



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

January 25, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Milford National Bank and Trust Company
Charter Number: 866

300 East Main Street
Milford, MA 01757

Office of the Comptroller of the Currency

NEW ENGLAND (BOSTON) Field Office
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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: Satisfactory.

Summarize the major factors supporting the institution's rating.

- The bank's level of lending, as reflected in its loan-to-deposit ratio, is more than reasonable.
- The majority of lending is within the assessment area (AA).
- The distribution of loans reflects a reasonable penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects excellent dispersion in the moderate-income census tract.
- The bank's community development performance demonstrates adequate responsiveness to community development needs in its AA, through community development loans, investments, and services.

Scope of Examination

Milford National Bank and Trust Company (MNB) was evaluated using Intermediate Small Bank (ISB) examination 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 its AA through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AA through CD lending, qualified investments, and community development services.

The evaluation period for the lending test covers the bank's performance from January 1, 2007 through December 31, 2009. The evaluation period for the CD test is from January 10, 2007, the date of the last CRA evaluation, through January 25, 2010. Community development loans, investments, and services submitted by management were verified to ensure they met the regulatory definition for community development.

The bank's subsidiary, Forward National Company, originates and sells a variety of consumer loan products including residential mortgages. Its focus is on loans for manufactured homes, recreational vehicles, and boats. Forward National Company's manufactured home loan originations, as reported on the bank's Home Mortgage Disclosure Act (HMDA) loan application register, were considered in the lending test evaluation.

MNB's primary loan products, based on loan originations during the evaluation period, are: residential mortgage loans including home purchase, refinance, and home

improvement loans, and commercial loans including commercial and industrial loans, and commercial real estate loans. Residential mortgages represent 51% and commercial loans comprise 49% of the bank's loan originations by number.

The bank reports data under the requirements of HMDA. As part of our evaluation, we tested the bank's HMDA data and found that the data was accurate. We also used bank data to select a random sample of 20 commercial loans originated in the AA during the evaluation period to evaluate the bank's lending to businesses.

Description of Institution

MNB is a \$287 million institution headquartered in Milford, Massachusetts. As of December 31, 2009, MNB had Tier 1 Capital of \$23.5 million. MNB is owned by MNB Bancorp, a one-bank holding company. The bank has its main office and two additional branches in Milford, and two branches in the towns of Bellingham and Mendon. A sixth branch, in Hopkinton, was closed January 1, 2010. This branch was not located in a low- or moderate-income tract. No branches were opened during the evaluation period.

The bank is a full service, intrastate institution, offering a standard array of traditional loan and deposit products including mortgages designed for first time homebuyers, with low down payment requirements and more flexible underwriting guidelines. MNB also offers trust management, investment management, and estate planning services. The bank's website, www.milfordnational.com, provides a listing and description of its deposit and loan services, as well as on-line banking services. Telephone banking and personal computer banking services are offered free of charge to all customers.

Bank management has identified affordable housing and small business lending as primary credit needs in the AA. MNB is actively engaged and have expanded lending activities in various Small Business Administration (SBA) programs; some of these programs offer more favorable credit terms. This enables small businesses, most with revenues of less than one million, the ability to retain and create jobs. The bank is also a member of a quasi-governmental organization which obtains funds from other local banks to lend to start-up and expanding businesses in the state of Massachusetts.

As of December 31, 2009, the loan portfolio totaled \$238 million, or 83% of total assets. The following table provides a summary of the loan mix.

Loan Portfolio Summary by Loan Product December 31, 2009	
Loan Category	% of Gross Loans and Leases
1-4 Family Residential Mortgage	46.8%
Commercial Real Estate	25.7%
Commercial & Industrial	7.3%
Consumer	7.3%
Construction and Development	6.7%
Home Equity	6.1%
Other	0.1%

The bank has no financial or legal impediments to meeting the credit needs of the community. The bank was rated "Satisfactory," using intermediate small bank procedures, at the last CRA examination dated January 10, 2007.

Description of Assessment Area

The CRA requires a bank to define the AA in which it will be evaluated. MNB's AA includes all branches and deposit-taking ATMs, as well as, the contiguous towns/cities around these offices.

The AA is part of the Boston-Quincy MA Metropolitan Division and located in parts of Worcester, Norfolk, and Middlesex counties. The AA includes the towns/cities of Ashland, Bellingham, Blackstone, Douglas, Franklin, Grafton, Holliston, Hopedale, Hopkinton, Medfield, Medway, Mendon, Milford, Millbury, Millis, Millville, Norfolk, Northbridge, Plainville, Southborough, Sutton, Upton, Uxbridge, Westborough, and Wrentham. The AA is comprised of 52 census tracts. There is one moderate-income geography, 25 middle-income geographies, and 25 upper-income geographies. One of the tracts contains no income information as the population is very low, therefore, this tract is excluded from our analysis. Forward National Company's office, formerly in Westborough, was relocated to the bank's main office in Milford during the evaluation period. The bank's AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

Demographic information of MNB's AA is broken out in the table below.

Demographic Information for MNB's AA					
Income Level	Total #	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	* 52	0%	2%	48%	48%
Population by Geography	297,266	0%	1%	45%	54%
Owner Occupied Housing by Geography	82,663	0%	1%	44%	55%
Businesses by Geography	20,239	0%	2%	42%	56%
Family Distribution by Income Level	79,784	12%	14%	22%	52%
Household Distribution by Income Level	105,903	17%	13%	17%	53%
2000 Census Median Family Income (MFI)		\$61,930	2008 Estimated Median Housing Value**	\$ 282,800 to \$ 503,217	
			Median Age of Housing	42 Years	
HUD Updated MFI: 2009		\$83,335	Families Below the Poverty Level	4.56%	
			Unemployment Rate ***	9.4%	

Source: 2000 US Census data

* One tract (2%) designated as "not applicable."

**Data from City-data.com

*** Data from US Bureau of Labor Statistics as of 12/09. Rate is for the entire state of MA.

MNB operates in a highly competitive environment with competition from regional commercial banks, savings banks, and mortgage companies. The Federal Depository Institution Corporation's Deposit Market Share Report, for June 30, 2009, indicates that 26 financial institutions operate branches within MNB's AA. MNB ranks sixth with deposit market share of 5.11%. Competitors include Milford Federal Savings and Loan; Rockland Trust Company; Middlesex Savings Bank; Unibank for Savings; Commerce Bank and Trust Company; and Dean Cooperative Bank. Larger regional banks provide further competition and include TD Bank, National Association; Bank of America, National Association; and Sovereign Bank.

The local economy is driven by the high technology industry along Route I-495, and the town of Milford also serves as an industrial center for the area with two major industrial parks, Granite Park and Bear Hill. Milford is known for its retail and wholesale businesses, manufacturing firms, and numerous services. Major employers in the area include Waters Corporation, The Holmes Group, EMC Corp., Milton CAT, Saint-Gobain, Avecia Biotechnology Inc., and the Milford Regional Medical Center.

The economy in the AA has slowed somewhat, reflective of the nation's economic recession. As of December 2009 data from the US Bureau of Labor Statistics, the seasonally-adjusted unemployment rate for the state of Massachusetts is 9.4% compared to the national rate of 10%. Information obtained from the Metrowest Economic Research Center located at Framingham State College shows that, as of October 2009, the unemployment rates in the Blackstone Valley region average 8.9%, Greater Franklin at 7.9%, and Milford region at 7.6%, all slightly favorable to the state and national rates. These three regions encompass the majority the towns located in

MNB's AA.

The housing market has slowed, home prices have fallen, and the number of foreclosures has significantly increased. The towns in MNB's AA remain desirable as families move out of the greater Boston area for more affordable housing options. However, the availability of affordable housing in the AA for low- and moderate-income families is still limited. The 2008 estimated median housing values for the three counties in MNB's AA ranged from \$283 to \$503 thousand.

According to a study from the New England Public Policy Center ("The New England Rental Market", January 2007), the supply of affordable housing to low-income households is inadequate. In 2008, the average median rent for Worcester and Middlesex counties was \$9 hundred. While rents may be affordable to a low-income household, affordable rental units are scarce.

One community contact, an affordable housing organization, stated that even with falling home prices, affordability remains an issue and affordable rental housing is increasingly important as more homeowners are being displaced as a result of foreclosures. The organization is concerned about lenders pulling back on credit or tightening credit requirements making it difficult for borrowers to obtain loans. This organization, along with several other non-profit organizations focused on affordable housing, have indicated that despite the current financial crisis they are seeing an increase in the number of people interested in the Soft Second program, a program that helps low- and moderate-income individuals and families purchase homes. These organizations also indicated that they are seeing ongoing demand for homebuyer and credit counseling classes.

Another community contact, an entity that provides management and technical assistance, counseling, and low-cost educational training programs for prospective and existing small businesses, indicated that primary needs of the area are small loans to small businesses and contributions to help fund and keep the costs of their seminars reasonable for the small business person. Local institutions have been contributing to the costs of these seminars, and three loan funds were established by local banks and community development agencies to help meet the small business loan needs. The contact indicated there are opportunities for banks to make small loans to small businesses and to provide contributions, but opportunities to participate in the loan funds are limited.

Conclusions with Respect to Performance Tests

LENDING TEST

MNB's performance under the lending test is satisfactory. MNB's loan-to-deposit ratio is more than reasonable and a majority of the bank's primary loan products are within its AA. MNB has reasonable penetration of loans to borrowers of different income levels and businesses of different sizes. The bank's geographic distribution of loans reflects

excellent dispersion in the moderate-income census tract.

Loan-to-Deposit Ratio

MNB's net loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and AA credit needs. The net loan-to-deposit ratio averaged 98% over the last 12 quarters since the previous CRA examination dated January 10, 2007. During the period since the last examination, the loan-to-deposit ratio ranged from a quarterly low of 95% to a high of 106%. MNB's loan-to-deposit ratio is higher than national peer bank's average of 88% over the same time period. The peer ratio ranged from a low of 83% to a quarterly high of 91% during the time period.

Lending in Assessment Area

MNB's lending inside its assessment area meets the standard for satisfactory performance. The majority of the bank's primary loan products were originated within its assessment area, with 54% of the number and 66% of the dollar amount in the AA.

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

Loan Type	Number of Loans				Total	Dollars of Loans				Total
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Purchase	30	23%	100	77%	130	7,887	44%	10,099	56%	17,986
Home Refinance	108	68%	52	32%	160	22,231	74%	7,902	26%	30,133
Home Improvement	36	92%	3	8%	39	2,702	89%	339	11%	3,041
Commercial Loans	16	80%	4	20%	20	4,335	87%	669	13%	5,004
Totals	190	54%	159	46%	349	37,155	66%	19,009	34%	56,164

Source: HMDA-reported data and a sample of commercial loans from 1/1/2007 to 12/31/09.

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

The distribution of loans originated in the bank's AA reflects a reasonable penetration among individuals of different income levels and businesses of different sizes.

Home Loans

The distribution of home loans to borrowers reflects reasonable penetration among borrowers of different income levels. The percent of home purchase and home refinance loans to low-income families is significantly lower than the percent of low-income families in the AA. The percent of home improvement loans to low-income families is lower than the percent of low-income families in the AA. Lending opportunities to this group are limited given the median home price in the AA ranges from \$ 283 to \$503 thousand. The maximum income that is considered low-income is \$41 thousand, therefore, low-income borrowers would have difficulty qualifying for a

home purchase loan.

The distribution of home purchase, home refinance, and home improvement loans to moderate families is excellent. The percent of home purchase and home refinance loans exceeds, and the percent of the home improvement loans meets the percent of moderate-income families in the AA.

In addition, market competition for home mortgages is very high, limiting MNB's ability to originate mortgages to both low- and moderate-income families. Mortgage lending in MNB's market area is dominated by larger financial and mortgage institutions. According to 2008 peer mortgage market share data, the top 12 lenders in the three counties in the AA dominated with approximately 50% of the market share for home mortgage loans.

The following table shows the distribution of home loan products among borrowers of different income levels as compared to the percent of families in each income category.

Borrower Income Level	Low		Moderate		Middle		Upper		NA *
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	% of Number of Loans
Home Purchase	12%	3%	14%	17%	22%	40%	52%	33%	7%
Home Refinance	12%	4%	14%	17%	22%	28%	52%	48%	3%
Home Improvement	12%	6%	14%	14%	22%	30%	52%	42%	8%

Source: HMDA-reported data from 1/1/2007 to 12/31/09; 2000 US Census

*Income not available.

Business Loans

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. The bank originated 75% of business loans to small businesses with gross annual revenues of \$1 million or less. This is considered reasonable as 77% of the area's businesses are considered small businesses.

The following table shows the distribution of commercial loans among businesses of different sizes in the AA.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	77%	6%	17%	100%
% of Bank Loans in AA by #	75%	25%	0%	100%
% of Bank Loans in AA by \$	81%	19%	0%	100%

Source: Sample of commercial loans from 1/1/2007 to 12/31/09; 2000 US Census

Geographic Distribution of Loans

The geographic distribution of loans reflects excellent dispersion in the moderate-income tract. We found no conspicuous gaps or areas of low penetration in the bank’s lending patterns. The bank’s AA has no low-income census tracts, therefore, we did not evaluate lending in these areas.

Home Loans

The bank’s geographic distribution of home loans in MNB’s AA reflects excellent dispersion in the moderate-income census tract. The percent of MNB’s lending for home purchase and home improvement loans exceeds the percent of owner occupied housing in the tract. No home refinance loans were made in the moderate-income geography, however, the percent of owner occupied housing in the moderate-income tract is very low at 1%, limiting opportunities for home ownership.

Following is a table that details the bank's performance as compared to the percentage of owner occupied housing units in each census tract income level.

Table 3 – Geographic Distribution of Home (Purchase, Refinance and Improvement) Loans In MNB's AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	N/A	N/A	1%	10%	44%	40%	55%	50%
Home Refinance	N/A	N/A	1%	0%	44%	46%	55%	54%
Home Improvement	N/A	N/A	1%	3%	44%	42%	55%	55%

Source: HMDA-reported data from 1/1/2007 to 12/31/09; 2000 US Census

Business Loans

The bank’s geographic distribution of business loans reflects excellent dispersion in the moderate-income census tract. MNB's lending to smaller businesses in the moderate-income geography exceeds the level of total businesses with revenues less than \$1 million located there.

Following is a table that details the bank’s performance as compared to the percentage of businesses in each census tract income level.

Table 3A - Geographic Distribution of Loans to Businesses in MNB's AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans
Businesses	NA	NA	2%	5%	42%	30%	56%	65%

Source: Sample of commercial loans from 1/1/2007 to 12/31/09; 2000 US Census

Responses to Complaints

MNB did not receive any CRA related complaints during this evaluation period.

COMMUNITY DEVELOPMENT TEST

Performance under the community development (CD) test is satisfactory. Most of the communities that the bank serves are middle- and upper-income; limiting opportunities for CD lending, however, opportunities are still available. MNB's community development performance demonstrates adequate responsiveness to community development needs in its AA through community development loans, investments, and services.

Number and Amount of Community Development Loans

The bank's level of CD lending is satisfactory. During this evaluation period, MNB originated or renewed three community development loans totaling \$1.3 million.

A summary of the CD loans follows:

- A \$500 thousand renewal of a working capital line of credit to help fund a public facility that provides housing, protection, and services to primarily low- and moderate-income seniors.
- Four vehicle loans totaling \$100 thousand through a \$250 thousand guidance line of credit. The loans were to a private not-for-profit corporation that provides education and treatment to children and adults with severe disabilities; the majority of the participants are low- and moderate-income.
- A renewal of a loan made in the prior evaluation period for \$750 thousand to a local organization that primarily serves low-income families through its donations of goods and services to area food banks. The foundation's primary purpose is to run a community farm that donates produce to area food banks to help the needy.

In addition, the bank also allotted funds to two housing projects which contain affordable housing units, an identified need in the AA. The first was a \$350 thousand loan to help

fund the construction of 16 single family homes; four of the 16 units will be sold at reduced prices to a person or household with incomes at or below 80% of the regional median. The second was a \$3.2 million legally binding commitment to fund construction of an 88 unit condominium complex; 22 of the 88 units will be sold at reduced prices to families not earning more than 80% of area median income. The bank also made two loans totaling \$450 thousand under the SBA 504 program.

From the prior evaluation period, the bank extended an allotment of funds to help low-income borrowers with financing for home improvement loans through a partnership with a local town. The town had obtained a Community Development Block Grant to provide subsidized funds to income-eligible residents for home improvement needs. In 2009, the bank again committed \$50 thousand towards the effort. Though available to area residents, management did not receive any applications and therefore no loans have been booked under this program.

These loans are not included in any other analyses under the Lending Test.

Number and Amount of Qualified Investments

The level of qualified investments is satisfactory. During the evaluation period, MNB made a \$1.5 million investment in a senior housing crime prevention program which benefits primarily low- and moderate-income senior citizens residing in two nursing homes in the AA. This community service provides safe and secure living environments by reducing crime and promoting a higher quality of life for those who are most vulnerable.

In addition, the bank made 39 grants/donations totaling \$77 thousand to 17 community development organizations in the AA. While the actual level of bank donations made was higher, these donations met the definition of community development. Included in this total was a \$10 thousand grant for an affordable housing and community rehabilitation project and a \$10 thousand grant to a predominantly low- and moderate-income senior center.

Extent to Which the Bank Provides Community Development Services

MNB provides a good financial presence in the moderate-income census tract. Of the bank's five branches, one or 20% are in the moderate-income tract, well exceeding the 1% of the population of the AA living in this moderate-income geography.

The bank provides a satisfactory level of community development services. During the evaluation period, 12 bank officers/employees provided financial expertise and/or leadership services to 11 community development organizations serving the AA. Some of these services included first time homebuyer seminars, helping to meet affordable housing, an identified need. Ten bank employees fluently speak eight foreign languages and one of the first time homebuyers' seminars was also offered in Portuguese.

Responsiveness to Community Development Needs

MNB's community development performance, measured through CD loans, investments, and services, demonstrates adequate responsiveness to the needs of its AA, considering the bank's capacity and the need and availability of CD opportunities. The bank was responsive to identified community development needs including affordable housing, small business lending, and homebuyer education for low- and moderate-income individuals and families.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.