



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**February 15, 2005**

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

**The National Grand Bank of Marblehead  
Charter Number 676**

**91 Pleasant Street  
Marblehead, MA 01945**

**Comptroller of the Currency  
New England Field Office  
20 Winthrop Square, Suite 200  
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 primary factors supporting this rating are:

- Lending inside the assessment area meets standards for a satisfactory rating. A majority of the number and dollar of loans originated benefits customers inside the assessment area.
- Lending to businesses of different sizes exceeds standards for a satisfactory rating.
- The bank's average loan-to-deposit ratio of 72% is more than reasonable as the bank sells a significant volume of mortgage loans annually (\$50 million from 2002 through 2004).
- Lending to borrowers of different income levels is reasonable given the limited stock of affordable housing and meets standards for a satisfactory rating.

## **DESCRIPTION OF INSTITUTION**

National Grand Bank of Marblehead (NGB or "the bank") is a federally chartered bank incorporated in 1831, with two banking offices located in Marblehead, Massachusetts. As of December 31, 2004, NGB reported total assets of \$208 million and is wholly owned by Grand Bank Corporation, organized in 1984 as a holding company.

The bank operates a full-service branch, which includes a drive-through facility at 91 Pleasant Street in Marblehead, Massachusetts. In 2002, a branch was opened at the newly constructed Marblehead High School on 2 Humphrey Street with limited hours and services. It is the only high school branch in Massachusetts with a cash dispensing automatic teller machine (ATM). The high school branch was opened as an educational tool to introduce students to the fundamentals of banking. The main office on Pleasant Street operates a cash dispensing ATM and two offsite cash dispensing ATMs at local Marblehead businesses: Haley's Market on 114 Washington Street and the Community Store at 214 Beacon Street.

No branches were closed since our last CRA examination on August 9, 1999, when the bank received a Satisfactory rating. NGB faces no impediments, legal or otherwise, that hinder its ability to help meet the credit needs of its assessment area (AA).

The bank offers standard consumer and commercial credit products. At December 31, 2004, the bank reported \$137 million in total loans and \$187 million in total deposits, representing 64% and 90% of average assets, respectively. See **Table 1** on the following page for detailed information on the composition of the bank's loan portfolio.

**Table 1.**

National Grand Bank: Loan Portfolio Mix at December 31, 2004		
Loan Type	\$ Outstanding (000s)	% of Portfolio
Residential Mortgages	88,637	65%
Home Equity Lines	13,992	10%
Construction	10,645	8%
Commercial RE Loans	10,176	7%
Consumer Loans	5,478	4%
Commercial Loans	4,682	3%
Other Loans	3,474	3%
<b>Gross Loans</b>	<b>137,084</b>	<b>100%</b>

Source: 12-31-2004 Report of Condition

NGB also offers a wide variety of deposit products to meet consumer and commercial banking needs. The bank's Internet website, [www.ngbank.com](http://www.ngbank.com), provides detailed information on all consumer and business products and services. The bank also offers trust services to its customers.

As part of the CRA performance evaluation, we determine the primary loan products originated by volume and dollar for the period of our review from January 1, 2002 to December 31, 2004. Based on bank generated reports and discussions with management, we identified residential mortgage products as the primary loan product. NGB gathers information on all residential mortgage products and submits the data annually as part of its requirement under the Home Mortgage Disclosure Act (HMDA). We tested the bank's process to collect the data and its system of internal controls to confirm data integrity. We found the HMDA information to be accurate and therefore used all residential mortgage products originated in the analysis period as part of our review.

## **DESCRIPTION OF NATIONAL GRAND BANK ASESMENT AREA**

### **Assessment Area**

The CRA requires a financial institution to identify an assessment area (AA) in which it intends to meet the areas credit needs. The bank's AA has not changed for several years and remains the boundaries of the Town of Marblehead. The Town of Marblehead is comprised of three census tracts located in Essex County. Each tract is upper-income based on 1990 and 2000 U.S. Census Data. In 2004, the Department of Housing and Urban Development (HUD) redefined and recalculated metropolitan statistical area (MSA) boundaries and definitions, using updated 2000 U.S. Census Data. Despite the change, the Marblehead census tracts remain upper-income.

The Town of Marblehead is a picturesque and historical seacoast town, incorporated in 1649. In its early years, fishing was one of its main sources of income. Today, Marblehead is a residential community with some minor industries and a few unique retail stores. The town is also known as one of the yachting capitals of the world and pleasure boating is a popular past

time of its residents.

Marblehead attracts summer visitors to view its harbor, crowded with sailing, fishing, lobster, and pleasure boats. Tourists roam the town's narrow, crooked streets in the Historic District. Many of the Colonial and Victorian buildings that line the streets are on the National Register. The town is located in eastern Massachusetts, bordered by Swampscott on the South, Salem on the southwest, and the Atlantic Ocean on the west, north, and east. Marblehead is 18 miles northeast of Boston and principal highways are State Routes 114 and 129 with reasonable banking access to the town's residents.

## **Economy**

Economic conditions are stable. The Town of Marblehead experienced a slight increase in unemployment during the recent recession, but was less affected than the county, state, and national unemployment averages. Many residents work outside of Marblehead and have incomes exceeding \$91 thousand annually, which is 120% higher than the updated median family income of \$76 thousand. The area contains many affluent residents and was voted the most desirable place to live in Massachusetts, based on a 2004 survey by the Boston Magazine. Rising housing prices reflect the demand to live in the area. The economy in the metropolitan division (MD) of Essex County is improving as total-housing permits at Year End 2004 increased 12.3% compared to 10% and 8% in Massachusetts and the United States, respectively.

However, affordable housing opportunities in Marblehead are limited. There is one condominium development that is under construction governed by Massachusetts' Section 40b regulation. This requires 25% of the units to be affordable housing. Small businesses with earnings less than \$500 thousand comprise 62% of all businesses. The majority of the businesses are retail trades and services, and employ less than 4 employees.

NGB is one of two banks headquartered in Marblehead; the other is Marblehead Savings Bank. Significant competition exists in the Marblehead market with larger regional banks, savings banks, and mortgage companies. Competition in the AA also includes Bank of America, Heritage Coop Bank, Eastern Bank, North Shore Bank, Sovereign Bank, and Salem Five Cents Savings Bank.

## **Median Family Income**

The Median Family Income (MFI) figure is used to determine the income level for each census tract. Based on estimates by HUD, the adjusted MFI figures for 2002, 2003, and 2004 are \$74,200, \$80,800, and \$76,000, respectively. The bank's performance in lending to low- and moderate-income borrowers is evaluated by comparing the median income of bank borrowers with the HUD-adjusted MFI figures. Of the total families in the AA in 2002, 10% were low-income and 12% were moderate-income. In 2003, 11% of families were low-income and 12% were moderate-income, and in 2004, 10% were low-income and 10% were moderate-income. This reflects a small increase in the level of middle- and upper-income families as the median housing values rose from \$255 thousand in 1990 Census Data to \$334 thousand in 2000 Census Data. In addition, the average monthly gross rent in Marblehead has risen from \$763 to \$890 over the same period, making affordability to purchase or rent a home or apartment in Marblehead limited for low- and moderate-income families.

**Table 2** below reflects the key AA demographic and economic characteristics based on 1990 and 2000 Census Data.

**Table 2**

Demographic/Economic Characteristics Marblehead AA	1990 U.S. Census	2000 U.S. Census	2000 U.S. Census***
<b>Population</b>			
Total Persons	19,910	20,377	20,377
Total Families	5,600	5,692	5,692
Total Households	8,206	8,548	8,548
<b>Geographies</b>			
Total number of census tracts (CT)	3	3	3
Percentage of Low/Mod/Mid-Income CTs	0	0	0
Percentage of Upper-income CTs	100%	100%	100%
<b>Economic Indicators</b>			
Median Family Income (MFI)*	74,200	80,800	76,000
Median Housing Value	255,456	334,383	334,383
Number of Housing Units	8,719	8,906	8,906
Number of Owner Occupied Units	5,891	6,434	6,434
Number of Rental Occupied Units	2,317	2,107	2,107
% of Households below Poverty-level	4%	5%	5%
Average monthly gross rent	763	890	890
<b>Business Indicators</b>			
Number of Businesses (non-farm)	1,587	1,617	1,617
Percentage of Small Businesses**	70%	68%	68%
<b>Unemployment Information: ****</b>			
Marblehead	4.0%	3.9%	2.6%
Essex County	6.2%	6.8%	6.2%
State of Massachusetts	5.3%	5.8%	5.1%
National Average	5.8%	6.0%	5.4%

Source: U.S. Census Data

\*Updated HUD adjusted figures for 2002,2003,2004

\*\*Businesses which reported annual revenues of less than or equal to \$1 million.

\*\*\*2000 U.S. Census Data updated based on changes in 2004 to MSA boundaries and definitions.

\*\*\*\* Department of Labor

## Community Contact

We made a community contact to gain a better understanding of the credit needs in the AA. The contact was a state funded, non-profit organization that works to increase the supply of diverse workforce housing in Marblehead. The contact stated that affordable housing is the greatest need due to a housing supply shortage in Marblehead combined with sharply rising housing costs. The representative stated there are 307 affordable housing units in Marblehead with no vacancies and a long waiting list for the limited supply of affordable units.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

This Performance Evaluation is an assessment of the bank's CRA performance from January 1, 2002 through December 31, 2004. Lending in 2002 is compared to 1990 U.S. Census Data, and lending in 2003 and 2004 is compared to 2000 U.S. Census Data.

### Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio is reasonable at 72% as of December 31, 2004. The bank's quarterly average LTD ratio calculated since the August 9, 1999 CRA examination was also 72%. An analysis of the ratio over the past 22 quarters reflects minimal volatility. Bank management limits the LTD ratio to 75% or less as part of its funds management policy to control balance sheet interest rate risk. Although NGB limits its LTD ratio, it does not restrict loan originations as the bank sells residential mortgages in the secondary market, freeing funds for additional loan originations. The bank sold \$50 million in residential mortgages over the analysis period (2002-2004).

- \$27 million in 2002,
- \$12 million in 2003, and,
- \$11 million in 2004.

If these loans had been retained in the bank's loan portfolio, the LTD ratio would have been significantly higher.

### Lending in Assessment Area

NGB's lending record to borrowers inside the AA is satisfactory. NGB originated a majority of loans inside its AA by number and dollar amount. The analysis is based on 637 residential mortgage products and a sample of forty business loans for the years 2002, 2003, and 2004. As shown in **Table 3** below, 74% of the number and 63% of the dollar of loans were originated to borrowers within the bank's AA. **Table 3** also reveals the dispersion of the number and dollar amount of loans inside and outside of the bank's AA. The six business loans outside of the AA were fairly large in relation to business loan size. In Marblehead, business demographics reflect only 6% of business have revenues over \$1 million with significant competition for those loans.

**Table 3.**

<b>Lending in the Marblehead Assessment Area (January 1, 2002 to December 31, 2004)</b>										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total #	Inside (000s)		Outside (000s)		Total \$
	#	%	#	%		\$	%	\$	%	
Residential Mortgages	470	74	167	26	637	133	79	35	21	168
Business Loans	34	85	6	15	40	1,165	61	731	39	1,896
<b>Totals</b>	504	<b>74</b>	173	<b>26</b>	677	1,298	<b>63</b>	766	<b>37</b>	2,064

Source: Data reported under HMDA and a sample of business loans.

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

NGB's lending record reflects an adequate penetration among borrowers of different income

levels and an excellent penetration of loans to businesses of different sizes.

**Tables 4A, 4B, and 4C** detail the distribution of NGB’s home mortgage loan originations by borrower income for 2002, 2003, and 2004.

**Table 4A**

<b>2002 Borrower Distribution of Residential Real Estate Loans in Marblehead AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Home Purchase		3%		0%		13%		84%
Home Improvement		0%		33%		0%		67%
Refinancing		3%		10%		16%		71%
<b>Totals</b>	<b>10%</b>	<b>3%</b>	<b>13%</b>	<b>8%</b>	<b>20%</b>	<b>16%</b>	<b>57%</b>	<b>73%</b>

*Source: Data reported under HMDA; 1990 U.S. Census data.*

NGB’s home mortgage lending inside its AA is compared to the distribution of AA families by income level. For 2002, NGB originated 191 loans inside its AA reportable under the HMDA. As shown in **Table 4A**, the bank originated 3% of HMDA loans to low-income borrowers and 8% to moderate-income borrowers. Lending to moderate-income borrowers falls below area demographics. The 8% volume is considered reasonable due to the lack of affordable housing units available in the Town of Marblehead. As the median house value was \$255 thousand, a family making less than the MFI of \$74 thousand would have difficulty qualifying for a mortgage loan. Low-income families with income less than \$37 thousand or 50% of the area’s MFI would have greater difficulty in obtaining a mortgage.

**Table 4B**

<b>2003 Borrower Distribution of Residential Real Estate Loans in Marblehead AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Home Purchase		4%		4%		36%		56%
Home Improvement		0%		0%		0%		0%
Refinancing		7%		18%		20%		55%
<b>Totals</b>	<b>11%</b>	<b>7%</b>	<b>12%</b>	<b>16%</b>	<b>17%</b>	<b>22%</b>	<b>60%</b>	<b>55%</b>

*Source: Data reported under HMDA; 2000 U.S. Census data.*

In 2003, the bank also originated 191 HMDA loans inside its AA. **Table 4B** above reflects that lending to low-income families improved slightly from 2002 levels, but remains below area demographics. Lending to moderate-income families exceeded area demographics in 2003 primarily with refinancing opportunities as interest rates declined and remained low.

**Table 4C**

<b>2004 Borrower Distribution of Residential Real Estate Loans in Marblehead AA</b>								
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Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Home Purchase		0%		12%		30%		58%
Home Improvement		10%		0%		0%		90%
Refinancing		8%		6%		20%		66%
<b>Totals</b>	<b>10%</b>	<b>6%</b>	<b>11%</b>	<b>7%</b>	<b>16%</b>	<b>21%</b>	<b>63%</b>	<b>66%</b>

Source: Data reported under HMDA; updated 2000 U.S. Census data.

In 2004, the bank originated 88 HMDA loans inside its AA. The decline corresponds to the rising interest rates. Loans to low-income families remain lower than area demographics due to limited availability of affordable housing. The level, however, remains better than in 2002 as families sought home improvement loans at lower rates to improve housing. Medium-income housing is again below area demographics, but improved from 2002 levels. Given the sharply rising value of housing, combined with a limited inventory of affordable housing, lending efforts to reach borrowers of different income levels is reasonable.

**Tables 5A and 5B** below reflect the distribution of NGB's commercial loan originations to businesses of different sizes for 2002 and 2003/2004 combined. For the 2002 and 2003/2004 evaluation period, NGB's performance of originating loans to small businesses is excellent.

**Table 5A**

<b>Borrower Distribution of Loans to Businesses in NGB Marblehead's AA</b>				
<b>Evaluation Period: January 1, 2002 to December 31, 2002</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	71%	5%	24%	100%
% of Bank Loans in AA by #	90%	10%	0%	100%
% of Bank Loans in AA by \$	89%	11%	0%	100%

Source: NGB Loan sample; 2002 Business Geodemographic Data

**Table 5B**

<b>Borrower Distribution of Loans to Businesses in NGB Marblehead's AA</b>				
<b>Evaluation Period: January 1, 2003 to December 31, 2004</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	71%	5%	24%	100%
% of Bank Loans in AA by #	95%	5%	0%	100%
% of Bank Loans in AA by \$	97%	3%	0%	100%

Source: NGB Loan sample; 2004 Business Geodemographic Data unchanged from 2003.

The bank's distribution of loans to small businesses is good. Based on the number and dollar of loans, performance exceeded business demographic data. As shown in **Tables 5A and 5B**, a majority of commercial and commercial real estate loans were made to small businesses. Small

business loans are originated for a variety of business purposes such as working capital, business expansion, capital improvements, purchase of equipment, and the purchase or refinance of commercial real estate. The CRA regulation defines small businesses as those with gross annual revenues of less than \$1 million. Bank management considered loans to small businesses as part of the bank's efforts to meet needs of its AA.

### **Geographic Distribution of Loans**

This performance criterion evaluates the bank's distribution of loans among census tracts of different income levels, focusing on low- and moderate-income geographies. As the bank's assessment area contains only upper-income census tracts, a comparison of this distribution would not be meaningful, and is excluded from the overall analysis.

### **Responses to Complaints**

Neither the bank or the OCC received any CRA related complaints on NGB since the prior examination of August 9, 1999.

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

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