in Bennington County include South Western Vermont Medical Center, Mack Molding, Orvis, and NFK Corporation.

Bennington operates in a competitive market, with competition from regional commercial banks, savings banks, and mortgage and finance companies. The Bank's competitors include Berkshire Bank; TD Bank, National Association; People's United Bank, National Association; Merchants Bank; Citizens, National Association; TrustCo Bank; Vermont State Employees Credit Union; Mountain One; and Heritage Family Credit Union.

In assessing the Bank's performance, we contacted a local community organization whose mission is to build communities, to create economic prosperity, and to promote a high quality of life for residents of the region. Areas of focus include, but are not limited to workforce, housing, education, local food systems, downtowns, energy and natural resources, and special community amenities. The contact mentioned that the local economy remains relatively challenged and that social programs for low- and moderate-income individuals are a great need in the community. Additionally, affordable housing for low- and moderate-income individuals is an identified need in the community. The contact mentioned that local financial institutions could continue to collaborate with affordable housing coalitions to develop housing for low- and moderate-income families, as well as create financing options to assist with down payment requirements. The contact mentioned that lending to small businesses would also help attract and grow new businesses within the local community. The contact indicated that the local financial institutions including, The Bank of Bennington, are supportive of the credit and community development activities and meeting the needs of the community.

Conclusions with Respect to Performance Tests

LENDING TEST

The Bank's performance under the lending test is rated "Satisfactory". The loan-to-deposit ratio is more than reasonable. A majority of Bennington's primary loan products are originated within its AA. The borrower distribution of loans reflects reasonable dispersion to borrowers of different incomes. The geographic distribution of loans reflects reasonable dispersion in the moderate-income census tracts and there are no low income census tracts in the AA.

Loan-to-Deposit Ratio

Bennington's loan-to-deposit ratio is more than reasonable, given the Bank's size, financial condition, and the credit needs within the AA. The net loan-to-deposit ratio averaged 121 percent over the last 14 quarters since the previous CRA evaluation dated October 15, 2012. Since the last evaluation, the loan-to-deposit ratio ranged from a quarterly low of 117 percent to a high of 125 percent. The Bank's ratio is consistently above the national peer group, which averaged 85 percent and ranged from a low of 81 percent to a high of 88 percent during the same period. The high ratio reflects the Bank's strong commitment to meeting the credit needs of its AA.

Lending in Assessment Area

A majority of the Bank's primary loan products were originated within its AA. Based on the number of loans originated during the assessment period, 77 percent of all home loans were originated inside the AA. Based on the dollar amount of loans originated during the assessment period, 77 percent of home loans were originated in the AA.

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

Table 1 - Lending in Bennington's AA (000's)										
	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	248	73	93	27	341	46,268	74	16,143	26	62,411
Home Refinance	141	85	24	15	165	16,855	83	3,415	17	20,270
Home Improvement	10	91	1	9	11	1,784	90	204	10	1,988
Total Home Loans	399	77	118	23	517	64,907	77	19,762	23	84,669

Source: Residential loans for the period of 1/1/2014 to 12/31/2015

Lending to Borrowers of Different Incomes

The distribution of home loans reflects reasonable distribution among borrowers of different income levels. Home purchase and home refinance loans represent a significant portion of the overall originations made by the Bank during 2014 and 2015. The percent of home purchase loans made to low-income borrowers significantly exceeds the percent of peer aggregate lending data, the Bank's primary comparator. The percent of home purchase loans made to moderate-income borrowers is near the percent of peer aggregate lending data. The percent of home refinance loans made to low-income borrowers significantly exceeds the percent of peer aggregate lending data, while the percent of home refinance loans to moderate-income borrowers exceeds the percent of peer aggregate lending data.

The Bank did not make any home improvement loans to low-income borrowers during the evaluation period. The percent of home improvement loans made to moderate-income borrowers is near to the percent of peer aggregate lending data.

The Bank's performance is considered satisfactory given the housing prices within the AA, the percentage of low-income family households living below the poverty level, and the level of market competition. The median home price within the AA remains moderate relative to the HUD adjusted median family income. According to the Vermont Housing Finance Authority, the median home price in the AA for 2015 was \$162,710. The 2015 HUD adjusted median family income is \$64,700, which means the maximum income that is considered low-income is \$32,350. Low-income borrowers may have difficulty qualifying for home loans in the AA and may also have difficulty accumulating savings for down payments. Additionally, a moderate-income borrower could also encounter difficulty qualifying for a home loan or accumulating savings for a down payment with an income range between \$32,350 and \$51,760.

Market competition for home loans is significant within Bennington's AA. According to the 2014 Peer Mortgage Market Share Data, lending within the AA is largely dominated by nationwide institutions. The Bank competed with 80 lenders within the AA and the top ten institutions account for approximately 54 percent of the overall market share within the AA.

The table below illustrates the distribution of home loans to borrowers of different income levels as compared to the percentage of aggregate lending data.

Table 2 –Distribution of Home Loans by Borrower Income Level						
Type	Home Purchase		Home Refinance		Home Improvement	
Borrower Income Category	% of Loans	% of Aggregate	% of Loans	% of Aggregate	% of Loans	% of Aggregate
Low	7	4	12	7	0	9
Moderate	14	15	22	19	20	21
Middle	24	21	25	21	20	20
Upper	55	60	41	53	60	50
TOTAL	100	100	100	100	100	100

Source: Residential loans for the period of 1/1/2014 to 12/31/2015

Geographic Distribution of Loans

The geographic distribution of loans in the AA represents reasonable distribution in moderate-income census tracts in the AA. There are no low-income geographies in the assessment area. The percent of home purchase loans made in moderate-income geographies is significantly lower than the percent of peer aggregate lending data. The percent of home refinance loans and home improvement loans made in moderate-income geographies exceeds the percent of peer aggregate lending data.

The lack of penetration for home purchase loans within moderate-income geographies is considered satisfactory given the market competition and limited lending opportunities for home purchase loans within the AA. Additionally, a high number of families living below the poverty level within the three moderate-income tracts of the Bank’s AA also limit home purchase lending activity. The percentage of families living below poverty level within the three moderate-income tracts averaged 18 percent based on the 2010 U.S. Census Data.

The following table details the Bank’s performance compared to the aggregate lending data, the primary comparator.

Table 3 –Geographic Distribution of Home Loans by Census Tract Income Level						
Type	Home Purchase		Home Refinance		Home Improvement	
Census Tract Income Category	% of Loans	% of Aggregate	% of Loans	% of Aggregate	% of Loans	% of Aggregate
Low	0	0	0	0	0	0
Moderate	11	16	18	15	20	17
Middle	66	60	66	64	50	66
Upper	23	24	16	21	30	17
TOTAL	100	100	100	100	100	100

Source: Residential loans for the period of 1/1/2014 to 12/31/2015

Responses to Complaints

The Bank did not receive any CRA complaints during the evaluation period.

COMMUNITY DEVELOPMENT TEST

The Bank’s performance under the CD test is rated “Outstanding.” The Bank’s CD performance demonstrates excellent responsiveness to CD needs in its AA through CD investments and services and adequate responsiveness through CD loans.

Number and Amount of Community Development Loans

The level of CD lending demonstrates adequate responsiveness. During our evaluation period, the Bank made three qualified CD loans totaling \$297 thousand that benefited Bennington County, the Bank’s established AA. The Bank’s CD loans financed organizations that provide affordable housing and community services targeted towards low- and moderate-income individuals. The highlights of the Bank’s CD loans are as follows:

- A \$125 thousand working capital line of credit was extended to a newly registered Federally Qualified Community Health Center (FQCHC) to support cash management needs. The FQCHC provides comprehensive and affordable primary care to all communities within Bennington County.
- A \$60 thousand line of credit was extended to a local non-profit organization to fund the development of affordable housing units targeted towards low- and moderate-income individuals located in Manchester, VT.

- The Bank refinanced a \$112 thousand commercial real estate mortgage for a 501(c)(3) not-for-profit housing development corporation serving low- and moderate-income groups within Bennington County.

Number and Amount of Qualified Community Development Investments

The level of CD investments demonstrates excellent responsiveness. Qualified CD donations, prior period investments, and new investments totaled \$1.7 million. The Bank had four prior period investments with a total outstanding value of \$295 thousand to support affordable housing projects in the AA.

During the evaluation period, the Bank made seven new qualified investments with a total commitment of \$1.4 million. The majority of the CD investments support affordable housing projects within the Bank's AA. The highlights of the Bank's CD investments are as follows:

- A \$404 thousand investment in a VT investment fund that focuses on identifying and supporting affordable housing projects state wide and projects within the Bank's AA.
- A low income housing tax credit (LIHTC) investment made in conjunction with Housing Vermont, a nonprofit syndication and development organization that creates permanently affordable rental housing. The Bank made two investments totaling \$603 thousand to develop 26 residential units, which will be rented to low- and moderate-income individuals as affordable housing within the Bank's AA.
- A LIHTC investment made in conjunction with Vermont Housing Finance Agency, whose mission is to finance and promote affordable, safe and decent housing opportunities for low- and moderate-income Vermonters. The Bank made three investments totaling \$112 thousand to develop 20 affordable residential units within the Bank's AA.
- A \$290 thousand investment in a fund that focuses on identifying and supporting affordable housing projects state wide, including projects within the Bank's AA.

During the evaluation period, the Bank made 97 CRA eligible grants/donations totaling \$99,400 across nine qualified organizations in the AA. Additionally, significant donations made to a local food shelf helped benefit 21 special interest groups/food pantries that cater specifically to low- and moderate-income individuals. While the actual level of Bank donations made was higher, these donations met the definition of community development.

Extent to Which the Bank Provides Community Development Services

The Bank provides an excellent level of CD services in the AA. One of the Bank's four branches is located in a moderate-income geography and one deposit-taking ATM is located in a moderate-income geography. During the evaluation period, eight Bank members provided numerous hours of financial expertise and/or leadership services to eight different CD organizations serving the AA. The CD services provided helped promote food banks, affordable housing, disability services, affordable health care, and literacy programs. Prominent CD services are highlighted below:

- A financial advisor serves on the Financial Committee of an organization that works to provide low-income families with safe and affordable housing in the community.
- A vice president serves on the board of a local community service organization that provides day services for adults with disabilities throughout the AA. Approximately seventy percent of participants within the program are considered low-income.
- An assistant vice president serves on the board of a local community service organization that promotes literacy and provides free, confidential tutoring to adults and children who struggle with reading.
- An employee serves as a board member for a community service organization that donates to food shelves through fundraising efforts.

Responsiveness to Community Development Needs

Considering the Bank's capacity and the need and availability of CD opportunities, Bennington's CD performance demonstrates excellent responsiveness to the needs of its AA. CD loans, investments, and services helped meet identified needs in the AA.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 195.28(c), in determining a federal savings association's (FSA) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the FSA.

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