

PUBLIC DISCLOSURE

March 12, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**LYNN MUNICIPAL EMPLOYEES CREDIT UNION
CERTIFICATE: # 67908**

**3 CITY HALL SQUARE
LYNN, MA 01901-1028**

**DIVISION OF BANKS
1000 WASHINGTON ST, 10TH FL
BOSTON, MA 02118**

NOTE: This evaluation is not, nor should it be construed as, and 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 concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Massachusetts Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its entire assessment area, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

This document is an evaluation of the CRA performance of **Lynn Municipal Employees Credit Union (or the Credit Union)**, prepared by the Division, the institution's supervisory agency as of **March 12, 2015**. The Division evaluates performance in the assessment area(s), as they are defined by the institution, rather than individual branches. The Division rates the CRA performance of an institution consistent with the provisions set forth in the Division's regulation 209 CMR 46.00.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory."

An institution in this group has an adequate record of helping to meet the credit needs of its assessment area, including low- and moderate-income individuals, in a manner consistent with its resources and capabilities. This evaluation is based on the Small Institution CRA evaluation procedure specified for institutions with assets under \$250 million as of December 31st on both of the prior two calendar years, adjusted annually and currently at \$305 million. A summary of the Credit Union's performance is provided below:

Loan-to-Share Ratio

The loan-to-share (LTS) ratio for the previous eight quarters is 64.9 percent; this ratio is considered reasonable.

Borrower Income Distribution

The Credit Union demonstrates a reasonable level of lending to members of different income levels.

Complaints and Fair Lending Policies and Practices

Lynn Municipal Employee Credit Union did not receive any CRA-related complaints during the period reviewed. Fair Lending policies and practices are considered reasonable.

SCOPE OF THE EXAMINATION

This evaluation assessed Lynn Municipal Employees Credit Union's CRA performance utilizing the interagency small institution examination procedures, as established by the Federal Financial Institutions Examination Council (FFIEC). The Credit Union's lending activity from January 1, 2013 to December 31, 2014 was utilized in this evaluation.

The assessment of Lynn Municipal Employees Credit Union's record takes into account its financial capacity and size, any legal impediments, and local economic conditions and demographics, including the competitive environment in which it operates.

According to CRA regulations, an institution shall delineate one or more assessment areas by which the institution will serve to meet the credit needs and by which the Division will evaluate the institution's CRA performance. Credit unions whose membership by-laws provisions are not based upon residence are permitted to designate its membership as its assessment area, as opposed to geographic area. Therefore, an evaluation of credit extended within defined geographic areas was not conducted; as such an analysis would not be meaningful. This evaluation was based upon an analysis of the Credit Union's performance in providing loans to its membership; net loan-to-share ratio; providing loans to individuals of various incomes, including low- to moderate-income members; and the Credit Union's response to CRA-related complaints.

Data reviewed includes consumer loans for 2013 and 2014 as they represent a largest portion of the loan portfolio. A sample of 50 loans from the years 2013 and 2014 was compared to pertinent demographics of the assessment area. Financial data was generally obtained from the National Credit Union Administration (NCUA) quarterly 5300 Call Reports.

While the evaluation discusses the total dollar amounts of loans, conclusions are primarily based on the Credit Union's lending performance by the number of loans originated. The number of loans correlates with the number of individuals that obtained loans.

PERFORMANCE CONTEXT

Description of Institution

Lynn Municipal Employees Credit Union is a state-chartered industrial credit union established in 1939 to serve the credit needs of Lynn municipal employees. Its sole office is located in Lynn City Hall. The Credit Union's business hours are Tuesday 9:00AM to 4:00PM; and Thursday 9:00 AM to 2:00 PM. As of March 11, 2015, the Credit Union had 428 members.

The Credit Union was last examined for compliance and CRA by the Division on June 2, 2008. That examination resulted in a CRA rating of "Satisfactory."

As of December 31, 2014, the Credit Union had total assets of \$2,331,103, with total loans representing \$1,125,328, or 48.3 percent of total assets. Table below details the Credit Union's loan portfolio:

| Lynn Municipal Employee Credit Union Loan Portfolio Distribution | | |
|---|----------------------|-------------------------|
| Loan Type | Dollar Volume | % of Total Loans |
| All other unsecured Loans/Lines of Credit | \$985,025 | 87.5 |
| Used Vehicle Loans | \$140,303 | 12.5 |
| Total | \$1,125,328 | 100 |

Source: 5300 Report, Statement of Financial Condition as of December 31, 2014

Description of Assessment Area

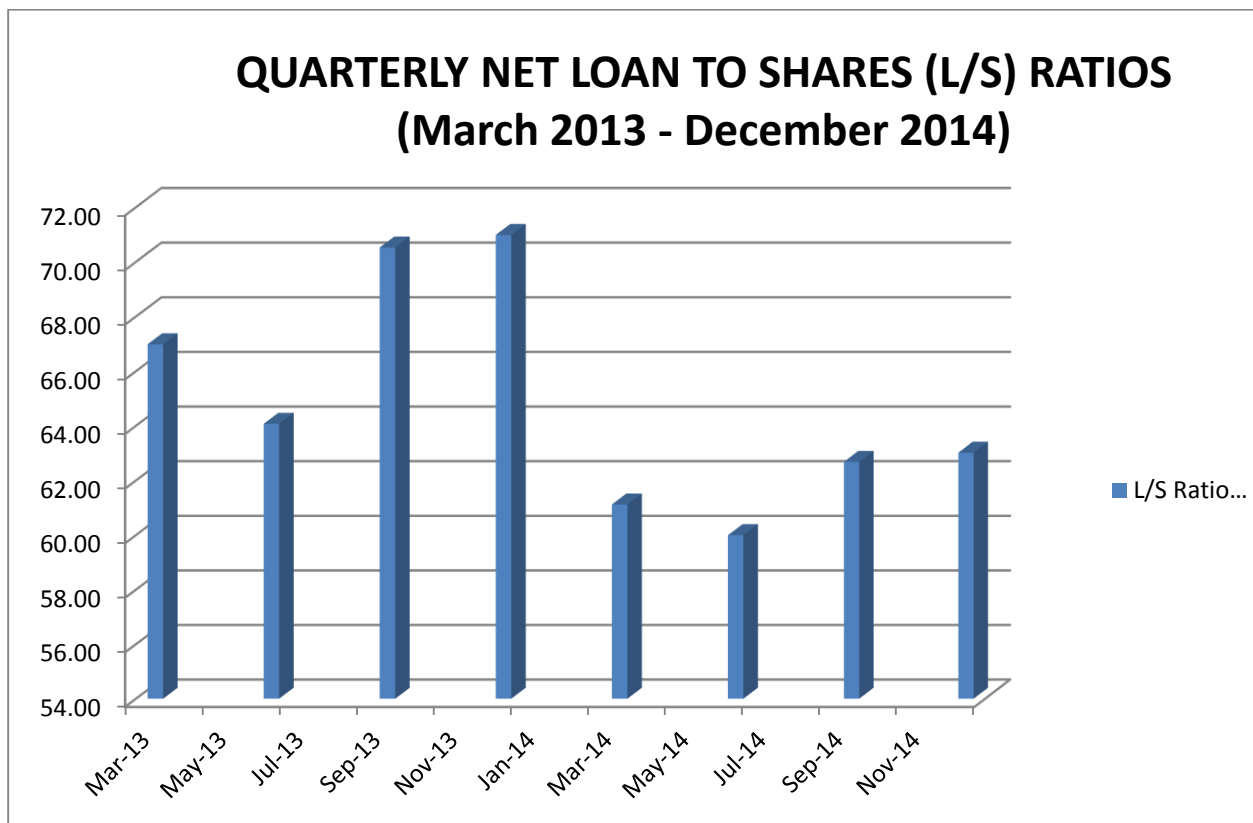
In accordance with the requirements of 209 CMR 46.41, the Credit Union defines its membership as its assessment area. According to the Credit Union's bylaws: "Membership is limited to those who are active and pensioned employees of the City of Lynn, except those persons eligible for membership in the Lynn Police Federal Credit Union, Lynn Teachers' Credit Union, Lynn-Mass, and Firemen's Credit Union."

PERFORMANCE CRITERIA

1. Loan to Share Analysis

A comparative analysis of the Credit Union's quarterly net loan-to-share (LTS) ratios for the period of January 1, 2013 through December 31, 2014 was conducted during this examination to determine the extent of the Credit Union's lending compared to the shares received from its membership. Using the National Credit Union Administration (NCUA) quarterly 5300 Call Reports, the average net loan-to-share ratio for this period was 64.9 percent. This ratio is based on loans net of the allowance for loan losses as a percentage of total shares.

Refer to the following graph for the quarterly LTS ratios of the last eight quarters:



*Source: NCUA Quarterly Call Report, March 2012 - December 2013

The Credit Union's loan portfolio has shown a steady increase over the eight quarter time frame with the exception of the third and fourth quarters of 2013. The decline in loan activity in the first two quarters of 2014 appears to be the contributing factor to the LTS ratio decline. Loans fell from \$1,117,106 in December 2013 to \$1,042,875 in March 2014. Conversely, shares have fluctuated over the eight quarters from a high of \$1,788,011 in June 2014 to a low of \$1,573,746 in December, 2013.

For comparison purposes, the Credit Union's average net LTS ratio was compared against the average net LTS ratios of two similarly situated institutions in term of asset size and loan portfolio composition:

| Peer Group Net Loan-to-Share Comparison | | |
|--|------------------|-----------------------------|
| Credit Union Name | Total Asset (\$) | Net Loan to Share Ratio (%) |
| Gloucester Municipal Credit Union | 1,816,408 | 43.0 |
| Lynn Municipal Credit Union | 2,331,103 | 64.9 |
| Lynn Teacher Credit Union | 4,399,666 | 35.9 |

**Source: NCUA Quarterly Call Reports, as of 12/31/2014*

As shown in Table above, the other two Credit Unions' average net LTS ratios over the last eight quarters were 42.95 and 35.90 percent. Lynn Municipal Credit Union's average LTS is reasonable.

Given the competitive market and the economic conditions, the Credit Union's capacity to lend and loan product offerings, the Credit Union's net loan-to-share ratio is considered to meet the standards for satisfactory performance.

Borrower Income Distribution

The Credit Union's lending, based upon the analysis of consumer loans by borrower income, meets the standards for satisfactory performance in providing credit to members of all income levels. The following section discusses the Credit Union's performance by income level, with particular consideration on loans to low-and moderate- income individuals.

A sample of forty consumer loans for 2013 and 2014 were analyzed in order to determine the distribution of credit based upon the income level of the borrowers. The loan sample consisted of unsecured personal loans, and used automobile loans. This examination compares the borrower's income to the median family income for the Metropolitan Statistical Area (MSA) in which the borrower resides. The borrower income analysis was based on the median family incomes for the Peabody and Cambridge-Newton-Framingham Metropolitan Divisions (MD) in 2013 and 2014. The following table shows the Credit Union's performance in lending to borrowers of different income levels from the sample reviewed:

| Distribution Of Consumer Loans By Borrowers Income | | | | | | |
|---|---------------------------------|-----------|--------------|---------------------------------|-----------|--------------|
| Income level | Households by Income Level 2013 | 2013 | | Households by Income Level 2014 | 2014 | |
| | | # | % | | # | % |
| Low | 38.4 | 1 | 5.0 | 43.3 | 0 | 0.0 |
| Moderate | 19.5 | 0 | 0.0 | 20.0 | 2 | 10.0 |
| Middle | 16.8 | 6 | 30.0 | 16.1 | 8 | 40.0 |
| Upper | 25.3 | 13 | 65.0 | 20.7 | 10 | 50.0 |
| TOTAL | 100.0 | 20 | 100.0 | 100.0 | 20 | 100.0 |

**Source: U.S. Census and Credit Union's 2013 and 2014 Internal Records*

Because the sample of loans reviewed were predominantly consumer loans, the income relied upon in making the credit decision was that of only one borrower. Comparing the member's income with the median family income inflates the levels of lending to low- and moderate-income borrowers because the median family income typically includes the income of two individuals.

As indicated in the table above, the Credit Union lends mostly to middle and upper income borrowers. The Credit Union originated 5 percent of consumer loans by number to low-income borrowers in 2013 and none in 2014.

For moderate income borrowers, the Credit Union made no loan in 2013 and 10 percent of loans by number in 2014. However, the majority of members have long tenure with Lynn City Hall, Lynn Water and Sewer, and Lynn Housing Authority. As a result, the Credit Union's performance is considered satisfactory given the members' longevity and the Credit Union's membership base.

REVIEW OF COMPLAINTS AND FAIR LENDING POLICES AND PRACTICES

The Credit Union's Fair Lending Policy was reviewed to determine how this information relates to the guidelines established by Regulatory Bulletin 1.3-106, the Division's Community Reinvestment and Fair Lending Policy. A review of the Credit Union's public comment file indicated that the Credit Union received no complaints pertaining to the institution's CRA performance since the previous examination. The fair lending review was conducted in accordance with the Federal Financial Institutions Examination Council (FFIEC) Interagency Fair Lending Examination Procedures. Based on these procedures, no violations of the anti-discrimination laws and regulations were identified.

The criteria for the various types of credit offered was reviewed during the examination, as were the procedures for completing a loan application, and no practices intended to discourage applications were found.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

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

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

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at 3 City Hall Square, Lynn, MA 01901

- 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.

The format and content of the institution's evaluation, as prepared by its supervisory agency, 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.