



## **PUBLIC DISCLOSURE**

October 20, 2014

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

Millbury National Bank  
Charter Number 13835

18 Main Street  
Millbury, MA 01527

Office of the Comptroller of the Currency

99 Summer St  
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 major factors supporting the institution's CRA Rating are:

- Millbury National Bank's (MNB) level of lending, as reflected in its net loan-to-deposit ratio, is reasonable.
- A majority of originated loans are within the bank's assessment area (AA).
- The distribution of loans reflects reasonable penetration among businesses of different sizes and borrowers of different income levels.
- The geographic distribution of loans reflects reasonable dispersion in the moderate-income census tracts.

**SCOPE OF EXAMINATION**

MNB was evaluated using Small Bank evaluation 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. The bank'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 assessment area (AA) through its lending activities.

MNB's primary loan products, based on loan originations during the evaluation period, are commercial (including commercial real estate) and consumer loans. During the evaluation period, the breakdown of the bank's originated loans was 50% commercial, 35% consumer, 8% residential mortgages, and 7% home equity lines. We 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, and a random sample of 20 consumer loans originated in the AA during the evaluation period to evaluate the bank's lending to consumers.

As indicated by the June 30, 2014 Uniform Bank Performance Report, the bank's loan portfolio is comprised of 57% commercial loans, 41% residential loans, and 2% consumer loans. The bank reports data under the requirements of Home Mortgage Disclosure Act (HMDA); however, based on loan originations during the evaluation period, residential mortgages were determined not to be a primary product.

**DESCRIPTION OF INSTITUTION**

MNB is located in Worcester County, approximately 45 miles west of Boston. There has not been any merger or acquisition activity since the previous evaluation. MNB has a main office in Millbury, MA and one branch located in South Grafton, MA. The main office is located in a middle-income census tract and the branch is located in a upper-

income census tract. The South Grafton branch was relocated from North Grafton on November 1, 2010, for cost-saving purposes. The South Grafton branch is located just five miles from the original location, and provides better coverage to the bank's assessment area.

MNB is a full service institution offering a variety of loan and deposit products for consumer and commercial customers. The main office and the branch offer drive through and lobby services. Extended banking hours are available during the business week and on Saturday at both locations. Automated Teller Machines (ATMs) are also available twenty-four hours at both locations. The bank's website, [www.mnbonline.com](http://www.mnbonline.com), provides a listing and description of its deposit and loan services, as well as online banking services.

As of June 30, 2014, total assets, total deposits, and net tier 1 capital were \$83 million, \$74 million, and \$8.5 million, respectively. The loan portfolio totaled \$57 million, or 69% of total assets. According to the bank's strategic plan, loans to small to medium sized businesses are the bank's primary focus. The following table provides a summary of the loan mix.

<b>Loan Portfolio Summary by Loan Product – June 30, 2014</b>	
<b>Loan Category</b>	<b>% of Gross Loans and Leases</b>
1-4 Family Residential Mortgage – Closed End	25%
Home Equity	16%
Other Real Estate (Commercial)	35%
Commercial & Industrial	19%
Consumer	2%
Construction & Development	3%

*Source: Federal Deposit Insurance Corporation Call Report, June 30, 2014*

The bank has no financial or legal impediments to meeting the credit needs of the community. The bank was rated "Satisfactory" using small bank procedures at the last CRA evaluation dated March 4, 2009.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

The CRA requires a bank to define the AA in which it will be evaluated. MNB has one AA that includes its main office and branch, as well as, the contiguous towns/cities. The bank's AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income census tracts.

The AA is comprised of 15 towns in a portion of Worcester County and falls within the Worcester, MA Metropolitan Statistical Area (MSA). The towns included are Auburn, Blackstone, Douglas, Grafton, Hopedale, Mendon, Millbury, Millville, Northbridge, Oxford, Shrewsbury, Sutton, Upton, Uxbridge, and Westborough. The AA is comprised of 37 census tracts; two moderate (6%), 19 middle (51%), and 16 upper-income tracts (43%).

Demographic information based on 2010 U.S. Census is broken down below:

<b>Demographic Information for MNB AA</b>						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA % of #
Geographies (Census Tracts/BNAs)	37	0.00	5.41	51.35	43.24	0.00
Population by Geography	192,909	0.00	4.39	44.61	60.00	0.00
Owner-Occupied Housing by Geography	73,915	0.00	3.58	46.14	50.28	0.00
Business by Geography	16,010	0.00	4.45	43.00	52.55	0.00
Farms by Geography	390	0.00	3.08	39.74	57.18	0.00
Households by Income Level	70,481	16.89	13.03	16.89	53.19	0.00
Family Distribution by Income Level	51,085	12.21	14.94	22.58	50.26	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	13,873	0.00	9.24	52.00	38.76	0.00
Median Family Income HUD Adjusted Median Family Income for 2013 Households Below Poverty Level		\$79,121 \$81,300 4.74%	Median Housing Value Unemployment Rate		\$339,478 6.5% *	

Source: 2010 U.S. Census Data.

\*Data from U.S. Bureau of Labor Statistics as of August 2014. Rate is for Worcester, MA MSA.

MNB operates in a highly competitive market with competition from regional commercial banks, local savings banks, and large national commercial banks. The Federal Deposit Insurance Corporation's Deposit Market Share Report for June 30, 2014 indicates 43 financial institutions operate within the Worcester MSA. MNB ranks 36<sup>h</sup> with a deposit market share of less than 1%. The bank's primary local competitors include UniBank for Savings, Webster Five Cents Savings Bank, and Savers Co-operative Bank and have an overall deposit market share of 14%. All three local institutions are considerably larger than MNB, with wider market areas and several branches. Large national banks, including Bank of America, TD Bank, National Association, Santander Bank, National Association, and Citizens Bank, National Association, further increase the competition.

Small business lending has remained a strategic focus for MNB since its inception in 1825. Small business lending within the bank's AA is highly competitive. The top three financial institutions, American Express, FIA Card Services, and Citibank, National Association, control 43% of the small business lending market share, according to the 2013 Peer Small Business Data Market Share report. The report indicates there are 70 financial institutions competing in the small business lending market within the bank's AA.

Per Moody's Analytics Inc., Worcester MSA's economic drivers are manufacturing and medical centers. The Moody's report considers the area's economy to be in the recovery phase of the business cycle. Increased homebuilding marks improvement, and construction related employment has increased since the previous winter. Unemployment rates improved since year-end 2013, declining from 7.7% to 6.7%, as of May 2014. As of August 2014, the unemployment rate for the Worcester MA MSA is 6.5%, according to the U.S. Bureau of Labor Statistics. The top employers in the area are University of Massachusetts Memorial Health Care, University of Massachusetts Medical School, and Saint Vincent's Hospital. The large manufacturing industry in Worcester has suffered over the past several years, due to the recession throughout the European Union. However, exports to the European Union are increasing, and the growth is expected to help the region's manufacturing industry and increase employment.

Bank management noted improvements in the local economy over the last 18 months, with an increase in construction projects and local businesses reporting better cash flows. An increasing number of small business owners are making capital investments in their companies, as concerns over the stagnant economy begin to fade. Although housing and commercial real estate vacancy trends are improving, real estate values are still lagging behind.

Bank management identified small business lending as the primary credit need in the AA. It is critical for the area to support small business growth to strengthen the local economy. The majority of the region's commerce is comprised of small businesses that are service-oriented, as well as midsize manufacturing and trucking/shipping firms.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

MNB's performance under the lending test is Satisfactory. MNB's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, area credit needs, and relevant competitive factors. A majority of the commercial and consumer loan originations during the evaluation period were within the AA. The distribution of loans reflects reasonable penetration among borrowers of different incomes and businesses of different sizes. The bank's geographic distribution of loans within its assessment area reflects a reasonable dispersion throughout the census tracts of different income levels.

### **Loan-to-Deposit Ratio**

MNB's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly net loan-to-deposit ratio averaged 86% over the 22 quarters since the previous evaluation dated March 4, 2009. During the period since the last evaluation, March 31, 2009, to June 30, 2014, the LTD ranged from a quarterly low of 74% to a quarterly high of 95%.

The bank's net loan-to-deposit ratio is consistent with other community banks of similar size and location. The peer group had a quarterly average net loan-to-deposit of 93% over the same 22 quarters, ranging from a low of 82% and a high of 100%.

### Lending in Assessment Area

A majority of the bank's primary loan products were originated inside its assessment area. MNB originated 60% by number and 71% by dollar amount of loans in the AA.

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

<b>Lending in MNB AA</b>										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial Loans	13	65%	7	35%	20	\$1,415	69%	\$635	31%	\$2,050
Consumer Loans	11	55%	9	45%	20	\$291	81%	\$70	19%	\$361
Totals	24	60%	16	40%	40	\$1,706	71%	\$705	29%	\$2,411

*Source: Samples of consumer and commercial loans (1/1/2012-12/31/2013).*

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

The borrower distribution of loans in the bank's assessment area is reasonable. The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. The distribution of consumer loans to borrowers reflects excellent penetration among borrowers of different income levels. More weight was given to the distribution of business loans, as they comprised 50% of all loan originations made during the evaluation period.

#### *Business Loans*

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. The bank originated 55% of loans to small businesses with gross annual revenues of \$1 million or less. Loans to small businesses were identified as a credit need in the assessment area. Performance is lower than demographic data of 73%, but is considered reasonable given the high level of competition in the area. According to the demographic data, 22% of businesses in the area have an unknown amount of revenue.

The following table shows the distribution of business loans among different sized businesses in the AA.

<b>Borrower Distribution of Loans to Businesses in MNB AA</b>				
Business Revenues (or Sales)	≤ \$1,000,000	>\$1,000,000	Unavailable / Unknown	Total
% of AA Business	73%	5%	22%	100%
% of Bank Loans in AA by #	55%	45%	0%	100%
% of Bank Loans in AA by \$	42%	58%	0%	100%

Source: Loan sample (1/1/2012-12/31/2013); 2010 U.S. Census data.  
 Note: 22% of businesses did not report revenues.

### Consumer Loans

The distribution of consumer loans to borrowers reflects excellent penetration among borrowers of different income levels. The percent of consumer loans made to both low- and moderate-income borrowers significantly exceeds demographics when compared to the percent of AA households at those income levels.

The following table shows the distribution of consumer loans during the evaluation period among borrowers of different income levels compared to the percent of AA households in each income category.

<b>Borrower Distribution of Consumer Loans in MNB AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	17%	40%	13%	30%	17%	5%	53%	25%

Source: Loan sample (1/1/12-12/31/13); 2010 Census Data.

### Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion in the moderate-income tracts within the bank's assessment area. The lending test did not indicate any conspicuous gaps or areas of low penetration in the bank's lending patterns.

**Business Loans**

The bank's geographic distribution of business loans reflects excellent dispersion in the moderate-income tracts. MNB's lending to smaller businesses in the moderate-income geography exceeds the level of businesses with revenues less than \$1 million located there. The AA does not have any low-income census tracts.

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

<b>Geographic Distribution of Business Loans in MNB AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business	N/A	N/A	4%	15%	44%	35%	52%	50%

Source: Loan sample (1/1/12-12/31/13); 2010 Census Data

**Consumer Loans**

The bank's geographic distribution of consumer loans in the AA reflects reasonable dispersion in moderate-income census tracts. The bank did not originate any consumer loans in the two moderate-income census tracts; however, the bank's performance is considered reasonable as lending opportunities are limited given the low percentage of households located in the moderate-income tracts and the high level of competition in the area. The AA does not contain any low-income census tracts.

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

<b>Geographic Distribution of Consumer Loans in MNB AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	N/A	N/A	5%	0%	47%	60%	48%	40%

Source: Loan sample (1/1/12-12/31/13); 2010 Census Data.

### **Responses to Complaints**

There were no CRA complaints received by the bank or the agency during the evaluation period.

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

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank's 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.