



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

November 12, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Lenox National Bank
Charter Number 4013**

**7 Main Street
Lenox, MA 01240**

**The Office of the Comptroller of the Currency
New England Field Office
20 Winthrop Square, Suite 200
Boston, MA 02110**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

The lending performance of Lenox National Bank (LNB) is satisfactory given its size, financial condition, and the credit needs of its assessment area. The primary factors supporting the bank's overall rating include:

- Loan to deposit-to-deposit ratio of 64% is reasonable.
- A substantial percentage of the bank's loans, 80% by number and 86% by dollar amount, are within the designated assessment area.
- The distribution of loans among individuals of varying income reflects reasonable penetration.
- The distribution of loans to small businesses reflects excellent penetration.

DESCRIPTION OF INSTITUTION

Lenox National Bank (LNB) has two offices located in the city of Lenox in Berkshire County, Western Massachusetts. LNB is an independently owned bank and there is no holding company structure. LNB's full-service main office is located in downtown Lenox. The bank has one full-service branch in northern Lenox that is near the border with neighboring Pittsfield, MA. Hours of operation differ at the main office and branch, with branch hours geared to accommodate customers commuting to work on Highway 7 and commercial customers. The bank does not have automated teller machines (ATMs) at either office or in other locations.

The bank offers a full range of loan products and deposit services with an emphasis on residential and commercial real estate, as well as consumer loans. As of September 30, 2002, the bank had total assets of \$45 million with \$22 million in gross loans and \$40 million in total deposits. Net loans are 52% of the bank's average assets.

The bank was assigned a "Satisfactory" CRA rating at the preceding examination dated July 14, 1997. The bank faces no impediments, legal or otherwise, that hinder its ability to help meet the credit needs of its assessment area.

As reflected in **Table 1**, loans as of September 30, 2002, are distributed as follows:

Table 1-Loan Category–9/30/02	\$ (000)	%
Residential Real Estate Loans	13,654	62.40
Commercial Real Estate Loans	5,593	25.60
Commercial Loans	1,272	5.80
Consumer Loans	891	4.05
Multi-family	472	2.15
Total	21,882	100.00

Table 2 reflects the volume of lending since the previous CRA evaluation in July, 1997. The bank's heaviest volume of loan originations is consumer loans with a high volume of lower dollar originations. The second heaviest volume of lending is commercial loans due to a high volume of lower dollar small business loans. The dollar distribution of loans originated since the previous CRA evaluation is centered in residential refinancing, commercial real estate, and consumer. We focused our lending sample on consumer, real estate (commercial and residential), and commercial loans based on the highest percentages by the number and dollar amount of originations.

Table 2-Loan Originations By Product Type–1998, 1999, 2000, 2001, and 3 Qtrs of 2002				
Loan Type	Number	% of Total	Dollars (000s)	% of Total
Home Purchase Mortgage	42	4.89%	\$ 6,393	15.27%
Home Refinance Mortgage	85	9.90%	\$11,360	27.13%
Multifamily Mortgage	3	0.35%	\$ 915	2.19%
Home Improvement	13	1.51%	\$ 941	2.25%
Commercial Real Estate	51	5.94%	\$ 8,632	20.62%
Commercial	169	19.67%	\$ 4,301	10.27%
Consumer	496	57.74%	\$ 9,324	22.27%
Total	859	100.00%	\$41,866	100.00%

DESCRIPTION OF LENOX NATIONAL BANK ASSESSMENT AREA

LNB's assessment area (AA) meets the requirements of the CRA regulation and does not arbitrarily exclude any low- or moderate-income areas. LNB has defined one AA with five census tracts (CT). The CTs include the following towns: Alford, Egremont, Hancock, Lee, Lenox, Lenoxdale, Mt. Washington, New Ashford, Richmond, South Lee, Stockbridge, and West Stockbridge. The AA is part of the Pittsfield, Massachusetts Metropolitan Statistical Area (MSA) but does not include the entire MSA. There are no low- or moderate-income CTs within the bank's assessment area.

Table 3 on the following page reflects the assessment area demographics based on 1990 Census Bureau and the 2001 Housing and Urban Development Agency (HUD) data.

Table 3-AA DEMOGRAPHIC & ECONOMIC CHARACTERISTICS	
<i>Population</i>	
Population of AA in MSA	15,823
Number of Families	4,154
Number of Households	5,982
<i>Geographies</i>	
Number of Census Tracts/BNA	5
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	0%
% Middle-Income Census Tracts/BNA	80%
% Upper-Income Census Tracts/BNA	20%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	39,104
2001 HUD-Adjusted MFI	49,600
<i>Economic Indicators</i>	
Unemployment Rate-Berkshire County Second Quarter 2002	3.7%
1990 Median Housing Value	150,893
% of Households Below Poverty Level	6.19%

The bank's assessment area is located in southern Berkshire County, which typically focuses on the tourism industry. This area attracts many seasonal visitors due to the abundance of cultural events and open space. Local attractions include Tanglewood, the summer home of the Boston Symphony Orchestra; the Berkshire Performing Arts Theatre/National Music Foundation; Shakespeare & Company; and the Norman Rockwell Museum. Businesses include various inns, resorts, spas, restaurants, and retail shops that primarily service the tourists during the summer and fall months. The area includes artists of various types with small galleries.

Over the past five years, demand for homes in this part of the county has seen a significant and steady increase as more of the New York and Boston market migrates further north and west in search of leisure second residences. This demand has driven up the price of one-to-four family residences in the area. The local economy is stable. The June 30, 2002, Berkshire County unemployment rate was 4.0% and remains below the U.S. Unemployment rate of 5.7%. Employment is diversified among numerous small businesses.

Banking competition in Berkshire County is intense and consists of several local community banks including Berkshire Bank, Legacy Bank, Lee Bank, Canaan National Bank, and Greylock Federal Credit Union. In addition, there are branches of large regional and multinational banks. There are a number of lenders (including banks, mortgage companies, and credit unions) that originate home mortgage loans in the bank's assessment area. According to management, competition for small business lending in the local area has also increased in recent years.

The bank identified primary credit needs as residential, home improvement, and small business loans. We contacted a non-profit independent organization that promotes affordable housing opportunities as part of our CRA assessment. The contact confirmed that affordable home loans and small business loans were a primary credit need. He stated local bank's efforts appeared to

try and meet those needs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

LNB's loan-to-deposit ratio (LTD) is reasonable. LNB is by far the smallest bank in the area and its ability and opportunities to lend have been impacted accordingly due to a comparatively lower legal lending limit and more limited products/services offered. The bank's average loan-to-deposit ratio for the past 20 quarters has steadily increased to 64%. The ratio fluctuated during the same time frame between 54% and 67%. The loan-to-deposit ratio at September 30, 2002, was 54% as customer deposits into Now and Savings accounts over the previous two quarters have increased, while net loans remained flat.

Lending in Assessment Area

A substantial percentage of LNB's loans were made to borrowers within the bank's assessment area. We reviewed the distribution of loan originations for the bank's primary categories (See **Table 2**) of loans for the time period beginning January 1, 1998 to September 30, 2002.

The loan products sampled and the results of our analysis are detailed in **Table 4** below. Our sample represented 63% of the dollar volume of loans originated from January 1, 1998 to September 30, 2002. Our analysis found that, overall, 80% by number and 86% by dollar volume of originations were within the bank's assessment area. We used internally generated reports as well as government generated software designed to capture home mortgage lending activity under the Home Mortgage Disclosure Act (HMDA) annually. We tested the HMDA reports and found them to be accurate. In addition, we sampled 20 consumer, 20 commercial, and 20 commercial real estate loan files to base our conclusions.

Table 4 - TOTAL LOANS REVIEWED (1998, 1999, 2000, 2001, & 3 Quarters 2002)								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	# In	% of #	\$ (000) In	% of \$	# Out	% of #	\$ (000s) Out	% of \$
Home Refinance	143	80%	19,609	85%	36	20%	3,527	15%
Commercial RE	19	95%	2,778	99%	1	5%	10	1%
Commercial Loans	14	70%	245	58%	6	30%	174	42%
Consumer Loans	16	80%	196	91%	4	20%	19	9%
Total Reviewed	192	80%	22,828	86%	47	20%	3,730	14%

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

LNB's lending to low-and moderate-income individuals is satisfactory overall. Our analysis was based on the same time period and the same loan sample as described in the **Lending in Assessment Area** above. Commercial and commercial real estate loans are combined to reflect Borrower Distribution of Small Loans to Businesses in **Table 7**.

Residential Loan Sample:

Table 5 - Home Refinance Mortgages – January 1, 1998 through September 30, 2002								
Borrower Inc. Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	13.31%		16.18%		25.54%		44.97%	
	% of #	% of \$	% of #	% of \$	% of #	% of \$	% of #	% of \$
Home Refi.	6.38%	4.31%	8.51%	5.91%	20.21%	14.48%	64.90%	75.30%

Table 5 reflects the bank's lending to individuals of low- and moderate-income levels for home refinancing is less than the distribution of families with low- and moderate-income in the bank's assessment area. The LNB assessment area lacks a sufficient volume of affordable home loans. The housing stock is older and existing homes have seen substantial price appreciation in the past five years as individuals with sizeable assets seek summer leisure homes.

Consumer Loan Sample:

Table 6 – Borrower Distribution of Consumer Loans – January 1, 1998 through September 30, 2002								
Borrower Inc. Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	20.11%		12.24%		20.32%		47.33%	
	% of #	% of \$	% of #	% of \$	% of #	% of \$	% of #	% of \$
Consumer	20%	8%	40%	52%	25%	13%	15%	27%

Table 6 reflects LNB's consumer lending to low income borrowers meets the assessment area distribution of low-income households. The bank's consumer lending to moderate-income borrowers exceeds the distribution of moderate-income households in the bank's assessment area. Based on originations in **Table 2**, the high volume of low dollar consumer loans with shorter maturities is meeting the consumer credit needs of the assessment area.

Commercial Loan Sample:

Table 7 - BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES January 1, 1998 through September 30, 2002		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	92.20%	7.80%
% of Bank Loans in AA #	85.00%	15.00%
% of Bank Loans in AA \$	66.00%	34.00%

Table 7 reflects excellent penetration of LNB's lending activity to small businesses. Small

businesses are defined as those with gross annual revenues of one million dollars or less. The bank's customer base includes numerous loans to businesses that support the areas seasonal tourist activities. Further analysis found that 30% of the commercial loans sampled were made to businesses with revenues of less than \$100 thousand. Overall, this small business lending helps meet a primary credit need identified by the community contact during this examination.

Geographic Distribution of Loans

An analysis of the geographic distribution of loans would not be meaningful. The bank's assessment area consists of five census tracts (four middle-income and one upper-income). There are no low- or moderate-income census tracts.

Responses to Complaints

Neither the bank nor the OCC received CRA related complaints on Lenox National Bank since the prior examination of July 14, 1997.

Fair Lending Review

An analysis of four years and three quarters of HMDA data (1998 through September 30, 2002) and Small Business data, public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on this analysis, the OCC determined that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation. The latest comprehensive fair lending examination was performed in 1997.