



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

November 6, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Factory Point National Bank of Manchester Center
Charter Number 3080**

**Main Street Route 7a
Manchester Center, VT 05255**

**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.

INSTITUTION'S CRA RATING:

This institution is rated **Satisfactory**.

The Lending Test is rated: Outstanding.

The Community Development Test is rated: Outstanding.

The primary factors supporting this rating are:

- An excellent loan-to-deposit ratio of 75%, considering 269 residential mortgage loans totaling \$42 million that were sold in the secondary market.
- The bank originated a substantial majority, or 84%, of all loans within its assessment area.
- An excellent distribution of residential mortgage loans to moderate-income borrowers and loans to businesses of different sizes.
- An excellent distribution of residential mortgage loans to moderate-income geographies.
- An excellent level of community development participation through the bank's involvement in CD loans, investments, and services that reflect outstanding responsiveness to needs of the community.

SCOPE OF EXAMINATION

Factory Point National Bank's (FPNB) Community Reinvestment Act (CRA) examination covers the period from the last CRA examination of March 24, 2003 through September 30, 2006. We limited the lending test sample for this examination to primary loan products originated in 2004, 2005, and through September 30, 2006, as the bank's loan products and loan mix had not changed significantly over the evaluation period. We reviewed internal bank generated reports to determine the primary loan products and determined that residential mortgage loan products and business loans (commercial and commercial real estate) were the primary loan originations in dollar volume. Business and consumer loans had the highest percentage of the number of loans originated. Due to the small dollar volume of consumer loans we did not include it as part of the sample. Refer to **Table 1** below for a breakout of the volume of loan originations by loan type.

Table 1. FPNB: Loan Originations by Number & Dollar Volume (January 1, 2004 to September 30, 2006)		
Loan Type	% by Number of Loans Originated/Purchased during evaluation period	% by Dollars of Loans Originated/Purchased during evaluation period
Residential Mortgage Loans*	26%	42%
Consumer Loans	36%	7%
Business Loans	38%	51%
Total	100%	100%

** Includes volume and dollar amount of loans subsequently sold in the secondary market*

We sampled 25 residential mortgage loans and 25 commercial loan files to conduct lending tests defined in the CRA regulations and procedures. For a description of the tests as well as the results, refer to *Lending Test* under the *Conclusions about Performance Criteria* in this performance evaluation.

We also reviewed FPNB community development activities to determine the bank's responsiveness to Community Development (CD) lending, qualified investment, and service needs in its assessment area. Refer to the *Community Development Test* section of this evaluation for descriptions of bank activities and the results of the CD tests. The CD test considered CD activities from March 2003 through November 2006.

DESCRIPTION OF INSTITUTION

Factory Point National Bank of Manchester Center (FPNB or "the bank") is a locally operated financial institution, headquartered in Manchester Center, Vermont (VT) and chartered in 1883. Manchester Center is located in the south western portion of VT near the New York state border and surrounded by the Green Mountains. The town hosts numerous retail outlets visited by tourists and New York residents. The region is a four season recreational area and tourist attraction. As of September 30, 2006, the bank had total assets of \$338 million. FPNB is wholly owned by Factory Point Bancorp, Inc. a one-bank holding company with total assets of \$319 million at December 31, 2005. There are currently seven full-service banking offices, compared to eight at the last CRA examination. The bank sold its Springfield, VT branch to Connecticut River Bank, N.A., a multi-state bank in Springfield, VT. Springfield, VT was heavily banked and the sale did not cause a negative impact in offering banking services to area residents.

The bank's main office and one branch are located in Manchester Center, VT. The remaining branches are located in Arlington, Dorset, Ludlow, and two offices in Rutland. All branches offer the same products and services. Slight differences in hours are based on customers' needs in each branch market and automated teller machines (ATMs) are located at each of the seven branches. Independent stand-alone ATMs are located in Equinox Square in Manchester Center VT, Pawlet VT at Mach's Market, Jackson Gore in Ludlow VT, and at Okemo Mountain ski area in Ludlow VT (used on a seasonal basis).

FPNB offers a wide variety of standard loan and deposit products designed to meet consumer and commercial banking needs. The bank's Internet website www.factorypoint.com provides detailed information on products and services. The bank also offers trust services through its subsidiary and is an active participant in the secondary mortgage market.

FPNB faces no legal or other impediments that hinder its ability to help meet the credit needs of its assessment area. There was no merger or acquisition activity pending as of our examination date. At September 30, 2006, the bank held \$222 million in total loans and \$271 million in total deposits representing 66% and 80% of total assets, respectively. FPNB received a "Satisfactory" rating under Small Bank CRA performance tests at the last evaluation.

Table 2 below reflects the bank's loan mix from the bank's September 30, 2006 Call Report.

Table 2. FPNB: Loan Portfolio Mix at September 30, 2006		
Loan Category:	\$ Outstanding (000s)	% of Loan Portfolio
Commercial Real Estate	98,117	43%
Commercial & Industrial	33,848	15%
Total Commercial Loans	131,965	58%
1 st Lien 1-4 Family Mortgages	62,862	28%
Home Equity Lines of Credit	17,136	8%
2 nd Lien Residential Mortgages	5,461	2%
Total Residential Mtgs	85,459	38%
Total Consumer Loans	9,413	4%
Gross Loans	226,837	100%

Source: September 30, 2006 Bank Report of Condition

DESCRIPTION OF FPNB'S ASSESSMENT AREA

FPNB has defined its assessment area (AA) to include the entire counties of Bennington and Rutland, as well as portions of Windham and Windsor Counties. All four counties are located in southern VT. Windsor County includes the following towns: Andover, Baltimore, Bridgewater, Cavendish, Chester, Ludlow, Perkinsville, Plymouth, Reading, Weathersfield, West Windsor, Weston and Windsor. Windham County includes the following towns: Athens, Bellows Falls, Brookline, Dover, Grafton, Jamaica, Londonderry, Rockingham, Somerset, Stratton, Townsend, Wardsboro, and Windham.

The bank's AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. The number of census tracts in the bank's AA has changed from 52, at the last CRA evaluation in March 2003, to 48. Changes in the tracts were based on the results of the 2000 census which merged several census tracts. In addition, the bank's AA previously had no low-income tracts and only one moderate-income tract. The volume of moderate-income census tracts has increased from one to five or 11% of total geographies. Refer to **Table 3** below for a breakout of the bank's geographies as well as other relevant demographic and economic characteristics of FPNB's AA.

Table 3: Demographic/Economic Characteristics for FPNB VT AA	
Population/Family Information:	
Population	144,176
Total Families	38,838
Geographies:	
Total Number of Census Tracts (CTS)	48
Percentage of Low-Income CTs	0%
Percentage of Moderate-Income CTs	11%
Percentage of Middle-Income CTs	81%
Percentage of Upper-Income CTs	8%
Percentage of Families in AAs by Income Level:	
Low	18%
Moderate	20%
Middle	25%
Upper	37%
Economic Indicators: 2004	
Weighted Average of HUD Updated Median Family Income (MFI)*	\$55,500
Median Housing Value	\$122,446
Number of Housing Units	80,506
Owner Occupied Housing Units	41,783
Vacant Housing Units (2 nd or vacation homes)	21,595
Total Rental Units / Total occupied rental units	18,523 / 17,128
% of Households below Poverty-level	10%
Persons Over 65 / Persons in Retirement	16% / 17%
Unemployment Information at 9/30/2006**	
Counties: Bennington, Rutland, Windham, Windsor.	3.5%; 3.7%; 2.9%; 3.6%
State of Vermont	3.7%
National Average	4.4%

Source: 2000 U.S. Census data; *Updated HUD adjusted figures; **Bureau of Labor Statistics.

Census Tract Information: The bank's AA includes five moderate-income geographies. Two are in Bennington, two in Rutland, and one in Fair Haven VT. The moderate-income tracts were once reliant on the manufacturing industry and many contained tenement buildings. With the decline in the manufacturing sector in VT, the impact on income-levels of area residents has declined resulting in an increase from one to five moderate-income tracts in the bank's AA.

Home Price Appreciation/Depreciation: Following two years of rapid gains, home prices in VT increased more slowly in 2006. A decline in home prices occurred only in the Burlington-South Burlington metropolitan area which is not part of the bank's AA. Sales of single-family and multi-family residences declined in VT in 2006, however, sales volumes have remained high by historical standards.

Residential Construction Activity: Construction of single-family and multi-family housing units peaked in late 2004 and gradually declined since then with continued weakening into 2006. The

decline in construction permits may signal a slowing ahead for the VT construction industry. Multi-family construction permits have declined in VT. Based on discussions with the executive director of an affordable housing organization in Rutland VT, new construction has not included affordable housing with for-profit developers. The rehabilitation or construction of affordable housing is reliant on CD and other non-profit organizations to create additional housing units for low- and moderate-income individuals through partnership with corporations and financial institutions.

Population/Labor Force: The VT population is aging based on increases in the number of individuals over the age of 65. Some of the increase has occurred from the loss of population aged 16 and over who left VT seeking better opportunities for employment. Southern VT has experienced such a decline. The bank's involvement with affordable housing organizations and economic development groups work to increase the stock of affordable housing for seniors and to create new jobs as well as retain jobs for the existing labor force. The unemployment rate in VT is lower than the national average at September 30, 2006. The unemployment rate of the FPNB AA is less than the state unemployment rate in all counties except Rutland which has a higher population and a larger percentage of jobs with manufacturing companies.

The leisure and hospitality sector remains critical to the state's economy, making up 10.7% of total employment. This level has slowed in recent years and has lagged behind other New England states. VT is the only New England state with two seasonal peaks in leisure and hospitality employment. Jobs in these industries however typically offer lower wages. The bank's AA reflects 10% of its households are below the poverty level. Combined with a limited inventory of affordable housing, this combination makes it difficult for low-income families to find housing and to qualify for a residential mortgage loan. The low volume of available rental units combined with lower wages makes it difficult for families to find affordable housing. In addition, 27% of all housing units are vacant and indicative of a growth of vacation and second homes in VT.

Largest Employers in the AA:

Significant employers in the bank's AA include:

Bennington County – Southern VT Medical Center, VT County Store, Mach Molding, and NSK Steering all employ over 600 people.

Rutland County – General Electric, Rutland Regional Medical Center, Killington/Pico Ski Areas, Casella Waste Management, and Central VT Public Services all employ over 500 people.

Windsor County – Okemo Ski Area employs approximately 500 people on a seasonal basis.

Banking Competition:

Banking competition in the bank's AA is intense and consists of several local financial institutions including Bank of Bennington and Merchants Bank, and larger institutions such as Chittenden Bank, TD Banknorth, and Citizens Bank. FPNB ranks fifth in deposit market share at June 30, 2006 in its AA. Competition for commercial and consumer loans is also intense.

Community Contact – Identification of Primary Credit Needs:

We contacted an affordable housing non-profit organization in West Rutland, VT that works to increase the volume of affordable housing for home ownership and revitalize communities in Rutland County. The organization identified a lack of affordable housing as a primary credit need specifically for start-up families who could not qualify for standard mortgage financing.

The contact mentioned specific banks known for their efforts to meet community credit needs through participation in available programs including: Factory Point National Bank, Chittenden Bank, and First Brandon National Bank. The contact stated that all area banks participate to some degree.

The contact stated that not-for-profit development of single-family or multi-family affordable housing is non-existent. There is currently no incentive to for-profit developers to build affordable housing projects. It takes community development organizations in partnership with financial institutions and other corporations to create opportunities to increase the volume of affordable housing.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The bank's CRA performance is based on tests for lending and community development activities that reflect excellent performance overall. The facts that demonstrate this performance are discussed below in each section of this report under Lending Test and Community Development Test. The conclusions in each section were considered in conjunction with economic and demographic data from the 2000 Census. We used this information to develop the context with which the bank's performance should be evaluated.

Loan samples were compared to demographic data from the bank's assessment area. The comparison allows an assessment of how the bank's lending performance to low- and moderate-income borrowers and small businesses compares to the levels of low- and moderate-income families, households and small businesses in the bank's AA.

Lending Test

Overall, the bank's lending performance is excellent. This conclusion is based on five performance criteria that are described in this section. We calculated the percentage of the sample that was originated inside and outside of the bank's assessment area (AA) in **Table 4** on the following page. We used the loans originated inside the AA to determine the distribution of loans by borrower income level and by geographic distribution (found in **Tables 5, 6, 7, and 8**). In each test we compared the results with AA population from the 2000 U.S. Census as well as business demographics from Dunn and Bradstreet.

Loan-to-Deposit (LTD) Ratio

FPNB's LTD ratio of 84%, as of September 30, 2006, is good when compared to five banks that offer similar products in the bank's AA. The performance is excellent when considering the 269

residential mortgage loans totaling \$42 million that were sold in the secondary market. This includes 31 loans for \$3.3 million to the Vermont Housing Finance Authority (VHFA) for programs that assist first-time homebuyers. By selling mortgage loans on the secondary market, the bank is able to obtain additional funding for mortgage loan originations. FPNB's LTD ratio since the last CRA evaluation in March 2003 reflects a 15-quarter average of 79% compared to peer banks with LTD ratios ranging from 75% to 136%. The bank's LTD ratio has been steadily increasing over the past three years as the bank was growing its loan portfolio to utilize deposits from previous branch acquisitions.

Lending in Assessment Area

FPNB's lending within its AA is excellent. Our random sample of 50 loans reflected that 84% of the number and 79% of the dollar volume or a substantial majority were originated within the bank's AA. Refer to **Table 4** below for details of this analysis.

Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total #	Inside		Outside		Total \$
	#	%	#	%		\$	%	\$	%	
Commercial Loans	21	84%	4	16%	25	3,049	75%	1,007	25%	4,056
Residential Mortgages	21	84%	4	16%	25	2,350	84%	435	16%	2,785
Totals	42	84%	8	16%	50	5,399	79%	1,442	21%	6,841

Source: Loan sample derived from bank internally generated reports of commercial and residential mortgage loan products for 2004, 2005, and 9 months of 2006

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

Overall, FPNB's loan originations to borrowers of different income levels exceed standards for a satisfactory rating. This analysis was based on results of 21 consumer mortgage loans and 21 commercial loans that were originated in the bank's AA.

Residential Mortgage Loans:

Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential Mtgs.	18%	14%	20%	38%	25%	19%	37%	29%

Source: Bank information derived from consumer RE mortgage sample; demographic information derived from the 2000 U.S. Census Data.

FPNB's performance is excellent in residential mortgage lending to borrowers of different income levels. As shown in **Table 5**, lending to low-income borrowers is reasonable as it is near the demographics for families with low-incomes in the bank's AA. The AA lacks a sufficient volume of affordable housing. A low-income family with income less than \$28 thousand would have difficulty finding a home and qualifying for a loan given the median price of homes at \$122 thousand. Lending to moderate-income borrowers is excellent as it significantly exceeds the demographics for families of moderate-incomes in the bank's AA. FPNB participates in various flexible state and federal loan programs that work with low- and moderate-income borrowers for assistance in qualifying for home purchase loans.

Small Business Lending:

Table 6. Borrower Distribution of Loans to Businesses in FPNB AA (January 1, 2004 to September 30, 2006)		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	63%	4%*
% of Bank Loans in AA by #	76%	24%
% of Bank Loans in AA by \$	64%	36%

Source: Loan sample; Dunn and Bradstreet data. *33% of AA businesses did not report revenue data

FPNB does an excellent job of lending to businesses of different sizes. Small businesses are defined as having total revenue of \$1 million or less. As illustrated in **Table 6** above, 76% of the number of loans was originated to small businesses. This performance exceeds the percentage of businesses in the AA with revenues less than \$1 million. Note that 33% of all AA businesses do not report revenue data. Many of the non-reporting businesses could be self-employed, working out of the home, or are part-time operations. The percentage of bank loans by dollar volume meets the demographics for loans with revenues over \$1 million, however it includes five large loans to large companies that skew the dollar amounts. Our assessment of excellent performance is based primarily on the number rather than the dollar volume of business loans.

Geographic Distribution of Loans

Overall, FPNB reflects excellent performance in originating loans in moderate-income geographies.

Residential Mortgage Loans:

Table 7. FPNB: Geographic Distribution of Residential Mortgage Loans (January 1, 2004 to September 30, 2006)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans

Residential Mtgs.	0%	0%	10%	14%	82%	48%	8%	38%
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Source: Bank information derived from consumer RE mortgage sample; demographic information derived from 2000 U.S. Census Data.

Table 7 above reflects performance from our sample of 21 residential mortgage loans with 14% originated in moderate-income census tracts. Performance is excellent and exceeds the AA demographics of owner-occupied households in those tracts. The bank has no low-income geographies in its AA.

Small Business Lending:

Table 8. Geographic Distribution of Loans to Businesses in FPNB AA January 1, 2004 to September 30, 2006								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans						
Commercial Loan	0%	0%	17%	15%	69%	33%	14%	52%

Source: Bank information derived from a commercial loan sample of 21 loans; demographic information derived from Dunn & Bradstreet statistical data.

Table 8 above reflects good performance that meets standards for a satisfactory rating as 15% of our commercial loan sample was located in moderate-income tracts. The bank’s performance is near the demographics of businesses in the AA also located in moderate-income tracts.

Responses to Complaints

No CRA related complaints have been received since the last performance evaluation.

Community Development Test

FPNB community development activities reflect excellent responsiveness in meeting community needs through lending, qualified investments and services. The bank determines in which activities it will participate and in what area the needs are located through staff involvement on boards and serving on loan committees of area non-profit organizations. A summary and supporting detail of the number, dollar amount, and type of organizations receiving CD credit is broken out below in the CD loans, qualified CD investments, and CD services sections. We considered the dollar amount of loans and investments as a percent of the bank’s \$28 million in equity capital, at September 30, 2006, to evaluate the level of activity.

Community Development Loans

The bank reflects excellent performance in its participation in CD lending activities. The bank originated six CD loans totaling \$3.4 million that equaled 12% of the bank’s equity capital. The volume of CD lending activity is the largest share overall of all CD activities. All loans were related to the creation of affordable housing. As construction of affordable housing in the

private sector is nonexistent, bank's loans to the organizations below increase the stock of affordable homes. Examples of CD loans originated are:

- A \$1 million three year commitment in 2005 to Rutland West Neighborhood Housing Services Inc. The entity supports lower-income individuals and families to purchase single-family homes through homebuyer education and direct financing. Typical clients of the organization do not qualify for traditional bank or mortgage company financing.
- \$1.8 million participation in a \$4.4 million loan in 2006 for a mixed-income senior housing complex in Rutland, VT. FPNB is the lead bank in the construction loan that will create 60 rental units with 16 units to low-income senior citizens and 10 units to moderate-income senior citizens.
- A \$319 dollar participation in the Dorset Affordable Housing Project in 2005/2006 with Housing VT, a non-profit organization that constructs affordable housing statewide. The project has 20 rental units with the majority affordable to low- and moderate-income individuals. The units will remain affordable in perpetuity as there is a limitation on the owner's taking gains on the sale of the properties in excess of 20%.
- Three loans totaling \$250 thousand to a neighborhood housing association and a regional affordable housing corporation that promotes affordable housing through construction and rehabilitation of residences for low- and moderate-income families.

Qualified Investments and Donations:

The bank's performance in making qualified CD investments is good. The bank originated a total of eight qualified investments totaling \$692 thousand and representing 2.5% of equity capital. Investments are comprised of two from the current evaluation period with original balances of \$439 thousand, two investments remaining from the prior period with current balances of \$251 thousand, and four current period donations that total \$2 thousand. The volume of qualified CD investments is reasonable given the limited number of available investments in VT coupled with competition from other VT institutions who also participate in equity investments and low-income housing tax credits. Examples of qualified CD investments and donations are:

- An equity investment of \$175 thousand originated in September 2003 for the rehabilitation of an old factory building in West Rutland that will provide six units of affordable rental housing, community meeting facilities, and house the limited partnership organized to promote affordable housing for low- and moderate-income families.
- An equity investment of \$264 thousand in July 2003 in a project that invested in 29 residential apartment units in Bennington County VT. The project designated 20 units to be leased to low- and moderate-income tenants.
- Prior period investments were both equity investments in projects that created 27 affordable housing rental units for low- and moderate-income individuals or families.

- Donations of \$500 annually were made to an economic development corporation in Rutland as operating capital. The entity works to create new jobs and to retain existing jobs in Rutland through training and the development of industrial parks.

Community Development Services:

The bank involvement in CD services through its staff is excellent. Bank employees, lending staff, branch managers and Board members serve on many of the non-profit entities above that resulted in CD loans or investments. Several Vice Presidents have served with affordable housing entities for years as Board members, participants in home ownership workshops, and on loan committees of organizations that provide financing to low- and moderate-income individuals. It is through the bank's participation in CD services that management learns about lending and investment opportunities that contribute to the bank's knowledge and participation in community development activities.

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.