



## **PUBLIC DISCLOSURE**

July 15, 2013

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

The Lenox National Bank  
Charter Number 4013

7 Main Street  
Lenox, MA 01240

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 Ratings are:

- The Lenox National Bank's (LNB or Bank) level of lending, as reflected in its loan-to-deposit ratio, is reasonable.
- A substantial majority of originated loans are within the Bank's assessment area.
- The distribution of loans reflects excellent penetration among businesses of different sizes and individuals of different income levels.

**SCOPE OF EXAMINATION**

LNB was evaluated using Small Bank examination procedures, which includes a lending test. The evaluation period for the lending test covers the Bank's performance from January 1, 2011, through June 30, 2013. For the period January 1, 2011, through December 31, 2011, the Bank's performance was compared to the 2000 U.S. Census Data. For the period from January 1, 2012 through June 30, 2013, performance was compared to the 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.

LNB's primary loan products, based on loan originations during the evaluation period are consumer loans and commercial loans (including commercial real estate). During the evaluation period, the breakdown of Bank's originated loans was consumer loans at 48%, commercial loans at 32%, residential mortgage loans including home equity at 19%, and 1% other loans. We used Bank data to select a random sample of 40 commercial loans originated in the AA during the evaluation period to evaluate the Bank's lending to businesses, and a random sample of 40 consumer loans originated in the AA during the evaluation period to evaluate the Bank's lending to consumers.

As indicated by the March 31, 2013, Uniform Bank Performance Report, residential loans represent approximately 60% of the overall loan portfolio at the Bank, and commercial loans represent approximately 30% of the portfolio. 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**

LNB is a \$61 million national bank headquartered in Lenox, Massachusetts. As of March 31, 2013, LNB had Tier 1 Capital of \$8 million. The Bank is independently owned and there is no holding company structure.

The Bank's one location is its full service main office in downtown Lenox. Office hours are 9:00 am to 4:00 pm, Monday through Thursday, with extended hours on Fridays, and Saturday hours of 9:00 am to noon. The office also has an automated teller machine (ATM) and drive-up

window. No branches were opened during the evaluation period. The Bank's only branch closed on May 29, 2010. It was also located in Lenox, in an upper-income tract near the Pittsfield line.

LNB is a full service institution, offering a variety of loan and deposit products to meet consumer and commercial banking needs. Residential loan products include home purchase, refinance, and home improvement loans. Commercial products include commercial real estate, commercial loans, and lines of credit. The Bank also offers personal loans and automobile loans. The Bank offers standard deposit products for consumers and businesses. Detailed product information can be found on the Bank's Internet website, <https://www.lenoxnb.com>.

As of March 31, 2013, total assets, total deposits and net tier one capital were \$61 million, \$53 million, and \$8 million, respectively. The loan portfolio totaled \$24 million, or 39% of total assets. The following table provides a summary of the loan mix.

<b>Loan Portfolio Summary by Loan Product – March 31, 2013</b>	
<b>Loan Category</b>	<b>% of Gross Loans and Leases</b>
1-4 Family Residential Mortgage – Closed End	57%
Home Equity	7%
Other Real Estate	25%
Commercial & Industrial	7%
Consumer	4%

*Source: Federal Deposit Insurance Corporation Call Report*

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 examination dated January 7, 2008.

## **DESCRIPTION OF ASSESSMENT AREA**

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

The AA is comprised of twelve towns in a portion of Berkshire County and within the Pittsfield MA Metropolitan Statistical Area (MSA). The towns included are Alford, Egremont, Hancock, Lee, Lenox, Lenoxdale, Mt. Washington, New Ashford, Richmond, South Lee, Stockbridge, and West Stockbridge. The AA is comprised of six census tracts; three middle and three upper-income tracts.

Demographic information based on 2000 U.S. Census is broken down below:

<b>Demographic Information for Lenox AA (2011)</b>						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	6	0.00	0.00	50.00	50.00	0.00
Population by Geography	19,200	0.00	0.00	52.79	47.21	0.00
Owner-Occupied Housing by Geography	5,914	0.00	0.00	51.52	48.48	0.00
Business by Geography	0	0.00	0.00	0.00	0.00	0.00
Farms by Geography	0	0.00	0.00	0.00	0.00	0.00
Households by Income Level	8,026	18.28	13.56	19.19	48.97	0.00
Family Distribution by Income Level	5,225	11.73	18.28	22.64	47.35	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	1,568	0.00	0.00	57.02	42.98	0.00
Median Family Income		\$50,150	Median Housing Value		\$178,637	
HUD Adjusted Median Family Income for 2011		\$68,900	Unemployment Rate		2.01% *	
Households Below Poverty Level		7%				

Source: 2000 U.S. Census.

\*Data from U.S. Bureau of Labor Statistics as of May 2013. Rate is for Pittsfield MA MSA.

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

<b>Demographic Information for Lenox AA (January 1, 2012 to June 30, 2013)</b>						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	6	0.00	0.00	50.00	50.00	0.00
Population by Geography	18,527	0.00	0.00	52.77	47.23	0.00
Owner-Occupied Housing by Geography	5,946	0.00	0.00	50.98	49.02	0.00
Business by Geography	2,459	0.00	0.00	48.43	51.57	0.00
Farms by Geography	85	0.00	0.00	51.76	48.24	0.00
Households by Income Level	8,014	19.23	11.72	18.64	50.41	0.00
Family Distribution by Income Level	4,938	13.53	14.46	21.65	50.36	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	1,382	0.00	0.00	64.83	35.17	0.00
Median Family Income		\$64,783	Median Housing Value		\$350,000 *	
HUD Adjusted Median Family Income for 2012		\$69,800	Unemployment Rate		7.2% **	
Households Below Poverty Level		7%				

Source: 2010 U.S. Census.

\*Data from Zillow.com.

\*\*Data from U.S. Bureau of Labor Statistics as of May 2013. Rate is for Pittsfield MA MSA.

LNB operates in a highly competitive market with competition from regional commercial banks, local savings banks, and credit unions. The Federal Deposit Insurance Corporation's Deposit Market Share Report for June 30, 2012, indicates that 11 financial institutions operate within Pittsfield - MSA. LNB ranks 8th with a deposit market share of 1.75%. The Bank's primary local competitors are Berkshire Bank, Greylock Federal Credit Union, and Lee Bank. Berkshire and Greylock, both of which are headquartered in Pittsfield, MA, are considerably larger than LNB, with wider market areas and many branch offices. Lee Bank located in Lee, MA, is LNB's primary home mortgage competitor. Additional local as well as larger regional banks provide further competition and include Hoosac Bank, Adams Community Bank, Pittsfield Co-operative Bank, NBT Bank, Salisbury Bank and Trust, TrustCo Bank, TD Bank, National Association (N.A.), and RBS Citizens, N.A.

Eight large nationwide entities provide additional competition for small business loans including American Express Bank, FSB; Wells Fargo Bank, N.A.; and Chase Bank USA, N.A.; among others. The 2011 Peer Small Business Data Institution Market Share report indicates that LNB competes with 801 lenders within its AA. The top eight lenders dominate the market with overall market share of over 70%.

The Bank's assessment area is located in Berkshire County where the primary industry is tourism. Many seasonal visitors are attracted to the area due to cultural attractions, as well as, the many recreational activities and scenic vistas. 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 in the area include luxury resorts, spas, inns, restaurants, retail shops, and art galleries. Local town and school departments are also major permanent employers in the area.

Per Moody's Analytics Inc., Pittsfield's recovery is progressing at an uneven pace. The service economy, particularly leisure/hospitality, is powering the rebound, though manufacturing and the public sector have shown improvement recently. The unemployment rate of 7.2% as of May 2013 for the Pittsfield MA MSA remains above the pre-recession levels; however, the unemployment figures have declined significantly from the peak levels reached during the recession. As of May 2013, the Pittsfield MA MSA unemployment rate remains higher than the state average of 6.6%; but compares favorably to the national average of 7.6%.

Bank management has identified residential mortgages, small business lending, and consumer loans as the primary credit needs in the AA. In conjunction with this Performance Evaluation, we contacted a local community organization whose mission is to enhance commerce and to assist in learning the credit needs of the community. According to the contact, Berkshire County is second in the nation with the largest nonprofit population. If there were more credit/funds available, the area could attract more businesses.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LNB's performance under the lending test is satisfactory. The loan-to-deposit ratio is reasonable and a substantial majority of the loans are originated inside the Bank's AA. The distribution of loans reflects excellent penetration among businesses of different sizes and individuals of different income levels.

### Loan-to-Deposit Ratio

LNB's loan-to-deposit (LTD) ratio is reasonable given the Bank's small asset size, credit needs, significant market competition, and economic factors. The LTD ratio has averaged 52% over the last 21 quarters since the previous CRA examination dated January 7, 2008. During the period since the last examination, the loan-to-deposit ratio ranged from a quarterly low of 43% to a high of 62%. The Bank is significantly smaller in asset size than its local competitors, which results in less opportunity to lend given the smaller legal lending limit and the types of products and services offered.

### Lending in Assessment Area

A substantial majority of the Bank's primary loan products were originated inside its assessment area. LNB originated 90% by number and 95% by dollar amount of loans in the AA.

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

<b>Lending in LNB AA (000's)</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial Loans	38	95%	2	5%	40	\$2,641	96%	\$116	4%	\$2,757
Consumer Loans	34	85%	6	15%	40	\$427	88%	\$61	12%	\$488
Totals	72	90%	8	10%	80	\$3068	95%	\$177	5%	\$3,245

Source: Samples of consumer and commercial loans (1/1/2011-6/30/2013).

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

#### *Business Loans*

The distribution of loans made in 2011 to businesses reflects excellent penetration among businesses of different sizes. The Bank originated 80% in number of loans to small businesses with gross annual revenues of \$1 million or less. Performance exceeds the demographic data with 66% of the businesses considered small businesses.

The following table shows the distribution of commercial loans among businesses of different sizes made in 2011.

<b>Borrower Distribution of Loans to Businesses in LNB AA (2011)</b>				
Business Revenues (or Sales)	≤ \$1,000,000	>\$1,000,000	Unavailable / Unknown	Total
% of AA Business	66%	3%	31%	100%
% of Bank Loans in AA by #	80%	20%	0%	100%
% of Bank Loans in AA by \$	78%	22%	0%	100%

Source: Loan sample (1/1/2011-12/31/2011); 2000 U.S. Census data.

Note: 31% of businesses did not report revenues.

The distribution of loans made in 2012 and year-to-date 2013 to businesses reflects excellent penetration among businesses of different sizes. The Bank originated 75% in number of loans to small businesses with gross annual revenues of \$1 million or less. Performance exceeds the demographic data with 70% of the businesses considered small businesses.

The following table shows the distribution of commercial loans among businesses of different sizes made in 2012 and year-to-date 2013.

<b>Borrower Distribution of Loans to Businesses in LNB AA (January 1, 2012 to June 30, 2013)</b>				
Business Revenues (or Sales)	≤ \$1,000,000	>\$1,000,000	Unavailable / Unknown	Total
% of AA Business	70%	4%	26%	100%
% of Bank Loans in AA by #	75%	25%	0%	100%
% of Bank Loans in AA by \$	77%	23%	0%	100%

Source: Loan sample (1/1/2012-6/30/2013); 2010 U.S. Census data.

Note: 26% of businesses did not report revenues.

### Consumer Loans

The distribution of consumer loans during 2011 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 in 2011 among borrowers of different income levels compared to the percent of AA households in each income category.

<b>Borrower Distribution of Consumer Loans in LNB AA (2011)</b>								
Borrower 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	18%	30%	14%	30%	19%	15%	49%	25%

Source: Loan sample (1/1/2011-12/31/2011); 2000 U.S. Census data.

The distribution of consumer loans to borrowers originated during 2012 and year-to-date 2013 reflects excellent penetration among borrowers of different income levels. The percent of consumer loans made to low-income borrowers significantly exceeds demographics when compared to the percent of AA households at those income levels. The percent of consumer loans made to moderate-income borrowers exceeds demographics.

The following table shows the distribution of consumer loans in 2012 and year-to-date 2013 among borrowers of different income levels compared to the percent of AA households in each income category.

<b>Borrower Distribution of Consumer Loans in LNB AA (January 1, 2012 – June 30, 2013)</b>								
Borrower 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	19%	35%	12%	15%	19%	25%	50%	25%

Source: Loan sample (1/1/2012-6/30/2013); 2010 U.S. Census data.

### **Geographic Distribution of Loans**

An analysis of the distribution of loans by income level of geography is not meaningful, as the AA contains no low- or moderate-income geographies.

### **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.