



## **PUBLIC DISCLOSURE**

July 25, 2016

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

The Milford National Bank and Trust Company  
Charter Number 866

300 East Main Street  
Milford, MA 01757

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 Bank's level of lending, as reflected by the loan-to-deposit ratio, is more than reasonable.
- The majority of originated and purchased loans are within the Bank's assessment area (AA).
- The borrower distribution of home loans reflects excellent penetration among individuals of different income levels.
- The distribution of business loans reflects reasonable penetration among businesses of different sizes.
- The geographic distribution of home loans and business loans reflects reasonable dispersion in low- and moderate-income census tracts.
- The Bank's community development performance demonstrates excellent responsiveness to community development needs in its assessment area through qualified investments and services.

**SCOPE OF EXAMINATION**

Milford National Bank and Trust (MNBT or Bank) was evaluated using Small Bank examination procedures, which includes a Lending Test. The Lending Test evaluates the Bank's record of meeting the credit needs of the Bank's AAs through its lending activities. The evaluation period for the Lending Test covers the Bank's performance from January 1, 2014 through December 31, 2015. The Bank's performance was compared to the 2010 U.S. Census Data.

The Bank also provided us with optional community development (CD) information to evaluate their responsiveness to CD needs within its AA through qualified investments and services. The evaluation period for the CD information is from March 11, 2013, the date of the prior Performance Evaluation (PE) through July 25, 2016. CD investments, donations, and services submitted by management were verified to ensure they met the regulatory definition for community development.

The Bank's primary loan products, based on originations during the evaluation period, are commercial loans and residential mortgages, including home purchase, home refinance, and home improvement loans. Commercial loans represent 61% of the Bank's originations and/or purchases by number and 82% by dollar volume during the evaluation period. During the same period, residential loans, including home purchase,

home refinance, and home improvement loans, represented 32% by the number of loans and 18% of total originations by dollar amount.

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 found 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.

To evaluate the Bank's lending inside its assessment area we used the Bank's HMDA data and a random sample of 20 commercial loans originated between January 1, 2014 and December 31, 2015. We also used a sample of 40 commercial loans to evaluate the Bank's business lending.

A full scope review was performed on AA1 – Worcester County, while a limited scope review was performed on AA2 – Norfolk and Middlesex County. All of the Bank's three locations are located in AA1. All of the Bank's deposits and approximately 72% of home loans are attributable to AA1.

## **DESCRIPTION OF INSTITUTION**

MNBT is a \$305 million national bank headquartered in Milford, Massachusetts (MA). As of March 31, 2016, MNBT had tier one capital of \$27 million. MNB Bancorp, a one-bank holding company, wholly owns MNBT. MNBT offers traditional consumer and commercial products, and focuses on commercial lending. MNBT also has a Wealth Management department.

In addition to the Bank's main office in Milford, MA, the institution has two full service branches, one in Milford, MA and another one in Mendon, MA. The main office and the Milford branch are located in middle-income geographies. The Mendon branch is located in an upper-income geography. All locations are situated in Worcester County. Branch hours are reasonable with both branch locations open from 8:30 am to 4:00 pm Monday through Wednesday and extended hours are available until 6:00 pm on Thursdays and Fridays. Branches have Saturday hours from approximately 8:30 am to 1:00 pm. The Main Office is open from 9:00 am to 4:00 pm Monday through Wednesday with extended hours available until 5:00 pm Thursday and Friday. The Main Office is open Saturdays 9:00 am to 12:00 pm. All locations have drive-thru services. MNBT closed two branches during the evaluation period including 256 Main Street Milford, MA, which was located in a moderate-income geography, and the branch in Bellingham, MA located in a middle-income geography. Both branch closures occurred in June 2015.

MNBT is a full service, intrastate institution, offering a standard array of traditional loan and deposit products for both personal and business customers. Retail loan products include residential mortgages, auto loans, home equity loans, and personal loans. Commercial loan products include short term and long term commercial mortgages,

lines of credit, and Small Business Administration loans. Automated teller machines (ATMs) are located at all three bank locations and customers have access to the wider NICE ATM network. The Bank offers online and mobile banking services. The Bank also offers asset management services through the trust department. Detailed product information can be found on the Bank’s website, [www.milfordnationalonline.com](http://www.milfordnationalonline.com).

As of March 31, 2016, the Bank’s loan portfolio totaled \$248 million, and represented 81% of total assets. The distribution of the Bank’s loan portfolio as of March 31, 2016, is reflected in the table below.

<b>Loan Portfolio Summary by Loan Product as of March 31, 2016</b>	
<b>Loan Category</b>	<b>% of Total Loans and Leases</b>
1-4 Family Residential Mortgage	30%
Home Equity Lines of Credit	3%
Commercial Real Estate	48%
Construction and Development	8%
C&I	8%
Consumer	3%

*Source: March 31, 2016 Call Report*

The Bank has no financial or legal impediments to meeting the credit needs of the community. The Bank was rated "Outstanding" using Small Bank procedures at the last CRA evaluation dated March 11, 2013.

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

The CRA requires a bank to define the AA in which it will be evaluated. MNBT has two AAs that include all branches and deposit-taking ATMs, as well as, the contiguous towns/cities around these offices. The Bank’s AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income tracts.

### *Full Scope AA1 – Worcester County*

AA1 is part of Worcester MA Metropolitan Statistical Area (MSA) and comprises part of Worcester County. AA1 includes the towns/cities of Blackstone, Douglas, Grafton, Hopedale, Mendon, Milford, Millbury, Millville, Northbridge, Southborough, Sutton, Upton, Uxbridge, and Westborough. AA1 is comprised of 32 census tracts. There are no low-income tracts, two moderate-income tracts (6%), 11 middle-income tracts (34%), and 19 upper-income tracts (60%). The 2010 U.S. Census Data indicates that 26% of families in AA1 are considered low- or moderate-income and approximately 5% of households are below the poverty line.

Demographic information for AA1 based on 2010 U.S. Census data is broken down below:

Demographic Information for MNBT AA1					
Borrower Income Level	Total #	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	32	0%	6%	34%	60%
Population by Geography	165,170	0%	6%	32%	62%
Owner-Occupied Housing by Geography	45,139	0%	4%	32%	64%
Family Distribution by Income Level	43,582	12%	14%	21%	53%
Business by Geography	12,322	0%	7%	30%	63%
2010 Census Median Family Income (MFI)		\$77,128	2016 Average Housing Value*		\$336,171
FFIEC Adjusted MFI: 2015		\$81,500	Households Below Poverty Level		5%

Source: 2010 U.S. Census data, \*Average Housing Value from Zillow.com, August 2016

*Limited Scope AA2 – Norfolk and Middlesex Counties*

AA2 is part of the Boston-Cambridge-Newton Massachusetts-New Hampshire MSA and comprises part of Norfolk and Middlesex County. AA2 includes the towns/cities of Ashland, Bellingham, Franklin, Hopkinton, Holliston, Medfield, Medway, Millis, Norfolk, Plainville, and Wrentham. AA2 is comprised of 27 census tracts including seven middle-income tracts (26%) and 20 upper-income census tracts (74%). The 2010 U.S. Census Data indicates that 24% of families in AA1 are considered low- or moderate-income and approximately 4% of households are below the poverty line.

Demographic information for AA2 based on 2010 U.S. Census data is broken down below:

Demographic Information for MNBT AA2					
Borrower Income Level	Total #	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	27	0%	0%	26%	74%
Population by Geography	156,145	0%	0%	31%	69%
Owner-Occupied Housing by Geography	46,291	0%	0%	30%	70%
Family Distribution by Income Level	40,919	11%	13%	21%	55%
Business by Geography	12,121	0%	0%	30%	70%
2010 Census Median Family Income (MFI)		\$85,984	2016 Average Housing Value*		\$408,827
HUD Updated MFI: 2015		\$93,900	Households Below Poverty Level		4%

Source: 2010 U.S. Census data, \*Average Housing Value from Zillow.com, August 2016

MNBT operates in a highly competitive market with competition from regional and nationwide commercial banks, local savings banks and credit unions. The Federal Deposit Insurance Corporation's Deposit Market Share Report for June 30, 2015, indicates that 43 financial institutions operate within the Worcester MA MSA. MNBT ranks 23<sup>rd</sup> with a deposit market share of 1.6%. The top 10 institutions have approximately 61% of the deposit market share. The Bank's local competitors include, but are not limited to, Commerce Bank and Trust Company, UniBank for Savings, Webster Five Cents Savings Bank, Fidelity Co-operative Bank, Clinton Savings Bank, and Milford Federal Savings and Loan Association. Larger nationwide financial institutions that provide further competition and are deposit share leaders include Bank of America, TD Bank, and Santander Bank.

Several institutions provide additional competition for mortgage loans including Wells Fargo Bank, J P Morgan Chase Bank, Quicken Loans and Mortgage Master. The 2014 Institution Market Share report indicates that MNBT competes with 303 lenders within AA1. The top ten lenders have an overall market share of approximately 29%. MNBT ranks 69<sup>th</sup> with a market share of less than 1% for mortgage loans.

Small business lending within the Bank's AA is also highly competitive. The top five financial institutions for small business lending within AA1 are American Express, FSB, Capital One Bank (USA), Citibank, FIA Card Services, and Chase Bank USA. These institutions control approximately 57% of the small business lending market share, according to the 2014 Peer Small Business Market Share data report. The report indicates there are 83 financial institutions competing in the small business lending market within AA1.

According to Moody's economic indicators as of May 2016, Worcester MA is in the recovery stage of the business cycle, although underperforming compared to the rest of Massachusetts. The key economic drivers are manufacturing, healthcare and

education. Relatively high energy costs puts Worcester's manufacturing businesses at a competitive disadvantage. However, Worcester is predicted to modestly outperform the nation in manufacturing due to increased demand. Healthcare will drive the economy with above-average healthcare hiring, given the aging population. The single-family housing market is expected to improve by year-end, after residential permits for homebuilding hit record lows in 2015. Overall, Worcester's economy will expand this year, but the pace is predicted to be below average.

The unemployment rate for Worcester MA-CT MSA is 4.7% as of June 2016, near the lowest it has been in the past five years. The unemployment rate is comparable to the state and national unemployment rates of 4.2% and 4.9%, respectively.

In assessing the Bank's performance, we contacted a local organization whose purpose is to provide social services for low- and moderate-income families, domestic abuse victims, and individuals in need. The contact noted that social services and affordable housing for low-and moderate-income individuals continues to be an ongoing need in the area. MNBT was perceived favorably for their involvement with the organization and the community. The community contact stated local financial institutions adequately meet the credit needs of the community; however there are additional opportunities for more involvement.

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

### **Lending Test**

MNBT's performance under the lending test is satisfactory. MNBT's loan-to-deposit ratio is more than reasonable. A majority of the Bank's loans were originated inside the Bank's AA. Overall, the distribution of loans reflects a reasonable penetration among individuals of different income levels and among businesses of different sizes. Overall, the geographic distribution of home loans and business loans reflects reasonable dispersion in the low- and moderate-income census tracts.

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

The Bank's loan-to-deposit ratio is more than reasonable given the Bank's size, financial condition, and AA credit needs. The Bank's quarterly net loan-to-deposit ratio averaged 90% over the last 13 quarters, since the previous CRA evaluation. During this period, the loan-to-deposit ratio ranged from a quarterly low of 85% to a high of 93%. MNBT's loan-to-deposit ratio is higher than the national peer bank quarterly average of 74% over the same period.

### **Lending in Assessment Area**

A majority of MNBT's loans were made within the Bank's assessment area and the Bank meets the standard for satisfactory performance. MNBT originated 76% by

number and 63% by dollar amount of loans in the AAs. The following table details the Bank's lending within the AA by number and dollar amount of loans.

Table 1 - Lending in MNBT AA										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	28	76	9	24	37	\$6,512	69	\$2,910	31	\$9,422
Home Refinance	21	72	8	28	29	\$5,479	60	\$3,683	40	\$9,162
Home Improvement	11	92	1	8	12	\$2,365	96	\$95	4	\$2,460
Business Loans	14	70	6	30	20	\$7,130	54	\$6,142	46	\$13,273
Totals	74	76	24	24	98	\$21,486	63	\$12,830	37	\$34,316

Source: HMDA data (1/1/14-12/31/15) and Sample of 20 Business Loans

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

The distribution of business loans reflects reasonable penetration among businesses of different sizes. The distribution of home loans originated in the Bank's AA reflects excellent penetration among individuals of different income levels. Based on a limited-scope review, MNBT's borrower distribution of home loans and business loans in AA2 is not inconsistent with the Bank's overall performance in the full scope area.

#### Conclusions for Full-Scope AA1 – Worcester County

##### *Business Loans*

The distribution of business loans reflects reasonable penetration among businesses of different sizes. The Bank originated 60% in number of loans to small businesses with gross annual revenues of \$1 million or less compared to 78% of businesses considered small business. Performance is considered satisfactory given the significant market competition for small business lending. The top five institutions control approximately 57% of the small business lending market share, according to the 2014 Peer Small Business Market Share data report.

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

Table 2 - Borrower Distribution of Loans to Businesses in MNBT AA1				
Business Revenues (or Sales)	≤ \$1,000,000	>\$1,000,000	Unavailable / Unknown	Total
% of AA Business	78	6	16	100
% of Bank Loans in AA by #	60	40	0	100
% of Bank Loans in AA by \$	58	42	0	100

Source: Loan sample (1/1/14-12/31/15); 2010 Census Data



*Home Loans*

The distribution of home loans to borrowers reflects excellent penetration among borrowers of different income levels. The percent of home purchase loans made to low-income borrowers is below the number of low-income families. The percent of home purchase loans made to moderate-income borrowers exceeds the percent of moderate-income families within AA1.

The percent of home improvement loans made to low-income borrowers meets the percent of low-income families. The percent of home improvement loans made to moderate-income borrowers exceeds the percent of moderate-income families.

The percent of home refinance loans to low-income families meets the percent of low-income families within AA1. The percent of home refinance loans to moderate-income borrowers meets the percent of moderate-income families within AA1.

MNBT’s performance is considered satisfactory given the high competition and lack of affordable housing within the AA. Housing prices remain high relative to median incomes. As of August 2016, the average home price in AA1 was \$336,171. The FFIEC adjusted median family income for 2015 is \$81,500, which means the maximum income that is considered low income is \$40,750; therefore, low-income borrowers may have difficulty qualifying for home loans.

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.

Table 3 - Borrower Distribution of Home Loans in MNBT AA1								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of Families	% of Number of Loans	% of Families	% of Number of Loans	% of Families	% of Number of Loans	% of Families	% of Number of Loans
Home Purchase	12%	6%	14%	18%	21%	29%	53%	47%
Home Improvement	12%	13%	14%	13%	21%	12%	53%	62%
Home Refinance	12%	13%	14%	13%	21%	12%	53%	62%

*Source: HMDA-reported data from 1/1/2014-12/31/2015; 2010 U.S. Census data.*

*Conclusion for limited-scope AA2 – Norfolk and Middlesex County*

Based on a limited-scope review, MNBT’s borrower distribution of home loans and business loans in AA2 is not inconsistent with the Bank’s overall performance in the full scope area.

## Geographic Distribution of Loans

The geographic distribution of home loans and business loans reflects reasonable distribution in the low- and moderate-income tracts in AA1. An analysis of the distribution of loans by income level of geography is not meaningful, as AA2 contains no low- or moderate-income geographies. We found no conspicuous gaps or areas of low penetration in the Bank’s lending patterns.

### Conclusion for full-scope AA1 – Worcester County

#### *Business Loans*

The Bank’s geographic distribution of business loans reflects excellent dispersion in the moderate-income census tracts. The percent of business loans made in the moderate-income census tract exceeds the percent of businesses located in that geography. There are no low-income census tracts in AA1.

The following table compares the dispersion of business loans to the percentage of businesses in each census tract income level.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of Businesses	% of Number of Loans	% of Businesses	% of Number of Loans	% of Businesses	% of Number of Loans	% of Businesses	% of Number of Loans
Small Business Loans	0	0	7	10	29	40	64	50

Source: Loan sample (1/1/14-12/31/15); 2010 Census Data

#### *Home Loans*

The Bank’s geographic distribution of home loans reflects reasonable dispersion in the moderate-income census tracts. AA1 does not contain any low-income geographies and the percent of owner-occupied housing in the moderate-income census tracts is low at 4%. Home purchase loans represent a significant portion of the overall originations made by the Bank during the testing period. The percent of home purchase loans exceeds the percent of owner-occupied housing within moderate-income geographies.

There were no home improvement or home refinance loans made in moderate-income tracts during the testing period. However, this is reasonable given the significant market competition and the percent of owner-occupied housing in moderate-income tracts within AA1. Only 4% of owner-occupied units within the Bank’s AA are in moderate-income tracts. There is significant market competition in the Bank’s AA, including 303 lenders, and the Bank has less than 1% market share. Given the limited owner occupied housing in the moderate-income geographies and significant competition, the overall distribution is considered satisfactory.

The following table details the Bank’s performance compared to the percentage of owner-occupied housing units in each census tract income level within the Bank’s AA.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0	0	4	6	32	22	64	72
Home Improvement	0	0	4	0	32	38	64	62
Home Mortgage Refinance	0	0	4	0	32	29	64	71

Source: HMDA reported data from 1/1/2014-12/31/2015; 2010 U.S. Census Data

**Conclusion for limited-scope AA2 – Norfolk and Middlesex County**

An analysis of the distribution of loans by income level of geography is not meaningful, as AA2 contains no low- or moderate-income geographies.

**Qualified Investments and CD Services**

The following qualified investments and donations reflect the Bank’s responsiveness to CD needs within its AAs.

MNBT made a \$1.5 million investment in the prior evaluation period in a senior housing crime prevention program that benefits primarily low- and moderate-income senior citizens residing in two nursing homes in the AAs.

Qualifying community development donations totaled \$95 thousand and benefited numerous community development organizations within the AAs. While the actual level of donations made was higher, these donations met the definition of community development. Included in the Bank’s total qualifying donations are several large donations to local organizations that provide basic human services to low- and moderate-income individuals, an identified need within the AAs.

MNBT’s delivery systems are accessible to geographies and individuals of different income levels throughout the AA. The Bank has three full-service branch locations within AA1. The Bank sponsors free financial service programs for all customers and employees through Money Management, who provide expertise on a variety of financial topics. The Bank participates in two first time homebuyer programs sponsored by Mass Housing and the Equity Builder Program with FHLB Boston.

Considering the Bank's capacity, the need, and the availability of CD opportunities, MNBT's CD performance demonstrates excellent responsiveness to the needs of the AA.

### **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.