



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**December 09, 2008**

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

The Edgartown National Bank  
Charter Number 7957

2 S. Water Street  
Edgartown, MA 02539-0000

Office of the Comptroller of the Currency

New England Field Office  
20 Winthrop Square 2nd Floor  
Boston, MA 02110-1229

**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 rating include:

- The loan-to-deposit (LTD) ratio is more than reasonable given the bank's size, financial condition, assessment area (AA), credit needs, and relevant competitive factors;
- All of the originated loans sampled for this examination are in the bank's AA; and
- The bank has not received any CRA-related consumer complaints since the last CRA examination.

**SCOPE OF EXAMINATION**

CRA activities at Edgartown National Bank (ENB) were completed using full-scope review procedures for its AA. Our review covered the bank's performance from January 1, 2006 through September 30, 2008. Residential mortgage loans were determined to be the bank's primary loan product and were reviewed as part of this examination. In order to assess the bank's lending activity, we sampled 20 home loans originated by ENB from January 1, 2006 through September 30, 2008.

**DESCRIPTION OF INSTITUTION**

ENB is an intrastate commercial bank headquartered in Edgartown on the island of Martha's Vineyard in Dukes County, Massachusetts. As of September 30, 2008, the bank's total assets were \$123 million. It opened its doors on November 16, 1905 and is the oldest banking institution on the island. The bank is owned by Island Bancorp, Inc., a one-bank holding company, also headquartered in Edgartown. ENB has four banking offices. The main office and one branch are located in Edgartown, one branch is in Oak Bluffs, and one is in Vineyard Haven. All of the branches are full service and have 24-hour automated teller machines (ATMs). There are two free-standing ATM cash dispensers at the following locations: Alley's General Store in West Tisbury and Menemsha Deli in Menemsha. One branch office in Vineyard Haven was closed in early 2004 since our last CRA examination.

ENB offers a wide variety of loan and deposit products to meet consumer and commercial banking needs. The bank offers standard personal banking deposit products. Business products include checking and cash management services. ENB also offers customers access to accounts through debit cards and online banking. The bank's Internet website, [www.edgartownnationalbank.com](http://www.edgartownnationalbank.com), provides detailed information on its products and services for both consumers and businesses.

ENB is primarily a residential lender and offers a variety of mortgages for home

purchase, refinance, home equity, and reverse mortgages. The bank also offers a variety of commercial lending products including commercial real estate mortgages, construction loans, lines of credit, and letters of credit.

As of September 30, 2008, ENB reported \$95 million in net loans and \$100 million in total deposits. Net loans represented 76% of average assets. The bank's loan portfolio consists of residential real estate loans (73%), and commercial, commercial real estate, and construction and development loans (27%). Net Tier 1 Capital was \$11 million as of that same date.

According to the June 30, 2008 FDIC Summary of Deposits Market Share Report, ENB was ranked 3rd out of 3 institutions in the Dukes County AA with 15.73% of deposits. Martha's Vineyard Savings Bank is ranked first with 8 offices in the AA and 58.27% of the deposits. The other financial institution includes Sovereign Bank with 5 offices and 26.00% of the deposits.

The bank was assigned a "Satisfactory" CRA rating at the previous examination dated October 6, 2003. ENB faces no legal or financial restrictions that would impede its performance or ability to meet the credit needs of its AA.

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

ENB has one defined assessment area (AA) consisting of Dukes County, Massachusetts. Dukes County includes the island of Martha's Vineyard and the sparsely populated Elizabeth Islands. Dukes County is not part of a Metropolitan Statistical Area (MSA). The following Martha's Vineyard communities are included in the bank's assessment area: Edgartown, Oak Bluffs, Tisbury (Vineyard Haven), West Tisbury, Chilmark, and Aquinnah. Cuttyhunk, the larger of the Elizabeth Islands, consists of one community, Gosnold.

ENB's assessment area is comprised of four middle-income census tracts. The bank's assessment area meets the technical requirements of the regulation and does not arbitrarily exclude any low- to moderate-income tracts. While there are no low- or moderate-income geographies, the entire county has been classified as an underserved non-metropolitan middle-income county by the federal banking agencies.

The following table reflects the assessment area's demographic and economic characteristics based on 2000 Census Bureau data and the 2008 Housing and Urban Development Agency (HUD) data.

Demographic Information for Full Scope Area: ENB AA - Dukes County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	4	0.00	0.00	100.00	0.00	0.00
Population by Geography	14,987	0.00	0.00	100.00	0.00	0.00
Owner-Occupied Housing by Geography	4,579	0.00	0.00	100.00	0.00	0.00
Business by Geography	2,778	0.00	0.00	100.00	0.00	0.00
Farms by Geography	109	0.00	0.00	100.00	0.00	0.00
Family Distribution by Income Level	3,838	19.65	20.71	25.20	34.45	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	1,549	0.00	0.00	100.00	0.00	0.00
Median Family Income		58,526	Median Housing Value		325,524	
HUD Adjusted Median Family Income for 2008		71,700	Unemployment Rate (2000 US Census)		1.47%	
Households Below Poverty Level		7%				

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 US Census and 2008 HUD updated MFI

The year-round population of the AA has increased from 12 thousand to approximately 15 thousand individuals since the prior CRA examination in 2003. The seasonal population swells to over 100 thousand during the summer. There are no areas of dense population or concentrations of low- or moderate-income families within the AA.

According to a 2007 study by the Martha's Vineyard Commission, housing prices are 96% higher in this AA than in other parts of the state. The year-round working population of Martha's Vineyard earns 30% less on average than other residents of the state while keeping up with a cost of living that is 60% higher than average. The lack of affordable housing has forced many people to move off the island. There has also been a sharp decline in school enrollment. Many residents work several jobs to make ends meet, while others ferry to the island to work for the day rather than live there.

There are approximately 14,836 housing units within the AA, of which 31% are owner occupied, and 12% are rented. Vacancy can be high due to the seasonality of the island and the high number of vacation homes. Of the total housing units available, 98% are 1-4 family units and only 2% are multi apartments or mobile home/trailers.

U.S. Department of Labor's Bureau of Labor Statistics shows the unemployment rate in the bank's AA is slightly lower at 5.7% than the state of Massachusetts at 5.9% (as of November 2008). The AA unemployment rate fluctuates with the tourist season. The AA has no single large employer. Major employers in the AA are primarily tourism-related and include lodging, restaurants, and small retail shops.

We contacted a non-profit organization dedicated to protecting the equity of low- and moderate-income elderly homeowners in Massachusetts. They noted that the Massachusetts economy has been in a recession since the fall. The current financial crisis has led to ongoing job losses, particularly in the financial services industry. Job losses are also increasing in industries related to or supporting financial services in the state including legal and consulting services. They noted that home prices in the state

are continuing to fall. Nevertheless, affordability still remains an issue. Further, although generally home prices have been falling in the state, some communities have actually seen an increase in median home prices. The state is facing a budget shortfall and municipalities have been told to expect significant cuts to local aid. Many communities have already indicated that they may have to layoff police officers, firefighters, and teachers and that some local services or programs will need to be cutback or eliminated outright.

There are a number of credit and community development needs throughout the state. These include affordable rental housing, foreclosure prevention assistance, assistance for small businesses, and financial literacy. Massachusetts has a strong community development corporation and non-profit network of organizations working on these issues. However with the struggling economy there is a growing demand for services and shrinking resources to assist those in need. Between cuts in federal and state funding, declining donations, and support from the private sector, many organizations are struggling to meet the needs of its clients. The contact indicated that while some larger financial institutions are no longer funding the organization's activities, the smaller institutions were the "bread and butter" of support for the organization and its activities.

We also reviewed a recent community contact for a statewide non-profit entity with a focus on affordable housing issues. This organization also serves as an active advocate for housing and CRA related legislation for low- and moderate-income residents. This community contact stated that affordable housing remains an issue and a key need, particularly in the greater Boston area, Cape Cod and the islands that include Martha's Vineyard. This organization has a program that helps low- and moderate-income families and individuals purchase homes, however, the average cost of homes in the Dukes County AA are well above the financial means of low- and moderate-income individuals.

There are two other island banks that ENB considers to be competitors. These banks are the Martha's Vineyard Savings Bank and the Santander/Sovereign Bank.

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

ENB's performance is "Satisfactory". The evaluation period covered lending activity for residential mortgage loans from January 1, 2006 through September 30, 2008, inclusive. Our analysis of the bank's performance for the respective evaluation factors is described below.

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

ENB's loan-to-deposit ratio exceeds the standard for satisfactory performance. The bank's average loan-to-deposit ratio for the prior twenty-three quarters (since the last CRA examination) is 96%, with average ratios during the period ranging from 78% to 106%. This ratio is higher than the average quarterly ratios of similarly situated banks in a customized peer group of banks with similar asset sizes in the state of

Massachusetts. That peer average was 78%.

**Lending in Assessment Area**

ENB's lending in its AA is outstanding. All of the loans reviewed in our sample, which were originated during the evaluation period, were within the AA. Thus, ENB exceeds the standard for satisfactory performance for lending in the AA.

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

The bank's record of lending to borrowers of different incomes meets the standard for satisfactory performance.

While no loan in our sample was originated to low-income borrowers, when considering the affordability of housing in the MSA, this performance is reasonable. The 2008 HUD Median Housing Value in the AA is \$326 thousand. The HUD updated median family income for 2008 is \$55 thousand. This means that a low-income person earns less than \$27,500. Based on these statistics, it would be difficult for a low-income individual to purchase housing in the AA. In 2007, competition in the AA was strong with Countrywide Home Loans, Sovereign Bank, and Washington Mutual Bank ranking as the top three lenders with market shares of 9.46%, 8.18% and 7.70% respectively.

The percentage of loans made to moderate-income borrowers is less than the percentage of moderate-income families in the MSA. This performance is reasonable given the limited stock of moderate-income housing and the ability of a moderate-income individual to purchase housing in the AA. Please refer to Table 2.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Dukes County</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
Residential Real Estate Mortgages	19.65	0.00	20.71	10.00	25.20	15.00	34.45	75.00

*Source: 2006-2008 ENB Loan Sample.*

**Geographic Distribution of Loans**

There are no low- or moderate-income geographies in the bank's AA. However, the area was designated by the federal banking agencies as an underserved non-metropolitan middle-income county for the duration of the evaluation period. Therefore, the bank received positive consideration for lending in the middle-income, underserved geographies.

### **Responses to Complaints**

ENB did not receive any complaints about its performance in helping to meet credit needs in the AA during this evaluation period.

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

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.