



**SMALL BANK**

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

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## **PUBLIC DISCLOSURE**

**January 29, 2007**

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

**The Lancaster National Bank  
Charter Number 2600**

**1 Middle Street  
Lancaster, NH 03584**

**Comptroller of the Currency  
New England Field Office  
20 Winthrop Square 2nd Floor  
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 performance of Lancaster National Bank is satisfactory given its size, financial condition, and the credit needs of the assessment area. The primary factors supporting the bank's overall rating include:

- The average loan-to-deposit ratio is reasonable and averaged 66.39% since the last CRA examination.
- Lending inside the assessment area exceeds standards. A substantial majority of the number and dollar of loans were to borrowers within the assessment area.
- Lending to low and moderate-income borrowers is satisfactory and lending to small businesses with revenues of less than \$1 million is excellent.
- The geographic distribution of loans reflects adequate dispersion throughout the assessment area and meets standards.

## **DESCRIPTION OF INSTITUTION**

Lancaster National Bank (LNB) is a nationally chartered commercial bank, headquartered in Lancaster, New Hampshire. As of September 30, 2006, the bank's total asset size was \$56 million. LNB is an independently owned bank and there is no holding company structure, nor are there any subsidiaries or affiliates. The main office and one branch are located in Lancaster and another branch is located in Whitefield, New Hampshire. All three banking offices are full service and have 24-hour automated teller machines. No branches have been closed since our last CRA examination dated June 13, 2001.

The bank offers a wide variety of loan and deposit products to meet consumer and commercial banking needs. LNB also offers access to accounts via debit cards. LNB offers standard banking deposit products for consumers and businesses.

The bank offers a wide variety of credit products - mortgages, business loans and consumer loans. Commercial loan products include commercial real estate loans, equipment loans and lines of credit. Consumer loans include residential mortgages, construction loans, auto loans and personal loans. As of September 30, 2006 the Bank had total deposits of \$50 million and net loans of \$31.2 million, representing 89% and 55% of total assets, respectively.

The distribution of the bank's loan portfolio at September 30, 2006 is reflected in **Table 1**, below.

<b>Table 1 - Loan Category – September 30, 2006 Call Report</b>	<b>\$ (000)</b>	<b>%</b>
Residential Mortgages	21,255	67.10
Commercial Real Estate Loans	4,164	13.14
Commercial Loans	2,460	7.77
Construction/Land Loans	1,327	4.19
Consumer Loans	1,747	5.51
Other Loans	725	2.29
<b>Total</b>	<b>31,678</b>	<b>100%</b>

The bank was assigned a "Satisfactory" CRA rating at the previous examination dated June 13, 2001. There are no legal or financial restrictions that would impede the Bank's performance and ability to meet the credit needs of its assessment area.

Through discussion with management and the review of various loan origination reports, we determined that the residential mortgage is the primary loan product originated from January 1, 2004 through December 31, 2006. Commercial loans and commercial real estate loans had the second largest dollar volume of loans originated during this timeframe. Based on this data, we focused our sample on residential mortgages and commercial and commercial real estate loans.

## **DESCRIPTION OF LANCASTER NATIONAL BANK ASSESSMENT AREA**

Lancaster National Bank has one defined assessment area (AA) which is comprised of four census tracts within Coos County. The towns included in these census tracts are: Lancaster, Whitefield, Northumberland and the Village of Groveton, Jefferson, Carroll, Twin Mountain, Dalton, Stark, Odell, Low and Kilkenney. The AA meets the legal requirements of the regulation and does not arbitrarily exclude any low or moderate-income tracts. Of the four census tracts in the AA, one is a moderate income tract and the other three are middle income tracts.

**Table 2** reflects the demographic and economic characteristics of the assessment area based on 2000 Census Bureau data.

<b>Table 2 - DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS</b>	
<b>Population</b>	
Number of Persons	12,154
Number of Families	3,325
Number of Households	4,910
<b>Geographies</b>	
Number of Census Tracts	4
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	25%
% Middle-Income Census Tracts	75%
% Upper-Income Census Tracts	0%
<b>Economic Indicators</b>	
Median Family Income	\$62,900
Median Housing Value	\$76,756
Number of Housing Units	6,908
Number of Owner Occupied Units	3,675
Number of Rental Units	1,419
% of Households Below Poverty Level	11.0%
Average monthly gross rent	\$421
<b>Business Indicators</b>	
Number of Businesses (non-farm)	1,211
Percentage of small businesses*	52.02%

*Source: U.S. Census Data*

*\* Businesses which reported annual revenues of less than or equal to \$1 million.  
44.59% of businesses did not report revenues.*

The bank operates in a competitive market. According to the FDIC market share report for Coos County as of June 30, 2006, there were 8 institutions in Coos County. The bank's competitors include Passumpsic Savings Bank, Laconia Savings Bank, Connecticut River Bank, N.A., First Colebrook Bank and Woodsville Guaranty Savings Bank.

In conjunction with the Performance Evaluation, we made a community contact to assist in gauging the credit needs of the community. We contacted the Coos Economic Development Corporation (CEDC) which is a non-profit regional development corporation serving Coos County. CEDC indicated that small business lending is a primary credit need in the area.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

The loan-to-deposit ratio reflects satisfactory lending performance given the Bank's balance

sheet structure, available lending opportunities and competitive market area. The loan-to-deposit ratio of 66.39% was calculated using an average of 22 consecutive quarters since the last CRA examination. The bank's loan-to-deposit ratio fluctuated between a low point of 61.68% at December 31, 2004 to a high point of 70.89% at March 31, 2002. A comparison with New England banks with total assets less than \$250 million reflected an average peer loan-to-deposit ratio of 70.82% over the same timeframe.

### Lending in Assessment Area

LNB's lending to borrowers within the AA is excellent. The majority of originated loans both by number and dollar amount were made to borrowers within the AA. The loan products sampled and results of our analysis are detailed in **Table 3 below**. Our sample was comprised of 25 residential mortgages and 31 commercial and commercial real estate loans.

<b>Table 3 - Lending in Lancaster Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$(000)	%	\$(000)	%	
Residential mortgages	24	96.00	1	4.00	100.0	1,807	90.37	192	9.63	100.00
CML/CML RE	30	96.77	1	3.23	100.0	3,423	98.16	64	1.84	100.00
Totals	54	96.43	2	3.57	100.0	5,230	95.33	256	4.67	100.00

Source: sample of loans.

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

LNB's lending to low- and moderate-income households is good and lending to small businesses is excellent. Our analysis is based on the same loan sample and same time period as is in **Table 4** below.

<b>Table 4 – Borrower Distribution of Residential Real Estate Loans in Lancaster AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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 Mortgages	24.45%	20.00%	25.02%	28.00%	25.29%	40.00%	25.23%	12.00%

Source: loan sample; 2000 U.S. Census data.

**Table 4** reflects the bank's good level of lending to families with low- and moderate-income levels. LNB's residential mortgage lending is compared to the distribution of AA families by

income level. Lending to low-income borrowers is near to AA demographics. As shown in **Table 4**, of families within the bank’s AA, 25.02% are low-income and the bank originated 20% of the sample to low-income families. 25.02% of families within the AA are moderate-income families. The bank originated 28% of the sample to moderate-income families.

<b>Table 5 - Borrower Distribution of Loans to Businesses in Lancaster AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	52.02%	3.39%	44.56%	100%
% of Bank Loans in AA by #	90.32%	9.68%	0	100%
% of Bank Loans in AA by \$	88.24%	11.76%	0	100%

Source: Loan sample; Dunn and Bradstreet data.

**Table 5** reflects the bank’s excellent penetration of LNB’s lending activity to small businesses. Based on both number and dollar of loans, performance exceeded business demographic data. Small businesses are defined as those with gross annual revenues of one million dollars or less.

### Geographic Distribution of Loans

The bank has a reasonable geographic distribution of loans to borrowers and businesses throughout its AA with no conspicuous gaps noted.

<b>Table 6 - Geographic Distribution of Residential Real Estate Loans in Lancaster AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of Number of Loans						
Residential Mtgs.	N/A	N/A	32.33%	32.00%	67.67%	68.00%	N/A	N/A

Source: loan sample; U.S. Census data.

As shown in **Table 6**, the bank’s residential mortgage lending is compared to the distribution of owner-occupied housing units in the AA’s census tracts. LNB’s AA has no low- or upper-income tracts. LNB demonstrates satisfactory penetration among borrowers in different census tracts. As shown above, 32.33% of all owner-occupied units located in the AA are in the moderate-income tract, with 67.67% in middle-income tracts. Performance was right in line with demographics as the bank originated 32% of the loans in the moderate-income tract and 68% in middle-income tracts.

**Table 7** reflects the geographic distribution of loans to businesses in different census tracts. LNB's distribution to businesses in different tracts within the AA is adequate. The bank's lending to businesses in the moderate-income tract is less than the demographics. This is reflective of the paper mill in this tract, a key employer which comprise, a large portion of the tract.

<b>Table 7 - Geographic Distribution of Loans to Businesses in Lancaster AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
CML/CML RE	N/A	N/A	23.86	9.68	76.14	90.32	N/A	N/A

*Source: loan sample; D & B data.*

### **Responses to Complaints**

Neither the bank nor the OCC received CRA complaints on Lancaster National Bank since the prior examination of June 13, 2001.

### **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.