

**PUBLIC DISCLOSURE**

OCTOBER 5, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

COMMONWEALTH UTILITIES EMPLOYEES CREDIT UNION

312 WAREHAM ROAD  
MARION, MA 02738

DIVISION OF BANKS  
ONE SOUTH STATION  
BOSTON, MA 02110

**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 concerning the safety and soundness of this financial institution.

## GENERAL INFORMATION

The Community Reinvestment Act ("CRA") requires the Massachusetts Division of Banks ("Division") to use its 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 individuals, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division 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 **Commonwealth Utilities Employees Credit Union (the "Credit Union")** prepared by the Division, the institution's supervisory agency, as of **October 5, 2007**. The Division evaluates performance in the assessment area(s), as they are defined by the institution, rather than individual branches. The Division rates the CRA performance of an institution consistent with the provisions set forth in 209 CMR 46.00.

### **INSTITUTION'S CRA RATING: This institution is rated "Satisfactory"**

The assessment of Commonwealth Utilities Employees Credit Union's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates.

According to CRA regulations, an institution shall delineate one or more assessment areas of which the institution will serve to meet the credit needs and by which the Division will evaluate the institution's CRA performance. On May 16, 1997, the state CRA regulation 209 CMR 46.00 became effective. Credit unions whose membership by-laws provisions are not based upon residence were now permitted to designate its membership as its assessment area. Therefore, since the Credit Union has defined its membership as its assessment area, as opposed to a geographic area, an evaluation of credit extended within defined geographic areas was not conducted. Therefore, this evaluation was based upon an analysis of the Credit Union's performance in providing loans to its membership; providing loans to individuals of various incomes, including low to moderate-income members; and the Credit Union's fair lending performance.

A total of 50 consumer loans were reviewed for 2005 and 2006. Since the majority of loans are consumer loans, a sample of 12 loans were also reviewed for home mortgages, home equity loans and home equity lines of credit.

Shares from the membership are returned to members in the form of consumer loans. Loan-to-share ratios are at a reasonable level for an institution of its size and capacity. The distribution of loans to members of different income levels is considered satisfactory and is representative of its membership.

The Review of Complaints and the Fair Lending Section indicate the Credit Union has made reasonable efforts in attracting all applicants within its membership.

## **PERFORMANCE CONTEXT**

### **Description of Institution**

Commonwealth Utilities Employees Credit Union is a state chartered financial institution chartered by the Commonwealth of Massachusetts in 1926. According to its by-laws, membership is limited to employees or retired employees of the Commonwealth Energy System and its "subsidiaries," employees of the Credit Union, and their "immediate family."

Additionally, employees located in Massachusetts, and their immediate family, of an entity that becomes a successor in interest to any subsidiary by way of merger will also be eligible for membership. Persons not eligible for membership may have joint accounts with members of the Credit Union for the purpose of withdrawal only. Once an individual is a member of the Credit Union, that person is always eligible to remain a member.

"Subsidiaries" is defined as Cambridge Electric Light Company, Canal Electric Company, Commonwealth Electric Company, Com/Energy Steam Company, and Commonwealth Gas Company.

"Immediate family" of a Commonwealth Utilities Employees Credit Union member is defined as a spouse, sons, daughters, mothers, fathers, sisters, brothers, nieces and nephews.

As of July 16, 2007, the Credit Union has 2,342 members.

The Credit Union has one office located at 312 Wareham Road, Marion, MA 02738. Office hours are Monday to Friday, 8:00 a.m. to 4:30 p.m. and Saturday 8:00 a.m. to 12:00 p.m. Services rendered by the Credit Union are savings accounts, vacation and Christmas clubs, checking accounts, Certificates of Deposits, IRA savings accounts, 24 hour banking with ATM, on-line banking, automobile loans, home equity loans, home equity lines of credit, personal/unsecured loans, recreational vehicles and VISA credit cards. Although the Credit Union does not have Automated Teller Machines (ATMs), members can access ATMs displaying the Cirrus, NYCE and TX logos across the state and around the country by adding an ATM banking card to their checking account. ATMs that are connected to the SUM network have no transaction fees. If transaction fees are charged by financial institutions to members for using their ATM card, the Credit Union will reimburse them up to \$6.00 at the end of each month.

The Credit Union was last examined for compliance with the CRA on February 6, 2002. The examination resulted in a CRA rating of Satisfactory. The Credit Union's assets have increased from \$28 million to \$32 million since the previous examination.

As of June 30, 2007, the Credit Union's asset size was \$32,656,215 with total gross loans of \$19,533,722 or 59.8 percent of total assets. The Credit Union's net loan-to-share ratio, as of the same date was 69.9 percent. Automobile loans represent the largest portion of loans with 42.0 percent followed by total other real estate loans/lines of credit with 22.1 percent.

## **PERFORMANCE CONTEXT (CONTINUED)**

The Credit Union does not offer first mortgage loans. If a borrower wants a first mortgage, the Credit Union directs them to Members Mortgage. Per a member's request, the Credit Union will then buy back the mortgage. In 2005, the Credit Union purchased 6 mortgage loans for a total of \$941,000. In 2006, the Credit Union purchased 4 mortgage loans for a total of \$709,000.

The following table provides additional details regarding the Credit Union's loan portfolio:

<b>Commonwealth Utilities Employees Credit Union Loan Portfolio Distribution</b>		
<b>Loan Type</b>	<b>Dollar Volume (000)</b>	<b>Percentage of Total Loans</b>
Unsecured Credit Card Loans	\$1,244,670	6.4
All Other Unsecured Loans/Lines of Credit	\$2,282,300	11.7
Automobile Loans	\$8,203,092	42.0
Total 1 <sup>st</sup> Mortgage Real Estate Loans/Lines of Credit	\$3,381,311	17.3
Total Other Real Estate Loans/Lines of Credit	\$4,322,213	22.1
Total All Other Loans/Lines of Credit	\$100,136	0.5
<b>Total</b>	<b>\$19,533,722</b>	<b>100.0</b>
<i>Source: 5300 Report, Statement of Financial Condition as of June 30, 2007.</i>		

### **Parity Powers**

In October 2004, Commonwealth Utilities Employees Credit Union received approval from the Division to engage in certain activities authorized under the "Parity with Federal Credit Union Regulations", 209 CMR 50.00. These additional powers include:

- Direct automobile financing up to 100 percent of the value of the collateral up to \$60,000 for a term up to 6 years
- First lien residential mortgages up to \$500,000 for a term up to 40 years
- Second lien or non-purchase first lien closed-end home equity residential mortgage loans up to \$125,000 for a term up to 20 years
- Second lien or non-purchase first lien open-end equity residential mortgage loans up to \$125,000

### **Description of Assessment Area**

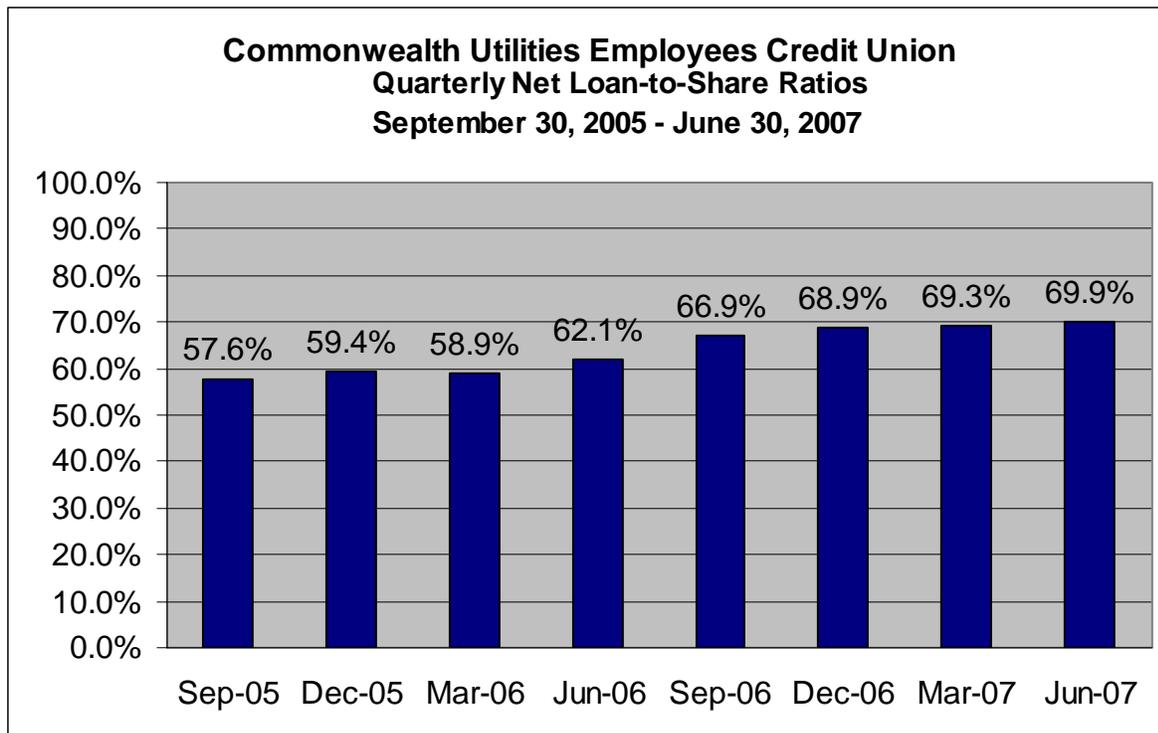
In accordance with the requirements of 209 CMR 46.41, the Credit Union defines its membership as its assessment area.

## **PERFORMANCE CRITERIA**

An examination was conducted using the small financial institution procedures, as defined by the CRA.

### **1. LOAN TO SHARE ANALYSIS**

A comparative analysis of Commonwealth Utilities Employees Credit Union's quarterly net loan-to-share ratios for the period of September 30, 2005 through June 30, 2007, was conducted during this examination. The analysis was conducted to determine the extent of the Credit Union's lending compared to shares received from its membership. Using the National Credit Union Administration ("NCUA") quarterly Call Reports, the average net loan-to-share ratio for this period was 64.0 percent. This ratio is based on loans net of unearned income and net of the allowance for loan and lease losses as a percentage of total shares. Using the same criteria (NCUA quarterly Call Reports) the average gross loan to assets ratio was 55.4 percent. The following graph is provided for further analysis.



As shown in the graph above, the Credit Union's loan to share ratios has grown steadily from 57.6 percent on September 30, 2005 to 69.9 percent on June 30, 2007. During this time period, net loans have increased by \$2,244,673 or 13.1 percent and shares have decreased by \$2,029,151 or 6.8 percent.

Although loans have continued to grow, shares and assets have declined. Assets have decreased approximately 4.8 percent or \$1,656,625.

A comparison of local credit unions was conducted to compare the loans to shares ratio. The following table illustrates the net loan-to-share ratios of local credit unions within the surrounding area as of June 30, 2007 in comparison to the Credit Union.

## **PERFORMANCE CRITERIA (CONTINUED)**

<b>Net Loans-to-Shares Ratios</b>			
<b>Credit Union</b>	<b>Net Loans (\$000)</b>	<b>Shares (\$000)</b>	<b>% LTS</b>
St. Anne Credit Union	13,444,150	15,458,723	87.0
<b>Commonwealth Utilities Employees</b>	<b>19,382,682</b>	<b>27,734,630</b>	<b>69.9</b>
St. Michaels Fall River Credit Union	20,001,059	22,823,911	87.6
Southcoast Health System Credit Union	20,796,024	25,324,952	82.1
Plymouth County Teachers Credit Union	21,256,118	31,624,141	67.2
Notre Dame Community Credit Union	25,146,775	37,437,123	67.2

*\*Source: 5300 Report, Statement of Financial Condition as of June 30, 2007.*

Based on the foregoing information, the Credit Union's asset size and resources, and the credit needs of its members, the Credit Union's net loan-to-share ratio meets the standards for satisfactory performance.

## **2. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS**

The Credit Union's lending, based upon the analysis of consumer loans by borrower income is reasonable.

A sample of the Credit Union's consumer loan data for calendar year 2005 and 2006 was analyzed in order to determine the distribution of credit based upon the income level of borrowers. The loan sample consisted of unsecured personal loans and automobile loans.

This examination compares the borrower income to the median family income for the Metropolitan Statistical Area ("MSA") in which the borrower resides. The borrower income analysis was based on the median family incomes for the Providence/New Bedford MSA for 2005 and 2006 which was \$64,750 and \$64,000, respectively; for the Boston/Quincy MSA for 2005 and 2006 which was \$76,400 and \$77,700, respectively and for the Barnstable MSA which was \$65,700 and \$66,800, respectively.

As defined by the U.S. Department of Housing and Urban Development ("HUD") low-income is defined as income level or area that earns less than 50 percent of the MSA's median family income. Moderate-income is defined as income level or area that earns 50 percent to less than 80 percent of the MSA's median family income. Middle-income is defined as income level or area that earns 80 percent to less than 120 percent of the MSA's median family income, while upper-income is defined as income level that is equal to or greater than 120 percent of the MSA's median family income.

A review of 25 loans for 2005 and 25 loans for 2006 was conducted to determine the borrower's income level. Of the 25 loans for 2005, 6 or 24.0 percent were granted to low-income members; 11 or 44.0 percent were granted to moderate-income members; 8 or 32.0 percent were granted to middle-income members; and there were no loans granted to upper income members. Of the 25 loans for 2006, 7 or 28.0 percent were granted to low-income members; 7 or 28.0 percent were granted to moderate-income members; 7 or 28.0 percent were granted to middle-income members; and 4 or 16.0 percent loans were granted to upper income members.

## **PERFORMANCE CRITERIA (CONTINUED)**

Based upon the analysis of borrower income, the Credit Union demonstrates a satisfactory level of performance in providing loans to borrowers of different incomes and meets the standards for satisfactory performance.

### **3. REVIEW OF COMPLAINTS AND FAIR LENDING POLICIES AND PRACTICES**

Based upon the review of the Credit Union's performance relative to fair lending policies and practices, the Credit Union meets the standards for satisfactory performance.

#### **Review of Complaints**

There was no indication that the Credit Union received any complaints pertaining to its CRA performance since the previous examination.

#### **Fair Lending Policies and Practices**

A review was conducted for compliance with fair lending regulations, and no evidence of disparate treatment or impact was revealed.

A review of the Division's records, as well as the Credit Union's Public CRA File did not reveal any complaints relating to the Credit Union's CRA performance since the prior evaluation.

Fair lending training is provided to all employees.

The Credit Committee periodically reviews the Lending Officer's decisions to assure that all loans are being granted in accordance with the guidelines set forth by the Committee.

Currently, there are two bilingual employees who speak Portuguese to assist the non-English speaking customers and potential customers at the Credit Union. As a result, the Credit Union is able to provide better service to customers of different ethnic backgrounds.

## 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, 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, at 312 Wareham Road, Marion, MA 02738."

- 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 agencies, 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.