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Comptroller of the Currency  
Administrator of National Banks

**SMALL BANK**

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Northeastern District  
1114 Avenue of the Americas, Suite 3900  
New York, New York 10036

## **PUBLIC DISCLOSURE**

August 10, 1998

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

**Canaan National Bank  
Charter Number 8511  
100 Main Street  
Canaan, Connecticut 06016**

**The Office of the Comptroller of the Currency  
New England Field Office  
150 Federal Street, Second Floor  
Boston, Massachusetts 02110**

**NOTE: 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.**

## GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of the *Canaan National Bank* prepared by *The Office of the Comptroller of the Currency*, the institution's supervisory agency, as of *August 10, 1998*. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

**INSTITUTION'S CRA RATING:** This institution is rated *Outstanding*.

Primary factors supporting the bank's overall rating include:

- A loan to deposit ratio averaging 90% for the last 10 quarters.
- A high ratio of loan originations, 90%, made within the assessment areas.
- A strong distribution of credit to borrowers of different income levels.
- A good percentage, 83%, of lending to small businesses.

The following table indicates the performance level of the **Canaan National Bank** with respect to each of the five performance criteria.

<b>SMALL INSTITUTION ASSESSMENT CRITERIA</b>	<b><u>CANAAN NATIONAL BANK</u> PERFORMANCE LEVELS</b>		
	<b>Exceeds Standards for Satisfactory Performance</b>	<b>Meets Standards for Satisfactory Performance</b>	<b>Does not meet Standards for Satisfactory Performance</b>
Loan to Deposit Ratio	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to businesses of Different sizes	X		
Geographic Distribution of Loans	Not meaningful		
Response to Complaints	No complaints were received since the prior examination.		

## **DESCRIPTION OF INSTITUTION**

Canaan National Bank (CNB), the only subsidiary of Canaan National Bancorp Inc., is a \$72 million community bank located in rural northwestern Connecticut. CNB's main office is in Canaan, Connecticut. CNB also has a full service branch in Egremont, Massachusetts, which opened October 30, 1997, to better serve a separate and expanded assessment area. This two-state area is not located within a Metropolitan Statistical Area (MSA).

CNB offers a variety of credit products. Residential lending comprising \$26 million or 58% of the \$45 million loan portfolio is influenced by high real estate values in the area. Commercial real estate loans at \$10 million (22%), business loans at \$5 million (11%) and consumer loans at \$4 million (9%) comprise the remainder of the portfolio. The bank was assigned an "outstanding" CRA rating at the preceding examination dated March 8, 1996. There are no financial or legal impediments preventing the institution from helping to meet the credit needs of the assessment area.

In Canaan, CNB faces strong competition from Peoples Bank, a large regional bank based in Bridgeport, CT, and New Milford Savings Bank. As well, further competition is extended by Salisbury Bank and Trust and National Iron Bank. In the area surrounding Egremont, CNB competes with a large number of banks with much greater resources. Included among them are the multinational BankBoston, and longstanding stalwarts like Berkshire Bank, City Savings Bank, The Lee Bank and the Greylock Credit Union.

## **DESCRIPTION OF ASSESSMENT AREA**

CNB has defined two assessment areas; one consists of six block numbered areas (BNAs) located within the non MSA of northwest Connecticut; and the other consists of four similar BNAs in southwestern Massachusetts. The ten contiguous BNAs are separated only by the state line. The resulting assessment areas are nearly identical. Connecticut's area has a combined population of 15,000; Massachusetts' area has a combined population of 17,000. Each area consists of only middle-income BNAs.

The statewide non metropolitan updated median family income for Connecticut is \$53,000. In the Connecticut assessment area, low-income families comprise 15% of the population, moderate-income families 17%, middle-income families 28% and upper-income families 40%. Two distinct housing characteristics limit low- and moderate-income families from home ownership opportunities. They are median housing values at \$196 thousand and the median age of the housing stock at 51 years. The need for rehabilitating older homes considerably increases the cost burden for potential purchasers.

The limiting influence of these two costs is seen in ownership rates. Owner occupied housing comprises only 56% of the total. Year-round rental occupied housing is very low at 21% of the total while vacant housing units are high at 22%. Community contacts stated that high land costs and the area's recreational orientation have created a housing environment which favors owners who hold housing for seasonal renters.

The statewide non metropolitan updated median family income for Massachusetts is \$44,900. In the Massachusetts assessment area, low-income families comprise 19% of the population, moderate-income families 18%, middle-income families 24% and upper-income families 39%. As in Connecticut, housing costs and age limit ownership. The median housing value for the area of \$142 thousand, is overpriced for low-income families and moderate-income borrowers. The median age of the housing stock, 49 years, further limits home ownership opportunities as the need for rehabilitating older homes considerably increases the cost burden of potential purchasers.

The limiting influence of purchase and maintenance costs are also reflected in Massachusetts; owner occupied housing comprises only 49% of the total. Rental occupied housing is very low at 21% and vacant housing units are high at 28% for the same reasons identified in Connecticut.

The local Connecticut assessment area is largely rural and economic conditions are stable. Management estimates unemployment ranges between three and four percent; in line with the Torrington-market and statewide averages, 2.7% and 3.8% respectively. Major employers in the area include small manufacturing firms, retail and hospitality (tourism) businesses. Major employers include Becton-Dickinson, a manufacturer of medical supplies; Specialty Minerals, a manufacturer of calcium carbonate products; Robert C. Geer Nursing Memorial Hospital, a nursing home; and Bicron Electronics. Primary credit needs of the assessment area are residential real estate and small business loans according to management. The Connecticut community contact confirmed these needs.

The local Massachusetts assessment area is also rural with the exception of Great Barrington's urban influence. Overall economic conditions are strong and stable. State officials report 2.5 percent unemployment in the Great Barrington-market and four percent in all of Berkshire County. The type of major employers in the area mirrors Connecticut's with emphasis in small manufacturing, retail and hospitality and recreational businesses. Rising Paper, Sheffield Plastics and Custom Extrusion are the major employers. Management stated that the Massachusetts assessment area has residential mortgage and consumer loans as primary credit needs. The Massachusetts community contact interview confirmed management's conclusions.

CNB's overall CRA rating is primarily reflective of the bank's Connecticut State rating as 90% of the number and 88% of the volume of the bank's lending originated from their main office in Canaan, Connecticut.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

### Scope of Review

We based our data analysis on residential real estate mortgages, consumer loans and business loans to borrowers of different income levels originated from January 1, 1997 to June 30, 1998. We relied primarily on bank data after concluding that products and procedures were unchanged in the entire review period, January 1, 1996 to June 30, 1997. Consistent operations and testing bank records for accuracy validate January 1, 1997 to June 30, 1998 as an appropriate proxy for the overall time period.

### Loan to Deposit Ratio

CNB's loan to deposit ratio is strong given its size, financial condition and assessment area credit needs. The loan to deposit ratio was 87% as of June 30, 1998. The average for the last ten quarters is 90%, and is consistent with prior examination findings. No similarly situated institution in Connecticut has a higher average loan to deposit ratio for the same ten quarter period. CNB's loan to deposit ratio is also strong when compared to the ten quarter average of all similarly situated banks in Berkshire County, Massachusetts of 74.5%.

### Lending in the Assessment Area

A substantial majority of lending, 90% of the number and 90% of the dollar amount of originations for the evaluation period, is inside CNB's assessment area as reflected in the table below. Bank prepared reports, validated for accuracy, were the source documents.

Loan Originations - (000's)								
Loan Type	Inside Assessment Area				Outside Assessment Area			
	#Loans	%	\$ Amt	%	#Loans	%	\$ Amt	%
Mortgages	167	87%	14,144	87%	25	13%	2,073	13%
Consumer	901	89%	11,927	95%	109	11%	622	5%
Comm'l Loans	274	95%	12,482	88%	14	5%	1,656	12%
<b>Total</b>	<b>1342</b>	<b>90%</b>	<b>38,553</b>	<b>90%</b>	<b>148</b>	<b>10%</b>	<b>4,351</b>	<b>10%</b>

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

### *Borrowers of Different Incomes*

#### ***Residential Mortgages***

We analyzed residential mortgage originations for the time period January 1, 1997 through June 30, 1998. After testing and validating for accuracy, bank records containing 100% of originations for the evaluation period were used for this determination. The bank's distribution of loans among borrowers of different income levels is strong when compared to other financial institutions and considering the demographics and median housing value of the assessment area.

CNB's level of mortgage lending is very favorable when compared to 1997 peer data for Home Mortgage Disclosure Act (HMDA) reportable lenders in their assessment area. CNB performed near the market (peer) of 5% for the number of real estate originations to low income borrowers and their lending to moderate income borrowers of 25% materially exceeded the market's 14%. Also, on a combined basis, CNB's level of lending to low- and moderate-income borrowers of 29% significantly exceeded the market's 19%.

As stated earlier in performance context, very high median housing prices limit ownership opportunities for low-income families. As a result, CNB's originations within this income group evidence a willingness and success in working with potential home owners in low-income strata. Specifically, continuation of their first-time home buyers program and the addition of two new adjustable rate mortgage programs contribute to low- and moderate-income home mortgage originations. The new mortgage plans provide extended fixed rate periods for those who do not qualify for loans which are typically sold to the secondary market.

The non MSA updated median family income is \$53,000 in Connecticut and \$44,900 in Massachusetts. Low-income is defined as an income below 50% of the median family income. In this context, low income families have income less than \$26,500 in Connecticut and less than \$22,500 in Massachusetts. Conventional lending ratios would limit their house prices to about \$75 thousand in Connecticut and \$60 thousand in Massachusetts. While there may be houses at these levels, the median values, \$196 thousand in Connecticut and \$142 thousand in Massachusetts, suggest there are limited opportunities for these families. Moderate-income is between 50% and 79% of the median family income level. Using similar analysis, these families' incomes range between 26,500 and 41,870 in Connecticut and \$22,000 to \$35,471 in Massachusetts. At the top of the income range, their house prices could not exceed \$130 thousand and \$110 thousand respectively. Middle-income is between 80% and 119% of the median, and upper-income is equal to or greater than 120% of the median.

The table below reflects the breakdown of residential real estate originations among borrowers of different income levels in the assessment area by number and dollar amount from January 1, 1997 to June 30, 1998.

Real Estate Originations - (000's)										
		Low		Moderate		Middle		Upper		N/A
# Loans	%	5	4%	32	25%	42	32%	50	39%	0
\$ Amt	%	209	2%	1,766	15%	3,693	31%	6,334	52%	0
<i>1997 Peer HMDA Data (# Loans / %)</i>		57	5%	144	14%	215	21%	524	50%	106 10%
<i>Family Distribution*</i>		17%		18%		26%		39%		0

\*( Family Income Distribution percentages are for the two combined assessment areas.)

### Consumer Loans

We analyzed consumer loans originated from January 1, 1997 to June 30, 1998. We sampled 17% of automobile and personal loans, and 100% of credit card originations. The table below reflects a strong penetration of low- and moderate-income levels with consumer loan products. However, consumer loans represent only 9% of CNB's loan portfolio.

Consumer Loan Originations - (000's)										
		Low		Moderate		Middle		Upper		
# Loans	%	62	44%	37	26%	25	18%	18	12%	
\$ Amt	%	165	29%	188	33%	108	19%	112	19%	
<i>Family Distribution*</i>		17%		18%		26%		39%		

### Businesses of Different Sizes

A small business is defined as having gross annual revenues of \$1 million or less. CNB's performance reflects a strong level of responsiveness to small business credit needs. CNB lends to small businesses, many of which are service based and seasonally oriented, including farming operations. We sampled 26% of the number of commercial loans originated from January 1, 1997 through June 30, 1998. From our commercial loan sample, 83% of the number (33 loans) and 81% of dollar volume (\$1,780 thousand) were to businesses that had revenues of \$1 million or less. The table on the following page reflects the number of loans to small businesses that CNB originated from January 1, 1997 through June 30, 1998.

Business Loan Originations - (000's)						
		Small Business			Large Business	
# Loans	%	33 83%			7 17%	

<b>\$ Amt</b>	<b>%</b>	1,780	<b>81%</b>	406	<b>19%</b>
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Further validation of CNB’s strong responsiveness to small business needs is evidenced in making a significant majority of these loans to businesses with credit needs of \$100 thousand or less. The table below reflects that 85% of the number of small business loans were in amounts at or less than \$100 thousand. In addition, the average size of all commercial loans in the evaluation period was \$57,000.

<b>Small Business Loan Originations - (000's)</b>							
		<b>\$100 or less</b>		<b>\$101-\$250</b>		<b>\$251-\$1,000</b>	
<b># Loans</b>	<b>%</b>	34	<b>85%</b>	5	<b>13%</b>	1	<b>2%</b>
<b>\$ Amt</b>	<b>%</b>	1023	<b>47%</b>	817	<b>37%</b>	346	<b>16%</b>

### **Geographic Distribution of Loans**

There are no low or moderate-income tracts in CNB’s assessment area. Therefore, analysis of the geographic distribution of their loans is not meaningful.

### **Response to Complaints**

CNB has received no complaints relating to CRA performance since the prior CRA examination.

### **Fair Lending Examination**

A fair lending examination was performed concurrently with this examination. CNB’s performance under the Fair Lending laws is satisfactory. No violations of the substantive provisions of the anti-discrimination laws and regulations were identified. Practices and policies used by the lending staff in daily activity are satisfactory.

# State Rating

## **CRA Rating for: Connecticut.**

Factors supporting CNB's *Outstanding* rating include:

- A loan to deposit ratio of averaging 90% for the last ten quarters.
- The high ratio of loan originations, 89% of total originations made within the assessment area.
- A strong distribution of credit to borrowers of different income levels.
- Lending to small businesses is good.

We based our data analysis on residential real estate mortgages, consumer loans and business loans to borrowers of different income levels from January 1, 1997 to June 30, 1998. We relied primarily on bank data after concluding that products and procedures were unchanged in the entire review period, January 1, 1996 to June 30, 1997. Consistent operations and testing bank records for accuracy validate January 1, 1997 to June 30, 1998 as an appropriate proxy for the overall time period.

During the evaluation period, 90% of the number and 88% of the volume of the CNB's total lending originated from its Connecticut assessment area.

### **Description of Institutions's Operations in Connecticut.**

CNB has delineated six block numbered areas (BNAs) in northwestern Connecticut, all are middle-income. This is the assessment area in which lending efforts are focused; there is one banking office. CNB's assessment area is in a non metropolitan statistical area. As a result, consolidated non MSA conclusions are combined in this rating.

The Connecticut non MSA updated median family income is \$53,000. Low-income is defined as an income below 50% (\$26,500) of the median family income for the area. Moderate-income is defined as income between 50% and 79% (\$26,500-\$41,870) of the median income. Middle-income is defined as income between 80% and 119% (\$42,400-\$63,070) of the median income. Upper-income is defined as income equal to or greater than 120% (\$63,600+) of the median income.

CNB offers a variety of credit products. Its primary focus is residential lending . Commercial real estate and loans to small businesses are also significant loan portfolios. These loan groups reflect areas of financial need identified by the Connecticut community contact. Competition is strong. Peoples Bank, New Milford Savings, Salisbury Bank and Trust and National Iron Bank are major competitors.

## Conclusions with respect to Performance Tests in Connecticut.

### Loan to Deposit Ratio

CNB's loan to deposit ratio is strong. The average of this ratio for the last ten quarters is 90%. No similarly situated institution in Connecticut had a higher average loan to deposit ratio for the same ten quarter period.

### Lending in the Assessment Area

A substantial majority of lending, 89% of the number and 90% of the dollar amount of originations for the evaluation period, is inside CNB's Connecticut assessment area and reflected in the table below. Bank prepared reports were the source documents for this data. The data was tested and found to be accurate.

Loan Originations - (000's)								
Loan Type	Inside Assessment Area				Outside Assessment Area			
	#Loans	%	\$ Amt	%	#Loans	%	\$ Amt	%
Mortgages	130	87%	10,463	87%	20	13%	1,560	13%
Consumer	818	88%	11,318	95%	112	12%	621	5%
Comm'l Loans	260	95%	12,262	89%	13	5%	1,456	11%
<b>Total</b>	<b>1208</b>	<b>89%</b>	<b>34,043</b>	<b>90%</b>	<b>145</b>	<b>11%</b>	<b>3,637</b>	<b>10%</b>

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

#### *Borrowers of Different Incomes*

We analyzed residential mortgage and consumer loan originations for the time period January 1, 1997 through June 30, 1998. All originations were booked in the Connecticut main office branch until October 30, 1997 regardless of borrower address. Thereafter, Massachusetts originations were booked separately in the new Massachusetts branch. The distribution of loans among borrowers of different income levels is strong given CNB's performance relative to the market and given the demographics and median housing value of the assessment area.

CNB performed near the market of 7% for the number of real estate originations to low income borrowers. However, CNB's lending to moderate income borrowers, 30%, materially exceeded the market's 14% and the moderate income family distribution of the assessment area of 17%. Also, on a combined basis, CNB's level of lending to low- and moderate-income borrowers of 36% significantly exceeds the market's 21%.

In addition, the high median housing price of \$196 thousand limits home ownership opportunities for low-income families. Low-income is defined as income below 50% of median family income of \$53,000 or \$26,500, and conventional lending ratios would limit house prices to about \$75 thousand. CNB's originations within the low income groups evidences their willingness and success to work with potential home owners in this income strata.

Specifically, continuation of their first-time home buyers program and the addition of two new adjustable rate mortgage programs contribute to low- and moderate-income originations. The new mortgage plans provide extended fixed rate periods for those who do not qualify for loans which are typically sold to the secondary market. Bank records containing 100% of originations for the evaluation period were used, and the data was tested for accuracy.

The tables below reflect the breakdown of real estate mortgage and consumer loan originations among borrowers of different income levels in the Connecticut assessment area by number and dollar amount from January 1, 1997 through December 31, 1997.

<b>Real Estate Originations - (000's)</b>										
		<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>N/A</i>
<b># Loans</b>	<b>%</b>	5	<b>6%</b>	26	<b>30%</b>	32	<b>37%</b>	24	<b>27%</b>	<b>0</b>
<b>\$ Amt</b>	<b>%</b>	209	<b>3%</b>	1,501	<b>19%</b>	2,893	<b>37%</b>	3,206	<b>41%</b>	<b>0</b>
<b>1997 Peer HMDA Data (# Loans / %)</b>		31	<b>7%</b>	66	<b>14%</b>	88	<b>19%</b>	209	<b>45%</b>	72 <b>15%</b>
<b>Family Distribution</b>		<b>15%</b>		<b>17%</b>		<b>28%</b>		<b>40%</b>		

<b>Consumer Loan Originations - (000's)</b>										
		<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		
<b># Loans</b>	<b>%</b>	55	<b>46%</b>	33	<b>28%</b>	18	<b>15%</b>	13	<b>11%</b>	
<b>\$ Amt</b>	<b>%</b>	155	<b>32%</b>	160	<b>33%</b>	86	<b>18%</b>	78	<b>17%</b>	
<b>Family Distribution</b>		<b>15%</b>		<b>17%</b>		<b>28%</b>		<b>40%</b>		

### *Businesses of Different Sizes*

A small business is defined as having gross annual revenues of \$1 million or less. CNB's performance reflects a good level of responsiveness to small business credit needs. CNB lends to small businesses, many of which are service based and seasonally oriented, including farming operations. We analyzed commercial lending activity by sampling 26% of the number of business loans originated from January 1, 1997 through June 30, 1998. As noted in the table below, 77% of the number (23 loans) and 77% of dollar volume (\$1,357 million) of originations in the sample were to business with revenue of \$1 million or less.

<b>Business Loan Originations - (000's)</b>					
		<i>Small Business</i>		<i>Large Business</i>	
<b># Loans</b>	<b>%</b>	23	<b>77%</b>	7	<b>23%</b>
<b>\$ Amt</b>	<b>%</b>	1,357	<b>77%</b>	406	<b>23%</b>

Further validation of CNB's level of responsiveness to small business needs is making a significant majority of those loans to businesses with credit needs of \$100 thousand or less. The table below reflects that 84% of the number of small business loans were in amounts of \$100 thousand or less. In addition, the average size of all commercial loans in the evaluation period is \$58,800.

<b>Small Business Loan Originations - (000's)</b>							
		<b>\$100 or less</b>		<b>\$101-\$250</b>		<b>\$251-\$1,000</b>	
<b># Loans</b>	<b>%</b>	25	<b>84%</b>	4	<b>13%</b>	1	<b>3%</b>
<b>\$ Amt</b>	<b>%</b>	800	<b>45%</b>	617	<b>35%</b>	346	<b>20%</b>

### **Geographic Distribution of Loans**

There are no low or moderate-income tracts in CNB's assessment area. Therefore, analysis of the geographic distribution of their loans is not meaningful.

### **Response to Complaints**

CNB has received no complaints relating to CRA performance since the prior CRA examination.

# State Rating

## **CRA Rating for: Massachusetts.**

Factors supporting CNB's *Satisfactory* rating include :

- A loan to deposit ratio averaging 90% for the last ten quarters.
- The high ratio of loan originations, 94%, made within the assessment areas.
- An reasonable distribution of credit to borrowers of different income levels.
- A high percentage, 100%, of commercial lending is to small businesses.

This review covered the time period from January 1, 1996 to June 30, 1998. However, since the Egremont, Massachusetts branch opened October 30, 1997, our analysis of loans to borrowers of different income levels and businesses of different sizes covered the eight month period from October 30, 1997 to June 30, 1998. We reviewed residential real estate mortgages, consumer loans, and business loans.

During the time period, 10% of the number and 12% of the dollar volume of CNB's total lending originated from its Massachusetts assessment area.

## **Description of Institutions's Operations in Massachusetts.**

On October 30, 1997 CNB opened a full-service branch in Egremont and delineated four block numbered areas (BNAs) in southwestern Massachusetts, all of which are middle-income, as its assessment area. CNB's assessment area is in a non MSA. As a result, conclusions for consolidated non MSA are included in this rating.

The Massachusetts non MSA updated median family income is \$44,900. Low-income is defined as income below 50% of median family income (\$22,450). Moderate-income is defined as income between 50% and 79% of median family income (\$22,450-\$35,471). Middle-income is defined as income between 80% and 119% of median family income (\$35,920-\$53,431) and upper-income is defined as income equal to or greater than 120% of median family income (\$53,880).

CNB offers a variety of credit products. Its primary focus is residential lending and individual consumer loans. According to a Massachusetts community contact, both credit activities help meet the financial needs of the area. Consumer loans are especially helpful in meeting auto repair costs to maintain employment and in meeting home furnishing costs. Competition is very strong. The area is serviced by several large banks: BankBoston is a multinational, Berkshire Bank, City Savings Bank, The Lee Bank and the Greylock Credit Union have long-standing area presence through branches in nearby Great Barrington.

## **Conclusions with Respect to Performance Tests in Massachusetts.**

## Loan to Deposit Ratio

CNB's loan to deposit ratio is strong. The loan to deposit ratio was 87% as of June 30, 1998. The ten quarter average of this ratio through June 30, 1998, was 90% compared to the average of all similarly situated banks in Berkshire County, Massachusetts of 74.5%.

## Lending in the Assessment Area

A substantial majority of CNB's lending is inside its Massachusetts assessment area. The table below shows that from October 30, 1997 to June 30, 1998, 94% of the number and 86% of the dollar amount of loans originated inside the assessment area. Bank prepared reports were the source documents for our analysis. The data was tested and found to be accurate.

Loan Originations - (000's)								
Loan Type	Inside Assessment Area				Outside Assessment Area			
	#Loans	%	\$ Amt	%	#Loans	%	\$ Amt	%
Mortgages	37	88%	3,680	88%	5	12%	513	12%
Consumer	83	99%	607	99%	1	1%	1	1%
Comm'l Loans	14	93%	219	53%	1	7%	200	47%
<b>Total</b>	134	95%	4,506	86%	7	5%	714	14%

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

### *Borrowers of Different Incomes*

We analyzed residential mortgage and consumer loan originations for the eight month period October 30, 1997 through June 30, 1998. CNB's distribution of loans among borrowers of different income levels is reasonable relative to the market, the limited time that the Egremont branch has been opened, and given the assessment area demographics and median housing values.

As noted in the table on the following page, CNB's lending to low income borrowers was below the market's 4% for real estate originations. This is mitigated by the low levels of mortgage lending by HMDA reporting institutions in general, and the short time that the Egremont branch has been opened. CNB's lending to moderate income borrowers, 14%, is at the market's 14%. On a combined basis, CNB's level of lending to low- and moderate-income borrowers of 14% is relatively close to the markets 18%.

In addition, the median housing value for the area of \$142 thousand limits low income borrowers from home ownership opportunities. Low-income is defined as income below

50% of median family income of \$44,900 or \$22,450 and conventional lending ratios would limit house prices to about \$60 thousand. The median age of the housing stock, 49 years, further limits home ownership opportunities for low income families as the need for rehabilitating older homes considerably increases the cost burden for potential purchasers. Vacant housing units are high at 28%. The community contact said this is indicative of second home owners being in the area for only short time periods and a desire from local two home owners to have a house vacant while seeking high seasonal rentals and add to the difficulty of ownership in this area. As a result, owner occupied housing comprises 49% of the total housing stock.

<b>Real Estate Originations - (000's)</b>											
		<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>N/A</i>	
<b># Loans</b>	<b>%</b>	0	<b>0%</b>	6	<b>14%</b>	10	<b>24%</b>	26	<b>62%</b>	0	<b>0</b>
<b>\$ Amt</b>	<b>%</b>	0	<b>0%</b>	265	<b>6%</b>	800	<b>19%</b>	3,128	<b>75%</b>	0	<b>0</b>
<b>1997 Peer HMDA Data (# Loans / %)</b>		26	<b>4%</b>	78	<b>14%</b>	127	<b>22%</b>	315	<b>54%</b>	34	<b>6%</b>
<b>Family Distribution</b>		<b>19%</b>		<b>18%</b>		<b>24%</b>		<b>39%</b>			

The table below reflects CNB's good response to the other financial need of the area identified by the Massachusetts community contact, consumer loans for automobile repair and replacement of home appliances.

<b>Consumer Loan Originations - (000's)</b>											
		<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>			
<b># Loans</b>	<b>%</b>	7	<b>30%</b>	4	<b>18%</b>	7	<b>30%</b>	5	<b>22%</b>		
<b>\$ Amt</b>	<b>%</b>	11	<b>12%</b>	28	<b>29%</b>	22	<b>23%</b>	34	<b>36%</b>		
<b>Family Distribution</b>		<b>19%</b>		<b>18%</b>		<b>24%</b>		<b>39%</b>			

### *Business of Different Sizes*

CNB's performance reflects a good level of responsiveness to small business credit needs. CNB lends to small businesses, many of which are service based and seasonally oriented, including farming. We analyzed commercial lending activity sampling 26% of the number of loans originated from October 30, 1997 through June 30, 1998. Small business loans, defined as businesses with gross annual revenues of \$1 million or less, and as noted on the table below, account for 100% of the number and 100% of dollar volume of originations in the sample reviewed.

<b>Business Loan Originations - (000's)</b>					
		<i>Small Business</i>		<i>Large Business</i>	
<b># Loans</b>	<b>%</b>	10	<b>100%</b>	0	<b>0%</b>
<b>\$ Amt</b>	<b>%</b>	423	<b>100%</b>	0	<b>0%</b>

Further validation of CNB's strong responsiveness to small business needs is making a significant majority of those loans to businesses with credit needs of \$100 thousand or less. The table below reflects 90% of the number of small business loan were in amounts of \$100 thousand or less. In addition, the average size of all commercial loans in the evaluation period was \$42,300.

<b>Small Business Loan Originations - (000's)</b>							
		<b>\$100 or less</b>		<b>\$101-\$250</b>		<b>\$251-\$1,000</b>	
<b># Loans</b>	<b>%</b>	9	<b>90%</b>	1	<b>10%</b>	0	<b>0%</b>
<b>\$ Amt</b>	<b>%</b>	223	<b>53%</b>	200	<b>47%</b>	0	<b>0%</b>

### **Geographic Distribution of Loans**

There are no low or moderate-income tracts in CNB's assessment area. Therefore, analysis of the geographic distribution of their loans is not meaningful.

### **Response to Complaints**

CNB has received no complaints relating to CRA performance since the prior CRA examination.