



Office of the  
Comptroller of the Currency  
Washington, DC 20219

# INTERMEDIATE SMALL BANK

## PUBLIC DISCLOSURE

May 1, 2017

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Community National Bank  
Charter Number 1368

4811 US Route 5, Derby VT 05829

Office of the Comptroller of the Currency

99 Summer Street, 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, and should not 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.

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**Overall CRA Rating: This institution is rated Outstanding.**

**The Lending Test is rated: Outstanding.**

**The Community Development Test is rated: Outstanding.**

The primary factors supporting the CRA rating are as follows:

- The Bank's loan-to-deposit (LTD) ratio is more than reasonable;
- A substantial majority of the Bank's loans are originated inside its AAs;
- The Bank's distribution of loans to borrowers of different income levels reflects reasonable penetration, given the Bank's size, credit needs of the AAs, and competition;
- The Bank's distribution of loans to borrowers in different geographies within its AAs reflects excellent dispersion;
- The Bank's community development (CD) performance demonstrates excellent responsiveness to the needs of the Bank's AAs; and
- There were no complaints regarding the Bank's performance in meeting the credit needs of its AA.

## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Census Tract (CT):** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community Development:** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

**Community Reinvestment Act (CRA):** the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor

vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Full Review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

**Home Mortgage Loans:** Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited Review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Median Family Income (MFI):** The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

**Metropolitan Area (MA):** Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget and any other area designated as such by the appropriate federal financial supervisory agency.

**Metropolitan Division:** As defined by Office of Management and Budget, a county or group of counties within a Metropolitan Statistical Area that contains a population of at least 2.5 million. A Metropolitan Division consists of one or more counties that represent an employment center or centers, plus adjacent counties associated with the main county or counties through commuting ties.

**Metropolitan Statistical Area:** An area, defined by the Office of Management and Budget, as having at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other Products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated Area:** A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

**Small Loan(s) to Business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

**Small Loan(s) to Farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Tier One Capital:** The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

**Upper-Income:** Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

## Description of Institution

Community National Bank (CNB or Bank) is a \$637.0 million institution headquartered in Derby, Vermont. The Bank is a wholly owned subsidiary of Community Bancorp, a one-bank holding company. The Bank has no subsidiaries; however, it has an ownership interest of one-third in a non-depository trust company, Community Financial Services Group LLC (CFSG), based in Newport, Vermont. CFSG is held indirectly through Community Financial Services Partners, LLC, a Vermont limited liability company that owns 100 percent of the limited liability equity interests of CFSG. Trust activities were not considered as part of this evaluation.

The Bank has its main office in Derby and eleven (11) additional branches throughout the AAs. The branches are located in the cities and towns of Barre, Barton, Derby Line, Enosburg Falls, Island Pond, Lyndonville, Montpelier, Morrisville, Newport, St. Johnsbury, and Troy. All branches are open Monday through Friday with many offering Saturday morning hours. All locations have 24-hour Automated Teller Machines (ATMs). Two branches were closed during the evaluation period due to the future viability and close proximity of two other branches within the same towns.

The Bank offers a wide range of loan and deposit products to meet consumer and business banking needs. Retail loan products include residential mortgages including first time homebuyer programs, home equity loans/lines of credit, construction loans, auto loans, and personal loans. Deposit products include personal and business checking accounts, savings, certificates of deposit, and Individual Retirement Accounts. CNB also provides financial services and loan products to the municipalities in its AAs. The Bank offers 24-hour telephone banking for the convenience of its customers, and internet banking (CNB NetXpress) as well as an online mortgage application and free Bill Pay services through its website at [www.communitynationalbank.com](http://www.communitynationalbank.com).

CNB offers numerous special credit related programs including, but not limited to, the Equity Builder Grant program and the USDA Rural Development Guarantee program. Both programs assist low- and moderate- income households with the costs associated with owning and maintaining a primary residence. CNB is also an SBA preferred lender and actively participates with Northern Communities Investment Corporation, which enables the Bank to provide loans to new or existing small businesses that they otherwise might not be able to make due to internal policies. The Bank also participates in the Jobs for New England Program, which contributes to economic development activities by financing small business loans that help create or preserve jobs and expand woman-, minority-, or veteran-owned businesses.

As of December 31, 2016, CNB had total assets of \$637 million and Tier 1 capital of \$55.1 million. As of the same date, CNB had net loans and leases of \$482.3 million and total deposits of \$505.2 million. The loan portfolio consists of the following:

<b>Table 1 - Loan Portfolio Summary by Loan Product December 31, 2016</b>		
<b>Loan Category</b>	<b>\$(000)</b>	<b>%</b>
Residential Loans	411,659	84.43
Commercial Loans	65,246	13.38
Agriculture Loans	996	0.20
Other Loans & Leases	2,777	0.57
Individual Loans	6,881	1.41
<b>Total Loans</b>	<b>487,559</b>	<b>100.00*</b>

Source: UBPR December 31, 2016; \* Percentages may not add to 100% due to rounding.

There are no financial or legal impediments hindering CNB's ability to help meet the credit needs of the communities it serves. The Bank received an "Outstanding" rating during its last Intermediate Small Bank CRA evaluation dated April 14, 2014.

## **Scope of the Evaluation**

### **Evaluation Period/Products Evaluated**

Our assessment of the Bank's performance covered the time period from April 14, 2014, through May 1, 2017, which represents the evaluation period. Our assessment of the performance under the Lending Test was based on the loan originations and loan purchases of the Bank's primary loan product, home mortgage loans, during the period January 1, 2014, through December 31, 2016.

### **Data Integrity**

Our assessment of home mortgage loans included home purchase, home improvement and refinance loans as reported on the loan application register (LAR), submitted as required by the Home Mortgage Disclosure Act (HMDA), and verified by examiners. We also reviewed CD loans, investments, and services submitted by Bank management to ensure they met the regulatory definition for community development.

### **Selection of Areas for Full-Scope Review**

A full scope review was performed on the non-metropolitan statistical area (Non-MSA AA) that includes all tracts in the county of Orleans, where the Bank is headquartered, and all tracts in Caledonia, Essex, Lamoille, and Washington counties. The majority of the Bank's deposits, lending activity, and physical presence are in this market.

A limited scope review was performed on the Bank's activity in MSA AA, which consists of all tracts in the Franklin County and is part of the Burlington-South Burlington MSA

(15540). The volume of lending and deposit activity in this AA was not significant. Refer to appendix A for more information.

## **Ratings**

The Bank's overall rating is based primarily on those areas that received full-scope reviews. We gave performance in the Non-MSA AA the most weight since the majority of the Bank's resources, deposits, and branches are located in this AA. We placed lesser weight on the MSA AA that has only one branch and a much lower percentage of the Bank's deposits and loans.

## **Other**

In assessing the Bank's performance, we contacted a local organization whose focus is on community and economic development to create economic prosperity, and to promote a high quality of life for residents of the region. The contact stated that there is a need for mental health services clusters significantly around lower-income populations in the region. There is also a need for a regionally integrated multi-modal transportation system in the region to help support business development and improve the quality of life for the region's residents. Rail and airport services are inadequate with no rail service connecting the region east to west or north to south. Of the area's 5,000 plus miles of roads, approximately fifty percent of them are unpaved. Due to large expanses of rural geography and low population density, public transportation across the region is severely limited. The contact also indicated that there are a lack of good paying jobs in the area and there is a need to support programs that will lead to job creation in industries that will provide a living wage. The contact mentioned that the local financial institutions are supportive of the area's credit needs and support community development activities. The contact also mentioned CNB's extensive involvement in community development activities through the Bank's participation in loans and investments in community development projects.

## **Discriminatory or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c) and 195.28(c), in determining a national bank's (Bank) or federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development (HUD), and the Consumer Financial Protection Bureau (CFPB).

The OCC did not identify evidence of discriminatory or other illegal credit practices with respect to this institution.

The OCC will consider any evidence of discriminatory or other illegal credit practices relative to this institution that other regulators may provide to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information provided concerns activities that occurred during the evaluation period addressed in this performance evaluation.

# Conclusions with Respect to Performance Tests

## LENDING TEST

CNB’s performance under the lending test is outstanding. The loan-to-deposit ratio is more than reasonable and a substantial majority of the Bank’s primary loan products are within its AAs. The distribution of loans among borrowers of different income levels reflects adequate penetration. The geographic distribution of loans in moderate-income census tracts reflects excellent dispersion. CNB has not received any CRA related complaints. All lending test criteria are listed below:

### Loan-to-Deposit Ratio

CNB’s quarterly average net loan-to-deposit ratio is more than reasonable and exceeds the standards for satisfactory performance. The Bank’s quarterly average loan-to-deposit ratio over the eleven-quarter review period was 94.74 percent. During this eleven-quarter period, this ratio ranged from a quarterly low of 89.81 percent to a quarterly high of 99.82 percent. The quarterly average net loan-to deposit ratio for a peer group of three (3) similarly sized and situated banks was 89.13 percent over the same period. The peer group’s ratio ranged from a quarterly low of 71.14 percent to a quarterly high of 122.18 percent during that time period.

### Lending in Assessment Area

CNB made a substantial majority of its HMDA-reportable loans within its combined AA, exceeding the standards for satisfactory performance. In total, the Bank originated 949 HMDA Reportable loans totaling \$141,761 million over the assessment period. Of the 949 originations, 90.52 percent were originated within the Bank’s AAs. Refer to the following table for more information:

Table 2 - Distribution of Loans Inside and Outside of Assessment Area										
Loan Category of Type	Number of Loans					Dollar Volume				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$(000s)	%	\$(000s)	%	\$(000s)
HMDA Reportable	859	90.52	90	9.48	949	125,800	88.74	15,961	11.26	141,761

Source: HMDA – reported data from 01/01/14 – 12/31/16.

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

### **Non-MSA AA**

The distribution of home loans reflects reasonable penetration among borrowers of different income levels within the Non-MSA AA, and CNB's record of lending to borrowers of different incomes meets the standard for satisfactory performance. In our analysis, we took into consideration the lack of affordability for a low- or moderate-income family to purchase a home. Based on the 2010 census data, the median cost of housing was \$187,269. The 2016 HUD updated median family income is \$64,400, which means a low-income family earned less than \$32,200 per year. Additionally, moderate-income families earned at least \$32,200 but less than \$51,520. Therefore, low- and moderate-income borrowers would have difficulty qualifying for home mortgage loans. Furthermore, 13.31 percent of households in the AA are below the poverty level.

### **Home Purchase Loans**

CNB's percentage of home purchase loans to low-income borrowers was substantially lower than the percentage of low-income families in the Non-MSA AA; however, the percentage of home purchase loans to moderate-income borrowers exceeded the percentage of moderate-income families in the Non-MSA AA. CNB's market share of home purchase loans to both low- and moderate-income borrowers exceeded its overall market share of home purchase loans.

### **Home Improvement Loans**

CNB's percentage of home improvement loans to low- and moderate-income borrowers was significantly lower than the percentage of low- and moderate-income families in the Non-MSA AA. CNB's market share for low-income borrowers exceeded the Bank's overall market share for home improvement loans; however, the market share for moderate-income borrowers was slightly below the Bank's market share for home improvement loans.

### **Home Refinance Loans**

CNB's percentage of home refinance loans to low-income borrowers was significantly lower than the percentage of low-income families in the Non-MSA AA. The percentage of home refinance loans to moderate-income borrowers exceeded the percentage of moderate-income families in the Non-MSA AA. CNB's market share of loans to both low- and moderate-income borrowers exceeded its overall market share for home refinance loans.

The following table shows the distribution of home loan products among borrowers of different income levels in the Non-MSA AA for the period of January 1, 2014 through December 31, 2016 as compared to the percentage of families in each income category:

Table 3A - Borrower Distribution of Residential Real Estate Loans in the Non-MSA AA 2014-2016								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans						
Home Purchase	20.25	8.92	18.79	23.57	23.68	26.75	37.28	40.76
Home Improvement	20.25	12.96	18.79	14.81	23.68	29.63	37.28	42.59
Home Refinance	20.25	9.04	18.79	21.08	23.68	25.00	37.28	44.88

Source: CNB's HMDA data 1/1/2014- 12/31/2016; 2010 U.S. Census data

**Limited Scope MSA AA**

Based on a limited scope review, the Bank's performance in the MSA AA is not inconsistent with performance in the full scope area.

The following table shows the distribution of home loan products among borrowers of different income levels in the MSA AA for the period of January 1, 2014 through December 31, 2016 as compared to the percentage of families in each income category:

Table 3B - Borrower Distribution of Residential Real Estate Loans in the MSA AA 2014-2016								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans						
Home Purchase	23.17	30.77	22.53	15.38	25.38	15.38	28.91	38.46
Home Improvement	23.17	0.00	22.53	0.00	25.38	50.00	28.91	50.00
Home Refinance	23.17	16.67	22.53	33.33	25.38	13.33	28.91	36.67

Source: CNB's HMDA data 1/1/2014 -12/31/2016; 2010 U.S. Census data

**Geographic Distribution of Loans**

**Non-MSA AA**

The geographic distribution of home loans in Non-MSA AA reflects excellent dispersion in the moderate-income tracts. There are no low-income geographies in the AA;

therefore, an analysis of lending in low-income geographies would not be meaningful and was not performed. We found no conspicuous gaps or areas of low penetration in the Bank's lending patterns.

Home Purchase Loans

CNB's percent of home purchase loans significantly exceeded the percentage of owner-occupied homes in moderate-income geographies. The market share for borrowers in moderate-income geographies significantly exceeded the Bank's overall market share of home purchase loans in the Non-MSA AA.

Home Improvement

CNB's percent of home improvement loans in moderate-income geographies substantially exceeded the percentage of owner-occupied homes in moderate-income geographies. The market share of home improvement loans to borrowers in moderate-income geographies substantially exceeded the Bank's overall market share of home improvement loans in the Non-MSA AA.

Home Refinance

CNB's percent of home refinance loans in moderate-income geographies substantially exceeded the percentage of owner-occupied homes in moderate-income geographies. The market share of home refinance loans to borrowers in moderate-income geographies substantially exceeded the Bank's overall market share of home refinance loans in the Non-MSA AA.

The following table details the Bank's performance as compared to the percentage of owner-occupied housing units in each census tract income level for the period of January 1, 2014 through December 31, 2016:

Table 4A – Geographic Distribution of Residential Real Estate Loans in the Non-MSA AA 2014-2016								
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
Home Purchase	0.00	0.00	26.66	43.24	59.12	52.85	14.21	3.90
Home Improvement	0.00	0.00	26.66	40.00	59.12	54.78	14.21	5.22
Home Refinance	0.00	0.00	26.66	38.75	59.12	56.70	14.21	4.56

Source: CNB's HMDA data 1/1/2014 - 12/31/2016; 2010 U.S. Census data

Limited Scope MSA AA

Based on a limited scope review, the Bank's performance in the MSA AA is not inconsistent with performance in the full scope area.

The following table details the Bank’s performance as compared to the percentage of owner-occupied housing units in each census tract income level in the MSA AA for the period of January 1, 2014 through December 31, 2016:

Table 4B – Geographic Distribution of Residential Real Estate Loans in the MSA AA 2014-2016								
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
Home Purchase	0.00	0.00	35.10	53.85	64.90	46.15	0.00	0.00
Home Improvement	0.00	0.00	35.10	100.00	64.90	0.00	0.00	0.00
Home Refinance	0.00	0.00	35.10	78.13	64.90	21.88	0.00	0.00

Source: CNB’s HMDA data 1/1/2014 - 12/31/2016; 2010 U.S. Census data

## Responses to Complaints

CNB has not received any complaints about its performance in helping to meet AA credit needs during this evaluation period.

## COMMUNITY DEVELOPMENT TEST

The bank’s performance under the community development (CD) test is Outstanding. Community National Bank demonstrates excellent responsiveness to the community development needs in its assessment areas through CD loans, investments, and services. The following qualified loans, investments, and services reflect the bank’s efforts to meet community development needs within its AAs.

### Number and Amount of Community Development Loans

#### Conclusion for full-scope AA1

The volume of CD loans originated during the evaluation period and represent excellent responsiveness. The bank originated 18 loans totaling approximately \$4.7 million during the evaluation period that qualifies as CD loans. The CD loans provided financing to several different organizations that provide affordable housing and job training and retention, which are identified needs in the AA.

The highlights of the bank’s CD loans are as follows:

- A \$760 thousand loan to a small business to enhance the economic environment and revitalize tourism; business is located in an underserved geography.
- An \$80 thousand loan to a nonprofit private school located in an LMI tract which provides specialized education to address the needs of each individual student.
- A \$59 thousand loan to a small business located in an underserved geography. The business will help revitalize the area by providing jobs.

### Conclusion for Limited-Scope AA2

Based on a limited scope review, Community National Bank's CD services in AA2 are inconsistent with the bank's overall performance in the full scope areas. The bank has a limited presence in this AA, with only one branch location.

### **Number and Amount of Qualified Investments**

#### Conclusion for Full Scope AA1

The level of CD investments is excellent considering the bank's capacity and the volume of competition. During the evaluation period, Community National Bank made 5 new investments totaling \$1.67 million. One investment of \$1.29 million supports the renovation of a historic building and provides affordable housing to seniors. Prior period investments outstanding as of March 31, 2017, totaled \$778 thousand in four investments. Both new and prior period investments support affordable housing projects in the AA, an identified need, or support community services in the AA.

In addition, the level of qualifying donations is high, with 79 donations totaling approximately \$52 thousand, benefitting over 40 different CD organizations. Many of the donations were to organizations that focus on food and basic needs, affordable housing, and job training, all identified needs in the AA. While the actual level of bank donations made was higher, these donations met the definition of community development.

#### Conclusion for Limited Scope AA2

Based on a limited scope review, Community National Bank's CD services in AA2 are inconsistent with the bank's overall performance in the full scope areas. The bank has a limited presence in this AA, with only one branch location.

### **Extent to Which the Bank Provides Community Development Services**

The bank's level of CD services in its AA is excellent. The bank board of directors, bank executive officers, and bank employees serve as board members, committee members, and volunteers for several other organizations in the AA. These organizations support matters such as affordable housing, financial literacy, behavioral health, public education, and other economic development projects in the AA.

## **Responsiveness to Community Development Needs**

Considering the Bank's capacity, the need, and the availability of CD opportunities, Community National Bank's performance through CD loans, investments, and services demonstrates excellent responsiveness to the needs of AA1.

## Description of Assessment Areas

CNB has two AAs for CRA evaluation purposes: The primary AA consists of the following counties: Orleans, Caledonia and Essex, Washington and Lamoille, all within the state of Vermont, and discussed in this report as Non-MSA AA. The second AA includes Franklin County within the state of Vermont, which is part of the Burlington-South Burlington MSA (15540), and discussed in this report as MSA AA. The AAs meet the requirements of the CRA regulation and do not arbitrarily exclude any low- or moderate-income geographies.

### Non-MSA AA

Non-MSA AA includes all tracts in Orleans, Caledonia, Essex, Lamoille, and Washington counties. The AA contains 49 census tracts and 11 of the Bank's 12 branches. There are no low-income tracts, 14 moderate-income tracts (28.29 percent), 27 middle-income tracts (55.10 percent), and eight upper-income tracts (16.33 percent). Of the middle-income tracts, 11, or 40.74 percent, are designated as underserved nonmetropolitan middle-income geographies by the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. Population size, density, and dispersion indicate the area's population is sufficiently small, thin, and distant from a population center that the tracts are likely to have difficulty financing the fixed costs of meeting essential community needs. Six tracts in Lamoille County and five tracts in Orleans County are underserved middle-income tracts.

The AA's 148,773 persons live predominately in middle- and upper-income census tracts with 29.07 percent located in moderate-income tracts. The majority of the AA population, 59,534 are located in the 19 census tracts in Washington County, followed by 31,227 persons in the 10 census tracts in Caledonia County, 27,231 persons in the 10 census tracts in Orleans County, 24,475 persons in the 7 census tracts in Lamoille County and 6,306 in the 3 census tracts in Essex County.

The AA includes 79,158 total housing units of which 44,643 or 56.40 percent are owner-occupied. The remaining units are rental units (16,531 or 20.88 percent) or vacant units (17,984 or 22.72 percent). Owner-occupied housing units (OOHU) in moderate-income tracts represents 26.66 percent of OOHU.

The AA median housing value (MHV) of \$187,269 reflects the \$208,254 MHV in the Washington County portion of the AA, \$155,297 MHV in the Caledonia County, \$151,119 MHV in Orleans County, \$147,418 MHV in Lamoille County and \$125,790 MHV in Essex County.

The AA includes 38,755 families with a median family income (MFI) of \$64,400 (based on the 2010 U. S. Census updated in 2016 by the Federal Financial Institutions Examining Council (FFIEC). Low- and moderate-income families represent 20.25 percent and 18.79 percent of all families living in the AA. Low-income families earn less than 50 percent of the MFI or \$32,200. Moderate-income families earn less than 80 percent of the MFI or \$51,520, but no less than 50 percent of the MFI.

The AA includes 61,174 households, 13.31 percent of which are living below the poverty level. Households in the AA living below the poverty level total 8,145 with 2,529 in Washington County, 1,999 in Caledonia County, 1,686 in Orleans County, 1,465 in Lamoille County and 466 in Essex County.

The AA includes 12,023 businesses and 729 farms, the majority of which report revenues of \$1 million or less. The March 2017 unemployment rates for Washington, Caledonia, Orleans, Lamoille and Essex Counties were 3.4, 4.9, 7.0, 5.0, and 6.4 percent, respectively. The unemployment rates in the counties within the AA are higher than the State of Vermont unemployment rate of 3.0 percent in March 2017. As of the same date, the national unemployment rate was 4.5 percent. Refer to the table below for additional information:

Table A – Demographic Information of the Assessment Area Assessment Area: 2017 CNB Non MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	49	0.00	28.57	55.10	16.33	0.00
Population by Geography	148,773	0.00	29.07	58.49	12.44	0.00
Owner-Occupied Housing by Geography	44,643	0.00	26.66	59.12	14.21	0.00
Business by Geography	12,023	0.00	24.86	57.98	17.16	0.00
Farms by Geography	729	0.00	26.47	61.73	11.80	0.00
Family Distribution by Income Level	38,755	20.25	18.79	23.68	37.28	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	15,128	0.00	39.36	51.86	8.78	0.00
Median Family Income	60,519		Median Housing Value	187,269		
FFIEC Adjusted Median Family Income for 2016	64,700		Unemployment Rate:			
Households Below Poverty Level	13.31%		State of Vermont	3.0%		
			Washington County	3.4%		
			Caledonia County	4.9%		
			Orleans County	7.0%		
			Lamoille County	5.0%		
			Essex County	6.4%		

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

Source: 2010 US Census and 2016 FFIEC updated MFI

The local economy in northeastern Vermont has traditionally underperformed the rest of the state with higher employment and lower income levels. The primary economic engines for the area are retail trade, construction, manufacturing, healthcare, agriculture, tourism and forestry/wood related products. Major employers in northeastern Vermont include University of Vermont Medical Center, University of Vermont, GlobalFoundries, Keurig Green Mountain Inc., Shaw's Supermarkets Inc., Rutland Regional Medical Center, and Central Vermont Medical Center. Northern Vermont has a strong agricultural economy. Its top five agricultural products are dairy products; beef cattle and calves; greenhouse and nursery products; hay; and maple products. While only 34 percent of Vermont's farms are in this region, they account for 52 percent of the state's milk production and approximately 63 percent of Vermont's maple syrup production.

Competition for loans and deposits within the AA is moderate. Based upon the most recent 2015 Peer Mortgage Data, there were 145 lending institutions within CNB's Non-MSA AA competing for mortgage applications. CNB ranks 3<sup>rd</sup> with a market share of 7.76 percent. The top two institutions with the highest market share were Vermont State Employees Credit Union and Union Bank, with 12.24 and 9.88 percent of the market share, respectively.

Per FDIC deposit data as of June 30, 2016; there are nine (9) financial institutions with 57 offices within the counties of the AA. Major competitors include a mix of community banks and branches of regional banks. CNB holds \$446.2 million in deposits, which amounts to a 14.72 percent deposit market share within the counties of the AA. The largest market share belongs to TD Bank, National Association at 22.56 percent. CNB is the market share leader in Orleans County, where the Bank is headquartered and has five branch locations, with 65.14 percent of the deposit market share.

**Limited Scope MSA AA**

MSA AA comprises of all tracks in Franklin County and is part of the Burlington-South Burlington MSA. The AA contains 10 census tracts and has one branch in this AA located in Enosburg Falls, VT. Of the 10 census tracts, four or 40 percent are moderate-income geographies, and six or 60 percent are middle-income geographies. CNB does not have a significant market share in the MSA AA. The AA meets the requirements of the regulation and does not arbitrarily exclude any low-or moderate-income areas.

Refer to the table below for additional information:

Demographic Information for Limited Scope Area: Community National Bank Derby MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	10	0.00	40.00	60.00	0.00	0.00

Population by Geography	47,746	0.00	38.88	61.12	0.00	0.00
Owner-Occupied Housing by Geography	13,823	0.00	35.10	64.90	0.00	0.00
Business by Geography	2,971	0.00	38.03	61.97	0.00	0.00
Farms by Geography	332	0.00	42.47	57.53	0.00	0.00
Family Distribution by Income Level	12,887	23.17	22.53	25.38	28.91	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	5,890	0.00	45.26	54.74	0.00	0.00
Median Family Income		72,928	Median Housing Value		195,998	
FFIEC Adjusted Median Family Income for 2016		84,000	Unemployment Rate (2010 US Census)		3.6 %	
Households Below Poverty Level		9.99%				

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2010 US Census and 2016 FFIEC updated MFI