

PUBLIC DISCLOSURE

September 4, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Cape Ann Savings Bank
Certificate Number: 90203

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Gloucester, MA 01930

Division of Banks
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This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the Division of Banks or the Federal Deposit Insurance Corporation concerning the safety and soundness of this financial institution.

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INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**. An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Cape Ann Savings Bank's Outstanding Community Reinvestment Act (CRA) performance under the Lending Test and Satisfactory performance under the Community Development Test supports the overall rating. Examiners did not identify any evidence of discriminatory or other illegal credit practices. The following points summarize the bank's Lending Test and Community Development Test performance.

The Lending Test is rated Outstanding.

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- The bank made a substantial majority of loans and other lending related activities in the assessment area.
- The geographic distribution of loans reflects excellent dispersion throughout the assessment area.
- The distribution of borrowers reflects excellent penetration among individuals of different income levels and businesses of different sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the Lending Test rating.

The Community Development Test is rated Satisfactory.

- The institution demonstrated adequate responsiveness to the community needs in its assessment area through community development loans, qualified investments, and community development services. Examiners considered the institution's capacity and the need and availability of such opportunities throughout the assessment area.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated August 24, 2015, to the current evaluation dated September 4, 2018. Examiners used the Interagency Intermediate Small Institution Examination Procedures to evaluate Cape Ann Savings Bank's (Cape Ann's) CRA performance. These procedures include two tests: the CRA Small Bank Lending Test and the Community Development Test.

The Lending Test considered the institution's performance according to the following criteria.

- Loan-to-deposit (LTD) ratio
- Assessment area concentration
- Geographic distribution
- Borrower profile
- Response to CRA-related complaints

The Community Development Test considered the following factors.

- Number and dollar amount of community development loans, qualified investments, and community development services
- The responsiveness of such activities to the community development needs of the assessment area

Banks must achieve at least a satisfactory rating under each test to obtain an overall Satisfactory rating. This evaluation does not include any lending activity performed by affiliates.

Loan Products Reviewed

Examiners determined that the bank's major product lines are home mortgage loans and commercial loans. This conclusion considered the bank's business strategy and the number and dollar volume of loans originated during the evaluation period. No other loan types, such as small business, small farm, or consumer loans represent a major product line; therefore, they provide no material support for conclusions or ratings and are not presented.

The bank's record of originating home mortgage loans contributed more weight to overall conclusions due to the bank's business strategy and larger loan volume when compared to commercial lending during the most recent calendar year.

Bank records indicate that the lending focus and product mix remained consistent throughout the evaluation period. Examiners considered all home mortgage loans reported on the bank's 2016 and 2017 Home Mortgage Disclosure Act (HMDA) Loan Application Registers (LARs). For 2016, the bank reported 191 loans totaling \$64.3 million, and for 2017, the bank reported 203 loans totaling \$66.6 million. The volume of home mortgage loans increased slightly from 2016 to 2017; however, examiners did not identify any trends that materially affect conclusions.

Examiners used 2016 and 2017 aggregate data as well as assessment area demographic information as standards of comparison for the bank's home mortgage lending in each respective year.

As an intermediate small institution, the bank is not required to collect or report small business data and did not do so during the evaluation period. Accordingly, examiners selected a sample of commercial loans originated in 2017 and considered this sample representative of the bank's performance during the entire evaluation period. In 2017, the bank originated 109 commercial loans totaling approximately \$30.3 million, of which, 34 loans totaling \$11.2 million are included in the sample. D&B demographic data provided a standard of comparison for the sampled commercial loans.

For the Lending Test, examiners reviewed the number and dollar volume of home mortgage and commercial loans. While number and dollar volume of loans are presented, examiners emphasized performance by number of loans because the number of loans is a better indicator of the number of businesses and individuals served.

For the Community Development Test, bank management provided data on community development loans, qualified investments, and community development services since the prior CRA evaluation dated August 24, 2015.

DESCRIPTION OF INSTITUTION

Background

Cape Ann is a mutual savings bank headquartered in Gloucester, MA, and operates primarily in Cape Ann, which includes the City of Gloucester and the Towns of Rockport, Manchester-by-the-Sea, and Essex. The bank does not have any affiliates or subsidiaries. At its previous Division of Banks and FDIC Performance Evaluation, dated August 24, 2015, the bank received a Satisfactory rating from the FDIC based on Interagency Intermediate Small Institution Examination Procedures and a High Satisfactory rating from the Division of Banks.

Operations

Cape Ann operates four full-service branches located in Gloucester (2), Manchester-by-the-Sea, and Rockport, MA. Cape Ann offers commercial, agricultural, home mortgage, and consumer loan products, with a primary focus on residential lending. The bank provides a variety of deposit services including checking, savings, money market deposit accounts, certificates of deposit, and individual retirement accounts. Through the Cape Ann Savings Trust & Financial Services Department, the bank offers trust services, estate planning, investments, retirement planning, and financial planning services. Alternative banking services include internet and mobile banking, electronic bill pay, mobile deposit, person-to-person payments, and 12 bank-owned automated teller machines (ATMs). The bank did not open or close any branches, and no merger or acquisition activities occurred since the previous evaluation.

Ability and Capacity

Assets totaled approximately \$604 million as of June 30, 2018, with loans totaling \$399 million and securities totaling \$157 million. The following table illustrates the loan portfolio.

Loan Portfolio Distribution as of 06/30/2018		
Loan Category	\$(000s)	%
Construction and Land Development	22,664	5.7
Secured by Farmland	0	0.0
Secured by 1-4 Family Residential Properties	294,452	73.7
Secured by Multifamily (5 or more) Residential Properties	23,079	5.8
Secured by Nonfarm Nonresidential Properties	45,699	11.4
Total Real Estate Loans	385,894	96.6
Commercial and Industrial Loans	11,226	2.8
Agricultural Loans	793	0.2
Consumer Loans	1,443	0.4
Other Loans	7	0.0
Less: Unearned Income	0	0.0
Total Loans	399,363	100.0
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any financial, legal, or other impediments that affect the bank's ability to meet assessment area credit needs.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. Cape Ann designated a single assessment area in the Cambridge-Newton-Framingham, MA Metropolitan Division (MD) (15764). The following sections discuss demographic and economic information for the assessment area.

Economic and Demographic Data

The assessment area includes 13 census tracts that make up the City of Gloucester and the Towns of Rockport, Manchester-by-the-Sea, and Essex in Essex County. These census tracts reflect the following income designations according to the 2015 American Community Survey (ACS) data.

- 1 low-income census tract,
- 3 moderate-income census tracts,
- 9 middle-income census tracts,
- 0 upper-income census tracts.

Per the 2010 U.S. Census, the assessment area previously had one low-income census tract, four moderate-income census tracts, seven middle-income census tracts, and one upper-income census tract. The 2015 ACS data reflects a change in census tract income designations, including one less moderate-income tract, two more middle-income tracts, and one less upper-income tract.” The bank’s lending performance will be evaluated considering the demographic data applicable in each year.

Further, in 2018, the U.S. Treasury designated two census tracts in Gloucester (2215.00 and 2214.00) as Opportunity Zones. The Opportunity Zone Program is a federally established program used to encourage growth in low- and moderate-income areas by providing investment incentives such as favorable tax treatment on capital gains. The following table illustrates select demographic characteristics of the assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	13	7.7	23.1	69.2	0.0	0.0
Population by Geography	45,404	6.3	18.0	75.7	0.0	0.0
Housing Units by Geography	22,277	7.2	17.1	75.7	0.0	0.0
Owner-Occupied Units by Geography	12,299	2.8	14.6	82.6	0.0	0.0
Occupied Rental Units by Geography	6,774	15.1	23.9	61.0	0.0	0.0
Vacant Units by Geography	3,204	7.5	12.4	80.2	0.0	0.0
Businesses by Geography	3,990	14.9	10.7	74.4	0.0	0.0
Farms by Geography	155	7.7	16.1	76.1	0.0	0.0
Family Distribution by Income Level	12,320	25.4	18.8	21.0	34.8	0.0
Household Distribution by Income Level	19,073	30.8	16.8	16.2	36.2	0.0
Median Family Income MSA - 15764 Cambridge-Newton- Framingham, MA MD		\$100,380	Median Housing Value			\$432,816
			Median Gross Rent			\$1,023
			Families Below Poverty Level			4.8%
<i>Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data</i> <i>Due to rounding, totals may not equal 100.0</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

According to 2017 D&B data, there were 3,990 non-farm businesses in the assessment area. Gross annual revenues (GARs) for these businesses are below.

- 87.8 percent have \$1 million or less
- 5.1 percent have more than \$1 million
- 7.1 percent have unknown revenues.

The analysis of commercial loans under the Borrower Profile criterion compares the distribution of businesses by GAR level. Service industries represent the largest portion of businesses at 46.0 percent; followed by retail trade at 13.1 percent; construction at 8.8 percent; and finance, insurance, and real estate at 7.7 percent. The vast majority of businesses in the assessment area are very small. The fact that 83.6 percent of businesses have GARs of less than \$0.5 million, 74.2 percent of businesses have four or less employees, and 91.8 percent of businesses operate from a single location support this conclusion. Major employers in the assessment area include Varian Associates, Essex Ambulance, the Brockwood School, and Rockport Public Schools.

Examiners used the 2016 and 2017 FFIEC-updated median family income levels to analyze home mortgage loans under the Borrower Profile criterion. The median family income in the

Cambridge-Newton-Framingham, MA MD increased from \$98,600 in 2016 to \$104,800 in 2017. The following table presents the low-, moderate-, middle-, and upper-income categories.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Cambridge-Newton-Framingham, MA MD Median Family Income (15764)				
2016 (\$98,600)	<\$49,300	\$49,300 to <\$78,880	\$78,880 to <\$118,320	≥\$118,320
2017 (\$104,800)	<\$52,400	\$52,400 to <\$83,840	\$83,840 to <\$125,760	≥\$125,760
<i>Source: FFIEC</i>				

The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units. Opportunities for home mortgage lending in the assessment area are somewhat limited, as only 55.2 percent of the 22,277 housing units are owner-occupied. The remaining units are occupied rental units (30.4 percent), and vacant units (14.4 percent).

Data obtained from the U. S. Bureau of Labor and Statistics indicates that in June 2018, the unemployment rate was 3.5 percent statewide. The unemployment rate in Essex County was similar and remained consistent throughout the evaluation period.

Competition

The assessment area is moderately competitive in the market for financial services. According to the 2017 peer deposit data there were 12 financial institutions that operated 21 full-service branches within the bank’s assessment area. Of these institutions, Cape Ann ranked 1st with a 32.2 percent deposit market share.

There is a moderate level of competition for home mortgage loans among several banks, credit unions, and non-depository mortgage lenders in the assessment area. In 2016 and 2017, Cape Ann ranked 1st among all HMDA lenders operating in the assessment area. In 2017, 164 lenders reported 1,439 originated or purchased residential mortgage loans; Cape Ann originated 181 loans for a market share of 12.6 percent. Institution for Savings ranked 2nd with 89 loans for 6.2 percent market share, and Wells Fargo Bank, N.A. ranked 3rd with 88 loans for 6.1 percent market share.

The analysis of commercial loans under the Lending Test does not include comparisons to aggregate data, as this type of data is not collected or made available. Aggregate data for small business lending; however, is the only available dataset that reflects the level of demand for small business loans. Small business loans are a specific subset of commercial loans. In 2016, 105 lenders reported 18,270 small business loans. Aggregate data in 2016 indicates a high degree of competition for small business loans in the assessment area, evidenced by the top three lenders originating approximately 50.8 percent of all small business loans. Examiners used this data to help determine the general level of competition in the area for commercial loans; however, direct comparisons are not included in the analysis.

Community Contact

As part of the evaluation process, examiners contact organizations active in the assessment area to assist in identifying the credit and community development needs. This information helps determine whether local financial institutions are responsive to the particular needs in the community. It also shows what credit and community development opportunities are available in the assessment area.

Examiners contacted a non-profit Community Action Agency based in the assessment area that offers affordable housing, homelessness prevention, education and job training for people in need in an effort to eliminate poverty. The contact indicated that affordable housing represents a primary credit and community development need in the area. The contact stated that there is a shortage of approximately 100 affordable housing units in the area; however, the contact also noted that many low-income individuals would remain unlikely to be able to afford to purchase a home, despite available programs, due to rising costs within the assessment area. Additionally, the contact indicated that financial literacy and job training are primary community development needs. The contact spoke positively about the local financial institutions involvement in the community, but stated that opportunities to provide financial literacy remain.

Credit and Community Development Needs and Opportunities

Considering information from community contacts, bank management, and demographic and economic data, examiners determined that affordable housing is the primary credit need in the assessment area. The shortage of affordable housing units and relative limited-affordability of housing by low-income individuals supports this need

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Cape Ann demonstrated excellent performance under the Lending Test. Geographic Distribution and Borrower Profile performance, particularly in home mortgage lending, support this conclusion.

Loan-to-Deposit Ratio

The LTD ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. Cape Ann's LTD ratio averaged 84.0 percent over the 12 calendar quarters from September 30, 2015, to June 30, 2018. The ratio ranged from a low of 81.0 percent as of September 30, 2016, to a high of 90.5 percent as of June 30, 2018. The ratio remained generally stable during the evaluation period. Cape Ann maintained a ratio similar to those of comparable institutions, as shown in the following table. Examiners selected comparable institutions based on their asset size, geographic location, and lending focus.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 06/30/2018 (\$000s)	Average Net LTD Ratio (%)
Cape Ann Savings Bank	603,898	84.0
Pentucket Bank	739,135	91.4
Beverly Bank	478,521	97.3
Haverhill Bank	390,957	83.1
<i>Source: Reports of Condition and Income 09/30/15 through 06/30/18</i>		

Assessment Area Concentration

The bank made a substantial majority of home mortgage loans and commercial loans, by number and dollar volume, within the assessment area. See the following table.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2016	171	89.5	20	10.5	191	57,652	89.7	6,613	10.3	64,265
2017	181	89.2	22	10.8	203	58,812	88.3	7,766	11.7	66,578
Subtotal	352	89.3	42	10.7	394	116,464	89.0	14,379	11.0	130,843
Small Business										
2017	29	85.3	5	14.7	34	10,353	92.2	872	7.8	11,225
Subtotal	29	85.3	5	14.7	34	10,353	92.2	872	7.8	11,225
Total	381	89.0	47	11.0	428	126,817	89.3	15,251	10.7	142,068
<i>Source: Bank Data Due to rounding, totals may not equal 100.0</i>										

Geographic Distribution

The geographic distribution of loans reflects excellent dispersion throughout the assessment area. The bank's excellent performance of home mortgage lending primarily supports this conclusion. Examiners focused on the percentage by number of loans in low- and moderate-income census tracts.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects excellent dispersion throughout the assessment area. Examiners focused on the comparison to aggregate data. The following table shows that the bank's performance in low-income census tracts was slightly below the aggregate level in 2016; however, the bank's performance exceeded aggregate in 2017. The bank's performance in moderate-income census tracts was above aggregate and demographics in both 2016 and 2017.

Market share data further supports the bank's excellent performance. In 2016, the bank ranked 3rd of 50 lenders in lending in low-income census tracts with a 6.2 percent market share. The number one lender, New Fed Mortgage Corporation, originated only one more loan than Cape Ann. In the same year, Cape Ann ranked 1st of 110 lenders in lending in moderate-income census tracts with a 12.0 percent market share. In 2017, Cape Ann was the leader in both low- and moderate-income census tracts, highlighting the bank's excellent performance under this criterion.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2016	3.9	5.2	6	3.5	1,149	2.0
2017	2.8	3.5	11	6.1	3,188	5.4
Moderate						
2016	25.2	25.2	57	33.3	18,535	32.2
2017	14.6	14.9	31	17.1	7,887	13.4
Middle						
2016	59.3	56.7	93	54.4	31,410	54.5
2017	82.6	81.6	139	76.8	47,737	81.2
Upper						
2016	11.6	12.9	15	8.8	6,558	11.4
2017	0.0	0.0	0	0.0	0	0.0
Not Available						
2016	0.0	0.0	0	0.0	0	0.0
2017	0.0	0.0	0	0.0	0	0.0
Totals						
2016	100.0	100.0	171	100.0	57,652	100.0
2017	100.0	100.0	181	100.0	58,812	100.0

Source: 2010 U.S. Census & 2015 ACS Census; 1/1/2016 - 12/31/2017 Bank Data, 2016 & 2017 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0

Commercial Loans

The geographic distribution of sampled commercial loans reflects reasonable dispersion. As shown in the following table, the bank's performance in low-income census tracts is reasonable when compared to business demographics, falling slightly below the percent of businesses in those tracts. The bank's level of lending in moderate-income census tracts was comparable to the percent of businesses in those tracts. These comparisons are reasonable given the bank's capacity and overall strategic focus.

Geographic Distribution of Commercial Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low					
2017	14.9	3	10.3	726	7.0
Moderate					
2017	10.7	3	10.3	2,525	24.4
Middle					
2017	74.4	23	79.3	7,103	68.6
Upper					
2017	0.0	0	0.0	0	0.0
Not Available					
2017	0.0	0	0.0	0	0.0
Totals					
2017	100.0	29	100.0	10,354	100.0
<i>Source: 2017 D&B Data; 1/1/2017 - 12/31/2017 Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0</i>					

Borrower Profile

The distribution of borrowers reflects excellent penetration among individuals of different income levels and businesses of different sizes in the assessment area. The bank's excellent performance of home mortgage lending supports this conclusion. Examiners focused on the percentage by number of home mortgage loans to low- and moderate-income borrowers. They also focused on the percentage by number of commercial loans to businesses with GARs of \$1.0 million or less.

Home Mortgage Loans

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate-income borrowers, is excellent. Examiners focused on the comparison to aggregate data.

In 2016, home mortgage lending to low-income borrowers was excellent when compared to aggregate performance of 5.7 percent. Although the bank's performance was below the 21.0 percent of families in the low-income category, the demand and opportunity for lending to low-income families was relatively limited. A low-income family in the assessment area, with an income of less than \$49,300, would not likely qualify for a mortgage under conventional underwriting standards, especially considering the median housing value of \$432,816. Further, 30.4 percent of the housing market in the assessment area is occupied rental housing, limiting the demand for home mortgage loans, particularly to low- and moderate-income families. The bank's performance in 2017 was similar, and continued to exceed aggregate performance. Cape Ann's performance of lending to moderate-income borrowers was also excellent when compared to aggregate performance and the percent of moderate-income families in 2016 and 2017.

Market share data further supports the bank's excellent performance under this criterion. In 2016, Cape Ann was the leader in lending to low- and moderate- income borrowers. The bank ranked 1st of 41 lenders in lending to low-income borrowers with a 21.5 percent market share. The bank also ranked 1st of 81 lenders in lending to moderate-income borrowers with an 11.7 percent market share. In 2017, Cape Ann continued to lead in lending to both low- and moderate-income borrowers.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2016	21.0	5.7	23	13.5	3,501	6.1
2017	25.4	6.7	19	10.5	3,736	6.4
Moderate						
2016	18.8	15.0	33	19.3	6,006	10.4
2017	18.8	19.0	38	21.0	7,983	13.6
Middle						
2016	22.9	23.9	36	21.1	9,386	16.3
2017	21.0	26.3	43	23.8	13,120	22.3
Upper						
2016	37.3	42.4	50	29.2	23,051	40.0
2017	34.8	37.4	53	29.3	21,240	36.1
Not Available						
2016	0.0	13.1	29	17.0	15,708	27.2
2017	0.0	10.6	28	15.5	12,733	21.7
Totals						
2016	100.0	100.0	171	100.0	57,652	100.0
2017	100.0	100.0	181	100.0	58,812	100.0
<i>Source: 2010 U.S. Census & 2015 ACS Census ; 1/1/2016 - 12/31/2017 Bank Data, 2016 & 2017 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>						

Commercial Loans

The distribution of sampled commercial loans reflects reasonable penetration to businesses with GARs of \$1.0 million or less. As shown in the following table, the majority of sampled loans were to those businesses. Given the high level of competition for small business loans in the assessment area, combined with the significant volume of business with GARs of \$0.5 million or less, the bank's performance is reasonable.

Distribution of Commercial Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000					
2017	87.8	22	75.9	6,145	59.4
> \$1,000,000					
2017	5.1	3	10.3	2,711	26.2
Revenue Not Available					
2017	7.0	4	13.8	1,498	14.5
Totals					
2017	100.0	29	100.0	10,353	100.0
<i>Source: 2017 D&B Data; 1/1/2017 - 12/31/2017 Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0</i>					

Response to Complaints

The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

COMMUNITY DEVELOPMENT TEST

Cape Ann Savings Bank demonstrated adequate responsiveness to community development needs in its assessment area through community development loans, qualified investments, and community development services, considering the institution’s capacity and the need and availability of such opportunities.

Community Development Loans

Cape Ann Savings Bank originated 21 community development loans totaling approximately \$2.3 million during the evaluation period. The bank’s performance is also consistent with similarly situated banks also rated Satisfactory. Of the 21 community development loans, 16 loans totaling \$743,000 were used for economic development in the bank’s assessment area. Additionally, the bank supported a large affordable housing project during the evaluation period.

Community Development Lending												
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Neighborhood Stabilization		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
08/25/2015-12/31/2015	1	1,075	0	0	2	19	0	0	0	0	3	1,094
2016	0	0	0	0	9	419	0	0	0	0	9	419
2017	1	175	0	0	5	305	0	0	0	0	6	480
YTD 2018	0	0	3	303	0	0	0	0	0	0	3	303
Total	2	1,250	3	303	16	743	0	0	0	0	21	2,296

Source: Bank Records

Below are notable examples of the bank’s community development loans.

- In 2015, the bank made a loan for \$1.0 million for the refinance and renovations for a mixed-use property. The property consists of 19 one-bedroom units and three commercial units. The 19 one-bedroom units are available to individuals who are looking for a sober living community and are committed to actively practicing recovery. All units are subject to Section 8 vouchers for affordable housing.
- In 2017, the bank made a loan for \$241,012 to a local business for the purchase and renovation of a new location as part of the SBA 504 program. The new space provides a new location for this existing business, which employs five part-time employees. The new location also provides space for two more individual businesses to occupy.
- In 2017, the bank made a loan for \$25,000 to a small business through the Capital Access Program. This loan program, created by the Massachusetts Business Development Corporation, helps small businesses retain and create jobs. This loan was responsible for the creation of two new jobs.

Qualified Investments

Cape Ann Savings Bank made 47 qualified investments totaling approximately \$133,000 to local organizations that benefited the assessment area. This number includes nine equity investments, of which five totaling \$29,000 are new since the prior evaluation, and four remain outstanding with a current book value of \$22,000. The bank's qualified equity investments represent .04 percent of average total securities.

Of the total dollar amount, 42.9 percent had a primary purpose of economic development. These investments demonstrate the bank's responsiveness, particularly to the need for economic development for the low- and moderate-income community. The following table illustrates the bank's community development investments by year and purpose.

Qualified Investments										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	0	0	0	0	4	22	0	0	4	22
8/25/2015 – 12/31/2015	0	0	0	0	0	0	0	0	0	0
2016	0	0	0	0	2	14	0	0	2	14
2017	0	0	0	0	1	6	0	0	1	6
YTD 2018	0	0	0	0	2	9	0	0	2	9
Subtotal	0	0	0	0	9	51	0	0	9	51
Qualified Grants & Donations	17	31	21	51	0	0	0	0	38	82
Total	17	31	21	51	9	51	0	0	47	133

Source: Bank Records

Below are notable examples of the bank's qualified investment activities.

Qualified Equity Investments

- **Massachusetts Business Development Corporation** – This organization is an economic development company that provides financing and investment capital for growing companies in Massachusetts. The bank provides investments to this organization, which uses those funds to provide loans to small businesses where the potential for economic expansion and job creation is high.

Charitable Contributions

- **Action Inc.** – Action Inc. is a non-profit organization that serves the residents of Gloucester, Essex, Ipswich, Manchester-by-the-Sea and Rockport. Action Inc. offers a broad range of supportive services, including fuel assistance, energy efficiency programs, case management, housing assistance, homelessness prevention, job training and

education, and affordable housing. The organization primarily benefits low- and moderate-income individuals.

- ***The Open Door*** – The mission of The Open Door is to alleviate the impact of hunger in Gloucester, Rockport, Manchester-by-the-Sea, Essex, and surrounding towns. The Open Door services consist of a food pantry, community meals, a thrift store, and a mobile market. Their programs include free summer meals for kids, assistance applying for food stamps, job-training, and a collaborative meals program that helps other organizations feed their clients. The organization primarily serves low- and moderate-income people.
- ***Harborlight Community Partners*** – This non-profit Massachusetts Community Development Corporation provides affordable housing with services primarily for low- and moderate-income people living in Southern Essex County, which includes the assessment area. Harborlight Community Partners offers affordable housing for first time homebuyers, individuals, families, and elders.
- ***YMCA of the North Shore*** – The YMCA of the North Shore affordable housing program offers housing to low- and moderate-income adults and families looking for a clean, safe and affordable place to call home. The YMCA operates housing facilities in Beverly, Ipswich, Cape Ann and Haverhill, putting a roof over the heads of more than 500 children and adults.

Community Development Services

During the evaluation period, bank employees provided 34 instances of financial expertise or technical assistance to 15 different community development-related organizations in the assessment area. The following table illustrates the bank’s community development services by year and purpose.

Community Development Services						
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Neighborhood Stabilization	Totals
	#	#	#	#	#	#
08/25/2015- 12/31/2015	0	2	0	0	0	2
2016	2	10	0	0	0	12
2017	2	11	0	0	0	13
YTD 2018	0	6	1	0	0	7
Total	4	29	1	0	0	34

Source: Bank Records

Below are notable examples of the bank’s community development services.

Employee Involvement

Bank employees are involved in local community development organizations in multiple capacities, and provide their financial or technical expertise. The following are some of the organizations that benefited from the dedicated service of bank employees.

- ***City of Gloucester Affordable Housing Trust*** – A Vice President of the bank acts as Director of the City of Gloucester Affordable Housing Trust. The Gloucester Affordable Housing Trust was created to support the creation, preservation, and maintenance of affordable housing in the City of Gloucester. It is the policy of the trust to protect, preserve and enhance the economic and social diversity of the City and to provide affordable rental and home-ownership options to low- and moderate-income individuals.
- ***Cape Ann YMCA*** – A Senior Vice President sits on the Board of Directors of the Cape Ann YMCA. The YMCA focuses on youth development, healthy living, and social responsibility. The Cape Ann YMCA provides community education, affordable housing, programs for seniors, and many other services targeted toward low- and moderate-income individuals.
- ***Gilbert Residuary Fund*** – Five members of the Board of Trustees serve on a committee to manage the Gilbert Residuary Fund. The fund was established to benefit low- and moderate-income individuals within the city of Gloucester.

Financial Education and Support

The bank also provided educational workshops to local schools, serving a primary community development need within the assessment area. The workshops provided financial literacy covering multiple topics. A description of the workshops is listed below.

- ***Gloucester Educational Savings Bank*** – The Gloucester Educational Savings Bank is a school bank branch that serves the students and staff of Gloucester High School. A bank employee supervises the student tellers that operate the bank. The program provides students with firsthand experience working in the banking industry and seeks to instill professionalism and customer service skills they can use throughout their careers. Students are also encouraged to take a full year Banking Theory course or a half-year course in Personal Finance. Gloucester High School serves primarily low- and moderate-income students.
- ***Saving Makes “Cents”*** - Cape Ann Savings Bank participates in the Commonwealth of Massachusetts “Saving Makes Cents Program.” This program is for elementary school children, which focuses on teaching the ABCs of money management. Schools and banks administer the program with a curriculum from the Office of Economic Empowerment that teaches basic monetary concepts. Cape Ann Savings Bank provides this program at local elementary schools in Gloucester, serving primarily low- and moderate-income students.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore, this consideration did not affect the institution's overall CRA rating.

APPENDIX

FAIR LENDING POLICIES AND PROCEDURES

The Division of Banks provides comments regarding the institution's fair lending policies and procedures pursuant to Regulatory Bulletin 1.3-106. A review of the bank's public comment file indicated the bank received no complaints pertaining to the institution's CRA performance since the previous examination. The fair lending review was conducted in accordance with the Federal Financial Institutions Examination Council (FFIEC) Interagency Fair Lending Examination Procedures. Based on these procedures, no evidence of disparate treatment was noted.

MINORITY APPLICATION FLOW

The bank's HMDA LARs for 2016 and 2017 were reviewed to determine if the application flow from the different racial groups within the Institution's assessment area was reflective of the assessment area's demographics.

According to the 2015 ACS Census Data, the bank's assessment area contained a total population of 45,404 individuals of which 4.7 percent are minorities. The assessment areas minority and ethnic population is 0.8 percent Black/African American, 0.6 percent Asian, 0.1 percent American Indian, 0.0 percent Hawaiian/Pacific Islander, 1.8 percent Hispanic or Latino and 2.4 percent other.

The bank's level of lending was compared with that of the aggregate's lending performance level for the most recent years that data was available, the years 2016 and 2017. The comparison of this data assists in deriving reasonable expectations for the rate of applications the bank received from minority residential loan applicants. Refer to the table below for information on the bank's minority application flow as well as the aggregate lenders in the bank's assessment area.

MINORITY APPLICATION FLOW						
RACE	Bank 2016		2016 Aggregate Data	Bank 2017		2017 Aggregate Data
	#	%	%	#	%	%
American Indian/ Alaska Native	0	0.0	0.1	0	0.0	0.0
Asian	0	0.0	0.4	2	0.7	0.4
Black/ African American	0	0.0	0.2	0	0.0	0.3
Hawaiian/Pacific Islander	0	0.0	0.0	0	0.0	0.0
2 or more Minority	0	0.0	0.0	0	0.0	0.0
Joint Race (White/Minority)	1	0.5	0.8	2	0.7	0.7
Total Minority	1	0.5	1.5	4	1.4	1.4
White	201	90.5	79.5	245	87.8	81.0
Race Not Available	20	9.0	19.0	30	10.8	17.6
Total	222	100.0	100.0	279	100.0	100.0
ETHNICITY						
Hispanic or Latino	0	0.0	0.9	0	0.0	0.7
Not Hispanic or Latino	199	89.6	79.2	247	88.5	80.3
Joint (Hispanic/Latino /Not Hispanic/Latino)	1	0.5	0.9	2	0.7	0.9
Ethnicity Not Available	22	9.9	19.0	30	10.8	18.1
Total	222	100.0	100.0	279	100.0	100.0

Source: US Census 2010, 2015 ACS Census Data, HMDA Aggregate Data 2016, HMDA LAR Data 2016 and 2017

In 2016, the bank received 222 HMDA reportable loan applications from within its assessment area. Of these applications, 1 or 0.5 percent were received from minority applicants, of which 0 resulted in originations. The aggregate received 2,674 HMDA reportable loan applications of which 38 or 1.4 percent were received from minority applicants and 21 or 1.1 percent were originated. For the same time period, the bank also received 1 or 0.5 percent of applications from ethnic groups of Hispanic origin within its assessment area of which 1 or 100.0 percent were originated versus the aggregate that received 46 applications or 1.8 percent of which 29 or 63.0 percent were originated.

For 2017, the bank received 279 HMDA reportable loan applications from within its assessment area. Of these applications, 4 or 1.4 percent were received from minority applicants, of which 2 or 50.0 percent resulted in originations. The aggregate received 2019 HMDA reportable loan applications of which 27 or 1.3 percent were received from minority applicants and 17 or 1.2 percent were originated. For the same time period, the bank received 2 or 0.7 percent of applications from ethnic groups of Hispanic origin within its assessment area of which 2 or 100.0 percent were originated versus the aggregate that received 33 applications or 1.6 percent of which 29 or 87.9 percent were originated.

Considering the demographic composition of the assessment area and comparisons to aggregate data in 2016 and 2017, the bank's minority application flow is adequate.

GLOSSARY

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

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

Assessment Area: A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county. Census tract boundaries normally follow visible features, but they may follow governmental unit boundaries and other non-visible features in some instances. They always nest within counties. Census tracts average about 4,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogenous for population characteristics, economic status, and living conditions to allow for statistical comparisons.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

Community Development: For loans, investments, and services to qualify as community development activities, their primary purpose must:

- (1) Support affordable housing for low- and moderate-income individuals;
- (2) Target community services toward low- and moderate-income individuals;
- (3) Promote economic development by financing small businesses or farms; or
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies; or
- (5) Enable or facilitate projects or activities that address needs regarding foreclosed or abandoned residential properties in designated target areas.

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Bank CDCs are also tailored to their financial and marketing needs. 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.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. 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. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- 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;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Community Development Loan: A loan that

- (1) Has as its primary purpose community development; and
- (2) Except in the case of a wholesale or limited purpose bank:
 - (i) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
 - (ii) Benefits the bank's assessment area(s) or a broader statewide or regional area including the bank's assessment area(s).

Community Development Service: A service that

- (1) Has as its primary purpose community development;
- (2) Is related to the provision of financial services; and
- (3) Has not been considered in the evaluation of the bank's retail banking services under § 345.24(d).

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

Core Based Statistical Areas (CBSAs): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

Distressed Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

- (1) an unemployment rate of at least 1.5 times the national average;
- (2) a poverty rate of 20 percent or more; or,
- (3) a population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

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. Other family 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).

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

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

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

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

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.

Home Mortgage Loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multi-family (five or more families) dwelling loans, loans to purchase manufactured homes, and refinancings of home improvement and home purchase loans.

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

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 are only one person, median household income is usually less than median family income.

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.

Limited-Scope Review: A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (for example, geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

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

Low Income Housing Tax Credit: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. 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, they may 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 throughout the compliance period, usually 30 years.

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

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.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Micropolitan Statistical Area: CBSA associated with at least one urbanized area having a population of at least 10,000, but less than 50,000.

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.

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.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area: All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

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

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

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

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Investment Company (SBIC): SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

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.

Underserved middle-income nonmetropolitan geographies: A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for

- Population size, density, and dispersion indicating the area's population is sufficiently small, thin, and
- Distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

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.

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).

"Urban" excludes 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.

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, at (Address at main office)."

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Federal Deposit Insurance Corporation, at (Address at main office)."

[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 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.