



## **PUBLIC DISCLOSURE**

April 27, 2015

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

The National Grand Bank of Marblehead  
Charter Number 676

91 Pleasant Street  
Marblehead, MA 01945

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 primary factors supporting this rating are:

- The Bank's level of lending, as reflected by the loan-to-deposit ratio, is reasonable.
- A substantial majority of originated and purchased loans were made within the Bank's assessment area (AA).
- The distribution of residential mortgage loans reflects reasonable penetration among individuals of different income levels.

**SCOPE OF EXAMINATION**

The National Grand Bank of Marblehead (NGB) was evaluated using Small Bank Community Reinvestment Act (CRA) evaluation procedures, which includes a lending test. The lending test evaluates the Bank's record of meeting the credit needs of its AA through its lending activities. The evaluation period for the lending test covers the Bank's performance from January 1, 2013, through December 31, 2014, and compares results to 2010 U.S. Census data.

The National Grand Bank of Marblehead's primary loan product is residential mortgage loans, based on originations made during the evaluation period. For the purposes of this evaluation, residential loans include home purchase, home refinance, and home improvement loans reported pursuant to the Home Mortgage Disclosure Act (HMDA). As indicated by the March 31, 2015, Federal Deposit Insurance Corporation (FDIC) Call Report, 1-4 family residential real estate loans represent approximately 78% of the Bank's overall loan portfolio.

The Bank reports data under the requirements of the HMDA. An independent audit of the Bank's HMDA data determined that data used in regulatory reporting is reliable; therefore, all HMDA data from January 1, 2013 through December 31, 2014 was used to evaluate the bank's home loan performance.

**DESCRIPTION OF INSTITUTION**

The National Grand Bank of Marblehead, established in 1831, is a \$285 million intrastate national bank headquartered in Marblehead, Massachusetts. The Bank is wholly owned by Grand Bank Corporation, a one-bank holding company. In 1995, the Bank established an operating subsidiary, Pleasant Street Investment Corporation, which holds the bank's investment securities. There have been no significant changes to the Bank's corporate structure since the last CRA evaluation. The Bank's main office is located at 91 Pleasant Street in Marblehead. The main office lobby is open from

7:30AM to 3:00PM Monday-Wednesday, with extended hours Thursday and Friday evening. Saturday hours are from 9:00AM to noon. The drive-up hours at the branch are similar to the lobby hours, with extended evening hours during the week. There is a second limited service branch in Marblehead High School, which opened in 2002. Students taking the "Fundamentals of Banking" course operate the High School branch under the direct supervision of Bank employees. The High School branch is open three days per week for three hours a day, and there is an ATM on-site. No branches were closed or opened during the evaluation period.

NGB offers a standard array of traditional loan and deposit products to meet both personal and business customers banking needs. The Bank's website, <https://www.ngbank.com>, provides a listing and description of its deposit and loan services. Personal accounts include a variety of options including checking accounts, savings accounts, CDs and IRAs, loans, debit cards, and credit cards. The Bank offers a variety of different account access alternatives including online banking with bill pay options. The Bank operates six ATMs located throughout Marblehead, MA.

Residential lending is the Bank's primary focus, although commercial loans are offered. NGB originates loans for its own portfolio as well as for the secondary market. Loan products consist of conventional mortgage loan products including fixed and adjustable rate products.

The Bank reported total assets of \$285 million, total deposits of \$242 million, and net tier 1 capital of \$32 million at March 31, 2015. The loan portfolio totaled \$201 million, or roughly 71% of total assets. 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	78%
Commercial Real Estate	11%
Home Equity	6%
Commercial & Industrial	2%
Construction and Development	1%
Consumer Loans	2%

*Source: Federal Deposit Insurance Corporation (FDIC) Call Report, March 31, 2015.*

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 24, 2009.

## DESCRIPTION OF ASSESSMENT AREA(S)

The CRA requires a Bank to define an AA in which it will be evaluated. NGB has one AA located in the state of Massachusetts. The AA is comprised of four contiguous census tracts in Essex County that encompass solely the peninsula-town of Marblehead, approximately twenty square miles. Due to the size and location of the Bank, NGB designated only the portion of the Essex County it could reasonably service. Although the AA does not contain any low- or moderate-income census tracts, NGB's AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income census tracts.

The Bank's AA is comprised of three upper-income census tracts (75%) and one middle-income census tract (25%). According to the 2010 U.S. Census Data, the population of the AA is 19,808. The AA contains 8,076 households and 5,469 families. The 2010 U.S. Census Data indicates that 24% of families within the AA are considered low- or moderate-income and approximately 7% of households are below the poverty line.

The following table reflects the AA's demographic and economic characteristics based on 2010 U.S. Census Data and 2014 Housing and Urban Development Agency (HUD) data.

Demographic Information for NGB AA					
Income Level	Total #	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	4	0%	0%	25%	75%
Population by Geography	19,808	0%	0%	20%	80%
Owner-Occupied Housing by Geography	6,357	0%	0%	21%	79%
Family Distribution by Income Level	5,469	11%	13%	17%	59%
Household Distribution by Income Level	8,076	18%	14%	13%	55%
2010 Census Median Family Income (MFI)		\$90,625	2010 Median Housing Value		\$602,934
HUD Updated MFI: 2014		\$90,625	Median Age of Housing		70
Households Below Poverty Level		7%	Unemployment Rate*		5.1%

Source: 2010 U.S. Census data

\*Data from U.S. Bureau of Labor Statistics as of March 2015. Rate is for Essex County, MA.

NGB operates in a competitive market with competition from national commercial banks and local savings banks. The Federal Deposit Insurance Corporation's Institutions

Deposit Market Share Report for June 30, 2014, indicates five institutions operate branches within the Bank's AA. NGB ranks first in deposit market share, capturing approximately 42% of the market's deposits. Competitors include Marblehead Bank, Bank of America, National Association (N.A.), Salem Five Cents Savings Bank and Eastern Bank.

The market for mortgage lending is much more competitive with 156 financial institutions serving the AA. According to the 2012 Peer Mortgage Market Share data, the top three lenders in the AA are Wells Fargo Bank, N.A, JPMorgan Chase Bank, N.A., and Salem Five Mortgage Company, who collectively control approximately 24% of the market. National Grand Bank ranks fourth in mortgage market share capturing roughly 6% of the market.

The Town of Marblehead is an affluent residential seacoast community and summer tourist destination located twenty miles northeast of Boston, Massachusetts. The local economic environment is healthy, experiencing an expansionary period driven by Boston's economy. The main employers within Marblehead are the town and school system. Restaurants, small retail shops, and seasonal tourism drive local commerce. A majority of Marblehead's residents work in Boston, given the town's close vicinity to this metropolitan hub for finance, education, and technology.

According to the January 2015 Moody's Analytics report, Boston's economy is experiencing growth with the economic drivers being medical centers, high tech industries, and financial institutions. Boston and its surrounding communities benefit from the highly skilled labor force and research universities, helping to maintain a significant income advantage over most of the country. Robust hiring has brought the unemployment rate down to 5.2%, as of January 2015, lower than both state and national averages. Due to these positive economic factors, the demand for housing in Boston and its suburbs has surpassed the supply, creating a surge in housing prices. Marblehead is also experiencing this supply shortage driving up home prices, given its attractive shoreline landscape and proximity to Boston. Marblehead's housing prices are some of the most expensive in the state, with a median listing price of \$589 thousand estimated by Trulia.com, as of May 2015.

Affordable housing continues to be the main credit need in the AA, and rising home prices further contribute to the already prominent issue. The expensive housing market limits the availability of affordable housing for low- and moderate-income families. Low-income families earn less than \$45,312 a year and moderate-income families earn between \$45,312 and \$72,500, making it difficult to afford housing in a market with median prices estimated between \$589 thousand and \$603 thousand, according to data from the 2010 U.S. Census and Trulia.com. Additionally, the barrier to entry is high, making it difficult to be a first time homebuyer within the AA.

In assessing the Bank's performance, we contacted an organization in the community whose mission is to provide affordable housing and support services for low- and moderate-income people living in Boston's North Shore communities, including Marblehead. The organization provides over 300 families and individuals with housing in the form of rental units and purchased homes throughout the North Shore. In Marblehead, the non-profit recently completed a four-unit building and future housing projects are in development. However, the lack of available land and buildings make finding new projects difficult. The organization stated affordable housing is the biggest credit need in the community, given the scarcity of affordable options and the lack of rental units in the area. The contact stated that the local financial institutions are supportive of the organization and the credit needs of the community.

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

National Grand Bank of Marblehead's performance under the lending test is satisfactory, given the competition and credit needs of the AA. NGB's loan-to-deposit ratio is reasonable. A substantial majority of loans were originated inside the Bank's AA. The distribution of loans reflects a reasonable penetration among individuals of different income levels. An analysis of the geographic distribution of loans was not performed as there are no low- or moderate-income geographies in the Bank's AA.

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

The Bank's loan-to-deposit ratio is reasonable. The Bank's quarterly loan-to-deposit ratio averaged 80% over the last 23 quarters, since the previous CRA evaluation dated August 24, 2009. During this period, the loan-to-deposit ratio ranged from a quarterly low of 74% to a high of 84%. NGB's ratio exceeded the national peer average over the same period. The peer quarterly average was 77%, with a quarterly low of 74% and a high of 83%.

### **Lending in Assessment Area**

NGB's lending inside its assessment area meets the standard for outstanding performance. A substantial majority of the Bank's primary loan product was originated within its assessment area, with 84% of the dollar amount and 75% of the number in the AA.

The following table details the Bank's lending within the AA by number and dollar amount of loans.

<b>Lending in NGB AA: Marblehead</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Mortgages	132	75%	43	25%	175	58,256	84%	11,453	16%	69,709

Source: HMDA – reported from January 1, 2013 through December 31, 2014.

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

The distribution of home loans reflects reasonable penetration among borrowers of different income levels and meets the standard for satisfactory performance.

The percent of home purchase loans made to low-income borrowers is poor compared to the percent of low-income families in the AA. The percent of home purchase loans made to moderate-income borrowers is reasonable compared to the percent of moderate-income families in the AA.

The percent of home improvement loans made to low-income borrowers is excellent compared to the percent of low-income families in the AA. The percent of home improvement loans made to moderate-income borrowers is excellent compared to the percent of moderate-income families in the AA.

The percent of home refinance loans made to low-income borrowers is poor compared to the percent of low-income families in the AA. The percent of home refinance loans made to moderate-income borrowers is reasonable compared to the percent of moderate-income families in the AA.

NGB's performance is considered satisfactory given the lack of affordable housing and substantial mortgage loan competition in the AA. The lack of affordable housing limits the lending opportunities to low- and moderate-income borrowers. The median housing value in the AA remains high compared to the median family income in the AA. Based on 2010 U.S. Census Data, the median home price in the AA is \$603 thousand. An updated estimate of the median listing price from Trulia.com, is \$589 thousand. The 2014 HUD updated median family income is \$90,625, which means that a low-income families earn less than \$45,312 a year and moderate-income families earn between \$45,312 and \$72,500 making it very difficult for both income levels to afford housing in the AA.

The following table shows the percent of home loans originated by the Bank compared to the percent of families in each income category.

<b>Borrower Distribution of Residential Real Estate Loans: NGB AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
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
Home Purchase	11%	3%	13%	12%	17%	18%	59%	67%
Home Improvement	11%	17%	13%	17%	17%	25%	59%	41%
Home Refinance	11%	2%	13%	9%	17%	10%	59%	79%

Source: HMDA – Reported from January 1, 2013 through December 31, 2014.

### **Geographic Distribution of Loans**

We did not perform an analysis on the geographic distribution of loans, as there are no low- or moderate-income census tracts within the Bank's AA.

### **Responses to Complaints**

The Bank did not receive any CRA related complaints 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