

PUBLIC DISCLOSURE

JANUARY 20, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

EAST BOSTON SAVINGS BANK

33510

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BOSTON, MASSACHUSETTS 02128**

**Division of Banks
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Boston, MA 02110**

**Federal Deposit Insurance Corporation
15 Braintree Hill Office Park
Braintree, MA 02184**

NOTE: 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 Division of Banks or the Federal Deposit Insurance Corporation concerning the safety and soundness of this financial institution.

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GENERAL INFORMATION

The Community Reinvestment Act (“CRA”) requires the Massachusetts Division of Banks (“Division”) and the Federal Deposit Insurance Corporation (“FDIC”) to use their authority when examining financial institutions subject to their supervision, to assess the institution's record of meeting the needs of its entire assessment area, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agencies must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

This document is an evaluation of the CRA performance of **EAST BOSTON SAVINGS BANK (or the “Bank”)** prepared by the Division and the FDIC, the institution's supervisory agencies, as of **January 20, 2009**. The agencies evaluate performance in the assessment area(s), as they are defined by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The Division and FDIC rate the CRA performance of an institution consistent with the provisions set forth in 209 CMR 46.00 and Part 345 of the FDIC's Rules and Regulations.

INSTITUTION'S CRA RATING:

This institution is rated “Satisfactory” by the FDIC
This institution is rated “High Satisfactory” by the Division.

Please note that the FDIC's rating matrix does not provide for a “High Satisfactory” rating.

LENDING TEST

The institution's Lending Test performance is rated “High Satisfactory.”

- Overall, the Bank's home mortgage and small business lending activity reflects good responsiveness to assessment area credit needs considering the size of the institution, loan portfolio composition, and high level of competition within its designated assessment area.
- An adequate percentage of home mortgage and small business loans were extended within the assessment area.
- The geographic distribution of the Bank's home mortgage and small business loans reflects good dispersion throughout the assessment area when compared to assessment area demographics and aggregate lending performance.
- The distribution of the Bank's home mortgage and small business loans reflects excellent penetration among retail customers of different income levels and businesses of varying sizes. This distribution demonstrates the Bank's strong commitment to, and success in, extending credit to borrowers of all income levels, especially those of low- and moderate-income, and to small businesses.

- The Bank made a low level of community development loans within its assessment area given its asset size and financial resources. While East Boston Savings Bank originated several loans that increased the supply of affordable housing units, a closer review of these credits revealed that most were outside of the Bank's assessment area and that affordable housing was not the primary purpose of the respective loans.
- The Bank makes extensive use of innovative and flexible lending programs. Several of the Bank's loan programs are specifically tailored to assist low- and moderate-income individuals attain homeownership by offering flexible underwriting guidelines. The Bank also offers an innovative product to help individuals establish or repair their credit scores.

INVESTMENT TEST

The institution's Investment Test performance is rated "Satisfactory."

- The Bank has an adequate level of qualified equity investments. The Bank is currently holding just over \$3 million in a qualified equity investment that is designed to benefit the Commonwealth of Massachusetts, which includes the Bank's assessment area. The purpose of this particular investment is to increase the availability of affordable housing. The qualified investment represents 1 percent of the Bank's total investment portfolio.
- The Bank made a significant level of qualified charitable donations to help address a wide variety of community development needs within the designated assessment area.
- The institution rarely uses innovative or complex investments.

SERVICE TEST

The institution's Service Test performance is rated "Outstanding."

- The Bank's delivery systems are readily accessible to all portions of the assessment area.
- Changes in branch locations have improved the accessibility of its delivery systems, particularly in a moderate-income area, due to the new branch opened in Everett, Massachusetts.
- Overall, the Bank's services and business hours do not vary in a way that would inconvenience any portion of the assessment area.

- The institution is a leader in providing community development services. The Bank helped develop and participated in numerous educational seminars targeting low- and moderate-income borrowers and first-time homebuyers. The Bank's officers and staff members also helped address community needs through their involvement in various community organizations.

LENDING, INVESTMENT, AND SERVICE TEST TABLE

PERFORMANCE TESTS East Boston Savings Bank			
Performance Levels	Lending Test*	Investment Test	Service Test
Outstanding			X
High Satisfactory	X		
Satisfactory**		X	
Needs to Improve			
Substantial Non-Compliance			

*Note: The Lending Test is weighed more heavily than the Service and Investment Tests when arriving at an overall rating.

**Note: FDIC rules and regulations stipulate use of a high satisfactory and low satisfactory rating for the three tests. For purposes of this jointly issued public evaluation, the term "satisfactory" will be used in lieu of the "low satisfactory" rating for the lending, investment, and service test ratings

PERFORMANCE CONTEXT

DESCRIPTION OF INSTITUTION

East Boston Savings Bank is a Massachusetts state-chartered, stock savings bank established in 1848 and a subsidiary of Meridian Interstate Bancorp, Inc., a bank holding company. The Bank's headquarters are located at 10 Meridian Street, East Boston, Massachusetts, with corporate offices located at 67 Prospect Street in Peabody, Massachusetts. Both locations include retail branches, and there are 10 additional full service branches, with locations as follows: Saugus (2), East Boston, Everett, Lynn, Melrose, Peabody, Revere, Wakefield, and Winthrop. The Everett, Lynn, and Wakefield branches are all new since the Bank's previous CRA Evaluations conducted as of November 1, 2005, by the FDIC and the Division. East Boston Savings Bank also operates a Loan Production Office (LPO) in Lynnfield, Massachusetts, and two stand-alone automated teller machines (ATMs) in East Boston and Winthrop.

The Bank's total assets are \$1.03 billion as of September 30, 2008. Total assets have increased 29.0 percent since June 30, 2005, with loan growth being the primary contributing factor. Loans total \$667.7 million as of September 30, 2008. Table 1 displays the breakdown of the Bank's loan portfolio by loan type.

Table 1 – Loan Portfolio Distribution as of September 30, 2008		
Loan Type	Dollar Amount \$(000s)	Percent of Total Loans
Construction and Land Development	99,128	14.8
1-4 Family Residential	298,598	44.7
Multi-Family (5 or more) Residential	31,407	4.7
Commercial	223,867	33.5
Agricultural	0	0.0
Total Real Estate Loans	653,000	97.7
Commercial and Industrial	14,355	2.1
Consumer	163	0.0*
Other	1,230	0.2
Less unearned income on loans	(1,021)	--
Total Loans	667,727	100.0

Source: Bank Call Report Data

*less than one-tenth of a percent

As shown in Table 1, the Bank is primarily a real estate lender (97.7 percent of total loans). The largest portion of the loan portfolio consists of loans secured by 1-4 family residential properties (44.7 percent), and commercial real estate is the second largest share of the loan portfolio (33.5 percent).

The FDIC and the Division each assigned East Boston Savings Bank a CRA rating of "Outstanding" at their most recent CRA evaluations, conducted as of November 1, 2005. There are no apparent financial or legal impediments that would limit the Bank's ability to help meet the credit needs of its assessment area.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires financial institutions to define specific assessment area(s) within which they will concentrate their lending efforts. The Division and the FDIC evaluate an institution's CRA performance within one or more defined assessment area(s). Assessment areas are expected to consist of Metropolitan Statistical Areas (MSAs), Metropolitan Divisions (MDs), or contiguous political subdivisions such as counties, cities, towns, or census tracts. The Bank's assessment area, as currently defined, meets the technical requirements of the regulation; it is made up of whole geographies and does not arbitrarily exclude low- or moderate-income areas.

East Boston Savings Bank's current assessment area includes East Boston, Everett, Lynn, Lynnfield, Melrose, Peabody, Revere, Saugus, Wakefield, and Winthrop, all of which are located in Massachusetts. East Boston, Revere, and Winthrop are in Suffolk County and are part of the Boston-Quincy, MA MD #14484; Everett, Melrose, and Wakefield are in Middlesex County and are part of the Cambridge-Newton-Framingham, MA MD #15764; and Lynn, Lynnfield, Peabody, and Saugus are in Essex County and are part of the Peabody, MA MD #37764. All of these communities are part of the larger Boston-Cambridge-Quincy, MA-NH MSA / Core Based Statistical Area #14460.

The assessment area contains 77 census tracts (geographies), of which 6 are low-, 35 are moderate-, 32 are middle-, and 4 are upper-income. The 6 low-income census tracts are located in East Boston (2) and Lynn (4). The 35 moderate-income census tracts are located in East Boston (9), Revere (6), Everett (6), Lynn (13), and Peabody.

Population

According to 2000 United States (U.S.) Census data, the population of the assessment area is 368,773, which represents 5.8 percent of the population of Massachusetts. Households total 143,959, of which 31.0 percent are low-income; 17.9 percent are moderate-income; 19.1 percent are middle-income; and 32.0 percent are upper-income. A sub-set of low-income households, those with income below the poverty level, constitute 11.6 percent of total households.

Providing further insight into the demographic composition of the assessment area population is the number of families at each income level. Based on 2000 U.S. Census data, there are 93,217 families in the assessment area, of which 26.2 percent are low-income; 20.5 percent are moderate-income; 23.6 percent are middle-income; and 29.7 percent are upper-income. Additionally, 8.1 percent of total families have incomes below the poverty level. Of all families in the assessment area, 4.9 percent reside in the low-income census tracts, 41.4 percent reside in moderate-income census tracts, 46.2 percent reside in middle-income census tracts, and 7.5 percent reside in upper-income tracts.

Income

Based on the 2000 U.S. Census, the median family income (MFI) for the assessment area was \$46,830. However, the Department of Housing and Urban Development (HUD) publishes annual estimates of the MFI for metropolitan and non-metropolitan areas that are adjusted for inflation and other economic events. The annual HUD-adjusted MFIs for the metropolitan areas that include portions of the Bank's assessment area are shown in the Table 2, below. The analysis of the Bank's residential lending by borrower income is based on these figures.

Table 2 - Median Family Income Data			
	2006 HUD-adjusted Median Family Income	2007 HUD-adjusted Median Family Income	2008 HUD-adjusted Median Family Income
<i>Boston-Quincy, MA MD #14484</i>	\$77,700	\$76,900	\$79,500
<i>Cambridge-Newton-Framingham, MA MD #15764</i>	\$90,900	\$88,900	\$93,000
<i>Peabody, MA MD* #37764</i>	\$78,200	\$77,200	\$78,800
<i>Source: 2000 U.S. Census Data</i>			

**Formerly the Essex County, MA MD #21604*

Housing

The assessment area contains 148,349 housing units, of which 53.4 percent are owner-occupied, 43.7 percent are occupied rentals, and 2.9 percent are vacant. The median age of housing stock is 49 years; the median housing value, according to 2000 U.S. Census data, is \$207,437; and the median monthly gross rent is \$685.

More recent housing data obtained from *The Warren Group* revealed that the median sales price for single family homes in each community in the assessment area reached an all-time high in 2005. The data further show that the median sales prices have experienced an overall declining trend since 2005. The annual median sales prices for single family homes from 2005 through 2008 for the communities in the assessment area are shown in the Table 3, below.

Table 3 - Median Single Family Home Prices				
Community	2005	2006	2007	2008
East Boston	330,000	327,500	292,500	215,000
Everett	350,000	345,000	305,000	253,000
Lynn	290,000	283,000	259,000	206,000
Lynnfield	562,500	520,000	549,500	498,000
Melrose	430,000	420,900	409,700	401,500
Peabody	385,200	360,000	350,000	319,000
Revere	340,000	337,000	300,000	242,500
Saugus	380,000	350,000	335,500	300,000
Wakefield	430,000	400,000	395,000	378,000
Winthrop	380,000	362,500	339,950	330,000
<i>Source: The Warren Group</i>				

Based on the information shown in Table 3, the largest drop in median sales price from 2005 to 2008, on a percentage basis, was in East Boston (34.8 percent), followed by Lynn (29.0 percent), Revere (28.7 percent), and Everett (27.7 percent).

Unemployment

The Massachusetts unemployment rate was 4.8 percent for 2006 and 4.5 percent for 2007, and has shown an increasing trend in each quarter of 2008. Data available for individual counties show that the unemployment rate in the fourth quarter of 2007 was 4.1 percent in Essex County, 3.2 percent in Middlesex County, and 4.0 percent in Suffolk County. Data for the first three quarters of 2008 show that the rates increased by more than 1 percent in each of the three counties.

Business Demographics

According to data obtained from *Dun & Bradstreet* for 2007, there are 21,619 businesses in the assessment area. When analyzed by census tract income level, only 6.3 percent of these businesses are in low-income census tracts and 35.2 percent are in moderate-income census tracts. When analyzed by size of business, 68.9 percent of all businesses had gross annual revenues (GARs) of \$1 million or less; 5.4 percent had GARs of greater than \$1 million; and the remaining 25.7 percent did not report GARs.

Community Contact

Two community contacts were conducted recently with organizations that serve portions of the Bank's assessment area. One of the individuals interviewed indicated that the current economic conditions have made the future uncertain, but the decline in home values has created new opportunities for first time homebuyers. The contact stated that affordable rental housing is a need, particularly in areas with large immigrant populations. The contact mentioned several other specific needs in the community that financial institutions could provide assistance with, including: (1) foreclosure prevention counseling; (2) more financing options for local non-profit organizations; (3) serving on boards of local community groups; and (4) promoting banking services for underserved immigrants. East Boston Savings Bank made efforts to help address some of these issues, and details are provided throughout this evaluation.

SCOPE OF EVALUATION

This evaluation was conducted jointly by the Division and FDIC. The Bank is an Intermediate Small Institution for CRA evaluation purposes, but they have elected to be evaluated under Large Bank CRA evaluation procedures. These procedures include three performance tests: the Lending, Investment, and Service Tests. The data and applicable timeframes utilized for the three tests are discussed below.

Through a review of the Bank's loan portfolio composition and discussions with management, it was noted that the Bank's primary lending focus is home mortgage lending. However, the Bank is also an active commercial lender. The Bank did not originate any small farm loans, and consumer loans represent a very small portion of the Bank's loan portfolio. Therefore, neither was considered in the analyses. Based on the Bank's lending activity, the focus of this evaluation is home mortgage and commercial lending activities, with more weight given to home mortgage lending.

The Lending Test includes analyses of the Bank's home mortgage and small business lending data for full years 2006 and 2007 and for the first three quarters of 2008. Information concerning home mortgage lending was derived from the Loan Application Registers (LARs) maintained by the Bank pursuant to the Home Mortgage Disclosure Act (HMDA). The LARs contain data about home purchase and home improvement loans, including refinancings, of one-to-four family and multi-family (five or more units) properties. Information concerning small business lending was derived from CRA small business loan registers the Bank maintains and reports at their option.¹ The registers contain information on originated commercial real estate and commercial and industrial loans with original balances of \$1 million or less.

Home mortgage lending data for 2007 are presented in the Geographic Distribution and Lending to Borrowers of Different Incomes and Businesses of Different Sizes tables. The Bank's lending performance is based primarily on 2007 data, as this is the most recent year for which aggregate HMDA lending data is available. The aggregate lending data is used for comparison purposes within the evaluation. It includes lending information from all HMDA reporting lenders that originated loans in the Bank's assessment area. Home mortgage lending data for 2006 and year-to-date (YTD) 2008 is referenced in the narrative to illustrate trends in the Bank's lending data.

Small business lending data for 2007 is presented in the Geographic Distribution and Lending to Borrowers of Different Incomes and Businesses of Different Sizes tables. Again, the Bank's performance is based primarily on 2007 data, as this is the most recent year for which aggregate small business lending data is available. Although the Bank is not required to report their small business lending data, comparisons are made to the aggregate market activity since the Bank elected to report the information. Small business lending data for 2006 and year-to-date (YTD) 2008 is referenced in the narrative to illustrate trends in the Bank's lending data.

¹ The Bank is not subject to formal CRA data reporting given its asset size, but the Bank has elected to maintain and report the data to preserve the option to be examined as a large bank for CRA.

The Investment Test generally includes analyses of qualified investments the Bank made from November 2, 2005, through January 20, 2009, as well as investments currently held by the Bank that were made prior to November 2, 2005.

The Service Test includes analyses of the Bank's retail and community development services the Bank offered from November 2, 2005, through January 20, 2009.

Demographic information is from the 2000 U.S. Census unless otherwise noted. Financial data was derived from the September 30, 2008 Report of Condition and Income (Call Reports).

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

The institution's Lending Test performance is rated an overall "High Satisfactory." The institution's lending efforts are rated under the following performance criteria: Lending Activity, Geographic Distribution, Borrower Characteristics, Community Development Lending, and Innovative or Flexible Lending Practices. The following information details the data compiled and reviewed, as well as conclusions on the Bank's performance.

I. Lending Activity

East Boston Savings Bank's lending activity reflects good responsiveness to the credit needs of the assessment area, especially considering the size of the institution, loan portfolio composition, and the significant level of competition within the assessment area. The *Lending Activity* performance factor considers the institution's loan-to-deposit (LTD) ratio and assessment area concentration as discussed below.

Loan-to-Deposit Ratio

The Bank's LTD ratio is reasonable, considering the size of the institution, the financial condition of the Bank, and assessment area credit needs.

East Boston Savings Bank's average net LTD over the 12 quarters since the prior FDIC CRA evaluation is 72.7 percent. The Bank's quarterly LTD ratio fluctuated over the period hitting a low of 67.5 percent as of December 31, 2007, and a high of 80.5 percent as of September 30, 2008. When compared to three similarly situated institutions, both in terms of loan portfolio composition and total assets, the Bank's average net LTD of 72.7 percent ranked third out of all four financial institutions.

Lending Volume

The Bank's overall volume of home mortgage loans increased over the time period reviewed (232 total loans in 2006; 272 total loans in 2007; 365 total loans in YTD 2008). It is noted; however, that total loan volume in 2006 was the lowest it had been in several years. As noted under *Description of the Assessment Area*, median home sales prices began to decline in 2006, indicating an overall decline in home values. This most likely contributed to the decrease in refinance and second mortgage activity, as existing homeowners had less equity against which to borrow. It is also likely that home purchase activity was negatively impacted by the higher interest rate environment. The Bank's small business lending activity has been relatively low over the period reviewed, but increased from 41 loans in 2006 to 48 loans in 2007.

Assessment Area Concentration

Overall, an adequate percentage of home mortgage and small business loans were made inside the Bank's assessment area. The two product lines are discussed separately below.

Home Mortgage Lending:

Table 4 illustrates the institution's record of home mortgage lending inside and outside the assessment area in 2006, 2007, and YTD 2008 (through September 30). Overall, the institution extended a majority of loans by number inside the assessment area. Table 4 also shows that less than a majority of the *dollar amount* of home mortgage loans were inside the assessment area over the entire period (46.7 percent). However, more emphasis is placed on the percentage of loans by number since it has a more direct correlation to the number of borrowers served.

Table 4 - Distribution of Home Mortgage Loans Inside and Outside of the Assessment Area										
Year and Loan Purpose	Number of Loans					Dollars in Loans (000)				
	Inside		Outside		Total #	Inside		Outside		Total \$
	#	%	#	%		\$	%	\$	%	
2006										
Purchase	49	54.4	41	45.6	90	12,715	46.1	14,867	53.9	27,582
Home Improvement	24	63.2	14	36.8	38	4,200	49.5	4,281	50.5	8,481
Refinance	72	69.2	32	30.8	104	15,915	56.3	12,370	43.7	28,285
Total	145	62.5	87	37.5	232	32,830	51.0	31,518	49.0	64,348
2007										
Purchase	55	49.5	56	50.5	111	15,792	47.3	17,568	52.7	33,360
Home Improvement	27	67.5	13	32.5	40	5,780	53.7	4,988	46.3	10,768
Refinance	83	68.6	38	31.4	121	20,377	62.7	12,123	37.3	32,500
Total	165	60.7	107	39.3	272	41,949	54.7	34,679	45.3	76,628
2008 (YTD)										
Purchase	54	44.6	67	55.4	121	18,237	31.4	39,862	68.6	58,099
Home Improvement	23	62.2	14	37.8	37	4,009	40.4	3,947	49.6	7,956
Refinance	118	57.0	89	43.0	207	25,620	46.2	29,894	53.8	55,514
Total	195	53.4	170	46.6	365	47,866	39.4	73,703	60.6	121,569
Grand Total	505	58.1	364	41.9	869	122,645	46.7	139,900	53.3	262,545

Source: 2006, 2007, YTD 2008 HMDA LARs

Table 4 also shows the composition of loans inside and outside the assessment area by purpose. As shown, the percentage of home purchase loans inside the assessment area has consistently been the lowest of all three purposes (54.4 percent, 49.5 percent, and 44.6 percent in 2006, 2007, and YTD 2008, respectively). There are various factors that may be impacting the home purchase market inside the assessment area, such as competition and limited home purchase opportunities.

While a majority of home mortgage loans were inside the assessment area, the distribution is affected by certain factors. For example, the Bank accepts mortgage applications online, and applications are accepted for properties anywhere in Massachusetts or New Hampshire. This practice most likely increases the number of loans originated outside their assessment area. In addition, there is a considerable amount of competition in the assessment area. Market share reports for 2006 show that 418 lenders originated or purchased home mortgage loans inside the Bank's assessment area. Out of all 418 lenders, East Boston Savings Bank ranked 40th. Market share reports for 2007 show that 360 lenders originated or purchased home mortgage loans inside the Bank's assessment area, and East Boston Savings Bank ranked 22nd.

The Bank's ability to increase both the number of loans and dollar amount in each respective year is considered good.

Small Business Lending:

Table 5 illustrates the institution's record of small business lending inside and outside the assessment area in 2006, 2007, and YTD 2008. It is noted that less than a majority of loans were originated inside the assessment area in 2007 (45.8 percent), but over the entire period reviewed, 53.1 percent of all small business loans were inside the assessment area. Table 5 also shows that less than a majority of loans by dollar amount were made inside the assessment area over the entire period (42.3 percent). As stated previously, more emphasis is placed on the percentage of loans by number since it has a more direct correlation to the number of borrowers served.

Table 5 - Distribution of Small Business Loans Inside and Outside the Assessment Area										
Year	Number of Loans					Dollars in Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$	%	\$	%	\$
2006	24	58.5	17	41.5	41	3,955	41.6	5,560	58.4	9,515
2007	22	45.8	26	54.2	48	4,645	39.5	7,117	60.5	11,762
YTD 2008	23	56.1	18	43.9	41	4,952	45.9	5,843	54.1	10,795
Total	69	53.1	61	46.9	130	13,552	42.3	18,520	57.7	32,072

Source: 2006, 2007, YTD 2008 Small Business Loan Registers

Aggregate small business data are only available for whole counties; therefore, the market share reports for the Bank's assessment area include all loans made in Suffolk, Middlesex, and Essex Counties in total. These market share reports show that East Boston Savings Bank ranked 47th out of 129 lenders in 2006 and 51st out of 126 lenders in 2007.

II. Geographic Distribution

Overall, the geographic distribution of home mortgage and small business loans reflects good dispersion throughout the assessment area.

Home Mortgage Lending

The geographic distribution of the Bank's home mortgage lending reflects good dispersion throughout the assessment area. As shown in Table 6 below, East Boston Savings Bank made 2.4 percent of all home mortgage loans by number in low-income census tracts in 2007. This percentage is lower than the aggregate market's 3.0 percent, but higher than the percentage of total assessment area owner-occupied housing units that are in the low-income tracts (1.8 percent). In the moderate-income census tracts, the Bank's 40.0 percent is better than the aggregate market's 37.3 percent and the percentage of owner-occupied units that are in the moderate-income census tracts (31.5 percent).

Census Tract Income Level	% of Owner-Occupied Housing Units	2007 Aggregate Lending Data		2007 Bank Data			
		% of #	% of \$	#	% of #	\$ (000)	% of \$
Low	1.8	3.0	2.9	4	2.4	1,082	2.6
Moderate	31.5	37.3	35.7	66	40.0	15,433	36.8
Middle	56.3	51.2	50.9	80	48.5	20,498	48.8
Upper	10.4	8.5	10.5	15	9.1	4,936	11.8
Total	100.0	100.0	100.0	165	100.0	41,949	100.0

Source: 2000 U.S. Census, 2007 Aggregate HMDA Data, 2007 Aggregate HMDA LARs

While not shown in the table above, the Bank's performance was slightly better in 2006, with 3.4 percent of all loans made in low-income tracts, compared to 3.6 percent by the aggregate market, and 50.3 percent in moderate-income tracts, compared to 42.0 percent by the aggregate market. In YTD 2008, the Bank's percentage in low-income tracts increased to 5.1 percent, but the percentage in moderate-income tracts decreased to 40.5 percent.

As stated previously, East Boston Savings Bank ranked 40th in the market for home mortgage lending in 2006 and 22nd in 2007. However, market share reports also show that in 2006, the Bank ranked 23rd in low-income census tracts and 33rd in moderate-income census tracts. In 2007, the Bank ranked 14th in low-income census tracts and 19th in moderate-income census tracts. These rankings provide support to the assessment that the Bank's performance is good under this criterion.

The Bank's home mortgage loans were also analyzed by purpose and census tract income level. In 2007, the percentage of loans in low-income census tracts was low for each purpose, but there was some variation in the percentages in moderate-income census tracts. Specifically, the percentage of home purchase loans in moderate-income

census tracts (21.8 percent) was much lower than the percentage of home improvement and refinance loans made in those tracts (48.2 percent and 49.4 percent, respectively). In 2006, all 5 loans in low-income census tracts were refinances, but the percentages of loans for each purpose in moderate-income tracts were more similar; 50.0 percent of home purchase loans, 58.3 percent of home improvement loans; and 48.6 percent of refinance loans. The data for YTD 2008 did not show much variation by purpose, and overall, there are no particular trends in the analysis by purpose that impact the assessment of the Bank's performance under this criterion.

Small Business Lending:

The geographic distribution of the Bank's small business lending reflects good penetration throughout the assessment area. As shown in Table 7 below, East Boston Savings Bank made 4.5 percent of all small business loans (by number) in low-income census tracts in 2007. While this percentage represents just one loan and is lower than the percent of total businesses in the low-income census tracts (6.3 percent), it is identical to the aggregate market percentage. In the moderate-income census tracts, the Bank's 27.3 percent is lower than the aggregate market's 32.2 percent and the percentage of businesses in the moderate-income census tracts (35.2 percent), but is still considered reasonable.

Table 7 - Distribution of Small Business Loans by Income Category of Census Tract							
Census Tract Income Level	% Total Businesses	2007 Aggregate Lending Data		2007 Bank Data			
	%	% of #	% of \$	#	% of #	\$ (000)	% of \$
Low	6.3	4.5	6.2	1	4.5	700	15.1
Moderate	35.2	32.2	28.5	6	27.3	1,151	24.8
Middle	50.3	52.1	54.9	13	59.1	2,462	53.0
Upper	8.2	11.2	10.4	2	9.1	332	7.1
Total	100.0	100.0	100.0	22	100.0	4,645	100.0

Source: Dun & Bradstreet, 2007 Small Business Loan Register, 2007 Aggregate Data at County Level

While not shown in the table above, the geographic distribution of the Bank's small business loans was better in 2006, with 8.3 percent of all loans made in low-income tracts, compared to 4.3 percent by the aggregate market, and 66.7 percent in moderate-income tracts, compared to 32.4 percent by the aggregate market. In YTD 2008, the Bank's percentage in low-income tracts increased to 8.7 percent, and the percentage in moderate-income tracts was 34.8 percent.

III. Borrower Characteristics

Overall, the distribution of borrowers reflects, given the product lines offered by the institution, excellent penetration among retail customers of different income levels and business customers of different sizes.

Home Mortgage Lending:

As shown in Table 8 below, East Boston Savings Bank made 10.9 percent of all home mortgage loans (by number) to low-income borrowers in 2007. This percentage is more than double the aggregate market's 4.0 percent, but is lower than the percentage of total assessment area families that are low-income (26.2 percent). However, it is not expected that the Bank would match the percentage of low-income families, as a large portion of those families would not qualify for home mortgage loans, especially considering that 8.1 percent of families have incomes below the poverty level. In the moderate-income census tracts, the Bank's 26.7 percent is also better than the aggregate lending performance of 18.3 percent and the percentage of moderate-income families (20.5 percent).

Table 8 - Distribution of Home Mortgage Loans by Borrower Income Level							
Borrower Income Level	% of Total Families	2007 Aggregate Lending Data		2007 Bank Data			
		% of #	% of \$	#	% of #	\$ (000)	% of \$
Low	26.2	4.0	2.2	18	10.9	2,111	5.0
Moderate	20.5	18.3	14.6	44	26.7	9,307	22.2
Middle	23.6	29.4	28.9	47	28.5	13,193	31.5
Upper	29.7	31.0	35.2	46	27.8	13,539	32.2
Income Not Reported	0.0	17.3	19.1	10	6.1	3,799	9.1
Total	100.0	100.0	100.0	165	100.0	41,949	100.0

Source: 2000 U.S. Census, 2007 Aggregate HMDA Data, 2007 Aggregate HMDA LARs

While not shown in the table above, the distribution of the Bank's home mortgage loans by borrower income was even better in 2006, with 13.8 percent of all loans made to low-income borrowers, compared to 4.0 percent by the aggregate market, and 32.4 percent to moderate-income borrowers, compared to 15.4 percent by the aggregate market. In YTD 2008, the Bank's percentage to low-income borrowers decreased to 7.2 percent, and the percentage to moderate-income borrowers decreased to 22.6 percent.

Market share reports for 2006 revealed that the Bank ranked 9th in lending to low-income borrowers and 16th in lending to moderate-income borrowers. In 2007, East Boston Savings Bank ranked 8th in lending to low-income borrowers and 13th in lending to moderate-income borrowers. These rankings provide support to the assessment that the Bank's performance is excellent under this criterion.

The Bank's home mortgage loans were also analyzed by purpose and borrower income level. In 2007, there was some variation in the percentages by purpose, particularly in the low-income category. Specifically, 7.3 percent of home purchase, 18.5 percent of home improvement, and 10.8 percent of refinance loans were made to low-income applicants, and 20.0 percent of home purchase, 29.6 percent of home improvement, and 30.1 percent of refinance loans were made to moderate-income applicants. The data for 2006 and YTD 2008 also show variations, with a noticeably high percentage of home improvement loans made to low-income borrowers in 2008 (30.4 percent). However, there are no particular trends in the analysis by purpose that impact the assessment of the Bank's performance under this criterion.

Small Business Lending:

The distribution of borrowers reflects, given the product lines offered by the institution, excellent penetration among business customers of different sizes. Emphasis is placed on loans to small businesses, or those with GARs of \$1 million or less. As shown in Table 9, in 2007, East Boston Savings Bank made 72.7 percent of all small business loans by number to businesses with GAR of \$1 million or less. This compares very favorably to the aggregate market performance of 35.0 percent and is greater than the percentage of all businesses in that size category (68.9 percent).

Table 9 - Distribution of Small Business Loans by Revenues							
Business Gross Annual Revenue (000s)	% of Businesses	2007 Aggregate Lending Data		2007 Bank Data			
		% of #	% of \$	#	% of #	\$ (000)	% of \$
≤ \$1,000	68.9	35.0	36.4	16	72.7	3,019	65.0
> \$1,000 or NA	31.1	65.0	63.6	6	27.3	1,626	35.0
Total	100.0	100.0	100.0	22	100.0	4,645	100.0

Source: Dun & Bradstreet, 2007 Small Business Loan Register, 2007 Aggregate Data at County Level

While not shown in the table above, in 2006, 100.0 percent of the Bank's small business loans inside the assessment area were made to businesses with GAR of \$1 million or less. This adds further support to the assessment that the Bank's performance is excellent under this criterion, as emphasis is placed on lending to small businesses. In YTD 2008, the percentage of loans to businesses with GARs of \$1 million or less was still high at 73.9 percent.

In a further effort to determine the Bank's success in originating small business loans to small businesses, an analysis of origination activity by loan amount was also performed. As illustrated in Table 10, 36.4 percent of the small business loans the Bank originated inside the assessment area were in amounts of \$100,000 or less. This percentage is considerably lower than the aggregate market performance of 97.4 percent. However, the aggregate market data is skewed by the large financial institutions that issue business purpose credit cards.

Table 10 - Distribution of Small Business Loans by Loan Size						
Loan Size (000s)	2007 Aggregate Lending Data		2007 Bank Data			
	% of #	% of \$	#	% of #	\$ (000)	% of \$
≤ \$100	97.4	49.7	8	36.4	476	10.3
> \$100 and ≤\$250	1.3	12.3	8	36.4	1,464	31.5
> \$250 and ≤ \$1,000	1.3	38.0	6	27.2	2,705	58.2
Total	100.0	100.0	22	100.0	4,645	100.0

Source: Dun & Bradstreet, 2007 Small Business Loan Register, 2007 Aggregate Data at County Level

IV. Community Development Lending

East Boston Savings Bank made a low level of community development loans within its assessment area given its asset size and financial resources. In addition, the majority of the Bank’s lending activity, both number of loans and dollar amount, occurred outside the assessment area. Over the current evaluation period (November 1, 2005, through January 20, 2009), the Bank made three community development loans totaling approximately \$14 million, with only one loan for \$3.8 million made inside the assessment area.

It is acknowledged that the Bank attempts to lend within their assessment area, employees are active within the area, and lending opportunities inside the assessment area are somewhat limited; however, the existence of only one community development loan in the assessment area is reflective of less than satisfactory performance. The following summarizes the Bank’s community development lending activity.

Inside the Assessment Area

- In 2008, the Bank originated a loan in the amount of \$3.8 million to finance construction costs for a 28-unit apartment building in Wakefield, Massachusetts, of which 7 units are designated as affordable housing. The project is qualified under Chapter 40B, a Massachusetts statute that enables local Zoning Boards to approve affordable housing developments under flexible rules if at least 20-25 percent of the units have long-term affordability restrictions.² The Bank also issued a letter of credit for \$50,000 for the same project, but this amount is not included in the total number of community development loans. It is mentioned to further highlight the Bank’s commitment to affordable housing projects and its assessment area.

² Citizens’ Housing and Planning Association’s Fact Sheet on Chapter 40B The State’s Affordable Housing Zoning Law January 2006.

Other Activity

- In 2006, the Bank issued a letter of credit for \$720,000 to a community development corporation for the rehabilitation and conversion of a school in East Boston into affordable housing for the elderly. This is not included in the total community development loans, but as stated above, the letter of credit is worthy of mention as another lending-related activity that highlights the Bank's attention to its assessment area.

Outside the Assessment Area

- In 2006, the Bank originated two loans totaling \$5 million to finance the construction of 40 townhouses in Scituate, Massachusetts. The project is qualified under Chapter 40B. Of the 40 units, 10 were designated as affordable and sold by lottery to pre-qualified buyers.
- In 2006, the Bank originated two loans totaling \$5.3 million to finance a 36-unit development in North Reading, Massachusetts. Of the 36 units, 9 (25 percent) are designated as affordable. While this development was not a 40B project, the purpose of the loan, as required by the town, was the creation of affordable housing.

Other Activity

- In 2006, the Bank originated two loans totaling \$4.1 million to finance a 44-unit condominium project for residents 55 and older in Middleton, Massachusetts. Of the 44 units, 4 (9 percent) are designated as affordable.
- In 2007, the Bank originated two loans totaling \$10 million to finance the construction of a 45-unit condominium complex in Hingham, Massachusetts. Of the 45 units, 5 (11 percent) are designated as affordable.
- In 2008, the Bank originated a \$5 million loan for renovation and conversion of a commercial building in Nashua, New Hampshire into a 140-unit apartment building. Of the 140 units, 28 (20 percent) will be designated as affordable.
- In 2008, the Bank originated two loans totaling \$7.6 million to finance land acquisition and development of two old school buildings in Medford, Massachusetts into 50 residential condominium units. Of the 50 units, 8 (16 percent) will be designated as affordable.

V. Innovative or Flexible Lending Practices

This section of the Lending Test includes all innovative and flexible lending programs and activity from January 1, 2006, through December 31, 2008.

East Boston Savings Bank's innovative and flexible lending practices are evaluated pursuant to the following criteria:

- Degree to which lending activity serves low- and moderate-income borrowers in innovative ways or assists groups of consumers not previously served by the institution; and,
- The success of each product in serving low- and moderate-income borrowers, including the number and dollar volume of loans originated during the examination period.

The Bank made extensive use of innovative and flexible lending programs during the period reviewed. The breadth of programs offered by the Bank demonstrates a commitment to helping provide sustainable homeownership options to low- and moderate-income borrowers, with emphasis on those residing within the Bank's assessment area. The Bank made 249 loans totaling \$18.3 million through these innovative and flexible programs during the evaluation period. These figures do not include reverse mortgages, discussed below under "Other Programs," since the Bank does not originate those loans. It should also be noted that some of the programs have been modified or discontinued as of the date of this evaluation, but all activity that took place during the evaluation period was considered. A summary of the innovative and flexible lending programs offered by the institution during the period reviewed is provided below.

In-House Programs

The following loan programs were developed by the Bank to address specific credit needs.

- Credit Builder – This product is designed to help individuals with no credit or poor credit establish a good credit record. The funds borrowed are bank funds deposited into a Credit Builder Savings Account and are held as collateral for the loan. As the loan is paid back, the borrower may withdraw excess funds and leave only the balance required as collateral for the unpaid balance. All repayment history is reported to the credit bureaus, thus, establishing a credit history. Loan amounts are between \$1,000 and \$3,000, terms are between 12 and 36 months, and the annual percentage rate is 6.00 percent. During the evaluation period, the Bank originated 171 loans totaling \$222,000 under this program.
- EBSB FXHB 5/3 ARM – This first-time homebuyer product is available for the purchase of properties located inside the Bank's assessment area. The product is a 5-year fixed-rate mortgage that converts to a 3-year ARM. The standard term is 30 years, but 40-year terms are available. There are no income restrictions, and maximum housing- and debt-to-income ratios are 28 percent /

36 percent. The minimum down-payment is 5 percent, with private mortgage insurance (PMI) required for loan-to-value ratios greater than 80 percent. Reserves of 3-month's principal, interest, taxes, and insurance (PITI) payments are required and must come from the borrower's own funds. For 2007 and 2008, the maximum loan amounts were \$417,000 for single family homes and condominiums and \$533,850 for 2-3 family properties. The Bank made 13 loans totaling approximately \$2.8 million under this program during the period reviewed.

- EBSB FTHB 5/3 ARM 100 – This is also a first-time homebuyer product for purchase of properties inside the Bank's assessment area, similar to the FXHB product described above. However, this program allowed higher housing and debt-to-income ratios of 33 percent / 38 percent and up to 100 percent financing. Borrower income was limited to 80 percent of the Area Median Income. The Bank made 3 loans totaling \$898,500 under this program during the period reviewed. It is noted; however, that the 100 percent financing option is no longer available.
- EBSB Fixed-Rate Bi-Weekly First-Time Homebuyer Program – This is a fixed-rate mortgage product for first-time homebuyers with bi-weekly payments made through automatic withdrawal from a deposit account. The product is available for the purchase of properties located in Essex, Middlesex, and Suffolk Counties. There are no income limitations, and the minimum down-payment is 5 percent for single-family properties, 10 percent for 2-families, and 20 percent for 3-family properties. PMI is required for loan-to-value ratios greater than 80 percent. Borrowers are given the option of paying 0, 1, or 2 points. Maximum housing and debt-to-income ratios are 33 percent / 38 percent for 1-2 family properties and 28 percent / 36 percent for 3-family properties. For 2007 and 2008, maximum loan amounts were \$417,000 for single-family properties and condominiums and \$533,850 for 2-3 family properties. Qualified borrowers must have \$1,500 in reserves and 3 percent of the down-payment must be the borrower's own funds. The Bank made 12 loans totaling almost \$2.8 million under this program during the period reviewed.

MassHousing Programs

The Bank offers various products designed by the Massachusetts Housing Financing Agency (MassHousing), an agency established as a self-supporting, independent public authority charged with increasing affordable rental and for-sale housing in Massachusetts. The agency lends money at rates below the conventional market to support affordable rental and home ownership opportunities for low- and moderate-income residents of Massachusetts.³

³ www.masshousing.com

- MassHousing – Take the “T” Home Program – This is one of several MassHousing programs designed for low- and moderate-income individuals and families who want to buy their first home or make needed improvements to their existing home. To qualify, borrowers must be demonstrated users of public transportation offered by the Massachusetts Bay Transportation Authority (MBTA) such as the bus, subway, commuter rail, or commuter boats. Properties must be owner-occupied and, until recently, up to 100 percent of the property value could be borrowed for single family residences and condominiums; 97 percent financing was available for 2-4 family residences. Maximum housing and debt-to-income ratios are 38 percent / 45 percent and no reserves are required for single family residences. Two months' PITI reserve is required for 2-4 family properties. The interest rates for loans under this program are typically ¼ percent lower than current market rates. Homebuyer counseling was required for 100 percent financing. East Boston Savings Bank originated 8 loans for a total of \$1.6 million through this program as 5/3 ARMs and 3 loans totaling \$658,600 as 7/1 ARMs.
- MassHousing – Live Where You Work (LAW) Program – This program was designed to allow municipal employees to purchase homes in the towns in which they work. To qualify, at least one borrower must be a municipal employee in the town where the property is located. All borrowers must have a minimum 620 credit score and a minimum of \$500 or 1 percent of the sales price in savings. Until recently, 100 percent financing was available, and homebuyer counseling is required for loan-to-value ratios greater than 97 percent. Flexible underwriting guidelines such as housing and debt-to-income ratios of 41 percent / 41 percent are allowed on single-family residences and condominiums. The Bank originated 6 loans totaling \$1.6 million through this program during the evaluation period.
- MassAdvantage™ – This program offers borrowers a 30-year fixed rate mortgage at below-market interest rates for the purchase of a condominium or a 1-4 family property. Relaxed underwriting guidelines, lower borrower contributions, and mortgage insurance through the Mortgage Insurance Fund (MIF) are all features of this program. Financing up to 97 percent loan-to-value is available. The Bank originated 4 loans for a little more than \$1 million through this loan program during the evaluation period.
- MassAdvantage™ - Lower Income – This program offers similar features to those of the MassAdvantage™ program, though the maximum qualifying income is 80 percent of the MFI of the town or city in which the subject property is located. Discounted interest rates and reduced mortgage insurance premiums are available for borrowers who meet the income guidelines. EBSB originated 16 loans totaling approximately \$3.5 million under this program during the evaluation period.

- MassAdvantage 100™ - This program combines a 97 percent first mortgage financed by Mortgage Revenue Bonds with a 3 percent second mortgage financed directly by MassHousing, both of which are amortized over 30 years. Borrowers are required to pay 1 point at closing, unless the borrower is a low-income individual, in which case the point is waived. Homebuyer counseling is required for this program. Borrowers are required to make monthly payments only on the 97 percent mortgage unless the loan is paid off within the first 5 years. If the 3 percent mortgage is paid off after the first 5 years of the loan, only the principal balance is due. EBSB originated 4 loans totaling \$928,775 under this program during the evaluation period.
- MyCommunity Mortgage – This program was designed for borrowers who exceed the income limits under MassAdvantage and is available for borrowers who are not first-time homebuyers. Borrowers may earn up to 135 percent of the median income for the city or town in which they are buying a home. Loan limits are as high as \$417,000 for single-family homes, and no downpayment is required. East Boston Savings Bank originated 10 loans totaling \$2 million under this program during the evaluation period.
- Home Saver Foreclosure Prevention Program – This program was designed to assist homeowners with modest incomes who are burdened by an unaffordable loan. To be eligible, borrowers must demonstrate that they (1) are employed with verifiable income and can afford the new mortgage payment; (2) have a minimum credit score of 560 for single-family properties and condominiums (minimums are higher for 2-4 family properties); and (3) meet income and loan limit restrictions. New loans are written as a combination of a Fannie Mae first mortgage for up to 80 percent of the property value and a MassHousing second mortgage for up to 25 percent of the property value. Both loans have fixed rates and 30-year terms. The Bank originated new first and second mortgages for one borrower totaling \$278,000 under this program since they began offering it in early 2008.
- Home for the Brave – This program offers affordable mortgage financing for veterans of the U.S. Armed Services, active-duty military members, and spouses of soldiers, sailors, or marines killed while on active duty. Loans are written as 10/1 ARMs for 30- or 40-year terms on 1-4 family owner-occupied dwellings, and no downpayment is required for single-family homes and condominiums. The minimum credit score is 680 and the maximum debt-to-income ratio is 45 percent. This program was introduced in July 2008, and the Bank has not made any loans to-date, although they have committed up to \$5 million to lend under the program.

- Purchase and Rehabilitation Program – This program was designed to help first-time homebuyers purchase homes that are in need of major repairs. Mortgages are available to cover up to 97 percent of the purchase price of the home plus the necessary rehabilitation costs, or the estimated value of the home after rehabilitation (whichever is less). Borrowers are not required to be first-time homebuyers for homes being purchased in Boston, Cambridge, Chelsea, Everett, Fall River, Lawrence, Lynn, North Adams, or Somerville. This program was just introduced by MassHousing in 2008, and the Bank is in the process of obtaining the necessary approvals to participate.

Other Programs

- Reverse Mortgages – The Bank is approved by the Federal Housing Administration (FHA) as a Home Equity Conversion Mortgage (HECM or reverse mortgage) lender. However, rather than originating reverse mortgages directly, the Bank has an agreement with a third party whereby the Bank refers applications to the third party for origination. In addition to accepting the applications, the Bank performs certain services such as gathering applicants' financial information, analyzing their income and debt, and providing education and counseling throughout the process. During the evaluation period, the Bank assisted in the origination of 105 reverse mortgages totaling approximately \$22.5 million through this arrangement.
- Discounted Private Mortgage Insurance (PMI) Premiums - The Bank offers a 20 percent discount on PMI premiums to homebuyers who earn less than 80 percent of the HUD MFI in the city or town where they are buying a home.

INVESTMENT TEST

The institution's Investment Test performance is rated an overall "Satisfactory." The institution's investment performance is rated under the following criteria: the dollar amount of qualified investments; the innovativeness or complexity of qualified investments; the responsiveness of qualified investments to credit and community development needs; and the degree to which the qualified investments are not routinely provided by private investors. The universe of investments evaluated under this test includes equity investments and charitable donations made between November 1, 2005 and January 20, 2009. The Bank increased the dollar amount of both equity investments and charitable donations when compared to the prior evaluation period. However, the institution has also grown in asset size, which in turn raises expectations for the level of investment activity in which the Bank should be engaged.

Equity Investments

While the Bank's qualified equity investments are not particularly innovative, they do support the need for affordable housing throughout Massachusetts. The investment vehicle is the same as that utilized during the prior evaluation period, but the Bank has increased the amount of money invested. A description of the Bank's qualified equity investments is provided below.

Massachusetts State Housing Finance Agency

The Bank invested in Single Family Housing Notes issued by the Massachusetts State Housing Finance Agency (MassHousing). This series of notes were issued to finance the MHFA Home Ownership Program. The program includes a variety of lending programs designed by MassHousing to address specific housing needs for the acquisition, construction, rehabilitation or improvement of owner-occupied housing for low- and moderate-income individuals and families. The Bank invested \$4 million in four of these notes during the period reviewed and held one note purchased in a prior period. Of the five separate purchases, two matured during the period reviewed. The book value of the three remaining notes, as of September 30, 2008, is approximately \$3.1 million, which represents 1.0 percent of the Bank's total investments.

Charitable Donations

The majority of the Bank's qualified donations are made through the Meridian Charitable Foundation, but some are distributed directly by the Bank. Details of the donations made through each of these channels are provided below.

Meridian Charitable Foundation

The Meridian Charitable Foundation (the Foundation) was established in 1998 by East Boston Savings Bank to provide funding to support charitable causes and community development activities within the communities the Bank serves. The Foundation was initially funded with \$750,000, followed by a stock transfer in August 2004, which increased the principal base of the Foundation to \$1 million. Most recently, a capital infusion of \$3 million in Bank stock was made to the Foundation in January 2008. Each year, the interest earned on the principal provides a pool of money to be donated to qualified organizations. Organizations seeking money must be Massachusetts charitable corporations tax-exempt under Section 501(c)(3) of the Internal Revenue Service Code, and they must submit formal grant applications.

The amounts granted annually through the Foundation during the review period are as follows: \$47,157 in 2006; \$49,985 in 2007; and \$185,225 in 2008, for a total of \$282,367. The vast majority of the donations are considered qualified for CRA, as they were granted to organizations whose overall missions meet the definition of community development, or the money was targeted to specific programs that have community development purposes. The amounts that are qualified for CRA are \$42,157 in 2006; \$49,985 in 2007; and \$165,225 in 2008, with a total of \$257,367. The total amount of qualified donations represents 91.2 percent of the total Foundation donations made during the same period. The following provides a representative sample of qualified donations made by the Foundation during the evaluation period.

CAB Health & Recovery Services, Inc.

This non-profit organization, located in Peabody, provides a full range of substance abuse and related health treatment and prevention services. The organization operates three sober houses in Lynn that serve hundreds of recovering substance abusers every year, many of whom are homeless. The Foundation's donations helped the organization purchase furniture, as well as a washer and dryer, for their sober houses in Lynn.

Haven From Hunger

This non-profit organization is located in Peabody and serves several surrounding communities, making it one of the largest food pantries on the North Shore of Massachusetts. The Foundation's donation provided general support for their on-going food pantry and supper program.

Roca

Roca is a youth development organization committed to serving the most disenfranchised and disengaged young people ages 14–24 in the Greater Boston area, including the communities of Chelsea, Revere, East Boston, and Charlestown. The youth they serve are primarily low- or moderate-income, and include high school drop-outs, young parents, refugees and immigrants, as well as those that have been in trouble with the law or involved with gangs. The Foundation's donation was used towards renovations to their facility in Chelsea.

Travelers Aid Family Services

This non-profit organization helps at-risk families remain in their current housing, provides emergency shelter to families 24/7, provides transitional shelter to homeless families while they work to regain their self-sufficiency, places homeless families directly into permanent housing, and arranges emergency transportation for those in-need. The organization has become one of the largest service providers to homeless families in Massachusetts. The Foundation's donation was directed to a project for creation of three affordable housing units for low-income, formerly homeless families in East Boston.

Bank Donations

The Bank donated approximately \$257,850 to charitable organizations over the period reviewed. This figure includes advertisements, sponsorships, and participation fees for various charity events, but it does not include the value of the many in-kind donations, such as Red Sox jerseys and tickets, the Bank made for various auctions and raffles. Of the \$257,850, \$105,035 (40.7 percent) is qualified for CRA purposes. On an annual basis, the breakdown of qualified donations is as follows: \$4,125 in 2005 (from November 2 through December 31); \$41,270 in 2006; \$23,795 in 2007; and \$35,845 in 2008. The amount of the Bank's qualified donations in full calendar years 2006, 2007, and 2008, represented 0.8 percent, 0.7 percent, and 77.9 percent, respectively, of the Bank's pre-tax net operating income for each year. The ratio of 77.9 percent in 2008 is exceptionally high, resulting primarily from the significant drop in the Bank's pre-tax net operating income for that year. The ratios for 2006 and 2007 are considered reasonable. Descriptions of a representative sample of the organizations that have received donations from the Bank are provided below.

My Brother's Table

This organization was created to serve free nutritious food to homeless and developmentally disabled individuals, as well as those living in boarding houses in Lynn. This non-profit organization provides meals to an average of 200 people daily. The mission of this organization is to feed the hungry and to serve everyone in need regardless of race, color, creed, or sex. The Bank has made several contributions to this organization.

Crossroads Family Shelter

This non-profit organization operates a transitional family shelter in East Boston that offers support to families (mostly low- or moderate-income), allowing them to live independently, with dignity and respect. The Bank has provided support this organization's annual fundraising efforts.

Girls Incorporated of Lynn

This non-profit organization's mission is to inspire all girls to be strong, smart, and bold by developing their capacity to overcome the effects of discrimination and be self-sufficient, responsible members of the community, and by serving as a vigorous advocate for all girls. The majority of the girls served by the organization come from low-income households. The Bank provided donations to this organization to allow girls to attend summer camp and to support the renovation of their facility in Lynn.

New England Shelter for Homeless Veterans

This non-profit organization works to provide homeless veterans with the tools for independent living. The Bank provided support to this organization for their "Leave No One Behind" fundraising event, with the proceeds used to enhance their veterans' education and training center, medical clinics, capital building fund, and endowment for support services.

YMCA of Greater Boston

The YMCA of Greater Boston engaged in a capital campaign to construct a \$3.5 million facility in East Boston designed to include a childcare center, a youth center, a health and wellness facility, and a community center. The YMCA has traditionally been a leading provider of programs and services for low- and moderate-income families. Furthermore, over 50 percent of the population of East Boston is low- or moderate-income. In 2004, the Bank pledged \$25,000 for the construction of the East Boston YMCA, payable in annual increments of \$5,000. During this evaluation period, the Bank made the remaining three installments of \$5,000 each.

SERVICE TEST

The institution's Service Test performance is rated "Outstanding." The Service Test evaluates the institution's record of helping to meet the credit needs of its assessment area by analyzing both the availability and effectiveness of the institution's systems for delivering retail banking services and the extent and innovativeness of its community development services.

East Boston Savings Bank is doing an excellent job of meeting both the retail banking and community development service needs of the assessment area. The Bank's branches, some with 24-hour drive up ATM locations, are located throughout the assessment area and are easily accessible and convenient. The services and products offered are comparable (or better) to local or similarly sized competitors. In meeting community development service needs, several Bank officers are actively involved with local area community organizations. The following summarizes the Bank's retail and community development services.

Retail Banking Services

The institution's retail banking services are evaluated pursuant to the following criteria:

- 1) the distribution of the institution's branches among geographies of different income levels;
- 2) the record of opening and closing branches, particularly branches located in low- and moderate-income geographies or that primarily serve low- or moderate-income individuals;
- 3) the availability and effectiveness of alternate systems for delivering retail banking services; and the range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

Accessibility of Delivery Systems

The Bank's delivery systems are readily accessible to all portions of the institution's assessment area.

Distribution of Branches

Currently, East Boston Savings Bank operates 12 full service branches, and 1 loan production office (LPO) that is located in Lynnfield. A review of the Bank's current branch network revealed that of the 12 branches, 4 are located in moderate-income geographies and the remaining 8 are located in middle-income geographies. The LPO in Lynnfield is located in an upper-income census tract.

Alternative Delivery Systems

In addition to branch banking, East Boston Savings Bank also offers the following alternative delivery systems, which enhance the commercial and retail customer accessibility to services, regardless of their location.

- Automated Teller Machines - The Bank maintains an ATM at each of its 12 branch locations. In addition to standard ATMs, the Bank also maintains two free-standing ATMs within its assessment area.
- Debit Cards – East Boston Savings Bank offers the Visa Debit Card. It allows cardholders to pay for purchases at merchant locations that accept Visa and have the funds deducted directly from their checking account at no charge.
- Telephone Banking - The Bank's 24/7 fully automated system, provides a variety of automated banking services. Customers can access account and loan balances, transfer funds between different accounts, request a stop payment, and receive current rate information. In addition to the fully automated system, customer service center representatives are available to assist customers via telephone during normal banking hours.
- Bank by Mail – East Boston Savings Bank offers bank by mail service from anywhere in the U.S. The Bank provides postage paid envelopes to customers who wish to use this service. The Bank also allows accounts to be opened over the telephone with the required documents and disclosures sent via mail.
- Internet Website – The Bank's online services are made up of three components that provide customers with 24-hour access to information and their accounts. These include the website, www.ebsb.com, plus two integrated components; EBSB Online Internet Banking and Online Mortgages Interactive Lender. There is no fee for Consumer Online Banking/Bill Pay.

The Bank's website provides a comprehensive overview of all of East Boston Savings Bank's personal and commercial banking services. The website continues to be updated with product information as changes occur. Visitors to the site can find out specific information about the accounts and services the Bank offers as well as current interest rates.

The Bank allows customers to bank online using "EBSB Online." Customers can access their accounts and review account balances, recent transaction information, and account history, and they can also transfer funds between accounts.

East Boston Savings Bank offers "Online Mortgages – Interactive Lender," which allows consumers to get a variety of information about mortgages, including rate quotes, and apply for various fixed- and adjustable-rate mortgages online.

Changes in Branch Locations

The Bank's record of opening branches has improved the accessibility of its delivery systems, particularly in a moderate-income area of Everett.

Since the previous CRA public evaluation, the Bank opened three new branches: On November 27, 2006, the Bank opened a branch located at 1755 Revere Beach Parkway in Everett, which is located in a moderate-income census tract. On July 23, 2007, the Bank opened a branch located at 335 Broadway in Lynn, which is located in a middle-income census tract. Most recently, on October 9, 2008, the Bank opened a branch located at 381 Main Street in Wakefield, which is also located in a middle-income census tract.

Reasonableness of Hours / Services

Services and business hours do not vary in a way that would inconvenience any portion of the assessment area, particularly low- and moderate-income geographies and/or individuals.

The Bank's hours of operation are convenient and comparable to other local area institutions. All branch lobbies open for business between 8:30 a.m. and 9:00 a.m. and offer extended hours at least once per week, and 11 branches have Saturday hours. In addition to lobby services, the Bank offers drive-up banking services at 8 of the 12 branch locations.

Community Development Services

The institution's community development services are evaluated pursuant to the following criteria:

- 1) the extent of community development services offered and used;
- 2) the innovativeness of community development services, including whether they serve low- and moderate-income customers in new ways or serve groups of customers not previously served;
- 3) the degree to which they serve low- and moderate-income areas or individuals; and
- 4) their responsiveness to available opportunities for community development services.

The CRA regulation defines a community development service as a service that is primarily for community development purposes and is related to the provision of financial services. Detailed below are the Bank's qualified community development services.

Director and Officer Involvement

The Bank devotes time and resources to assisting with community development initiatives within its assessment area by having representatives serve in leadership roles in community-based organizations. The following is a summary of the organizations in which Bank officers are involved:

Alliance for Economic Inclusion – This is the FDIC's national initiative to establish broad-based coalitions of financial institutions, community-based organizations and other partners in 10 markets across the country to bring all unbanked and underserved populations into the financial mainstream. The focus is on expanding basic retail financial services for underserved populations, including savings accounts, affordable remittance products, small-dollar loan programs, targeted financial education programs, alternative delivery channels and other asset-building programs. The Bank is a member of this Alliance.

Citizens for Adequate Housing – This non-profit organization operates two homeless shelters on the North Shore and purchases and manages properties for affordable housing. A Vice President of the Bank serves on the executive finance committee as well as the Board of this organization.

East Boston Economic Development Council (EBEDC) - The EBEDC focuses on revitalization of the community and provides education for small businesses in East Boston and surrounding communities. As a reminder, East Boston contains two low-income and 9 moderate-income census tracts, and 50 percent of the population is low- or moderate-income. An Executive Vice President of the Bank was an active member of this council during the evaluation period.

East Boston Main Streets – This non-profit organization's mission is to create a more vibrant business district by initiating private and public improvements, promoting commerce, and supporting efforts to improve the quality of life for all who live, work, and do business in East Boston. As stated above, East Boston contains numerous low- and moderate-income tracts and has a significant population of low- and moderate-income individuals. Two Vice Presidents of the Bank serve as Board members of this organization.

East Boston Social Centers – This non-profit organization provides educational, social, and recreational services to meet the needs of children, families, and senior citizens throughout East Boston and surrounding communities. The majority of the individuals served are low- or moderate-income. A member of the Board and a residential loan officer both serve on the Board and Finance Committee of this organization.

East Boston YMCA – The YMCA is a human service organization aimed at strengthening children, families, and communities. The East Boston YMCA is located in an area where more than half of the population is low- or moderate-income. In addition, the area contains two low-income and 9 moderate-income census tracts. An officer of the Bank serves on the Board of Directors of the East Boston YMCA.

Federal Home Loan Bank Boston (FHLBB) Affordable Housing Program (AHP) – The AHP allows the FHLBB to address, in partnership with member institutions, the affordable housing needs of communities across New England. A portion of the FHLBB's net earnings funds the program, which awards grants and low-interest advances and loans through member institutions. The Bank's former President and CEO served as the Director of the AHP during the evaluation period.

Massachusetts Housing Finance Agency (MassHousing) – This organization is the state's affordable housing bank that lends money at rates below the conventional market to support affordable rental and home ownership opportunities for low- and moderate-income residents of Massachusetts. An Executive Vice President and a Vice President of East Boston Savings Bank both serve on the Lender Advisory Committee for this organization.

North Shore Women in Business (NSWB) – This organization fosters opportunity through networking for women in business, and primarily serves businesses with fewer than three employees. A Senior Vice President is a member of the Board.

Educational Seminars

East Boston Savings Bank conducted and participated in seminars designed to educate consumers about banking and products available to meet their specific needs.

During the examination period, the Bank devoted many hours to planning and participating in numerous seminars that highlight the various aspects of the home buying process. Each month, representatives from the Bank participate in home buying seminars with a variety of community groups and realtors. Sessions have been held at several branch locations, as well as in conjunction with the North Shore Community College, Neighborhood of Affordable Housing (NOAH), Lynn Housing Authority, MassHousing, and Chelsea Restoration. In addition, several of the seminars were either conducted in foreign languages or had staff members available to assist with any language barriers encountered during the seminars. Seminars also focused on reverse mortgages and foreclosure prevention programs.

Financial Literacy Initiatives

Money Smart

In November 2004, East Boston Savings Bank initiated collaboration between the FDIC and local banks to offer the FDIC Money Smart Program at North Shore Community College (NSCC). This program is still offered today. The 10-topic program is available in English and Spanish and participants attend five sessions hosted at NSCC's Danvers and Lynn Campuses. In addition, during 2008, Bank officers taught the Money Smart Program at a women's family shelter known as Citizen's for Adequate Housing.

Teach Children to Save

This program is designed to highlight the importance of saving for the future. Two Bank employees helped initiate this program in an elementary school in Winthrop.

Other Services

Development of 40B Project

Through a single-purpose limited liability company, the Bank has taken on the development of a 40B project in Berkley, Massachusetts, after foreclosing on a loan made to the original developer of the project. While the plan has been modified over time, the Bank committed to complete the first phase of the project, which will include 19 units, of which 25 percent will be sold as affordable housing units.

Massachusetts Community Banking Council's (MCBC) Basic Banking Program

The Bank continues to offer savings and checking accounts that are qualified under the MCBC Basic Banking for Massachusetts Program. The Bank currently offers both a passbook and a statement savings account that have no monthly service charge if a balance of \$350 is maintained. A monthly service charge of only \$1.00 is imposed if the balance falls below \$350. The Bank also currently offers the Champion's Choice checking account, which has no monthly service charge regardless of the balance maintained.

Electronic Transfer Account (ETA)

East Boston Savings Bank continues to provide ETAs for customers who receive a federal benefit, wage, salary, or retirement check and have a derogatory NCPS or ChexSystems report that prevents them from opening a traditional deposit account or checking account at another financial institution. The account requires direct deposit of the federal funds, but does not require a minimum daily balance or minimum to open. The monthly fee is \$3.00, with four free transactions at East Boston Savings Bank ATMs and unlimited POS transactions per month.

Second Language Capabilities

Bilingual employees are available at all branch locations. Signs located on desks and at teller stations easily identify bilingual staff, and a complete list of bilingual employees is maintained at each office. Languages spoken include Italian, Spanish, Portuguese, Cantonese, Toisinese, Tagalog, Cambodian, French, Vietnamese, Arabic, Chinese, Japanese, Bosnian, Croatian, Albanian, Creole, and Serbo-Croatian. This reflects favorably in terms of workplace diversity and customer service support.

Meeting Space

The Bank has allows various community organizations to utilize their facilities to hold meetings and functions.

COMPLIANCE WITH ANTI-DISCRIMINATION LAWS AND REGULATIONS

Significant violations of Federal Reserve Regulation B – Equal Credit Opportunity (ECOA) were identified during the concurrent compliance examination of the Bank. The violations were substantive, and involved non-married applicants; however, did not impact the loan products offered by the Bank and/or the volume of loans. Therefore, the lowering of the Bank's overall CRA rating to a less than satisfactory rating (i.e., "Needs to Improve") was not deemed warranted.

APPENDIX A

Fair Lending Policies and Practices

The Division of Banks provides comments regarding the institution's fair lending policies and procedures pursuant to Regulatory Bulletin 2.3-101.

East Boston Savings Bank's fair lending policy and procedures are comprehensive in nature and address specific areas such as staff training, fair lending procedures, a loan application, and an evaluation process, as well as applicable rules and regulations regarding the Fair Housing Act, Equal Credit Opportunity Act, the Consumer Protection Act, and the Community Reinvestment Act.

All employees are provided with training appropriate to their job description and their responsibilities in fair lending issues.

All loan applications that are slated for denial by the loan officer or underwriter will undergo a second review. The Senior Lending Officer will conduct the second review. The second review is applied to all types of loans, including commercial, residential, and consumer.

A review was conducted for compliance with fair lending regulations. During the course of the examination a significant violation of Federal Reserve Regulation B – Equal Credit Opportunity (ECOA) were identified. The violations centered on the Bank's treatment of non-married applicants; however, it was determined this disparate treatment did not impact the loan products offered by the Bank and/or the volume of loans.

MINORITY APPLICATION FLOW

The Bank's Loan Application Registers for 2006 and 2007 were reviewed to determine if the application flow from the different racial groups within the Bank's assessment area was reflective of the assessment area's demographics.

The assessment area's population is 21.86 percent racial or ethnic minority according to the 2000 US Census: 3.81 percent Black; 3.5 percent Asian; .15 American Indian; 2.86 percent Other Race and 11.5 percent Hispanic or Latino.

For the period reviewed, East Boston Savings Bank received 44 HMDA reportable mortgage applications from minorities within its assessment area. Focusing on 2007 applications, 17 or 7.1 percent were from minority applicants. Of these 17 minority applications, 10 of them resulted in originations. Included in the table is the 2007 aggregate data (exclusive of the Bank) in comparison to the Bank's data. The Bank's percentage of lending to minorities is similar to the aggregate. The aggregate's applications to minorities were 8.5 percent, while the Bank's minority applications were 7.1 percent. Refer to the following table for more information. Regarding the seven non-originated minority applications at East Boston Savings Bank, four applications were denied and 3 were withdrawn/incomplete.

MINORITY APPLICATION FLOW								
RACE	Bank 2006		2007 Aggregate Data		Bank 2007		Bank TOTAL	
	#	%	#	%	#	%	#	%
<i>American Indian/ Alaska Native</i>	24	11.5	167	0.6	0	0.0	24	5.3
<i>Asian</i>	2	1.0	638	2.2	8	3.3	10	2.2
<i>Black/ African American</i>	0	0.0	1,330	4.5	4	1.7	4	0.9
<i>Hawaiian/Pac Isl.</i>	0	0.0	130	0.4	0	0.0	0	0.0
<i>2 or more Minority</i>	0	0.0	16	0.1	0	0.0	0	0.0
<i>Joint Race (White/Minority)</i>	1	0.4	207	0.7	5	2.1	6	1.3
Total Minority	27	12.9	2,488	8.5	17	7.1	44	9.8
<i>White</i>	168	80.4	19,314	65.7	212	88.0	380	84.4
<i>Race Not Available</i>	14	6.7	7,602	25.8	12	4.9	26	5.8
Total	209	100.0	29,404	100.0	241	100.0	450	100.0
ETHNICITY								
<i>Hispanic or Latino</i>	36	17.2	4,298	14.6	42	17.4	78	17.3
<i>Not Hispanic or Latino</i>	158	75.6	17,524	59.6	185	76.8	343	76.2
<i>Joint (Hisp/Lat /Not Hisp/Lat)</i>	1	0.5	270	0.9	2	0.8	3	0.7
<i>Ethnicity Not Available</i>	14	6.7	7,312	24.9	12	5.0	26	5.8
Total	209	100.0	29,404	100.0	241	100.0	450	100.0

Source: US Census, HMDA LAR, HMDA Aggregate Data

The Bank's performance relative to obtaining applications from minority applicants is consistent with the aggregate performance and is deemed adequate.

APPENDIX B

Loss of Affordable Housing

The Division of Banks' regulation 209 CMR 46.22(2)(g) requires that the evaluation of the lending performance of a large institution include a review of its efforts to forestall the loss of affordable housing. The Division reviews the institution's loans to ensure that there is no undue concentration and a systematic pattern of lending resulting in the loss of affordable housing units.

East Boston Savings Bank's development of credit products with flexible lending criteria, participation in flexible lending programs, community development lending, and lending to low- and moderate-income borrowers has assisted low- and moderate-income individuals to remain in their neighborhoods.

APPENDIX C

General Definitions

GEOGRAPHY TERMS

Census Tract: Small subdivisions 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. They 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.

Metropolitan Area (MA): One or more large population centers and adjacent communities that have a high degree of economic and social integration. Each MA must contain either a place with a minimum population of 50,000 of Census Bureau-defined urbanized area and a total MA population of at least 100,000 (75,000 in New England). An MA comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county. In New England, MAs are composed of cities and towns rather than whole counties.

Metropolitan Statistical Area (MSA): One or more metropolitan areas that have economic and social ties.

Primary Metropolitan Statistical Area (PMSA): A large urbanized county or cluster of counties that demonstrate very strong internal economic and social links, in addition to close ties to other portions of the larger area. If an area qualifies as an MA and has more than one million persons, PMSAs may be defined within it.

Consolidated Metropolitan Statistical Area (CMSA): The larger area of which PMSAs are component parts.

Non-Metropolitan Area: All areas outside of metropolitan areas. The definition of non-metropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan areas.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, "urban" consists of territory, persons, and housing units in: places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin) but excluding the rural portions of "extended cities"; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.

HOUSING TERMS

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).

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.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

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.

INCOME TERMS

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide non-metropolitan median family income, if a person or geography is located outside an MSA.

Family Income: Includes the income of all members of a family that are age 15 and older.

Household Income: Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household income is usually less than median family income.

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.

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 and less than 80 percent in the case of a geography.

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 and less than 120 percent in the case of a geography.

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.

HUD Adjusted Income Data: The U.S. Department of Housing and Urban Development (HUD) issues annual estimates which update median family income from the metropolitan and non-metropolitan areas. HUD starts with the most recent U.S. Census data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

OTHER TERMS

Home Mortgage Disclosure Loan Application Register (HMDA LAR): The HMDA LARs record all applications received for residential purchase, refinance, home improvement and temporary-to-permanent construction loans.

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

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

APPENDIX D

Investment Definitions

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. The equity investments are subject to limits specified by the bank's regulator. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community as well as to the financial and marketing needs of the bank. A CDC may purchase, own, rehabilitate, construct, manage and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization. Any real estate ownership should generally be temporary, with ownership reverting to members or organizations in the community.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. They procure loans and investments that conventional financial institutions are unable to invest in, and they link financing to other developmental activities. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. CDFIs share a common mission and can be chartered as a credit union or bank. CDFIs can also be unregulated nonprofit institutions that gather private capital from a range of social investors for community development lending or investing. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, microenterprise funds, and community development venture capital funds. A certified CDFI must meet eligibility requirements, which include: having a primary mission of promoting community development; serving an investment area or target population; providing development services; maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means; and not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Low Income Housing Tax Credits: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended, which is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department, through the Internal Revenue Service, distributes low-income housing tax credits to housing credit agencies. The housing agencies allocate tax credits on a competitive basis. Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits or sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains in place throughout the compliance period, usually 30 years.

Qualified Investments: 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.

APPENDIX E

Standard PE Language

LENDING TEST

Scope of Test

The lending test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by considering an institution's home mortgage, small business, small farm, and community development lending. The institution's lending performance is evaluated pursuant to the following criteria: 1) the volume of lending activity; 2) the proportion of lending within the assessment area(s); 3) the dispersion of loans and the number and amount of loans in low-, moderate-, middle- and upper-income geographies in the assessment area(s); 4) the distribution of loans among borrowers of low-, moderate-, middle- and upper-income levels and businesses (including farms) of different sizes; 5) the distribution of small business and small farm loans by loan amount at origination; 6) the volume of community development lending; and 7) the use of innovative or flexible lending practices. Performance under the lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

Community Development Lending:

Performance Criteria

The institution's community development lending activities are evaluated pursuant to the following criteria: 1) the extent to which community development lending opportunities have been made available to the institution; 2) the responsiveness of the institution's community development lending; and 3) the extent of leadership the institution has demonstrated in community development lending.

Innovative and Flexible Lending Practices:

Performance Criteria

The institution's innovative and flexible lending practices are evaluated pursuant to the following criteria: 1) the degree to which the loans serve low- and moderate-income creditworthy borrowers in new ways or serve groups of creditworthy borrowers not previously served by the institution; and 2) the success of each product serving low- and moderate-income borrowers, including the number and dollar volume of loans originated during the review period.

INVESTMENT TEST

Scope of Test

The investment test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) through its use of qualified investments that benefit the assessment area(s) or a broader statewide or regional area that includes the institution's assessment area(s). Activities considered under the lending or service test may not be considered under the investment test. The institution's investment performance is evaluated pursuant to the following criteria: 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.

SERVICE TEST

Scope of Test

The service test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the institution's systems for delivering retail banking services and the extent and innovativeness of its community development services. The institution's retail banking services are evaluated pursuant to the following criteria: 1) the distribution of the institution's branches among geographies of different income levels; 2) the record of opening and closing branches, particularly branches located in low- and moderate-income geographies or that primarily serve low- or moderate-income individuals; 3) the availability and effectiveness of alternate systems for delivering retail banking services; and 4) the range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

In addition, the institution's community development services are evaluated pursuant to the following criteria: 1) the extent of community development services offered and used; 2) the innovativeness of community development services, including whether they serve low- and moderate-income customers in new ways or serve groups of customers not previously served; 3) the degree to which they serve low- and moderate-income areas or individuals; and 4) their responsiveness to available opportunities for community development services.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations, and Part 345 of the Federal Deposit Insurance Corporation's Rules and Regulations, require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks and the Federal Deposit Insurance Corporation, at 10 Meridian Street, East Boston, MA 02128."

[Please Note: If the institution has more than one assessment area, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.