



## **PUBLIC DISCLOSURE**

January 11, 2016

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

The First National Bank of Orwell  
Charter Number 228

441 Main Street  
Orwell, VT 05760

Office of the Comptroller of the Currency

99 Summer St  
Suite 1400  
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 Outstanding**

The major factors supporting the institution's Community Reinvestment Act (CRA) ratings are:

- The First National Bank of Orwell's ("FNB Orwell") level of lending, as reflected in its loan-to-deposit ratio, is more than reasonable.
- A substantial majority of originated loans were made within the bank's assessment area (AA).
- The borrower distribution of loans reflects excellent penetration among individuals of different income levels, given the bank's size, and credit needs of the AA.
- The bank has had no consumer complaints regarding its community reinvestment performance.

## **SCOPE OF EXAMINATION**

FNB Orwell was evaluated using Small Bank Community Reinvestment Act (CRA) examination procedures, which includes a lending test. The lending test evaluates the bank's record of performance in meeting the credit needs of the defined AA. This includes the bank's lending performance from January 1, 2014 through December 31, 2015. FNB Orwell's primary loan product, based on loan originations during the evaluation period, is residential mortgage loans, including home purchase, home refinance, and home improvement loans.

A full scope review was performed on the bank's AA, which includes portions of Addison County and Rutland County. The majority of the bank's deposits, lending activity, and physical presence are in this market. In assessing the bank's lending performance, we utilized 2010 U.S. Census data, and updated data when available.

The bank is not located in a Metropolitan Statistical Area and is not subject to the requirements of the Home Mortgage Disclosure Act (HMDA). As the bank is not a HMDA reporter, a random sample of 75 residential mortgage loans originated during the evaluation period was selected from the loan trial balance to determine the bank's lending performance within the AA.

## **DESCRIPTION OF INSTITUTION**

FNB Orwell is a nationally chartered community bank headquartered in Orwell, VT. As of September 30, 2015, the bank's total assets were \$56.1 million. The bank is an

independently owned bank with no holding company. The bank continues to offer basic loan and deposit services, primarily offering residential real estate loan products.

The bank has two retail locations. The main office and Shoreham branch are situated within middle-income census tracts in Addison County, and are in close proximity to Rutland County. Business hours are reasonable, as each location is open from 8:30am to 4:00pm Monday through Friday. Extended hours are available until 6:00pm on Fridays at both locations. The Shoreham branch also offers Saturday business hours from 8:00am to 11:00am. Both the main office and the branch are equipped with an Automated Teller Machine (ATM), and the Shoreham branch offers drive up window service. FNB Orwell also offers online banking to its customers. The bank's website, [www.FNBOrwell.com](http://www.FNBOrwell.com), provides additional information on its services. The bank did not open or close any branches during the evaluation period.

FNB Orwell offers residential mortgage, commercial loan, and consumer loan products and deposit services to its customers. As of September 30, 2015, the bank's loan portfolio totaled \$52.4 million, and represented 93.4% of total assets. The distribution of the bank's loan portfolio as of September 30, 2015 follows in the table below.

<b>Loan Portfolio Summary by Loan Product September 30, 2015</b>	
<b>Loan Category</b>	<b>% of Total Loans and Leases</b>
1-4 Family Residential	70%
Commercial Real Estate	10%
Commercial & Industrial	7%
Construction & Development	7%
Agricultural	2%
Consumer	3%
Municipal	1%

*Source: Federal Deposit Insurance Corporation (FDIC) Call Report as of 9/30/15*

In terms of deposit competition, several local and regional banks have a major presence in the AA. According to the most recent Federal Deposit Insurance Corporation (FDIC) Summary of Deposits Report dated June 30, 2015, the institutions leading in market share within Addison and Rutland County include larger regional banks, national banks, and community banks; all of which have a presence within the bank's AA. People's United Bank has captured the majority of the deposit share (19.3%), followed by the National Bank of Middlebury (18.2%), Citizens Bank, NA (16.5%), TD Bank, NA (14.0%), Merchants Bank (11.6%), Lake Sunapee Bank, FSB (7.5%), Berkshire Bank (6.0%) and Key Bank (3.8%). FNB Orwell ranked ninth with 3.0% of the deposits.

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 performance evaluation was dated April 20, 2009, and assigned the bank an Outstanding rating.

## DESCRIPTION OF ASSESSMENT AREA(S)

FNB Orwell's AA is defined as the southern portion of Addison County and the northern portion of Rutland County. The AA includes the main office and the Shoreham branch, along with all deposit-taking ATMs, and the contiguous towns/cities around the offices. Addison and Rutland Counties are located in the western region of Vermont. The established AA is comprised of eight census tracts, with no low- or moderate-income census tracts located within the AA. None of the AA's census tracts are considered distressed or underserved. The AA does not arbitrarily exclude any low- or moderate-income census tracts, and meets the legal definition of an AA.

According to the 2010 U.S. Census data, the population of the AA is 32,930. This includes 8,296 families and 9,359 households. Demographic reports indicate that approximately 18% of the families are categorized as low-income, 19% as moderate-income, 22% as middle-income, and 41% as upper-income. Approximately 1,123 or 12% of households are below the poverty level. The 2014 U.S. Census updated median family income was \$67,154 and the median housing value was \$189,000. The unemployment rate, based on updated 2014 U.S. Bureau of Labor Statistics, was 3.6%. The local economy is diverse with retail, manufacturing, and service industries providing the majority of employment opportunities.

The following table contains demographic information for the AA:

Demographic Information for Full Scope Area: AA Orwell 2015						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	8	0.00	0.00	87.50	12.50	0.00
Population by Geography	32,930	0.00	0.00	84.53	15.47	0.00
Owner-Occupied Housing by Geography	9,359	0.00	0.00	81.61	18.39	0.00
Business by Geography	2,742	0.00	0.00	84.76	15.24	0.00
Farms by Geography	339	0.00	0.00	72.27	27.73	0.00
Family Distribution by Income Level	8,296	18.42	19.00	22.13	40.45	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	3,104	0.00	0.00	87.21	12.79	0.00
Median Family Income ^ HUD Adjusted Median Family Income for 2010 Households Below Poverty Level		67,154 61,100 12%	Median Housing Value Unemployment Rate **		189,000 3.6%	

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

Source: 2010 U.S. Census and 2010 HUD updated MFI; ^ U.S. Census 2014; \*\*2014 U.S. Bureau of Labor Statistics

Based on lending market share reports, the bank faces strong competition in the AA. This includes local banks, credit unions, larger national and regional banks, and mortgage companies. The competitors with the majority of the market share in the AA

include National Bank of Middlebury, Vermont Federal Credit Union, People's United Bank, Quicken Loans, Wells Fargo Bank, NA, and Citizens Bank, NA.

According to the September 2015 Moody's Analytics data, Vermont's economy is growing gradually, however at a pace slower than the national average. Although there has been some new job creation, it is primarily concentrated in lower-wage industries, resulting in lower income growth and lower demand for housing. This gradual growth is primarily attributed to Vermont's strong healthcare industry, which is expected to continue growing over the next several years, as nearly 17% of Vermont residents are 65 years or older.

The current statewide unemployment rate has decreased to 3.6%, which remains lower than the national average. As of April 2015, Addison County's unemployment rate of 3.5% remains below Vermont's average. However, Rutland County's unemployment rate at 4.5% remains above the state's average.

Internet based startups continue to grow in Vermont. However attracting new talent, and the migration of college graduates out of state continues to be a challenge. Migration out of Vermont totaled 14,385 people, outpacing total in-migration of 13,691, for a net migration of negative 694 people. Competition from higher paying employment in surrounding New England states continues to cause out-migration of the working-age population in Vermont. This will likely continue as long-term employment growth in the state is projected to trend below the national average over the next five years.

Although tourism remains a robust source of income for Vermont, business costs rank third highest in the country, slowing new businesses growth in the area. Job growth in private services continues to increase. Fletcher Allen Health Care continues to be Vermont's top employer, with IBM, University of Vermont, Green Mountain Coffee Roaster, and Shaw's Supermarkets being among the other five top employers. Average annual earnings within each job sector continue to remain below the national averages.

Single-family home sales in the state have increased only 15% over the last decade, which is less than the 30% increase seen nationally. Vermont's housing prices remain stable and at levels slightly above the national average. The area was not as impacted by the 2007-2008 real estate crisis that other states experienced.

In assessing the bank's performance, we contacted a local organization whose purpose is to provide affordable housing to low- and moderate-income families and individuals in Vermont. The community contact indicated that affordable housing is a key issue due to the high cost of housing in the area and stressed that long-term affordable housing is an identified need. The community contact mentioned that there is a shortage of housing available to low and moderate-income families in the local area. The community contact mentioned the local financial institutions are supportive of the area's credit needs and support community development activities. Other opportunities for participation identified include financial coaching for low- and moderate-income families,

providing grants and donations for organizations servicing low- and moderate-income families, and providing financing for affordable housing projects.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNB Orwell’s performance under the lending test is outstanding. FNB Orwell’s loan-to-deposit ratio is more than reasonable given the bank’s size and AA credit needs. A substantial majority of the bank’s loans were originated inside the bank’s AA. The distribution of loans reflects excellent penetration among individuals of different income levels.

### Loan-to-Deposit Ratio

FNB Orwell’s loan-to-deposit (LTD) ratio is more than reasonable given the institution’s size, credit needs of the AA, market competition, and local economic factors. FNB Orwell’s quarterly average loan to deposit ratio from April 20, 2009 through September 30, 2015 averaged 95.8% and ranged from a high of 111.4% at September 30, 2015 to a low of 86.4% at December 31, 2012. The average LTD ratio for all national banks, thrifts, and FDIC-insured institutions with total assets under \$350 million in Vermont and New Hampshire over the same time-period was 79.7% with a range from 72.2% to 106.9%. Among similarly situated financial institutions, or the bank’s peer group, one bank’s average LTD was higher than FNB Orwell while seven banks’ average LTD ratio was lower. The average LTD ratio for all national banks, thrifts, and FDIC-insured institutions in Vermont over the same period was 89.9%, with a low average LTD ratio of 70.6% and a high average LTD ratio of 127.3%.

### Lending in Assessment Area

A substantial majority of FNB Orwell’s primary loan products originated inside the defined AA. FNB Orwell originated 75% by number and 74% by dollar amount of loans in the AA. The following table illustrates the bank’s lending within the AA by number and dollar amount of loans.

<b>Table 1 - Lending within the Assessment Area (AA)</b>										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	13	59	9	41	22	1,742	61	1,115	39	2,857
Home Refinancing	40	82	9	18	49	4,040	81	945	19	4,985
Home Improvement	3	75	1	25	4	254	88	35	12	289
<b>Total Home Loans</b>	<b>56</b>	<b>75</b>	<b>19</b>	<b>25</b>	<b>75</b>	<b>6,036</b>	<b>74</b>	<b>2,095</b>	<b>26</b>	<b>8,131</b>

Source: Sampled loan data from 1/1/2014 through 12/31/2015

### Lending to Borrowers of Different Incomes

The distribution of home loans to borrowers reflects excellent penetration among borrowers of different income levels. Given that home purchase and refinance loans represented the most significant portion of sampled originations during the evaluation period, these loan purpose categories were given the most consideration in the lending test. Our loan sample only generated three home improvement loans. Therefore, a meaningful analysis on this loan type could not be performed.

FNB Orwell had excellent penetration to low-income borrowers. The bank’s home purchase lending to low-income borrowers was relatively in-line with the comparator (% of families) used in this analysis which is considered excellent as housing costs in the AA are relatively high when compared to the HUD adjusted median family income. The average housing price in 2014 was \$222,700 in Addison County and \$127,500 in Rutland County. The 2014 adjusted median family income was \$67,154, which means the maximum income for low-income families is \$33,576, making it more challenging for low-income borrowers to qualify for these loans. The bank’s home refinance lending to low-income borrowers exceeded the comparator data used in the analysis and is considered excellent.

The bank had excellent penetration to moderate-income borrowers, as both home purchase and home refinance loans exceeded the market comparators used in the analysis.

The following table illustrates the distribution of home loan products among borrowers of different income levels compared to the percent of families in each income category.

Table 2 - Borrower Distribution of Residential Real Estate Loans in AA1								
Loan Type	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
Home Purchase	18	15	19	62	22	8	41	15
Home Improvement	18	0	19	0	22	67	41	33
Home Refinance	18	23	19	35	22	20	41	22

Source: Sampled loan data from 1/1/2014 through 12/31/2015; \*2010 U.S. Census data

### Geographic Distribution of Loans

The bank’s AA does not include any low- or moderate-income census tracts. Therefore, an analysis on the geographic distribution of loans is not applicable to the lending test.

### **Responses to Complaints**

FNB Orwell did not receive any CRA related complaints during this evaluation period.

### **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank's CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA by an affiliate whose loans have been considered as part of the bank's lending performance. We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.