



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 24, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Factory Point National Bank Of Manchester Center
Charter Number 3080**

**4928 Main Street
Manchester Center, VT 05255**

**The Office of the 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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

The lending performance of Factory Point National Bank is satisfactory given its size, financial condition, and the credit needs of its assessment area. The primary factors supporting the bank's overall rating include:

- An average loan-to-deposit ratio of 70% is more than reasonable, as it does not include over \$70 million in residential mortgage loans sold in the secondary market over the past four years.
- A substantial percentage of the bank's loans, 91% by number and 98% by dollar amount, are within the designated assessment area.
- The distribution of loans among individuals of varying income reflects reasonable penetration.
- The distribution of loans to small businesses with revenues of less than \$1 million is reasonable.

DESCRIPTION OF INSTITUTION

Factory Point National Bank of Manchester Center (FPNB) is a nationally chartered commercial bank, headquartered in Manchester Center, Vermont. As of December 31, 2002, the bank's total asset size was \$291 million. The bank is wholly owned by Factory Point Bancorp, Inc., a one-bank holding company of over \$200 million in total assets. There are eight full-service banking offices. The bank has placed a stand-alone ATM in Pawlet, Vermont and another in the Vermont ski area of Okemo that is used on a seasonal basis. The bank's main office and one branch are located Manchester Center. The remaining branches are located in Arlington, Dorset, Ludlow, Rutland (2), and Springfield. The Ludlow branch and one Rutland branch were purchased from a competitor in 1999 and 2000, respectively. Seven of the eight branches have ATMs available at all times.

The bank offers a wide variety of credit products - mortgages, business loans, and consumer loans. Commercial lending is the primary loan product. Residential loan products include home purchase, refinance, home equity, and construction loans. Commercial loans include commercial real estate, equipment financing, and lines of credit. Consumer products include notes for personal use and automobile purchases. The bank's primary focus is commercial lending, though residential and consumer loans are also originated. In addition, the bank offers trust services and is an active participant in the secondary mortgage market. The December 31, 2002 call report reflects net loans to total assets of 58%. The bank's loan mix from the call report is reflected in **Table 1** below.

Table 1 - FPNB Loan Mix		
Loan Category-12/31/2002	\$ (000)	%
Commercial Real Estate Loans	78,782	45%
Commercial Loans	23,470	13%
Residential Real Estate Loans	42,523	24%
Home Equity Lines of Credit	17,165	10%
Consumer Loans	8,201	5%
Other Loan Types	4,691	3%
Total	174,832	100%

The bank was assigned a “Satisfactory” CRA rating at the preceding examination dated January 4, 1999. There are no financial or legal impediments that hinder its ability to help meet the credit needs of the assessment area.

We based our loan sample for this examination on the number and dollar volume of loans originated from January 1, 1999 to December 31, 2002. The heaviest volume of loan originations by dollar and volume were commercial (51% in volume and 22% in number), consumer real estate mortgages that include home purchase and refinancing (13% in volume and 6% in number) and consumer loans (7% in volume and 45% in number). We focused our lending sample on these loan products.

DESCRIPTION OF FACTORY POINT NATIONAL BANK ASSESSMENT AREA

FPNB has defined its assessment area (AA) to include the entire counties of Bennington and Rutland, as well as portions of Windham and Windsor counties. All four counties are located in southern Vermont. In Windsor County, the following cities are included: Andover, Baltimore, Bridgewater, Cavendish, Chester, Ludlow, Plymouth, Reading, Springfield, Weathersfield, Perkinsville, West Windsor, Weston and Windsor. In Windham County, the following cities are included: Athens, Brookline, Dover, Grafton, Jamaica, Londonderry, Rockingham, Somerset, Stratton, Townsend, Wardsboro and Windham.

The bank's AA meets the requirements of the regulation and does not arbitrarily exclude any low-to-moderate income areas. Of the identified 52 Block Numbering Areas (BNAs) in the assessment area, there are no low-income and only one moderate-income BNA located in the city of Bennington. The one moderate-income BNA is comprised of old mills and industrial buildings. The assessment area is comprised primarily of 44 middle-income and 7 upper income BNAs. Seven of the branches are in middle-income BNAs and one in an upper-income BNA.

According to 2000 Census data, the assessment area has a population of 136,401 consisting of 36,649 families and 52,574 households. Of the total households in the assessment area, approximately 19% are considered below the poverty level or using public assistance.

Table 2 reflects the assessment area demographics based on 1990 Census Bureau and the 2001

Housing and Urban Development Agency (HUD) data.

Table 2 - Demographic & Economic Characteristics of Assessment Area	
<i>Population</i>	
AA Population	136,401
Number of Families	36,649
Number of Households	52,574
<i>Geographies</i>	
Number of Census Tracts/BNA	52
% Low-Income Census Tracts/BNA	0.00%
% Moderate-Income Census Tracts/BNA	1.92%
% Middle-Income Census Tracts/BNA	84.62%
% Upper-Income Census Tracts/BNA	13.46%
<i>Median Family Income (MFI)</i>	
1990 Census Median Family Income (MFI)	\$32,453
2002 HUD-Adjusted MFI	\$43,400
<i>Economic Indicators</i>	
Unemployment Rate	3.36%
2002 Median Housing Value	\$103,159
Weighted Avg. of Monthly Gross Rent	\$441
% of Households Below Poverty Level	10.75%
% of Households on Public Assistance	7.92%

Population growth between 1990 and 2000 is slow in the four southern counties - Windham (6%), Windsor (6%), Bennington (3%), and Rutland (2%). Overall, population growth for Vermont between 1990 and 2000 census is 8%, which is below the national average of 13%. Age distribution trends show an aging population. The four southern counties have a higher concentration of 65+ individuals than statewide. In the assessment area, approximately 15% of the population is over 65 years old. This age distribution may contribute to the high proportion of second homes in the area.

Housing growth of 3% to 5% in the four southern Vermont counties were below statewide average of 7% to 8% between 1990 and 2000. The population growth has not been strong, so it is likely the increase in housing represents rental units. Vacation housing in the bank's assessment area is 30% compared to an estimated 16% of housing for vacation activity in the state of Vermont.

The HUD adjusted weighted average median family income is \$43,400 for this area. Overall, population growth is slow and job growth is modest. Income levels in Windsor County are generally higher than the remaining three counties in the assessment area. This is caused by its close proximity to New Hampshire, where the higher paying jobs are located. Business demographic data for 2001 reflect 8,269 businesses in the area. Of those businesses

reporting revenues, 92% generate less than \$1 million in gross revenues. In addition, 37% of the businesses are related to the services industry (mainly hotel and restaurants) and 22% are related to retail trade. The businesses are primarily smaller operations based on revenues and the number of employees. The largest employers in the area include the following: Mack Group, Casella Waste Systems, Orvis Co., General Electric Aircraft Engines, and Rutland Regional Medical Center. The skiing, tourism, and retail shopping industries are vital to the FPNB assessment area. Bennington, Manchester, and Rutland are economic hubs in this assessment area, as well as being in the top ten towns in the state by population.

Bennington County leads the other southern counties in job growth with a net increase of 18%. Manchester Center, where the main office is located, is highly dependent on retail trade based on the high proportion of outlet stores in this area. The unemployment rate in the area is 3.2%. The region is highly dependent on tourism, skiing, retail shopping, and hotels. The area homes are higher priced than those in the remaining assessment area due to the higher proportion of second homes and for its reputation as a resort town. Approximately 20% of housing is for vacation activity. Bennington College is a major employer in this area.

Rutland County experienced less than 6% job growth. The unemployment rate is 3.6% for 2000. The bank has increased its presence in this county with the acquisition of a branch from a competitor in Rutland. Manufacturing is an important industry in the county, though job growth between 1990 and 2000 has stemmed from retail sector and increased reliance on the service economy.

Windsor and Windham Counties experienced 10-12% job growth. Windsor County is comprised of middle and upper income BNAs. Unemployment figures are lower at 2.3%. The bank has no physical branch in Windham County. The major city in this county is Brattleboro. Lodging and resorts performed well in this county, based on 2000 economic information. A major manufacturer was recently lost in Windham which will have a significant impact to the regional economic base. Government and health care jobs are important to this county. The unemployment rate in Windham County is 3.0%.

Banking competition in the bank's AA is intense and consists of several local financial institutions including: Bank of Bennington, Connecticut River Bank, First Brandon National Bank, First Community Bank, Bennington Co-op, Ledyard National Bank, and Merchants Bank. Larger institutions such as Chittenden Bank Companies and the BankNorth Group also provide competition. Credit unions in Windsor and Rutland counties and several mortgage companies increase competition for consumer and home loans.

FPNB has identified small business and housing loans as a primary credit need. This was confirmed through our contact with a local community organization that serves Bennington County and promotes affordable housing. Our contact identified community credit needs as affordable housing through rehabilitation loans designed for low- to moderate-income individuals. The contact also mentioned the downtown area of Bennington would benefit from economic development funds for revitalization. The contact stated that the local area banks are doing a good job meeting the credit needs of the community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

This review covered the time period from January 1, 1999 to December 31, 2002. We based our loan sample on the volume of loan originations by number and dollar for the time period. The following conclusions were based on a sample of commercial loans, consumer loans, and residential real estate mortgages. Residential mortgages include both home purchase and refinancing. The sample size was sufficient to determine the bank is meeting the credit needs of its assessment area including low- and moderate-income individuals and small businesses.

Loan-to-Deposit Ratio

FPNBs loan-to-deposit ratio (LTD) is more than reasonable, as it does not include over \$70 million in residential mortgage loans originated and sold to the secondary market during 1999, 2000, 2001, and 2002. By selling mortgages, the bank generates more funds to originate additional mortgage and other loan types. Using quarterly LTD ratios, we developed an average ratio since the last evaluation. The average LTD ratio for FPNB is 70% and has slowly declined from 77% at the previous CRA evaluation. Part of the decline is attributed to the purchase of two branches in 1999 and 2000 causing a significant increase in deposits without significant loan growth. In addition, the bank has experienced increases into Now and Savings accounts over the past year that exceeded loan growth.

We also calculated an average LTD by comparing FPNB with similar banks identified by bank management. The result was an average LTD ratio of 78%. Considering the factors above, the bank's record of funding appears reasonable given its size, capacity, competition, and participation in the secondary mortgage market.

Lending in Assessment Area

A substantial percentage of FPNB's loans were made to borrowers within the bank's assessment area. We reviewed the distribution of loan originations for the bank's primary lending categories discussed above for the time period beginning January 1, 1999 to December 31, 2002. The loan products sampled and the results of our analysis are detailed in **Table 3** below. Our analysis found that, overall, 91% by number and 98% by dollar volume of originations were within the bank's assessment area.

LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential RE	22	100%	3,221	100%	0	0	0	0
Consumer	20	80%	145	88%	5	20%	19	12%
Commercial	20	95%	760	94%	1	5%	50	6%
Total Reviewed	62	91%	4,126	98%	6	9%	69	2%

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

FPNB's lending to low- and moderate-income individuals is satisfactory overall. The heaviest volume of loan originations by dollar and volume were commercial, consumer real estate mortgages and consumer loans. Our analysis is based on the same time period and the same loan sample as described in the previous sections (Loan to Deposit Ratio and Lending in Assessment Area). The results of the analysis are compared to demographics by income-group in **Tables 4, 5, and 6** below.

Residential Loan Sample:

Table 4 - RESIDENTIAL REAL ESTATE (1999, 2000, 2001, 2002)								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	17.64%		18.54%		25.16%		38.66%	
	% of Number	% of Amount						
Residential Mortgages	9.09%	2.48%	27.27%	10.19%	18.18%	20.88%	45.46%	66.45%

Table 4 reflects the bank's lending to families of low-income levels for home mortgages is less than the distribution of low-income families. The FPNB assessment area lacks a sufficient volume of affordable home loans; however, it contains a reasonable volume of rental properties that may be more affordable to low-income families. Lending to moderate-income families exceeds the demographics by number of loans but is less by the dollar amount originated, as these loans were of a smaller size for an affordable home. The housing stock in the bank's assessment area is older and existing homes have seen price appreciation in the past few years as out of state residents seek vacation homes.

Consumer Loan Sample:

Table 5 - CONSUMER (1999, 2000, 2001, 2002)								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	22.74%		16.75%		20.93%		39.58%	
	% of Number	% of Amount						
Consumer	0%	0%	53.23%	49.52%	27.62%	25.69%	19.15%	17.82%

Table 5 reflects consumer loans originated to moderate-income households overwhelmingly

exceed the demographics of moderate-income households in the bank's assessment area, based on our sample of 25 loans. Based on our very small sample of consumer lending to low-income borrowers, no loans were made. Competition for consumer or retail loans has increased from credit unions and credit card companies based on discussions with management.

Commercial Loan Sample:

Table 6 - BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES (1999, 2000, 2001, 2002)		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	92%	8%
% of Bank Loans in AA #	65%	35%
% of Bank Loans in AA \$	58%	42%

Table 6 reflects the volume of loan originations to small businesses in its assessment area based on our sample is reasonable. For the period reviewed, the bank originated a majority of loans to small businesses. Small businesses are defined as those with gross annual revenues of one million dollars or less. FPNB considers commercial lending as one of its primary loan products. Competition for small business loans is intense among area financial institutions.

Geographic Distribution of Loans

An analysis of the geographic distribution of loans would not be meaningful. The bank's assessment area consists of 52 block-numbering areas (BNAs). There are no low-income areas and only one moderate-income area. The remaining BNAs include 44 middle-income and 7 upper-income areas.

Responses to Complaints

Neither the bank nor the OCC received any CRA related complaints on Factory Point National Bank since the prior examination of January 4, 1999.

Fair Lending Review

An analysis of four years of public comments and consumer complaint information (1999 through 2002) was performed according to the OCC's risk based fair lending approach. Based on this analysis, the OCC determined that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation.