PUBLIC DISCLOSURE

December 11, 2023

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

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INSTITUTION RATING

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

PERFORMANCE LEVELS	**PERFORMANCE TESTS**		
	Lending Test*	**Investment Test**	**Service Test**
Outstanding			
High Satisfactory	X		X
Satisfactory**		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 assessment area credit needs.
- A high percentage of loans are in the institution's assessment area.
- The geographic distribution of loans reflects good 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.
- The institution uses innovative and/or flexible lending practices in order to serve assessment area credit needs.
- The institution is a leader in making community development loans.

The Investment Test is rated <u>Low Satisfactory</u>.

- 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.

- The institution exhibits good responsiveness to credit and community development needs.

- The institution occasionally rarely uses innovative and/or complex investments to support community development initiatives.

The Service Test is rated <u>High Satisfactory</u>.

- Delivery systems are 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 branches has not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies and/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/or individuals.

- The institution provides a relatively high level of community development services.

DESCRIPTION OF INSTITUTION

Background

Salem Five Cents Savings Bank (Salem Five) is a stock savings bank headquartered in Salem, Massachusetts (MA). Salem Five is a wholly owned subsidiary of Salem Five Bancorp, a Massachusetts single bank holding company. The bank maintains 12 subsidiaries, including a mortgage company, Salem Five Mortgage Company LLC (SFMC). Salem Five also offers investment brokerage services through the Salem Five Investment Services, LLC subsidiary and insurance services through the Salem Five Insurance Holdings, LLC; Salem Five Insurance Services, LLC; and Salem Five Otis Brown, LLC subsidiaries. The other subsidiaries do not offer financial products or services to the public. Additionally, the bank operates the Salem Five Charitable Foundation (the Foundation), which provides charitable contributions to community-based organizations throughout the assessment area.

Salem Five received a "Satisfactory" rating at its prior FDIC and Division CRA Performance Evaluation as of September 21, 2020, based on Interagency Large Institution Examination Procedures.

Operations

Including the main office, Salem Five operates 34 full-service branches throughout eastern Massachusetts. The bank operates two branches in low-income geographies and eight in moderate-income geographies. Since the prior CRA evaluation, the bank opened three and closed four branches. Of the four branch closures, one was located in moderate-income geography, while the remaining three were in middle- and upper-income geographies. In addition, the bank operates seven loan production offices (LPOs) located in Dedham, Dorchester, Leominster, Mansfield, Plymouth, Reading, and Salem. Of the seven LPOs, the Dorchester and Plymouth locations are in moderate-income tracts.

During the evaluation period, the bank's subsidiary, Salem Five Insurance Services, acquired five insurance companies.

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 for consumer and business customers. Alternative banking services include internet and mobile banking, electronic bill pay, and remote deposit capture. The bank is also a member of the Allpoint Automated Teller Machine (ATM) network providing customers with access to many free ATMs worldwide.

Ability and Capacity

As of September 30, 2023, the bank reported total assets of $7.1 billion and total deposits of $5.1 billion. Loans are the bank's primary asset at $5.2 billion, while securities total $1.5 billion. The loan portfolio composition is relatively unchanged since the last examination. The following table illustrates the loan portfolio.

Loan Portfolio Distribution as of 09/30/2023		
Loan Category	**$(000s)**	**%**
Construction, Land Development, and Other Land Loans	407,047	7.8
Secured by Farmland	0	0.0
Secured by 1-4 Family Residential Properties	1,933,194	37.1
Secured by Multifamily (5 or more) Residential Properties	242,017	4.6
Secured by Nonfarm Nonresidential Properties	1,724,261	33.0
Total Real Estate Loans	**4,306,519**	**82.5**
Commercial and Industrial Loans	642,882	12.3
Agricultural Production and Other Loans to Farmers	0	0.0
Consumer Loans	177,683	3.4
Obligations of State and Political Subdivisions in the U.S.	90,340	1.7
Other Loans	524	0.0
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
Total Loans	**5,217,948**	**100.0**

Source: Reports of Condition and Income
Due to rounding, totals may not equal 100%

There are no financial, legal, or other impediments affecting the bank's ability to meet the credit needs of its assessment area.

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-New Hampshire (NH) Metropolitan Statistical Area (MSA).

Since the previous evaluation, the bank expanded its assessment area to include Essex, Middlesex, Norfolk, and Suffolk Counties, in their entirety. The expansion resulted in an additional 138 census tracts. At the prior evaluation, the assessment area consisted of cities and towns located in the Cambridge-Newton-Framingham, MA Metropolitan Division (MD) and the Boston, MA MD.

Additionally, effective February 2023, the Office of Management and Budget (OMB), revised metropolitan area delineations nationally. The OMB published revised demographic data based on the 2020 United States (U.S.) Census. Census tract changes reflected in the 2020 U.S. Census data include an additional 105 census tracts, as well as some changes to existing geography income classifications. As a result, the revised delineation includes 4 fewer low-income tracts and an additional 8 moderate-income census tracts, 13 middle-income census tracts, 62 upper-income census tracts, and 27 census tracts with no income designation. Because these changes occurred during the evaluation period, examiners analyzed the bank's 2022 lending data using the revised delineations. Examiners analyzed the 2020 and 2021 lending data using the prior delineation and 2015 American Community Survey (ACS) data.

Economic and Demographic Data

The assessment area is comprised of 920 census tracts that reflect the following income designations, according to the 2020 U.S. Census:

- 103 low-income tracts,
- 170 moderate-income tracts,
- 301 middle-income tracts,
- 305 upper-income tracts, and
- 41 census tracts with no income designation.

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

Demographic Information of the Assessment Area						
Demographic Characteristics	**#**	**Low**	**Moderate**	**Middle**	**Upper**	**NA***
Geographies (Census Tracts)	920	11.2	18.5	32.7	33.2	4.5
Population by Geography	3,965,748	10.5	19.2	34.5	34.5	1.3
Housing Units by Geography	1,576,645	9.9	19.2	35.4	34.2	1.2
Owner-Occupied Units by	867,959	3.9	14.8	38.7	42.0	0.6
Occupied Rental Units by	622,090	18.1	25.3	31.2	23.4	1.9
Vacant Units by Geography	86,596	11.9	19.0	33.2	34.0	1.9
Businesses by Geography	443,333	7.0	15.2	33.0	43.2	1.6
Farms by Geography	7,107	4.2	14.6	38.1	42.4	0.8
Family Distribution by Income	922,729	23.3	16.2	19.5	41.0	0.0
Household Distribution by Income	1,490,049	26.9	14.3	16.8	42.0	0.0
Median Family Income MSA -		$112,607	Median Housing Value			$546,583
Median Family Income MSA -		$121,481	Median Gross Rent			$1,628
			Families Below Poverty Level			6.3%

Source: 2020 U.S. Census and 2022 D&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.

Based on 2020 U.S. Census data, there are approximately 1.6 million housing units within the assessment area. Of these housing units, 55.1 percent are owner-occupied, 39.5 percent are occupied rental units, and 5.5 percent are vacant units.

According to 2022 D&B data, there are 443,333 non-farm businesses within the assessment area. Gross annual revenues (GARs) for these businesses follow.

- 88.4 percent have $1 million or less.
- 4.4 percent have more than $1 million.
- 7.2 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 38.0 percent; followed by non-classifiable businesses (23.3 percent); and retail trade (9.5 percent). In addition, 61.1 percent of area businesses have four or fewer employees, and 91.6 percent operate from a single location. The top employers in the assessment area are Massachusetts General Hospital, Brigham and Women's Hospital, Boston University, and Amazon.

Examiners used the 2020, 2021, and 2022 Federal Financial Institutions Examination Council's (FFIEC) updated median family income levels to analyze home mortgage loans under the Borrower Profile criterion. The following table presents the median family income ranges for the MDs making up the assessment area.

Median Family Income Ranges				
Median Family Incomes	**Low <50%**	**Moderate 50% to <80%**	**Middle 80% to <120%**	**Upper ≥120%**
Boston, MA MD Median Family Income (14454)				
2020 ($109,800)	<$54,900	$54,900 to <$87,840	$87,840 to <$131,760	≥$131,760
2021 ($113,700)	<$56,850	$56,850 to <$90,960	$90,960 to <$136,440	≥$136,440
2022 ($129,500)	<$64,750	$64,750 to <$103,600	$103,600 to <$155,400	≥$155,400
Cambridge-Newton-Framingham, MA MD Median Family Income (15764)				
2020 ($118,800)	<$59,400	$59,400 to <$95,040	$95,040 to <$142,560	≥$142,560
2021 ($120,200)	<$60,100	$60,100 to <$96,160	$96,160 to <$144,240	≥$144,240
2022 ($138,700)	<$69,350	$69,350 to <$110,960	$110,960 to <$166,440	≥$166,440
Source: FFIEC				

According to Moody's Analytics, the Northeast region had the strongest post-pandemic economic performance compared to the rest of the country. Employment in the region is 1.0 percent higher than pre-pandemic levels. This is largely due to job growth in the construction, leisure and hospitality, and the transportation and warehousing industries. In 2023, area housing prices have risen faster than those in other parts of the U.S.

Data obtained from the U.S. Bureau of Labor and Statistics as of June 30, 2023, indicates that the unemployment rate in the Boston-Cambridge-Newton, MA-NH MSA was 2.6 percent, which is equivalent to the overall MA unemployment rate of 2.6 percent. The assessment area's unemployment rate is lower than the national level of 3.6 percent and declined over the evaluation period. The COVID-19 pandemic contributed to high unemployment rates in 2020, but unemployment rates in all areas steadily decreased throughout the rest of the evaluation period.

Competition

The bank operates in a highly competitive market for credit and financial services. FDIC Deposit Market Share data from 2023 reveals that 106 financial institutions operated 1,396 branches throughout the assessment area. The bank ranked 11th with a 1.0 percent market share. The top three institutions were State Street Bank and Trust Company; Bank of America, NA.; and Citizens Bank, NA. with a combined market share of 64.7 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 2022, Salem Five ranked 18th in the assessment area with a 1.3 percent market share, while SFMC ranked 25th with a 1.0 percent market share. Top lenders included CBNA; Guaranteed Rate Inc.; Leader Bank, NA; Eastern Bank; and Bank of America NA.

The bank also faces strong competition for small business loans in the assessment area. In 2021, 249 lenders originated 129,861 small business loans. Salem Five ranked 25th with a 0.6 percent market share. The top three lenders were large institutions and credit card lenders including American Express National Bank; Bank of America, NA; and Chase Bank USA NA.

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 these needs. It also shows available credit and community development opportunities.

Examiners reviewed a recent community contact with a local non-profit affordable housing organization operating in the Greater Boston area. The contact stated that affordable housing is the most urgent community development need. The contact cited a limited supply of true affordable housing, as many purported affordable housing developments have substantial rents. The lack of low-cost affordable housing coupled with high demand, results in rising housing costs and excessive rents. In terms of credit needs, the contact referenced innovative programs for affordable homeownership. These include home purchase loan programs with low down payments, financial literacy, and closing cost assistance components. Lastly, the contacted noted there is an increased need for mental health facilities to assist people struggling with mental health issues, particular low- and moderate-income individuals.

Examiners also reviewed a recent community contact with a non-profit organization focused on economic and small business development. The contact stated that area small businesses are struggling to maintain profits and compete with large chains, due to inflation. The contact noted that financial institutions could assist small businesses by providing grants and offering loan products designed to help businesses maintain operations.

Credit and Community Development Needs and Opportunities

Considering information from the community contact, bank management, and the demographic and economic data, examiners determined that affordable housing represents a primary community development need, and loans to develop affordable housing are primary credit needs. Additionally, flexible or low-cost loans for low- and moderate-income individuals to obtain affordable housing is a critical credit need. The high demand and low availability of housing increases existing home prices and rents, adversely affecting affordability. Additionally, there is a need for capital assistance programs and micro loans to keep small business in operation.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated September 21, 2020, to the current evaluation dated December 11, 2023. Examiners used the Interagency Large Institution Examination Procedures to evaluate Salem Five's CRA performance. These procedures include three tests: the Lending Test, Investment Test, and Service Test. Please see Appendices for more information.

Activities 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.

Examiners weighted the bank's record of originating home mortgage and small business loans equally when drawing overall conclusions due to the bank's business strategy, loan volume during the evaluation period, and loan portfolio composition. The evaluation also considered SFMC's residential lending activity, the bank's mortgage subsidiary. Unless otherwise specified, this performance evaluation will herein refer to both Salem Five and SFMC as the bank. The bank did not originate any small farm loans. For Salem Five, consumer loans do not represent a major product line. This evaluation does not present these loan products, as they provided no material support for conclusions or ratings.

The Lending Test considers all residential home mortgage loans reported on Salem Five's 2020, 2021, and 2022 Home Mortgage Disclosure Act (HMDA) loan application registers (LARs). Salem Five reported 1,578 loans totaling $588.2 million in 2020; 1,964 loans totaling $754.5 million in 2021; and 1,803 loans totaling $639.0 million in 2022. Additionally, examiners reviewed home mortgage loans reported by SFMC in 2020, 2021, and 2022.[1] However, examiners excluded loans originated by SFMC and subsequently sold to Salem Five, as these loans are captured on Salem Five's HMDA LARs. Excluding loans sold to Salem Five, SFMC reported 5,241 loans totaling $1.6 billion in 2020; 770 loans totaling $258.8 million in 2021; and 3,606 loans totaling $1.1 billion in 2022.

The Lending Test also considered all small business loans reported on Salem Five's 2020, 2021, and 2022 CRA Loan Registers. Salem Five's subsidiary, SFMC, does not originate small business loans. Salem Five reported 1,254 small business loans totaling $291.7 million in 2020; 949 loans totaling $236.6 million in 2021; and 509 loans totaling $177.0 million in 2022.

Examiners compared the bank's 2022 home mortgage lending to demographic data from the 2020 U.S. Census and the corresponding year of HMDA aggregate data. Examiners compared the bank's 2021 and 2020 home mortgage lending to the 2015 ACS and the corresponding year of HMDA aggregate data. Examiners compared Salem Five's small business lending to D&B business demographic data and CRA aggregate data for each corresponding year. As of the evaluation date, 2022 aggregate small business data was not available.

Examiners reviewed both the number and dollar volume of home mortgage and small business loans. The analysis weighed the number of originations more heavily than the dollar volume, as the number of loans more reliably indicates the number of individuals and businesses served. Furthermore, examiners reviewed retail products and services targeted towards low- and moderate-income individuals or small businesses; delivery systems for providing retail-banking services, including branches and alternative delivery systems; and the impact of any branch openings and closings during the evaluation period. The evaluation considered community development loans, qualified investments, and community development services, as well as innovative and/or flexible lending practices from the prior CRA evaluation date to the current evaluation date.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

The Lending Test is rated High Satisfactory. Salem Five's performance under each criteria supports this conclusion.

Lending Activity

Salem Five's lending levels reflect good responsiveness to the assessment area's credit needs.

Home Mortgage Loans

The bank originated a combined 4,744 loans totaling $1.6 billion in 2020, 3,892 loans totaling $1.3 billion in 2021, and 1,319 loans totaling $461.9 million in 2022 in the assessment area. When

[1] In accordance with CRA examination procedures, examiners analyzed and presented SFMC loans for all Lending Test performance factors, except for the Assessment Area Concentration criterion.

compared to 2020, lending in 2021 and 2022 declined due to higher rates and inflation. Among HMDA-reporting lenders, Salem Five ranked 38th out of 637 lenders in 2020 with 0.6 percent of the market share. In 2021, Salem Five's performance increased slightly to 35th out of 636 lenders with 0.7 percent of the market share. In 2022, Salem Five's ranking improved to 18th out of 624 lenders with a market share of 1.3 percent. Examiners reviewed home mortgage loan market share data for each year in the evaluation period and noted that the institutions ranked above Salem Five were national banks, large mortgage companies, and credit unions. Throughout the evaluation period, Salem Five was the 3rd ranked state-chartered institution originating loans in Essex, Middlesex, Norfolk, and Suffolk Counties, trailing two larger institutions, Eastern Bank and Rockland Trust Company. Salem Five outperformed other state-chartered institutions such as Cambridge Savings Bank and Middlesex Savings Bank throughout the evaluation period.

Among HMDA-reporting lenders, SFMC ranked 14th out of 637 lenders with 1.8 percent of the market share, in 2020. In 2021, SFMC's performance decreased slightly to 18th out of 636 lenders with 1.4 percent of the market share; and in 2022, SFMC's ranking dropped to 26th out of 624 lenders with a market share of 1.0 percent. Although SFMC's loan activity levels decreased over the evaluation period, the decline was consistent with the overall decrease in aggregate HMDA lending from 2020 to 2022. The majority of lenders that ranked higher than SFMC included larger national banks and other mortgage companies.

Small Business Loans

Salem Five originated 1,055 loans totaling $220.7 million in 2020, 788 loans totaling $164.9 million in 2021, and 405 loans totaling $127.1 million in 2022 in the assessment area. When compared to 2020, lending in 2021 and 2022 declined due to a decrease in demand and higher interest rates. Inflation also played a role.

In 2020, among small business reporting institutions, Salem Five ranked 25th out of 255 lenders with a 0.9 percent market share by number and a 3.1 percent market share by dollar volume. Lenders ranked above Salem Five included large national banks and credit card companies and six other state-chartered institutions. In 2021, Salem Five ranked 25th out of 249 small business lenders with a market share of 0.6 percent by number and 3.3 percent by dollar volume. The highest ranked lenders primarily consisted of national banks and credit card companies. The top lenders included American Express NA; Bank of America, NA; Capital One Bank; Citizens Bank; and JP Morgan Chase Bank, NA. The bank's average loan amount was $209,000, while the top lenders primarily originated small loans with average loan amounts ranging from $14,000 to $61,000. In addition, six state-chartered institutions ranked above Salem Five including Avidia Bank, Cambridge Savings Bank, Eastern Bank, Enterprise Bank and Trust Company, Middlesex Savings Bank, and Rockland Trust Company,.

Assessment Area Concentration

Salem Five originated a high percentage of home mortgage and small business loans within the assessment area. The percentages of both home mortgage and small business loans inside the assessment area represent an increase in both number and dollar volume compared to the prior evaluation. The following table illustrates Salem Five's lending inside and outside of the assessment area.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total	Dollar Amount of Loans $(000s)				Total
	Inside		Outside			Inside		Outside		
	#	%	#	%	#	$	%	$	%	$(000s)
Home Mortgage										
2020	1,306	82.8	272	17.2	1,578	483,958	82.3	104,208	17.7	588,166
2021	1,517	77.2	447	22.8	1,964	570,435	75.6	184,087	24.4	754,521
2022	1,319	73.2	484	26.8	1,803	461,930	72.3	177,106	27.7	639,036
Subtotal	**4,142**	**77.5**	**1,203**	**22.5**	**5,345**	**1,516,323**	**76.5**	**465,400**	**23.5**	**1,981,723**
Small Business										
2020	1,055	84.1	199	15.9	1,254	220,691	75.7	71,029	24.3	291,720
2021	788	83.0	161	17.0	949	164,927	69.7	71,671	30.3	236,598
2022	405	79.6	104	20.4	509	127,064	71.8	49,913	28.2	176,977
Subtotal	**2,248**	**82.9**	**464**	**17.1**	**2,712**	**512,682**	**72.7**	**192,613**	**27.3**	**705,295**
Total										
Source: Bank Data *Due to rounding, totals may not equal 100.0%*										

Geographic Distribution

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

Home Mortgage Loans

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

The bank's lending in low-income tracts exceeded the percentage of owner occupied housing units in the assessment area's low-income census tracts throughout the evaluation period. The bank's performance in low-income tracts exceeded aggregate performance in 2020 and 2021. Consistent with an overall decrease in lending in 2022, the bank's performance in low-income tracts trailed aggregate performance. Within the moderate-income tracts, lending exceeded demographics and aggregate performance throughout the evaluation period. These comparisons and trends reflect good penetration.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	**% of Owner-Occupied Housing Units**	**Aggregate Performance % of #**	**#**	**%**	**$(000s)**	**%**
Low						
2020	4.0	4.2	211	4.4	56,653	3.5
2021	4.0	4.9	222	5.7	64,712	4.8
2022	3.9	5.3	55	4.2	17,286	3.7
Moderate						
2020	14.8	14.3	808	17.0	245,467	15.4
2021	14.8	15.4	687	17.7	214,960	16.0
2022	14.8	15.6	213	16.1	56,805	12.3
Middle						
2020	42.2	40.9	2,420	51.0	766,955	48.0
2021	42.2	40.2	1,920	49.3	637,769	47.4
2022	38.7	37.1	553	41.9	181,038	39.2
Upper						
2020	38.9	40.4	1,304	27.5	528,578	33.1
2021	38.9	39.4	1,063	27.3	429,034	31.9
2022	42.0	41.2	491	37.2	203,381	44.0
Not Available						
2020	0.1	0.2	1	0.0	510	0.0
2021	0.1	0.2	0	0.0	0	0.0
2022	0.6	0.8	7	0.5	3,420	0.7
Totals						
2020	**100.0**	**100.0**	**4,744**	**100.0**	**1,598,163**	**100.0**
2021	**100.0**	**100.0**	**3,892**	**100.0**	**1,346,474**	**100.0**
2022	**100.0**	**100.0**	**1,319**	**100.0**	**461,930**	**100.0**
Source: 2015 ACS; 2020 U.S. Census; Bank Data; 2020, 2021, and 2022 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 tracts slightly exceeded aggregate performance, but trailed the percentage of businesses located in low-income tracts in 2020. Although lending in low-income tracts in 2021 trailed aggregate and demographic comparators, Salem Five's lending increased in 2022, exceeding demographics.

In 2020, Salem Five's lending performance in moderate-income census tracts was in-line with aggregate performance and slightly exceeded demographic data. Performance remained relatively consistent in 2021, and further improved in 2022, far exceeding the percentage of businesses in moderate-income tracts.

Geographic Distribution of Small Business Loans						
Tract Income Level	**% of Businesses**	**Aggregate Performance % of #**	**#**	**%**	**$(000s)**	**%**
Low						
2020	7.8	7.5	80	7.6	10,685	4.8
2021	7.9	8.1	52	6.6	9,660	5.9
2022	7.0	--	39	9.6	13,038	10.3
Moderate						
2020	15.1	15.3	161	15.3	27,758	12.6
2021	15.4	16.9	132	16.8	25,155	15.3
2022	15.2	--	82	20.2	23,924	18.8
Middle						
2020	35.0	36.5	527	50.0	115,485	52.3
2021	35.1	36.5	386	49.0	84,936	51.5
2022	33.0	--	168	41.5	55,688	43.8
Upper						
2020	41.6	40.3	284	26.9	65,953	29.9
2021	41.2	38.2	217	27.5	44,930	27.2
2022	43.2	--	114	28.1	33,564	26.4
Not Available						
2020	0.4	0.4	3	0.3	810	0.4
2021	0.4	0.4	1	0.1	246	0.1
2022	1.6	--	2	0.5	850	0.7
Totals						
2020	**100.0**	**100.0**	**1,055**	**100.0**	**220,691**	**100.0**
2021	**100.0**	**100.0**	**788**	**100.0**	**164,927**	**100.0**
2022	**100.0**	**--**	**405**	**100.0**	**127,064**	**100.0**
Source: 2020, 2021, and 2022 D&B Data; Bank Data; 2020 & 2021 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%						

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 home mortgage lending and Salem Five's adequate small business lending performance 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 Loans

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate-income borrowers, is excellent.

The bank's lending to low-income borrowers exceeded aggregate performance in 2020 and 2021. Consistent with the bank's overall decline in lending in 2022, lending to low-income borrowers trailed aggregate performance. Although performance was below demographics, a low-income family in the assessment area, earning between $54,900 and $69,350, may have difficulty qualifying for a home mortgage loan under conventional underwriting standards, considering the median housing value of $546,583. Additionally, 6.3 percent of assessment area families are below the federal poverty level, a subset of the low-income category. These factors help explain the disparity between lending to low-income families and the percentage of low-income families. Examiners placed more emphasis on the comparison to aggregate lending data as this a better indicator of loan demand.

In 2020 and 2021, the distribution of home mortgage loans to moderate-income borrowers well exceeded the percentage of moderate-income families and aggregate performance. In 2022, the bank's performance trailed aggregate performance and demographic data. Of note, 44.1 percent of loans in 2022 were to borrowers with incomes not available. The majority of these loans were purchased loans, where income data was not collected or reported. The high percentage of loans to borrowers without income available skews the percentage of loans to low- and moderate-income borrowers, but does not indicate adverse performance.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	$(000s)	%
Low						
2020	24.1	4.3	346	7.3	62,338	3.9
2021	24.1	5.3	414	10.6	76,429	5.7
2022	23.3	6.9	73	5.5	7,754	1.7
Moderate						
2020	16.1	16.6	1,112	23.4	296,476	18.6
2021	16.1	17.0	867	22.3	235,294	17.5
2022	16.2	17.9	154	11.7	21,534	4.7
Middle						
2020	19.1	23.1	1,132	23.9	349,098	21.8
2021	19.1	21.9	832	21.4	255,467	19.0
2022	19.5	21.7	221	16.8	33,565	7.3
Upper						
2020	40.7	44.6	1,349	28.4	462,765	29.0
2021	40.7	42.4	974	25.0	318,739	23.7
2022	41.0	40.3	289	21.9	64,947	14.1
Not Available						
2020	0.0	11.5	805	17.0	427,487	26.7
2021	0.0	13.5	805	20.7	460,544	34.2
2022	0.0	13.1	582	44.1	334,130	72.3
Totals						
2020	**100.0**	**100.0**	**4,744**	**100.0**	**1,598,163**	**100.0**
2021	**100.0**	**100.0**	**3,892**	**100.0**	**1,346,474**	**100.0**
2022	**100.0**	**100.0**	**1,319**	**100.0**	**461,930**	**100.0**
Source: 2015 ACS; 2020 U.S. Census; Bank Data; 2020, 2021, and 2022 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%						

Small Business Loans

The distribution of small business loans reflects adequate penetration among business customers of different sizes. As shown in the following table, lending to businesses with GARs of $1.0 million or less fell below aggregate performance in 2020 and 2021. Of note, in 2020 and 2021, Salem Five originated 24.3 percent and 18.3 percent, respectively of its small business loans to small businesses for which revenue data is not available. Salem Five originated these loans under the SBA's Paycheck Protection Program (PPP) and revenue information was not required.

In 2022, despite a decrease in the total number of small business originations, the percentage of loans to businesses with GARs of $1.0 million or less shows an increasing trend.

Distribution of Small Business Loans by Gross Annual Revenue Category						
Gross Revenue Level	**% of Businesses**	**Aggregate Performance % of #**	**#**	**%**	**$(000s)**	**%**
<=$1,000,000						
2020	86.4	36.1	314	29.8	42,051	19.1
2021	87.2	43.4	310	39.3	39,955	24.2
2022	88.4	--	166	41.0	34,329	27.0
>$1,000,000						
2020	5.7	--	485	46.0	154,914	70.2
2021	5.0	--	334	42.4	115,024	69.7
2022	4.4	--	229	56.5	91,016	71.6
Revenue Not Available						
2020	8.0	--	256	24.3	23,726	10.8
2021	7.8	--	144	18.3	9,948	6.0
2022	7.2	--	10	2.5	1,719	1.4
Totals						
2020	**100.0**	**100.0**	**1,055**	**100.0**	**220,691**	**100.0**
2021	**100.0**	**100.0**	**788**	**100.0**	**164,927**	**100.0**
2022	**100.0**	--	**405**	**100.0**	**127,064**	**100.0**
Source: 2020, 2021, and 2022 D&B Data; Bank Data; 2020 & 2021 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0%						

Innovative or Flexible Lending Practices

The bank uses flexible lending practices in order to serve assessment area credit needs. During the evaluation period, the bank originated 2,205 flexible loans totaling $621.6 million. The majority of the bank's programs involved government-related subsidies and guarantees. The following list summarizes the bank's flexible loan programs; designed to improve access to credit for low- and moderate-income individuals and families and small businesses.

Residential Lending Programs

- **Federal National Mortgage Association (FNMA) Home Ready**: This program offers a low down payment and reduced mortgage insurance for creditworthy low-income borrowers. During the evaluation period, the bank originated 961 loans for $276.1 million through this program.

- **Federal Home Loan Mortgage Corporation Home Home Possible:** This program offers a low down payment and reduced mortgage insurance for creditworthy low-income borrowers. During the evaluation period, the bank originated 61 loans for $21.0 million through this program.

- **Grants and Subsidies**: The bank originates loans through partnerships with 12 federal, state, and municipal programs, which offer grants for households with incomes at or below 80 percent of the area median income. Households can use the grants for down payment and closing-cost assistance, rehabilitation costs associated with acquisition, or cover the cost of homebuyer counseling. During the evaluation, the bank originated 136 loans for $4.1 million through these partnerships.

- **Massachusetts Housing Finance Agency (MHFA)**: The bank originates loans through multiple loan programs that help expand the supply of affordable housing for low- and moderate-income borrowers. During the evaluation period, the bank originated 368 MHFA loans totaling $127.8 million. The MHFA partnership also includes a down payment assistance program, which offers down payment assistance loans to low- and moderate-income borrowers. During the evaluation period, the bank extended 152 loans totaling $3.5 million through this program.

- **Massachusetts Housing Partnership (MHP)**: 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 12 MHP program loans totaling $5.1 million.

- **Federal Housing Administration (FHA)**: These loan programs offer low-down payment options and more flexible credit guidelines for loans that the U.S. Department of Housing and Urban Development (HUD) insure. During the evaluation period, the bank originated 276 FHA loans totaling $127.9 million.

- **Veterans Affairs (VA)**: The VA loan programs include flexible products for qualified veterans featuring no down payment and no required private mortgage insurance. During the evaluation period, the bank originated 57 VA loans totaling $27.8 million.

- **United States Department of Agriculture (USDA)**: The USDA loan programs are for low-income individuals residing in rural areas; however, there were no originations during the evaluation period.

Commercial Lending Programs

- **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. Businesses can use the proceeds for working capital, purchasing equipment, or improving existing small business real estate. During the evaluation period, Salem Five originated 106 SBA 7a loans for $27.3 million.

- *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 creating jobs or reducing public policy energy. During the evaluation period, Salem Five originated 52 SBA 504 loans for $27.5 million.

- SBA PPP – Salem Five participated in the temporary SBA PPP in 2020 and 2021. The PPP was created to help small businesses keep workers employed during the COVID-19 pandemic. During the evaluation period, Salem Five originated 544 loans totaling $104.8 million through the PPP.

- **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. During the evaluation period, Salem Five originated 15 loans for $1.7 million.

Community Development Loans

Salem Five is a leader in making community development loans and originated 79 community development loans totaling $188.3 million during the evaluation period. This level of community development lending equates to 3.0 percent of average total assets and 4.2 percent of average total loans since the prior evaluation. At the prior evaluation, Salem Five reported 132 community development loans totaling $217.0 million, representing 6.1 percent of average total assets and 12.5 percent of average total loans. Although Salem Five's community development lending declined since the prior evaluation, it is important to note that the prior evaluation period spanned a 55-month period, whereas the current evaluation captures a 39-month period.

Although this level of community development activity is lower than that during the previous evaluation, lending levels by both number and dollar were significantly higher than two similarly situated institutions recently examined. More specifically, in each case, Salem Five's performance by both number and dollar was more than double that of the two other institutions. When compared to a third similarly situated institution, Salem Five's performance was comparable by number of loans, but again, more than double by dollar. Lastly, when compared to a fourth similarly situated institution, Salem Five's performance was less, by both number and dollar.

Salem Five's community development lending was highly responsive to community development lending opportunities. A substantial majority of the community development loans supported affordable housing. In total, the community development loans helped create or retain 553 units of affordable housing across the assessment area. Based on information received from community contacts and economic and demographic reports, affordable housing represents a primary and urgent community development need within the assessment area. Community development lending also addressed critical community service needs for low- and moderate-income individuals, including the most economically disadvantaged individuals and areas of the assessment area. For example, loans supported services benefitting the homeless and the most underserved communities in Boston.

The following table illustrates Salem Five's qualified community development loans by year and purpose.

Community Development Lending										
Activity Year	**Affordable Housing**		**Community Services**		**Economic Development**		**Revitalize or Stabilize**		**Totals**	
	#	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**
9/21/20-12/31/20	1	52	0	0	1	1,031	0	0	2	**1,083**
2021	14	34,665	12	15,445	4	14,779	4	5,409	34	**70,298**
2022	11	29,549	8	20,731	4	12,320	1	12,750	24	**75,350**
YTD 2023	9	17,571	7	10,892	2	1,900	1	11,250	19	**41,613**
Total	**35**	**81,837**	**27**	**47,068**	**11**	**30,030**	**6**	**29,409**	**79**	**188,344**
Source: Bank Data										

The following are notable examples of the community development loans:

- In 2021, Salem Five originated a $2.0 million loan under the SBA's PPP that supported the retention of jobs in a low-income area of Boston. The loan proceeds allowed a non-profit cultural organization to maintain ongoing operations during the pandemic-related closure.

- In 2021, Salem Five made a $25 million loan to construct a 210-unit apartment building with 25 percent of the units designated as affordable based on the Housing and Urban Development's (HUD) Area Median Income. Of the total loan amount, $6.2 million (25 percent) qualified as a community development loan promoting affordable housing in the assessment area.

- In 2021, Salem Five originated a $3.4 million loan to renovate a neglected building into a mixed-use development. The development includes a restaurant, hotel, and apartments in a moderate-income census tract. This loan helped revitalize and stabilize a moderate-income geography by creating jobs and attracting and retaining new businesses and residents.

- In 2022, Salem Five extended a $5.0 million working capital line of credit to a non-profit affordable housing organization that works with the Massachusetts Department of Housing and Community Development to help increase the supply of affordable housing statewide.

- In 2023, Salem Five originated a $1.7 million loan to a non-profit economic development and industrial corporation to fund the purchase of a medical development facility in a low-income area of Lynn. The non-profit promotes economic development in Lynn by encouraging existing companies to expand or new companies to relocate into the city.

INVESTMENT TEST

The Investment Test is rated Satisfactory. Salem Five's performance under each criteria supports this conclusion.

Investment and Grant Activity

Salem Five has an adequate level of qualified community development investment and grants, although rarely in a leadership position, particularly those that are not routinely provided by investors. Salem Five and its Charitable Foundation made 683 qualified investments totaling approximately $12.4 million during the evaluation period. Salem Five's investments increased 9.7 percent by dollar from the prior evaluation. The total dollar amount of investments and donations equates to 0.2 percent of average total assets and 0.9 percent of average total investments since the previous evaluation. Salem Five's investment performance was less than that of four similarly situated institutions recently examined.

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	6	3,295	0	0	0	0	0	0	**6**	**3,295**
9/21/20-12/31/20	0	0	0	0	0	0	0	0	**0**	**0**
2021	0	0	0	0	0	0	0	0	**0**	**0**
2022	2	4,526	0	0	0	0	0	0	**2**	**4,526**
2023	1	3,245	0	0	0	0	0	0	**1**	**3,245**
Subtotal	**9**	**11,066**	**0**	**0**	**0**	**0**	**0**	**0**	**9**	**11,066**
Qualified Grants & Donations	34	53	627	1,298	6	11	7	21	**674**	**1,383**
Total	**43**	**11,119**	**627**	**1,298**	**6**	**11**	**7**	**21**	**683**	**12,449**
Source: Bank Data										

Debt Security and Equity Investments

Salem Five has debt security and equity investments totaling approximately $11.1 million; three are new totaling approximately $7.8 million. Salem Five purchased the remaining six investments during a prior evaluation period and received credit for their current book value. The detail regarding these investments follows:

Prior Period Investments

- Salem Five maintains five mortgage-backed securities (MBSs). Properties located in the assessment area and mortgages originated to low- and moderate-income borrowers secure these MBS. The total current book value is $3.2 million. Salem Five also maintains a

$100,000 equity investment in a loan fund focused on affordable housing for low- and moderate-income individuals.

New Investments

- From 2022 through 2023, Salem Five purchased three MBSs totaling $7.8 million. Home mortgage loans to low- and moderate-income borrowers originated within the assessment area (Essex, Middlesex, and Suffolk Counties) secure these investments. These investments qualify for community development as they support affordable housing for low- and moderate-income individuals.

Grants and Donations

During the evaluation period, Salem Five and the Foundation made approximately $1.4 million in qualified donations. Community development organizations serving low- and moderate-income individuals and families throughout the assessment area benefited from these donations.

The following are examples of qualified grants and donations.

- **The Salem Pantry** – This organization provides access to free nutritious food for low- and moderate-income families of the North Shore community. Programs include home delivery, pop-up pantries, and community partnerships to enhance distribution.

- **West End House** – This Boston-based non-profit organization assists in developing young low- and moderate-income people through education and enrichment. Programs include academic support, college preparation, and career development.

- **Metro Housing Boston** – This organization focuses on serving communities in the Greater Boston Area, including Essex, Middlesex, Norfolk, and Suffolk Counties. Activities include rental assistance, foreclosure prevention, and technical assistance for low- and moderate-income families searching for affordable housing.

Responsiveness to Credit and Community Development Needs

Salem Five exhibits good responsiveness to credit and community development needs. All debt security investments focused on affordable properties for low- and moderate-income borrowers in the assessment area. Community contacts identified affordable housing as a critical in the assessment area given high housing costs. Donations and grants consisted of a large number of multi-year donations and commitments to community organizations focused on mental health among low- and moderate-income populations, allowing continuity of community services. These efforts are responsive to the opportunities for credit and community development needs.

Community Development Initiatives

Salem Five rarely uses innovative and/or complex investments to support community development initiatives. Current period investments include purchasing MBSs, which are common equity investments.

SERVICE TEST

The Service Test is rated High Satisfactory. Salem Five's good performance in retail services and community development services support this conclusion.

Accessibility of Delivery Systems

Delivery systems are accessible to essentially all portions of the assessment area. Salem Five operates 34 full-service locations. All locations including the main office offer ATM services.

The following table illustrates the branch and ATM distribution by tract income level.

Branch and ATM Distribution by Geography Income Level

Tract Income Level	Census Tracts		Population		Branches		ATMs	
	#	%	#	%	#	%	#	%
Low	103	11.2	415,981	10.5	2	5.9	2	5.7
Moderate	170	18.5	760,947	19.2	8	23.5	8	22.9
Middle	301	32.7	1,367,690	34.5	15	44.1	16	45.7
Upper	305	33.2	1,369,994	34.5	9	26.5	9	25.7
Not Available	41	4.5	51,136	1.3	0	0.0	0	0.0
Total	**920**	**100.0**	**3,965,748**	**100.0**	**34**	**100.0**	**35**	**100.0**

Source: 2020 US Census
Due to rounding, totals may not equal 100.0%

As the table illustrates, Salem Five's percentage of branches in low-income areas is less than the percentage of census tracts and the population in low-income areas. However, the percentage of branches in moderate-income tracts is greater than demographics. Boston, Lowell, Lynn, and Malden, the municipalities with the majority of low- and moderate-income census tracts either have branches or are adjacent to branch locations. Other low- and moderate-income areas such as Framingham and Lawrence have accessibility to the Sudbury and North Andover branches. In addition to branches, Salem Five operates seven LPOs, of which the Dorchester and Plymouth locations are in moderate-income tracts. Additionally, the Salem LPO, located in a middle-income tract, is directly contiguous to a low-income tract in Salem.

Alternative delivery systems, including online and mobile banking, supplement the Salem Five's branches in delivering retail banking services. Membership in the Allpoint ATM network allows customers unlimited access to funds at stores such as Walgreens, CVS, or Target without incurring any transaction fees.

Changes in Branch Locations

To the extent changes have been made, Salem Five's opening and closing of branches has not adversely affected the accessibility of its delivery systems, particularly to low- and moderate-income geographies and/or to low- and moderate-income individuals. Salem Five closed four branches, one in a moderate-income census tract (Lowell), two in middle-income census tracts (Burlington and Peabody), and one in an upper-income census tract (Boston). Customers served by the closed Lowell branch, have a readily accessible Lowell branch (also in a moderate-income tract) within two miles. Salem Five opened three branches during the same period, one in a moderate-income census tract (Beverly) and two in upper-income census tracts (Boston and Wilmington).

Reasonableness of Business Hours and Services

Services, including business hours, do not vary in a way that inconveniences certain portions of the assessment area, particularly low- and moderate-income geographies and/or individuals. All retail branches offer the same loan and deposit products and services.

Salem Five maintains similar hours at most locations. Generally, branches maintain hours from 8:30 am to 5:00 pm Monday through Wednesday and Friday and until 6:00 pm on Thursday. Some branches open prior to 8:30 am and remain open longer. Additionally, most branches (28 of 34) offer Saturday hours, generally from 8:30 am to 1:00 pm. Salem Five also operates seven branches, which maintain Sunday hours, from 11:00 am until 3:00 pm. Accessibility to public transportation and foot traffic assisted in determining which branches would offer extended hours Monday through Friday or on Saturday and Sunday.

By geography, nine or 90 percent of the ten branches in low- and moderate-income tracts have Saturday hours, and four have Sunday hours. Whereas, 18 or 75 percent of the 24 branches in the middle- and upper-income census have Saturday hours. Further, three of these branches have Sunday hours compared to four in the low- and moderate-income census tracts. The greater concentration of branches in low- and moderate-income areas maintaining Saturday and Sunday hours reflects expanded accessibility for the individuals residing in these census tracts. The Reading and Saugus branches are also open on Sunday and abut low- and moderate-income areas. Branches maintaining extended hours are also located in and around low- and moderate-income areas, including Beverly, Lynn, Salem, Saugus, and Swampscott, also demonstrating efforts to meet the convenience of customers in low- and moderate-income areas.

Community Development Services

Salem Five provides a relatively high level of community development services. During the evaluation period, employees contributed 255 instances of community development services. This is a significant increase from the previous evaluation and is greater than one and less than another similarly situated institution.

Employees devoted time to community development organizations supporting affordable housing, community services, economic development, and revitalization and stabilization. Salem Five also developed workforce and mentorship programs for low- and moderate-income individuals. As the assessment area has needs and opportunities for these community development categories, the performance reflects good responsiveness.

The following table illustrates the community development services by year and purpose.

Community Development Services					
Activity Year	**Affordable Housing**	**Community Services**	**Economic Development**	**Revitalize or Stabilize**	**Totals**
	#	#	#	#	#
9/21/2020 -12/31/2020	1	34	5	4	**44**
2021	19	34	5	4	**62**
2022	27	37	5	5	**74**
2023	33	32	5	5	**75**
Total	**80**	**137**	**20**	**18**	**255**
Source: Bank Data					

Notable examples of community development services follow.

Employee Involvement

- **Centerboard** – This non-profit organization provides supportive services to low- and moderate-income families and young adults in Lynn. Services provided include emergency housing, access to employment, education, and financial empowerment. A branch manager serves as a Director, and a senior vice president serves as the organization's finance Director.

- **Harborlight Homes** – This non-profit certified community development corporation works to provide housing for underserved populations by creating, preserving, and operating affordable housing and providing supplemental supportive services. Harborlight Homes currently owns and manages 459 units of affordable housing across the North Shore and serves over 650 residents. A vice president serves on the organization's advisory board.

- **Mission Safe** – This non-profit community service organization provides support to low- and moderate-income at-risk youth aged 14-24 years old living in Boston. The organization offers afterschool programs, job and career assistance, and educational programs. A branch manager serves on the organization's finance committee.

- **Beverly Bootstraps** – This community service organization serves low- and moderate-income residents of Beverly, Essex, Hamilton, Manchester, and Wenham. The organization provides food assistance, school supplies, English as a second language and General Educational Development classes, case management services, tax assistance, and more. A vice president serves on the organization's development committee and as a board advisor.

Financial Literacy

- **Chelsea Restoration Corporation** – A senior loan officer participated in four first-time homebuyer seminars with this non-profit affordable housing organization. The senior loan officer participated in both the English and Spanish language seminars.

- **Lynn Housing Authority** – A vice president participated in six first-time homebuyer seminars with this affordable housing agency.

- **Neighborhood of Affordable Housing, Inc.** – A vice president and two senior loan officers participated in ten first-time homebuyer seminars with this non-profit affordable housing organization. The officers participated in both the English and Spanish language seminars.

Other Technical Assistance

- **Massachusetts Interest on Lawyers Trust Accounts (IOLTAs)** – This program requires lawyers and law firms to establish interest-bearing accounts for client deposits. The interest earned is used to fund law-related public service programs to help low-income clients. The bank remitted approximately $126,933 in IOLTA funds during the evaluation period.

- **Goodwill** – Since 2021**,** the bank provides employment opportunities to low- and moderate-income individuals who participate in Goodwill's career support program. In addition to employment, Salem Five provides training and coaching regarding real-life topics.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners reviewed Salem Five's compliance with the laws relating to discrimination and other illegal credit practices, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any discriminatory or other illegal credit practices.

APPENDICES

DIVISON OF BANKS FAIR LENDING POLICIES AND PROCEDURES

Please note any comments regarding the institution's fair lending policies and procedures in narrative form (Regulatory Bulletin 1.3-106).

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 FFIEC Interagency Fair Lending Examination Procedures. Based on these procedures, the bank maintains a good record relative to fair lending policies and practices.

MINORITY APPLICATION FLOW

Examiners reviewed the bank's 2021 and 2022 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.

According to the 2020 ACS Census Data, the bank's assessment area contained a total population of 3,965,748 individuals of which 37.3 percent are minorities. The minority population represented is 8.6 percent Black/African American, 11.9 percent Asian/Pacific Islander, 0.1 percent American Indian/Alaskan Native, and 1.6 percent other. Approximately 13.7 percent of the population is Hispanic or Latino.

Examiners compared the bank's level of lending in 2021 and 2022 to that of the 2021 and 2022 aggregate's lending performance. This comparison assists in deriving reasonable expectations for the rate of applications the bank received from minority home mortgage loan applicants. Refer to the following table for information on the bank's minority application flow as well as the aggregate lenders in the bank's assessment area.

MINORITY APPLICATION FLOW						
RACE	**Bank 2021 HMDA**		**2021 Aggregate Data**	**Bank 2022 HMDA**		**2022 Aggregate Data**
	#	%	%	#	%	%
American Indian/ Alaska Native	6	0.1	0.2	5	0.2	0.3
Asian	291	5.2	9.8	145	4.6	10.2
Black/ African American	192	3.4	4.2	123	3.9	5.1
Hawaiian/Pacific Islander	1	0.0	0.1	1	0.0	0.2
2 or more Minority	3	0.1	0.1	3	0.1	0.2
Joint Race (White/Minority)	74	1.3	1.8	42	1.3	2.0
Total Racial Minority	**567**	**10.1**	**16.2**	**319**	**10.1**	**18.0**
White	3,884	69.0	57.4	1,971	62.9	56.7
Race Not Available	1,181	21.0	26.3	845	27.0	25.4
Total	**5,632**	**100.0**	**100.0**	**3,135**	**100.0**	**100.0**
ETHNICITY						
Hispanic or Latino	393	7.0	6.4	295	9.4	7.8
Joint (Hisp/Lat /Not Hisp/Lat)	62	1.1	1.3	34	1.1	1.5
Total Ethnic Minority	**455**	**8.1**	**7.7**	**329**	**10.5**	**9.3**
Not Hispanic or Latino	4,006	54.7	66.5	1,973	62.9	66.4
Ethnicity Not Available	1,171	20.8	25.9	833	26.6	24.3
Total	**5,632**	**100.0**	**100.0**	**3,135**	**100.0**	**100.0**
Source: HMDA Aggregate Data 2021 and 2022, HMDA LAR Data 2021 and 2022						

In 2021, the bank received 567 HMDA reportable loan applications within its assessment area. Of these applications, the bank received 10.1 percent from racial minority applicants. This was below aggregate performance of 16.2 percent of applications from racial minority applicants. The bank's racial minority application flow fell by number, but was consistent in 2022 by percentage and remained below the aggregate racial minority application flow.

In 2021, the bank received 455 or 8.1 percent of all applications from ethnic groups of Hispanic origin within its assessment area. This was above the aggregate ethnic minority application rate. The bank's ethnic minority application flow performance fell by number, but improved by percentage in 2022. Performance remained above the aggregate ethnic minority application rate for 2022.

The bank's 2021 and 2022 application flow reflects a good ethnic minority application flow. The bank's racial minority application flow was below that of aggregate lenders; however, the gap is primarily attributed to a difference in the percentage of Asian applicants. The bank has recognized these challenges and monitors their activity to ensure all demographics have access to credit. Specifically, the bank closely monitors to ensure majority Asian census tracts in the market area have application penetration. This includes Lowell, Quincy, Boston, and Malden. The loan office location in Dorchester and branch locations in Malden and Lowell further reflect the bank's efforts to reach out to Asian communities.

Considering the demographic composition of the assessment area, comparisons to aggregate data, and the bank's fair lending controls, the bank's minority application flow reflects reasonable performance.

Loss of Affordable Housing

The Division of Banks' regulation 209 CMR 46.22(2)(g) requires that the evaluation of the lending performance of a large institution include a review of its efforts to forestall the loss of affordable housing. The Division reviews the institution's loans to ensure that there is no undue concentration and a systematic pattern of lending resulting in the loss of affordable housing units.

The bank's leadership in community development lending, along with its record of lending to and investing in low-income borrowers, reflects good performance for this criterion. In addition, the bank's investment initiatives reflect a commitment to helping individuals stay in their homes.

LARGE BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) through its lending activities by considering a bank's home mortgage, small business, small farm, and community development lending. If consumer lending constitutes a substantial majority of a bank's business, the FDIC will evaluate the bank's consumer lending in one or more of the following categories: motor vehicle, credit card, other secured, and other unsecured. The bank's lending performance is evaluated pursuant to the following criteria:

1) The number and amount of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, in the bank's assessment area;
2) The geographic distribution of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, based on the loan location, including:
    i. The proportion of the bank's lending in the bank's assessment area(s);
    ii. The dispersion of lending in the bank's assessment areas(s); and
    iii. The number and amount of loans in low-, moderate-, middle- and upper-income geographies in the bank's assessment area(s);
3) The distribution, particularly in the bank's assessment area(s), of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, based on borrower characteristics, including the number and amount of:
    i. Home mortgage loans low-, moderate-, middle- and upper-income individuals
    ii. Small business and small farm loans to businesses and farms with gross annual revenues of $1 million or less;
    iii. Small business and small farm loans by loan amount at origination; and
    iv. Consumer loans, if applicable, to low-, moderate-, middle- and upper-income individuals;
4) The bank's community development lending, including the number and amount of community development loans, and their complexity and innovativeness; and
5) The bank's use of innovative or flexible lending practices in a safe and sound manner to address the credit needs of low- and moderate-income individuals or geographies.

Investment Test

The Investment Test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) through qualified investments that benefit its assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s). Activities considered under the Lending or Service Test may not be considered under the investment test. The bank's investment performance is evaluated pursuant to the following criteria:

1) The dollar amount of qualified investments;
2) The innovativeness or complexity of qualified investments;
3) The responsiveness of qualified investments to available opportunities; and
4) The degree to which qualified investments are not routinely provided by private investors.

Service Test

The Service Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the bank's systems for delivering retail banking services and the extent and innovativeness of its community development services.

The bank's retail banking services are evaluated pursuant to the following criteria:

1) The current distribution of the bank's branches among low-, moderate-, middle-, and upper-income geographies;
2) In the context of its current distribution of the bank's branches, the bank's record of opening and closing branches, particularly branches located in low- or moderate-income geographies or primarily serving low- or moderate-income individuals;
3) The availability and effectiveness of alternative systems for delivering retail banking services (*e.g.*, RSFs, RSFs not owned or operated by or exclusively for the bank, banking by telephone or computer, loan production offices, and bank-at-work or bank-by-mail programs) in low- and moderate-income geographies and to low- and moderate-income individuals; and
4) The range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

The bank's community development services are evaluated pursuant to the following criteria:

1) The extent to which the bank provides community development services; and
2) The innovativeness and responsiveness of community development services.

GLOSSARY

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

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

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

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

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

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

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

1. Support affordable housing for low- and moderate-income individuals;
2. Target community services toward low- and moderate-income individuals;
3. Promote economic development by financing small businesses or farms; or
4. Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies.

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. 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 <u>financial</u> 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.