

## **PUBLIC DISCLOSURE**

March 16, 2009

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

Northeast Bank  
RSSD # 468806

500 Canal Street  
Lewiston, Maine 04240

Federal Reserve Bank of Boston  
600 Atlantic Avenue  
Boston, Massachusetts 02106

**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.

## TABLE OF CONTENTS

Institution's CRA Rating .....	2
Scope of Examination .....	3
Description of Institution.....	3
Conclusions With Respect to Performance Tests .....	8
Lending Test .....	8
Community Development Test .....	14
CRA Appendices	
CRA Appendix A: Glossary .....	18

# INSTITUTION RATING

## INSTITUTION'S CRA RATING

This institution is assigned an overall rating of: **Satisfactory**.

The Lending Test is rated: **Satisfactory**.

The Community Development Test is rated: **Satisfactory**.

Northeast Bank (Northeast or the bank) demonstrates adequate responsiveness to the credit needs of its assessment area based on the following findings.

### Lending Test

- Northeast Bank originated a majority of residential real estate and small business loans inside its defined assessment area.
- Northeast's overall lending to low- and moderate-income borrowers is considered good.
- The bank's lending to small businesses by revenue and by loan amount is considered good.
- The bank's average loan-to-deposit ratio is good considering the credit needs of the assessment area.
- The bank's geographic distribution of loans reflects an adequate level of lending performance throughout the assessment area.
- The bank has made good use of flexible and government lending programs as a way to expand the availability of its credit products.

### Community Development Test

- Northeast's extension of community development loans in the assessment was deemed adequate given the opportunities available therein.
- Qualified investments consist of one equity investment and donations that were considered to be at an acceptable level, an improvement from the prior examination.
- Overall banking services were considered reasonable, and the bank's involvement in community development services was considered good.
- Lending in underserved middle-income geographies within the assessment areas was found to be at a reasonable level.

## **SCOPE OF EXAMINATION**

The CRA performance of Northeast was reviewed using Intermediate Small Institution Examination Procedures. These procedures assess the bank's efforts under two separately rated tests: a five-part lending test and a community development test that encompasses loans, qualified investments, and services.

The evaluation of the bank's lending test was based on commercial and residential loans originated between January 1, 2007 and December 31, 2008. Market information for small business (CRA) lending, residential lending, and 2007 and 2008 aggregate data were obtained from the Federal Reserve System's CRA/Home Mortgage Disclosure Act (HMDA) Data Analysis Tool. Intermediate small institutions are not required to collect and report community development and CRA loan data, however, the bank still collects and reports its CRA activity. The bank originated two small farm loans that were not considered in the analysis due to the minimal volume. Although consumer loans are a significant part of the portfolio (28%), consumer lending was also not considered in this evaluation. Collection and reporting of consumer data is optional under the CRA. The bank did not report, nor did it elect to have the data evaluated for this examination. The bank has phased out its indirect lending programs in October 2008 which comprise the majority of consumer originations. As this will not be a strategic focus of the bank's lending, resources to sample and analyze consumer data were not allocated.

The analysis of the bank's net loan-to-deposit ratio incorporated eight quarters from March 31, 2007 through December 31, 2008, representing the period since the prior examination.

The community development test considered community development loans, investments, and services since the previous examination in 2007.

## **PERFORMANCE CONTEXT**

### **DESCRIPTION OF INSTITUTION**

Northeast is a wholly owned subsidiary of Northeast Bancorp, a banking and financial services holding company located in Lewiston, ME. In addition to the main office located in a low-income tract, the bank operates ten other branch offices located in Auburn, Augusta, Bethel, Brunswick, Buckfield, Harrison, Lewiston, Mechanic Falls, Portland, and South Paris, ME. One other branch is located in low-income census tract (Portland); two branches are located in moderate-income tracts (Harrison and Augusta). All branches operate as full-service offices. Aside the offices of Harrison and Buckfield, the branches are equipped with drive-up facilities. Northeast Bank also operates two loan production offices located in Auburn, ME and Portsmouth, NH (opened December 2008). Northeast Bancorp's other subsidiaries include Northeast Financial located in Falmouth, ME and Northeast Bank Insurance Group located in Rangeley, ME. These subsidiaries offer investment, insurance and financial planning products.

As of December 31, 2008, the bank had total assets of \$616,325,000. Net loans reported as of the same period were \$ 409,600,000, while deposits totaled \$368,060,000. Net loan-to-assets was 66.5 percent. Total assets have increased by 5.3 percent over the previous eight quarters reviewed while deposits have minimally increased by 0.9 percent during the same time frame. From 2007 to 2008, the loan-to-deposits ratios have ranged from 109 percent to 115 percent. These ratios are an indication of the bank's use of external monies to fund its loans. Management indicated that the funds were from the Federal Home Loan Bank and other outside sources.

Northeast Bank offers loans secured by residential properties. It also offers commercial loans, commercial real estate loans, farm loans, a variety of consumer loans, and cash management services. Deposits services include savings, checking, and retirement accounts.

Table 1 below illustrates the breakdown of the bank's loan portfolio as of December 31, 2008.

<b>Table 1 Loan Portfolio</b>		
<b>Type of Loans</b>	<b>\$(000)</b>	<b>% Total</b>
Construction & Land Development	17,656	4.3
1-4 Family		
a. Home Equity Lines	16,423	4.0
b. First Mortgages	106,942	26.0
c. Junior Liens	15,709	3.8
Multifamily	16,564	4.1
Commercial Loans		
a. Commercial Real Estate	92,639	22.6
a. Commercial & Industrial Loans	23,684	5.8
Farm and Farm Related	5,474	1.4
Consumer Loans	113,234	27.6
Obligations of States and Political Subdivisions	1,087	0.3
Other	188	0.1
<b>Total Gross Loans</b>	<b>409,600</b>	<b>100</b>

Source: Consolidated Report of Condition and Income, 12/31/08

Collectively, residential and commercial lending represented 66.3 percent of the dollar volume of the loan portfolio as of December 31, 2008. Consumer lending approximates 28 percent and the rest of the portfolio comprises construction, farm, and other types of loans.

The bank also sells residential mortgage loans in the secondary market to help fund new loans. Servicing rights may be retained or released on sold loans. In 2007 and 2008, Northeast Bank sold 306 loans totaling \$49,235,145 to Freddie Mac (FHLMC), US Bank, Branch Banking and Trust Company, and Maine State Housing Authority (MSHA).

Northeast was last examined by the Federal Reserve Bank of Boston for compliance with the CRA on February 20, 2007 under the intermediate small bank performance standards. That examination resulted in an overall "Satisfactory" rating.

The bank's performance was evaluated in relation to the performance of its local competitors with similar asset size and retail structure, and the presence of other larger institutions, mortgage companies, and credit unions within the assessment area. According to the most recent June 30, 2008 FDIC Summary of Deposits report, the bank's market area included 30 institutions. Northeast Bank has deposit market share of 2.91 percent and ranked number 12 behind such institutions as TD Banknorth National Association (15.78%), KeyBank National Association (14.93%), Bank of America NA (13.08%), Norway Savings Bank (5.27%), Gorham Savings Bank (3.90%), and Androscoggin Savings Bank (3.16%). The bank, however, views the following as its major competitors: Norway Savings Bank, TD Bank North, Androscoggin Savings Bank, KeyBank and Gorham Savings Bank.

Based upon the Bank's financial condition, size, product offerings and branch network, the bank's ability to meet community credit needs is considered good. There are no apparent financial or

legal impediments that would limit the bank's ability to help meet credit needs within the assessment area.

## **DESCRIPTION OF ASSESSMENT AREA**

The Community Reinvestment Act requires a financial institution to identify an assessment area where it focuses its lending efforts. Northeast currently defines its assessment area as the counties of Androscoggin (located in the Lewiston-Auburn MSA or MSA-30340), Kennebec, Lincoln, Oxford (all 3 counties located in non-MSA), Cumberland, Sagadahoc and York (located in Portland-South Portland-Biddeford MSA or MSA-38860). York County is a new addition to the bank's assessment area since the previous examination.

The decision to add York County to the assessment area was made because it borders the counties of Strafford and Rockingham in New Hampshire. Since the last exam, the bank opened a loan production office in Portsmouth, New Hampshire located in Rockingham County. It should be stated, that the bank has a geographically large assessment area, however it does not appear unreasonable at this time. The bank serves the southern portion of the State of Maine where the majority of the state's population resides.

The bank's assessment area consisted of whole geographies and does not arbitrarily exclude any low- or moderate-income census tracts. The assessment area includes 156 census tracts based on 2000 U.S. Census data: 6 census tracts are classified as low-income, 15 as moderate-income, 114 as middle-income, and 21 as upper-income. It should be noted that Lincoln County includes eight middle-income census tracts designated as underserved middle-income geographies by the FFIEC<sup>1</sup> because of their remote rural location.

The bank's assessment area contains 610,104 people and represents approximately 47.9 percent of the total population of Maine. Of this total, 2.1 percent resides in low-income census tracts, 8.2 percent are in moderate-income census tracts, 76.5 percent are in middle-income census tracts and the remaining 13.2 percent reside in upper-income tracts.

The population is comprised of 248,520 households. Similar to the population distribution, 2.5 percent of households are located in low-income tracts, 9.0 percent are in moderate-income tracts, 75.7 percent are in middle-income tracts, and 12.8 percent are located in upper-income tracts. The distribution of households by income within the bank's assessment area is relatively similar to the distribution for the State of Maine. Households considered low- and moderate-income comprise 37.9 percent of the total households in the assessment area according to 2000 Census data. This compares to 39.4 percent of households for the entire state. Middle-income households comprise 19.8 percent, as compared to 19.8 percent for the state. Upper-income households comprise 42.3 of the total households in the assessment area, compared to 40.9 percent for the state.

The Department of Housing and Urban Development (HUD) annually adjusts the median family income (MFI) from the most recent U.S. Census. HUD estimated the 2007 and 2008 median family income for the bank's market area as follows:

---

<sup>1</sup> FFIEC: Federal Financial Institutions Examination Council

<b>MSA/State Non-MSA</b>	<b>2007</b>	<b>2008</b>
MSA – 300340	\$53,200	\$52,900
MSA – 38860	\$64,500	\$64,600
Maine Non-MSA	\$49,100	\$49,200

Families living below the poverty level in the assessment area comprise 6.7 percent, which is slightly lower than the 7.8 percent for the state.

According to 2000 U.S. Census data, 66.7 percent of the assessment area’s housing stock is comprised of one-unit detached homes. This is slightly lower than the State of Maine’s total of 69.6 percent. The median age of homes within the assessment area, at 37 years, is slightly higher than that for the state, at 34 years.

The bank’s assessment area contains 294,557 housing units, of which 58.3 percent are owner-occupied, 26.0 percent are rental units, and 15.7 percent are vacant. In low-income geographies, the level of owner-occupancy is 11.4 percent, while rental units and vacant units account for 78.6 percent and 10.0 percent, respectively, of all housing. Also in moderate-income geographies, the level of owner-occupancy is 33.7 percent, while rental units and vacant units account for 50.3 percent and 16.0 percent, respectively. The housing stock in the assessment area consists predominately of one-to-four family housing units (88.42 percent). The median housing value in the assessment area based on 2000 census data is \$103,630, compared to a state median of \$94,300.

The percentage of owner-occupied housing units contained within designated geographies is used as a proxy to estimate demand for residential mortgage lending within such geographies. An analysis of owner-occupied housing units, compared to the number of total available housing units for each geographic designation, shows that the majority of owner-occupied housing units (94.3 percent) are located in middle- and upper-income geographies. The majority of the housing units are rentals located in the low- and moderate-income tracts with 78.6 percent and 50.3 percent respectively. This shows that homeownership is not affordable for most residents in those tracts.

According to 2008 Dun and Bradstreet data, there are 30,174 businesses within the assessment area. While large firms have an impact on the area, the majority of businesses are small, with 87.9 percent recording gross revenues of \$1 million or less. A recent report by the Maine Development Foundation indicates that from 2006 to 2007 Maine experienced a slight net gain in jobs and the main employers within the assessment area are related with health care and social assistance, education services, professional and business services, retail trade, transportation/warehousing, and leisure and hospitality.

Despite the gain in jobs, Table 3 depicts the unemployment rates for the seven counties<sup>2</sup> that comprise the bank’s assessment area as of December 2008 to be near the state and national average. These counties are located in the southern part of Maine where the majority of the state’s population resides.

---

<sup>2</sup> Maine is comprised of sixteen counties

<b>Table 3 Assessment Area Unemployment Rates (by county)</b>	
Androscoggin	7.3
Cumberland	5.2
Kennebec	6.6
Lincoln	6.8
Oxford	9.2
Sagadahoc	5.8
York	6.3
<b>UNITED STATES</b>	7.0
<b>MAINE</b>	7.0

Sources: Maine Department of Labor, U.S. Bureau of Labor Statistics

Cumberland County has the lowest unemployment rate in the State of Maine. Conversely, Oxford County has an unemployment rate higher than that at the state and national level. This is due to the continuous economic downturn that has resulted in labor cutbacks in many firms in the wood product industry in this rural area. These job losses are consistent with state wide and national trends where manufacturing, construction, and wholesale trade sectors have posted the greatest losses.

Additional demographic information regarding the assessment area is depicted below.

<b>Table 4 Assessment Area Demographics</b>								
<b>Income Categories</b>	<b>Tract Distribution</b>		<b>Families by Tract Income</b>		<b>Families &lt; Poverty Level by Tract</b>		<b>Families by Family Income</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Low-income	6	3.8	2,370	1.5	817	34.5	27,318	16.9
Moderate-income	15	9.6	10,989	6.8	1,426	13.0	29,853	18.5
Middle-income	114	73.1	125,460	77.6	7,902	6.3	38,576	23.9
Upper-income	21	13.5	22,770	14.1	683	3.0	65,842	40.7
<b>Total Assessment Area</b>	<b>156</b>	<b>100.0</b>	<b>161,589</b>	<b>100.0</b>	<b>10,828</b>	<b>6.7</b>	<b>161,589</b>	<b>100.0</b>
	<b>Housing Units by Tract</b>	<b>HOUSING TYPES BY TRACT</b>						
		<b>Owner-occupied</b>			<b>Rental</b>		<b>Vacant</b>	
		<b>#</b>	<b>%</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Low-income	6,910	790	0.5	11.4	5,430	78.6	690	10.0
Moderate-income	26,601	8,968	5.2	33.7	13,381	50.3	4,252	16.0
Middle-income	224,641	136,345	79.4	60.7	51,782	23.1	36,514	16.3
Upper-income	36,405	25,669	14.9	70.5	5,924	16.3	4,812	13.2
<b>Total Assessment Area</b>	<b>294,557</b>	<b>171,772</b>	<b>100.0</b>	<b>58.3</b>	<b>76,517</b>	<b>26.0</b>	<b>46,268</b>	<b>15.7</b>
	<b>Total Businesses by Tract</b>	<b>Businesses by Tract &amp; Revenue Size</b>						
		<b>Less Than or = \$1 Million</b>		<b>Over \$1 Million</b>		<b>Revenue Not Reported</b>		
		<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	
Low-income	973	3.2	831	3.1	119	4.3	23	2.6
Moderate-income	3,858	12.8	3,333	12.6	400	14.5	125	14.2



Middle-income	21,525	71.3	18,930	71.4	1,944	70.3	651	73.8
Upper-income	3,818	12.7	3,431	12.9	304	11.0	83	9.4
Tract not reported	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>30,174</b>	<b>100.0</b>	<b>26,525</b>	<b>100.0</b>	<b>2,767</b>	<b>100.0</b>	<b>882</b>	<b>100.0</b>
	<b>Percentage of Total Businesses:</b>			<b>87.9</b>		<b>9.2</b>		<b>2.9</b>

Source: 2000 U.S. Census Data

As part of the examination, information was obtained from a non-profit entity that provides subsidized housing to LMI residents. The contact provided general economic and demographic information as well as other information that impacts the economic environment in the area. The contact believes housing supply is not an issue but rather affordability. The contact also had positive comments regarding the degree of involvement of certain financial institutions in the community.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

### LENDING TEST

The following details the bank's efforts with regard to each performance criteria.

#### Comparison of Credit Extended Inside an Outside of Assessment Area

This criterion evaluates the concentration of loans originated by the bank in its assessment area. From January 1, 2007 to December 31, 2008, the bank originated 869 residential loans and 516 small business loans, totaling \$94 million and \$74 million, respectively. As shown in Table 5, a substantial majority of the bank's lending has been made in the assessment area. The bank extended 84.8 percent by number and 82.4 percent by dollar to consumers and small businesses owners inside the assessment area. Accordingly, Northeast Bank's overall performance reflects a good responsiveness to the needs of the assessment area.

	Inside				Outside				Total			
	#	%	\$(000)	%	#	%	\$(000)	%	#	%	\$(000)	%
Residential	753	86.7	79,272	84.2	116	13.3	14,834	15.8	869	100.0	94,106	100.0
Commercial	421	81.6	59,532	80.0	95	18.4	14,873	20.0	516	100.0	74,405	100.0
<b>Total Loans</b>	<b>1,174</b>	<b>84.8</b>	<b>138,804</b>	<b>82.4</b>	<b>211</b>	<b>15.2</b>	<b>29,707</b>	<b>17.6</b>	<b>1,385</b>	<b>100.0</b>	<b>168,511</b>	<b>100.0</b>

\*Source: Residential includes all HMDA reportable loans 2007 – 2008; Small Business include reported data for 2007- 2008

### Geographic Distribution

This performance criterion focuses on the bank's lending penetration in geographies of all income levels, including low- and moderate-income (LMI) geographies. According to 2000 census data, the bank's assessment area contains 6 low-income and 15 moderate-income geographies. Overall, the analysis of residential real estate and small business revealed a good penetration of low and moderate-income areas throughout the assessment area.

## Residential Real Estate

Northeast Bank's distribution of residential loans reflects a reasonable penetration in the assessment area by income level of geography. Residential lending includes home purchase loans, home improvement loans, home mortgage refinance loans, and multi-family loans. In 2007, 5.5 percent of HMDA loans were originated in low- and moderate-income census tracts. This percentage falls below the 7.4 percent of the aggregate penetration in the same geographies in 2007. Although the number of loans the bank originated in LMI tracts in 2008 is the same as in 2007, the percentage has increased to 6.1 percent and is comparable with the 6.4 percent of the aggregate in 2008. While homeownership is minimal in the LMI tracts, total loans for both years (5.9%) compares favorably to the 5.7 percent of owner-occupied units located in those geographies. For further information, refer to the table below.

Census Tract Income Level	% Owner-Occupied Housing Units	2007 Aggregate Data	2007		2008 Aggregate Data	2008		Total	
		%	#	%	%	#	%	#	%
Low	0.5	<b>0.8</b>	2	0.5	<b>0.7</b>	3	0.8	5	<b>0.7</b>
Moderate	5.2	<b>6.6</b>	20	5.0	<b>5.7</b>	19	5.3	39	<b>5.2</b>
Middle	79.4	<b>78.5</b>	349	87.9	<b>78.3</b>	294	82.6	643	<b>85.4</b>
Upper	14.9	<b>14.1</b>	26	6.5	<b>15.3</b>	40	11.2	66	<b>8.8</b>
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>397</b>	<b>100.0</b>	<b>100.0</b>	<b>356</b>	<b>100.0</b>	<b>753</b>	<b>100.0</b>

Residential includes all HMDA reportable loans 2007 - 2008

## Small Business Lending

The geographic distribution of small business loans also reflects a reasonable penetration throughout the assessment area. Table 7 shows that in 2007 the bank originated 10.0 percent of its small business loans in low and moderate-income geographies, while the aggregate lending in these same geographies was higher at 13.0 percent. In 2008, the bank significantly increased its small business lending to 15.1 percent within the low and moderate-income tracts, thereby improving its penetration and positioning itself favorably within these tracts when compared to the aggregate at 13.3 percent. The table also indicates that overall lending at 13.2 percent falls slightly below the percentage of businesses in the LMI tracts (16.0%). The majority of Northeast Bank's loans were in the middle-income tracts as would be expected since the highest percentage of businesses is located in those tracts. Refer to the table below for more information.

Census Tract Income Level	% Total Business by Tracts	2007 Aggregate Data	2007		2008 Aggregate Data	2008		Total	
		%	#	%	%	#	%	#	%
Low	3.2	<b>2.2</b>	4	2.7	<b>2.4</b>	15	6.1	19	<b>4.8</b>
Moderate	12.8	<b>10.8</b>	11	7.3	<b>10.9</b>	22	9.0	33	<b>8.4</b>
Middle	71.3	<b>69.2</b>	129	86.0	<b>67.9</b>	189	77.1	318	<b>80.5</b>
Upper	12.7	<b>13.7</b>	6	4.0	<b>14.4</b>	19	7.8	25	<b>6.3</b>
NA	-	<b>4.1</b>	-	-	<b>4.5</b>	-	-	-	<b>-</b>
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>150</b>	<b>100.0</b>	<b>100.0</b>	<b>245</b>	<b>100.0</b>	<b>395</b>	<b>100.0</b>

Source: Small Business loans reported for 2007 and 2008; CHAT.

**Distribution by Borrower Income and Revenue Size of the Business:**

This performance criterion analyzes the distribution of loans to borrowers of different income levels and to businesses of different sizes. Northeast’s distribution of residential lending within its assessment area to borrowers of different incomes is considered good. There was a strong penetration to low-income borrowers compared to the aggregate in 2007 and 2008. The amount of lending to low and moderate-income borrowers exceeded that of the aggregate in both years. In addition, the bank’s small business lending to businesses with revenues less than \$1 million far exceeded the aggregate and is considered strong.

Residential Real Estate<sup>3</sup>

Examiners performed an analysis of residential loans extended within the bank’s assessment area among various income levels for the period under review. Originations were categorized by the ratio of the applicant’s reported incomes to the estimated median family incomes as described in the description of the assessment area.

Table 8 provides the residential loan distribution based on the borrower’s income in comparison to the income distribution of family households. The bank’s lending was also compared to 2007 and 2008 aggregate data which is more representative of lending opportunities in the assessment area. Northeast’s overall lending to low- and moderate-income borrowers combined (27.1%) was below the percentage of family households classified in those income categories (35.4%). However, the bank’s lending level to LMI borrowers in 2007 (29.0%) exceeded that of the aggregate for the same year (22.4%). Also in 2008, the bank’s performance (25%) to those borrowers exceeded the aggregate (21.7%). As the table indicates, the bank’s lending to LMI groups is above the aggregate and is considered to exceed satisfactory level.

<b>Table 8 - Distribution of HMDA Loans by Borrower Income</b>									
<b>Median Family Income Level</b>	<b>% Family Households</b>	<b>2007 Aggregate Data</b>	<b>2007</b>		<b>2008 Aggregate Data</b>	<b>2008</b>		<b>Total</b>	
		<b>%</b>	<b>#</b>	<b>%</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Low	16.9	<b>4.9</b>	36	9.1	<b>4.9</b>	25	7.0	61	<b>8.1</b>
Moderate	18.5	<b>17.5</b>	79	19.9	<b>16.8</b>	64	18.0	143	<b>19.0</b>
Middle	23.9	<b>25.3</b>	105	26.4	<b>24.3</b>	119	33.4	224	<b>29.7</b>
Upper	40.7	<b>40.7</b>	167	42.1	<b>40.5</b>	143	40.2	310	<b>41.2</b>
N/A	-	<b>11.7</b>	10	2.5	<b>13.5</b>	5	1.4	15	<b>2.0</b>
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>397</b>	<b>100.0</b>	<b>100.0</b>	<b>356</b>	<b>100.0</b>	<b>753</b>	<b>100.0</b>

Residential includes all HMDA reportable loans 2007 - 2008

Small Business Lending

Northeast’s commercial loans originated within the assessment area were reviewed to determine the distribution among businesses of various sizes. A small business is defined as having gross revenues of \$1 million or less. Table 9 shows that 58.7 percent of total commercial loans were granted to businesses with annual revenues of \$1 million or less. Although this figure is below the number of small businesses in the assessment area (87.9%), the bank’s small business lending

<sup>3</sup> For this evaluation of residential lending, data regarding multi-family properties are not provided since borrowers’ income data are not collected for this type of product.

during 2007 (53.3%) and 2008 (62.0%) far exceeded that of the aggregate for the same years (40.2% and 34.0% respectively). This indicates an excellent performance level of lending to small businesses.

Gross Annual Revenues	Businesses with revenues ≤ \$1MM	2007 Aggregate	2007		2008 Aggregate	2008		Total	
		%	#	%	%	#	%	#	%
≤ \$1MM	87.9	<b>40.2</b>	80	53.3	<b>34.0</b>	152	62.0	232	<b>58.7</b>
> \$1MM	9.2	<b>59.8</b>	59	39.3	<b>66.0</b>	84	34.3	143	<b>36.2</b>
N/A	2.9	-	11	7.4	-	9	3.7	20	<b>5.1</b>
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>150</b>	<b>100.0</b>	<b>100.0</b>	<b>245</b>	<b>100.0</b>	<b>395</b>	<b>100.0</b>

Source: Small Business loans reported for 2007 and 2008; CHAT.

An analysis was also conducted based on loan amount. The rationale for this criterion is that smaller dollar loan amounts are typically originated to smaller businesses. Table 10 shows that the bank's loan originations of less than or equal to \$100,000 represent 63.8 percent of total loans extended for 2007 and 2008 combined. The percentage of the bank's loans in this category for 2007 (64.0%) and 2008 (63.7%) were below that of the aggregate for 2007 (94.5%) and 2008 (93.3%). Although it appears a decline in lending occurred, the actual total number of loans originated has increased from 96 loans in 2007 to 156 loans in 2008 (or a 63% increase). Loans in amounts over \$100K to \$250K show a stronger performance by Northeast than the aggregate. The bank's figures indicate a reasonable level of lending based on loan size.

Loan Size (000)	2007 Aggregate	2007		2008 Aggregate	2008		Total	
	%	#	%	%	#	%	#	%
≤ \$100	<b>94.5</b>	96	64.0	<b>93.3</b>	156	63.7	252	<b>63.8</b>
> \$100 - ≤ \$250	<b>2.9</b>	30	20.0	<b>3.8</b>	48	19.6	78	<b>19.7</b>
> \$250 - ≤ \$1MM	<b>2.6</b>	24	16.0	<b>2.9</b>	41	16.7	65	<b>16.5</b>
<b>Total</b>	<b>100.0</b>	<b>150</b>	<b>100.0</b>	<b>100.0</b>	<b>245</b>	<b>100.0</b>	<b>395</b>	<b>100.0</b>

Source: Small Business loans reported for 2007 and 2008; CHAT.

### Loan-to-Deposit Ratio

The bank's average net loan-to-deposit (LTD) ratio of 111.9 percent during the examination period is indicative of a high level of overall lending. This conclusion is based on the bank's asset size, financial condition, and the bank's efforts to make credit available to meet the needs of its assessment area. The ratio is based on total loans net of unearned income and net of the allowance for loan and lease losses (ALLL) as a percentage of total deposits. The calculation incorporated eight quarters (representing the period since the prior examination) of the bank's net loans to total deposit figures as reflected in the bank's quarterly FFIEC Consolidated Reports of Condition and Income (Call Reports). The quarters reviewed included the period from March 31, 2007 through December 31, 2008.

The bank's net LTD ratio has fluctuated since the prior examination from a high of 115 percent as of June 30, 2007 to a low of 109.7 percent as of December 31, 2008. Net loans decreased approximately 5.1 percent from March 2007 to December 2008, while deposits also declined approximately 4.1 percent during this same time period. These declines could be attributed to the current economic climate affecting all sectors of the national economy.

For comparison, the average loan-to-deposit ratios of local competitors were also determined over the same time period. Table 11 below shows these results.

<b>Table 11 – Loan to Deposit Ratios</b>		
<b>Institution</b>	<b>Total Assets* (000)</b>	<b>Averaged LTD Ratio** (%)</b>
Androscoggin Savings Bank	\$641,088	120.1
Gorham Savings Bank	\$835,820	115.5
<b>Northeast Bank</b>	<b>\$616,325</b>	<b>111.9</b>
Norway Savings Bank	\$902,400	109.3

\*as of 12/31/2008

\*\*03/31/2007 – 12/31/2008

Analysis of the above figures indicates that the LTD ratios for Northeast have been in the middle to upper range among its local competitors and have consistently been greater than 100 percent. These high LTD ratios are primarily attributable to the bank's practice of borrowing from the Federal Home Loan Bank (FHLB) as an additional source of funding for loan demand. This practice has allowed Northeast maintain its high level of lending in a period when deposits have been difficult to attract due to competition and other opportunities.

### **Flexible Lending Products or Programs**

The bank has made good use of flexible and government lending programs as a way to expand the availability of its credit products to its residential and commercial customers. For the period under review, the bank originated 125 loans totaling \$7,428,805 under the following programs.

<b>Table 11 - Government Guaranteed Loan Activity</b>				
<b>Programs</b>	<b>2007</b>		<b>2008</b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
Small Business Administration	7	720,971	2	208,919
Maine State Housing Authority	11	1,247,376	16	1,946,313
Rural Development Loans	3	351,614	7	819,793
Northeast Bank Equity and Education Program (NEED) - Federal Home Loan Bank	8	55,550	3	45,000
Maine Home Energy Loan Program (HELP)	15	162,404	15	219,541
VA	3	407,047	4	754,340
FHA			2	395,195
Green Energy Loans	-	-	29	94,742
<b>Total</b>	<b>47</b>	<b>2,944,962</b>	<b>78</b>	<b>4,483,843</b>

- *U.S. Small Business Administration (SBA)*: The SBA provides loan guarantees that enable a bank to directly lend to a small business that might not ordinarily qualify for bank financing

- *Maine State Housing Authority (MSHA)*: The MSHA assist individuals obtain and maintain decent, safe and affordable housing.
- *USDA Rural Development (RD)*: The RD helps rural individuals buy, build or rent decent housing and also help create jobs by funding the growth and creation of rural businesses and cooperatives.
- *Veterans Administration (VA)*: The VA assists service members to purchase homes through a streamlined process. The bank uses the Rural Development or Veterans Administration as the mortgage insurer, which makes it possible for individuals/families to buy a home with little or no money down.
- *Northeast Bank Equity and Education Program (NEED)*: The NEED is a partnership with the Federal Home Loan Bank's Equity Builder Program to provide below market rate funding to qualifying LMI first-time homebuyers.
- *Maine Home Energy Loan Program (HELP)*: This program is designed to help lower income homeowners reduce their energy costs by making energy saving improvements to their home
- *Green Energy Loans*: The program was established to respond to the energy needs of the bank's market by providing favorable loan rates and terms for unsecured loans and equity loans for wood pellet furnaces and home energy improvements.
- *Federal Housing Authority (FHA) Loan Program*: The program offers low fixed rate mortgage options for qualified homebuyers who meet certain income requirements.

## **Response to Complaints**

The bank has not received any CRA-related complaints since the previous examination; therefore, this criterion was not assessed.

## **COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS**

No violations of the substantive provisions of the anti-discriminatory laws and regulations were identified during the evaluation.

## **CONCLUSIONS: LENDING TEST**

Northeast has made commendable efforts to lend throughout its assessment area which are evidenced by the good penetration of the various geographic areas and populations therein. The bank shows a high level of lending within its defined assessment area, as well as a solid loan to deposit ratio. Residential and small business loans are sufficiently distributed among all types of geographies, as well as borrowers of varying incomes and businesses of different revenue sizes. Northeast has displayed a good level of responsiveness to the credit needs of its community through the use of various government programs. The bank's overall lending performance is rated "Satisfactory".

## **COMMUNITY DEVELOPMENT TEST**

According to the intermediate small bank examination procedures, the community development test measures an institution's efforts to: appropriately assess the needs in its community; engage in different types of community development<sup>4</sup> activities based on those needs and the institution's

---

<sup>4</sup> Community development means:

- (a) affordable housing (including multi-family rental housing) for low- or moderate-income individuals;
- (b) community services targeted to low- or moderate-income individuals;

capacities; and apply its community development resources strategically to meet those needs. The flexibility inherent in the community development test allows intermediate small institutions to focus on meeting the substance of community needs through these activities. Areas examined include community development lending, qualified investments, and community development services.

### **Community Development Loans**

A community development loan is a loan that has community development as its primary purpose and has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan.

The level of qualified community development loans during the evaluation period is considered adequate when compared to a similarly situated institution in the area. The bank originated 6 community development loans totaling \$3 million compared to two loans totaling \$2 million at the prior examination. These loans help provide housing, economic development and revitalization in the assessment area:

- A loan to a non-profit organization that provides home loans to lower income buyers through its Community Development Financial Institution.
- Five loans to four different entities to purchase or refinance multi-family properties located in low or moderate-income geographies. Majority of the multi-units are to low- and moderate-income renters.

### **Investment**

The bank has significantly improved the level of qualified investments and grants since the prior examination. Its investment activities consist of one equity investment and charitable donations.

A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development to support the following endeavors: 1) affordable housing; 2) community services targeting low- and moderate- income individuals; 3) activities that promote economic development by financing small farms and small businesses; and 4) activities that revitalize or stabilize low- and moderate-income geographies.

#### Qualified Investments

In conjunction with the City of Lewiston and the Northern New England Housing Investment Fund, Northeast Bank invested \$1.4 million in a proposed multi-unit elderly development in a low-income tract. This investment represents approximately 39.5% of the total project. The majority of the units will be rented to households earning 50% or less of the MFI and the remaining to households earning 60% or less of the MFI. Half of these units will be based on Section 8 rental assistance for

---

(c) activities that promote economic development by financing businesses or farms that meet the eligibility standards of the SBA Development Company or the Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or

(d) activities that revitalize or stabilize low- or moderate-income geographies, designated disaster areas, or distressed or underserved non-metropolitan middle-income geographies designated.

a period of five years beginning at initial occupancy. The bank will receive tax credits over the next ten years as a return on its investment.

### Donations

The bank made charitable grants to several community organizations through donations for programs or projects. During the period under review, the bank made a total of \$59,669 in grants, \$58,319 or 97.7 percent of which were for purposes considered to be primarily community development in nature. Some of the recipients include area chambers of commerce, Community Concepts, SCORE, Sisters of Charity Food Pantry, Oasis Health Network, Rebuilding Together L/A, Good Shepard Food Bank, Junior Achievement of Maine, and the Housing Partnership.

### **Service**

The institution's record of helping to meet the credit needs of its assessment area by analyzing both the availability and effectiveness of an institution's systems for delivering retail banking services to low and moderate-income people and areas and the extent and innovativeness of its community development services was evaluated.

### Accessibility of Branches

Northeast operates 11 full-service branches within its assessment area, two of which are located in low-income census tracts (Portland, Lewiston) and two others located in moderate-income census tracts (Augusta, Harrison). In addition, the bank has one loan production office in Auburn, Maine and another in Portsmouth, New Hampshire. The bank's branch offices are reasonably accessible to all portions of the assessment area. Hours are convenient, with evening and weekend hours available in some locations and automated teller machines (ATMs) at 9 offices. One non deposit-taking ATM is located in each of the two loan production offices.

### Availability of delivery systems

The bank offers services that meet the needs of the community, including low- and moderate-income borrowers. Standard retail products include checking accounts, savings accounts, investment accounts, investment management and trust services, commercial banking, time deposits, and other services. In addition, the bank offers free checking, express accounts and low fees for both personal and business accounts. Northeast offers a variety of alternative delivery systems that are accessible to essentially all portions of the bank's assessment area, including personal computer banking services. These services enable customers to retrieve balances, pay bills and transfer funds.

### Changes in branch locations

The bank's record of opening and closing branch offices has not adversely affected accessibility of its delivery systems, particularly to low and moderate-income geographies or individuals. Northeast Bank maintains a Branch Closing Policy. In December 2008 the bank opened a loan production office located in a middle-income tract in Portsmouth, New Hampshire.



## **Community Development Services:**

Northeast provides an adequate level of community development services throughout its assessment area. Many bank personnel are involved, often in a leadership capacity, with organizations that promote one of the four community development criteria. Bank representatives have provided financial, technical, or leadership advice for several local organizations that foster economic development, affordable housing, or social services to low or moderate-income persons or areas. Some of these include the following.

- Western Maine Economic Development Committee: the president serves as chair of this committee that helps create economic opportunity and improve the quality of life in western and central Maine through activities such as business lending, workforce development, business retention, and transportation infrastructure.
- Maine Rural Development Authority (MRDA): a commercial lender serves as a board member and treasurer of MRDA. The primary focus of MRDA's activities is in the rural areas of Maine that have not experienced the strong levels of economic development success and have experienced major economic losses.
- Androscoggin Valley Council of Governments (AVCOG): the bank's president serves on the loan committee which helps direct grants and other fund sources to area businesses. AVCOG provides assistance to communities seeking financing for housing assistance, downtown revitalization and other programs.
- Habitat for Humanity: the bank's financial services representative serves as the Treasurer and a member of the finance committee for this organization that provides adequate, family-owned housing for lower income individuals.
- Home Care for Maine: an officer serves as board member and treasurer. This state-wide organization, which is funded through the Bureau of Elder and Adult Services, helps low- or moderate-income individuals stay in their homes.

## Seminars

The bank participated in several financial education activities among which are the following:

- Money Matters Program – Lewiston Adult Education: in 2007 and 2008 bank officers hosted and taught several courses from the *Money Matters Financial Series* through Lewiston's Adult Education Program at the Lewiston High School.
- Home Energy Forum – an officer was a featured speaker at this forum which focused on the availability of the Maine State Housing Authority's energy assistance program and the bank's Green Loan Program.
- Maine State Housing – a bank personnel emceed a home ownership conference open to first time homebuyers and current home owners.

## **Underserved Geographies**

The federal banking agencies have designated distressed and underserved non-metropolitan middle-income geographies in which bank revitalization or stabilization activities will receive CRA consideration as "community development" pursuant to the revised CRA rules issued by the agencies on August 2, 2005.

"Underserved non-metropolitan middle-income geographies" must meet criteria for population size, density, and dispersion that indicate that an area's population is sufficiently small, thin, and distant from a population center such that the geography is likely to have difficulty in financing the fixed costs of essential community needs.

Northeast's assessment area includes eight middle-income geographies located in Lincoln County that are designated as underserved because of their remote rural location.

Since the previous examination, Northeast has originated 6 small business loans totaling \$450,000 in 3 of these census tracts. Additionally, a total of 7 residential loans totaling \$880,000 were determined to be located in 3 of these census tracts. The bank's performance in these distressed and underserved tracts is considered reasonable and will help in the revitalization and stabilization of these areas.

### **CONCLUSIONS: COMMUNITY DEVELOPMENT TEST**

The bank continues to improve its activities under this test. Given the limited investment opportunities and level of competition in the assessment area, Northeast's efforts to ensure that community development needs are met in the assessment area, including middle-income tracts designated as underserved, are considered reasonable. Investments and donations have improved since the prior examination while community services have increased with the increasing involvement of bank staff in various community activities. As such, this test is assigned an overall rating of "Satisfactory".

## CRA APPENDIX A

### GLOSSARY

**Aggregate lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Block numbering area (“BNA”):** A statistical subdivision of a county for grouping and numbering blocks in nonmetropolitan counties where local census statistical area committees have not established census tracts. A BNA does not cross county lines.

**Census tract:** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community development:** 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 the size eligibility standards of the Small Business Administration’s Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

**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, home equity 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 review:** Performance under the lending, investment and service tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity and responsiveness).

**Geography:** A census tract or a block numbering area delineated by the U.S. Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (“HMDA”):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary

reports of their mortgage lending activity. The reports include data such as race, gender and income of applications, amount of loan requested, and disposition of the application (for example, approved, denied, and withdrawn).

**Home mortgage loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

**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 review:** Performance under the lending, investment and service tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**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 metropolitan area/assessment area.

**Metropolitan area (“MA”):** Any primary metropolitan statistical area (“PMSA”), metropolitan statistical area (“MSA”) or consolidated metropolitan statistical area (“CMSA”) as defined by the Office of Management and Budget, with a population of 250 thousand or more, and any other area designated as such by the appropriate federal financial supervisory agency.

**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.

**Other products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**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.

**Rated area:** A rated area is a state or multistate metropolitan 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 multistate metropolitan area, the institution will receive a rating for the multistate metropolitan 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") and the Thrift Financial Reporting ("TFR") 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. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

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

**Upper-income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.