



PUBLIC DISCLOSURE

April 21, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Freedom National Bank
Charter Number 24257

584 Putnam Pike
Greenville, RI 02828

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 Satisfactory.

The major factors supporting the institution's CRA rating are:

- Freedom National Bank's level of lending, as reflected in its loan-to-deposit ratio, is more than reasonable.
- A majority of originated and purchased loans are within the Bank's assessment area (AA).
- The distribution of loans reflects excellent penetration among businesses of different sizes given the Bank's size, financial condition, AA, credit needs, and relevant competitive factors.
- The geographic distribution of loans reflects reasonable dispersion in the AA's low- and moderate-income census tracts.

SCOPE OF EXAMINATION

Freedom National Bank (FNB) was evaluated using Small Bank evaluation procedures, which includes a lending test. The evaluation period for the lending test covers the bank's performance from January 1, 2013 through December 31, 2014, and the bank's performance was compared to 2010 U.S. Census Data. The lending test evaluates the bank's record of meeting the credit needs of its assessment area (AA) through its lending activities.

FNB's primary loan product, based on loan originations during the evaluation period, is business loans. We used bank data to select a random sample of 20 commercial loans originated in the AA during the evaluation period to evaluate the bank's lending to businesses. The bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA); however, based on loan originations during the evaluation period, residential mortgages were determined not to be a primary product.

DESCRIPTION OF INSTITUTION

FNB is an intrastate Bank headquartered in Greenville in Providence County, Rhode Island. As of December 31, 2014, the Bank's total assets were \$111.4 million, and Tier 1 Capital was \$10.2 million. FNB is wholly-owned by Berkshire Financial Services, a two-bank holding company, which also owns Lee Bank in Lee, Massachusetts. FNB has no subsidiaries and there have been no changes in the corporate structure since the previous evaluation.

FNB has two branches. The main branch is located in Greenville, Rhode Island and the other branch is located in Cumberland, Rhode Island. During the evaluation period, the bank did not open or close any branches. FNB offers normal business hours Monday

through Friday using drive through and lobby services. Extended drive through banking hours are available during the business week. Both locations provide customers with access to their accounts through automated teller machines (ATMs). FNB also offers customers access to accounts through debit cards as well as online and mobile banking. FNB offers a variety of deposit, checking, and loan products to meet both consumer and commercial banking needs. The Bank's Internet website, www.freedomnationalbank.com, provides detailed information on its products and services for both consumers and businesses.

As of December 31, 2014, FNB reported \$78.4 million in net loans and \$86.3 million in total deposits. Net loans represent 75.9% of average assets, as of December 31, 2014. FNB's business plan continues to be focused towards small business relationships. The following table provides a summary of the loan mix:

Loan Portfolio Summary by Loan Product: December 31, 2014	
Loan Category	% of Gross Loans and Leases
1-4 Family Residential Mortgage – Closed End	13%
Home Equity	6%
Commercial & Industrial	14%
Commercial Real Estate	62%
Construction and Development	4%
Consumer	<1%

The bank has no financial or legal impediments to meeting the credit needs of the community. The bank was rated "Satisfactory" using small bank procedures at the last CRA evaluation dated August 17, 2009.

DESCRIPTION OF ASSESSMENT AREA(S)

The CRA requires a bank to define the AA in which it will be evaluated. FNB has one AA that includes its main office and branch, as well as the contiguous towns/cities. The bank's AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income census tracts.

The AA is comprised of all cities and towns within Providence County, which is a part of the Providence-Warwick RI-MA Metropolitan Statistical Area (MSA) #39300. The cities and towns of Providence County are: Burrillville, Central Falls, Cranston, Cumberland, East Providence, Foster, Glocester, Johnston, Lincoln, North Providence, North Smithfield, Pawtucket, Providence, Scituate, Smithfield, and Woonsocket. The AA is comprised of 141 census tracts; 25 low (18%), 40 moderate (28%), 47 middle (33%), and 29 upper-income tracts (21%).

The following table reflects the assessment area's demographic and economic characteristics based on 2010 Census Bureau data and the 2013 Housing and Urban Development Agency (HUD) data.

Demographic Information for FNB AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA % of #
Geographies (Census Tracts/BNAs)	141	17.73	28.37	33.33	20.57	0.00
Population by Geography	626,667	15.35	28.05	34.51	22.08	0.00
Owner-Occupied Housing by Geography	132,204	6.24	20.33	43.53	29.91	0.00
Business by Geography	45,031	12.23	27.12	34.12	26.53	0.00
Farms by Geography	806	3.72	15.14	40.82	40.32	0.00
Households by Income Level	238,059	30.24	16.06	16.58	37.13	0.00
Family Distribution by Income Level	147,352	27.57	18.59	19.42	34.42	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	68,012	23.27	35.48	29.38	11.87	0.00
Median Family Income		\$70,496	Median Housing Value		\$269,135	
HUD Adjusted Median Family Income for 2013		\$70,496	Unemployment Rate		6.8%*	
Households Below Poverty Level		15.75%				

Source: 2010 U.S. Census Data.

*Data from U.S. Bureau of Labor Statistics as of March 2015. Rate is for Providence-Warwick MSA.

FNB operates in a highly competitive market with competition from regional commercial banks, local savings banks, and large national commercial banks. The Federal Deposit Insurance Corporation's Deposit Market Share Report for June 30, 2014 indicates 18 financial institutions operate within Providence County. FNB ranks 12th with a deposit market share of less than 1%. Large national banks, including Bank of America, TD Bank, Santander Bank, and RBS Citizens Bank dominate the local deposit market with a combined market share of 85%. The bank's primary local competitors include Bank Rhode Island, The Washington Trust Company of Westerly, Coastway Community Bank, and Admirals Bank who hold an additional 10% of the deposit market. All three local institutions are considerably larger than FNB, with wider market areas and several branches.

Small business lending has remained a strategic focus for FNB since its inception in 2001. Small business lending within the bank's AA is highly competitive. The top five financial institutions for small business lending within FNB's AA are: American Express; Federal Savings Bank; Capital One; GE Capital Retail Bank; Citibank; and RBS Citizens. These institutions control 58% of the small business lending market share, according to the 2012 Peer Small Business Data Market Share report. The report indicates there are 62 financial institutions competing in the small business lending market within the bank's AA.

The Providence economy has suffered in the time since the previous CRA evaluation due to the long-lasting effects of the national recession. However, the January 2015

Moody's Analytics, Inc. Regional Economic Report indicates that the Providence-New Bedford-Fall River area has entered a recovery state. The average unemployment rate within the Providence-Warwick New England City and Town Area (NECTA) was 11.1% in 2010 according to the U.S. Bureau of Labor Statistics. This rate declined to 8.7% in March of 2014 and further to 6.8% in March 2015, as economic drivers are improving throughout the region. However, the labor force participation rate, as calculated by Moody's Analytics, was just 65% in December 2014 and has been on a declining trend, indicating a continued lack of employment opportunities for many individuals.

While the region was on pace for a third consecutive year of population growth in 2014, only a minimal level of population growth occurred in 2012 and 2013, following six declines in the prior seven years. As a result, Providence County experienced just 0.8% population growth between April 2010 and July 2014 according to the U.S. Census Bureau. The Providence area's proximity to Boston, yet lower cost of living, is a strength for the area. The 2014 median home sales price in the Providence-New Bedford-Fall River MSA was \$238,800 compared to \$389,800 in the Boston-Cambridge-Quincy MSA as reported by the National Association of Realtors.

The Providence region's business environment is highly dependent on public services, including education, health care, and local government. Government is the single largest employment sector in the area with 16% of all employment focused in this sector. Education and health care services is the second largest employment sector, given the location of several large hospitals and universities in Providence and the surrounding area. Of the largest 20 employers in the Providence area, four are hospitals or health care networks, including the two largest employers, Lifespan and Care New England Health System. Meanwhile, the proximity of numerous higher education campuses, including Brown University, Bryant University, Johnson & Wales University, Providence College, and the University of Rhode Island, add to the economic stability of the area. The financial services sector, while only comprising 5.8% of total employment, is responsible for four of the 20 largest employers in the area.

In conducting the assessment of the bank's performance, we contacted a local organization that operates in the AA and focuses on small business development. This contact indicated that there is a continued need for small business loans within the Providence market area. According to this contact, there are numerous opportunities for bank involvement in local business development, but that some institutions view small business loans unfavorably given the credit risk involved. FNB was perceived favorably, more so than its competitors, for its involvement with both the organization and the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNB's performance under the lending test is Satisfactory. FNB's net loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, area credit needs, and relevant competitive factors. A majority of the business loan originations

during the evaluation period were inside the AA. The distribution of loans reflects excellent penetration among businesses of different sizes. The bank's geographic distribution of loans within its assessment area reflects a reasonable dispersion throughout the census tracts of different income levels.

Loan-to-Deposit Ratio

FNB's net loan-to-deposit ratio is more than reasonable given the bank' size, financial condition, and assessment area credit needs. The bank's quarterly net loan-to-deposit ratio averaged 89% over the 20 quarters since the previous evaluation dated August 17, 2009. During the period since the last evaluation, March 31, 2010 through December 31, 2014, the LTD ranged from a quarterly low of 78% to a quarterly high of 99%.

The bank's net loan-to-deposit ratio is higher than other community banks of similar size and location. The peer group had a quarterly average net loan-to-deposit ratio of 72% over the same 20 quarters, ranging from a low of 67% to a high of 78%.

Lending in Assessment Area

A majority of FNB's business loans were originated inside its assessment area. FNB originated 75% by number and 64% by dollar amount of loans in the AA. The following table details the bank's lending within the AA by number of loan originations and the dollar volume of loans.

Lending in FNB AA										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business Loans	15	75%	5	25%	20	\$2,636	64%	\$1,476	36%	\$4,112

Source: Sample of business loans (1/1/13-12/31/14).

Lending to Businesses of Different Sizes

The distribution of loans reflects excellent penetration among businesses of different sizes. Loans to small businesses were identified as a credit need in the assessment area. By number, FNB originated 75% of loans to businesses with revenues less than \$1 million. This percentage exceeds the reported 71% of businesses in the AA with revenues less than \$1 million. As a result, FNB's record of lending to businesses of different sizes exceeds the standard for satisfactory performance.

The following table shows the distribution of business loans among different sized businesses in the AA.

Borrower Distribution of Loans to Businesses in FNB AA				
Business Revenues (or Sales)	≤ \$1,000,000	>\$1,000,000	Unavailable / Unknown	Total
% of AA Business	71%	6%	23%	100%
% of Bank Loans in AA by #	75%	25%	0%	100%
% of Bank Loans in AA by \$	66%	34%	0%	100%

Source: Loan sample (1/1/13-12/31/14); 2010 Census Data

Geographic Distribution of Loans

The bank’s geographic distribution of business loans reflects reasonable dispersion throughout census tracts of different income levels and meets the standard for satisfactory performance. FNB's lending to small businesses in moderate-income geographies is lower than the level of businesses with revenues less than \$1 million located there. However, the bank's lending to small businesses in low-income geographies is greater than the level of small businesses located there. When taking into consideration the location of FNB’s two branches in relation to the low- and moderate-income geographies and the high level of competition in the area, FNB's performance is considered reasonable.

Following is a table that details the bank's performance as compared to the percentage of businesses in each census tract income level.

Geographic Distribution of Business Loans in FNB AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	12%	13%	26%	20%	35%	27%	27%	40%

Source: Loan sample (1/1/13-12/31/14); 2010 Census Data

Responses to Complaints

There were no CRA complaints received by the bank or the agency during the 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 assessment area 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.