

PUBLIC DISCLOSURE

January 27, 2020

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Middlesex Savings Bank
Certificate Number: 90183

6 Main Street
Natick, Massachusetts 01760

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

TABLE OF CONTENTS

Institution Rating	
Overall Rating	1
Performance Test Ratings Table	1
Summary of Major Factors Supporting Rating	1
Institution	
Scope of Evaluation	3
Description of Institution	5
Description of Assessment Area	7
Conclusions on Performance Criteria	12
Appendix	
Division of Banks Fair Lending Policies and Procedures	26
Glossary	28

INSTITUTION RATING

INSTITUTION’S CRA RATING: This institution is rated **Outstanding**.

An institution in this group has an outstanding 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.

PERFORMANCE LEVELS	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding		X	X
High Satisfactory	X		
Satisfactory**			
Needs to Improve			
Substantial Noncompliance			
<p><i>* The Lending Test is weighted more heavily than the Investment and Service Tests when arriving at an overall rating.</i></p> <p><i>** FDIC rules and regulations stipulate use of a “high satisfactory” and “low satisfactory” rating for the three tests. This jointly issued public evaluation uses the terms “satisfactory” in lieu of “low satisfactory” for the Lending, Investment, and Service Test ratings, as the Division does not have a “low satisfactory” rating.</i></p>			

The Lending Test is rated High Satisfactory.

- Lending levels reflect good responsiveness to assessment area credit needs.
- A high percentage of loans are made in the institution’s assessment area.
- The geographic distribution of loans reflects adequate penetration throughout the assessment area.
- The distribution of borrowers reflects, given the product lines offered by the institution, excellent penetration among retail customers of different income levels and business customers of different size.
- The institution exhibits a good record of serving the credit needs of the most economically disadvantaged areas of its assessment area, low-income individuals and/or very small businesses, consistent with safe and sound banking practices.

- The institution uses innovative and flexible lending practices in order to serve assessment area credit needs.
- The institution has made a relatively high level of community development loans.

The Investment Test is rated Outstanding.

- The institution has an excellent level of qualified community development investments and grants, often in a leadership position, particularly those that are not routinely provided by private investors.
- The institution exhibits excellent responsiveness to credit and community economic development needs.
- The institution makes significant use of innovative and/or complex investments to support community development initiatives.

The Service Test is rated Outstanding.

- Delivery systems are readily accessible to all portions of the institution's assessment area.
- To the extent changes have been made, the institution's opening and closing of branches has not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies and to low- and moderate-income individuals.
- Services do not vary in a way that inconveniences certain portions of the assessment area, particularly low- and moderate-income geographies and individuals.
- The institution is a leader in providing community development services.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated January 5, 2017, to the current evaluation dated January 27, 2020. Examiners used the Interagency Large Institution Examination Procedures to evaluate the bank's performance.

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

- Lending activity
- Assessment area concentration
- Geographic distribution
- Borrower profile
- Responsiveness to credit needs of highly disadvantaged areas, individuals, or/or businesses
- Innovative and flexible lending practices
- Community development loans

The Investment Test considered the following criteria.

- Number and dollar amount of qualified investments
- Responsiveness to credit and community development needs
- Innovativeness or complexity of qualified investments

The Service Test considered the following criteria.

- Accessibility of delivery systems
- Changes in branch locations
- Reasonableness of business hours and services
- Community development services

An institution must achieve at least a Satisfactory rating on the Lending Test to obtain an overall Satisfactory rating. This evaluation does not include any lending activity performed by affiliates.

Activities Reviewed

Examiners determined that the bank's two major product lines are home mortgage and small business loans. This conclusion considered the bank's business strategy and the number and dollar volume of loans originated during the evaluation period.

The bank's record of originating home mortgage loans contributed more weight to overall conclusions due to larger loan volume of originations when compared to small business lending during the evaluation period. Small farm loans and consumer loans do not represent product major lines and provide no material support for conclusions or ratings; therefore, examiners did not analyze these loan types.

This evaluation considered all home mortgage entries on the bank's 2017 and 2018 Home Mortgage Disclosure Act (HMDA) Loan Application Registers (LARs). In 2017, the bank reported 770 loans totaling approximately \$276.7 million. In 2018, the bank reported 1,062 loans totaling \$277.8 million. The increase in the number of home mortgage loans from 2017 to 2018 was due to the required HMDA reporting of home equity lines of credit (HELOCs) in 2018. Examiners compared the bank's 2017 and 2018 lending performance to aggregate performance in each year and 2015 ACS demographic data.

This evaluation also considered all small business loans reported on the bank's CRA Loan Register in 2017 and 2018. In 2017, the bank reported 436 small business loans totaling approximately \$80.6 million. In 2018, the bank reported 373 loans totaling approximately \$78.2 million. Examiners compared the bank's 2017 and 2018 small business lending performance to aggregate data and D&B business demographic data.

To conduct the Lending Test, examiners analyzed both the number and dollar volume of loans. Although the evaluation presents the number and dollar volume of loans, examiners placed more emphasis on the number of loans as it is a better indicator of the number of individuals and businesses served. The Geographic Distribution and Borrower Profile criteria only include analysis of loans extended within the bank's assessment area.

Examiners reviewed community development loans, investments and services, as well as innovative and/or flexible lending practices from the prior evaluation date of January 5, 2017, through the current examination date of January 27, 2020.

Interstate Banking and Branching Efficiency Act (IBBEA)

In addition to reviewing the bank's overall assessment area, IBBEA requires separate discussions of CRA performance in each Metropolitan Statistical Area (MSA) where the bank has branches. The bank maintains 29 branches in the Boston-Cambridge-Newton, Massachusetts (MA)-New Hampshire (NH) MSA and 1 branch in the Worcester, MA-Connecticut (CT) MSA. Examiners used full-scope procedures to evaluate the bank's performance in both MSAs. Examiners assigned greater weight to the bank's performance in the Boston-Cambridge-Newton, MA-NH MSA in arriving at the overall rating, as that area accounted for a significant majority of the bank's operations and lending volumes as illustrated in the following table. Although examiners analyzed performance in each MSA separately, the evaluation presents a combined analysis, as the institution's performance was similar in both MSAs. Additionally, both MSAs are both part of the larger Boston-Worcester-Providence, MA-Rhode Island-NH-CT Combined Statistical Area. The bank will only receive one CRA rating for the overall assessment area.

The following table illustrates the distribution of the bank's loans, deposits, and branches by MSA.

Assessment Area Breakdown of Loans, Deposits, and Branches						
Assessment Area	Loans		Deposits		Branches	
	\$(000s)	%	\$(000s)	%	#	%
Boston-Cambridge-Newton, MA-NH MSA	453,669	89.4	3,975,283	94.7	29	96.7
Worcester, MA-CT MSA	53,605	10.6	223,261	5.3	1	3.3
Total	507,274	100.0	4,198,544	100.0	30	100.0

Source: Bank Data: FDIC Summary of Deposits 09/30/2019

DESCRIPTION OF INSTITUTION

Background

Middlesex Savings Bank (MSB) is a state-chartered mutual savings bank headquartered in Natick, MA. Middlesex Bancorp, MHC, a bank holding company, owns MSB. The bank also operates two non-bank subsidiaries, First Evergreen Properties and Middlesex Securities Corporation. The institution received an “Outstanding” rating at its previous Division of Banks and FDIC Performance Evaluation, dated January 5, 2017, based on Large Institution Examination Procedures.

Operations

MSB operates 30 full-service branches in Middlesex, Norfolk, and Worcester Counties. In addition to the 30 full-service locations, the bank operates two commercial lending offices, three full-service automated teller machines (ATMs), and four cash-dispensing ATMs. The bank did not close any branches since the prior evaluation and the bank was not involved in any merger or acquisition activity.

MSB offers various financial products and services to consumers and business customers. The bank offers loan products including home mortgages, home equity loans, personal loans, construction loans, and commercial loans, with a primary focus on residential and commercial lending. The institution provides a variety of deposit services including checking and savings accounts, money fund accounts, and certificates of deposit, for both individuals and businesses. The bank also offers investment and insurance products and advisory services. Alternative banking services include internet and mobile banking, remote deposit, commercial payment processing services, and ATMs.

Ability and Capacity

MSB’s assets totaled approximately \$4.9 billion as of September 30, 2019, and included total loans of \$3.2 billion and total securities of \$1.3 billion. Collectively, loans secured by commercial real estate and commercial and industrial loans represent 45.4 percent of the loan portfolio. Residential loans including multifamily loans account for the second largest portion of the portfolio at 41.8 percent. The following table illustrates the loan portfolio.

Loan Portfolio Distribution as of 9/30/2019		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	380,824	11.9
Secured by Farmland	515	0.0
Secured by 1-4 Family Residential Properties	1,290,810	40.3
Secured by Multifamily (5 or more) Residential Properties	46,933	1.5
Secured by Nonfarm Nonresidential Properties	1,054,941	33.0
Total Real Estate Loans	2,774,023	86.7
Commercial and Industrial Loans	396,876	12.4
Agricultural Production and Other Loans to Farmers	0	0.0
Consumer Loans	10,073	0.3
Obligations of State and Political Subdivisions in the U.S.	19,613	0.6
Other Loans	10	0.0
Less: Unearned Income	0	0.0
Total Loans	3,200,595	100.0
<i>Source: Reports of Condition and Income</i>		

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

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. MSB designated a single assessment area in the Boston-Cambridge-Newton, MA-NH MSA (14460) and the Worcester, MA-CT MSA (49340). The bank’s assessment area within the Boston-Cambridge-Newton, MA-NH MSA includes census tracts in the Boston, MA Metropolitan Division (MD) (14454) and the Cambridge-Newton-Framingham, MA MD (15764). Both MSAs are part of the larger Boston-Worcester-Providence, MA-Rhode Island-NH-CT Combined Statistical Area.

Economic and Demographic Data

The bank’s assessment area is primarily located in the Metro West region of MA. MSB’s assessment area includes 206 census tracts located in Middlesex, Norfolk, and Worcester Counties. Middlesex County and Norfolk County are part of the Boston-Cambridge-Newton, MA-NH MSA, and Worcester County is part of the Worcester, MA-CT MSA. In conjunction with the Walpole branch opening on January 1, 2017, the bank added the municipalities of Dedham, Foxborough, Norwood, Sharon, and Westwood to the assessment area. The following table details the cities and towns in the bank’s current assessment area.

Assessment Area Cities and Towns			
Middlesex County			
Acton	Dunstable	Littleton	Stow
Ashland	Framingham	Marlborough	Sudbury
Ayer	Groton	Maynard	Townsend
Bedford	Holliston	Natick	Tyngsboro
Boxborough	Hopkinton	Newton	Waltham
Carlisle	Hudson	Pepperell	Wayland
Chelmsford	Lexington	Sherborn	Westford
Concord	Lincoln	Shirley	Weston
Norfolk County			
Bellingham	Franklin	Needham	Walpole
Dedham*	Medfield	Norfolk	Wellesley
Dover	Medway	Norwood*	Westwood*
Foxborough*	Millis	Sharon*	Wrentham
Worcester County			
Berlin	Harvard	Milford	Upton
Blackstone	Hopedale	Northborough	Westborough
Bolton	Mendon	Southborough	

*New to the assessment area since the previous evaluation

The 206 census tracts reflect the following income designations according to the 2015 American Community Survey (ACS) data:

- 2 low-income tracts,
- 14 moderate-income tracts,
- 57 middle-income tracts,
- 132 upper-income tracts, and
- 1 census tract with no income designation.

The low-income tracts are located in Framingham, and the moderate-income census tracts are located in Framingham (5), Waltham (3), Marlborough (2), Pepperell (1), Milford (1), Shirley (1), and Ashland (1). The census tract with no income designation is the Fort Devens military training base. There are no underserved or distressed nonmetropolitan middle-income geographies or designated disaster areas within the bank’s assessment area. However, there are several opportunity zones within the assessment area. The Opportunity Zone Program provides incentives for investment in certain census tracts to encourage growth in low-income areas. Within the bank’s assessment area, there are two opportunity zones in Framingham and two in Marlborough.

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)	206	1.0	6.8	27.7	64.1	0.5
Population by Geography	1,078,294	0.8	6.3	27.1	65.7	0.0
Housing Units by Geography	410,728	0.8	6.9	28.7	63.7	0.0
Owner-Occupied Units by Geography	290,674	0.2	4.0	26.4	69.5	0.0
Occupied Rental Units by Geography	102,333	2.7	14.6	35.0	47.7	0.0
Vacant Units by Geography	17,721	0.4	10.1	29.7	59.9	0.0
Businesses by Geography	94,737	0.5	6.5	24.2	68.9	0.0
Farms by Geography	2,339	0.6	5.4	23.0	71.1	0.0
Family Distribution by Income Level	278,078	13.9	12.4	18.1	55.5	0.0
Household Distribution by Income Level	393,007	18.5	11.6	14.5	55.3	0.0
Median Family Income MSA - 14454 Boston, MA MD		\$90,699	Median Housing Value			\$480,160
Median Family Income MSA - 15764 Cambridge-Newton-Framingham, MA MD		\$100,380	Median Gross Rent			\$1,291
Median Family Income MSA - 49340 Worcester, MA-CT MSA		\$81,137	Families Below Poverty Level			3.5%
<i>Source: 2015 ACS Census and 2018 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 above table shows that there is relatively limited opportunity to make home mortgage loans in the low- and moderate-income census tracts.

According to 2018 D&B data, there were 94,737 businesses in the assessment area. Gross annual revenues (GARs) for these businesses are below.

- 83.8 percent have \$1 million or less
- 7.2 percent have more than \$1 million
- 9.0 percent have unknown revenues

The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by GAR level. D&B demographic data indicates that as of June 2018, 79.1 percent of businesses in the assessment area have GARs of less than \$0.5 million, 68.4 percent of businesses have

four or fewer employees, and 88.8 percent of businesses operate from a single location. These factors indicate that the majority of businesses in the assessment area are very small. Service industries represent the largest portion of businesses at 48.6 percent; followed by retail trade (10.6 percent); non-classifiable establishments (10.2 percent); finance, insurance, and real estate (9.2 percent); and construction (7.9 percent).

The Federal Financial Institutions Examination Council (FFIEC)-updated median family income levels are used to analyze home mortgage loans under the Borrower Profile criterion. The following table presents the low-, moderate-, middle-, and upper-income categories. These categories are based on the 2017 and 2018 FFIEC-updated median family income categories.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Boston, MA MD (14454)				
2017 (\$94,300)	<\$47,150	\$47,150 to <\$75,440	\$75,440 to <\$113,160	≥\$113,160
2018 (\$99,300)	<\$49,650	\$49,650 to <\$79,440	\$79,440 to <\$119,160	≥\$119,160
Cambridge-Newton-Framingham, MA MD 15764				
2017 (\$104,800)	<\$52,400	\$52,400 to <\$83,840	\$83,840 to <\$125,760	≥\$125,760
2018 (\$110,300)	<\$55,150	\$55,150 to <\$88,240	\$88,240 to <\$132,360	≥\$132,360
Worcester, MA-CT MSA 49340				
2017 (\$84,000)	<\$42,000	\$42,000 to <\$67,200	\$67,200 to <\$100,800	≥\$100,800
2018 (\$86,900)	<\$43,450	\$43,450 to <\$69,520	\$69,520 to <\$104,280	≥\$104,280
<i>Source: FFIEC</i>				

According to data obtained from Moody’s Analytics as of September 2018, the top employers in the Boston, MA MD included Partners Healthcare, University of Massachusetts, and Stop & Shop Supermarket Co. In the Cambridge-Newton-Framingham, MA MD, the top employers included Harvard University, Massachusetts Institute of Technology, and the TJX Co, Inc. In the Worcester, MA-CT MSA, the top employers included UMass Memorial Health Care, University of Massachusetts Medical School, and Reliant Medical Group.

Data obtained from the United States (U.S.) Bureau of Labor Statistics indicates that the 2018 annual average unemployment rate in MA was 3.3 percent. The 2018 annual average unemployment rate in Middlesex, Norfolk, and Worcester Counties were 2.7 percent, 3.0 percent, and 3.5 percent, respectively. Unemployment rates in the assessment area generally decreased over the evaluation period.

Competition

The bank operates in a highly competitive market for credit and financial services. FDIC Deposit Market Share data as of June 30, 2019, reveals that 46 financial institutions operate 371 branches throughout the bank’s assessment area. MSB ranked 3rd with a 9.3 percent market share. The top two institutions included Bank of America, N.A. with a 24.6 percent market share and Citizens Bank, N.A. with a 12.9 percent market share.

The bank also operates in a competitive market for loans. In 2017, 497 lenders originated or purchased 35,322 home mortgage loans in the bank's assessment area. The top five lenders captured 23.3 percent of the market share including Wells Fargo Bank, N.A.; JPMorgan Chase Bank, N.A.; Guaranteed Rate, Inc.; Leader Bank; and Loandepot.com, LLC. MSB ranked 13th with 1.5 percent of the market share. Lending activity remained consistent in 2018 with 486 lenders originating or purchasing 38,448 home mortgage loans within the bank's assessment area. The top five lenders captured a combined market share of 24.6 percent and included Citizens Bank, N.A.; Bank of America, N.A.; Wells Fargo Bank, N.A., Digital Federal Credit Union; and JP Morgan Chase Bank, N.A. MSB ranked 11th with a 2.2 percent market share.

Small business aggregate data reflects lending information for whole counties; therefore, the peer small business data considers all lenders in Middlesex, Norfolk, and Worcester Counties. Based on the small business aggregate data for 2017, 163 lenders made 72,954 small business loans. MSB ranked 24th out of this group of lenders, with a 0.5 percent market share. The three most prominent small business lenders accounted for 47.4 percent of total market share including American Express, FSB; Bank of America, N.A.; and Citibank, NA. Competition remained steady in 2018 with 165 lenders originating 78,623 small business loans. MSB ranked 26th with a 0.4 percent market share. The top three lenders accounted for 49.2 percent of the market share including American Express, FSB; Bank of America, N.A.; and Chase Bank USA, NA.

Community Contact

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

Examiners contacted a community development corporation that creates and preserves affordable rental housing in the assessment area. The organization relies on low-income housing tax credits and other investments to fund affordable housing projects and faces challenges with the high demand for these types of investments. Many investors and developers are competing for a limited supply of tax credit awards and the process can involve numerous applications before tax credits are granted and awarded. This process can delay the corporation's housing projects. Additionally, the contact also noted, due to the demand for affordable rental housing, there is a long waiting list of applicants. An increase in affordable rental housing, particularly multifamily housing, would be helpful in the assessment area.

Examiners relied on a recently completed community contact of a Community Development Financial Institution specializing in business development in the assessment area and broader statewide regional area. The contact indicated the need for small dollar loans, lines of credit, and Small Business Administration (SBA) micro loans to assist small businesses. Additionally, the contact cited the continued partnerships with financial institutions as a necessity in meeting the financing needs for businesses.

Credit and Community Development Needs and Opportunities

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that affordable housing and small business loans represent primary credit needs for the AA.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

The bank’s overall Lending Test performance is rated High Satisfactory. The sections below discuss the bank’s performance under each criterion.

Lending Activity

The bank’s lending levels reflect good responsiveness to assessment area credit needs. In 2017 and 2018, MSB originated and purchased 1,832 home mortgage loans totaling approximately \$554.5 million and 809 small business loans totaling approximately \$158.8 million. Of this total, 1,383 home mortgage loans, totaling approximately \$392.4 million and 644 small business loans, totaling approximately \$114.8 million, were inside the assessment area.

The Description of Assessment Area section previously discussed the bank’s market share rankings for home mortgage and small business lending. For home mortgage lending, the institutions that ranked above MSB in 2017 and 2018 included large financial institutions and mortgage companies. No other state-chartered institution ranked above MSB in 2017 and 2018. Similarly, for small business lending, the institutions that ranked above MSB included large national banks and credit card companies. In 2017 and 2018, MSB was the fourth ranked state-chartered institution originating small business loans in the counties of the assessment area.

Assessment Area Concentration

The bank made a high percentage of home mortgage and small business loans, by number and dollar volume, within its assessment area. The increase in the number of home mortgage loans from 2017 to 2018 is due to the HMDA requirement to report HELOCs. See the following table.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans					Dollar Amount of Loans \$(000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$	%	\$	%	\$(000s)
Home Mortgage										
2017	542	70.4	228	29.6	770	187,396	67.7	89,294	32.3	276,690
2018	841	79.2	221	20.8	1,062	205,050	73.8	72,744	26.2	277,794
Subtotal	1,383	75.5	449	24.5	1,832	392,446	70.8	162,038	29.2	554,484
Small Business										
2017	347	79.6	89	20.4	436	59,593	74.0	20,985	26.0	80,578
2018	297	79.6	76	20.4	373	55,235	70.6	22,979	29.4	78,214
Subtotal	644	79.6	165	20.4	809	114,828	72.3	43,964	27.7	158,792
Total	2,027	76.8	614	23.2	2,641	507,274	71.1	206,002	28.9	713,276
<i>Source: Evaluation Period: 1/1/2017 - 12/31/2018 Bank Data Due to rounding, totals may not equal 100.0</i>										

Geographic Distribution

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

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects adequate penetration throughout the assessment area. In 2017, the bank's lending performance in low-income tracts was comparable to aggregate and demographic data. Although the bank did not originate any loans in the low-income tracts during 2018, there is limited lending opportunity as the two low-income tracts contain 0.2 percent of the assessment area's owner-occupied housing units. Aggregate lending data also indicates limited opportunity in the two low-income tracts in the assessment area. In 2017 and 2018, the bank's lending in moderate-income tracts was comparable to the corresponding demographic data, but trailed aggregate data.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2017	0.2	0.2	1	0.2	63	0.0
2018	0.2	0.2	0	0.0	0	0.0
Moderate						
2017	4.0	5.0	21	3.9	17,976	9.6
2018	4.0	4.6	33	3.9	6,719	3.3
Middle						
2017	26.4	27.2	98	18.1	21,011	11.2
2018	26.4	25.8	168	20.0	42,453	20.7
Upper						
2017	69.5	67.6	422	77.9	148,346	79.2
2018	69.5	69.4	640	76.1	155,878	76.0
Not Available						
2017	0.0	0.0	0	0.0	0	0.0
2018	0.0	0.0	0	0.0	0	0.0
Totals						
2017	100.0	100.0	542	100.0	187,396	100.0
2018	100.0	100.0	841	100.0	205,050	100.0
<i>Source: 2015 ACS Census; 1/1/2017 - 12/31/2018 Bank Data, 2017 & 2018 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>						

Small Business Loans

The geographic distribution of small business loans reflects adequate penetration. In 2017, the bank's lending performance in low-income tracts exceeded the corresponding aggregate data and demographic data. Despite a decline in overall small business lending in 2018, the bank's lending

in low-income tracts remained consistent and exceeded aggregate and demographic data. In moderate-income tracts, lending trailed aggregate and the demographics in both years.

Geographic Distribution of Small Business Loans						
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2017	0.5	0.8	4	1.2	233	0.4
2018	0.5	0.7	4	1.3	117	0.2
Moderate						
2017	6.5	6.4	15	4.3	2,138	3.6
2018	6.5	6.5	10	3.4	3,049	5.5
Middle						
2017	24.2	25.1	69	19.9	12,965	21.8
2018	24.2	24.7	55	18.5	12,398	22.4
Upper						
2017	68.8	67.6	259	74.6	44,257	74.3
2018	68.9	68.0	228	76.8	39,671	71.8
Not Available						
2017	0.0	0.0	0	0.0	0	0.0
2018	0.0	0.0	0	0.0	0	0.0
Totals						
2017	100.0	100.0	347	100.0	59,593	100.0
2018	100.0	100.0	297	100.0	55,235	100.0
<i>Source: 2017 & 2018 D&B Data; 1/1/2017 - 12/31/2018 Bank Data; 2017 & 2018 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>						

Borrower Profile

The distribution of borrowers reflects, given the product lines offered by the institution, excellent penetration among individuals of different income levels and businesses of different size in the assessment area. The bank's excellent performance of home mortgage lending and good performance of small business lending supports the conclusion.

Home Mortgage Loans

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate-income borrowers, reflects excellent penetration. Examiners focused on comparisons to aggregate data and area demographics. As shown in the following table, lending to low-income borrowers significantly exceeded the corresponding aggregate data. Although the bank's lending to low-income borrowers trailed the percent of low-income families in the assessment area, there are important demographic performance context factors to note. A low-income family in the assessment area, making less than \$55,150, would likely have trouble qualifying for a mortgage under conventional underwriting standards considering the median housing value in the assessment area is \$480,160. Further, 3.5 percent of families in the assessment area are below the poverty level, a sub-set of the low-income category. These factors help explain the difference between the

percent of low-income families and the bank’s lending levels.

In 2017, the bank’s performance of lending to moderate-income borrowers exceeded aggregate and the demographics. The bank’s performance remained above aggregate and the demographics in 2018.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2017	13.9	3.4	32	5.9	4,802	2.6
2018	13.9	3.9	59	7.0	7,108	3.5
Moderate						
2017	12.4	12.0	79	14.6	14,910	8.0
2018	12.4	12.5	115	13.7	16,560	8.1
Middle						
2017	18.1	20.8	115	21.2	25,796	13.8
2018	18.1	20.1	188	22.4	32,435	15.8
Upper						
2017	55.5	53.4	289	53.3	114,299	61.0
2018	55.5	52.1	450	53.5	122,692	59.8
Not Available						
2017	0.0	10.4	27	5.0	27,589	14.7
2018	0.0	11.4	29	3.4	26,256	12.8
Total						
2017	100.0	100.0	542	100.0	187,396	100.0
2018	100.0	100.0	841	100.0	205,050	100.0
<i>Source: 2015 ACS Census; 1/1/2017 - 12/31/2018 Bank Data, 2017 & 2018 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>						

Small Business Loans

The distribution of small business loans reflects good penetration of loans to businesses with GARs of \$1.0 million or less. In 2017 and 2018, MSB outperformed aggregate data, but fell short of the demographics. It is important to note that the percent of businesses shows all businesses in the assessment area, not just those in the market for a small business loan. Overall, the bank’s performance reflects good penetration.

Distribution of Small Business Loans by Gross Annual Revenue Category						
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
≤ \$1,000,000						
2017	83.8	47.6	200	57.6	21,007	35.3
2018	83.8	41.5	167	56.2	20,506	37.1
> \$1,000,000						
2017	7.4	--	135	38.9	36,207	60.8
2018	7.2	--	129	43.4	34,727	62.9
Revenue Not Available						
2017	8.9	--	12	3.5	2,379	4.0
2018	9.0	--	1	0.3	2	0.0
Total						
2017	100.0	100.0	347	100.0	59,593	100.0
2018	100.0	100.0	297	100.0	55,235	100.0
<i>Source: 2017 & 2018 D&B Data; 1/1/2017 - 12/31/2018 Bank Data; 2017 & 2018 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0</i>						

Based on the bank's lending activity within the assessment area, the institution exhibits a good record of serving the credit needs of the most economically disadvantaged areas of its assessment area, low-income individuals, and small businesses, consistent with safe and sound banking practices.

Innovative or Flexible Lending Practices

The bank uses innovative and flexible lending programs to assist in meeting the credit needs of its assessment area. Over the evaluation period, the bank originated 142 innovative or flexible loans totaling approximately \$65.1 million. In addition, the bank originated 49 innovative or flexible loans, totaling \$25.6 million, to individuals and businesses just outside the assessment area. The majority of programs involve government-related subsidies and guarantees, in addition to limited internal programs. The following table illustrates the bank's innovative and flexible lending programs.

Innovative or Flexible Lending Programs										
Type of Program	2017		2018		2019		2020		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Residential										
Restricted Deed/Affordable Housing	5	791	2	297	4	600	1	113	12	1,801
First Time Homebuyer	3	526	3	861	16	4,882	1	168	23	6,437
Mass Housing Partnership (MHP)	26	4,788	13	2,458	18	3,605	1	252	58	11,103
MassHousing	7	1,778	8	1,914	1	140	0	0	16	3,832
Sub-Total Residential Loans	41	7,883	26	5,530	39	9,227	3	533	109	23,173
Commercial										
SBA 504	6	1,387	2	809	1	312	0	0	9	2,508
SBA 7A	1	110	0	0	2	488	0	0	3	598
SBA Express	6	214	2	450	1	150	0	0	9	814
Tax Exempt Bonds	3	14,546	1	3,400	1	17,910	0	0	5	35,856
Massachusetts Business Development Corporation	1	273	3	934	3	896	0	0	7	2,103
Sub-Total Commercial Loans	17	16,530	8	5,593	8	19,756	0	0	33	41,879
Totals	58	24,413	34	11,123	47	28,983	3	533	142	65,052
<i>Source: Bank Data</i>										

The following highlights the various innovative and flexible loan programs offered by the bank.

Home Mortgage Lending Programs

- *Restricted Deed/Affordable Housing:* This internal loan product assists low- and moderate-income homebuyers with purchasing deed-restricted affordable housing. The loan product offers flexible terms such as a low down payment, reduced closing costs, and no mortgage insurance. The property must be an acceptable deed restricted affordable housing unit, and borrowers must be low- or moderate-income.
- *First Time Homebuyer:* This internal product features a three percent down payment, flexible underwriting standards, and offers reduced closing costs. The bank designed this program to target low- and moderate-income borrowers with their first home purchase. The bank requires that borrowers meet the income limits designated by MassHousing.
- *MHP:* The One Mortgage program includes a 30-year low fixed-rate option that allows borrowers to put down as little as three percent without private mortgage insurance. The program provides low- and moderate-income borrowers with affordable financing options.
- *MassHousing:* The bank offers an affordable 30-year fixed-rate loan for first-time or repeat homebuyers through MassHousing. This product primarily assists low- and moderate-income borrowers. Along with a reduced rate, the product offers a low down payment as

well as flexible underwriting practices. Of the 16 loans, the bank extended 5 to low- and moderate-income borrowers.

Small Business Lending Programs

In addition to its standard commercial loan programs, the bank also offers the following flexible small business loan programs, in cooperation with the SBA and the Massachusetts Business Development Corporation.

- *SBA 504 Loan Program:* This loan program provides small businesses with long-term financing through a Certified Development Company (CDC) and 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 from the CDC, and 50.0 percent participation by the bank.
- *SBA 7a Loan Program:* The bank is a preferred lender for the SBA 7A program. This loan product offers small businesses a maximum loan amount of \$5 million with the SBA guaranteeing up to 85.0 percent of most loan values. This loan product is the SBA's primary program for providing financing to small businesses.
- *SBA Express Loan Program:* This program offers borrowers an accelerated turnaround time of up to 36 hours for approval on loan amounts up to \$350,000. The SBA provides a maximum guaranty of 50.0 percent, and no collateral is required for loans of \$25,000 or less.
- *Tax Exempt Bonds:* The bank offers financing to businesses in connection with revenue bonds offered through the Massachusetts Development Finance Agency. This flexible financing option is available for non-profits, affordable housing developers, municipal entities, manufacturers, and environmental enterprises. This program offers low rates and flexible terms to support economic development.
- *Massachusetts Business Development Corporation:* The bank participates in the Capital Access Program. (This program helps small businesses throughout Massachusetts obtain loans from participating banks. Using cash collateral guarantees from a loan loss reserve fund, this program enables banks to make loans they might otherwise be unable to grant.

Community Development Loans

MSB made a relatively high level of community development loans. The bank originated 14 community development loans, totaling approximately \$81.1 million, inside the assessment area during the evaluation period. This total includes one loan for \$5.0 million that benefits a broader statewide and regional area including the bank's assessment area. In addition, the bank originated 12 loans totaling approximately \$19.9 million outside the assessment area. The number of community development loans increased slightly since the prior evaluation; however, the bank significantly increased the dollar volume of community development loans. At the prior evaluation, the bank originated 22 community development loans, totaling \$25.7 million. The current level of activity represents 2.2 percent of average total assets and 3.3 percent of average total loans since the

prior CRA evaluation. The following table details the bank’s community development lending by community development purpose and by year.

Community Development Lending										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2017	1	14,406	1	2,200	3	27,510	2	8,600	7	52,716
2018	3	3,500	1	3,400	0	0	0	0	4	6,900
2019	3	21,435	0	0	0	0	0	0	3	21,435
2020 YTD	0	0	0	0	0	0	0	0	0	0
Total	7	39,341	2	5,600	3	27,510	2	8,600	14	81,051
<i>Source: Bank Data</i>										

The following represents a sample of community development loans made to organizations and corporations that benefit the entire assessment area:

- Over the evaluation period, the bank originated four loans totaling approximately \$36.5 million, to a non-profit anti-poverty organization dedicated to serving the needs of low-income and disadvantaged individuals in the assessment area. The organization offers a number of services including health services, substance abuse, child-care, assistance with finding permanent housing, job training, and job placement. In addition to the many social services offered, the organization has a housing corporation that develops and expands the supply of affordable housing for individuals and families. The bank’s financing helped the organization purchase a women’s shelter located in a moderate-income area of Framingham, MA. The bank also financed a \$17.9 million loan to develop a community center in a low-income area of Framingham, MA. The community center offers preschool, afterschool, and day care programs targeted to low- and moderate-income families. Lastly, the bank financed improvements to existing affordable housing units. MSB’s loans to this organization are particularly responsive to meeting the needs of the assessment area’s most disadvantaged individuals.
- In 2017, the bank originated a loan for approximately \$16.6 million supporting economic development in the assessment area. The loan funded the development of a partially empty retail strip mall that will include restaurants, retail, and medical office space. The funding created five new tenants, which in turn will create new jobs.
- In 2018, the bank increased a line of credit by \$5.0 million to a Small Business Investment Company formed to lend to small businesses across the United States. The organization funds loans through private investors and SBA debentures. The entity lends to businesses in MA and serves a broader regional area that includes the bank’s assessment area.

In 2019, the bank originated two loans to develop affordable housing. The bank provided a \$5.0 million line of credit and a \$9.1 million land and development loan to finance the construction and infrastructure work on a 44-unit residential property. Of the 44-units, 11 are designated as affordable under section 40B. The bank received credit for the prorated share of these loans that supported affordable housing, totaling approximately \$1.3 million and \$2.8 million.

INVESTMENT TEST

The bank’s overall Investment Test performance is rated Outstanding. The sections below discuss the bank’s performance under each criterion.

Investment and Grant Activity

MSB has an excellent level of qualified community development investments. MSB and the Middlesex Bank Charitable Foundation (Foundation) made 277 qualified investments totaling approximately \$29.1 million during the review period. This total includes qualified equity investments of approximately \$27.5 million and donations of approximately \$1.7 million. The total dollar amount of equity investments increased 26.7 percent from the prior evaluation. The bank made \$21.7 million in equity investments during the previous evaluation period. The increase in investments is significantly higher than the bank’s increase in total assets of 3.4 percent. Total donations slightly increased, by approximately \$11,000.

Examiners compared the bank’s investment activity to that of similarly situated institutions. Comparable institutions were selected based on asset size, geographic location, and lending focus. MSB’s investment activity outperformed the comparable institutions. The following table illustrates the bank’s community development investments by year and purpose.

Qualified Investments										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	2	2,387	3	15,000	4	4,014	0	0	9	21,401
2017	1	5,000	0	0	0	0	0	0	1	5,000
2018	1	550	0	0	0	0	0	0	1	550
2019	1	344	0	0	1	172	0	0	2	516
YTD 2020	0	0	0	0	0	0	0	0	0	0
Subtotal	5	8,281	3	15,000	5	4,186	0	0	13	27,467
Qualified Grants & Donations	22	218	234	1,296	8	138	0	0	264	1,652
Total	27	8,499	237	16,296	13	4,324	0	0	277	29,119

Source: Bank Data

Equity Investments

The bank has 13 qualified equity investments totaling \$27.4 million, of which 4 totaling approximately \$6.1 million are new and 9 totaling \$21.4 million remain from the prior period. Of the prior period investments, the bank received CRA consideration for a nationwide investment

totaling \$5.0 million. The total dollar amount of equity investments equates to 0.6 percent of average total assets and 2.0 percent of average total securities since the previous evaluation. The following are examples of the bank's new equity investments.

- In 2017, the bank made a \$5.0 million equity investment in the Mass Housing Investment Corporation Fund (MHIC). MHIC is a leading private investor and lender specializing in financing of affordable housing and community development throughout New England. MHIC invests in projects that rehabilitate or construct affordable housing in low- and moderate-income neighborhoods in the bank's assessment area.
- In 2018, the bank made a \$500,000 investment to fund the development of two units of affordable housing for the Bedford Village Preservation of Affordable Housing in Bedford, MA. The investment is responsive, as these properties require funding to preserve their affordability components and make necessary improvements.

Grants and Contributions

During the evaluation period, MSB and the Foundation made approximately \$1.7 million in qualified donations. This dollar volume of activity is slightly 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 qualified donations.

Grants

- *Bethany Hill Place*: The Foundation made multiple grants to this organization to support affordable housing and the services offered to residents. The organization serves households that have experienced homelessness, addiction, violence, and loss by providing safe, affordable, and educational housing. The organization provides learning opportunities to its residents that include financial literacy, college and career counseling, tutoring on General Education Diploma, English for speakers of other languages, basic skills, and several other programs. The organization has 41 affordable units in South Framingham.
- *South Middlesex Opportunity Council (SMOC)*: The Foundation made a grant to SMOC, a multi-service agency in the Metro West area of MA. SMOC's mission is to improve the quality of life for low-income or disadvantaged individuals. SMOC offers programs for education, workforce development, financial assistance, and housing services. Within such an expensive assessment area, these social services are critical to meet a basic standard of living.
- *One Family, Inc.*: The Foundation made multiple grants during to this organization. This non-profit organization serves low-income families in the Greater Boston area that are homeless or are at risk of homelessness. One Family offers coaching and scholarships to

single parents in college and career coaching to help parents enter careers with family-sustaining wages.

Contributions

- *More Than Words:* The bank made multiple contributions to More Than Words, a job training, and youth development program through a bookselling business in the Greater Boston area. The organization works with vulnerable young adults in Greater Boston including those who are in the foster care system, court-involved, homeless, or out of school. Program participants work part-time in the bookstores learning critical customer service, technology, inventory management, and leadership skills. Participants also work a second job, attending workshops and site visits and receiving focused support to ensure they persist in school and map plans for their future work, education, and life.
- *Circle of Hope:* The bank made multiple contributions to Circle of Hope, which provides homeless children, women, and men in Boston and Metro West with clothing and necessities. The organization provides seasonally appropriate clothing, shoes, linens, and basic toiletries to 23 homeless shelters and clinics.

Responsiveness to Credit and Community Development Needs

MSB exhibits excellent responsiveness to credit and community economic development needs. A The bank provided approximately \$8.5 million in investments and grants in affordable-housing related initiatives, which the community contact identified as a great need in the area given the high cost of housing. Additionally, the bank and Foundation made a large number of grants that supported low- and moderate-income individuals. The Foundation supports educational opportunities, basic human needs, and non-profit organizations. Within these core areas, the Foundation makes CRA qualified donations that support financial literacy, affordable housing, and a wide range of community development activities. The bank targeted donations to some of the lowest income individuals and areas of its assessment area.

Community Development Initiatives

The bank makes significant use of innovative and/or complex investments to support community development initiatives. The bank's qualified investments and grants were both innovative and/or complex.

A number of the bank's new investments support the creation and preservation of affordable housing in low- and moderate-income geographies. These investments required the collaboration of multiple funding partners and sources. Additionally, the bank made new and retained existing investments in business development companies. These companies create innovative lending products for small businesses, which would be unable to obtain traditional bank financing.

SERVICE TEST

The bank's overall Service Test performance is rated Outstanding. The sections below discuss the bank's performance under each criterion.

Accessibility of Delivery Systems

Delivery systems are readily accessible to all portions of the institution’s assessment area. The following table illustrates the distribution of branches and ATMs by tract income level.

Branch and ATM Distribution by Geography Income Level								
Tract Income Level	Census Tracts		Population		Branches		ATMs	
	#	%	#	%	#	%	#	%
Low	2	1.0	8,824	0.8	0	0.0	0	0.0
Moderate	14	6.8	68,364	6.3	2	6.7	1	14.3
Middle	57	27.7	292,307	27.2	4	13.3	0	0.0
Upper	132	64.1	708,799	65.7	24	80.0	6	85.7
NA	1	0.5	0	0.0	0	0.0	0	0.0
Total	206	100.0	1,078,294	100.0	30	100.0	7	100.0

Source: 2015 ACS Data; Bank Data

As displayed in the table, the branch and ATM distribution is comparable to the percentage of the population in low- and moderate-income geographies. In total, MSB operates 37 ATM’s within the assessment area. All branches have at least one ATM, while select branches maintain a second. MSB is also part of the AllPoint ATM network, which provides access to over 55,000 ATMs within the network. In addition to the branch network, MSB provides a variety of alternative delivery systems such as bank by mail, online and mobile banking, remote deposit capture, remote wallet, and a Call Center. With the variety of services, consumers and businesses can access their accounts 24 hours a day to perform various transactions.

Changes in Branch Locations

To extent changes have been made, the institution’s opening and closing of branches has not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies and to low- and moderate-income individuals. During the evaluation period, the bank did not open or close any branches.

Reasonableness of Business Hours and Services

Services do not vary in a way that inconveniences certain portions of the assessment area, particularly low- and moderate-income individuals. All branches offer the same loan and deposit products and services. Branch hours are consistent at each location with weekday hours generally from 8:30 A.M. to 5:00 P.M. Branches with drive-up service and the main office open 30 minutes earlier. All branches offer extended hours until 6:30 P.M. on Thursday evenings and Saturday hours of 9:00 A.M. to 1:00 P.M. ATM, mobile, and online banking are available 24 hours a day, 7 days a week.

Community Development Services

The institution is a leader in providing community development services. In many instances, the bank acted as the principal financial institution in responding to the community's needs and in some of these instances, they acted in innovative ways.

For example, the bank's leadership in the Impact MetroWest initiative is especially noteworthy. This project using 50 bank-created data points assessed the Metro West region's needs. The initiative identified critical needs such as housing, poverty, and unemployment. This data helps the bank better understand the needs and therefore, specifically target them. Further, in addition to this initiative being responsive and innovative, it also required collaborating with non-profit organizations.

In addition, during the evaluation period, bank directors, officers, and employees provided approximately 264 instances of community development services to 34 different organizations. The bank continued its commitment to the 20 organizations noted in the prior evaluation and established new opportunities and relationships with 14 additional organizations. Many of these organizations serve low- and moderate-income areas of the bank's assessment area, particularly Framingham where there is a great need. Participation ranged from board and committee involvement with local non-profit organizations that focus on affordable housing, community services, and economic development to financial education and technical assistance provided directly to individuals. The bank's involvement with SMOC was particularly responsive and impactful. More specifically, bank representatives serve as advisory and credit committee members who approve low-interest microloans to emerging and existing small businesses and underserved entrepreneurs throughout the MetroWest region. As these officers provide technical expertise, their involvement assists businesses that would otherwise be unlikely to obtain a loan through traditional means. As noted by a community contact, small businesses in the assessment area could benefit from this type of financing.

The following chart highlights a sample of community development services the bank personnel provided during the evaluation period.

Community Development Services				
Brief Service Description	Community Development Purpose	Bank Sponsored Event, Program or Seminar	Technical Assistance or Direct Involvement by Bank Employee	Bank Product or Service
Foundation for MetroWest and Impact MetroWest <i>The president serves as vice chairman of the Foundation for MetroWest. The vice president of the bank's charitable Foundation is a founding member of Impact MetroWest.</i>	Community Service		2018, 2019, 2020	
SMOC <i>A senior vice president and assistant vice president serve on the Credit Committee and Advisory Committee. Additionally, an executive vice president of retail lending and vice president of residential lending presented homebuyer seminars in partnership with SMOC.</i>	Economic Development	2017, 2018, 2019, 2020	2018, 2019, 2020	
Baypath Elder Services <i>A vice president serves on the Board.</i>	Community Service		2018, 2019, 2020	
Lexington Housing Assistance Board <i>A senior vice president is a Director.</i>	Affordable Housing		2017, 2018, 2019	
Bay Colony Development Corporation <i>A senior vice president is a Director.</i>	Economic Development		2018, 2019	
Natick Affordable Housing Trust <i>A vice president is a Director.</i>	Affordable Housing		2018, 2019	
<i>Source: Bank Data</i>				

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

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. Examiners conducted the fair lending review in accordance with the Federal Financial Institutions Examination Council (FFIEC) Interagency Fair Lending Examination Procedures. Based on these procedures, examiners did not note any evidence of disparate treatment.

MINORITY APPLICATION FLOW

Examiners reviewed the bank's 2017 and 2018 HMDA LARs to determine if the application flow from the different racial groups within the bank's assessment area reflected the assessment area's demographics. Considering the demographic composition of the assessment area and comparisons to aggregate data in 2017 and 2018, the bank's minority application flow is reasonable.

The bank's assessment area contained a total population of 1,078,294 individuals of which 18.9 percent are minorities. The assessment area's minority and ethnic population is 2.5 percent Black/African American, 8.4 percent Asian, 0.1 percent American Indian, 0.0 percent Hawaiian/Pacific Islander, 5.5 percent Hispanic or Latino, and 2.4 percent other.

In 2017, the bank received 732 HMDA-reportable loan applications from within its assessment area. Of these applications, the bank received 39 or 5.3 percent from racial minority applicants, of which it originated 28 or 71.8 percent. The aggregate received 13.2 percent from minority applicants and originated 65.2 percent. For the same period, the bank received 11 applications or 1.6 percent from ethnic groups of Hispanic origin within its assessment area, of which it originated 8 or 72.7 percent versus the aggregate that received 4.4 percent from Hispanic applicants and originated 61.8 percent.

In 2018, the bank received 1,162 HMDA-reportable loan applications from within its assessment area. Of these applications, the bank received 65 or 5.7 percent from racial minority applicants, of which it originated 43 or 66.2 percent. The aggregate received 13.3 percent from minority applicants and originated 60.0 percent. For the same period, the bank received 21 applications or 1.8 percent from ethnic groups of Hispanic origin within its assessment area, of which it originated 15 or 71.4 percent versus the aggregate that received 4.8 percent from Hispanic applicants and originated 57.0 percent.

Examiners compared the bank's 2017 and 2018 lending to the aggregate. The comparison assists in deriving reasonable expectations for the application rate the bank received from minority residential loan applicants. Refer to the following table for information on the bank's minority application flow as well as the aggregate in the bank's assessment area.

MINORITY APPLICATION FLOW						
RACE	Bank 2017		2017 Aggregate Data	Bank 2018		2018 Aggregate Data
	#	%	%	#	%	%
American Indian/ Alaska Native	0	0.0	0.2	2	0.2	0.3
Asian	25	3.4	9.6	46	4.0	9.7
Black/ African American	4	0.6	1.4	3	0.3	1.4
Hawaiian/Pacific Islander	1	0.1	0.1	0	0.0	0.1
2 or more Minority	0	0.0	0.1	0	0.0	0.1
Joint Race (White/Minority)	9	1.2	1.8	14	1.2	1.7
Total Minority	39	5.3	13.2	65	5.7	13.3
White	558	76.2	66.1	897	77.2	65.6
Race Not Available	135	18.4	20.7	200	17.2	21.2
Total	732	100.0	100.0	1,162	100.0	100.0
ETHNICITY						
Hispanic or Latino	4	0.6	3.1	8	0.7	3.6
Not Hispanic or Latino	587	80.2	75.1	929	80.0	73.2
Joint (Hisp/Lat /Not Hisp/Lat)	7	1.0	1.3	13	1.1	1.2
Ethnicity Not Available	134	18.3	20.6	212	18.2	22.0
Total	732	100.0	100.0	1,162	100.0	100.0

Source: U.S. Census 2010, HMDA Aggregate Data 2017 and 2018, HMDA LAR Data 2017 and 2018

GLOSSARY

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

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

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

Census Tract: A small, relatively permanent statistical subdivision of a county 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. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Bank CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan

funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

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

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Community Development Loan: A loan that:

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

Community Development Service: A service that:

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

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

Core Based Statistical 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.

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

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

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

Nonmetropolitan Area (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.