



Office of the
Comptroller of the Currency
Washington, DC 20219

INTERMEDIATE SMALL BANK

PUBLIC DISCLOSURE

August 23, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The National Bank of Middlebury
Charter Number 1195

30-32 Main Street, Middlebury, VT 05753

Office of the Comptroller of the Currency

99 Summer Street, 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, and should not 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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Overall CRA Rating

Institution's CRA Rating: This institution is rated **Outstanding**.

The lending test is rated: Satisfactory.

The community development test is rated: Outstanding.

The major factors that support this rating include:

- The lending test rating is based on The National Bank of Middlebury's (NBM or bank) record of performance in meeting the credit needs of the assessment areas (AAs) through its lending activities during the evaluation period. The evaluation period for the lending test covers the bank's performance from January 1, 2018 through December 31, 2020.
- A reasonable loan-to-deposit (LTD) ratio, when compared to local peer averages and the banks size, financial condition, and credit needs of the AAs.
- A substantial majority of the bank's lending taking place within its AAs.
- Reasonable geographic distribution of lending by income of the geography.
- A reasonable distribution of lending among borrowers of different incomes and businesses of different sizes.
- The community development (CD) test rating is based on NBM's overall excellent responsiveness to community needs through qualified CD loans, investments, and services.
- There have been no CRA-related complaints received by the bank or the OCC during the evaluation period.

Loan-to-Deposit Ratio

Considering the bank's size, financial condition, and credit needs of the AA, the bank's LTD ratio is reasonable.

The bank's quarterly net LTD ratio averaged 76.6 percent for the 12 quarters occurring during the evaluation period, specifically, lending activity occurring from January 1, 2018 through December 31, 2020. During this period, the bank's net LTD ratio ranged from a quarterly low of 65.5 percent to a quarterly high of 82.5 percent. The bank's LTD ratio is reasonably comparable to the assessment area peer bank quarterly average of 89.8 percent over the same period, ranging from a low of 70.0 percent to a high of 117.4 percent.

Lending in Assessment Area

A substantial majority of the bank's loans are inside its AAs.

The bank originated and purchased 96.2 percent of its total loans inside the bank's AAs during the evaluation period. This analysis is performed at the bank, rather than the AA, level.

Lending Inside and Outside of the Assessment Areas										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage	765	96.5	28	3.5	793	173,706	94.4	10,243	5.6	183,949
Small Business	17	85.0	3	15.0	20	1,485	81.4	338	18.6	1,824
Total	782	96.2	31	3.8	813	175,191	94.3	10,581	5.7	185,772

Source: Bank Data

Description of Institution

NBM is a \$485 million community bank headquartered in Middlebury, Vermont. The bank is a wholly owned subsidiary of Middlebury National Corporation. The bank has one-third ownership in an operating subsidiary, Community Financial Services, LLC, which was created in partnership with two other financial institutions for the purpose of offering trust and investment services to bank customers. Affiliate activity was not considered as part of this evaluation.

In addition to the bank's main office in Middlebury, Vermont, the bank has five full service branches located in the following Vermont cities: Brandon; Bristol; Hinesburg; Middlebury; and Vergennes. Additionally, the bank operates ten automated teller machines (ATMs) which include four stand-alone ATMs located at the Middlebury drive-up location, Middlebury Market and Café, and two ATMs located on the Middlebury College campus. All of NBM's branches and ATMs are located in middle- and upper-income geographies. Two AAs were evaluated by the Office of the Comptroller of the Currency (OCC) during the evaluation, with the non-MSA AA comprised primarily of census tracts located in Addison County and the Burlington-South Burlington VT AA (B-SB VT MSA AA) comprised primarily of census tracts located in Chittenden County.

NBM is a full service, intrastate institution, offering a standard array of traditional loan and deposit products for retail and business customers. Additionally, NBM offers a variety of consumer and commercial products and services including personal and business checking and savings accounts, mortgage loans, commercial loans, and electronic banking. The bank's website, www.nbmv.com, provides a listing and description of its loan and deposit services. The bank offers a variety of different account access alternatives including telephone banking, online banking with bill pay options, mobile banking, and e-statements. In addition to the above services for personal account customers, the bank also offers account access alternatives for its business customers, including eCorp (online banking for business customers), eDeposit (remote deposit capture), merchant credit card processing, automated clearinghouse (ACH) origination, and bill pay service.

NBM's balance sheet has continued to grow steadily since the previous CRA evaluation. As of December 31, 2020, NBM reported total assets of \$485.2 million, total deposits of 415.6 million, and tier one capital of \$39.3 million, compared to the previous evaluation as of March 31, 2018 of \$358.0 million, \$312.8 million, and \$31.6 million, respectively. Net loans of \$283.6 million represent 54.4 percent of total assets compared to 67.5 percent of total assets at the time of the previous evaluation. The following table provides a summary of the loan mix:

Table 1 - Loan Portfolio Summary by Loan Product December 31, 2020	
Loan Category	% of Gross Loans and Leases
Residential – 1-4 Family	49
Commercial Real Estate	21
Commercial & Industrial	12
Multifamily	4
Consumer	4
HELOC	4
Construction	2
Municipals	3
Other	1
Total	100%

Source: Federal Deposit Insurance Corporation (FDIC) Call Report

There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs in its AA. Using Intermediate Small Bank (ISB) CRA procedures, the bank was rated "Outstanding" at its last performance evaluation (PE) dated July 9, 2018.

Scope of the Evaluation

Evaluation Period/Products Evaluated

NBM was evaluated using ISB CRA Evaluation procedures, which entails evaluating the bank's record in meeting the credit needs of its VT-based AAs. We evaluated the bank's record of lending and CD activities during the evaluation period.

The evaluation period for the lending test is January 1, 2018 through December 31, 2020. The bank's performance during the evaluation period was compared to 2015 American Community Survey (ACS) US Census, 2020 Dun & Bradstreet (D&B), and 2018 Home Mortgage Disclosure Act (HMDA) Aggregate data, which serves as our primary comparator to the bank's lending performance.

Conclusions of the bank's lending performance during the evaluation period are based on two identified primary product types, specifically residential mortgage loans as reported via NBM's HMDA Loan Application Register and small business loans. The two product types accounted for the majority of lending activity occurring during the evaluation period. During the evaluation period, residential mortgage loan originations and small business loans accounted for approximately 68.6 percent and 26.4 percent by dollar amount of all loan originations, respectively.

We included all HMDA-reportable residential loans and a random sampling of small business loans originated and/or purchased within the bank's AA during the evaluation period to evaluate the bank's

lending performance. These results were appropriately weighted to reflect each product's level of lending relative to the bank's overall lending activity during our evaluation period.

The evaluation period for the CD Test, including CD loans, investments/donations, and services, is June 30, 2018, the date of the previous CRA PE, through December 31, 2020.

Selection of Areas for Full-Scope Review

In each state where the bank has an office, one or more AAs within that state was selected for a full-scope review. For purposes of this evaluation, bank delineated AAs located within the same metropolitan statistical area (MSA), multistate metropolitan statistical area (MMSA), or combined statistical area (CSA) are combined and evaluated as a single AA. Similarly, bank delineated non-MSA AAs within the same state are combined and evaluated as a single area. These combined AAs may be evaluated as full- or limited-scope. Refer to the "Scope" section under each State Rating for details regarding how full-scope AAs were selected. Refer to appendix A, Scope of Examination, for a list of full- and limited-scope AAs.

The CRA requires an institution to define the AA in which it will be evaluated. The bank has delineated an AA that meets the requirements of the regulation by containing the entirety of the customer deposit base and does not arbitrarily exclude any low- or moderate-income census tracts. NBM's AA consists of census tracts where branches are located in Addison, Rutland, and Chittenden County as well as contiguous geographies. For the purposes of this evaluation, the OCC assessed the bank's lending performance at the full county level for both AA's, per OCC guidance. These AAs are referenced as the non-MSA AA and B-SB VT MSA AA throughout the PE.

Ratings

The bank's overall rating is based on the State of Vermont rating. The state rating is based on performance in all bank AAs. Refer to the "Scope" section under the state rating section for details regarding how the areas were weighted in arriving at the respective ratings.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c) or 195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next PE in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this PE.

State Rating

State of Vermont

CRA rating for the State of Vermont: Outstanding

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Outstanding

The major factors that support this rating include:

- The bank's geographic distribution of home mortgage loans and small business loans is reasonable.
- The bank exhibits a reasonable distribution of loans to individuals of different income levels and businesses of different sizes.
- The bank demonstrated excellent responsiveness to the CD lending, investment, and service needs of the AAs.
- The bank's locations and service delivery channels are reasonably accessible to geographies and individuals and businesses of different incomes.

Description of Institution's Operations in Vermont

NBM has two AAs within the state of Vermont, the non-MSA AA and the B-SB VT MSA AA. During the evaluation period, NBM originated or purchased 91.5 percent of its home mortgage loans (by number) in the non-MSA AA and 8.5 percent of its home mortgage loans in the B-SB VT MSA AA. The non-MSA AA includes the counties Addison and Rutland. In addition, the non-MSA AA includes five of the bank's six full-service locations. There are 30 census tracts within the non-MSA AA, which includes the city of Rutland and surrounding towns. Of the 30 census tracts, there are no low-income tracts, three moderate-income tracts, 23 middle-income tracts, and four upper-income tracts. The following table shows demographic information covering the non-MSA AA:

Table A – Demographic Information of the Assessment Area						
Assessment Area: NBM_VT non-MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	30	0.0	10.0	76.7	13.3	0.0
Population by Geography	97,473	0.0	12.5	69.4	18.0	0.0
Housing Units by Geography	50,633	0.0	11.4	73.0	15.6	0.0
Owner-Occupied Units by Geography	28,481	0.0	8.3	73.0	18.7	0.0
Occupied Rental Units by Geography	11,314	0.0	26.0	60.8	13.1	0.0
Vacant Units by Geography	10,838	0.0	4.2	85.7	10.1	0.0
Businesses by Geography	10,306	0.0	15.3	68.4	16.3	0.0
Farms by Geography	817	0.0	2.2	73.2	24.6	0.0
Family Distribution by Income Level	25,099	18.6	18.1	22.6	40.7	0.0
Household Distribution by Income Level	39,795	23.5	15.5	18.4	42.6	0.0
Median Family Income Non-MSAs – VT		\$64,849	Median Housing Value			\$203,781
			Median Gross Rent			\$829
			Families Below Poverty Level			7.3%
<i>Source: 2015 ACS and 2020 D&B Data</i> <i>Due to rounding, totals may not equal 100.0%</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

The B-SB VT MSA AA includes Chittenden County and one of the bank's six full-service locations. There are 35 census tracts in the B-SB VT MSA AA, which includes the cities of Burlington, South Burlington, Winooski, and surrounding towns. Of the 35 census tracts, there is one low-income tract, seven moderate-income tracts, 19 middle-income tracts, and seven upper-income tracts. The following table shows demographic information covering the B-SB VT MSA AA:

Table A – Demographic Information of the Assessment Area						
Assessment Area: NBM_B-SB VT MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	35	2.9	20.0	54.3	20.0	2.9
Population by Geography	159,711	1.9	17.0	55.7	25.4	0.0
Housing Units by Geography	67,027	2.0	18.7	57.0	22.3	0.0
Owner-Occupied Units by Geography	41,223	1.4	8.7	61.8	28.2	0.0
Occupied Rental Units by Geography	22,275	3.1	37.7	47.9	11.3	0.0
Vacant Units by Geography	3,529	2.0	15.5	58.7	23.8	0.0
Businesses by Geography	20,583	1.1	22.5	49.2	26.9	0.3
Farms by Geography	626	0.6	5.9	59.9	33.5	0.0
Family Distribution by Income Level	36,978	19.2	16.3	22.6	41.9	0.0
Household Distribution by Income Level	63,498	23.0	15.9	18.1	42.9	0.0
Median Family Income MSA - 15540 Burlington-South Burlington, VT MSA		\$82,811	Median Housing Value			\$284,906
			Median Gross Rent			\$1,107
			Families Below Poverty Level			6.0%
<i>Source: 2015 ACS and 2020 D&B Data</i>						
<i>Due to rounding, totals may not equal 100.0%</i>						
<i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

Combined AAs include 117,660 total housing units of which 69,704 or 59.2 percent are owner-occupied. The remaining units are rental units (33,589 or 28.6 percent) or vacant units (14,367 or 12.2 percent). Owner-occupied housing units in moderate-income tracts represents 8.5 percent and low-income tracts represent 0.8 percent.

The combined AAs median housing value totals to \$249,995. The combined AAs include 62,077 families with a median family income (MFI) of \$82,811 in the B-SB VT MSA AA and \$64,849 in the non-MSA AA (based on the 2015 ACS Census). Low- and moderate-income families represent 19.0 percent and 17.0 percent of all families living in the combined AAs, respectively. Low-income families earn less than 50 percent of the MFI, or \$41,406 in the B-SB VT MSA AA and \$32,425 in the non-MSA AA. Moderate-income families earn less than 80 percent of the MFI, or \$66,249 in the B-SB VT MSA AA and \$51,879 in the non-MSA AA, but no less than 50 percent of the MFI.

The combined AAs include 30,889 businesses and 1,443 farms, the majority of which report revenues of \$1 million or less.

Consistent with regulatory requirements, the bank's AAs do not arbitrarily exclude any low- or moderate-income census tracts. The following table shows demographic information covering the combined AAs:

Table A – Demographic Information of the Assessment Areas						
Assessment Area: Combined						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	65	1.5	15.4	64.6	16.9	1.5
Population by Geography	257,184	1.2	15.3	60.9	22.6	0.0
Housing Units by Geography	117,660	1.1	15.6	63.9	19.4	0.0
Owner-Occupied Units by Geography	69,704	0.8	8.5	66.4	24.3	0.0
Occupied Rental Units by Geography	33,589	2.0	33.8	52.2	11.9	0.0
Vacant Units by Geography	14,367	0.5	7.0	79.1	13.5	0.0
Businesses by Geography	30,889	0.7	20.1	55.6	23.4	0.2
Farms by Geography	1,443	0.3	3.8	67.4	28.5	0.0
Family Distribution by Income Level	62,077	19.0	17.0	22.6	41.4	0.0
Household Distribution by Income Level	103,293	23.2	15.8	18.2	42.8	0.0
Median Family Income MSA - 15540 Burlington-South Burlington, VT MSA		\$82,811	Median Housing Value			\$249,995
Median Family Income Non-MSAs - VT		\$64,849	Median Gross Rent			\$1,010
			Families Below Poverty Level			6.5%
<i>Source: 2015 ACS and 2020 D&B Data</i> <i>Due to rounding, totals may not equal 100.0%</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

The local economy in the region has been relatively stable during the evaluation period. Per Moody's Analytics, the unemployment rate for the state of Vermont increased from 2.3 percent as of year-end 2019 to 5.6 percent as of year-end 2020, a trend seen nationwide in response to the COVID-19 pandemic. Vermont's recovery is expected to accelerate in 2021 as vaccines are administered and resurgence in tourism and healthcare will boost job gains in the near term. Long term economic growth is expected to experience more constraint due to insufficient population trends and a lack of dynamic high-skill drivers. The primary economic drivers for the area are educational and healthcare services, retail trade, tourism, manufacturing, and construction. Major employers in Vermont include The University of Vermont Medical Center, University of Vermont, Vermont Wood Manufacturers Association, GlobalFoundries, Rutland Regional Medical Center, Shaw's Supermarkets Inc., Howard Center, Keurig Green Mountain Inc., and Central Vermont Medical Center.

Competition for loans and deposits within Vermont is strong. Per Federal Deposit Insurance Corporation (FDIC) deposit market share data as of June 30, 2020, there are 23 financial institutions with 229 offices within the state of Vermont. Major competitors primarily include branches of large banks and some larger community banks. As of June 30, 2020, NBM held \$379.0 million in deposits, which amounted to 2.2 percent market share within the state of Vermont. The largest market share belongs to People's United Bank, National Association at 25.8 percent. Additionally, deposit market share data indicates NBM ranks tenth among 22 competing lenders within the bank's combined AA, accounting for 3.6 percent of deposit market share.

As part of this evaluation, to assess the bank's lending performance, we contacted a local organization based within NBM's non-MSA AA to assist in identifying community credit needs. This community organization's mission is to create and provide affordable housing and community services predominantly within both Addison and the surrounding counties of Vermont. The contact prescribed, due to a prolonged expensive housing market, that affordable housing, particularly for low- and moderate-income seniors, is an emerging need within the local market area. The contact discussed several opportunities and programs that banks within the community are able to participate in relating to affordable housing and community service, specifically by partnering with locally based organizations that work to connect financial institutions with low- and moderate-income borrowers. The contact noted that local financial institutions are supportive in meeting the CD needs of the surrounding market area; however, continued support is needed to curtail rising credit needs.

Scope of Evaluation in Vermont

Both the non-MSA AA and the B-SB VT MSA AA received a full-scope review with the performance in the non-MSA AA receiving the heaviest weighting given the significant percent of bank locations, geographies, population, deposits, lending, and business located in the non-MSA AA. Home mortgage lending received a slightly heavier weighting over small business lending. The non-MSA AA does not have any low-income census tracts; therefore, an analysis of the geographic distribution in the non-MSA AA was limited to an analysis of geographic distribution within moderate-income census tracts. The small business loans analysis was limited to the non-MSA AA as the B-SB VT MSA AA did not have a sufficient number of records in the sample to draw conclusions.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN VERMONT

LENDING TEST

The bank's performance under the Lending Test in Vermont is rated Satisfactory. In determining conclusions, the OCC gave the most consideration to home mortgages as they represent the bulk of NBM's loan portfolio.

Conclusions for Areas Receiving Full-Scope Reviews

Based on full-scope reviews of whole counties for both the non-MSA and B-SB VT MSA AA's, the bank's lending performance in the state of Vermont is reasonable.

Distribution of Loans by Income Level of the Geography

The bank exhibits reasonable geographic distribution of home mortgages and small business loans in the state.

Home Mortgage Loans

The geographic distribution of home mortgages was reasonable when taking performance context into consideration.

The geographic distribution of home mortgages in the non-MSA AA is considered poor. There were no owner-occupied housing units in low-income tracts for the non-MSA AA in the evaluation period;

however, the number of home mortgages originated in moderate-income geographies is well below both the percent of owner-occupied housing units and the peer aggregate percentage. Consideration is given to the bank's position within the market. Market competition for homes is significant in the non-MSA AA. According to the 2020 Peer Mortgage Market Share Data, lending within the non-MSA AA is largely dominated by nationwide institutions. While the non-MSA AA did not have any low-income geographies, NBM competed with 53 lenders in moderate-income geographies. NBM represented 0.56 percent of the market share with the top 10 institutions accounting for approximately 60.1 percent of the overall market share.

The geographic distribution of home mortgages in the B-SB VT MSA AA is considered reasonable. The number of home mortgages originated in low-income geographies is below both the percent of owner-occupied housing units and the peer aggregate percentage while the home mortgages originated in moderate-income geographies exceeds both the percentage of owner-occupied housing units and the peer aggregate percentage. This performance is considered reasonable for the income classifications given the bank's position within the B-SB VT MSA AA. According to the 2020 Peer Mortgage Market Share Data, NBM competed with 66 lenders in low- and moderate-income geographies within the B-SB VT MSA AA. NBM represented 0.41 percent of the market share with the top 10 institutions accounting for approximately 71.3 percent of the overall market share.

Refer to Table O in the state of Vermont section of appendix D for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases.

Small Loans to Businesses

Lending to geographies of different income levels in the non-MSA AA reflects reasonable distribution when taking performance context into consideration, specifically significant competition within the AA. There are no low-income tracts in the non-MSA AA. The bank's small business lending is well below both demographics and peer aggregate performance. Based on 2019 Peer Small Bank Business Data, NBM competes with 50 lenders in the non-MSA AA for small business loans. The AA is dominated by large banks with the top 10 banks representing 76.7 percent of market share for the three moderate-income tracts located in the AA.

Refer to Table Q in the state of Vermont section of appendix D for the facts and data used to evaluate the geographic distribution of the bank's originations and purchases of loans to small businesses.

Distribution of Loans by Income Level of the Borrower

The bank exhibits a reasonable distribution of loans to individuals of different income levels and businesses of different sizes in the state.

Home Mortgage Loans

The distribution of home mortgages by income level of the borrower in the non-MSA AA is considered reasonable when considering performance context including significant competition for loans and demographic barriers that can limit the bank's opportunity to lend. The number of loans originated to

low- and moderate-income borrowers were both below the demographics and the aggregate industry percentages.

Borrower distribution of home mortgages in the B-SB VT MSA AA is considered reasonable. The number of loans originated to low-income borrowers is below both demographics and the peer aggregate percentage while home mortgages originated to moderate-income borrowers is comparable to both demographics and the peer aggregate percentage.

The bank operates within a highly competitive market for lending as illustrated by 2020 Peer Mortgage Data for loans made to low to moderate income (LMI) borrowers within both AAs. 2020 Peer Aggregate Data shows NBM competed against 64 lenders, representing 6.4 percent of market share within the non-MSA AA. Within the B-SB VT MSA AA, NBM competed against 79 lenders, representing 0.37 percent of overall market share. Market share data indicates nationwide institutions and credit unions represent a vast majority of leading lenders in the AAs.

Additional consideration was given to the lack of affordability for home ownership for LMI borrowers within the AAs. In the non-MSA AA, the median housing value is \$203,781 and the average median family income is \$64,849. Low-income families earn less than 50 percent of the median income or \$32,425. Moderate-income families earn at least 50 percent and less than 80 percent of the median income or \$32,425 and \$51,879, respectively. As a result, the cost of housing is approximately six times low-income family earnings and four times moderate-income family earnings. In the B-SB VT MSA AA, the median housing value is \$284,906 and the average median family income is \$82,811. Low-income families earn less than 50 percent of the median income or \$41,406. Moderate-income families earn at least 50 percent and less than 80 percent of the median income or \$41,406 and \$66,249, respectively. As a result, the cost of housing is approximately seven times low-income family earnings and four times moderate-income family earnings. This lack of affordability limits the opportunity to originate home mortgage loans to LMI borrowers.

Refer to Table P in the state of Vermont section of appendix D for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.

Small Loans to Businesses

NBM's distribution of loans to businesses of different sizes in the non-MSA AA is excellent. NBM originated 86.1 percent of loans to businesses with revenues of less than \$1 million. This is comparable to demographic information and well above aggregate lending performance.

Refer to Table R in the state of Vermont section of appendix D for the facts and data used to evaluate the borrower distribution of the bank's originations and purchases of small loans to businesses.

Responses to Complaints

There have been no CRA-related complaints received by the bank or the OCC during the evaluation period.

COMMUNITY DEVELOPMENT TEST

The bank's performance under the Community Development Test in the state of Vermont is rated Outstanding.

Conclusions for Areas Receiving Full-Scope Reviews

Based on full-scope reviews of both AAs, the bank exhibits excellent responsiveness to CD needs in the state of Vermont through CD loans, qualified investments, and services, as appropriate, considering the bank's capacity and the need and availability of such opportunities in the bank's AAs.

Number and Amount of CD Loans

The CD Loans Table, shown below, sets forth the information and data used to evaluate the bank's level of CD lending. The table includes all CD loans, including multifamily loans that also qualify as CD loans.

<i>Community Development (CD) Loans</i>				
Assessment Area	Total			
	#	% of Total #	\$(000's)	% of Total \$
Non-MSA AA	13	100.00	2,594	100.00
B-SB VT MSA AA	0	0.00	0	0.00
Total	13	100.00	2,594	100.00

The NBM originated a significant level of CD loans during the evaluation period, reflective of excellent performance. The bank originated 13 loans totaling \$2.59 million during the evaluation period that qualified as CD loans, representing 6.6 percent of tier 1 capital as of December 31, 2020. This compares to 13 loans totaling \$3.6 million or 11.2 percent of tier 1 capital during the last performance evaluation period. These CD loans provided financing for local community groups and organizations that support affordable housing, promote economic development, and/or support community services specifically targeted towards low- and moderate-income borrowers.

The highlights of the bank's CD loans are as follows:

- A line of credit totaling \$1.0 million to provide financing for a locally based career development organization whose primary purpose is to provide technical skills training to adolescents who would otherwise lack the means of finding employment. The majority of students who participate in this technical skills training are designated as low- and/or moderate-income.
- A \$300,000 line of credit to support a local community organization whose primary purpose is to provide assisted living and hospice care to the elderly located within the bank's non-MSA AA, with the majority of elderly tenants designated as low- to moderate-income.

- A \$300,000 line of credit to support a local community organization whose primary purpose is to provide mental health, substance abuse, and development services to at risk communities located within the bank's non-MSA AA, where the majority of individuals are designated as low- to moderate-income.
- An \$75,190 loan to finance the construction and permanent financing for the expansion of a pediatric practice within the non-MSA AA that serves children in low- and moderate-income groups.

Additional consideration was given to the bank's participation in the Small Business Administration's (SBA) Paycheck Protection Program (PPP) in response to the COVID-19 pandemic during 2020. PPP loans helped revitalize or stabilize communities during the economic disruption brought on by the pandemic through job preservation. NBM originated 402 PPP loans totaling \$26.2 million. Eight of the 402 PPP loans were originated in moderate-income census tracts within the bank's AAs, totaling \$1.1 million and representing 4.0 percent of total PPP loans. The bank originated 397 PPP loans, or 98.8 percent of total PPP loans, within the AAs; NBM originated 355 PPP loans in the non-MSA AA and 42 loans in B-SB VT MSA AA, representing approximately 88.3 percent and 10.5 percent of total PPP loans, respectively. Total CD loans including PPP loans is 28.8 million, representing 73.3 percent of tier 1 capital as of December 31, 2020.

Number and Amount of Qualified Investments

Qualified Investments										
Assessment Area	Prior Period*		Current Period		Total				Unfunded Commitments**	
	#	\$(000's)	#	\$(000's)	#	% of Total #	\$(000's)	% of Total \$	#	\$(000's)
Non-MSA AA	6	1,138	4	1,416	10	82.9	2,554	82.9	0	0
B-SB VT MSA AA	1	252	1	275	2	17.1	527	17.1	0	0
Total	7	1,390	5	1,691	12	100	3,081	100	0	0

* Prior Period Investments means investments made in a previous evaluation period that are outstanding as of the examination date.

** Unfunded Commitments means legally binding investment commitments that are tracked and recorded by the institution's financial reporting system.

NBM's level of CD investments and donations during the evaluation period is considered excellent when considering the institutions capacity, competitive and demographic characteristics of the market, and the opportunities for CD investments. During our evaluation period, the bank's investments/donations totaled approximately \$3.1 million or 7.8 percent of tier 1 capital and was comprised of 12 CD investments to a variety of suitable programs or qualifying customers within the AAs. This compares to \$2.4 million in qualified investments totaling 7.5 percent of tier 1 capital during the last performance evaluation period. While the actual level of bank donations made was higher, these investments/donations met the definition for CD.

* 'Prior Period Investments' means investments made in a previous evaluation period that are outstanding as of the examination date.

The highlights of the bank's CD investments are as follows:

- An \$185,000 thousand 'Equity Builder' program grant to a noted LMI borrower who is a first time homebuyer within the non-MSA AA.
- One limited partnership CD investment totaling \$251,599 in government sponsored affordable housing programs targeted towards LMI families within bank's B-SB VT MSA AA.
- Four Federal Home Loan Bank Affordable Housing Program CD investments totaling approximately \$432,267, made to two different local organizations whose mission is provide affordable housing and community services throughout the bank's non-MSA AA. Housing programs offered by these two entities are tailored specifically towards LMI families.
- Two separate CD investments in two local, commercial real estate developers that construct housing units within the non-MSA AA, totaling \$1.0 million. The majority of housing units are occupied by LMI tenants.

Extent to Which the Bank Provides Community Development Services

The bank provides an excellent level of CD services in the AAs. During the evaluation period, approximately 28 bank members provided approximately 1,032 hours of experience, leadership services, or community service to different CD eligible organizations within the AAs. The services met the regulatory definition of CD and included financial literacy programs, medical services, and food donations/ preparation/distribution to LMI populations.

The highlights of the bank's CD services are as follows:

- A bank employee serves on the board of a local not-for-profit organization that provides financial education for LMI individuals as part of its mission. The organization serves residents living at or below the federal poverty level. In addition to the bank employee serving on the board, another employee provided technical assistance with loan processing and systems enabling the not-for-profit organization to continue its mission.
- Sixteen bank officers provided financial literacy programs to a local organization. The money management program helps promote self-sufficient living by providing free assistance to older and disabled LMI individuals by providing information, advice, and access to quality services and resources.
- A bank officer serves on the board for a local city council group whose primary purpose is to promote nutrition awareness and meeting the hunger needs of individuals in Addison County. The lack of affordable housing, low wages, and increasing food costs within the non-MSA AA contribute to this growing need, as the participating organization implements various community services and initiatives to meet this need, specifically by targeting LMI groups.
- A bank employee serves as a board member for a local community organization whose primary purpose is to promote affordable housing catered to LMI groups within the non-MSA AA.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the MSA(s) and non-MSA(s) that received comprehensive examination review, designated by the term “full-scope,” and those that received a less comprehensive review, designated by the term “limited-scope”.

Time Period Reviewed:	Lending Test: 01/01/2018 to 12/31/2020 Community Development Test: 06/30/2018 to 12/31/2020	
Bank Products Reviewed:	Home mortgage and small business Community development loans, qualified investments, community development services	
Affiliate(s)	Affiliate Relationship	Products Reviewed
<i>None</i>		
List of Assessment Areas and Type of Examination		
Rating and Assessment Areas	Type of Exam	Other Information
Vermont		
Non-MSA AA	Full-scope	Addison and Rutland Counties – Whole county analysis conducted per OCC guidance
Burlington-South Burlington MSA AA	Full-scope	Chittenden County – Whole county analysis conducted per OCC guidance

Appendix B: Summary of MMSA and State Ratings

RATINGS The National Bank of Middlebury			
Overall Bank:	Lending Test Rating*	CD Test Rating	Overall Bank/State Rating
The National Bank of Middlebury	Satisfactory	Outstanding	Outstanding
State:			
Vermont	Satisfactory	Outstanding	Outstanding

(*) The Lending Test and Community Development Test carry equal weight in the overall rating.

Appendix C: Definitions and Common Abbreviations

The following terms and abbreviations are used in this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. For example, a bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending (Aggt.): The number of loans originated and purchased by all reporting lenders (HMDA or CRA) in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the state/assessment area.

Census Tract (CT): A small, relatively permanent statistical subdivision of a county delineated by a local committee of census data users for the purpose of presenting data. Census tracts nest within counties, and their boundaries normally follow visible features, but may follow legal geography boundaries and other non-visible features in some instances, Census tracts ideally contain about 4,000 people and 1,600 housing units.

Combined Statistical Area (CSA): A geographic entity consisting of two or more adjacent Core Based Statistical Areas with employment interchange measures of at least 15. An employment interchange measure is a measure of ties between two adjacent entities. The employment interchange measure is the sum of the percentage of workers living in the smaller entity who work in the larger entity and the percentage of employment in the smaller entity that is accounted for by workers who reside in the larger entity.

Community Development (CD): Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas.

Community Reinvestment Act (CRA): The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its entire community, including LMI areas, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full-Scope Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: A closed-end mortgage loan or an open-end line of credit as these terms are defined under 12 CFR 1003.2, and that is not an excluded transaction under 12 CFR 1003.3(c)(1) through (c)(10) and (c)(13).

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-Scope Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-Income Individual: Individual income that is less than 50 percent of the area median income.

Low Income Geography: A census tract with a median family income that is less than 50 percent.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the state/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. The median is the point at which half of the families have income above, and half below, a range of incomes. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above, and half below, a range of incomes.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rating Area: A rated area is a state or multi-state metropolitan statistical area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan statistical area, the institution will receive a rating for the multi-state metropolitan statistical area.

Small Loan(s) to Business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland or are classified as loans to finance agricultural production and other loans to farmers.

Tier 1 Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

Appendix D: Tables of Performance Data

Content of Standardized Tables

A separate set of tables is provided for each state. All multistate metropolitan statistical areas, if applicable, are presented in one set of tables. References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the Lending Test tables, the following are applicable: (1) purchased are treated as originations; and (2) “aggregate” is the percentage of the aggregate number of reportable loans originated and purchased by all HMDA or CRA-reporting lenders in the MMSA/assessment area. Deposit data are compiled by the FDIC and are available as of June 30th of each year. Tables without data are not included in this PE.

The following is a listing and brief description of the tables included in each set:

- Table O. Assessment Area Distribution of Home Mortgage Loans by Income Category of the Geography** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents aggregate peer data for the years the data is available.
- Table P. Assessment Area Distribution of Home Mortgage Loans by Income Category of the Borrower** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MMSA/assessment area. The table also presents aggregate peer data for the years the data is available.
- Table Q. Assessment Area Distribution of Loans to Small Businesses by Income Category of the Geography** - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses that were originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) in those geographies. Because aggregate small business data are not available for geographic areas smaller than counties, it may be necessary to compare bank loan data to aggregate data from geographic areas larger than the bank’s assessment area.
- Table R. Assessment Area Distribution of Loans to Small Businesses by Gross Annual Revenue** - Compares the percentage distribution of the number of small loans (loans less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to: 1) the percentage distribution of businesses with revenues of greater than \$1 million; and, 2) the percentage distribution of businesses for which revenues are not available. The table also presents aggregate peer small business data for the years the data is available.

Table O: Assessment Area Distribution of Home Mortgage Loans by Income Category of the Geography																				2018-20
Assessment Area:	Total Home Mortgage Loans				Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts			Not Available-Income Tracts			
	#	\$	% of Total	Overall Market	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	
NBM_B-SB VT MSA AA	65	20,652	8.5	9,115	1.4	0.0	1.7	8.7	10.8	9.1	61.8	58.5	59.7	28.2	30.8	29.6	0.0	0.0	0.0	
NBM_VT non MSA AA	700	153,054	91.5	3,077	0.0	0.0	0.0	8.3	0.1	5.8	73.0	80.0	71.7	18.7	19.9	22.5	0.0	0.0	0.0	
Total	765	173,706	100.0	12,192	0.8	0.0	1.3	8.5	1.0	8.2	66.4	78.2	62.7	24.3	20.8	27.8	0.0	0.0	0.0	

*Source: 2015 ACS Census; 01/01/2018 - 12/31/2020 Bank Data, 2020 HMDA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0%*

Table P: Assessment Area Distribution of Home Mortgage Loans by Income Category of the Borrower																				2018-20
Assessment Area:	Total Home Mortgage Loans				Low-Income Borrowers			Moderate-Income Borrowers			Middle-Income Borrowers			Upper-Income Borrowers			Not Available-Income Borrowers			
	#	\$	% of Total	Overall Market	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	
NBM_B-SB VT MSA AA	65	20,652	9.4	9,115	19.2	2.9	4.5	16.3	16.9	16.4	22.6	20.0	23.8	41.9	46.2	46.5	0.0	15.4	8.8	
NBM_VT non MSA AA	700	153,054	91.5	3,077	18.6	2.3	4.7	18.1	11.3	14.6	22.6	22.9	22.8	40.7	58.3	45.6	0.0	5.3	12.3	
Total	765	173,706	100.0	12,192	19.0	2.2	4.6	17.0	11.8	15.9	22.6	22.6	23.6	41.4	57.3	46.3	0.0	6.1	9.6	

*Source: 2015 ACS Census; 01/01/2018 - 12/31/2020 Bank Data, 2020 HMDA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0%*

Table Q: Assessment Area Distribution of Loans to Small Businesses by Income Category of the Geography																			2018-20	
Assessment Area:	Total Loans to Small Businesses				Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts			Not Available-Income Tracts			
	#	\$	% of Total	Overall Market	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	
NBM_VT non-MSA AA	20	1,408	100.0	2,032	0.0	0.0	0.0	15.3	0.0	11.0	68.4	97.4	70.3	16.3	2.6	18.7	0.0	0.0	0.0	
Total	20	1,408	100.0	2,032	0.0	0.0	0.0	15.3	0.0	11.0	68.4	97.4	70.3	16.3	2.6	18.7	0.0	0.00	0.0	

*Source: 2020 D&B Data; 01/01/2018 - 12/31/2020 Bank Data; 2019 CRA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0%*

Table R: Assessment Area Distribution of Loans to Small Businesses by Gross Annual Revenues												2018-20	
Assessment Area:	Total Loans to Small Businesses				Businesses with Revenues <= 1MM			Businesses with Revenues > 1MM		Businesses with Revenues Not Available			
	#	\$	% of Total	Overall Market	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	% Businesses	% Bank Loans		
NBM_VT non MSA AA	20	1,408	100.0	2,032	86.4	86.1	41.9	4.3	13.9	9.3	0		
Total	20	1,408	100.0	6,456	87.1	86.1	40.6	4.6	13.9	8.3	0.0		

*Source: 2020 D&B Data; 01/01/2018 - 12/31/2020 Bank Data; 2019 CRA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0%*