



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**July 13, 2004**

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

**Freedom National Bank  
Charter Number 24257**

**584 Putnam Pike  
Greenville, RI 02828**

**Comptroller of the Currency  
New England Field Office  
20 Winthrop Square, Suite 200  
Boston, MA 02110**

**NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.**

## **INSTITUTION'S CRA RATING**

**This institution is rated Satisfactory.**

The lending performance of Freedom National Bank is satisfactory given its size, financial condition, the credit needs of its assessment area and the fact that it is a newly established financial institution. The primary factors supporting the bank's overall rating include:

- The average loan-to-deposit ratio is reasonable considering this is a newly established institution. It compares favorably to peer banks of similar size and complexity.
- A majority of the bank's loans, 53% by number and 56% by dollar amount, is within the bank's designated assessment area.
- Overall, lending to borrowers of different incomes and businesses of different sizes is reasonable.
- The distribution of loans to small businesses with revenues of less than \$1 million is excellent.

## **DESCRIPTION OF INSTITUTION**

Freedom National Bank (FNB) is a nationally chartered commercial bank, headquartered in Greenville, Rhode Island. The bank is newly chartered, having opened for business on November 29, 2001. As of December 31, 2003, the bank's total asset size was \$38.6 million. Net loans are 63% of total assets. The bank is owned by Berkshire Financial Services Inc., a two-bank holding company with total assets of \$294.8 million as of December 31, 2003, that also owns Lee Bank in Lee, Massachusetts. In addition to the main office, the bank has one full service branch within its assessment area. Both the main office and the branch have an ATM. The branch is located in Cumberland, Rhode Island and opened for business in June 2003.

The bank offers a variety of credit products, commercial loans, mortgages and consumer loans. Commercial loans include commercial real estate, commercial real estate construction and commercial loans. Residential loan products include home purchase, refinance, construction loans, and home equity loans and lines of credit. Consumer products include notes for personal use and automobile purchases. The bank's primary focus is commercial lending; specifically small business lending, though residential and consumer loans are also originated. Based on December 31, 2003 call report data, the bank's loan mix is comprised of 28% commercial, 41% commercial real estate, 29% residential real estate and 1% consumer loans.

The distribution of the bank's loan portfolio, at December 31, 2003, is reflected in **Table 1**, below:

<b>Table 1 – Loan Category – 12/31/03 Year-End Call Report</b>	<b>\$ (000)</b>	<b>%</b>
Commercial Real Estate Loans	11,983	41
Residential Real Estate Loans	8,515	29
Commercial Loans	8,029	28
Consumer Loans	337	1
Other Loans	17	1
Total	28,881	100

This is the bank's first Community Reinvestment Act (CRA) Performance Evaluation. There are no financial or legal impediments that would prevent the bank from helping meet the credit needs of the assessment area.

**Table 2** reflects the volume of lending since the establishment of the bank through December 31, 2003. Based on the number and dollar volume of loans originated, the largest volume is in commercial loan and commercial real estate loans. We focused our analysis on these loan products. Although residential real estate loans were not identified as a primary lending product, we included a sample to assess lending to borrowers of different income levels.

<b>Table 2 - Loan Originations By Product Type (November 29, 2001 through December 31, 2003)</b>				
Loan Type	Number	% of Total	Dollars (000s)	% of Total
Commercial Real Estate Loans	44	22	12,654	41
Commercial Loans	45	22	9,410	30
Residential Real Estate Loans	33	17	6,053	19
Home Equity Loans	41	20	2,426	8
Other Loans	38	19	569	2
Total	201	100	31,112	100

## **DESCRIPTION OF FREEDOM NATIONAL BANK ASSESSMENT AREA**

FNB's assessment area (AA) is comprised of 6 towns within Providence County and is part of the Providence Metropolitan Statistical Area (MSA). The bank's assessment area is located in northern Rhode Island. The towns within the assessment area are Smithfield, Johnston, Gloucester, North Smithfield, Lincoln and Cumberland.

The bank's assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- to-moderate-income tracts. Of the 20 census tracts within the assessment area, there are no low- or moderate-income tracts for either the 1990 or the 2000 U.S. Census Bureau

data. In the 1990 data, there are 11 middle-income tracts and 9 upper income tracts. In the 2000 data, there are 7 middle-income tracts and 13 upper income tracts.

According to 1990 U.S. Census Bureau data, there were 25,760 families of various income levels in the assessment area and in 2000 there were 27,907 families. In 1990, 12% of the families were low-income, 15% were moderate-income, 25% were middle-income and 48% were upper-income. In 2000, 12% of the families were low-income, 14% were moderate-income, 22% were middle-income and 52% were upper-income.

In 1990, there were approximately 34,259 housing units within the bank's assessment area, of which 75% were owner occupied, 21% were rented and 4% were vacant. In 2000, there were 39,231 housing units with 75% owner occupied, 22% rented and 3% vacant. Of the total housing units, 89% in 1990 were 1-4 family units with 10% multifamily units. In 2000, 87% were 1-4 family and 13% were multifamily units.

Based on HUD statistics, in 1990, the median housing value was \$147,816 and the median gross rent was \$480. In 2000, the median housing value was \$149,923 and the median rent was \$617.

According to 1990 census data, there were 5,197 non-farm businesses in the assessment area. Of these, 3,728 or 72% had revenues less than \$1 million. Of these, 32% were in the services industry. Fifty-six percent of the businesses had 1-4 employees. According to 2000 census data, there were 5,422 non-farm businesses in the assessment area. Of these, 3,629 or 67% had revenues less than \$1 million.

Federal Deposit Insurance Corporation (FDIC) employment data for Rhode Island for Spring 2004 state that unemployment is no longer rising and remains below the national level. The unemployment rate for Rhode Island is 5.3%. Major employment industries in the area consist of financial services, consumer goods and manufacturing. Large employers in the area are Fidelity Investments in Smithfield and CVS that maintains their headquarters in Woonsocket.

In conjunction with this Performance Evaluation, we contacted a community group to assist us in assessing the credit needs of the community. The contact is a community based development corporation that assists Rhode Island small businesses and start-up businesses in obtaining capital. Some emphasis is placed on helping the low-to moderate and ethnic borrower. According to the contact, finding equity investments for small businesses, especially those that may not fit typical criteria or who do not have any collateral, is a primary credit need in the community.

Lending competition throughout the AA is very strong. Small business loans are described as the primary credit need by both bank management and our community contact. There are several banks in the area that are considered competitors, all of which are considerably larger than FNB. These banks are Bank Rhode Island, Citizens Bank, Sovereign Bank and Bank of America. Several credit unions in the area provide further competition.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

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

The loan-to-deposit (LTD) ratio reflects satisfactory lending performance given the recent establishment of the bank, available lending opportunities and competition in the area. The loan-to-deposit ratio averaged 56% for eight consecutive quarters covering 2002 and 2003. As is expected in a newly chartered de novo bank, FNB's LTD ratio was relatively low in 2002. However, it quickly increased in the four quarters of 2003, and averaged 79%. New England banks with total assets of \$50 million and less reflected an average peer LTD ratio of 60% for the eight consecutive quarters in 2002 and 2003. The peer LTD for the four quarters in 2003 averaged 66%, compared to FNB's average of 79%.

### Lending in Assessment Area

A majority of FNB loans were made to borrowers within the AA. The loan products sampled and the results of our analysis are detailed below in **Table 3**. Our sample of 68 loans represented 44% of the dollar volume of loans originated for the first two years that the bank has been in business. Based on our sample, we concluded that 53% of the number and 56% by dollar volume were originated within the bank's AA.

Our sample included 20 commercial loans, 20 commercial real estate loans and 28 residential real estate loan originations. Commercial loans and commercial real estate loans are the bank's two primary products. Commercial real estate lending within the AA is very strong at 70% of the number and 78% of the dollar volume. Residential real estate lending within the AA is not as strong for several reasons. The bank has established itself as a small business lender, which is its primary lending focus, and there are several larger banks and credit unions in the area making residential mortgage lending very competitive.

<b>Table 3 - Lending in Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate Loans	11	40	17	60	28	1,335	39	2,112	61	3,447
Commercial Loans	11	55	9	45	20	2,816	49	2,930	51	5,746
Commercial Real Estate	14	70	6	30	20	3,594	78	999	22	4,593
Totals	36	53	32	47	68	7,745	56	6,041	44	13,786

Source: sample of loans.

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

Overall, lending to borrowers of different incomes and businesses of different sizes is reasonable. Although not a primary product, we used our sample of 28 residential real estate

loans in **Table 3** to arrive at our conclusions. **Tables 4A** and **4B** below reflect the results of our review.

<b>Table 4A - Borrower Distribution of Residential Real Estate Loans – 2002</b>								
<b>Borrower Income Level</b>	<b>Low 12%</b>		<b>Moderate 15%</b>		<b>Middle 25%</b>		<b>Upper 48%</b>	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential Real Estate Loans	0	0	14	14	29	32	57	54

*Source: loan sample; 1990 U.S. Census data.*

<b>Table 4B - Borrower Distribution of Residential Real Estate Loans – 2003</b>								
<b>Borrower Income Level</b>	<b>Low 12%</b>		<b>Moderate 14%</b>		<b>Middle 22%</b>		<b>Upper 52%</b>	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential Real Estate Loans	0	0	0	0	25	34	75	66

*Source: loan sample; 2000 U.S. Census data.*

There is an absence of lending to low-income borrowers in both 2002 and 2003 and an absence of lending to moderate-income borrowers in 2003. There are many reasons reflective of these results. The bank is primarily a commercial lender with an emphasis on small business lending. Business development calling efforts are devoted to commercial lending. There are several large banks in the area as well as credit unions and mortgage companies making it highly competitive for consumer products, particularly residential real estate and home equity loans. The bank's AA is in middle and upper income tracts, therefore, low- and moderate-income housing units are very limited.

**Tables 5A** and **5B** reflect FNB's excellent level of lending activity to small businesses. Small businesses are defined as those with gross annual revenues of one million dollars or less. Small business loans are described as the primary credit need by both bank management and our community contact. We sampled loans originated in 2002 and 2003 separately, as the demographic data we used were different for each of these samples.

For both 2002 and 2003, FNB exceeds the level of lending to small businesses in the AA.

<b>Table 5A - Borrower Distribution of Small Loans to Businesses (November 29, 2001 through December 31, 2002)</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	72	8	20	100%
% of Bank Loans in AA by #	100	0	0	100%
% of Bank Loans in AA by \$	100	0	0	100%

*Source: Loan sample; Dunn and Bradstreet data; U.S. 1990 Census data.*

<b>Table 5B - Borrower Distribution of Small Loans to Businesses (January 1, 2003 through December 31, 2003)</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	67	8	25	100%
% of Bank Loans in AA by #	76	24	0	100%
% of Bank Loans in AA by \$	76	24	0	100%

*Source: Loan sample; Dunn and Bradstreet data; U.S. 2000 Census data.*

### **Geographic Distribution of Loans**

An analysis of the geographic distribution of loans would not be meaningful. The bank's assessment area consists of twenty census tracts, all of which are middle and upper income tracts.

### **Responses to Complaints**

Neither the bank nor the OCC received any CRA related complaints on Freedom National Bank since the establishment of the bank.

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

We found no evidence of illegal discrimination or other illegal credit practices.