

PUBLIC DISCLOSURE

October 24, 2022

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Lee Bank
Certificate Number: 33645

75 Park Street
Lee, MA 02138

Division of Banks
1000 Washington Street, 10th Floor
Boston, Massachusetts 02118

Federal Deposit Insurance Corporation
350 Fifth Avenue, Suite 1200
New York, New York 10118

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

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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.

The Lending Test is rated Satisfactory.

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

The Community Development Test is rated Outstanding.

The institution's community development performance demonstrates excellent responsiveness to community development needs in its assessment area through community development loans, qualified investments, and community development services, as appropriate, considering the institution's capacity and the need and availability of such opportunities for community development in the institution's assessment area.

DESCRIPTION OF INSTITUTION

Background

Lee Bank is headquartered in Lee, Massachusetts (MA). The bank is the sole subsidiary of Berkshire Financial Services, Inc., a mutual holding company. The bank has not had any mergers or acquisitions since the previous evaluation. The bank started the Lee Bank Foundation in 2021, which serves to reinvest in and provide financial support to organizations in Berkshire County. The FDIC and Massachusetts Division of Banks conducted the previous evaluation on July 29, 2019 using FFIEC Intermediate Small Institution Examination Procedures. The joint evaluation resulted in an overall Satisfactory rating, with both the Lending Test and Community Development Test receiving a Satisfactory rating.

Operations

Lee Bank operates four branches and a main office in Berkshire County, MA. Branches are located in Great Barrington, Stockbridge, Lenox, and Pittsfield and the main office is located in Lee. The bank has not opened or closed any branches since the previous evaluation. Lee Bank offers home mortgage, consumer, and commercial lending products. The bank's primary business focus is residential and commercial lending. Home mortgage products include fixed and adjustable rate mortgages, jumbo mortgages, Veteran Loans, and MassHousing loans. Additionally, the bank offers both government and non-government first-time homebuyer programs. Consumer lending products consist of personal loans and auto loans. Commercial lending products include commercial mortgages, business term loans, business lines of credit, and SBA loans. Lee Bank offers standard personal and business deposit products. Alternative delivery systems include mobile banking, online banking, and automated teller machines (ATMs) located at all branch locations.

Ability and Capacity

Lee Bank reported total assets of \$533.9 million, total loans of \$343.0 million, and total deposits of \$492.7 million on its September 30, 2022 Consolidated Report of Condition and Income (Call Report). Additionally, the bank reported securities of \$127.5 million. Since the previous evaluation, assets have increased by 34.4 percent, total loans have increased by 6.6 percent, and total deposits have increased by 45.3 percent. Residential lending represented a majority of the loan portfolio, which is consistent with the previous evaluation.

The following table provides information related to the composition of the loan portfolio.

Loan Portfolio Distribution as of 09/30/2022		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	14,437	4.2
Secured by Farmland	0	0.0
Secured by 1-4 Family Residential Properties	189,843	55.3
Secured by Multifamily (5 or more) Residential Properties	11,952	3.5
Secured by Nonfarm Nonresidential Properties	98,139	28.6
Total Real Estate Loans	314,371	91.6
Commercial and Industrial Loans	20,929	6.1
Agricultural Production and Other Loans to Farmers	0	0.0
Consumer Loans	7,728	2.3
Obligations of State and Political Subdivisions in the U.S.	0	0.0
Other Loans	0	0.0
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
Total Loans	343,028	100.0
<i>Source: Reports of Condition and Income. Due to rounding, totals may not equal 100.0%.</i>		

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

DESCRIPTION OF ASSESSMENT AREA

Lee Bank designated one assessment area in the Pittsfield, MA MSA. The assessment area has not changed since the previous evaluation. The assessment area consists of 24 census tracts in Berkshire County, MA. According to 2015 ACS data, the assessment area is composed of 3 low-income census tracts, 1 moderate-income census tract, 12 middle-income census tracts, and 8 upper-income census tracts. No census tract designations have changed since the previous evaluation. All of the low- and moderate-income census tracts are located in the City of Pittsfield. Examiners used full-scope examination procedures to evaluate Lee Bank’s performance in its assessment area.

Economic and Demographic Data

The following table reflects select demographic information for the assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	24	12.5	4.2	50.0	33.3	0.0
Population by Geography	82,076	13.3	6.3	48.8	31.6	0.0
Housing Units by Geography	45,558	13.5	5.2	48.2	33.2	0.0
Owner-Occupied Units by Geography	24,231	4.9	6.4	54.1	34.7	0.0
Occupied Rental Units by Geography	11,416	36.4	6.3	33.4	23.9	0.0
Vacant Units by Geography	9,911	8.1	0.8	50.9	40.2	0.0
Businesses by Geography	8,480	19.8	2.6	38.3	39.2	0.0
Farms by Geography	305	3.0	1.3	48.5	47.2	0.0
Family Distribution by Income Level	21,096	22.1	16.4	20.3	41.1	0.0
Household Distribution by Income Level	35,647	24.5	15.6	16.8	43.2	0.0
Median Family Income MSA – 38340 Pittsfield, MA MSA	\$66,604	Median Housing Value				\$248,652
FFIEC-Estimated Median Family Income for 2021	\$85,200	Median Gross Rent				\$806
		Families Below Poverty Level				10.4%

*Source: 2015 ACS Data; 2021 D&B Data; FFIEC Estimated Median Family Income;
(*) The NA category consists of geographies that have not been assigned an income classification.*

There is a limited opportunity to originate owner-occupied housing loans in low- and moderate-income census tracts, with only 4.9 percent of owner-occupied units in low-income census tracts and 6.4 percent of owner-occupied units in moderate-income census tracts. The median housing value in the assessment area is more than three times the income of low- and moderate-income individuals, which indicates housing is not affordable for low- and moderate-income individuals. In addition, the high number of vacant units indicates a high number of secondary and rental homes in the assessment area. The high number of secondary homes further increases housing prices.

The City of Pittsfield is located in the bank’s assessment area and contains all of the low- and moderate-income census tracts in the assessment area. In Pittsfield, 14.8 percent of families live below the poverty level. Housing in Pittsfield is not affordable for low- and moderate-income

individuals due to the high median housing value, which contributes to the large number of occupied rental units and low number of owner-occupied units in low-income census tracts.

According to 2021 D&B data, the service industry represents the largest portion of businesses at 39.2 percent. Other significant industries include non-classifiable establishments (16.5 percent), retail trade (14.0 percent), and construction (7.3 percent). The majority of businesses in the area are small businesses, as 88.8 percent operate from a single location and 63.0 percent employ four or less employees.

According to Bureau of Labor Statistics data, the unemployment rate in the Pittsfield, MA MSA increased dramatically in 2020 due to the COVID-19 pandemic. Unemployment rates decreased in 2021, but remained higher than 2019 levels. State and national unemployment levels experienced the same increase in 2020. However, the unemployment rate in the Pittsfield, Massachusetts MSA remained higher than state and national averages during the 2019, 2020, and 2021.

Unemployment Rates			
Area	2019	2020	2021
	%	%	%
Pittsfield, MA MSA	3.9	10.5	7.0
State of MA	3.1	9.4	5.7
National Average	3.7	8.1	5.3
<i>Source: Bureau of Labor Statistics</i>			

Examiners used FFIEC-estimated median family income levels to analyze home mortgage loans under the Borrower Profile criterion. The following table presents the FFIEC-estimated median family income levels for the Pittsfield, MA MSA for the three years included in this evaluation.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Pittsfield, MA MSA Median Family Income (38340)				
2019 (\$81,700)	<\$40,850	\$40,850 to <\$65,360	\$65,360 to <\$98,040	≥\$98,040
2020 (\$88,800)	<\$44,400	\$44,400 to <\$71,040	\$71,040 to <\$106,560	≥\$106,560
2021 (\$85,200)	<\$42,600	\$42,600 to <\$68,160	\$68,160 to <\$102,240	≥\$102,240
<i>Source: FFIEC</i>				

Competition

The Pittsfield, MA MSA is a moderately competitive market for financial services. Per FDIC Deposit Market Share Data as of June 30, 2022, 10 institutions operate 51 branches in the assessment area. Of these institutions, Lee Bank ranked 4th with a deposit market share of 9.5 percent. The bank is ranked below Berkshire Bank (37.1 percent market share), Adams Community Bank (16.6 percent market share), and TD Bank, NA (13.8 percent market share).

There is moderate level of competition for home mortgage loans among banks, credit unions, and non-depository mortgage lenders. Based on 2021 peer mortgage data, 212 lenders originated or purchased 3,430 home mortgage loans in the assessment area. Lee Bank ranked 3rd with a 7.9 percent market share, by number. Greylock Federal Credit Union (16.4 percent market share) and Adams Community Bank (10.4 percent market share) outranked Lee Bank.

Although examiners did not compare Lee Bank's small business lending performance to aggregate data, 2020 aggregate small business data reflects moderate competition in the assessment area. In 2020, 95 lenders originated or purchased 2,525 small business loans. The top three lenders include Berkshire Bank (20.1 percent market share), American Express National Bank (17.6 percent market share), and TD Bank, NA (7.3 percent market share).

Community Contact

Examiners conducted a community contact with a representative from a non-profit organization that serves Berkshire County. The organization focuses on providing affordable housing to residents and connecting people with housing that suits their needs. The organization is currently developing two major projects to help provide housing to the unhoused population in the area, including a resource center that provides a kitchen, lockers, charging ports, and social resources.

The community contact identified affordable housing as a major need in Berkshire County. Wealthier borrowers purchase second homes in Berkshire County, which increases housing prices beyond what residents can afford, given the median family income for the area. In addition to the lack of affordable housing, the community contact identified the quality of the housing stock as an issue for many borrowers, especially low- and moderate-income borrowers. Aging houses often do not meet fire and health codes and do not meet the needs or desires of potential buyers. Although there is a demand for affordable housing, there is little construction of affordable housing taking place due to zoning issues, resident opposition, and conservation efforts.

The community contact identified financial literacy education programs and down payment assistance programs as opportunities for financial institutions to assist the community. Additionally, the community contact identified Paycheck Protection Program (PPP) lending as a need within the community. During the pandemic, many businesses required PPP loans to remain in business. Several banks operating in the area worked with businesses in order to originate PPP loans.

Credit and Community Development Needs and Opportunities

Considering information from the community contact, bank management, and demographic and economic data, examiners determined home mortgage lending and commercial lending to be the primary credit needs in the area. Furthermore, the assessment area's community development needs relate to affordable housing, community services, and economic development.

SCOPE OF EVALUATION

General Information

This performance evaluation covers the period from the prior evaluation dated July 29, 2019 to the current evaluation dated October 24, 2022. Examiners used FFIEC Intermediate Small Institution procedures to evaluate the bank's performance. Examiners considered activities conducted through the Lee Bank Foundation for the Community Development Test.

Activities Reviewed

Examiners analyzed the bank's home mortgage and small business lending. The bank's major product line is home mortgage lending, which received more weight than small business lending when drawing conclusions for the Lending Test. This conclusion considered the bank's business strategy and the number and dollar volume of loans originated during the evaluation period. The bank did not originate any small farm loans during the evaluation period. Therefore, examiners did not analyze or present data for this product.

The evaluation considered all loans reported on the bank's Home Mortgage Disclosure Act (HMDA) Loan Application Registers for 2019, 2020, and 2021. The bank reported 264 loans totaling \$60.8 million in 2019, 452 loans totaling \$120.6 million in 2020, and 305 loans totaling \$85.5 million in 2021. The bank experienced an increase in home mortgage lending due to the COVID-19 Pandemic. Many consumers purchased homes in the area due to remote work, allowing workers to relocate from big cities.

HMDA aggregate data for 2019, 2020, and 2021 and 2015 American Community Survey (ACS) data provided standards of comparison for the home mortgage loans reviewed. Although the Assessment Area Concentration factor presents all years of HMDA data reviewed, Geographic Distribution and Borrower Profile only present 2020 and 2021 HMDA data, as 2021 is the most recent year with aggregate data and the presentation of both years provides trend analysis.

Lee Bank is not required to collect or report small business data, but it elected to collect the data for CRA purposes. The evaluation considered all small business loans originated in 2019, 2020, and 2021. Examiners presented small business data for 2019, 2020, and 2021. Examiners elected to present all three years to demonstrate performance prior to and after the introduction of the PPP loan program. The bank originated 143 small business loans totaling \$15.6 million in 2019, 472 small business loans totaling \$46.3 million in 2020, and 388 small business loans totaling \$34.8 million in 2021. Since the bank is not required to and does not report small business loan data, examiners did not use aggregate data for comparison. D&B data for 2019, 2020, and 2021 provided a comparison standard for small business lending.

While examiners reviewed and presented both the number and dollar volume of home mortgage and small business loans, examiners emphasized performance by number of loans when conducting the Geographic Distribution and Borrower Profile analyses. The number of loans is a better indicator of geographies, individuals, and businesses served.

For the Community Development Test, examiners evaluated community development loans, qualified investments, and community development services from the prior evaluation date of July 29, 2019 to the current evaluation date of October 24, 2022.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Lee Bank demonstrated Satisfactory performance under the Lending Test. The bank's reasonable Geographic Distribution and Borrower Profile performances support this conclusion. The following sections summarize the bank's performance under each criterion.

Loan-to-Deposit Ratio

The loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and assessment area needs. The bank's LTD ratio, calculated from Call Report data, averaged 81.7 percent over the past 13 quarters. The highest LTD ratio was 98.3 percent on September 30, 2019. The lowest LTD ratio was 66.7 percent on March 31, 2022. Lee Bank's LTD ratio has declined since the previous evaluation due to the COVID-19 Pandemic. During the evaluation period, the bank experienced an increase in deposits due to stimulus check money and an increase in the number of consumers saving rather than taking out loans.

Examiners compared Lee Bank's average net LTD ratio to three other financial institutions. Examiners selected similarly situated banks based on asset size, branching structure, geographic location, and lending focus. As shown in the following table, the bank's performance is comparable to similarly situated institutions, reflecting reasonable performance.

Loan-to-Deposit (LTD) Ratio Comparison		
Bank	Total Assets as of 09/30/2022 (\$000s)	Average Net LTD Ratio (%)
Lee Bank	533,943	81.7
Pittsfield Co-operative Bank	382,575	81.5
Adams Community Bank	914,932	92.4
Monson Savings Bank	626,649	85.1

Source: Reports of Condition and Income 09/30/2019 - 09/30/2022

Assessment Area Concentration

Lee Bank originated a majority of home mortgage and small business loans inside its assessment area. For home mortgage lending, the percentage of home mortgage loans inside the assessment area remained steady from 2019 to 2020 and increased from 2020 to 2021. For small business lending, the percentage of small business loans decreased slightly from 2019 to 2020 and remained steady from 2020 to 2021. The following table highlights the bank's lending inside and outside the assessment area.

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										
2019	198	75.0	66	25.0	264	45,384	74.7	15,365	25.3	60,750
2020	347	76.8	105	23.2	452	92,462	76.7	28,135	23.3	120,597
2021	271	88.9	34	11.1	305	76,808	89.8	8,708	10.2	85,516
Subtotal	816	79.9	205	20.1	1,021	214,655	80.4	52,208	19.6	266,862
Small Business										
2019	134	93.7	9	6.3	143	13,851	88.5	1,798	11.5	15,649
2020	421	89.2	51	10.8	472	39,931	86.3	6,322	13.7	46,253
2021	342	88.1	46	11.9	388	29,380	84.5	5,374	15.5	34,754
Subtotal	897	89.4	106	10.6	1,003	83,162	86.0	13,494	14.0	96,656
Total	1,713	84.6	311	15.4	2,024	297,817	81.9	65,702	18.1	363,518
<i>Source: Bank Data</i>										
<i>Due to rounding, totals may not equal 100.0%</i>										

Geographic Distribution

The geographic distribution reflects reasonable dispersion throughout the assessment area. The bank's performance in home mortgage and small business lending supports this conclusion.

Home Mortgage

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. Although the following tables show that the bank is behind aggregate and demographic data for 2020 and 2021, market share reports and demographic data support a reasonable conclusion.

The bank's performance in low-income census tracts is below aggregate and demographic data. However, 2021 Peer Mortgage Data reveals that Lee Bank is performing in line with other community banks. Based on 2021 Peer Mortgage Data in low-income census tracts, Lee Bank ranked 8th with 3.2 percent market share, out of 36 lenders that originated or purchased a home mortgage loan in the low-income census tracts in the assessment area. Additionally, Lee Bank was the 3rd highest ranked community lender. This performance is below Adams Community Bank (14.8 percent market share) and Pittsfield Cooperative Bank (5.8 percent market share), but ahead of Berkshire Bank (2.7 percent market share) and MountainOne Bank (1.1 percent market share).

Examiners analyzed the bank's owner-occupied lending activity within low-income census tracts relative to other community banks. Examiners determined that Lee Bank ranked among other community banks. Based on 2021 Peer Mortgage Data, Lee Bank originated 3 loans for owner-occupied residences in its low-income census tracts. Half of Lee Bank's loans in low-income census tracts went towards owner-occupied residences. Lee Bank ranked 10th out of 22 lenders that originated an owner-occupied loan in a low-income census tract. Lee Bank ranked ahead of

Berkshire Bank, which was ranked 12th with 2 loans. Adams Community Bank ranked 3rd with 13 owner-occupied loans and Pittsfield Bank ranked 8th with 4 loans.

The bank's performance in the one moderate-income census tract is below aggregate and demographic data. However, 2021 Peer Mortgage Data reveals that Lee Bank is performing only slightly below other community banks. Based on 2021 Peer Mortgage Data in the moderate-income census tract, Lee Bank ranked 11th, with 1.9 percent market share, out of 42 lenders that originated or purchased a home mortgage loan in the moderate-income census tract. Additionally, Lee Bank was the 4th highest ranked community lender. This performance is below Adams Community Bank (9.6 percent market share), Pittsfield Cooperative Bank (5.1 percent market share), and Berkshire Bank (5.1 percent market share).

Additionally, examiners analyzed the bank's owner-occupied lending activity within the moderate-income census tract relative to other community banks. Examiners determined that Lee Bank performed only slightly below other community banks. Based on 2021 Peer Mortgage Data, all three loans that Lee Bank originated or purchased in the moderate-income census tract were for owner-occupied residences. Lee Bank ranked 11th out of 35 lenders that originated owner-occupied loans in the moderate-income census tract, but ranked below other community banks. Adams Community Bank ranked 2nd with 15 loans, Berkshire Bank ranked 4th with 8 loans, and Pittsfield Cooperative Bank ranked 6th with 6 loans.

The demographics of the assessment area provide additional performance context. The bank's assessment area only contains three low-income census tracts and one moderate-income census tracts, all of which are located in Pittsfield. Lee Bank has one branch located in Pittsfield, and the Lenox branch is located 2 miles outside of Pittsfield. Additionally, only 13.3 percent of the population in the assessment area resides in low-income census tracts and only 6.3 percent of the population in the assessment area resides in the moderate-income census tract. The low number of low- and moderate-income census tracts and the small portion of the assessment area's population living in the low- moderate-income census tracts limits the bank's opportunity to originate home mortgage loans in low- and moderate-income census tracts.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2020	4.9	4.5	10	2.9	2,655	2.9
2021	4.9	5.5	6	2.2	710	0.9
Moderate						
2020	6.4	4.9	3	0.9	609	0.7
2021	6.4	4.5	3	1.1	382	0.5
Middle						
2020	54.1	51.6	155	44.7	36,580	39.6
2021	54.1	51.4	137	50.6	35,255	45.9
Upper						
2020	34.7	39.0	179	51.6	52,618	56.9
2021	34.7	38.5	125	46.1	40,461	52.7
Totals						
2020	100.0	100.0	347	100.0	92,462	100.0
2021	100.0	100.0	271	100.0	76,808	100.0
<i>Source: 2015 ACS; Bank Data, 2019, 2020 & 2021 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

Small Business

The geographic distribution of small business loans reflects reasonable dispersion throughout the assessment area.

The bank performed below demographic data for low- and moderate-income census tracts. However, demographic data does not entirely represent the number of businesses seeking a loan. In addition, the bank was able to significantly increase the number of small business loans it originated in low-income census tracts since the previous evaluation, which supports a reasonable rating. At the previous evaluation, the bank originated 1 loan in a low-income census tract in 2017 and 0 loans in a low-income census tract in 2018. During the current evaluation period, the bank originated 3 loans in low-income census tracts in 2019, 20 loans in low-income census tracts in 2020, and 23 loans in low-income census tracts in 2021.

The bank's performance in moderate-income census tracts has remained steady since the previous evaluation. However, there is only one moderate-income census tract in the bank's assessment area, which limits the bank's opportunity to lend in moderate-income census tracts. The bank's performance in the moderate-income census tract also supports a reasonable conclusion.

Additionally, demographic data reflects that in 2021, 19.8 percent of businesses are located in the low-income census tracts and 2.6 percent of businesses are located in the moderate-income census

tract. The small number of businesses located in the low- and moderate-income census tracts limits the bank’s ability to originate small business loans in these geographies.

Geographic Distribution of Small Business Loans						
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	19.3	14.9	3	2.2	113	0.8
2020	19.2	16.0	20	4.8	719	1.8
2021	19.8	--	23	6.7	676	2.3
Moderate						
2019	2.7	3.0	1	0.7	308	2.2
2020	2.7	2.9	0	0.0	0	0.0
2021	2.6	--	0	0.0	0	0.0
Middle						
2019	39.0	41.8	62	46.3	6,064	43.8
2020	38.5	41.4	187	44.4	18,180	45.5
2021	38.3	--	144	42.1	11,915	40.6
Upper						
2019	39.0	40.2	68	50.7	7,366	53.2
2020	39.6	39.7	214	50.8	21,032	52.7
2021	39.2	--	175	51.2	16,789	57.1
Totals						
2019	100.0	100.0	134	100.0	13,851	100.0
2020	100.0	100.0	421	100.0	39,931	100.0
2021	100.0	--	342	100.0	29,380	100.0
<i>Source: 2019, 2020 & 2021 D&B Data; Bank Data; 2019 & 2020 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

Borrower Profile

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes. The bank’s reasonable performance in home mortgage and small business lending supports this conclusion.

Home Mortgage

The distribution of borrowers reflects reasonable penetration among individuals of different income levels.

Demographic data indicates 10.4 percent of families in the assessment area are below the poverty level, with 14.8 percent of families in Pittsfield below the poverty level. Families below the poverty

level are not likely to qualify for a home mortgage loan based on median home prices in the assessment area. Therefore, the high poverty rate limits the bank's opportunity to lend to low-income borrowers.

The 2021 Peer Mortgage Data for low-income borrowers revealed that Lee Bank ranked 7th out of 48 lenders with a 3.0 percent market share, and Lee Bank ranked similarly to other community banks. Lee Bank ranked below Adams Community Bank (ranked 3rd with an 8.6 percent market share), Berkshire Bank (ranked 5th with a 7.9 percent market share), and Pittsfield Cooperative Bank (ranked 6th with a 5.3 percent market share). Lee Bank ranked ahead of Salisbury Bank and Trust Co., which ranked 13th with a 1.0 percent market share. The 2021 Peer Mortgage Data supports the bank's reasonable performance.

The bank's performance with moderate-income borrowers is ahead of aggregate and demographic data. The 2021 Peer Mortgage Data for moderate-income borrowers revealed that Lee Bank ranked 4th out of 76 lenders with a 9.0 percent market share. The only community bank that ranked ahead of Lee Bank was Adams Community Bank, which ranked 3rd with a 10.4 percent market share. Lee Bank outranked Berkshire Bank (5.7 percent market share), Pittsfield Cooperative Bank (2.0 percent market share), and Salisbury Bank and Trust Co. (1.8 percent market share).

Additionally, Lee Bank offers several loan programs designed to serve low- and moderate-income borrowers. The bank offers several MassHousing loan programs, including first mortgages and down-payment assistance, which assist low- and moderate-income borrowers. Additionally, the bank participates in the Federal Home Loan Bank of Boston's Equity Builder and Housing Our Workforce programs, which assist low- and moderate-income borrowers purchase homes.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2020	22.1	10.1	24	6.9	3,199	3.5
2021	22.1	8.9	9	3.3	1,506	2.0
Moderate						
2020	16.4	17.3	71	20.5	12,458	13.5
2021	16.4	17.5	54	19.9	8,872	11.6
Middle						
2020	20.3	18.4	70	20.2	13,926	15.1
2021	20.3	19.0	64	23.6	14,153	18.4
Upper						
2020	41.1	43.5	171	49.3	58,818	63.6
2021	41.1	42.4	129	47.6	46,201	60.2
Not Available						
2020	0.0	10.8	11	3.2	4,061	4.4
2021	0.0	12.3	15	5.5	6,076	7.9
Totals						
2020	100.0	100.0	347	100.0	92,462	100.0
2021	100.0	100.0	271	100.0	76,808	100.0
<i>Source: 2015 ACS; Bank Data, 2019, 2020 & 2021 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

Small Business

The distribution of borrowers reflects reasonable penetration among businesses of different sizes.

In 2019 and 2020, a majority of the bank's small business loans supported businesses with GARs of \$1 million or less and performed slightly below demographic data. In 2021, the bank's performance among businesses with GARs of \$1 million or less significantly decreased, which is due to the bank's PPP lending, which is discussed further below.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
≤ \$1,000,000					
2019	--	90	67.2	7,054	50.9
2020	83.4	311	73.9	17,669	44.2
2021	84.5	58	17.0	8,236	28.0
> \$1,000,000					
2019	--	39	29.1	5,574	40.2
2020	5.7	95	22.6	18,765	47.0
2021	4.9	31	9.1	4,336	14.8
Revenue Not Available					
2019	--	5	3.7	1,223	8.8
2020	10.9	15	3.6	3,497	8.8
2021	10.6	253	74.0	16,808	57.2
Total					
2019	--	134	100.0	13,851	100.0
2020	100.0	421	100.0	39,931	100.0
2021	100.0	342	100.0	29,380	100.0
<i>Source: 2020&2021 D&B Data; Bank Data</i>					

PPP Loans

The bank experienced a significant increase in the number of small business loans originated in 2020 and 2021 due to the bank's participation in the PPP. The bank originated 336 PPP loans totaling \$22.6 in 2020 and 253 PPP loans totaling \$16.8 million in 2021. PPP loans represented 79.8 percent of small business loans in 2020 and 74.0 percent of small business loans in 2021. In 2020, the bank collected revenue information for PPP loans. As shown in the table above, a majority of the loans benefitted businesses with GARs of \$1 million or less. In 2021, the bank did not collect revenue information for PPP loans.

Due to the lack of borrower revenue data, examiners evaluated PPP loans using loan size as a proxy to determine how well bank lending supported small businesses. As show in the table below, the majority of the bank's PPP loans were \$100,000 or less. With an average loan amount of \$66,434 in 2021, the small loan size of PPP loans suggest that the bank's PPP lending effectively focused on meeting the credit needs of small businesses in the assessment area. The following table includes a breakdown of 2021 PPP loans by loan size.

Distribution of PPP Loans By Loan Size (2021)				
Loan Size	#	%	\$(000s)	%
< \$100,000	200	79.1	5,002	29.8
\$100,000 - \$249,999	37	14.6	5,489	32.7
\$250,000 - \$1,000,000	16	6.3	6,317	37.5
Total	253	100.0	16,808	100.0
<i>Source: Bank Data. Due to rounding, totals may not equal 100.0.</i>				

Response to Complaints

The institution has not received any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test.

COMMUNITY DEVELOPMENT TEST

Lee Bank demonstrates excellent responsiveness to assessment area community development needs through community development loans, qualified investments, and community development services. Examiners considered the institution's capacity and the need and availability of such opportunities for community development in the assessment area.

Community Development Loans

The bank originated 48 community development loans totaling approximately \$22.4 million during the evaluation period. Community development loans accounted for 4.8 percent of average total assets and 6.8 percent of average net loans during the review period. Since the prior evaluation, the bank increased its community development loans by both number and dollar amount. During the previous evaluation period, the bank originated seven community development loans totaling \$1.7 million. The bank's current level of community development lending is a significant increase in the bank's performance by both the number and dollar amount of loans. This level of lending and the responsiveness to the assessment area's need for affordable housing and economic development demonstrates the bank's commitment to community development within its assessment area.

Of the 48 loans originated by Lee Bank during the current evaluation period, 39 loans for approximately \$18.6 million were located inside the bank's assessment area. Nine loans totaling \$3.8 million were located outside the bank's assessment area and benefitted a greater statewide or regional area. Lee Bank's community development lending exceeded the community development lending of three similarly situated institutions.

The following table illustrates the bank's community development loans by year and purpose.

Community Development Lending										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2019*	1	308	0	0	3	1,882	0	0	4	2,190
2020	3	732	0	0	6	7,544	9	1,373	18	9,649
2021	6	2,741	1	500	6	3,726	3	417	16	7,384
YTD 2022	6	1,120	1	15	2	1,800	1	281	10	3,216
Total	16	4,901	2	515	17	14,952	13	2,071	48	22,439
<i>Source: Bank Records</i>										
<i>*Partial year from 7/29/2019-12/31/2019</i>										

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

- During the evaluation period, the bank originated nine SBA 504 program loans totaling \$5.8 million. The loan program provides small businesses with long-term financing through a Certified Development Company (CDC). Small businesses use the financing to acquire fixed assets for expansion and modernization, which promotes business growth and job creation. Generally, the loan structure includes a 10.0 percent equity investment by the small business, 40.0 percent participation by the CDC, and 50.0 percent participation by the bank. These loans expanded low- and moderate-income employment within the assessment area.
- In 2022, the bank originated two loans totaling \$1.8 million for the construction of a start-up brewery in Lenox, MA. The loan will help the brewery add 25 full-time primarily low- and moderate-income jobs, with an additional 20 part-time seasonal low- and moderate-income positions. These two loans expanded low- and moderate-income employment within the assessment area.
- In 2021, the bank participated in a loan to renovate and expand a community service organization’s facility in Pittsfield, MA. Lee Bank had a participation amount of \$500,000. The organization is located in a low-income census tract and is near two other low-income census tracts and a moderate-income census tract. The expansion of the facility allowed the community service organization to add 25 new childcare slots, which created four childcare and 3 human service positions, all of which are low- and moderate-income jobs. Additional renovations to the facility included an expansion of athletic facilities, heating and lighting improvements, and ADA compliance improvements. This loan helped expanded community services within the assessment area.
- In 2021, the bank extended a revolving line of credit for \$628,000 to an affordable housing trust. The organization used the funds to purchase and renovate three single-family homes. The organization resold the homes at a discount to eligible low- and moderate-income families through a lottery system. This revolving line of credit helped promote affordable housing in the assessment area.

- In 2020, the bank originated a \$325,000 loan to refinance a six-unit housing property in Pittsfield. The organization used the funds to replace the building's roof, install new windows, refurbish three units, and perform general upgrades to the property. All units are two-bedroom units with rents below the HUD Fair Market Rent. This loan helped preserve and repair affordable housing within the bank's assessment area. The community contact highlighted the need to preserve and repair affordable housing within the assessment area.
- In 2021, the bank originated a loan for \$1.2 million for the purchase and expansion of a mobile home park in Pittsfield. The park consisted of 55 mobile home pads, and the organization used the funds to add five pads, new water and sewer lines, curb stops, and new pavement throughout the community. Also in 2021, the bank originated an additional loan for \$250,000 to add five more pads, increasing the total to 65. The organization also used the funds to cover cost increases from the original expansion of the park and add a new fire hydrant, mailbox station, and benches. The rents for the mobile home pads are below that of several comparable mobile home parks in the area, and the City of Pittsfield's Mobile Home Park Rent Board has approval authority over all rent increases. The bank's lending provided necessary critical infrastructure for the expansion and maintenance of affordable housing within the assessment area for low- and moderate-income residents.

Qualified Investments

During the evaluation period, Lee Bank made 98 qualified investments and donations totaling \$414,475. Of these, four are equity investments totaling \$38,250 and the remainders are donations. Since the previous examination, the bank formed a charitable foundation, which made a large portion of the bank's qualified donations by number and dollar amount. The total dollar amount of the bank's qualified investments and donations equates to 0.1 percent of average total assets and 0.5 percent of average investments during the evaluation period. The bank's qualified investments and donations increased since the prior evaluation, which reported 23 qualified investments and donations for \$75,815. The level of investment in the current evaluation period demonstrates the bank's commitment to community development within its assessment area. Lee Bank's level of qualified investments and donations exceeded that of three similar institutions by the number of investments. These qualified investments demonstrate a particular responsiveness to the needs for community services in the assessment area.

The following table illustrates community development investments by year and purpose.

Qualified Investments										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$	#	\$	#	\$	#	\$	#	\$
Prior Period	4	38,250	0	0	0	0	0	0	4	38,250
2019*	0	0	0	0	0	0	0	0	0	0
2020	0	0	0	0	0	0	0	0	0	0
2021	0	0	0	0	0	0	0	0	0	0
YTD 2022	0	0	0	0	0	0	0	0	0	0
Subtotal	4	38,250	0	0	0	0	0	0	4	38,250
Qualified Grants & Donations	7	24,000	75	297,625	12	54,600	0	0	94	376,225
Total	11	62,250	75	297,625	12	54,600	0	0	98	414,475

Source: Bank Records
**Partial year from 7/29/2019-12/31/2019*

Below are notable examples of the bank’s qualified investment activity:

Prior Period Investments

- **Berkshire Housing Development Corporation** – The bank maintains one bond worth \$11,250 with the Berkshire Housing Development Corporation. The organization works to expand access to affordable housing across Berkshire County. The bond provides working capital to assist with the construction of affordable housing within the bank’s assessment area.
- **Berkshire Fund Inc.** – The bank maintains three bonds worth \$27,000 with Berkshire Fund Inc. The bonds provide working capital, which helps support the organization’s initiatives to expand access to affordable housing across Berkshire County including the bank’s assessment area.

Grants and Donations

During the evaluation period, Lee Bank and the Charitable Foundation made approximately \$376,000 in qualified donations. This dollar volume of activity is significantly higher than the prior evaluation and remains above the level of qualified grants and contributions of similarly situated institutions. The majority of the bank’s CRA qualified donations supported community service organizations that primarily benefit low- and moderate-income individuals. The following are notable examples of the bank’s qualified grants and donations.

- **Berkshire Community Action Council** – This non-profit community service organization provides a variety of services to low- and moderate-income families and individuals within the assessment area. Services include food assistance, fuel assistance heating and repair, lending programs, and more. The bank made multiple donations and the Foundation made a grant during the examination period. The organization used the grant funds to help open the organization’s Warm Winter Clothing program’s “Children’s Winter Boutique.” The Warm Winter Clothing program supplies children aged 12 and under with brand new warm coats,

boots, hats, mittens, and scarves. Once open, the boutique will be a space for families to bring their children to try on and pick out specific articles of clothing.

- **Berkshire Community Diaper Project** – During the evaluation period, the Foundation made multiple grants to the Berkshire Community Diaper Project, a non-profit aimed at supplying diapers to low-income families who cannot afford diapers for their newborn children. The organization works with local food pantries, human service agencies, pediatrician offices, and police and fire departments to help distribute diapers to those in need.
- **Central Berkshire Habitat for Humanity** – The bank made multiple donations and the Foundation made a grant to this non-profit affordable housing organization. The organization used the grant funds to support the creation of four affordable homes for low- and moderate-income families within the bank’s assessment area. The bank’s support of this organization helps expand access to affordable housing within the bank’s assessment area.
- **Community Development Corporation of South Berkshire** – This community development corporation works to expand access to affordable housing and assist small businesses inside the bank’s assessment area. The bank and the charitable foundation both made multiple donations and grants to the organization during the examination period. The organization used the funds to support the organization’s small business technical assistance program, which is free of charge and open to all businesses with fewer than 20 employees, with a focus on assisting under-resourced business owners. The program offers one-on-one consultations that can cover access to financing, marketing, business skills, digital literacy, and more. The organization used the funds from a grant to expand the program to include technical assistance offered in Spanish. The bank’s donations and grants to this organization helped provided economic development within the assessment area.
- **Elizabeth Freeman Center** – During the evaluation period, the bank and the charitable foundation made multiple donations and grants to the Center. The organization supports individuals and families affected by domestic violence. The organization used funds from the foundation grants to support the Center’s Money School, a financial independence initiative that improves the safety, well-being, and financial futures of low-income survivors of domestic and sexual abuse and their children. The program teaches individuals how to overcome ruined credit, employment history gaps, legal issues, and the cost of recovering from trauma. The organization offers the program in both English and Spanish.

Community Development Services

During the evaluation period, Lee Bank employees provided 57 instances of financial expertise or technical assistance to 11 community development related organizations that primarily benefitted low- or moderate-income individuals. Since the prior evaluation, the bank’s level of community services increased from 26 instances of financial services. Lee Bank’s instances of community development services exceeded the performance of one similarly situated institution but was below that of two additional similarly situated institutions. Of the two similarly situated institutions that

performed better than Lee Bank, one institution had an assessment area that provided more opportunities to perform community development services and the other institution’s evaluation period did not cover the COVID-19 Pandemic. The bank’s community development services demonstrate a responsiveness to the affordable housing and community service needs 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	Totals
	#	#	#	#	#
2019*	4	5	0	1	10
2020	5	5	4	1	15
2021	6	5	5	1	17
YTD 2022	4	5	5	1	15
Totals	19	20	14	4	57
<i>Source: Bank Records</i>					
<i>*Partial year from 7/29/2019-12/31/2019</i>					

The following are notable examples of the bank’s community development services:

- Pittsfield Economic Revitalization Corporation** – The Pittsfield Economic Revitalization Corporation works to further the economic development and social welfare of the City of Pittsfield by increasing employment opportunities and facilitating the growth and development of small businesses. The organization provides free business advice, direct loans, and assistance with applying for grants. Some of the lending options administered by the organization include micro-loans for microenterprise businesses owned by low- and moderate-income residents and specialized technical assistance grants for individuals developing small and micro businesses in Pittsfield. A Vice President of the bank has served as the organization’s Vice President and a Board member since 2020.
- Berkshire Housing Development Corporation (BHDC)** – BHDC is a non-profit affordable housing organization that works to create affordable housing, provide housing services and programs, and help communities access and administer community development projects. The organization manages 565 affordable housing units and administers 570 Section 8 rental vouchers. The organization is also a member of the Good Samaritan Homeownership Program, which works with local lenders and non-profits to help low- and moderate-income families purchase their first homes in Berkshire County. The program provides borrowers with homeownership and budget counseling. A Senior Vice President of the bank served on the organization’s board in 2019, 2020, and 2021.
- Berkshire United Way** – The Berkshire United Way provides services to low- and moderate-income individuals throughout the assessment area. The organization provides financial literacy, education, fuel assistance, tax assistance, and workforce development. The bank’s President has served on the organization’s Board and Executive Committee, and

as the Chair of the Development Committee, throughout the examination period.

- **Lee Elderly Housing Corporation** – Lee Elderly Housing Corporation maintains multiple affordable housing complexes within Lee. All units are restricted to annual incomes of less than \$33,850 for individuals and \$38,650 for couples. A Vice President of the bank has been actively involved in the organization’s Hyde Place location, serving on the Board and as Clerk in 2019, 2020 and 2021, and serving as President since 2021.

Financial Literacy

- **Berkshire Fund, Inc.** – In April of 2022, a Lee Bank mortgage originator participated in a virtual first time homebuyer workshop presented by Berkshire Fund, Inc. The workshop was part of the Good Samaritan Homeownership Program, and Berkshire Fund, Inc. is a member of the program. The workshop covered available programs, qualifying for a mortgage, preparing for closing, what to look for when buying a home, and saving for a home.

Other Services

- **Massachusetts Interest on Lawyers Trust Accounts (IOLTAs)** – Lee Bank participates in the Massachusetts IOLTA Program. This program, mandated by the Supreme Judicial Court, requires lawyers and law firms to establish interest-bearing accounts for client deposits. The interest earned is used to fund law-related public service programs to help low-income clients. Lee Bank operated as a “Leadership Institution” under this program and committed to raising funds at a higher interest rate to go beyond the standard eligibility requirements to provide legal aid. The bank remitted approximately \$201,316 in IOLTA funds during the evaluation period
- **Massachusetts Community & Banking Council (MCBC) Basic Banking** – Lee Bank participates in the Basic Banking Program, which encourages low- and moderate-income individuals to establish banking relationships. The program features free or low-cost checking and savings accounts to meet the needs of local area customers. The bank offers accounts that meet the MCBC program guidelines.

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 bank’s overall CRA ratings.

APPENDICES

DIVISION OF BANKS FAIR LENDING POLICIES AND PROCEDURES

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, the bank maintains a good record relative to fair lending policies and practices.

MINORITY APPLICATION FLOW

The bank's HMDA LARs for 2020 and 2021 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.

According to the 2015 ACS Census Data, the bank's assessment area contained a total population of 82,076 individuals of which 11.8 percent are minorities. The minority population represented is 3.4 percent Black/African American, 1.7 percent Asian/Pacific Islander, 0.2 percent American Indian/Alaskan Native, 4.7 percent Hispanic or Latino, and 1.8 percent other.

The bank's level of lending in 2020 and 2021 was compared with that of the 2020 and 2021 aggregate's lending performance. The comparison of this data assists in deriving reasonable expectations for the rate of applications the bank received from minority home mortgage 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 2020 HMDA		2020 Aggregate Data	Bank 2021 HMDA		2021 Aggregate Data
	#	%	%	#	%	%
American Indian/ Alaska Native	1	0.2	0.3	2	0.5	0.3
Asian	5	0.9	1.4	6	1.5	1.7
Black/ African American	0	0.0	1.7	6	1.5	2.1
Hawaiian/Pacific Islander	1	0.6	0.2	0	0.0	0.1
2 or more Minority	3	0.1	0.1	1	0.3	0.1
Joint Race (White/Minority)	11	2.0	1.5	7	1.7	1.5
Total Racial Minority	21	3.8	5.2	22	5.5	5.8
White	405	74.6	75.7	315	78.0	73.1
Race Not Available	117	21.6	22.2	67	16.6	21.1
Total	543	100.0	100.0	404	100.0	100.0
ETHNICITY						
Hispanic or Latino	12	2.2	3.6	9	2.2	3.5
Joint (Hisp/Lat /Not Hisp/Lat)	8	1.5	1.2	7	1.7	1.7
Total Ethnic Minority	20	3.7	4.8	16	3.9	5.2
Not Hispanic or Latino	391	72.0	74.4	313	77.5	73.6
Ethnicity Not Available	132	24.3	20.8	75	18.6	21.2
Total	543	100.0	100.0	404	100.0	100.0

Source: ACS Census 2015, HMDA Aggregate Data 2020 and 2021, HMDA LAR Data 2020 and 2021

In 2020, the bank received 543 HMDA reportable loan applications within its assessment area. Of these applications, 3.8 percent were received from racial minority applicants. This was below the aggregate performance of 5.2 percent of its applications from racial minority applicants. For the same period, the bank received 20 or 3.7 percent of all applications from ethnic groups of Hispanic origin within its assessment area. This was also below an aggregate ethnic minority application rate of 5.7 percent.

In 2021, the bank received 404 HMDA reportable loan applications within its assessment area. Of these applications, 22, or 5.5 percent, were received from racial minority applicants. The aggregate received a comparable 5.8 percent of its applications from racial minority applicants. For the same period, the bank received 3.9 percent of all applications from ethnic groups of Hispanic origin within its assessment area. This was comparable to an aggregate ethnic minority application rate of 5.2 percent. The bank's origination rate to racial minority borrowers was 50.0 percent, below the 68.0 percent rate of origination among white borrowers. The bank's origination rate to ethnic minority borrowers was 68.8 percent, which was slightly above aggregate.

The bank's lending in 2020 and 2021 reflects an adequate racial minority application flow. While the 2021 origination rate among racial minority applicants was below that of white applicants for the bank, the rate of origination was comparable to the aggregate rate (approximately 53.2 percent). Considering the demographic composition of the assessment area, comparisons to aggregate data, and the bank's fair lending controls, the bank's minority application flow reflects reasonable performance.

INTERMEDIATE SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The geographic distribution of the bank's loans;
- 4) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

Community Development Test

The Community Development Test considers the following criteria:

- 1) The number and amount of community development loans;
- 2) The number and amount of qualified investments;
- 3) The extent to which the bank provides community development services; and
- 4) The bank's responsiveness through such activities to community development lending, investment, and service needs.

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.

American Community Survey (ACS): A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

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 or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

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.

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. Institution CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Institution 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 institution:
 - (i) Has not been reported or collected by the institution or an affiliate for consideration in the institution'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 institution's assessment area(s) or a broader statewide or regional area including the institution'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 institution'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 Area (CBSA): 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).

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 (e.g, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g, 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 Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

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 (e.g, 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.

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 (also known as **non-MSA**): 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 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

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.