



SMALL BANK

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

PUBLIC DISCLOSURE

July 26, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Ledyard National Bank
Charter Number 22210**

**320 Main St
Norwich, VT 05055**

**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

Institution's CRA Rating: This institution is rated **Satisfactory**.

State Rating – New Hampshire: **Satisfactory**

State Rating – Vermont: **Satisfactory**

The major factors that support this rating include:

- A majority of the bank's loans were originated within the bank's assessment area.
- A more than reasonable loan-to-deposit ratio given the volume of loans sold in the secondary market.
- An excellent distribution of lending to businesses of different sizes and a reasonable distribution of lending to borrowers of different income levels in New Hampshire.
- A reasonable distribution of lending to borrowers of different income levels and to businesses of different sizes in Vermont.

DESCRIPTION OF INSTITUTION

Ledyard National Bank (LNB or "the bank") is a locally operated and federally chartered community bank, originated in 1991 in Hanover, New Hampshire (NH). The main office was subsequently relocated to Norwich, Vermont (VT), to take advantage of bank branching legislation. The institution's assets totaled \$243 million at December 31, 2003.

LNB grew significantly, since the prior CRA evaluation of March 8, 1999, when assets totaled \$161 million. The bank operates six full service branches plus its main office, which serves the towns in the counties of Grafton, Merrimack, and Sullivan in NH, as well as, portions of Orange and Windsor counties in VT. Branches are located in Lebanon, Lyme, New London, West Lebanon, and two offices in Hanover as well as the main office in Norwich, VT. Automated teller machines (ATMs) are located at NH branches in Lebanon, New London, and West Lebanon. In addition, the bank operates three remote ATMs at the following locations in NH: Dartmouth College-Collis Center in Hanover, Powerhouse Mall in West Lebanon, and River Valley Club in Lebanon. In March of 2000, LNB acquired a second location in New London. In November 2001, LNB merged the two New London offices into the County Road branch. No other branches were closed since our last CRA examination in March 8, 1999, when the bank received a **Satisfactory** rating.

LNB faces no legal or other impediments that hinder its ability to help meet credit needs of its assessment area. At December 31, 2002, the bank held \$160 million in loans and \$174 million in deposits representing 69% and 75% of total assets, respectively. LNB offers standard commercial and consumer credit products. The bank is primarily a commercial lender providing

real estate and business loans. Residential mortgage lending increased since the prior CRA examination and is also a significant portion of the loan portfolio. See **Table 1** below for detailed information on the composition of the bank's loan portfolio.

Table 1 - Loan Portfolio Categories for LNB	\$ (000)	%
Commercial & Industrial	57,017	36%
Commercial Real Estate	46,326	29%
Residential Mortgages	43,837	27%
Home Equity Loans	7,475	5%
Consumer Loans (Individual, Credit Card, Other)	4,873	3%
Total Loans	159,528	100%

Source: December 31, 2002 Report of Condition

LNB also offers a wide variety of deposit products to meet consumer and commercial banking needs. The bank's Internet website, www.ledyardbank.com, provides detailed information on products and services for both consumers and businesses. Banking services are standard and include 24 Hour Banking by Telephone and on-line banking with bill-payment options. The bank also offers investment, trust, asset management and financial planning services to individuals, businesses, and organizations.

DESCRIPTION OF LNB ASSESSMENT AREA

CRA regulations require a financial institution to identify one or more assessment areas (AA) in which it intends to meet that area's credit needs. LNB management identifies one AA that crosses the state border between NH and VT. A general description of the AA includes the Upper Valley and Lake Sunapee regions with branch locations in Hanover, Lebanon, Lyme, New London, and West Lebanon, NH and Norwich, VT. The AA more specifically includes a portion of eastern central VT and western central NH divided by Interstate 91 and the Connecticut River. It has a combined population of 94 thousand based on 1990 Census Data. The AA consists of 23 census tracts and does not arbitrarily exclude any low- and moderate-income areas. The bank's entire AA contains no low-income, 1 moderate-income, 18 middle-income, and 4 upper-income census tracts.

The Upper Valley area has experienced economic growth. The strongest growth was in the Lebanon-Hartford area driven by employment needs of Dartmouth College, the Dartmouth Hitchcock Medical Center expansion, and new technology firms locating in Centerra and the Airport Business Park. Retail activities have expanded on the Lebanon side of the Connecticut River because of the lack of New Hampshire sales tax. Claremont and Springfield NH have not experienced the same degree of growth, suffering from an erosion of manufacturing jobs and plant closures. Job growth in those communities has been in the lower paying service and retail industries.

Overall unemployment in the AA has been less than 2%, consistently lower than the state and national unemployment indicators. The supply of housing units has not kept pace however with demand, and vacancy rates have plummeted. This imbalance between supply and demand has driven up housing prices and hit low- and moderate-income households the hardest. In addition, the quality of existing housing is also a concern.

We made a community contact to gain a better understanding of the credit needs in the AA. The contact was a non-profit organization that works to increase the supply of diverse workforce housing in the region. The contact stated that affordable housing is the greatest need due to a housing supply shortage combined with sharply rising housing costs. Recent studies indicate there is a 3,100-unit housing shortage in the Upper Valley area. Our contact stated area banks are doing a good job in helping support the organization's work, but could do more. The organization stated banks could donate more funds and provide financial consulting to individuals and businesses. Financial institutions could also help by financing development projects that will increase the supply of affordable housing.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The bank's lending performance meets the standards for a **Satisfactory** rating.

LNB's lending rating is based on five performance criteria that are described in this section. We evaluated the volume and type of loans originated since the previous CRA examination. LNB's lending was focused primarily on commercial loans and residential mortgages. The economic expansion in the bank's AA contributed to strong commercial loan demand. The increase in job opportunities resulted in a migration of out of area residents seeking to purchase 1-4 family residences. We focused our lending sample on commercial loan and residential mortgages (home purchase) for the period between January 1, 2000 and December 31, 2002. Our sample was randomly selected from internally generated reports.

We took loans originated inside the assessment area and used the same sample to determine the distribution of borrowers by income level. We compared the results with AA demographics. A summary of the borrower distribution by income is presented below. A table with details of the sample results in the AA for each state is located in the **State Rating** sections. The overall CRA rating places more weight on the AA in New Hampshire where a majority of the bank's loans and deposits are located.

Loan-to-Deposit Ratio

LNB's loan-to-deposit (LTD) ratio of 79% as of March 31, 2004 is more than reasonable. The bank's 21-quarter average LTD ratio was 75%. The LTD ratio rose steadily with modest fluctuations since the last CRA examination. Its lowest point was 60% at March 31, 1999, and reached a high of 82% at June 30, 2001. Area banks experienced deposit inflows from financial markets as investors reduced stock and mutual fund holdings. Low rates encouraged record refinancing activity for 1-4 family as well as new home purchase mortgages that kept pace with deposit growth.

The bank's LTD ratio is not the highest of financial institutions in LNB's AA. At March 31, 2004, LTD ratio's for six area banks ranged from 64% to 102%. The ratio, however, does not include the significant volume of mortgage loans LNB sold in the secondary market. The bank originated and sold over 700 loans totaling \$118 million in 1999 through 2003.

Lending in Assessment Area

The volume of loans originated in the bank's AA is more than reasonable. A majority of the bank's loans were made to borrowers within the AA. We reviewed the distribution of loan originations for 42 home purchase loans and 21 commercial loans. The results of our analysis are detailed in **Table 2**. We concluded that 84% of the number and 80% of the dollar volume of loans were originated in the bank's AA.

Table 2 - Lending in Ledyard National Bank's Assessment Area: 1/1/2000 - 12/31/2002										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total #	Inside		Outside		Total \$
	#	%	#	%		\$	%	\$	%	
Home Purchase Mtgs.	34	81	8	19	42	6,063,000	78	1,671,000	22	7,734,000
Commercial Loans	19	90	2	10	21	1,786,661	88	250,000	12	2,036,661
Totals	53	84	10	16	63	7,849,661	80	1,921,000	20	9,770,661

Source: Internally generated lists of home purchase mortgages and commercial loans.

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

Overall, lending to borrowers of different incomes and to businesses of different sizes is reasonable and meets standards for a **Satisfactory** rating. This assessment is based on a review of borrower income distribution in New Hampshire and Vermont.

*(For a narrative and tables reflecting the results by state, please refer to the **State Rating** sections.)*

Geographic Distribution of Loans

We did not perform a review of the geographic distribution of loans in the bank's assessment area. The New Hampshire portion of the bank's assessment area has no low-income census tracts and only one moderate-income census tract. The Vermont portion of the bank's assessment area has no low- or moderate-income census tracts. One moderate-income census tract out of 23 would not provide a meaningful analysis of the geographic distribution of loans.

Responses to Complaints

Neither the bank nor the OCC received CRA related complaints on Ledyard National Bank since the prior CRA examination of March 1, 1999.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.

State Rating for New Hampshire

CRA Rating for New Hampshire is: Satisfactory
The lending test is rated: Satisfactory

The major factors that support this rating include:

- An excellent distribution of lending to businesses of different sizes.
- A reasonable distribution of lending to borrowers of different income levels.

Description of Ledyard National Bank's Operations in New Hampshire

Ledyard National Bank has six full service branch offices in New Hampshire (NH). The NH assessment area includes towns in Grafton, Merrimack, and Sullivan counties. Historically manufacturing has been important to the New Hampshire AA due to its fast-moving rivers. This has given way to high technology firms, many migrating from the Boston area and its higher tax rates. In addition, tourism has become a year round and growing industry. Folk crafts, such as woodcarving, weaving, and pottery making, have been revived to meet the tourist market.

In 2002, the NH economy was hit by weakness in manufacturing and Information Technology (IT) sectors. Rural counties suffered from job losses in non-IT manufacturing industries, such as pulp and paper mills. The LNB AA, however, has not experienced the same weakness due to the micro-economy created from Dartmouth University, Dartmouth Hitchcock Medical Center and technology firms relocating to the area. The jobs created by these employers have created among the highest salaries in the state.

In the NH AA, the housing market boomed. Demand for housing increased due to new and expanding companies' growing labor force. New residents moved to the AA and faced a limited inventory of housing units to buy or rent. The housing shortfall has driven up housing prices, creating a serious problem of housing affordability. (Refer to economic indicators in **Table 3** for housing values).

All the census tracts in the bank's NH AA are upper or middle tracts except a portion of Claremont, NH, which has a moderate-income census tract. Claremont lacks the same economic expansion as the rest of the bank's NH AA, with a loss of manufacturing jobs replaced by lower paying retail and service jobs. Home prices and rental prices are lower than other areas in the AA, however they are rising.

Demographic information of LNB's New Hampshire AA is broken out in **Table 3** below.

Table 3 - Demographic and Economic Characteristics of Ledyard National Bank's New Hampshire Assessment Area	
<i>Population</i>	
Number of Families	18,546
Number of Households	26,835
<i>Geographies</i>	
Number of Census Tracts/BNA	16
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	6%
% Middle-Income Census Tracts/BNA	81%
% Upper-Income Census Tracts/BNA	13%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$39,265
2002 HUD-Adjusted MFI	\$51,000
<i>Economic Indicators</i>	
2003 Avg. Market Price of Homes	\$350,000
1990 Median Housing Value	\$119,714
Median Age of Housing	44 years
Weighted Avg. of Monthly Gross Rents	\$500
Unemployment Indicators	< 2%
% Of Households Below Poverty Level	8%
<i>Percentage of Families in All Tracts by Income</i>	
Low-income Families	17%
Moderate-income Families	18%
Middle-income Families	27%
Upper-income Families	38%

Source: 1990 U.S. Census Data, 2002 HUD Data

The major credit need in the AA is affordable housing for both home purchase and rental units. Competition in the NH AA is intense with ten local and regional banks competing for available loans. LNB ranks fourth in deposit size in its NH AA.

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

LNB's borrower income distribution in the NH AA is reasonable and meets standards for a **Satisfactory** rating. This assessment is based on reasonable performance in home purchase mortgage lending to low- and moderate-income families, given the limited inventory of affordable homes. Lending performance to businesses of different sizes is excellent, as the bank has focused on serving its local commercial customers.

Table 4 - Borrower Income Distribution: Residential Mortgage Loans in LNB's New Hampshire Assessment Area: 1/1/2000 - 12/31/2002								
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
Home Purchase Mtgs.	17	8	18	8	27	15	38	69

Source: Loan sample; U.S. Census Data.

The distribution of loans among borrowers of different income levels is reasonable, given the demographics of the AA in **Table 4** above. LNB originated 8% of its home purchase mortgages to low-income families and 8% to moderate-income families. Although less than the demographics of 17% and 18%, respectively, the volume is reasonable given the limited stock of affordable housing. Census data in 1990 reflected median housing prices of \$119 thousand. Current sales prices have risen to an average of \$350 thousand making home purchases unattainable for many low- and moderate-income families.

Table 5 - Borrower Income Distribution: Loans to Businesses in LNB's New Hampshire Assessment Area: 1/1/2000 - 12/31/2002				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	68	5	27	100%
% of Bank Loans in AA by #	80	20	0	100%
% of Bank Loans in AA by \$	87	13	0	100%

Source: Loan sample; U.S. Census Data.

LNB's lending to businesses of different sizes is excellent. The sample in **Table 5** above reflected 80% of the number and 87% of the dollar amount of business loans originated by LNB were to businesses with revenues less than \$1 million and exceeds demographics of 68%.

State Rating for Vermont

CRA Rating for Vermont is: Satisfactory

The lending test is rated: Satisfactory

The major factors that support this rating include:

- A reasonable distribution of lending to borrowers of different income levels.
- A reasonable distribution of loans to businesses of different sizes.

Description of Ledyard National Bank's Operations in Vermont

Ledyard National Bank has its main office in Norwich, Vermont (VT). This office is also a full service location. The VT assessment area includes towns in Orange and parts of Windsor County. The VT AA area along the Connecticut River has a population of 22 thousand. The AA includes the towns of Bradford, Fairlee, Hardford, Hartland, Norwich, West Fairlee, and White River Junction.

The area has a rather mountainous and hilly terrain. The bank's VT AA is reliant on the stable micro-economic impact created by the University, Medical Center, and the growing high technology industry. The service and retail industry serve the growing population as well as year round visitors from a thriving tourist industry. White River Junction, VT has seen new hotel development since the prior CRA evaluation. The jobs created from service and retail are typically lower paying. The area also hosts numerous cottage industries, making a variety of products from knitwear to ice cream.

The growing economy and increasing population has increased the demand for a limited supply of housing units. With supply lagging so far behind demand, vacancy rates have plummeted. The U.S. Census calculated that Vermont has the fourth tightest owner market and third tightest rental market in the nation. This imbalance between supply and demand drives up housing prices and impacts low- and moderate-income households the hardest. Refer to economic indicators in **Table 6** for housing values. All the census tracts in the bank's VT AA are middle- or upper-income, however each of those tracts includes low- and moderate-income families.

The following information in **Table 6** provides key demographic data about the bank's VT AA.

Table 6 - Demographic and Economic Characteristics of Ledyard National Bank's Vermont Assessment Area	
<i>Population</i>	
Number of Families	6,103
Number of Households	8,833
<i>Geographies</i>	
Number of Census Tracts/BNA	7
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	0%
% Middle-Income Census Tracts/BNA	71%
% Upper-Income Census Tracts/BNA	29%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$38,993
2002 HUD-Adjusted MFI	\$43,400
<i>Economic Indicators</i>	
2003 Avg. Market Price of Homes	\$250,000 to \$275,000
1990 Median Housing Value	\$116,718
Median Age of Housing	32 years
Weighted Avg. of Monthly Gross Rents	\$497
Unemployment Indicators	< 2%
% Of Households Below Poverty Level	9%
<i>Percentage of Families in All Tracts by Income</i>	
Low-income Families	14%
Moderate-income Families	18%
Middle-income Families	21%
Upper-income Families	47%

Source: 1990 U.S. Census Data, 2002 HUD Data

The major credit need in the AA is affordable housing for both home purchase and rental units. Competition in the VT AA is heavy with a total of six local and regional banks competing for available loans. LNB ranks sixth in deposit size in its VT AA.

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

LNB's borrower income distribution in the VT AA is reasonable and meets standards for a **Satisfactory** rating. This assessment is based on reasonable performance in home purchase mortgage lending to low- and moderate-income families, given the high cost of housing and the limited inventory of affordable homes. Lending performance to businesses of different sizes is reasonable, as the bank has focused on serving its local commercial customers.

Table 7 - Borrower Income Distribution: Residential Mortgage Loans in LNB's Vermont Assessment Area: 1/1/2000 - 12/31/2002								
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
Home Purchase Mtgs.	14	0	18	5	21	19	47	76

Source: Loan sample; U.S. Census Data

The distribution of loans among borrowers of different income levels is reasonable, given the demographics of the AA in **Table 7** above. LNB had no loans originated to low-income families despite 14% of the AA containing low-income families. Low-income families earning 50% less than the \$43 thousand median income could unlikely afford homes approaching \$250 thousand. The difficulty also is evident for moderate-income families. Although the bank did originate 5% of our loan sample to families with moderate-incomes, it falls short of the 18% demographics. Given the limited stock of affordable housing and the high price of homes, the bank's efforts to lend to borrowers of different incomes are reasonable in the VT AA.

Table 8 - Borrower Income Distribution: Loans to Businesses in LNB's Vermont Assessment Area: 1/1/2000 - 12/31/2002				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses*	74	6	20	100%
% of Bank Loans in AA by #	67	33	0	100%
% of Bank Loans in AA by \$	31	69	0	100%

Source: Loan sample; U.S. Census Data

LNB's percentage of loans to businesses of different sizes is reasonable. The sample in **Table 8** above reflected 67% of the number and 31% of the dollar amount of business loans originated by LNB were to businesses with revenues less than \$1 million. It is less than the demographics of 74%. The VT AA is small and competitive, served by six different financial institutions.