



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 15, 2012

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 Outstanding.

The Lending Test is rated: Outstanding.

The Community Development Test is rated: Outstanding.

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

Scope of Examination

The Bank of Bennington (Bennington) was evaluated using Intermediate Small Bank 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 the bank's assessment area through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its assessment area through qualified CD loans, investments, and services.

The evaluation period for the lending test covers the bank's performance from July 1, 2009, through December 31, 2011. The evaluation period for the CD test is from September 28, 2009, the date of the prior Performance Evaluation, through October 15, 2012. CD loans, investments, and services submitted by management were verified to ensure they met the regulatory definition for community development.

Bennington's primary loan product, based on originations during the evaluation period, is residential mortgages. Residential loans, including home purchase and refinance loans, represent 70% of loan originations by dollar volume and 52% by count during the evaluation period. Commercial loans represent 19% of loan originations by dollar and 15% by count; home equity lines of credit represent 9% of originations by dollar and 14% by count; and consumer loans represent 2% of originations by dollar and 18% count.

We reviewed the bank's internal tracking of residential real estate loans originated and purchased during the assessment period; the report was accurate and all loans were included in our evaluation of the bank's lending. Bennington is not a Home Mortgage Disclosure Act (HMDA) reporter, however, the distribution of the bank's mortgage loans

was compared to the aggregate performance of area lenders subject to HMDA reporting requirements.

Description of Institution

Bennington is a \$314 million federal stock savings bank, wholly owned by Community Financial Mutual Holding Company, headquartered in Bennington, Vermont (VT). In addition to the bank's main office located in Bennington, VT, the institution has three additional full service branches located on Phyllis Lane in Bennington, in Arlington, and in Manchester. The main office is located in moderate-income geography; the Phyllis Lane and Arlington branches are located in middle-income distressed geographies; and the Manchester branch is located in an upper-income geography. Branch hours are typically 8 AM to 5 PM from Monday through Friday, and 9 AM to 12 PM on Saturday. No branches were closed during the evaluation period. The bank operates a commercial Loan Production Office in Albany, New York; these activities were not considered in this evaluation. There have not been any significant changes to the bank's corporate structure since the last CRA examination.

Bennington is a full service, intrastate institution, offering a standard array of traditional loan and deposit products for both personal and business customers. The bank's website, www.thebankofbennington.com, provides a listing and description of its deposit and loan services. The bank offers a variety of different account access alternatives including telephone banking and online banking with bill pay options. The bank operates automated teller machines (ATMs) at all four branches and two other locations. Bennington is a member of the FALCON ATM network which allows customers to access their accounts from participating FALCON network ATMs without charge.

As of June 30, 2012, total assets were \$314 million, total deposits were \$204 million, and Tier 1 Capital was \$30 million. The loan portfolio totaled \$253 million, or 81% of total assets.

The following table provides a summary of the loan mix.

Loan Portfolio Summary by Loan Product June 30, 2012	
Loan Category	% of Gross Loans and Leases
1-4 Family Residential Mortgage – Closed End	67%
Home Equity	7%
Commercial & Industrial	4%
Commercial Real Estate	20%
Construction and Development	2%

Source: FDIC Call Report

There were no financial or legal impediments limiting Bennington's ability to meet community credit needs.

At the last CRA examination, dated September 28, 2009, the bank was rated "Outstanding," using Small Bank Procedures.

Description of Assessment Area

Bennington has one assessment area (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 and consists of all twelve census tracts of Bennington County. There are two moderate-income geographies, seven middle-income distressed geographies, and three upper-income geographies. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

The following table contains some 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%	17%	58%	25%
Population by Geography	36,994	0%	21%	59%	20%
Owner Occupied Housing by Geography	10,599	0%	15%	62%	23%
Family Distribution by Income Level	9,960	18%	19%	23%	40%
2000 Census Median Family Income (MFI)		\$46,084	Average of Median Home Sale Prices from 2009-2011*		\$168,900
			Median Age of Housing		48 Years
HUD Updated MFI: 2011		\$62,900	Families Below the Poverty Level		10%
			Unemployment Rate **		5.9%

Source: 2000 US Census data

* Data from Vermont Housing Finance Agency for Bennington County

** Data from US Bureau of Labor Statistics as of August 2012

Economic indicators show that the VT economy is improving. Job gains have broadened as small businesses, technical and computing services companies, and health services companies increase hiring. However, due to weaker exports, manufacturing continues to be slow. The VT housing market has been more stable than the national market. Since the peak in 2008, housing prices in the state have declined 8% compared to the 33% decline seen nationally. In addition, foreclosures in the state remain well below the national average.

As of August 2012, the unemployment rate in Bennington County was 5.9%. The local unemployment rate is higher than the state unemployment rate of 5.3%, but compares favorably to the national unemployment rate of 8.1%. The seven middle-income geographies in the AA are designated as distressed geographies due to population loss. Competition from higher paying employment in surrounding New England states continues to cause outmigration of the working-age population in VT. This will likely continue as long term employment growth in the state is projected to trend below the national average over the next ten years.

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; Merchants Bank; RBS Citizens, National Association; TrustCo Bank; Williams Town Savings Bank; and Heritage Family Credit Union.

In conducting the assessment of the bank's performance, we contacted a nonprofit organization that provides community services to residents of an affordable housing complex in Bennington and additional services to members of the community through partnerships with other organizations. The contact said that local economy continues to struggle. Local needs include additional jobs to reduce unemployment, affordable housing, food security, and affordable heat and gas. According to the contact, there are opportunities for local financial institutions to participate in the community and the Bank of Bennington has been actively involved in assisting the organization's efforts to provide community services to low-to moderate-income (LMI) individuals.

Conclusions with Respect to Performance Tests

LENDING TEST

The bank's performance under the lending test is rated "Outstanding."

The loan-to-deposit ratio is more than reasonable. A substantial majority of the bank's primary loan products are originated within its AA. The distribution of loans reflects excellent distribution to borrowers of different incomes. The geographic distribution of loans reflects excellent distribution in the moderate-income census tracts.

Loan-to-Deposit Ratio

Given the bank's size, financial condition, and the credit needs in the AA, the loan-to-deposit ratio is more than reasonable. The net loan-to-deposit ratio averaged 127% over the last 12 quarters since the previous CRA examination dated September 28, 2009. During the period since the last examination, the loan-to-deposit ratio ranged from a quarterly low of 118% to a high of 137%. The bank's ratio is consistently above the national peer group, which averaged 86% and ranged from a low of 81% to a high of 94% 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 substantial majority of the bank's primary loan products were originated within its AA. Based on the number of loans originated during the assessment period, 85% of all home loans were originated inside the AA. Based on the dollar amount of loans originated during the assessment period, 84% of all 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
	#	%	#	%		\$	%	\$	%	
Total Home Loans	447	85%	82	15%	529	62,654	84%	11,882	16%	74,536

Source: Residential loans for the period of 7/1/2009 to 12/31/2011.

Lending to Borrowers of Different Incomes

The distribution of home loans reflects excellent distribution to borrowers of different income levels.

The percent of home purchase loans to low-income borrowers is significantly below the percent of low-income families in the AA and slightly below the aggregate lending data for low-income borrowers. The percent of home purchase loans to moderate-income borrowers exceeds the percent of moderate-income families in the AA, as well as the aggregate lending data.

The percent of home refinance loans to low-income borrowers is significantly below the percentage of low-income families in the AA and is slightly above the aggregate lending data. Home refinance loans to moderate-income borrowers are significantly above the percentage of moderate-income families in the AA and significantly above the aggregate loan data percentage.

The primary comparator is the aggregate loan data. Home refinance loans, which accounted for over 75% of home loan originations during the period, are given more weight than home purchase loans in evaluating the bank's lending. Given these factors, the bank shows an excellent level of lending to LMI individuals in the AA. The bank's performance is also considered excellent given the high percentage of low-income family households living below the poverty level and housing affordability in the AA. The HUD Adjusted Median Family Income for 2011 was \$62,900 which puts the moderate-income individuals in the income range of \$31,451-\$50,320, and low-income borrowers at or below \$31,450. The median price of homes sold in Bennington County during the assessment period was \$168,900, which could make it difficult for low-income individuals to qualify for home loans.

The table below illustrates the distribution of home loans (home purchase and refinance loans) to borrowers of different income levels as compared to the percentage of families in each income category and aggregate lending data.

Table 2 –Distribution of Home Loans by Borrower Income Level						
Type	Home Purchase			Home Refinance		
Borrower Income Category	% of Loans	% Family Distribution	% of Aggregate	% of Loans	% Family Distribution	% of Aggregate
Low	2%	18%	6%	8%	18%	7%
Moderate	22%	19%	20%	26%	19%	12%
Middle	32%	23%	28%	22%	23%	20%
Upper	44%	40%	46%	44%	40%	61%
TOTAL	100%	100%	100%	100%	100%	100%

Source: Residential loans for the period of 7/1/2009 to 12/31/2011.

Geographic Distribution of Loans

The geographic distribution of loans reflects excellent distribution in the moderate-income tracts in the AA.

There are no low-income geographies in the assessment area. The geographic distribution of home purchase and refinance loans in the AA represents excellent distribution in moderate-income level census tracts in the AA. The percent of home purchase loans to moderate-income borrowers is near to with percent of owner occupied units in moderate-income tracts in the AA and exceeds the aggregate lending data percentage. The percent of home refinance loans to moderate-income borrowers is equal to the percent of owner occupied housing in moderate-income tracts in the AA and exceeds the aggregate lending data; the primary comparator.

The following table details the bank's performance compared to the percentage of owner-occupied housing units in each census tract income level and aggregate lending data.

Table 3 –Geographic Distribution of Home Loans by Census Tract Income Level						
Type	Home Purchase			Home Refinance		
Census Tract Income Category	% of Loans	% Owner Occupied	% of Aggregate	% of Loans	% Owner Occupied	% of Aggregate
Low	0%	0%	0%	0%	0%	0%
Moderate	14%	15%	12%	15%	15%	10%
Middle	66%	62%	56%	64%	62%	49%
Upper	20%	23%	32%	21%	23%	41%
TOTAL	100%	100%	100%	100%	100%	100%

Source: Residential loans for the period of 7/1/2009 to 12/31/2011.

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 in 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 the evaluation period, the bank made three qualified CD loans totaling \$210 thousand that benefited the AA. A \$90 thousand line of credit was extended for an affordable housing project in Manchester VT; the majority of the homes will be for LMI individuals. The bank also made a \$100 thousand loan to an organization to fund the purchase of a youth center. The center will be located at an apartment complex that houses LMI individuals in Bennington VT. The bank made a \$20,000 loan to a nonprofit organization located in a moderate-income geography that helps local individuals and families with parenting and life decisions through support and educational programs. The loan is to help purchase a new building to increase the variety of medical services the organization can provide.

Number and Amount of Qualified Investments

The level of CD investments demonstrates excellent responsiveness. Qualified CD donations, prior period investments, and new investments totaled \$1.4 million.

During the evaluation period, the bank made a new qualified investment with a total commitment of \$500 thousand. The investment supports affordable housing projects in the greater state wide area, including Bennington County.

The bank had four prior period investments with a total outstanding value of \$838 thousand to support affordable housing projects in the AA.

In addition, during the evaluation period, the bank made 22 grants/donations totaling \$28 thousand to 20 CD organizations in the AA. 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. Three of the bank's four branches are located in a moderate-income geography or in a middle-income distressed geography. During the evaluation period, six bank officers/employees provided financial expertise and/or leadership services to eight different CD organizations serving the AA. The CD services provided helped organizations that promote affordable housing, job training, and food banks; all identified needs in the AA.

CD services include:

- One bank officer serves on the board of a CD organization that provides resident services to promote self-sufficiency, home ownership, employment, safety, and education to the members of an affordable housing complex in the AA. The bank officer also serves on the board of a nonprofit medical clinic that provides free medical care, care coordination, and referrals to uninsured adult residents in Bennington County.
- A bank employee serves on a committee for an organization that operates shelters and affordable housing facilities for both short and long-term transition housing for low-income families experiencing and/or facing homelessness. The bank employee also serves on a committee for a community service institution that helps improve educational, informational, cultural, and recreational access in a moderate-income tract.
- A bank employee serves on the finance committee and helps clients with financial paperwork at an organization which strives to increase affordable housing in the AA.
- A bank employee serves on a committee for a community service organization that helps collect and distribute donations to local food banks.
- A bank employee serves as a committee member at an organization that works to identify skill gaps in local businesses and provides educational and training opportunities to improve employment, helping to provide economic development in distressed tracts.
- An officer of the bank serves on the investment committee of an investment fund that focuses on identifying and supporting affordable housing projects state wide, including projects in Bennington County.

Responsiveness to Community Development Needs

Considering the bank's capacity and the need and availability of CD opportunities, the bank'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 C.F.R. 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, or in any assessment area by an affiliate whose loans have been considered as part of the FSA's lending performance.

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