



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**April 20, 2009**

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

The First National Bank of Orwell  
Charter Number 228

Main Street  
Orwell, VT 05760

Office of the 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 major factors that support this rating include:

- The bank's quarterly average loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, assessment area (AA) credit needs, and relevant competitive factors;
- A substantial majority of the bank's loans originated or purchased during the evaluation period were within the AA;
- The distribution of loans represents excellent penetration among borrowers of different incomes;
- The geographic distribution of loans reflects reasonable dispersion throughout the AA; and
- The bank has had no consumer complaints regarding its community reinvestment performance.

**SCOPE OF EXAMINATION**

We performed a full-scope evaluation of First National Bank of Orwell (FNB Orwell) performance using small bank Community Reinvestment Act (CRA) examination procedures. Our review covered the bank's CRA performance from January 1, 2006 through December 31, 2008, as this is representative of the bank's lending strategy since the last CRA examination. Based upon the bank's business strategy and loans originated or purchased during the evaluation period, we determined that residential mortgage loans are the bank's primary loan product. A random sample of 30 residential mortgage loans originated or purchased during the evaluation period was originally selected to determine the bank's lending within its AA. Once that was determined, the sample was reduced to 20 residential mortgage loans originated or purchase within the AA for the remainder of the lending tests. The loan-to-deposit analysis covered fourth quarter 2003 to fourth quarter 2008.

**DESCRIPTION OF INSTITUTION**

FNB Orwell is a \$36 million intrastate community bank headquartered in Orwell, Vermont, that services the counties of Addison and Rutland. It is an independently owned bank with no holding company. The bank is a full service community bank offering basic loan and deposit services. There has been no merger or acquisition activity during the evaluation period.

The bank's main office is located in a middle-income census tract (CT) in Addison County. The bank opened its first branch on December 11, 2006, after 142 years of operation, in Shoreham, Vermont. The Shoreham Branch, which is approximately three miles away from the main office, is also located in a middle-income CT in Addison

County. Although no actual branches are located in Rutland County, both the main office and the Shoreham Branch are in close proximity to Rutland County. Full service banking and automated teller machines (ATMs) are provided at both the main office and the branch. Drive through and lobby service are available only at the branch.

As of December 31, 2008, FNB Orwell reported \$31 million in net loans representing 88% of total assets), \$32 million in total deposits, and Tier One capital of \$3 million. The bank’s loan portfolio consists of residential real estate loans (60%), commercial and commercial real estate loans (20%), construction and development loans (11%), consumer loans (7%), and agricultural loans (2%). According to the bank’s strategic plan, residential mortgage lending is the bank’s primary business focus.

Numerous national, state, and savings banks, as well as branches of several regional institutions, provide major deposit and lending competition. According to the Federal Depository Institution Corporation's (FDIC) Market Share Report, as of June 30, 2008, FNB Orwell ranked ninth out of nine institutions in the AA with 2.30% of deposits. Competitors in this market include Chittenden Trust Company, ranking first with 20.26% of deposits, RBS Citizens National Association, ranking second with 20.24% of deposits, TD Bank National Association, ranking third with 14.48% of deposits, and National Bank of Middlebury, ranking fourth with 14.04% of deposits. These institutions hold 69% of the deposit market share within Addison and Rutland Counties.

There are no known legal, financial or other factors impeding FNB Orwell's ability to help meet the needs of its community. FNB Orwell’s last CRA evaluation was performed in December 2003 and was rated Outstanding.

## DESCRIPTION OF ASSESSMENT AREA

The following table displays the demographics of the bank’s AA:

Demographic Information for FNB Orwell Non-MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	6	0.00	16.67	83.33	0.00	0.00
Population by Geography	23,288	0.00	12.57	87.43	0.00	0.00
Owner-Occupied Housing by Geography	5,848	0.00	12.67	87.33	0.00	0.00
Business by Geography	2,241	0.00	12.94	87.06	0.00	0.00
Farms by Geography	180	0.00	3.33	96.67	0.00	0.00
Family Distribution by Income Level	5,551	17.89	19.71	25.08	37.33	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	2,087	0.00	18.40	81.60	0.00	0.00
Median Family Income		46,084	Median Housing Value		107,945	
HUD Adjusted Median Family Income for 2008		57,900	Unemployment Rate (2000 US Census)		3.24%	
Households Below Poverty Level		10%				

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 US Census and 2008 HUD updated MFI

FNB Orwell has defined the southern portion of Addison County and the northern portion of Rutland County as its AA. These counties are located in the western region of Vermont. Since the counties are not included in a Metropolitan Statistical Area (MSA) and are homogenous, we combined the two counties for our analysis. The bank's AA totals six CTs. It is comprised of five middle-income tracts (83%) and one moderate-income tract (17%). There are no low-income tracts or upper-income tracts. None of the CTs are considered distressed or underserved tracts. Addison County consists of ten CTs altogether. However, only three of the ten CTs are part of the bank's AA. All three CTs are categorized as middle-income tracts. Rutland County consists of 20 CTs altogether. However, only three of the 20 CTs are part of the bank's AA. Two of the CTs are middle-income tracts. The remaining one CT is a moderate-income tract. The bank's AA complies with the regulation and does not arbitrarily exclude low- or moderate-income areas.

According to the 2000 US Census data, the population of the AA is 23,288. The AA contains 5,551 families and 8,352 households. Demographics indicate that approximately 18% of the families are categorized as low-income, 20% as moderate-income, 25% as middle-income, and 37% as upper-income. Approximately 829 or 10% of households are below the poverty level. The 2008 HUD updated median family income was \$57,900 for the AA and the median value of a home was \$107,945. There are 10,067 housing units with owner-occupied units at 58%, rental-occupied units at 25%, and vacant-housing units at 17% in the AA. The local economy of the bank's AA is diverse with retail, manufacturing, and service industries providing the majority of employment opportunities.

Addison County is located in the lower Champlain Valley of Vermont bordered by the Adirondacks and Upstate New York to the west and the Green Mountains and New Hampshire to the east. According to the 2000 US Census data, the population of Carter County is approximately 35,974, comprising 21% urban population and 79% rural population. Its boundaries are Chittenden, Rutland, Washington, Orange and Windsor Counties. The shire town is Middlebury. The major employers in Addison County are the University of Vermont and Middlebury College. The county's top five industries by distribution of employees are manufacturing, retail, accommodation and food services, educational services, and construction. According to the Bureau of Labor Statistics, the March 2009 unemployment rate for Addison County was 8.30% compared the state unemployment rate at 7.20% and national unemployment rate at 8.50%.

Rutland County lies south of Addison County. According to the 2000 US Census data, the population of Rutland County is approximately 63,400, comprising 39% urban population and 61% rural population. Its boundaries are Addison, Windsor, Bennington and Washington Counties. The shire town is Rutland. The major employers in Rutland County are GE Company and Rutland Regional Medical Center. The county's top five industries by distribution of employees are retail, healthcare and social assistance, manufacturing, accommodation and food services, and construction. According to the Bureau of Labor Statistics, the March 2009 unemployment rate for Rutland County was 9.30% compared the state unemployment rate at 7.20% and national unemployment rate at 8.50%.

During this evaluation, we made a community contact with a non-profit housing organization in order to discuss the credit needs of the AA. Our contact noted that the deepening recession had increased the need for affordable housing. It was also noted that as layoffs have increased throughout the year, so have requests for assistance with monthly utility bills.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank's overall lending performance is "Satisfactory". This conclusion is based upon the results of the following specific lending tests used to determine if the bank is meeting the credit needs of the AA. The loan-to-deposit analysis covered fourth quarter 2003 to fourth quarter 2008. A random sample of 30 residential mortgage loans originated or purchased during the evaluation period was originally selected to determine the bank's lending within its AA. Once that was determined, the sample was reduced to 20 residential mortgage loans originated or purchase within the AA for the remainder of the lending tests. All criteria of the specific lending tests are documented below:

### **Loan-to-Deposit Ratio (LTD)**

FNB Orwell's LTD ratio is more than reasonable given the bank's size, financial condition, area credit needs, and relevant competitive factors. The bank's quarterly average LTD ratio for the 21 consecutive quarters since the last CRA evaluation is 96%. The bank's LTD ratio ranks second among the bank's peer group. The peer group consisted of five similarly situated institutions in the states of Vermont and New Hampshire with total assets less than \$250 million. During this 21 quarter period, the bank's LTD ranged from a low of 87% and a high of 107%. The peer group average was 83%, with peer ratios ranging from a low of 65% to a high of 104% for the 21 quarter period.

### **Lending in Assessment Area**

The bank's lending in its AA is excellent given the bank's size, financial condition, area credit needs, and relevant competitive factors. A substantial majority of FNB Orwell's primary loan product was originated within the bank's AA. Of the 30 loans initially selected for our review, 26 or 87% were located within the bank's AA.

### **Lending to Borrowers of Different Incomes**

The distribution of residential mortgage loans reflects excellent penetration among borrowers of different income levels, and FNB Orwell's record of lending to borrowers of different income levels exceeds the standard for satisfactory performance.

Table 1 reflects the distribution by borrower income level of 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 Mortgage Loan Sample	18%	15%	20%	40%	25%	20%	37%	25%

Source: FNB Orwell loan sample; 2008 Dunn and Bradstreet data.

FNB Orwell’s borrower distribution of residential mortgage loans is excellent. In our analysis of lending to low-income individuals, we considered how affordable it was for low-income individuals to purchase a home and we considered the poverty and unemployment rates. The average median housing value in the AA is \$107,945, based on the 2000 US Census data. The updated median family income is \$57,900, based on the 2008 data from the US Department of Housing and Urban Development (HUD). Low-income individuals earn less than 50% of the median family income. This means that low-income individuals earn less than \$28,950. Furthermore, approximately 10% of households are below the poverty level. In addition, the unemployment rate was 8.30% in Addison County and 9.30% in Rutland County. Based on these statistics, the opportunities for residential mortgage lending to low-income individuals would be limited. Therefore, we placed more emphasis on the bank’s moderate-income performance.

The percentage of residential mortgage loans made to moderate-income borrowers exceeds the percentage of moderate-income families within the AA.

**Geographic Distribution of Loans**

The geographic distribution of residential mortgage loans reflects reasonable dispersion throughout census tracts of different income levels, and FNB Orwell’s performance meets the standard for satisfactory performance. There were no conspicuous gaps identified within FNB Orwell’s AA.

Table 2 reflects the distribution by geographic income level of residential mortgage loans.

CT 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 Mortgage Loan Sample	0%	0%	13%	10%	87%	90%	0%	0%

Source: FNB Orwell loan sample; 2008 Dunn and Bradstreet data.

FNB Orwell's geographic distribution of residential mortgage loans is reasonable. There are no low-income geographies in the AA. The distribution of loans to borrowers in moderate-income geographies is near the percentage of owner-occupied housing in moderate-income tracts. When taking into consideration the relatively low level of owner-occupied housing units in moderate-income tracts, the strong competition from larger institutions in the AA, the limited road networks in Addison and Rutland counties, and the location of the bank's main office and branch in relation to the one moderate-income geography, the bank's performance is considered reasonable.

The bank's main office and branch are both located in middle-income tracts. As a result, majority of the bank's loans are distributed to middle-income geographies.

### **Responses to Complaints**

FNB Orwell did not receive any CRA related complaints 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..