

# **PUBLIC DISCLOSURE**

September 21, 2020

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Salem Five Cents Savings Bank  
Certificate Number: 23296

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Salem, Massachusetts 01970

Division of Banks  
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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.

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# INSTITUTION RATING

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

PERFORMANCE LEVELS	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X		
Satisfactory*		X	X
Needs to Improve			
Substantial Noncompliance			

*\* The Lending Test is weighted more heavily than the Investment and Service Tests when arriving at an overall rating.*

*\*\* 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 term “satisfactory” in lieu of “low satisfactory” for the Lending, Investment, and Service Test ratings, as the Division does not have a “low satisfactory” rating.*

**The Lending Test is rated High Satisfactory.**

- Lending levels reflect good responsiveness to the credit needs of its assessment area.
- Salem Five Cents Savings Bank (Salem Five) made an adequate percentage of loans within its assessment area during the review period.
- The geographic distribution of loans reflects adequate penetration throughout the assessment area.
- The distribution of borrowers reflects good penetration among retail customers of different income levels and business customers of different sizes.
- Salem Five uses innovative and flexible lending programs in order to serve assessment area credit needs.
- Salem Five is a leader in originating community development loans.

**The Investment Test is rated Satisfactory.**

- The institution has an adequate level of qualified community development investments and grants, although rarely in a leadership position, particularly those that are not routinely provided by private investors.
- Salem Five exhibits adequate responsiveness to credit and community economic development needs.
- The institution rarely uses innovative and complex investments to support community development initiatives.

**The Service Test is rated Satisfactory.**

- Delivery systems are reasonably accessible to essentially all portions of the institution's assessment area.
- To the extent changes have been made, the institution's opening and closing of branch offices has not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies or to low- and moderate-income individuals.
- Services (including, where appropriate, business hours) do not vary in a way that inconveniences certain portions of the assessment area, particularly low- and moderate-income geographies and individuals.
- The institution provides an adequate level of community development services.

## **SCOPE OF EVALUATION**

### **General Information**

This evaluation covers the period from the prior evaluation dated March 7, 2016, to the current evaluation dated September 21, 2020. Examiners used the Interagency Large Institution Examination Procedures to evaluate Salem Five's Community Reinvestment Act (CRA) performance. These procedures include three tests: The Lending Test, Investment Test, and Service Test.

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

- Lending Activity
- Assessment area concentration
- Geographic Distribution
- Borrower Profile
- Community Development
- Innovative and flexible lending practices

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

### **Loan Products Reviewed**

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

The bank's record of originating home mortgage and small business loans were weighted equally when drawing overall conclusions due to the bank's business strategy, loan volume during 2018 and 2019, and loan portfolio composition. The evaluation also considered the bank's subsidiary, Salem Five Mortgage Company's (SFMC) residential lending activity. No other loan types, such as small farm loans, or consumer loans, represent a major product line. This evaluation does not present these loan products, as they provided no material support for conclusions or ratings.

In evaluating the bank's performance, examiners considered all home mortgage loans reported on Salem Five's Home Mortgage Disclosure Act (HMDA) Loan Application Registers since the last evaluation. Although the Assessment Area Concentration table presents activity for 2016, 2017, 2018, and 2019, examiners did not include 2016 and 2017 data under the Geographic

Distribution or Borrower Profile criteria, as examiners did not identify any trends between 2016 and 2017 that materially affect conclusions. Examiners presented 2018 data for trend analysis and 2019 data, as it is the most recent peer data available.

In 2018, Salem Five reported 1,108 loans totaling \$323.3 million. In 2019, the bank reported 1,371 loans totaling \$478.8 million. This increase is due to the merger with Sage Bank. Additionally, home mortgage loans originated by SFMC in 2018 and 2019 and reported, were also included where noted.<sup>1</sup> Unless otherwise specified, this performance evaluation will herein refer to both Salem Five and SFMC as the bank. Examiners compared the bank's home mortgage lending performance to aggregate lending data and to the American Community Survey (ACS) demographic data.

This evaluation also considered all small business loans reported on Salem Five's CRA Loan Register since the last examination. However, similar to previously stated, examiners did not present 2016 and 2017 data, as they did not identify any trends that materially affect conclusions. Instead, examiners presented 2018 as it is the most recent year aggregate data is available and 2019 for trend analysis. In 2018, Salem Five reported 495 small business loans totaling \$157.5 million. In 2019, Salem Five reported 554 loans totaling \$164.5 million. Salem Five's subsidiary, SFMC, does not originate small business loans. Examiners also compared the bank's small business lending performance to 2018 aggregate lending data and D&B demographic data.

For the Lending Test, examiners reviewed the number and dollar volume of home mortgage and small business loans. Although the evaluation presents the number and dollar volume of loans, examiners emphasized performance by number of loans. The number of loans is a better indicator of the number of businesses and individuals served. Examiners weighted the performance under the Lending Test more heavily than the Investment and Service Tests in arriving at an overall CRA rating.

Examiners reviewed community development loans, investments, and services, as well as innovative and/or flexible lending practices from the prior evaluation date of March 7, 2016, through the current examination date of September 21, 2020. However, as the bank aggregates community development service-related information at year-end, year-to-date 2020 information was not available for this evaluation.

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<sup>1</sup> In accordance with CRA examination procedures, examiners included SFMC loans for all lending-related activities except under the Assessment Area Concentration performance factor.

## **DESCRIPTION OF INSTITUTION**

### **Background**

Salem Five is a stock savings bank headquartered in Salem, Massachusetts that operates primarily throughout the Boston-Cambridge-Newton, Massachusetts-New Hampshire (MA-NH) Metropolitan Statistical Area (MSA). Salem Five is a wholly owned subsidiary of Salem Five Bancorp, a Massachusetts single bank holding company. The bank has 10 subsidiaries, including SFMC LLC; Salem Five Financial, a full-service brokerage company; and Salem Five Insurance Agency LLC. The other subsidiaries do not offer financial products or services to the public. Additionally, the bank operates the Salem Five Charitable Foundation (Salem Foundation), Salem Five Heritage Charitable Foundation (Heritage Foundation), and Stoneham Savings Salem Five Charitable Foundation (Stoneham Foundation). Salem Five uses these three foundations to provide charitable contributions to community-based organizations throughout the assessment area.

The bank received a Satisfactory rating at its previous FDIC and Massachusetts Division of Banks CRA Performance Evaluation as of March 7, 2016, based on Interagency Large Institution Examination Procedures.

### **Operations**

Salem Five primarily serves Middlesex, Essex, and Suffolk Counties, and the Cities of Dedham, Dover, Needham, Wellesley, and Westwood in Norfolk County. Including the main office, the bank has 33 offices located in Bedford, Beverly (2), Boston, Burlington (2), Danvers (2), Georgetown, Hamilton, Lowell (2), Lynn (2), Malden, Marblehead, Middleton, Needham, North Andover (2), Peabody (2), Reading, Rowley, Salem (2), Saugus, Stoneham (2), Sudbury, Swampscott, Tewksbury, and Woburn. Of these offices, two are located in low-income census tracts in Lowell and Lynn, and six are in moderate-income census tracts in Beverly, Lowell, Lynn, Malden, Peabody, and Salem.

Salem Five merged with Georgetown Bank in 2017 and Sage Bank in 2018, acquiring five new branches. The bank acquired three new branches resulting from the merger with Georgetown Bank. These branches are located in Georgetown, North Andover, and Rowley. The bank acquired two new branches from the Sage Bank merger and these are located in Lowell. Of these new branches, the two located in Lowell are in a low-income census tract and a moderate-income census tract. The bank also closed six branches since the prior evaluation. These branches are in Concord, Danvers, Stratham, Saugus, Middleton, and North Andover. These branches were not located in low- or moderate-income census tracts.

Salem Five offers a wide variety of consumer and business loan products and services. Loan products include residential mortgages offered primarily through SFMC, commercial and construction mortgages, commercial and home equity lines of credit, commercial term loans, Small Business Administration (SBA) guaranteed loan programs, automobile loans, overdraft protection, student loans, and consumer third-party credit cards. Deposit products include various checking, savings, and money market accounts, as well as certificates of deposit and

individual retirement accounts.

Salem Five is a member of the Allpoint Automated Teller Machine (ATM) network providing customers with many free ATMs access worldwide. Alternatively, bank customers can access retail-banking services by phone, the internet, mobile banking, and remote deposit capture.

### **Ability and Capacity**

Assets totaled \$5.5 billion as of June 30, 2020, and due to the mergers grew 30.9 percent since the previous evaluation. Total loans of \$4.3 billion represent 77.0 percent of total assets. The loan portfolio composition is relatively unchanged since the last examination; however, the bank has seen notable growth in a few product lines. Commercial and industrial loans increased 110.7 percent and nonfarm nonresidential real estate loans increased 82.4 percent since the previous evaluation. These increases are due to a strategic focus on commercial and industrial and commercial real estate growth. The bank also saw significant commercial and industrial loan growth due to approximately \$175.0 million in Payment Protection Plan (PPP) loans that the bank originated in the second quarter of 2020. The following table illustrates the loan portfolio.

<b>Loan Portfolio Distribution as of 6/30/2020</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction, Land Development, and Other Land Loans	217,745	5.1
Secured by Farmland	0	0.0
Secured by 1-4 Family Residential Properties	1,682,453	39.6
Secured by Multifamily (5 or more) Residential Properties	174,220	4.1
Secured by Nonfarm Nonresidential Properties	1,210,640	28.5
<b>Total Real Estate Loans</b>	<b>3,285,058</b>	<b>77.3</b>
Commercial and Industrial Loans	797,902	18.7
Agricultural Production and Other Loans to Farmers	0	0.0
Consumer Loans	118,410	2.8
Obligations of State and Political Subdivisions in the U.S.	51,732	1.2
Other Loans	49	0.0
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
<b>Total Loans</b>	<b>4,253,151</b>	<b>100.0</b>
<i>Source: Reports of Condition and Income</i>		



## 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. The bank designated a single assessment area within the Boston-Cambridge-Newton, MA MSA. The following sections discuss the demographic and economic information for the assessment area.

### Economic and Demographic Data

The bank's assessment area contains the following cities and towns located in the Cambridge-Newton-Framingham MSA, Metropolitan Division (MD) and the Boston, MA, MD, which are both within the Boston-Cambridge-Newton, MA MSA.

#### Cities and Towns of the Assessment Area

##### Boston, MA MD (14454)

Boston	Dover	Westwood
Brookline	Needham	Winthrop
Chelsea	Revere	
Dedham	Wellesly	

##### Cambridge-Newton-Framingham, MA MD (15764)

Acton	Hudson	Peabody
Andover	Ipswich	Reading
Arlington	Lawrence	Rockport
Bedford	Lexington	Rowley
Belmont	Lincoln	Salem
Beverly	Lowell	Saugus
Billerica	Lynn	Somerville
Boxford	Lynnfield	Stoneham
Burlington	Malden	Stow
Cambridge	Manchester	Sudbury
Carlisle	Marblehead	Swampscott
Chelmsford	Marlborough	Tewksbury
Concord	Maynard	Topsfield
Danvers	Medford	Tyngsborough
Dracut	Melrose	Wakefield
Essex	Methuen	Waltham
Everett	Middleton	Watertown
Framingham	Nahant	Wayland
Georgetown	Natick	Wenham
Gloucester	Newbury	Weston
Groveland	Newton	Wilmington
Hamilton	North Andover	Winchester
Haverhill	North Reading	Woburn

The assessment area consists of 677 census tracts (CTs) that reflect the following income designations, according to the 2015 ACS:

- 106 low-income tracts,
- 146 moderate-income tracts,
- 228 middle-income tracts,
- 183 upper-income tracts, and

- 14 census tracts with no income designation.

Since the previous evaluation, the bank expanded its assessment area to include the following cities and towns: Arlington, Belmont, Brookline, Cambridge, Dedham, Dover, Dracut, Georgetown, Groveland, Haverhill, Methuen, Natick, Needham, Newbury, Newton, Somerville, Stow, Tyngsborough, Watertown, Wellesley, Weston, Westwood, and Winthrop.

The following table provides additional demographic and economic information pertaining to the bank’s assessment area.

<b>Demographic Information of the Assessment Area</b>						
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>NA* % of #</b>
Geographies (Census Tracts)	677	15.7	21.6	33.7	27.0	2.1
Population by Geography	3,045,085	13.6	22.3	36.0	27.8	0.3
Housing Units by Geography	1,233,096	12.8	22.4	36.8	27.7	0.3
Owner-Occupied Units by Geography	635,090	5.2	16.7	42.3	35.7	0.2
Occupied Rental Units by Geography	523,220	21.6	29.0	30.6	18.3	0.5
Vacant Units by Geography	74,786	15.2	25.5	33.3	25.5	0.6
Businesses by Geography	233,361	9.6	15.8	34.3	39.7	0.5
Farms by Geography	3,613	4.7	13.1	44.8	37.3	0.1
Family Distribution by Income Level	702,584	26.2	16.3	18.8	38.7	0.0
Household Distribution by Income Level	1,158,310	28.7	14.6	16.0	40.7	0.0
Median Family Income MSA - 14454 Boston, MA		\$90,699	Median Housing Value			\$430,002
Median Family Income MSA - 15764 Cambridge-Newton-Framingham, MA		\$100,380	Median Gross Rent			\$1,306
			Families Below Poverty Level			8.7%
<i>Source: 2015 ACS and 2018 D&amp;B Data            Due to rounding, totals may not equal 100.0%            (*) The NA category consists of geographies that have not been assigned an income classification.</i>						

According to 2018 D&B data, there were 233,361 businesses within the assessment area. Gross annual revenues (GARs) for these businesses follow.

- 83.4 percent have \$1 million or less.
- 7.2 percent have more than \$1 million.
- 9.4 percent have unknown revenues.

The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by GAR level. Service industries represent the largest portion of businesses at 47.9 percent; followed by retail trade (12.2 percent); and non-classifiable businesses (11.2 percent). In addition, 67.9 percent of area businesses have four or fewer employees, and 90.0 percent operate from a single location.

The 2018 and 2019 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 are presented in the following table.

<b>Median Family Income Ranges</b>				
<b>Median Family Incomes</b>	<b>Low &lt;50%</b>	<b>Moderate 50% to &lt;80%</b>	<b>Middle 80% to &lt;120%</b>	<b>Upper ≥120%</b>
<b>Boston, MA MD Median Family Income (14454)</b>				
2018 (\$99,300)	<\$49,650	\$49,650 to <\$79,440	\$79,440 to <\$119,160	≥\$119,160
2019 (\$105,500)	<\$52,750	\$52,750 to <\$84,400	\$84,400 to <\$126,600	≥\$126,600
<b>Cambridge-Newton-Framingham, MA MD Median Family Income (15764)</b>				
2018 (\$110,300)	<\$55,150	\$55,150 to <\$88,240	\$88,240 to <\$132,360	≥\$132,360
2019 (\$115,500)	<\$57,750	\$57,750 to <\$92,400	\$92,400 to <\$138,600	≥\$138,600
<i>Source: FFIEC</i>				

Data obtained from the U.S. Bureau of Labor and Statistics as of June 30, 2020, indicates that the unemployment rate in the Boston-Cambridge-Newton MA MSA was 16.9 percent, compared to the overall unemployment rate in the State of Massachusetts at 17.8 percent. This high unemployment rate is a result of the COVID-19 pandemic that began in March 2020. As a comparison, the unemployment rates in the Boston-Cambridge-Newton MA MSA and the State of Massachusetts as of December 31, 2019 were 1.9 percent and 2.4 percent, respectively. This evaluation primarily covers the period of better economic conditions prior to the pandemic.

**Competition**

The bank operates in a highly competitive market for credit and financial services. FDIC Deposit Market Share data from 2019 reveals that 164 financial institutions operated 1,079 branches throughout the bank’s assessment area. The bank ranked 8<sup>th</sup> with a 3.2 percent market share. The top three institutions were Citizens Bank N.A., Bank of America N.A., and Santander Bank N.A. with a combined market share of 33.1 percent.

The bank faces strong competition from other financial institutions that originate residential loans within the assessment area, including large national and regional institutions, mortgage companies, community banks, and credit unions. In 2019, SFMC ranked 17<sup>th</sup> in the area with a 1.5 percent market share in 2019. Top lenders included Citibank N.A., Wells Fargo N.A., Guaranteed Rate Inc., Bank of America N.A., and JPMorgan Chase Bank NA.

Small business aggregate data reflects lending information for whole counties; therefore, the peer small business data considers all lenders in Middlesex, Suffolk, Essex, and Norfolk Counties. Competition was high in 2018 with 175 lenders originating 100,169 small business loans. The bank ranked 28th with a 0.4 percent market share. The top three lenders were large institutions and credit card lenders including American Express National Bank, Bank of America N.A., and Chase Bank USA N.A.

### **Community Contact**

As part of the evaluation process, examiners contacted third party organizations active in the assessment area to assist in identifying the credit and community development needs. This information helps determine whether local financial institutions are responsive to those needs and helps examiners ascertain what credit and community development opportunities are available.

A community contact was conducted with a Cambridge-based non-profit organization that focuses on improving the quality of housing for low- and moderate-income residents and ensuring that housing remains affordable for the long-term. The contact identified a need for affordable housing. The contact also indicated a desire for financial institutions to provide more financial education and perform more outreach, specifically to borrowers who may be undergoing financial hardships.

A second community contact was conducted with another non-profit organization focused on developing affordable housing and economic opportunities in Lowell, MA, and the Merrimack Valley. The contact noted that affordable housing stock is a primary need.

### **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 is the primary community development need in the assessment area. Given the number of small businesses in the assessment area, small business lending is another significant credit need. Examiners also identified a need for increased financial education programs tailored towards low- and moderate-income borrowers.

## CONCLUSIONS ON PERFORMANCE CRITERIA

### **LENDING TEST**

The Lending Test is rated High Satisfactory. The following sections discuss the bank's performance under each criterion. Salem Five's performance under the Geographic Distribution, Borrower Profile, and Community Development Lending criteria primarily support this conclusion.

#### **Lending Activity**

Lending levels reflect good responsiveness to assessment area credit needs, considering the bank's performance context and competition.

##### ***Home Mortgage Lending***

Lending levels reflect good responsiveness to assessment area credit needs. Salem Five and SFMC originated a combined 3,231 home mortgage loans totaling \$1.0 billion in 2018, and 4,432 home mortgage loans totaling \$1.5 billion in 2019 in the assessment area. Separately, Salem Five originated 1,108 home mortgage loans totaling \$323.3 million in 2018, and 1,371 totaling \$478.8 million in 2019. SFMC originated 1,159 home mortgage loans totaling \$408 million in 2018, and 1,810 totaling \$679.1 billion in 2019.

Although residential mortgage originations increased from 2018 to 2019, SFMC's market share remained consistent. In 2018, SFMC ranked 18<sup>th</sup> with a market share of 1.1 percent out of 610 HMDA reporting lenders. In 2019, SFMC ranked 18<sup>th</sup> with a market share of 1.4 percent out of 653 HMDA reporting lenders. Local competitors that outperformed SFMC included Eastern Bank, ranked 10<sup>th</sup> with 2.1 percent market share. Other lenders that ranked higher than SFMC included larger national banks and mortgage companies. Salem Five did not rank as favorable, as SFMC originates all of the bank's residential mortgage loans. The HMDA loans reported on Salem Five's HMDA LAR generally include home equity lines of credit, certain loans purchased from SFMC, and commercial loans that have a purpose consistent with HMDA reporting requirements.

##### ***Small Business Lending***

In 2018, Salem Five originated 382 small business loans totaling \$107.4 million. Salem Five ranked 28<sup>th</sup> out of 175 small business lenders with a market share of 0.4 percent by number and 3.5 percent by dollar volume. Salem Five was the second highest performing state-chartered financial institution, following Eastern Bank. The highest ranked lenders primarily consisted of national banks and credit card companies. The top lenders included American Express, Bank of America, Chase Bank USA, Citibank, and Capital One Bank. The bank's average loan amount was \$281,000, while the top lenders primarily originated small loans with average loan amounts ranging from \$6,000 to \$27,000. Given the significant competition in the assessment area, the bank's small business lending activity reflects good responsiveness to assessment area credit needs.

## Assessment Area Concentration

Salem Five originated an adequate percentage of home mortgage and small business loans inside the assessment area during the evaluation period. As stated previously, this performance criterion only reflects home mortgage and small business loans originated by Salem Five. Salem Five's home mortgage lending increased substantially by number and dollar in 2018 due to the bank now being required to report home equity lines of credit in 2018. Salem Five originated a combined total of 4,656 home mortgage and small business loans totaling approximately \$1.6 billion, during the evaluation period. Of these, the bank originated 70.0 percent by number and 63.6 percent by dollar volume inside the assessment area.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2016	20	60.6	13	39.4	33	36,435	47.7	39,886	52.3	76,321
2017	30	65.2	16	34.8	46	28,190	43.9	36,011	56.1	64,201
2018	761	68.7	347	31.3	1,108	214,338	66.3	109,005	33.7	323,343
2019	954	69.6	417	30.4	1,371	330,480	69.0	148,353	31.0	478,833
<b>Subtotal</b>	<b>1,765</b>	<b>69.0</b>	<b>793</b>	<b>31.0</b>	<b>2,558</b>	<b>609,443</b>	<b>64.6</b>	<b>333,255</b>	<b>35.4</b>	<b>942,698</b>
Small Business										
2016	372	71.0	152	29.0	524	101,872	62.4	61,274	37.6	163,146
2017	363	69.1	162	30.9	525	108,890	61.8	67,197	38.2	176,087
2018	358	72.3	137	27.7	495	100,835	64.0	56,714	36.0	157,549
2019	399	72.0	155	28.0	554	98,673	60.0	65,786	40.0	164,459
<b>Subtotal</b>	<b>1,492</b>	<b>71.1</b>	<b>606</b>	<b>28.9</b>	<b>2,098</b>	<b>410,270</b>	<b>62.0</b>	<b>250,971</b>	<b>38.0</b>	<b>661,241</b>
<b>Total</b>	<b>3,257</b>	<b>70.0</b>	<b>1,399</b>	<b>30.0</b>	<b>4,656</b>	<b>1,019,713</b>	<b>63.6</b>	<b>584,226</b>	<b>36.4</b>	<b>1,603,939</b>
<i>Source: Bank Data</i>										
<i>Due to rounding, totals may not equal 100.0%</i>										

## Geographic Distribution

The geographic distribution of loans reflects adequate dispersion throughout the assessment area. Examiners focused on the percentage by number of loans in the low- and moderate-income census tracts.

### ***Home Mortgage Loans***

The geographic distribution of home mortgage loans reflects adequate dispersion throughout the assessment area. Examiners focused on the comparison to aggregate performance and demographics. The following table shows that the bank's 2018 performance in low-income census tracts is below aggregate data by 1.6 percent and above demographics. In 2019, lending performance improved by 0.3 percent; however, it was still slightly below aggregate.

In 2018, the bank's lending in moderate-income census tracts was slightly below aggregate. In 2019, despite an increase in total loans, the percentage of lending in the moderate-income tracts declined and remained in line with aggregate performance.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2018	5.2	7.2	108	5.6	26,772	4.3
2019	5.2	6.6	162	5.9	53,314	5.3
Moderate						
2018	16.7	19.0	360	18.8	98,783	15.9
2019	16.7	17.9	496	17.9	152,156	15.1
Middle						
2018	42.3	40.5	922	48.0	270,464	43.4
2019	42.3	41.5	1,399	50.6	480,452	47.6
Upper						
2018	35.7	33.0	530	27.6	226,570	36.4
2019	35.7	33.7	706	25.5	319,929	31.7
Not Available						
2018	0.2	0.3	0	0.0	0	0.0
2019	0.2	0.2	1	0.0	3,700	0.4
<b>Totals</b>						
<b>2018</b>	<b>100.0</b>	<b>100.0</b>	<b>1,920</b>	<b>100.0</b>	<b>622,588</b>	<b>100.0</b>
<b>2019</b>	<b>100.0</b>	<b>100.0</b>	<b>2,764</b>	<b>100.0</b>	<b>1,009,550</b>	<b>100.0</b>

*Source: 2015 ACS; Bank Data, 2018 & 2019 HMDA Aggregate Data, "--" data not available.  
Due to rounding, totals may not equal 100.0%*

### ***Small Business Loans***

The geographic distribution of small business loans reflects good penetration throughout the assessment area. As shown in the following table, lending in low-income census tracts was below aggregate performance and demographics in 2018; however, lending activity shows a positive trend in 2019 and performance is more in line with demographics.

In 2018, the bank's lending performance in moderate-income census tracts exceeded aggregate by 1.3 percent. The bank's lending remained consistent in 2019, exceeding business demographics by 0.9 percent.

Geographic Distribution of Small Business Loans						
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2018	9.6	8.9	27	7.5	6,412	6.4
2019	9.5	--	36	9.0	8,514	8.6
Moderate						
2018	15.8	16.7	68	19.0	16,097	16.0
2019	16.1	--	68	17.0	15,424	15.6
Middle						
2018	34.3	35.9	167	46.6	49,709	49.3
2019	33.8	--	200	50.1	51,900	52.6
Upper						
2018	39.7	38.0	96	26.8	28,617	28.4
2019	40.0	--	95	23.8	22,835	23.1
Not Available						
2018	0.5	0.5	0	0.0	0	0.0
2019	0.5	--	0	0.0	0	0.0
<b>Totals</b>						
<b>2018</b>	<b>100.0</b>	<b>100.0</b>	<b>358</b>	<b>100.0</b>	<b>100,835</b>	<b>100.0</b>
<b>2019</b>	<b>100.0</b>	<b>--</b>	<b>399</b>	<b>100.0</b>	<b>98,673</b>	<b>100.0</b>
<i>Source: 2018 &amp; 2019 D&amp;B Data; Bank Data; 2018 CRA Aggregate Data, "--" data not available.            Due to rounding, totals may not equal 100.0%</i>						

**Borrower Profile**

The distribution of borrowers reflects good penetration among individuals of different income levels and businesses of different sizes in the assessment area. The bank’s excellent performance of home mortgage lending and good performance in small business lending support this conclusion. Examiners focused on the number of home mortgage loans to low- and moderate-income borrowers and the number of small business loans to businesses with GARs of \$1 million or less.

***Home Mortgage***

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate-income borrowers, is excellent. As shown in the following table, lending to low-income borrowers exceeded aggregate by 1.7 percentage points in 2018. In 2019, the bank’s performance continued to exceed aggregate by 2.1 percentage points. Although performance was below demographics, a low-income family would have difficulty affording and qualifying for a home mortgage loan under conventional underwriting standards, especially given the high median home price in the assessment area. Examiners focused on the comparison to aggregate performance.



The bank's home mortgage lending to moderate-income borrowers exceeded aggregate by 6.6 percentage points in 2018 and 4.2 percent in 2019, further supporting the bank's excellent performance.

<b>Distribution of Home Mortgage Loans by Borrower Income Level</b>						
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>Low</b>						
2018	26.2	6.0	147	7.7	25,173	4.0
2019	26.2	5.2	202	7.3	34,179	3.4
<b>Moderate</b>						
2018	16.4	16.6	446	23.2	97,475	15.7
2019	16.4	17.0	586	21.2	147,788	14.6
<b>Middle</b>						
2018	18.8	22.0	427	22.2	118,904	19.1
2019	18.8	21.9	596	21.6	182,358	18.1
<b>Upper</b>						
2018	38.7	42.4	615	32.0	222,927	35.8
2019	38.7	43.4	854	30.9	361,001	35.8
<b>Not Available</b>						
2018	0.0	12.9	285	14.8	158,109	25.4
2019	0.0	12.6	526	19.0	284,225	28.2
<b>Totals</b>						
<b>2018</b>	<b>100.0</b>	<b>100.0</b>	<b>1,920</b>	<b>100.0</b>	<b>622,588</b>	<b>100.0</b>
<b>2019</b>	<b>100.0</b>	<b>100.0</b>	<b>2,764</b>	<b>100.0</b>	<b>1,009,550</b>	<b>100.0</b>

*Source: 2015 ACS; Bank Data, 2018 & 2019 HMDA Aggregate Data, "--" data not available.  
Due to rounding, totals may not equal 100.0%*

### ***Small Business Loans***

The distribution of borrowers reflects good penetration among business customers of different sizes. As shown in the following table, lending to businesses with GARs of \$1.0 million or less exceeded aggregate performance by 7.8 percent in 2018. In 2019, despite an increase in the total number of small business originations, the number and percentage of loans to businesses with GARs of \$1.0 million or less declined.

Distribution of Small Business Loans by Gross Annual Revenue Category						
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
<b>&lt;=\$1,000,000</b>						
2018	83.4	40.0	171	47.8	35,784	35.5
2019	85.2	--	157	39.3	32,502	32.9
<b>&gt;\$1,000,000</b>						
2018	7.2	--	185	51.7	64,851	64.3
2019	6.3	--	201	50.4	64,046	64.9
<b>Revenue Not Available</b>						
2018	9.4	--	2	0.6	200	0.2
2019	8.5	--	41	10.3	2,125	2.2
<b>Totals</b>						
<b>2018</b>	<b>100.0</b>	<b>100.0</b>	<b>358</b>	<b>100.0</b>	<b>100,835</b>	<b>100.0</b>
<b>2019</b>	<b>100.0</b>	<b>--</b>	<b>399</b>	<b>100.0</b>	<b>98,673</b>	<b>100.0</b>
<i>Source: 2018 &amp; 2019 D&amp;B Data; Bank Data; 2018 CRA Aggregate Data; "--" data not available.            Due to rounding, totals may not equal 100.0%</i>						

**Innovative and Flexible Lending**

The bank uses innovative and flexible lending programs to assist in meeting the credit needs of its assessment area. The following list summarizes the innovative and flexible loan programs the bank offers. The majority of programs involve government-related subsidies and guarantees.

Residential Lending Programs

- Federal National Mortgage Association (FNMA) –
  - Home Ready: The bank originates loans through FNMA’s Home Ready program. The program offers low down payment and reduced mortgage insurance for creditworthy low-income borrowers. The bank originated 991 loans for \$274.5 million through this program during the evaluation period.
  - Refi Plus: This program is part of FNMA’s Home Affordable Refinance Program (HARP), intended to provide access to low-cost refinancing for homeowners facing decreasing home values. This refinance program provides reduced verification and documentation requirements and targets low- and moderate-income borrowers. During the evaluation period, the bank extended loans for a total of \$18.8 million under this program. The bank no longer offers this program.
- Federal Home Loan Mortgage Corporation (FHLMC) – Home Possible: The bank originates loans through FHLMC’s Home Possible program. The program offers low down-payments

and reduced mortgage insurance for creditworthy low-income borrowers. The bank originated 73 loans for \$19.4 million during the evaluation period.

- *Federal Home Loan Bank of Boston (FHLBB) Equity Builder*: The bank originates loans through the FHLBB's Equity Builder Program (EBP), which offers grants for households with incomes at or below 80 percent of the area median income. Grants can be used to provide down-payment and closing-cost assistance, pay rehabilitation costs associated with acquisition, or cover the cost of home-buyer counseling, up to a maximum of \$500 per household. The bank originated 16 loans for \$180,100 during the evaluation period.
- *MassHousing*: These loans expand the supply of affordable housing for low- and moderate-income borrowers. The bank originates loans through multiple loan programs, including the Massachusetts Housing Finance Agency (MHFA) Tax Credit Loan Program, MassHousing Priority Mortgage, MassHousing Rehab, and MassHousing Right Rate. During the evaluation period, the bank originated 412 MassHousing loans totaling \$91.9 million.
- *Massachusetts Housing Partnership (MHP)*: The MHP is a non-profit affordable housing organization that works with the MA Department of Housing and Community Development (DHCD) to help increase the supply of affordable housing across the state. The bank offers the MHP One Mortgage loan program, which offers low-down payment options with no mortgage insurance to help low- and moderate-income borrowers purchase their first home. During the evaluation period, the bank originated 42 MHP loans for \$12.2 million.
- *United States Department of Agriculture (USDA)*: USDA loans provide affordable homeownership for low- and moderate-income households in rural areas throughout the country. Borrowers must occupy the property as a primary residence and their household income cannot exceed 115 percent of the area median income. The bank originated 20 loans for \$4.6 million during the evaluation period.

#### Commercial Lending Programs

- *Small Business Administration (SBA)*: Salem Five is a participating SBA lender and offers the following SBA programs.
  - *SBA 7a program*: The 7a program provides financing for start-up costs. The SBA guarantees between 75 and 85 percent based on the loan amount, which cannot exceed \$5 million. Proceeds can be used for working capital, purchasing equipment, or improving existing small business real estate. Salem Five originated 1,105 SBA 7a loans for \$334.9 million during the evaluation period.
  - *SBA 504 program*: Borrowers can use loan proceeds to purchase or improve facilities or equipment, and the loan's purpose must meet an economic development goal of job creation or public policy energy reduction. Salem Five originated 56 SBA 504 loans for \$26.5 million during the evaluation period.

- Massachusetts Business Development Corporation Capital Access Program (MASSCAP): The Massachusetts Business Development Corporation administers the program and acts as an agent of the Massachusetts Office of Business Development. MASSCAP assists Salem Five in originating loans to small businesses that might not otherwise qualify under Salem Five’s standard underwriting guidelines. Salem Five originated 31 loans for \$3.6 million during the evaluation period.

**Community Development Lending**

The bank is a leader in originating community development loans. The bank originated 132 community development loans during the review period totaling approximately \$217 million. This represented 6.1 percent of average total loans and 4.6 percent of average total assets as of June 30, 2020.

This level of community development activity is higher than the previous evaluation. The bank’s community development loans represent the bank’s commitment to providing financing for community development purposes throughout the assessment area. Many community development loans helped meet affordable housing needs identified by the community contact. Further, in 2020, the bank extended several PPP loans that helped organizations continue to provide community services to low- and moderate-income people. PPP loans also helped revitalize and stabilize low- and moderate-income areas by retaining existing businesses and jobs for residents.

The following table details community development lending inside the assessment area by community development purpose and by year.

<b>Community Development Lending</b>										
<b>Activity Year</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
2016	8	18,875	17	19,991	0	0	1	150	26	<b>39,016</b>
2017	3	4,150	12	8,270	0	0	3	21,500	18	<b>33,920</b>
2018	12	20,699	12	8,940	0	0	5	18,700	29	<b>48,339</b>
2019	7	6,510	15	22,049	0	0	3	14,500	25	<b>43,059</b>
YTD 2020	8	19,855	18	21,775	0	0	8	11,085	34	<b>52,715</b>
<b>Total</b>	<b>38</b>	<b>70,089</b>	<b>74</b>	<b>81,025</b>	<b>0</b>	<b>0</b>	<b>20</b>	<b>65,935</b>	<b>132</b>	<b>217,049</b>

*Source: Bank Data*

The following are examples of community development loans:

- In 2020, the bank extended a \$5.0 million working capital line of credit to a non-profit affordable housing organization that works with the MA Department of Housing and Community Development to help increase the supply of affordable housing across MA.

- In 2020, the bank extended a SBA PPP loan to a large minority-owned business headquartered in a low-income census tract in Chelsea, MA. PPP loans were designed to help businesses maintain their workforce during the COVID-19 pandemic. This loan helped the borrower maintain ongoing operations and continue paying a staff of 211 individuals. The majority of staff are lower-wage workers who reside in the area. This loan helped revitalize and stabilize the low-income area by retaining existing businesses and residents.
- In 2019, the bank made a \$18.3 million loan to construct a 46-unit condo building with 6 units designated as affordable based on the United States Department of Housing and Urban Development Area Median Income. The borrower entered an Affordable Housing Agreement with the Boston Planning and Development Agency to offer six units as Inclusionary Development Policy (IDP) units. The IDP requires certain developments to contribute towards preserving and creating affordable housing in Boston. Of the total loan amount, \$2.4 million (13.0 percent) qualifies as a community development loan promoting affordable housing in the assessment area.
- In 2018, the bank made a \$7.0 million loan to construct a 212-unit residential apartment complex in a moderate-income census tract, with 21 units designated as affordable to households who earn 80 percent of the area median income or lower. This loan helped provide affordable housing units in the area, but more so served to revitalize and stabilize the moderate-income census tract that was designated as an Opportunity Zone by the state of MA. The Opportunity Zone Program is a federal program meant to provide investment incentives and encourage growth in low- and moderate-income census tracts. The area's specific Opportunity Zone goals include both market rate and affordable housing production to attract residents and businesses to the area.

## **INVESTMENT TEST**

The Investment Test is rated Satisfactory. The following sections discuss the bank's performance under each criterion.

### **Investment Activity**

Salem Five made an adequate level of qualified investments and donations. During the evaluation period, the bank made 794 qualified investments and donations totaling \$11.3 million. This total represents .24 percent of average total assets. The bank's qualified investments increased since the prior evaluation, when investments totaled \$4.1 million. The following table illustrates the bank's community development qualified investments.

Qualified Investments										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	2	1,167	0	0	0	0	0	0	2	1,167
2016	1	2,068	0	0	0	0	0	0	1	2,068
2017	0	0	0	0	0	0	0	0	0	0
2018	1	2,961	0	0	0	0	0	0	1	2,961
2019	0	0	0	0	0	0	0	0	0	0
YTD 2020	2	3,861	0	0	0	0	0	0	2	3,861
<b>Subtotal</b>	<b>6</b>	<b>10,057</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6</b>	<b>10,057</b>
Qualified Grants & Donations	76	120	612	968	21	34	79	124	788	1,246
<b>Total</b>	<b>82</b>	<b>10,177</b>	<b>612</b>	<b>968</b>	<b>21</b>	<b>34</b>	<b>79</b>	<b>124</b>	<b>794</b>	<b>11,303</b>

Source: Bank Data

### Equity Investments

Qualified equity investments totaled approximately \$10.1 million, which represents 1.4 percent of average total securities. Qualified equity investments increased since the prior evaluation, when equity investments totaled \$3.6 million. A majority of these investments provided affordable housing to low- and moderate-income individuals.

#### *Prior Period Investments*

- The bank continues to hold two CRA mortgage-backed securities (MBS) from the prior period. These are secured by one to-four family residential mortgages to low- and moderate-income borrowers in the bank's assessment area. The current book value is approximately \$1.2 million.

#### *Current Period Investments*

- The bank purchased four CRA MBSs during the current evaluation period totaling \$8.9 million. The MBSs are secured by one to-four family residential mortgages to low- and moderate-income borrowers in the bank's assessment area.

### Donations

During the evaluation period, the bank made qualified donations through three charitable foundations: The Salem Foundation, the Heritage Foundation, and the Stoneham Foundation. The bank also made a limited number of direct donations. During the evaluation period, qualified donations totaled approximately \$1.2 million. The majority of donations benefited organizations that provide community services to low- and moderate-income individuals. The following are examples of organizations that received qualified donations.

- **Healing Abuse Working for Change (HAWC)** - HAWC provides a domestic violence helpline, emergency shelter, legal services, advocacy, and counseling services to more than 2,500 families in the North Shore area of MA each year. This donation helped fund services for low- and moderate-income people in the assessment area.
- **Mission of Deeds** – This organization is a non-profit organization located in Reading, MA that provides community services to low- and moderate-income people and families in Middlesex and Essex Counties, as well as the Suffolk County communities of Chelsea, Revere, and Winthrop. Mission of Deeds provides free beds, furniture, and basic household items to those in need.
- **Family Promises North Shore Boston (Family Promises)** – Family Promises is an interfaith hospitality network that provides community services such as shelter, meals, job support, and case management for homeless families in the assessment area.
- **Citizens Inn** – This organization provides various community services in the assessment area including emergency food services, a community meal program, addiction treatment, temporary shelter for homeless families, and affordable rental housing.

### **Responsiveness to Credit and Community Development Needs**

The bank exhibits adequate responsiveness to credit and community development needs. The bank’s current period investments directly benefitted the assessment area. The bank’s equity investments helped promote affordable housing, which was identified as a critical community development need by community contacts. In addition, the bank’s donations and grants helped provide community services to low- and moderate-income individuals throughout the assessment area.

### **Innovativeness or Complexity of Qualified Investments**

The bank rarely uses innovative and/or complex investments to support community development initiatives. The bank’s current period investments primarily include the purchase of MBSs, which are a common equity investment.

### **SERVICE TEST**

The Service Test is rated Satisfactory. The following sections discuss the bank’s performance under each criterion.

### **Accessibility of Delivery Systems**

Delivery systems are reasonably accessible to essentially 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	106	15.7	415,285	13.6	2	6.1	4	9.8
Moderate	146	21.6	680,065	22.3	6	18.2	8	19.5
Middle	228	33.7	1,094,870	36.0	18	54.5	22	53.7
Upper	183	27.0	846,764	27.8	7	21.2	7	17.1
NA	14	2.1	8,101	0.3	0	0.0	0	0.0
<b>Total</b>	<b>677</b>	<b>100.0</b>	<b>3,045,085</b>	<b>100.0</b>	<b>33</b>	<b>100.0</b>	<b>41</b>	<b>100.0</b>

*Source: 2015 ACS Data; Bank Data*

The bank operates two branches in low-income census tracts and six branches in moderate-income census tracts.

All branches have at least one deposit taking ATM. In addition, the bank operates standalone ATMs in Billerica, Burlington, Dracut, Lowell (3), Peabody, and Salem. Some branches are located in grocery stores and shopping centers. Two of the Lowell ATMs are in low-income census tracts, and one is in a moderate-income census tract. The Peabody ATM is also in a moderate-income census tract. In addition to the branch and ATM network, Salem Five provides various alternative delivery systems such as online banking, a mobile application, mobile deposit, text banking, and a person-to-person payment service through Zelle. With various services, consumers and businesses can access their accounts 24 hours a day to perform various transactions.

**Changes in Branch Locations**

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. During the evaluation period, the bank acquired Georgetown Bank in May 2017 and Sage Bank in August 2018. With the Georgetown acquisition, the bank opened one branch in a middle-income tract in Georgetown, MA, one branch in a middle-income tract in Rowley, MA, one branch in a middle-income tract in North Andover, MA, and one branch in an upper-income tract in Stratham, NH. From the Sage Bank acquisition, the bank opened two branches in Lowell, one in a low-income tract and one in a moderate-income tract.

In addition to branches acquired, the bank opened one new branch in a middle-income tract in Peabody in June 2020.

The bank relocated two branches during the evaluation period. In December 2018, the bank relocated a branch in Middleton, MA. The branch is still located in an upper-income tract. In March 2019, the bank relocated a branch in Saugus, MA. The branch is still in a middle-income tract.



The bank also closed four branches during the evaluation period. In August 2018, the bank closed a branch located in a middle-income tract in North Andover, MA. In June 2019, the bank closed a branch located in an upper-income tract in Stratham, NH. In March 2020, the bank closed a branch located in a low-income tract in Peabody. In May 2020, the bank closed a branch located in an upper-income tract in Concord.

**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. Although branch hours vary from location to location, hours do not in a way that inconveniences a specific geography. Branch hours are reasonable and comparable to other institutions.

The following branches are open on Saturday and Sunday with limited hours: Beverly (1), Burlington (1 - Burlington Mall), Danvers (1), Lynn (1), Peabody (1 – North Shore Mall), Reading (1), Salem (1), Saugus (1), Swampscott (1), and Woburn (1). Most other branches have limited hours on Saturdays and are closed on Sundays; however, the Boston branch and one Lynn branch are not open on the weekend.

**Community Development Services**

Salem Five provides an adequate level of community development services, primarily through officer involvement on the boards of various community organizations and the provision of educational seminars. During the evaluation period, bank employees provided 165 instances of community services to qualified organizations. These organizations focused on affordable housing, community services, economic development, and revitalization or stabilization. The following table summarizes the community development services by year and purpose.

Community Development Services					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
2016	0	16	2	0	<b>18</b>
2017	5	30	5	2	<b>42</b>
2018	5	52	4	2	<b>63</b>
2019	4	31	4	3	<b>42</b>
YTD 2020	0	0	0	0	<b>0</b>
<b>Total</b>	<b>14</b>	<b>129</b>	<b>15</b>	<b>7</b>	<b>165</b>

*Source: Bank Data*

The following are examples of community development services.

- **Bridgewell Inc.** – Bridgewell Inc. provides various community services to low- and moderate-income people in Middlesex and Essex Counties. Services include disability services, substance abuse recovery services, homelessness and housing services, and a

center for professional development. An employee serves as Chair of the Finance Committee.

- **CDC New England** – CDC New England provides SBA 504 loans to small businesses in Massachusetts. The SBA 504 Loan Program promotes economic development by providing small businesses with long-term, fixed-rate financing to acquire fixed assets to expand or renovate. An employee serves on the Board.
- **Massachusetts Coalition for the Homeless** – The Massachusetts Coalition for the Homeless works to eliminate homelessness in Massachusetts. An employee serves on the Board.
- **Merrimack Valley Housing Partnership (MVHP)** – MVHP promotes responsible and sustainable home ownership for low- and moderate-income people through first-time homebuyer counseling and special mortgage products and down payment assistance programs. Bank employees participated in a first time homebuyer class and provided counseling.
- **Chelsea Restoration Corporation (CRC)** – CRC promotes home ownership for low- and moderate-income residents of Chelsea, Revere, Saugus, and the surrounding communities. Bank employees participated in their first time homebuyer classes.

### *Other Services*

- Salem Five is part of the Massachusetts Community & Banking Council's Basic Banking for Massachusetts Program. The voluntary program's purpose is to expand access to bank products and services and to encourage low- and moderate-income people to establish banking relationships. Banks participating in the program provide low-cost checking and savings accounts that meet certain guidelines such as limited account opening and maintenance fees. Salem Five provides a savings account and a checking account that meet the Basic Banking for Massachusetts guidelines.

## **DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

Examiners did not identify any evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

### **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. 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 2018 and 2019 HMDA LARs to determine if the bank's application flow from different racial and ethnic groups reflected the assessment area's demographics.

According to 2015 ACS U.S. Census data, the bank's assessment area contains a population of 3,045,085 individuals, of which 33.3 percent are minorities. The assessment area's minority population is 8.1 percent Black/African American, 8.6 percent Asian, 0.1 percent American Indian, 13.7 percent Hispanic or Latino, and 2.8 percent Other.

In 2018, the bank received 2,599 HMDA-reportable loan applications from within its assessment area. Of these applications, the bank received 221, or 8.5 percent, from racial minorities, 160 of which were originated. The aggregate data indicated 15.4 percent of applications were received from racial minorities. For the same period, the bank received 194 applications, or 7.5 percent, from Hispanic applicants, of which 131 were originated. The aggregate data indicated 8.9 percent of applications were received from Hispanic applicants.

In 2019, the bank received 3,534 HMDA-reportable loan applications from within its assessment area. Of all HMDA-reportable applications received in 2019, the bank received 302, or 8.5 percent, from racial minorities, of which, 218 were originated. The aggregate data indicated 14.4 percent of applications were received from racial minorities. For the same period, the bank received 226 applications, or 6.4 percent, from Hispanic applicants, of which 154 were originated. Aggregate data indicates 8.6 percent of total applications were received from Hispanic applicants in 2019.

The bank's performance in 2018 and 2019 with respect to applications received from racial minorities fell below the aggregate, particularly with respect to Asian applicants. The bank's performance among borrowers of Hispanic origin was comparable to the aggregate in both 2018 and 2019.

The following table details the bank's minority application flow and aggregate data in its assessment area.

MINORITY APPLICATION FLOW						
RACE	Bank 2018		2018 Aggregate Data	Bank 2019		2019 Aggregate Data
	#	%	%	#	%	%
American Indian/ Alaska Native	6	0.2	0.3	6	0.2	0.2
Asian	106	4.1	8.5	150	4.2	8.2
Black/ African American	70	2.7	4.5	109	3.1	4.0
Hawaiian/Pacific Islander	0	0.0	0.2	0	0.0	0.2
2 or more Minority	1	0.0	0.2	0	0.0	0.1
Joint Race (White/Minority)	38	1.5	1.7	37	1.0	1.7
<b>Total Minority</b>	<b>221</b>	<b>8.5</b>	<b>15.4</b>	<b>302</b>	<b>8.5</b>	<b>14.4</b>
White	1,954	75.2	62.4	2,611	73.9	61.6
Race Not Available	424	16.3	22.2	621	17.6	24.0
<b>Total</b>	<b>2,599</b>	<b>100.0</b>	<b>100.0</b>	<b>3,534</b>	<b>100.0</b>	<b>100.0</b>
<b>ETHNICITY</b>						
Hispanic or Latino	159	6.1	7.6	192	5.4	7.4
Not Hispanic or Latino	1,984	76.3	69.3	2,685	76.0	68.0
Joint (Hisp/Lat /Not Hisp/Lat)	35	1.3	1.3	34	1.0	1.2
Ethnicity Not Available	421	16.3	21.8	623	17.6	23.4
<b>Total</b>	<b>2,599</b>	<b>100.0</b>	<b>100.0</b>	<b>3,534</b>	<b>100.0</b>	<b>100.0</b>

Source: 2018 and 2019 HMDA Data, 2015 ACS Data

The bank's minority application flow is adequate.

## GLOSSARY

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

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

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

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

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

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

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

**Community Development Corporation (CDC):** A CDC allows banks and holding companies to make equity type of investments in community development projects. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Bank CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

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

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

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

**Community Development Loan:** A loan that

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

**Community Development Service:** A service that

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

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

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

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

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

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

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

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

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

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

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

**Home Mortgage Disclosure Loan Application Register (HMDA LAR):** The HMDA LARs record all applications received for residential purchase, refinance, home improvement, and temporary-to-permanent construction loans.

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

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

**Household Income:** Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households are only one person, median household income is usually less than median family income.

**Housing Unit:** Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

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

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

**Low Income Housing Tax Credit:** The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

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

**Median Income:** The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.



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

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

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

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

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

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

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

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

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

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

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

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

**Small Business Loan:** A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

**Small Farm Loan:** A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

**Underserved Middle-Income Nonmetropolitan Geographies:** A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for

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

**Upper-Income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.

**Urban Area:** All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, "urban" consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

"Urban" excludes the rural portions of "extended cities"; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.

## PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations, and Part 345 of the Federal Deposit Insurance Corporation's Rules and Regulations, require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

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

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at (Address at main office)."

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

[Please Note: If the institution has more than one assessment area, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agencies, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.