



Office of the  
Comptroller of the Currency  
Washington, DC 20219

**SMALL BANK**

## **PUBLIC DISCLOSURE**

June 29, 2015

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

The National Bank of Middlebury  
Charter Number 1195

30-32 Main Street  
Middlebury, VT 05753

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) rating are:

- The borrower distribution of loans reflects excellent penetration among individuals of different income levels, given the Bank's size, credit needs of the assessment area (AA), and competition.
- The Bank originated a substantial majority of loans within its AA.
- The National Bank of Middlebury's level of lending, as reflected by its loan-to-deposit ratio, is reasonable, given its size, credit needs of the AA, and competition.
- The Bank demonstrates a strong commitment to its AA through community development (CD) activities. Qualified investments and services reflect the Bank's effort to actively enhance credit availability within its AA.

**SCOPE OF EXAMINATION**

The National Bank of Middlebury (NBM or the Bank) was evaluated using Small Bank CRA examination procedures, which includes a lending test. Our review covered the Bank's lending performance from January 1, 2013 through December 31, 2014. NBM also provided us with CD information to evaluate the Bank's responsiveness to CD needs in its AA through qualified CD loans, investments, and services. The CD loans, investments, and services were verified to ensure they met the regulatory definition for community development. The evaluation period for the CD test is from July 16, 2012, the date of the prior Performance Evaluation, through June 29, 2015, the start date of the current CRA review.

NBM's primary loan products, based on originations during the evaluation period, are residential mortgages including home purchase, refinance, and home improvement loans. Since residential mortgages were determined to be the Bank's primary loan product, we did not review business loans as part of this examination. As indicated by the March 31, 2015 Report of Condition and Income, residential loans, which includes home equity loans, represent approximately 56 percent of the overall loan portfolio at the Bank.

The Bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). We reviewed the testing results of the Bank's HMDA data for residential real estate loans originated and purchased, and concluded that the data was reliable. All residential real estate loans originated and purchased during the assessment period were included in our evaluation of the Bank's lending activity.

A full scope review was performed on AA1 – the nonmetropolitan statistical area that includes all of Addison County and portions of Rutland County. 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 AA2, which consists of portions of Chittenden County. We did not perform a geographic distribution analysis during this evaluation because there are no low- or moderate-income geographies within the Bank's AA. In assessing the Bank's lending performance, we utilized 2013 U.S. Census data, and updated FFIEC Median Family Income and FDIC deposit market share data as of June 30, 2014.

## **DESCRIPTION OF INSTITUTION**

NBM is a \$315 million financial institution headquartered in Middlebury, Vermont (VT). The Bank is wholly owned by Middlebury National Corporation, a one-bank holding company. NBM has one operating subsidiary, Community Financial Services, LLC, which was created in partnership with two other financial institutions. The subsidiary was created to offer trust and investment services to bank customers. NBM has one-third ownership interest in the operating subsidiary. Affiliate activity was not considered in this evaluation. In addition to the Bank's main office located in Middlebury, VT, the institution has six full service branches located in Middlebury, VT; Bristol, VT; Hinesburg, VT; Vergennes, VT; and Brandon, VT. The Bank also operates ten ATMs (one of which only dispenses cash), including four stand-alone ATMs that are located at the Middlebury drive-up location, Middlebury Market and Café, and two ATMS located on Middlebury College campus. As there are no low- or moderate-income geographies within the Bank's AAs, all of NBM's branches and ATMs are located in middle- and upper-income geographies.

NBM is a full service, intrastate institution, offering a standard array of traditional loan and deposit products to both retail and business customers. The Bank's website, [www.nbmvt.com](http://www.nbmvt.com), provides a listing and description of its deposit and loan services. The Bank offers a variety of different account access alternatives including telephone banking, online banking with bill pay options, mobile banking, e-statements, and Finance Works. In addition to the above services for personal account customers, the Bank also offers a wide variety of account access alternatives for its business customers, which include eCorp (online banking for business customers), eDeposit (Remote Deposit Capture), merchant credit card processing, automated clearinghouse origination, and bill pay service.

NBM's balance sheet has grown since the last CRA review. Total assets as of March 31, 2015, were \$314.8 million compared to \$279 million as of June 30, 2012. Total loans of \$198 million and deposits of \$271.4 million represent 62.9 percent and 86.2 percent of total assets, respectively.

The following table provides a summary of the loan mix:

<b>Loan Portfolio Summary by Loan Product March 31, 2015</b>	
<b>Loan Category</b>	<b>% of Gross Loans and Leases</b>
1-4 Family Residential Mortgage – Closed End	53%
Home Equity	9%
Commercial & Industrial	7%
Commercial Real Estate	27%
Construction and Development	2%
Municipal Loans	1%
Consumer Loans	1%

*Source: March 31, 2015 Call Report Data*

There are no financial, legal, or other impediments that would hinder the Bank's ability to meet the credit needs of its AAs. Bank activities are consistent with the Bank's size, financial capacity, local economic conditions, and credit needs of the community. Using small bank procedures, the Bank was rated "Outstanding" at its last CRA examination dated July 16, 2012.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

The CRA requires a bank to define the AA in which it will be evaluated. The NBM has two AAs, and they include all branches and deposit-taking ATMs as well as contiguous towns/cities around these offices. The AAs do not arbitrarily exclude any low- or moderate-income census tracts.

AA1 is a nonmetropolitan statistical area (99999) and consists of all of the cities and towns in Addison County as well as portions of Rutland County, which are contiguous to the Bank's branches. The AA is comprised of 14 census tracts. There are no low- or moderate-income tracts within the AA. The AA is comprised of 11 middle-income tracts (79 percent) and three upper-income tracts (21 percent). The 2013 U.S. Census Data indicates that 33 percent of families in the AA are considered low- or moderate-income, and approximately 10 percent of the households fall below the poverty line.

A full scope review was performed on AA1 since this AA contained the larger percentage of Bank deposits and loans. This AA accounted for 97 percent of total bank deposits as of June 30, 2014, and 92 percent of total reportable residential loans as of December 31, 2014.

A limited scope review was performed on the Bank's activity in AA2, which consists of portions of the Burlington-South Burlington MSA (15540), as the volume of lending and deposit activity in this AA was not significant. AA2 includes portions of Chittenden County, which are contiguous to the Bank's branches, and is part of the Burlington-South Burlington MSA. The AA is comprised of six census tracts, none of which includes any low- or moderate-income tracts. The AA includes two middle-income tracts (33 percent) and four upper-income tracts (67 percent).

Demographic Information for NBM AA1					
Income Level	Total #	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	14	0%	0%	79%	21%
Population by Geography	48,168	0%	0%	78%	22%
Owner Occupied Housing by Geography	14,476	0%	0%	75%	25%
Family Distribution by Income Level	12,799	15%	18%	24%	43%
2013 Census Median Family Income (MFI)	\$60,519		2013 Median Housing Value*	\$216,800	
			Median Age of Housing **	52 Years	
HUD Updated Median Family Income: 2014	\$60,519		Families Below the Poverty Level	10%	
			Unemployment Rate ***	3.6%	

Source: 2010 U.S. Census data and 2014 HUD updated MFI

\* Source: U.S. Census Bureau: State of VT Median Housing Value, 2009-2013

\*\* Source: U.S. Census of Housing (1990) – Weighted Average for Addison and Rutland Counties

\*\*\*Source: U.S. Bureau of Labor Statistics as of May 2015, seasonally adjusted

According to the Moody's 2015 Economic and Consumer Credit Analytics, the economy in Vermont remains stable with improving trends in the state's unemployment rate. The Vermont economy continues to expand with job growth strengthening over the last few months in 2014. An improving labor market has kept the unemployment rate among the lowest in the country. Data from the U.S. Bureau of Labor Statistics indicates that the unemployment rate for the state of Vermont as of May 2015 was 3.6 percent, compared to the national rate of 6.2 percent (CIA.gov). Despite improvements, the public sector has weakened and homebuilding remains subdued, resulting in an appreciation in home prices. The local economy in AA1 is driven by education and healthcare. Major employers within AA1 include Middlebury College, Middlebury Interactive Languages, Porter Medical Center, and United Technologies Corporation. Per Moody's Analytics, other major employers in the State include Fletcher Allen Health Care, IBM, Rutland Regional Medical Center, and the University of Vermont.

Competition in the market area is significant with banks, credit unions, and mortgage companies competing for market share. The Bank's primary competitors include Lake Sunapee Bank, FSB; Community N.B.; and Merchants Bank. Other competitors include larger national banks such as People's United Bank; Citizens Bank, N.A.; and TD Bank, N.A. In addition, credit unions have a strong market presence in Vermont. As of June 30, 2014, NBM had \$256.4 million in deposits in AA1 and ranked sixth of 13 financial institutions, with 4.8 percent deposit market share in the AA, according to the Federal Deposit Insurance Corporation's (FDIC) Deposit Market Share Report. The top three banks held 66 percent of total deposit market share within the AA.

The Bank commands a good deposit market share within Addison County, which is part of AA1. The June 30, 2014, FDIC Report, indicates that NBM ranked first of six institutions operating within Addison County, with a 46 percent (\$236.8 million) market share. The Bank has a much smaller presence with one branch in Rutland County (AA1) and ranked last in eighth position with a 1 percent (\$10.9 million) deposit market

share. NBM commands a greater market share in Addison County as the majority (five of seven) of the Bank's branches within AA1, are located in Addison County.

Despite strong lending competition, NBM ranked favorably in lending to low- and moderate-income individuals. NBM ranked first of 11 lenders in originated or purchased HMDA loans to low-income borrowers in AA1, with a 25 percent market share. NBM ranked second of 23 lenders in refinance HMDA loans to low-income borrowers in AA1, with a 9.6 percent market share. NBM ranked second of five lenders in home improvement HMDA loans to low-income borrowers with a 27 percent (3 loans) market share. NBM ranked first of 23 lenders in originated or purchased HMDA loans to moderate-income borrowers in the AA, with a 17 percent market share. NBM ranked second of 33 lenders in refinance HMDA loans to moderate-income borrowers in the AA, with a 10 percent market share. NBM ranked second of nine lenders in home improvement HMDA loans to moderate-income borrowers in the AA, with six loans for a 24 percent market share.

An identified community development need in the AAs is affordable housing. According to the US Census, the 2009-2013 median housing value in the state of Vermont is \$217 thousand. Low-income borrowers, those earning 50 percent or less of the median family income of \$60.5 thousand, would have difficulty qualifying for a home purchase mortgage.

In assessing the Bank's performance, we contacted a local organization whose purpose is to provide affordable housing to low- and moderate-income individuals and families in the state of Vermont, including in Addison and Rutland Counties. The contact indicated that affordable housing is a key issue due to the high cost of housing in the area and indicated that long-term affordable housing is needed. The contact indicated that the local financial institutions are supportive and do an excellent job of meeting the needs of the community. The contact also mentioned NBM's involvement in community development activities through the Bank's participation in loans and investments in community development projects with this organization.

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

The Bank's performance under the lending test is outstanding. NBM originated a substantial majority of its primary loan products within its AA. The distribution of loans originated in AA1 reflects excellent penetration among individuals of different income levels. NBM's loan-to-deposit ratio is reasonable given the Bank's size, AA credit needs, and local competition. The Bank received no complaints related to lending since the prior CRA performance evaluation.

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

NBM's loan-to-deposit ratio is reasonable based on the institution's size, financial condition, credit needs of the AA, and local competition. NBM's quarterly average loan-to-deposit ratio from June 30, 2012, through March 31, 2015 was 70.8 percent with a low of 67.2 percent and a high of 74.9 percent. The quarterly average loan-to-deposit ratio for other similarly situated financial institution over the same time-period was 89.9 percent with a range from 68.8 percent to 120.1 percent. NBM's average loan-to-deposit ratio is higher than the ratios for three of the nine similarly situated banks, which range in asset size from \$164 million to \$622 million (NBM has total assets of \$315 million). The similarly situated banks utilized for comparison purposes are community banks identified by NBM as its peers, based on asset size and geographic location, in addition to two community banks of relatively similar sizes located in the state of Vermont.

## **Lending in Assessment Area**

A substantial majority of NBM's primary loan product was originated inside the Bank's AAs and the Bank meets the standard for outstanding performance. NBM originated 94 percent by number and 91 percent by dollar amount of loans in the AAs.

The following table details lending by NBM within the AAs by number and dollar amount of loans.

**Table 1 - Lending in MNB's AAs**

Loan Type	Number of Loans				Dollars of Loans				Total \$	
	Inside		Outside		Total	Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Loans	515	94	33	6	548	89,242	91	9,287	9	98,529
Totals	515	94	33	6	548	89,242	91	9,287	9	98,529

*Source: HMDA reported data and a sample of commercial loans from 1/1/2013 to 12/31/2014*

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

The distribution of home loans originated in the Bank's AAs reflects excellent penetration among individuals of different income. Home refinance loans represent the majority of NBM's residential loans during the evaluation period as they comprised 46 percent of all residential loans, followed by home purchase loans (37 percent), and home improvement loans (17 percent).

### Conclusion for full scope AA1

#### *Home Loans*

The distribution of home loans reflects excellent penetration among borrowers of different income levels.

Home purchase, home refinance, and home improvement loans are all lower than the percent of low-income families in the AA. However, the Bank's performance of lending to low-income families meets the standards for an outstanding performance given the performance of NBM compared to peer and the lack of affordable housing for low-income families. According to the 2013 peer mortgage market share data, NBM ranks first of 11 lenders, with five loans for an overall market share of 25 percent for home purchase loans made to low-income borrowers in AA1. The Bank ranks second of 23 lenders for home refinance loans made to low-income borrowers with an overall market share of 10 percent (7 loans). The Bank also ranks second of five lenders, with a 27 percent market share (3 loans) in home improvement loans to low-income families.

The Bank's performance in lending to moderate-income families within AA1 is outstanding. The percent of home improvement loans to moderate-income families exceeds the percent of moderate-income families within the Bank's AA. The percent of home purchase and home refinance loans are slightly lower than the percent of moderate-income families in the AA, however, performance to peer is favorable. According to the 2013 peer mortgage market share data for lending to moderate-income families, NBM ranks first of 23 lenders in AA1 for home purchase loans with a 17 percent market share. NBM ranks second of 33 lenders for home refinancing loans with a 10 percent market share in the AA. NBM also ranks second of nine lenders with seven home improvement loans representing a 24 percent market share within the AA.

The following table shows the distribution of home loan products among borrowers of different income levels compared to the percent of families in each income category in AA1.

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	15	4	18	14	24	22	43	60
Home Improvement	15	5	18	20	24	18	43	57
Home Refinance	15	6	18	9	24	24	43	61

Source: HMDA – reported data from 1/1/2013-12/31/2014, 2010 U.S. Census data

### Conclusion for limited-scope AA2

Based on a limited scope review, the Bank's performance under the lending test in AA2 is not inconsistent with the Bank's overall lending test rating under the lending test in the full scope AA1.

## **Geographic Distribution of Loans**

An analysis of the geographic distribution of loans was not performed, as there are no low- or moderate-income tracts within the Bank's AAs.

## **Qualified Investments and CD Services**

NBM continues to demonstrate strong commitment to its AA through CD activities that assist low-and moderate-income families. The following CD activities reflect the Bank's overall strategic mission and leadership efforts to improve, develop, and sustain affordable housing opportunities in the Bank's AA and surrounding communities.

## **Number and Amount of Community Development Loans**

In addition to NBM direct residential lending to low- and moderate-income families, NBM made community development loans to a non-profit community group in the area. During the evaluation period the Bank originated two community development loans totaling \$232 thousand to a non-profit community organization that provides temporary transitional housing to homeless individuals and families and promotes affordable housing. The Bank also had two prior period loans to the same organization with \$1.1 million in outstanding balances as of June 29, 2015.

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

NBM actively seeks to purchase qualified CD investments to promote affordable housing in its AA and surrounding communities. The Bank made six state tax credits investments which were qualified CD investments totaling \$637 thousand during the evaluation period. The primary purposes of these loans was to provide affordable housing to low- and moderate-income individuals and families in downtown Burlington, and to create jobs and develop and revitalize the State of Vermont, including the Middlebury, Vergennes, Brandon, and Burlington areas.

## ***Product Innovation and Flexibility***

The Bank offers a variety of special credit programs to meet the needs of borrowers in its community. NBM seeks participation and funding from several local, state, and national programs to assist borrowers with obtaining financing and/or qualifying for home ownership. Some examples are as follows:

- NBM partially funded a loan pool that is comprised of second and third mortgages with up to 100 percent loan-to-value, made to low- and moderate-income borrowers. The Bank provided \$100 thousand in funding bringing the total funding to date to \$1.1 million. The Bank's overall share in the loan pool is approximately 9.1 percent with the only other participant being the State of Vermont. Loans in this pool were originated and serviced by third party but NBM also services loans from two similar loan pools.

- In 2013, NBM entered into a long-term commitment to provide up to \$1 Million in total funding for municipalities' qualifying homeowner Property-Assessed Clean Energy (PACE) projects. PACE assessments are only available in participating Vermont municipalities. This program is sponsored by the state and local governments to create jobs and promote economic development in Vermont. Once funded, PACE assessments are repaid over amortizing periods of up to twenty years. At December 31, 2014, \$42,075 in PACE assessments had been funded and the remaining commitment was \$957,925.

### ***Community Development Services***

Accessibility to the Bank's delivery systems in the AA is good. NBM's delivery systems are accessible to geographies and individuals of different income levels throughout the AA. The Bank has five full-service branch locations in AA1. Those branches are all located in middle-income tracts and are easily accessible to all residents. No new branches were opened or existing branches closed since the last CRA examination in 2012.

NBM does a good job of providing CD services. Bank personnel provide support for several groups in the area that promote economic development, affordable housing, or provide other assistance to low- and moderate-income families.

CD service activities in the AA during the evaluation period include:

- A Bank Officer serves on the council of a community organization that provides meals to low-income children. The program includes serving meals over the summer, and at afterschool programs. It also provides meals to low-income Vermonters, and improves access to the 3SquaresVT Program (formerly Food Stamp). The organization also participates in child-care and adult-care food program for low- and moderate-income individuals.
- A Senior Vice President of the Bank serves on the board as Treasurer of a community organization that assists businesses in creating and retaining jobs in Addison County.
- A Bank employee serves on the board of a community organization that provides permanent, affordable housing to low-income individuals, at no interest or profit.
- A Vice President serves as a board member of a community organization that provides affordable housing to low- and middle-income individuals and families of Addison County.

### ***Responses to Complaints***

The Bank 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), or 12 C.F.R. 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.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.