



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

August 17, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Freedom National Bank
Charter Number 24257

584 Putnam Pike
Greenville, RI 02828

Office of the Comptroller of the Currency

New York Metro-East Field Office
343 Thornall Street, Suite 610
Edison, NJ. 08837

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 rating include:

- The quarterly average net loan-to-deposit ratio is reasonable;
- A majority of business loans were made in the bank's assessment area;
- The distribution of loans reflects excellent penetration among businesses of different sizes;
- The bank's distribution of loans represents a reasonable dispersion throughout census tracts of different income levels; and
- The bank has had no consumer complaints regarding its community reinvestment performance.

SCOPE OF EXAMINATION

This Small Bank Community Reinvestment Act (CRA) examination assesses the bank's performance under the lending test. The lending test evaluates the bank's record of meeting the credit needs of its assessment area through its lending activities. The evaluation period for the lending test in January 1, 2007 through June 30, 2009, as this is representative of the bank's lending strategy since the last CRA examination. The bank's primary loan product is business loans. Since the bank collected and provided information on all business loans originated from January 1, 2007 through June 30, 2009, we utilized all of the business loan data for the lending test.

DESCRIPTION OF INSTITUTION

Freedom National Bank (FNB) is an \$89.2 million intrastate community bank headquartered in Greenville, Rhode Island. FNB is wholly-owned by Berkshire Financial Services, a two-bank holding company, which also owns Lee Bank in Lee, Massachusetts. FNB has no subsidiaries and there have been no changes in the corporate structure since the previous examination.

FNB has two branches. The main branch is located in Greenville, Rhode Island and the other branch is located in Cumberland, Rhode Island. During the evaluation period, the bank did not open or close any branches. FNB offers normal business hours Monday through Friday, with extended hours at the drive-ups. Both locations provide customers with access to their accounts through Automated Teller Machines. The bank also offers telephone banking services and internet banking services. Internet banking services include account balances, account transfers and bill pay.

FNB offers a variety of deposit, checking, and loan products to meet both consumer and commercial banking needs. The bank provides detailed information on products and services for both consumers and businesses at their bank offices and online at www.freedomnationalbank.com.

As of June 30, 2009, the bank had \$61.4 million in net loans and \$75.2 million in total deposits. Net Tier One Capital was \$6 million as of that same date. Net loans represent approximately 69% of assets. The bank's loan portfolio consists of 17% residential mortgages, 11% commercial and industrial, and 71% commercial real estate, and 0.5% consumer loans. FNB's business plan continues to be focused towards small business relationships.

Competition in Providence County is strong and includes branches of larger regional and national institutions. FNB's primary competitors are: RBS Citizens, NA, Bank of America, Sovereign Bank, Bank Rhode Island, and Union Federal Savings Bank.

There are no legal or financial factors impeding the bank's ability to help meet the credit needs in its assessment area (AA). FNB was rated "Satisfactory" at its last CRA examination dated July 13, 2004.

DESCRIPTION OF ASSESSMENT AREA(S)

FNB has one assessment area (AA) within the state of Rhode Island. The bank's AA includes all of Providence County, which is a part of the Providence-New Bedford-Fall River, RI-MA, MSA #39300. The bank excluded Bristol, Kent, Newport, and Washington counties because FNB can not reasonably service these counties. The AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies.

The following contains the demographic information for the AA:

Demographic Information for Providence County AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	138	18.12	23.91	39.86	18.12	138
Population by Geography	621,602	15.23	23.91	41.56	19.29	621,602
Owner-Occupied Housing by Geography	127,531	5.93	16.04	52.22	25.81	127,531
Business by Geography	40,316	14.74	22.84	39.66	22.76	40,316
Farms by Geography	677	5.02	9.01	46.09	39.88	677
Family Distribution by Income Level	153,637	26.86	18.54	21.15	33.45	153,637
Distribution of Low and Moderate Income Families throughout AA Geographies	69,751	22.65	31.09	36.82	9.44	69,751
Median Family Income		53,013	Median Housing Value		123,162	
HUD Adjusted Median Family Income for 2008		72,500	Unemployment June 30, 2009		13.5%	
Households Below Poverty Level		16%				

(*) The NA category consists of geographies that have not been assigned an income classification.
 Source: 2000 US Census and 2009 HUD updated MFI and Unemployment rate – June 30, 2009 Bureau of Labor Statistics

The bank’s AA includes all 138 census tracts in Providence County, Rhode Island. There are 25 (18.12%) low-income geographies, 33 (23.91%) moderate-income geographies, 55 (39.86%) middle-income geographies, and 25 (18.12%) upper-income geographies.

According to the 2000 U.S. Census data, the population of the AA is 621,602. The AA contains 239,926 households and 153,637 families. The 2000 median income for this AA was \$53,013, and the 2009 HUD updated median family income was \$72,500. Approximately 27% of families are low-income, 19% are moderate-income, 21% are middle-income, and 33% are upper-income. There are 37,696 households below the poverty level.

There are 254,515 housing units, of which, 50.11% are owner-occupied, 44.16% are rental-occupied, and 5.22% are vacant housing units. Approximately 6% of owner-occupied housing is located in low-income geographies, 16% in moderate-income geographies, 52% in middle-income geographies, and 26% in upper-income geographies. The median housing value is \$123,162.

According to the 2009 business demographics, there are a total of 40,316 businesses in the AA. Approximately 75% of the businesses reporting have revenues less than or equal to \$1 million, 7% have revenues greater than \$1 million, and the revenue was not reported for 18% of the businesses. Approximately 15% of businesses are located in low-income geographies, 23% in moderate-income geographies, 40% in middle-income geographies, and 23% in upper-income geographies.

Competition is strong and comes from branches of larger regional and national banks and savings institutions. According to the June 30, 2008 Federal Depository Institution

Corporation's (FDIC) Deposit Market Share Report, FNB ranked 26th of out 35 institutions in the Providence-New Bedford-Fall River, RI-MA MSA with a 0.16% deposit market share. In Providence County, FNB ranked ninth out of 15 institutions with a 0.30% deposit market share. FNB's primary competitors in Providence County are: RBS Citizens, NA (48 branches; 53.88% deposit market share), Bank of America (33 branches; 30.43% deposit market share), Sovereign Bank (21 branches; 6.63% deposit market share), Bank Rhode Island (11 branches; 3.96% deposit market share), and Union Federal Savings Bank (1 branch; 1.22% deposit market share).

Providence County has been experiencing a recession, but there are signs the severity is diminishing. All major industries are experiencing job losses. The housing market has bottomed out and has increased slightly over the last two months. However, poor credit quality and low incomes will result in house prices not turning around in the near future. Some disadvantages of this area include: low housing affordability, low real median incomes, and poor demographics. These disadvantages will most likely keep growth in this metro area below the U.S. rate. As of June 30, 2009, the unemployment rate for Providence County was 13.5%, the unemployment rate for the Providence-New Bedford-Fall River, RI-MA MSA is 12.1%, and the state unemployment rate is 12.2%. All of these are higher than the national unemployment rate of 9.5%.

According to the Rhode Island Economic Development Corporation, Rhode Island's economy includes large private companies in the health care, financial services, marine products, defense and manufacturing sectors. Some of the firms headquartered in Rhode Island include: CVS Pharmacy, Hasbro and Amica Insurance. In addition, Rhode Island is a leading center of higher education, with such institutions as Brown University, the University of Rhode Island, Johnson & Wales and Bryant University. Some of the major employers in the area include: Rhode Island State Government, Lifespan, U.S. Federal Government, Sensata Technologies, Care New England Health System, Roman Catholic Diocese of Providence, Southcoast Hospitals Group, Inc., and CVS Corporation.

In conducting the assessment of the bank's performance, we contacted a local organization. This contact indicated that there is a continued need for business and affordable housing loans. According to this contact, there are several opportunities for bank involvement in local development, but banks have been tightening their credit standards and limiting their lending as a result of the economy. This contact also indicated that banks have been responsive to and supportive of the credit needs of the community in the past.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNB's performance under the lending test is satisfactory. FNB's quarterly average net loan-to-deposit ratio is reasonable. A majority of FNB's business loans were made in the bank's assessment area. The distribution of loans reflects excellent penetration among businesses of different sizes. The bank's distribution of loans represents a

reasonable dispersion throughout census tracts of different income levels. All criteria of the lending test are documented below.

Loan-to-Deposit Ratio

FNB’s quarterly average net loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and assessment area credit needs. The bank’s quarterly average net loan-to-deposit ratio was 80% over the past 20 quarters since the last CRA examination, with a quarterly low of 70% and a quarterly high of 96%. This was slightly below the national peer bank quarterly average net loan-to-deposit ratio of 82% during the same period. However, the bank’s quarterly average net loan-to-deposit ratio compares favorably with two other community banks of similar size, location, and product offerings in Rhode Island. FNB ranks first among these similarly situated banks. The other two banks had individual quarterly average net loan-to-deposit ratios of 58% and 78% and a combined quarterly average net loan-to-deposit ratio of 68% over the past 20 quarters since the last CRA examination.

Lending in Assessment Area

A majority of FNB’s business loans were made in the bank’s AA, meeting the standard for satisfactory performance. During the evaluation period, 71% of the number of business loans were made within the bank’s AA.

The following table details the bank’s lending within the AA by number and dollar amount of loans

Table 1 - Lending in the Providence County AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial Loans	96	71.11%	39	28.89%	135	26,065,080	44.61%	32,369,910	55.39%	58,434,990
Totals										

Source: All Business Data from 1/1/07-6/30/09

Lending to Businesses of Different Sizes

The distribution of loans reflects excellent penetration among businesses of different sizes, and FNB’s record of lending to businesses of different sizes exceeds the standard for satisfactory performance. The percentage of loans made to businesses with annual revenues less than or equal to \$1 million exceeds the percentage of businesses with annual income less than or equal to \$1 million.

The following table details the bank’s performance in lending to businesses of different sizes.

Table 2A - Borrower Distribution of Loans to Businesses in the Providence County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	75.45	6.51	18.04	100%
% of Bank Loans in AA by #	83.33	14.58	2.08	100%
% of Bank Loans in AA by \$	78.27	19.62	2.11	100%

Source: All Business Data from 1/1/07-6/30/09; Dunn and Bradstreet data.

Geographic Distribution of Loans

The bank’s geographic distribution of business loans reflects reasonable dispersion throughout census tracts of different income levels and meets the standard for satisfactory performance.

The percentage of FNB’s loans made to businesses located in low-income geographies is lower than the percentage of businesses that are located in these geographies. The percentage of FNB’s loans made to businesses located in moderate-income geographies is significantly lower than the percentage of businesses that are located in these geographies. When taking into consideration the location of FNB’s two branches in relation to the low- and moderate-income geographies and the strong competition from larger regional and national banks, FNB’s performance is reasonable.

The following table details the bank’s performance as compared to the percentage of businesses in each census tract income level from January 1, 2007 through June 30, 2009.

Table 3A - Geographic Distribution of Loans to Businesses in Providence County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Commercial Loans	14.74	11.46	22.84	11.46	39.66	30.21	22.76	46.88

Source: All Business Loan data 1/1/07-6/30/09; U.S. Census data.

Responses to Complaints

FNB did not receive any complaints about its performance in helping to meet the credit needs in the bank’s AA during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

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