

PUBLIC DISCLOSURE

July 9, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Luso-American Credit Union
Certificate Number: 67890**

**37 Tremont Street
Peabody, Massachusetts 01960**

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

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.

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Luso-American Credit Union (Credit Union) prepared by the Division of Banks, the institution's supervisory agency, as of July 9, 2018. The Division of Banks rates the CRA performance of the Credit Union as per the provisions set forth in 209 CMR 46.00.

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 evaluation was based upon an analysis of Credit Union's performance in providing loans to its membership, providing loans to individuals of various incomes, including low- to moderate-income members, response to CRA complaints, and the Credit Union's fair lending performance. The rating is supported by the following summary of results.

- The Credit Union's average net loan-to-share (LTS) ratio of 78.5 percent is reasonable given the institution's size, financial condition, and credit needs of the assessment area.
- A substantial majority of the Credit Union's home mortgage loans are made inside in the assessment area.
- The geographic distribution of loans reflects good dispersion throughout the assessment area.
- The distribution of home mortgage loans to borrowers of different income levels is good.
- The institution did not receive CRA-related complaints during the evaluation period.

SCOPE OF EVALUATION

The Small Institution Examination Procedures include the Lending Test, which evaluates the Credit Union's performance according to the following criteria:

- Loan-to-share ratio,
- Assessment area concentration,
- Geographic distribution,
- Borrower profile, and
- Response to CRA-related complaints.

Loan Products Reviewed

Examiners determined the Credit Union's dominant product line is home mortgage loans. This conclusion considered the Credit Union's business strategy as well as the number and dollar volume of loans originated during the evaluation period. Credit Union records indicated that the lending focus and product mix remained relatively consistent throughout the evaluation period.

The evaluation considered all home mortgage loans reported on the Credit Union's 2016 and 2017 Home Mortgage Disclosure Act (HMDA) loan application registers (LARs). In 2016, the Credit Union reported 68 loans totaling \$11.7 million. In 2017, it reported 40 loans totaling \$5.6 million. Examiners compared the Credit Union's 2016 HMDA lending to 2016 aggregate HMDA data. 2017 data compared Credit Union lending to demographics from the 2010 US Census and 2015 ACS US census, unless otherwise noted.

For the evaluation, examiners reviewed the number and dollar volume of home mortgage loans. While number and dollar volume of loans are presented, examiners assigned more weight to performance by number of loans because the number loans is a better indicator of the number of individuals served.

DESCRIPTION OF INSTITUTION

Background

Established on November 30, 1960 as a wholly co-operative, state-chartered credit union, Luso-American Credit Union was originally formed to serve Portuguese immigrants and people of Portuguese descent residing or working in the City of Peabody. Today, membership includes anyone working or residing in Essex County, and anyone eligible to join Portuguese organizations within the city of Peabody who also reside or work in Essex County. As of March 31, 2018, the Credit Union's membership totaled 7,538 members.

Since the last examination, the Credit Union completed a merger with Salem Italian-American Credit Union. The Salem Italian-American location ceased to operate as of the date of merger, February 28, 2015.

The Credit Union received a "Satisfactory" rating at its previous evaluation by the Division of Banks on July 23, 2012.

Operations

The Credit Union is headquartered at 37 Tremont Street in Peabody. The Credit Union operates one additional full-service branch, located at 79 Lynnfield Street, Peabody. This branch has been added since the last examination. Both locations are open from 9:00 AM to 5:00 PM Monday through Wednesday, from 9:00 AM to 6:00 PM Thursday and Friday, and from 8:30 AM to 1:00 PM on Saturdays. Both locations are equipped with an ATM; the Tremont Street location has drive-up and walk-up ATMs. In addition, the Credit Union is a member of the SUM Network, which is comprised of an alliance of financial institutions that waive ATM surcharge fees.

The Credit Union offers the following personal products and services to its members: checking accounts, savings accounts, money market accounts, certificates of deposit, individual retirement accounts, and club accounts. It also provides members with mortgage loans, home equity loans and lines of credit, home improvement loans, personal loans, share secured loans, new and used auto and recreational vehicle loans, ATM/Debit cards, and a Visa credit card. Products for businesses include checking and savings accounts, and business loans. Other services also include personal online banking with bill pay and e-statements, mobile banking with remote deposit, and EZ Phone allowing 24/7 account access. The Credit Union's website, <https://www.luso-american.com/>, provides a home page, secured contact page, rates, promotions, descriptions of products and services, business hours and locations, lost/stolen cards, fees, password-protected access to online banking, check ordering, becoming a member. A large majority of the Credit Union's staff are multilingual speaking Portuguese and Spanish.

Ability and Capacity

As of March 31, 2018, the Credit Union had total assets of approximately \$92.8 million and total shares and deposits of \$79.5 million. Loans totaled \$65.4 million and represented 70.5 percent of total assets.

The Credit Union is primarily a residential lender with a majority of the loan portfolio secured by

residential properties. As noted below, approximately 88.1 percent of the loans are secured by first mortgage real estate loans and lines of credit, as well as commercial real estate loans and lines of credit, and all other real estate loans and lines of credit.

The loan portfolio has grown approximately 25.7 percent and the portfolio mix remained relatively static since the last exam.

The following table illustrates the distribution of the Credit Union’s loan portfolio as of the most recently available Call Report.

Loan Portfolio Distribution as of 3/31/2018		
Loan Category	\$	%
Total Loans/Lines of Credit Secured by 1 st Liens 1-4 Residential	31,026,724	47.4
Commercial Loans/Lines of Credit Real Estate Secured	13,255,609	20.3
All Other Real Estate Loans/Lines of Credit	10,902,074	16.7
Used Vehicle Loans	2,779,474	4.2
Total Loans/Lines of Credit Secured by Junior Liens 1-4	2,408,184	3.7
Unsecured Credit Card Loans	1,806,835	2.8
All Other Unsecured Loans/Lines of Credit	1,310,232	2.0
New Vehicle Loans	1,025,514	1.6
All Other Secured Non-Real Estate Loans/Lines of Credit	922,324	1.4
Total Loans	65,436,970	100.0
<i>Source: Reports of Income and Condition</i>		

DESCRIPTION OF ASSESSMENT AREA

The CRA requires financial institutions to define one or more assessment areas within which the institution will focus its lending efforts. Luso-American Credit Union has designated a single contiguous assessment area encompassing the entirety of Essex County, MA which is within Cambridge-Newton-Framingham Metropolitan Statistical Area (MSA).

Since the prior evaluation, no additional cities or towns have been added to the assessment area.

Economic and Demographic Data

The assessment area includes 163 census tracts within Essex County, MA. These census tracts reflect the following income designations according to the 2015 ACS U.S. Census:

- 32 low-income tracts,
- 31 moderate-income tracts,
- 69 middle-income tracts,
- 30 upper-income tracts, and
- 1 tract without an income designation.

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)	163	22.7	19.0	41.7	16.0	0.6
Population by Geography	763,849	19.7	19.1	42.8	18.5	0.0
Housing Units by Geography	307,894	18.6	20.3	44.6	16.5	0.0
Owner-Occupied Units by Geography	181,293	7.5	17.3	52.3	22.9	0.0
Occupied Rental Units by Geography	106,619	37.3	24.6	31.6	6.5	0.0
Vacant Units by Geography	19,982	19.5	25.0	44.4	11.1	0.0
Businesses by Geography	52,904	15.5	16.9	45.7	21.9	0.0
Farms by Geography	1,220	6.9	14.1	55.6	23.4	0.0
Family Distribution by Income Level	192,381	28.3	18.0	20.2	33.5	0.0
Household Distribution by Income Level	287,912	31.0	15.5	17.3	36.2	0.0
Median Family Income MSA - 15764 Cambridge-Newton- Framingham, MA MD		\$100,380	Median Housing Value			\$347,478
Families Below Poverty Level		8.6%	Median Gross Rent			\$1,069
<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>						

The FFIEC-updated median family income level is used to analyze home mortgage loans under the Borrower Profile criterion. The low-, moderate-, middle- and upper-income categories for the years that were analyzed are presented in the following table.

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>				
<i>Due to rounding, totals may not equal 100.0</i>				

The Credit Union's assessment area contains 304,902 housing units. Of these, 60.7 percent are owner-occupied, 32.1 percent are occupied rental units, and 7.2 percent are vacant. The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units.

Competition

There is a high level of competition for home mortgage loans among banks, credit unions, and non-depository mortgage lenders. Aggregate HMDA data for 2017 indicates that 476 lenders originated or purchased a total of 35,460 reportable residential mortgage loans within the assessment area. The three most prominent home mortgage lenders (Wells Fargo Bank, NA, Quicken Loans, and JP Morgan Chase Bank, NA) accounted for 12.9 percent of total market share.

Community Contact

As part of the examination process, examiners consulted with a local nonprofit housing agency to gain a better understanding of the credit needs of the communities in the Credit Union's assessment area.

The community contact expressed concern over rising home prices in the region and the subsequent inability of low- and moderate-income individuals and families to afford housing. The contact expressed a desire for municipalities with substantial urban area to revisit existing zoning laws to allow for more new housing developments. The contact stated that financial institutions were generally supportive of housing initiatives in the region, but are constrained in their ability to extend home mortgage loans to low- and moderate-income applicants because of high housing prices.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Luso-American Credit Union demonstrated satisfactory performance under the Lending Test.

Loan-to-Share Ratio

This performance criterion determines what percentage of the Credit Union's share base is reinvested in the form of loans. This ratio is based on total loans net of unearned income and net of the allowance for loan and lease losses as a percentage of total shares. The LTS ratio since the previous evaluation is reasonable given the institution's size, financial condition, and assessment area credit needs.

The Credit Union's net LTS ratio, as calculated from NCUA 5300 Quarterly Call Report data, averaged 78.5 percent over the past eight quarters, from June 30, 2016 to March 31, 2018. The ratio ranged from a low of 73.0 percent on June 30, 2016 to a high of 83.0 on December 31, 2017; the LTS showed a steady increase over the evaluation period. Conversations with the Credit Union's management indicated that the increase is due to their strategic plan to increase the loan portfolio and, in particular, by way of increased participation loans. The table below illustrates the quarterly LTS ratio.

To further evaluate the Credit Union's LTS ratio, examiners selected comparable institutions based on their asset size, geographic location, and lending focus. Please refer to the following table.

Loan-to-Share Ratio Comparison		
Institution	Total Assets as of 3/31/2018 \$(000s)	Average Net LTD Ratio (%)
Brotherhood Credit Union	\$110,345	65.8
River Works Credit Union	\$106,993	76.7
Luso-American Credit Union	\$92,848	78.5
Community Credit Union of Lynn	\$146,533	103.5
<i>Source: Reports of Income and Condition 6/30/16 through 3/31/18</i>		

Assessment Area Concentration

The Credit Union originated a substantial majority of home mortgage loans within the assessment area. By number, the Credit Union made 93.3 percent of its home mortgage loans inside the assessment area for 2016 and increased to 100.0 percent for 2017, resulting in 95.6 percent of total home mortgage loans made in the assessment area. This is consistent with the prior evaluation, when the Credit Union made a total of 95.4 percent of total home mortgage loans within the assessment area.

The following table details the Credit Union’s home mortgage lending activity inside and outside of the assessment area in 2016 and 2017.

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	56	93.3	4	6.7	60	9,723	90.4	1,035	9.6	10,758
2017	31	100.0	0	0.0	31	4,494	100.0	0	0.0	4,494
Total	87	95.6	4	4.4	91	14,217	93.2	1,035	6.8	15,252
<i>Source: Evaluation Period: 1/1/2016 - 12/31/2017 Bank Data Due to rounding, totals may not equal 100.0</i>										

Geographic Distribution

The geographic distribution of home mortgage loans reflects good dispersion throughout the assessment area. The geographic distribution of loans was reviewed to determine how the Credit Union is addressing the credit needs throughout the assessment area, particularly in low- and moderate-income census tracts. Residential mortgage loan conclusions are based primarily on the Credit Union’s lending performance in low- and moderate-income tracts relative to aggregate lending data and compared to assessment area demographics.

In 2016, the Credit Union originated two loans by number, or 3.6 percent of loans, within low-income census tracts, below the aggregate figure of 8.3 percent and the percentage of owner-occupied housing units of 7.1 percent. The Credit Union originated 26 loans by number, or 46.4 percent of loans, in moderate-income tracts, which was above the aggregate figure of 16.9 percent and the percentage of owner-occupied housing units of 16.1 percent.

In 2017, the Credit Union originated six loans by number, or 19.4 percent of loans, within low-income census tracts, was above the aggregate figure of 11.7 percent and the percentage of owner-occupied housing units of 7.5 percent. The Credit Union originated nine loans by number, or 29.0 percent of loans, in moderate-income tracts, which was above the aggregate figure of 20.1 percent and the percentage of owner-occupied housing units of 17.3 percent. Please refer to the following table.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2016	7.1	8.3	2	3.6	300	3.1
2017	7.5	11.7	6	19.4	707	15.7
Moderate						
2016	16.1	16.9	26	46.4	4,555	46.8
2017	17.3	20.1	9	29.0	1,341	29.8
Middle						
2016	52.9	50.7	26	46.4	4,358	44.8
2017	52.3	48.5	16	51.6	2,446	54.4
Upper						
2016	23.8	24.1	2	3.6	510	5.2
2017	22.9	19.7	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	56	100.0	9,723	100.0
2017	100.0	100.0	31	100.0	4,494	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>						

Borrower Profile

The distribution of home mortgage loans to borrowers reflects good penetration among individuals of different income levels. Examiners focused on the percentage by number of home mortgage loans to low- and moderate-income borrowers.

The distribution of loans by borrower income was reviewed to determine the extent to which the Credit Union is addressing the credit needs of the area’s residents, particularly those of low- or moderate-income. Residential home mortgage loan conclusions are based primarily on the Credit Union’s performance of lending to low- and moderate-income borrowers relative to aggregate lending data and compared with assessment area demographics.

In 2016, the Credit Union originated four loans, or 7.1 percent of loans by number, to low-income borrowers which was slightly above the aggregate performance of 6.2 percent. In 2017, eight

loans, or 25.8 percent of loans by number, were originated to low-income borrowers which was above the aggregate performance of 8.2 percent. Examiners noted the Credit Union's strong performance was achieved despite the fact that a low-income borrower (2017 annual average income of \$52,400 or less in the Cambridge-Framingham-Newton MD) would likely not qualify for a traditional mortgage given the median housing value in the assessment area of approximately \$347,000.

In 2016, the Credit Union originated 15 loans, or 26.8 percent of loans by number, to moderate-income borrowers which was above the aggregate performance of 20.3 percent. In 2017, the Credit Union originated six loans, or 19.4 percent of loans by number, to moderate-income borrowers which was below the aggregate performance of 22.8 percent. Please refer to the following table.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2016	26.2	6.2	4	7.1	447	4.6
2017	28.3	8.2	8	25.8	1,150	25.6
Moderate						
2016	18.3	20.3	15	26.8	2,136	22.0
2017	18.0	22.8	6	19.4	887	19.7
Middle						
2016	20.2	24.3	23	41.1	4,280	44.0
2017	20.2	24.8	9	29.0	1,364	30.4
Upper						
2016	35.3	34.0	14	25.0	2,860	29.4
2017	33.5	30.5	8	25.8	1,093	24.3
Not Available						
2016	0.0	15.2	0	0.0	0	0.0
2017	0.0	13.7	0	0.0	0	0.0
Totals						
2016	100.0	100.0	56	100.0	9,723	100.0
2017	100.0	100.0	31	100.0	4,494	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>						

Response to Complaints

A review of the Credit Union's public file indicated that no CRA-related complaints were received; therefore, this criterion did not affect the Lending Test rating.

Fair Lending Policies and Practices

The Credit Union's fair lending performance was reviewed to determine how it relates to the guidelines established by Regulatory Bulletin 1.3-106, the Division's Community Reinvestment and Fair Lending Policy. Included was a review of written policies and procedures, interviews with lending staff, an evaluation of the Credit Union's fair lending underwriting risks related to residential and consumer lending, and review of the public comment file.

The Credit Union's fair lending compliance program is considered satisfactory given its size, complexity, and risk profile.

Minority Application Flow

The Credit Union's HMDA LARs for 2016 and 2017 were reviewed to determine if the application flow from the different racial minority groups within the Credit Union's assessment area was reflective of the assessment area's demographics. The comparison of this data assists in deriving reasonable expectations for the rate of applications the Credit Union received from minority residential loan applicants.

According to the 2010 U.S. Census data, the Credit Union's assessment area has a population of 743,159, of which 24.0 percent are minorities. The assessment area's minority population includes 0.2 percent American Indian, 4.3 percent Asian/Pacific Islander, 5.6 percent Black, 16.5 percent Hispanic, and 1.2 percent other race.

In 2016, the Credit Union received 68 HMDA reportable loan applications within its assessment area. Of these applications, 3, or 4.4 percent, were received from racial minority applicants, of which 2, or 3.6 percent resulted in originations. This is compared with aggregate data where 6.6 percent were received from minority applicants and 5.8 percent were originated. For the same year, the credit union received 12 applications, or 17.6 percent, from Hispanic or Latino ethnic groups. This was above the 2016 aggregate performance of 10.3 percent.

In 2017, the Credit Union received 40 HMDA reportable loan applications within its assessment area. Of these applications, zero were received from racial minority applicants. This is compared with aggregate data where 7.6 percent were received from minority applicants and 6.6 percent were originated. For the same year, the credit union received 9 applications, or 22.5 percent, from Hispanic or Latino ethnic groups. This was above the 2017 aggregate performance of 12.0 percent.

The following table illustrates the Credit Union's minority application flow aggregates.

MINORITY APPLICATION FLOW						
RACE	2016 Credit Union		2016 Aggregate Data	2017 Credit Union		2017 Aggregate Data
	#	%	%	%	%	%
American Indian/ Alaska Native	0	0.0	0.3	0	0.0	0.3
Asian	0	0.0	2.7	0	0.0	2.8
Black/ African American	1	1.5	2.5	0	0.0	3.0
Hawaiian/Pacific Islander	0	0.0	0.2	0	0.0	0.3
2 or more Minority	0	0.0	0.0	0	0.0	0.1
Joint Race (White/Minority)	2	2.9	1.0	0	0.0	1.3
Total Minority	3	4.4	6.6	0	0.0	7.6
White	65	95.6	72.5	40	100.0	70.9
Race Not Available	0	0.0	20.9	0	0.0	21.5
Total	68	100.0	100.0	40	100.0	100.0
ETHNICITY						
Hispanic or Latino	10	14.7	9.2	7	17.5	10.9
Not Hispanic or Latino	56	82.4	69.5	31	77.5	67.3
Joint (Hisp/Lat /Not Hisp/Lat)	2	2.9	1.1	2	5.0	1.1
Ethnicity Not Available	0	0.0	20.2	0	0.0	20.8
Total	68	100.0	100.0	40	100.0	100.0

Source: 2015 ACS U.S. Census; 2015 and 2016 HMDA Reported Data; 2016 HMDA Aggregate Data

PERFORMANCE EVALUATION DISCLOSURE GUIDE

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

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

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at 37 Tremont Street Peabody, MA 01960.

[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.