

PUBLIC DISCLOSURE

July 31, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Union Trust Company
RSSD # 563907

66 Main Street
Ellsworth, Maine 04605I

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.....	1
Scope of Examination.....	1
Description of Institution	2
Conclusions With Respect to Performance Tests.....	7
Lending Test	7
Community Development Test.....	13
CRA Appendices	
CRA Appendix A: Glossary.....	A-1

INSTITUTION RATING

INSTITUTION'S CRA RATING

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

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

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

Union Trust Company demonstrates adequate responsiveness to the credit needs of its assessment area based on the following findings.

Lending Test

- Union Trust Company originated a majority of both residential real estate (92.3 percent) and commercial (97.4 percent) loans inside its defined assessment area.
- Union's overall lending to low- and moderate-income borrowers was considered excellent.
- The bank's lending to small business by revenue is considered excellent and by loan amount is considered reasonable.
- The bank's average loan-to-deposit ratio of 106 percent is considered to be indicative of a high level of responsiveness to local credit needs.
- The bank's geographic distribution of loans reflects an excellent 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, particularly in relation to small business lending.

Community Development Test

- Union Trust Company's extension of community development loans in the assessment was deemed adequate given the opportunities available therein.
- Qualified investments consist of donations, grants, and equity investments and were considered to be at a reasonable overall level.
- Overall banking services were considered reasonable, and the bank's involvement in community development services was considered adequate.
- Lending in underserved and/or distressed middle-income geographies within the assessment areas was found to be at a good level.

SCOPE OF EXAMINATION

The CRA performance of Union Trust Company 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, investments, and services. Intermediate small institutions are not required to collect and report community development and CRA loan data, however, the CRA evaluation still considers these lending activities.

The evaluation of the bank's lending performance was based on commercial and residential loans originated between July 1, 2004 and June 30, 2006. Market information for small business (CRA) lending, residential lending, and 2005 aggregate data were obtained from the Federal Reserve System's CHAT CRA/Home Mortgage Disclosure Act (HMDA) Data Analysis Tool and were the most recent data available as of the examination date. Because Union's branch locations lie outside of any Metropolitan Statistical Areas (MSA) as defined by the U.S. Census Bureau, the bank is not required to report data for HMDA purposes. As such, examiners reviewed a sample of loans that qualify as HMDA-reportable to assess Union's residential mortgage lending. Because of its size, the bank is also not required to report CRA lending data. However, the bank does still collect the information for these loans and this was used by examiners for the purposes of this assessment.

Collectively, residential real estate and commercial lending represented 94 percent of the dollar volume of the loan portfolio as of March 31, 2006. Consumer and farm loans were not reviewed, as they represent three and two percent of the loan portfolio respectively. The analysis of the bank's net loan-to-deposit ratio incorporated seven quarters from September 30, 2004 through March 31, 2006, representing the period since the prior examination.

DESCRIPTION OF INSTITUTION

Union Trust Company (Union) is a full-service community bank located in Ellsworth, Maine. Union is the sole subsidiary of Union Bancshares Company which was granted financial holding company status on October 9, 2003. The bank serves five coastal counties including Hancock, Washington, Lincoln, Knox and Waldo. The bank operates twelve retail branches located in Bar Harbor (two), Belfast (one), Blue Hill (one), Castine (one), Ellsworth (two), Jonesport (one), Milbridge (one), Rockland (one), Stonington (one), and Waldoboro (one). An office in Camden offers trust, investment, and commercial banking services. During 2004, Union closed its Machias branch and consolidated its Cherryfield office into the Milbridge location. The Somesville office was relocated to the "Town Hill" section of Bar Harbor in 2005.

As of March 31, 2006, Union's assets totaled \$536,475,000 with total deposits of \$317,671,000 and net loans and leases of \$360,084,000. Total assets grew 5.4percent during the past year with net loans increasing 11 percent overall during the same period.

The bank offers a wide range of commercial and consumer loan products to meet the credit needs of the local community. Commercial offerings include commercial real estate mortgages, lines of credit, letters of credit, term loans, and revolving credit lines. Consumer mortgage offerings include fixed and variable rate products, home equity loans and lines of credit, construction and land loans, and mobile home loans. Consumer offerings include automobile, recreational vehicle, variable and fixed rate term loans, and overdraft protection. Union also participates in various government lending programs. These include commercial loans through the Small Business Administration

(SBA), Finance Authority of Maine (FAME), and the USDA Agricultural and Business Loan Program. The bank also participates in affordable housing programs offered through the Federal Home Loan Mortgage Corporation (Freddie Mac). Table 1 below illustrates the breakdown of the bank's loan portfolio as of March 31, 2006.

Table 1 Loan Portfolio		
Type of Loans	\$(000)	% Total
Construction & Land Development	26,505	7.0
1-4 Family		
a. First Mortgages	213,298	58.6
b. Home Equity Lines	20,055	6.0
c. Junior Liens	4,589	1.3
Multifamily	5,083	1.0
Commercial Loans		
a. Commercial Real Estate	56,608	16.0
a. Commercial & Industrial Loans	12,907	4.0
Farm and Farm Related	7,595	2.1
Consumer Loans	10,687	2.9
Obligations of States and Political Subdivisions	6,619	2.0
Other Loans	158	< 0.1
Total Gross Loans	364,104	100.0

Source: Consolidated Report of Condition and Income, 3/31/06

The examination of the bank's CRA performance takes into consideration its financial capacity, legal impediments, local economic conditions and demographics, and the market in which the institution operates. Union does business in five counties in its assessment area. The market is competitive due to the presence of several local and regional banks. Management identifies its primary competitor as Bar Harbor Bank & Trust, a \$783 million institution with 12 offices in three of the five counties in which Union operates. Other competitors include Machias Savings Bank, Bank of America, N.A., Bangor Savings Bank, Camden National Bank, Damariscotta Bank & Trust, KeyBank, N.A., First, N.A., and TD BankNorth, N.A. Management also noted considerable competition for consumer products from various credit unions serving the local area. In the five counties which comprise the bank's assessment area, Union is ranked sixth in market share for deposits as of June 30, 2006 with 8.69 percent. Camden National is first with a 19.55 percent market share, and First, N.A. is second with 19.05 percent. The market influence from these organizations is significant and serves to keep the bank's rates and services offered competitive. At this time, there are no legal or financial impediments that would impact the bank's ability to lend.

Union was last examined by the Federal Reserve Bank of Boston for compliance with the CRA on August 2, 2004 under the large bank performance standards. That examination resulted in an overall "Satisfactory" rating. As previously noted, the current examination utilized the intermediate small institution examination procedures which went into effect on September 1, 2005.

DESCRIPTION OF ASSESSMENT AREA

The Community Reinvestment Act requires a financial institution to identify an assessment area where it focuses its lending efforts. Union currently defines its assessment area as Hancock County, Knox County, the southern half of Washington County, and parts of Lincoln and Waldo Counties. This is a slight change from the 2004 examination. The bank eliminated some towns in

Washington County due to the closure of the Cherryfield and Machias branch locations. None of the bank's branches are located within a MSA. As noted above, because of this the bank is not required to report HMDA loan data.

The assessment area includes 40 census tracts, none of which are designated as low-income. Based on 2000 U.S. Census data, three census tracts are classified as moderate-income, 29 as middle-income, and eight as upper-income. All moderate-income tracts are located in Washington County.

Based on 2000 U.S. Census data, the bank's assessment area contains a population of 148,323 people. Of this total, 6.5 percent reside in moderate-income census tracts, 76.6 percent reside in middle-income census tracts and the remaining 16.9 percent reside in upper-income tracts. The population is comprised of 62,075 households. Mirroring the population distribution, 6.5 percent of households are located in moderate-income tracts, 75.7 are in middle-income tracts, and 17.8 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 36.9 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 19.5 percent, as compared to 19.8 percent for the state. Upper-income households comprise 43.6 of the total households in the assessment area, compared to 40.9 percent for the state. The Department of Housing and Urban Development (HUD) estimates the 2006 median family income for the assessment area as \$42,015 and for state non-MSA as \$40,084. Families living below the poverty level in the assessment area comprise 12 percent, which is slightly higher than the 11.5 percent for the state.

According to 2000 U.S. Census data, 78.9 percent of the assessment area's housing stock is comprised of one-unit detached homes. This is slightly higher than the State of Maine's total of 69.6 percent. The median age of homes within the assessment area, at 32 years, is slightly lower than that for the state, at 34 years.

According to 2005 Dun and Bradstreet data, there are 8,368 businesses within the assessment area. The local economy is dependent on tourism, agriculture (including commercial fishing and lobster harvesting), and manufacturing. Large area employers include: Down East Community Hospital and Maine Wild Blueberry Company, both in Machias; the Jackson Laboratory, a research facility in Bar Harbor; The Hinckley Company, a boat building and repair facility in Southwest Harbor; and International Paper in Bucksport. While these large firms have an impact on the area, the vast majority of businesses are small, with 89.3 percent recording gross revenues of \$1 million or less.

Table 2 below depicts the unemployment rates for the five counties that comprise the bank's assessment area as of June 2006 according to the Maine Department of Labor. The national and state-wide unemployment rates for the same period are also noted.

Table 2 Assessment Area Unemployment Rates (by county)	
Hancock	4.0
Knox	3.8
Lincoln	3.7
Waldo	4.8
Washington	7.3
UNITED STATES	4.6
MAINE	4.6

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

Knox and Lincoln Counties have two of the lowest unemployment rates in the State of Maine. Conversely, Washington County has an unemployment rate significantly higher than that at the state and national level. It should be noted, however, that all five of the census tracts included in the bank's assessment area in Lincoln County are designated as underserved middle-income geographies because of their remote rural location. Additionally, one of the bank's four Washington County census tracts has also been designated as a distressed and underserved middle-income geography because of high unemployment and a remote rural location.

The bank's assessment area contains 88,125 housing units, of which 54 percent are owner-occupied, 16 percent are rental units, and 30 percent are vacant. In moderate-income geographies, the level of owner-occupancy is 55 percent, while rental units and vacant units account for 12 percent and 33 percent, respectively, of all housing. The housing stock in the assessment area consists predominately of one-to-four family housing units (96.3 percent). The median housing value in the assessment area based on 2000 census data is \$98,462, 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 estimated 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 vast majority of owner-occupied housing units (93 percent) are located in middle and upper-income geographies.

As part of the CRA examination process, examiners met with a local organization that promotes community development efforts throughout the State of Maine. The contact identified the primary credit need in the area as affordable housing for low- and moderate-income individuals and families. This person felt the need for affordable two- to four-family rental housing was particularly acute. The contact stated that while local financial institutions are generally responsive to community credit needs, there is also a need for these institutions to take a more proactive leadership role in finding innovative solutions to the affordable housing problem. Please refer to Table 3 below for additional demographic information.

Table 3
Assessment Area Demographics

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level by Tract		Families by Family Income		
	#	%	#	%	#	%	#	%	
Low-income	0	0.0	0	0.0	0	0.0	6,832	16.7	
Moderate-income	3	7.5	2,761	6.7	403	14.6	7,447	18.2	
Middle-income	29	72.5	31,283	76.4	2,538	8.1	9,513	23.2	
Upper-income	8	20.0	6913	16.9	353	5.1	17,165	41.9	
Total Assessment Area	40	100.0	40,957	100.0	3,294	8.0	40,957	100.0	
	Housing Units by Tract	HOUSING TYPES BY TRACT							
		Owner-occupied			Rental		Vacant		
		#	%	%	#	%	#	%	
Low-income	0	0	0.0	0.0	0	0.0	0	0.0	
Moderate-income	5,970	3,304	6.9	55.3	712	11.9	1,954	32.7	
Middle-income	65,952	36,420	76.1	55.2	10,568	16.0	18,964	28.8	
Upper-income	16,203	8,112	17.0	50.1	2,943	18.2	5,148	31.8	
Total Assessment Area	88,125	47,836	100.0	54.3	14,223	16.1	26,066	29.6	
	Total Businesses by Tract	Businesses by Tract & Revenue Size							
				Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
		#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	0	0.0	
Moderate-income	395	4.9	346	4.8	31	5.6	18	5.5	
Middle-income	5,753	71.5	5,126	71.5	391	70.1	236	72.6	
Upper-income	1,900	23.6	1,693	23.6	136	24.4	71	21.8	
Tract not reported	0	0.0	0	0.0	0	0.0	0	0.0	
Total Assessment Area	8,048	100.0	7,165	100.0	558	100.0	325	100.0	
	Percentage of Total Businesses:			89.0		6.9		4.0	

Source: 2000 U.S. Census Data and 2005 Dun and Bradstreet

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 and Outside of Assessment Area

This criterion evaluates the concentration of loans originated by the bank in its assessment area. Union originated the majority of residential (92.3 percent) and commercial loans (97.4 percent) by number inside the assessment area. By dollar amount, 91.4 percent and 96.97 percent of residential and commercial loans were originated inside the assessment area, respectively. These figures are indicative of an excellent level of responsiveness to the credit needs of borrowers inside the assessment area. Thus, the bank's lending record for this criterion exceeds the standards for satisfactory performance.

Table 4 below illustrates the bank's level of residential and commercial lending both inside and outside its assessment area.

<u>Loan Type</u>	Inside				Outside			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Total Residential*	119	92.3	13,844	91.4	10	7.7	1,299	8.6
Total Commercial	854	97.4	53,834	96.97	23	2.6	1,748	3.1
Total Loans	973	96.7	67,678	95.6	33	3.3	3,047	4.4

* Source – sample of HMDA-reportable loans originated between 7/1/04 and 6/30/06

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

Union's distribution of residential lending within its assessment area to borrowers of different incomes is considered very good and exceeds the standards for satisfactory performance. In addition, the bank's small business lending within its assessment area to businesses of varying revenues is also considered excellent.

Residential Lending

Examiners performed an analysis of a sample of residential loans extended within the bank's assessment area among various income levels for the period under review¹. Originations were categorized by the ratio of the applicant's reported incomes to the 2004 - 2006 estimated median family incomes for the Non-MSAs within the State of Maine.

Table 5 provides the residential loan distribution based on the borrower's income in comparison to the income distribution of families in the assessment area. Union's overall lending to low- and moderate-income borrowers (22.7 percent) was well above the percentage of family households

¹ Since Union is not a HMDA reporter, a sample of 119 residential loans was taken to determine the income of the borrower and the geographic distribution of loans. The bank actually originated 1,807 residential loans totaling \$159 million during the period under review.

classified in those income categories (6.7 percent). The bank's lending level to these groups during 2005 (19.3 percent) also exceeded that of the aggregate for the same year (17.1 percent). Because of this, the bank's performance in this area is considered to be at a highly satisfactory level.

Table 5 Distribution of HMDA Loans by Borrower Income										
Median Family Income Level	Family Households	2005 Aggregate Data	2004		2005		2006		Total	
			#	%	#	%	#	%	#	%
Low	0.0	3.7	1	2.6	2	3.9	2	6.9	5	4.2
Moderate	6.7	13.4	11	29.0	8	15.4	3	10.3	22	18.5
Middle	76.4	21.8	6	15.8	11	21.1	8	27.6	25	21.0
Upper	16.9	47.3	15	39.5	26	50.0	14	48.3	55	46.2
NA	0.0	13.8	5	13.1	5	9.6	2	6.9	12	10.1
Total	100	100	38	100	52	100	29	100	119	100

Source – HMDA reportable loans originated between 7/1/04 and 6/30/06

Source – 2005 Aggregate Data - CHAT

Small Business Lending by Revenue and Loan Amount

Union'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 6 shows that, by number, 89.3 percent of commercial loans were granted to businesses with annual revenues of \$1 million or less. This figure is commensurate with the number of small businesses in the assessment area (89 percent). The bank's small business lending during 2005 (90 percent) far exceeded that of the aggregate for the same year (59.5 percent). This indicates an excellent level of lending to small businesses defined by revenue.

Table 6 Commercial Loan Originations by Gross Revenue of Business										
Gross annual revenues	Businesses with revenues \$1 million or less	2005 Aggregate Data	2004		2005		2006		Total	
			#	%	#	%	#	%	#	%
\$1 million or less	89.0	59.5	132	88.0	433	90.0	198	88.8	763	89.3
Over \$1 million	6.9	40.5	18	12.0	48	10.0	25	11.2	91	10.7
N/A	4									
Total	100	100	150	100	481	100	223	100	854	100

Source – CRA loans originated between 7/1/04 and 6/30/06

Source – 2005 Aggregate Data - CHAT

An analysis was also conducted based on loan amount. Table 7 shows that the bank's loan originations of less than \$100,000 represent 85.1 percent of total loans extended, a substantial portion of its commercial portfolio. The percentage of the bank's loans in this category for 2005 (85 percent) is only slightly below that of the 2005 aggregate (90.8 percent). These figures indicate a reasonable level of lending based on loan size.

Table 7 Commercial Loan Originations by Loan Amount									
Loan Amount	2005 Aggregate Data	2004		2005		2006		Total	
		%	#	%	#	%	#	%	#
<= \$100,000	90.8	128	85.3	409	85.0	190	85.2	727	85.1
\$100,001 - \$250,000	5.7	13	8.7	49	10.2	19	8.5	81	9.5
\$250,001- \$1 million	3.5	9	6.0	23	4.8	14	6.3	46	5.4
Total	100	150	100	481	100	223	100	854	100

Source – CRA loans originated between 7/1/04 and 6/30/06
Source – 2005 Aggregate Data - CHAT

Geographic Distribution of Loans

The bank’s geographic distribution of loans reflects an excellent level of lending performance throughout the assessment area as demonstrated below.

Residential Lending

Table 8 details the number and percentage of HMDA-reportable loans extended in each income class of geography in comparison to the percentage of owner-occupied housing units within the geography. As noted previously, according to 2000 U.S. Census data, there are no low-income geographies in the bank’s assessment area. However, Union originated 12.6 percent of its loans by number in moderate-income geographies. This is well above the 6.9 percent of units identified as owner-occupied in moderate-income tracts within the assessment area. Table 7 also compares the bank’s 2005 residential lending by census tract to the 2005 aggregate lending within the assessment area. In this category, the bank (9.6 percent) outperforms the aggregate (5.4 percent) by a significant amount. These lending levels show that Union has achieved a high level of responsiveness to mortgage lending needs throughout the assessment area.

Table 8 Geographic Distribution of HMDA Loans by Census Tract										
Census Tract Income Level	Owner- occupied Housing Units	2005 Aggregate Data	2004		2005		2006		Total	
			%	#	%	#	%	#	%	#
Moderate	6.9	5.4	4	11.0	5	9.6	6	20.7	15	12.6
Middle	76.1	79.0	30	78.0	36	69.2	22	75.9	88	74.0
Upper	17.0	15.6	4	11.0	11	21.2	1	3.4	16	13.4
Total	100	100	38	100	52	100	29	100	119	100

Source – HMDA reportable loans originated between 7/1/04 and 6/30/06
Source – 2005 Aggregate Data - CHAT

Small Business Lending

Overall, the geographic distribution of commercial loans reflects an excellent level of penetration throughout the assessment area. Table 9 shows a distribution analysis of commercial loans in applicable income categories within the assessment area. Union’s overall commercial lending within moderate-income geographies (23 percent) greatly exceeded the percentage of businesses located within these tracts (4.9 percent). The bank’s level of commercial lending within moderate-

income tracts in 2005 (22.5 percent) also far exceeds the 2005 aggregate lending level (3.8 percent) within these census tracts. These figures indicate that Union has been highly successful in reaching businesses within its assessment area.

Table 9 Geographic Distribution of Commercial Loans by Census Tract										
Census Tract Income Level	Businesses	2005 Aggregate Data	2004		2005		2006		Total	
	%	%	#	%	#	%	#	%	#	%
Moderate	4.9	3.8	32	21.3	108	22.5	57	25.6	197	23.0
Middle	71.5	65.0	105	70.0	313	65.0	147	65.9	565	66.2
Upper	23.6	25.8	13	8.7	60	12.5	19	8.5	92	10.8
NA		5.4								
Total	100	100	150	100	481	100	223	100	854	100

Source – CRA loans originated between 7/1/04 through 6/30/06

Source – 2005 Aggregate Data - CHAT

Loan-to-Deposit Ratio

The bank's average net loan-to-deposit (LTD) ratio of 106 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 credit 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 seven 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 September 30, 2004 through March 31, 2006.

The bank's net LTD ratio has fluctuated since the prior examination from a high of 113.36% as of March 31, 2006 to a low of 97.11% as of September 30, 2004. Loans increased approximately 22.7 percent from September 2004 to March 2006, while deposits grew approximately 11.5 percent during this same time period.

For comparison, the average loan-to-deposit ratios of local competitors were also determined over the same time period. Table 10 below shows these results.

Table 10 Loan-to-Deposit Ratios			
Institution	Total Assets* (000s)	Average Loan-To-Deposit Ratio**	Net Loan-To-Deposit Ratio *
Camden National Bank	\$1,197,227	99.0%	99.1%
Bangor Savings Bank	\$1,845,205	99.3%	101.3%
Union Trust Company	\$536,475	106.0%	113.4%
Machias Savings Bank	\$631,223	107.6%	109.1%
Bar Harbor Bank & Trust	\$782,949	112.9%	110.5%

* As of 3/31/06

** From 9/30/04 through 3/31/06

Analysis of the above figures indicates that the LTD ratios for Union have been in the middle to upper range among its local competitors and have consistently been greater than 100%. 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 Union to maintain its high levels of lending during the examination period.

Flexible Lending

The bank has made good use of flexible and government lending programs as a way to expand the availability of its credit products. For residential lending, Union offers two low down payment programs. One is the "Alt 97" program which allows for as little as a three percent down payment with private mortgage insurance and FHLMC's "Affordable Gold" program which allows for a down payment of as little as five percent. The bank has had little activity in these programs, however. The majority of the bank's low down payment mortgages are made as adjustable rate loans with private mortgage insurance that the bank maintains for its own portfolio. This has provided Union with a means of reaching lower-income borrowers.

The bank participates in a number of government programs meant to facilitate small business and/or small farm lending. These include the Small Business Administration (SBA), the Financing Authority of Maine (FAME), and the U.S. Department of Agriculture (USDA). Since the previous examination, Union has made 19 loans totaling \$1.2 million through the SBA 540 and 7A loan programs. While the bank has two loans totaling \$167,850 through FAME on its books, these predate the prior examination. The bank has only recently become certified to make loans through the USDA Business and Industry program and has thus far approved one loan for \$800,000 to a local agricultural business.

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

Union has made significant efforts to lend throughout its assessment area which are evidenced by the successful penetration of the various geographic areas and populations therein. The bank shows an exceptionally high level of lending within its defined assessment area, as well as a high average LTD ratio. Residential and small business loans are well-distributed among all types of geographies, as well as borrowers of varying incomes and businesses of different revenue sizes. The bank performs well in relation to the 2005 aggregate lending numbers and the demographics derived from the 2000 U.S. Census. Union has displayed a high level of responsiveness to the credit needs of its community and as such, its lending performance is rated "Outstanding" overall.

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 development² activities based on those needs and the institution's 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.

Lending

The bank's community development loans were evaluated. A community development loan is defined as a loan that has community development as its primary purpose and is located within the bank's assessment area. At the 2004 examination, it was determined that Union had not made any loans that qualified under the definition of community development. Since that time, the bank has extended one qualifying credit.³

The loan in question, totaling \$200,000, was originated in April 2005 to Milbridge Medical Center for the purpose of constructing an addition to its main building. The Medical Center, located in a moderate-income census tract in the Town of Milbridge, was started in 1965 in order to make medical care available to the residents of the Milbridge/Cherryfield area. The Center was created by a group of local doctors who continue to provide services there. The addition financed through the loan would allow for the expansion of the services offered to the community through an affiliation with Downeast Community Hospital. Additionally, the Center provides care for all local residents regardless of their ability to pay and as such, has become the primary health care provider for low-income people in the area.

² 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;
- (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;
- (d) activities that revitalize or stabilize low- or moderate-income geographies;
- (e) activities that revitalize or stabilize non-metropolitan middle income geographies; or
- (f) activities that stabilize or revitalize designated disaster areas.

³ It should be noted that another loan, for \$234,000, was made by the bank to Next Step Domestic Violence Project in November 2004 for the purpose of rehabilitating affordable long-term temporary rental housing for primarily low and moderate-income victims of domestic violence. The project was completed in partnership with the Maine State Housing Authority and the Genesis Fund, a local community development corporation. While this loan would generally fall under the noted definition of community development, it cannot be considered as such for CRA purposes because the loan would be HMDA-reportable if the bank were a HMDA reporter.

Investments

The institution's record of helping to meet the credit needs of its assessment area through its use of qualified investments⁴ that benefit the assessment area or a broader statewide or regional area that includes the institution's assessment area was considered. The following criteria were evaluated: (1) the dollar amount of qualified investments; (2) the innovativeness or complexity of qualified investments; (3) the responsiveness of qualified investments to credit and community development needs; and (4) the degree to which the qualified investments are not routinely provided by private investors.

Based upon the institution's financial ability, its capacity to invest, and the limited opportunities available within its assessment areas, Union's support of, and involvement in, community development investments is considered to be at a reasonable level. The bank's efforts, which include grants, donations, and equity investments, are detailed below.

Grants and Donations

The bank made charitable grants to numerous community organizations through sponsorships and donations for programs or projects. During the period under review, the bank made a total of \$180,135 in grants, \$29,225 or 16 percent of which were for purposes considered to be primarily community development in nature. Some of the recipients include Maine Development Foundation, Common Good Ventures, The Genesis Fund, Hancock County Habitat for Humanity, Home Counselors, Inc., Sunrise County Economic Council, and Washington/Hancock Community Agency.

After the closing of its Cherryfield branch in December 2004, the bank donated the vacant building to the town for the purpose of creating a public library. The structure, which is located in a moderate-income census tract, has a market value of approximately \$150,000.

Equity Investments

Union has made a \$100,000 equity investment in The Genesis Fund (Genesis), a local community development agency. The mission of Genesis is to support the development of affordable housing and community development across Maine through the development of innovative loan funding. Genesis works with private and government sources to create workable projects, often providing technical assistance as well as low-interest loans for predevelopment, land acquisition and improvement, construction and rehabilitation, and similar purposes. Since the organization's creation in 1992, Genesis has facilitated more than 131 projects and created or improved more than 1028 units of affordable housing in Maine in partnership. Genesis is also a Community Development Financial Institution certified under the U.S. Department of the Treasury's Community Development Financial Institutions Fund.

Coastal Ventures II, LLC (CV-II) is a venture capital fund organized by CEI Ventures, Inc. (CEI), a nonprofit community development corporation headquartered in Wiscasset, Maine. CEI strives to develop opportunities for Maine residents with low incomes who need additional resources to reach an adequate and equitable standard of living, learning and working, in harmony with the

⁴ A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as community development as its primary purpose..

natural environment. CV-II makes equity investments in socially and/or economically responsible small businesses. While investments are made throughout the country, the businesses helped by CV-II are primarily located in the State of Maine, which includes the bank's assessment area. The bank has committed to invest \$100,000 in CV-II, \$75,000 of which has thus far been extended.

Services

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

Union operates 12 full-service branches within its assessment area, two of which are located in moderate-income census tracts (Jonesport, Milbridge) and one of which is located in an underserved or distressed middle-income census tract (Waldoboro). In addition, the bank's Camden office provides trust, investment, and commercial banking services. 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 24-hour automated teller machines (ATMs) at 11 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, Union offers a variety of alternative delivery systems that are accessible to essentially all portions of the bank's assessment area, including telephone and personal computer banking services. These services enable customers to retrieve balances and transfer funds. The bank also maintains 24-hour ATMs at 11 of 12 offices. A Bank-by-Mail option is offered to customers with complimentary self-addressed envelopes provided at no charge.

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 moderate-income geographies or low- and moderate-income individuals. During 2004, Union closed a branch located in a moderate-income census tract (Cherryfield), but consolidated the accounts into a nearby office also located in a moderate-income tract (Milbridge). A branch located in Machias was also closed during 2004 due to low volume. Union does maintain a Branch Closing Policy.

Community Development Services

Union provides an adequate level of community development services throughout its assessment area. The bank provides third-party servicing of nine loans totaling \$347,496 for Habitat for Humanity, an organization which promotes home ownership for low- and moderate-income individuals.

In addition, 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. These include the following.

- Eastern Maine Development Corporation (EMDC): a bank vice president serves as member of the finance committee of this organization. EMDC is a nonprofit small business development corporation dedicated to helping small businesses in Eastern Maine.
- Service Core of Retired Executives (SCORE): a bank vice president serves as counselor for SCORE, which advises clients starting new businesses through workshops and counseling.
- Small Business Association (SBA): a bank vice president serves as an advisor for the SBA.
- Washington Hancock Community Agency: one of the bank's branch managers serves as a loan committee member and community advisor to the finance committee for this local non-profit organization which provides many community services including transportation, child care, domestic violence intervention, small business training, homeowner education and fuel and rental assistance.
- Mount Desert Community Trust: a bank president serves as an advisor for this organization that deals with affordable housing issues on Mount Desert Island.
- Habitat for Humanity: the bank's internal auditor is a member of the finance committee for this organization.
- Loaves and Fishes Food Pantry: a Vice President serves as a board member for this organization providing emergency food services for the Hancock County area.

Underserved and Distressed Geographies

The federal banking agencies have designated distressed and underserved non-metropolitan middle-income geographies in which bank revitalization or stabilization activities⁵ will receive CRA consideration as "community development" pursuant to the revised CRA rules issued by the agencies on August 2, 2005.

⁵ "Distressed non-metropolitan middle-income" geographies are those located in counties that meet one or more triggers that generally reflect the "distress criteria" used by the Community Development Financial Institutions Fund. The distress triggers are: (1) an unemployment rate of at least 1.5 times the national average; (2) a poverty rate of 20 percent or more; (3) a population loss of 10 percent or more between the previous and most recent decennial census, or a net migration loss of 5 percent or more over the five-year period preceding the most recent census.

"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.

As noted above, Union's assessment area includes five middle-income geographies located in Lincoln County that are designated as underserved because of their remote rural location. One middle-income tract in Washington County has been designated as underserved because of its remote rural location and distressed because of its high unemployment rate.

Since the previous examination, Union has originated 56 small business loans totaling \$4.4 million in four of these census tracts. Additionally, from the sample of residential mortgages reviewed, a total of six loans totaling \$494,250 were determined to be located in four of these census tracts. These loans are not considered under the community development test since they would be reportable HMDA and small business loans. The bank's performance, however, in penetrating these distressed and underserved tracts is considered excellent and will help in the revitalization and stabilization of these areas.

CONCLUSIONS: COMMUNITY DEVELOPMENT TEST

Given the limited investment opportunities and level of competition in the assessment area, Union's efforts to ensure that community development needs are met throughout the assessment area, including middle-income tracts designated as underserved and/or distressed, are considered reasonable. 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 120 percent or more of the area median income, or a median family income that is 120 percent or more, in the case of a geography.

