

**PUBLIC DISCLOSURE**

**February 22, 2011**

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**BANKGLOUCESTER**

**160 MAIN STREET  
GLOUCESTER, MA 01930**

**DIVISION OF BANKS  
1000 WASHINGTON STREET  
10<sup>th</sup> FLOOR  
BOSTON, MA 02118**

<p><b>NOTE:</b> 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 concerning the safety and soundness of this financial institution.</p>
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## 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 its 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 **BANKGLOUCESTER (or the "BANK")**, prepared by the Division, the institution's supervisory agency.

### **INSTITUTION'S CRA RATING: This institution is rated "High Satisfactory"**

The rating of this institution is established upon five performance criteria as shown in the public evaluation. BankGloucester's record of performance is based upon its efforts in meeting the criteria outlined in this report. A summary of the Bank's performance is provided below.

The Bank's net loan-to-deposit ratio has averaged 95.9 percent over the time period reviewed. This ratio is excellent given the Bank's size, resources, financial condition and the credit needs of its assessment area.

During the period reviewed, the Bank originated 190 mortgage loans reportable pursuant to the Home Mortgage Disclosure Act ("HMDA") reportable loans totaling \$38.1 million. Of these loans, 142 or 74.7 percent were originated inside the Bank's assessment area. The percentage of loans inside the assessment area is considered good.

The Bank demonstrates a very good level of lending to retail customers of different incomes, including those of low- and moderate-income. BankGloucester originated 13 HMDA-reportable loans to low-income borrowers representing 9.2 percent of total originations within the assessment area. In addition, the Bank originated 34 loans to moderate-income borrowers representing 23.9 percent of the HMDA reportable originations inside the assessment area.

The geographic distribution of the Bank's HMDA reportable loans reflects a good dispersion throughout the assessment area. Of the 142 HMDA reportable loans originated within the assessment area during the review period, 50 or 35.2 percent were granted in moderate-income census tracts. Information for 2009 indicated the Bank granted 34.2 of its loans in the assessment area to moderate-income census tracts, while the aggregate originated 23.1 percent within moderate-income tracts. The Bank has only moderate- and middle-income Census tracts.

Finally, there were no complaints received by the Bank pertaining to its CRA performance and the fair lending examination revealed no evidence of discriminatory or illegal credit practices. Fair lending policies and practices are considered satisfactory.

## **PERFORMANCE CONTEXT**

### **Description of Institution**

Bank Gloucester is a state chartered co-operative financial institution headquartered at 160 Main Street in Gloucester, Massachusetts. As of December 31, 2010, assets totaled \$168,730,000 of which 79.5 percent are in the form of net loans.

<b>Loan Portfolio Distribution as of December 31, 2010</b>	
<b>Type of Loans</b>	<b>% of Total</b>
Construction & Land Development	6.3
Residential Real Estate	
a. 1-4 Family Mortgages	48.6
b. Home Equity Lines	9.2
c. Junior Liens	2.9
Commercial Loans	
a. Commercial Real Estate	29.1
b. Commercial and Industrial	3.2
Consumer	.7
<b>Total Loans</b>	<b>100.0</b>

Source: FDIC Call Report, 12/31/10

Bank Gloucester operates in a highly competitive market. Local competitors include Cape Ann Savings Bank, Granite Savings Bank, and Rockport National Bank, as well as a number of other national banks and mortgage companies.

Other than the Bank's asset size, there appears to be no legal or financial impediments that would affect the Bank's ability to meet the credit needs of its assessment area. Based on the Bank's resources, product offerings, and branch network its ability to meet the assessment area's credit needs remains strong. The Bank has had no changes in products and services since the last examination. The Federal Deposit Insurance Corporation ("FDIC") conducted the previous Community Reinvestment Act ("CRA") examination as of October 17, 2007. That examination resulted in a "Satisfactory" rating. The Division conducted its most recent CRA examination as of September 13, 2004. That examination resulted in a "High Satisfactory" rating.

### **Description of Assessment Area**

The CRA requires financial institutions to define an assessment area within which its CRA performance will be evaluated. The Division evaluates the institution's CRA Performance based upon the defined assessment area.

Assessment areas are expected to consist of Metropolitan Statistical Areas (MSAs), Metropolitan Divisions (MDs) or contiguous political subdivisions such as counties, cities, towns, or Census tracts. The assessment area, as currently defined, meets the technical requirements of the regulation; it does not arbitrarily exclude low or moderate-income areas, it is made up of whole geographies, and it does not extend beyond the State boundaries.

The Office of Management and Budget (OMB) changed MSA boundary designations, which became effective in January 2004. Therefore, the aggregate income information at the MSA level against which each Census tract is compared has changed, altering the classifications of Census tracts by income level. Although this change did not significantly influence the demographic composition, the total number of Census tracts decreased from nine to eight, resulting in one fewer moderate-income tracts than at the time of the previous Division CRA evaluation.

BankGloucester's assessment area consists of the City of Gloucester, Massachusetts. This delineation places the Bank's assessment area within the Essex County, MA MD, which is part of the Boston-Cambridge-Quincy, MA-NH MSA/Core Based Statistical Area (CBSA). The assessment area comprises eight Census tracts, four moderate- and four middle-income tracts.

### ***Competition***

Market rank reports show that 136 different financial entities originated at least one HMDA-reportable loan in the assessment area. Out of these entities, BankGloucester ranked 5<sup>th</sup>. According to management, the institution's primary competition in the area consists of Cape Ann Savings Bank, Rockport National Bank, and Granite Savings Bank. In addition to these competitors, the Bank also faces significant competition from larger regional and national banks (e.g. Bank of America, TD Banknorth, and Sovereign Bank) and mortgage companies (e.g. Countrywide Home Loans and GMAC Mortgage).

### ***Demographic Data***

The total population of the assessment area according to the 2000 U.S. Census is 30,273. This population comprises 12,588 households, of which 5,439, or 43 percent, live in the moderate-income Census tracts. Further, of the households in the assessment area, 3,416, or 27 percent, are low-income, and 2,388, or 19 percent, are moderate-income.

The area also consists of 13,958 housing units. Of this total, 54 percent are owner-occupied. It should be noted that there are 5,609 housing units within the area's moderate-income tracts, with 38 percent of these units being owner-occupied. A closer analysis of the total housing units reveals that the majority of the units (81 percent) are one-to-four family dwellings.

The median family income ("MFI") for the Boston, MA-NH MSA was \$65,500 in 2000. This figure is used to determine the income level for each Census tract. In 2004, the MSA delineations changed and were further divided into MDs. The Boston-Cambridge-Quincy, MANH MSA/CBSA was divided into three distinct MDs, one of which is the Essex County, MA MD. Based on estimates by the Department of Housing and Urban Development ("HUD"), the adjusted MFI figures for the Essex County, MA MD for 2009 and 2010 are \$83,600 and \$83,900 respectively.

## **PERFORMANCE CRITERIA**

### **1. LOAN TO DEPOSIT ANALYSIS**

An analysis of BankGloucester's net loan to deposit ratio was performed. The calculation incorporated eight quarters of the Bank's net loans to total deposit figures as reflected in the Bank's quarterly FDIC Call Reports. The ratio is based on total loans net of unearned income and net of the allowance for loan and lease losses (ALLL) as a percentage of total deposits. The quarters reviewed included the periods from March 2009 through December 2010. The Bank's net loan to total deposit ratio has averaged 95.9 percent over the eight quarters under review. A comparison of the dollar amount for the Bank's loans and deposits as of March 31, 2009 was compared to that of December 31, 2010. This comparison revealed that deposits have decreased by 2.5 percent, while net loans for the same period have increased by 20.4 percent. Refer to the following table for further analysis.

<b>BankGloucester Net Loan to Deposit Ratios</b>	
<b>Quarter Ending</b>	<b>Ratio (%)</b>
March 31,2009	84.1
June 30,2009	90.9
September 30,2009	98.8
December 31, 2009	96.7
March 31, 2010	95.7
June 30, 2010	97.6
September 30, 2010	99.4
December 31, 2010	103.9

Source: FDIC Call Reports

A comparison of BankGloucester's net loan to deposit ratio to that of a representative selection of area financial institutions was also performed. As of December 31, 2010, BankGloucester's net loan to deposit ratio was 103.9 percent. The institutions chosen for this analysis have locations near BankGloucester and, based upon FDIC Call Report Data, are of similar asset size and capacity. The data presented in the following table is as of December 31, 2010.

<b>Institution</b>	<b>Net LTD Ratios</b>
<b>BankGloucester</b>	<b>103.9</b>
Rockport National Bank	79.7
Cape Ann Savings Bank	70.8
Granite Savings Bank	64.9

Based on the foregoing information, BankGloucester's net loan to total deposit ratio is considered to exceed the standards for satisfactory performance in this criterion.

### **2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S)**

An analysis of HMDA reportable lending extended both inside and outside of BankGloucester's assessment area for the period under review was performed. The following table illustrates the Bank's level of HMDA reportable lending by number and dollar volume.

Distribution of Home Mortgage Loans Inside and Outside of the Assessment Area												
Year	Inside				Outside				Total			
	Number		Dollar Volume		Number		Dollar Volume		Number		Dollar Volume	
	#	%	\$(000s)	%	#	%	\$(000s)	%	#	%	\$(000s)	%
<b>2009</b>	82	75.2	16,563	69.5	27	24.8	7,255	30.5	109	100.0	23,818	100.0
<b>2010</b>	60	74.1	9,300	65.1	21	25.9	4,988	34.9	81	100.0	14,288	100.0
<b>Total</b>	142	74.7	25,863	67.9	48	25.3	12,243	32.1	190	100.0	38,106	100.0

Source: HMDA/ LAR 2009 and 2010

As indicated in the table above, a majority of loans originated during the examination period were inside the Bank's assessment area. There was a decrease in HMDA-reportable loan originations from 2009 to 2010. Total originations in 2009 were 109 as compared to 81 in 2010, a decrease of 25.7 percent. As previously indicated, BankGloucester ranked 5<sup>th</sup> for HMDA reportable-loans originated within the assessment area during 2009.

The Bank's level of lending within its assessment area is considered to meet the standards for satisfactory performance in the criterion.

### 3. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS

An analysis of HMDA reportable lending within the Bank's assessment area among various income levels was performed to assess how well the Bank is addressing the credit needs of the area's residents. These loans were categorized by the applicants' reported incomes for 2009 and 2010 utilizing the HUD-adjusted MFI for the Essex County MA MD which was \$83,600 and \$83,900, respectively.

Low-income is defined by the US Census Bureau as income below 50 percent of the MFI level for the MSA. Moderate-income is defined as income between 50 percent and 79 percent of the MFI level for the MSA. Middle-income is defined as income between 80 percent and 119 percent of the MFI. Upper-income is defined as income equal to or greater than 120 percent of the MFI.

The following table shows the Bank's performance as well as the 2009 aggregate data (exclusive of BankGloucester) of HMDA reportable lending by number and percentage. In addition, the table also reflects the percentage of family households in each of the borrower income categories.

Distribution of Home Mortgage Loans by Borrower Income								
MFI level	% Total Family Households	2009 Aggregate Lending Data (% of #)	2009 Bank		2010 Bank		Total	
			#	%	#	%	#	%
<b>Low</b>	27.1	6.2	7	8.5	6	10.0	13	9.2
<b>Moderate</b>	19.0	19.3	18	22.0	16	26.7	34	23.9
<b>Middle</b>	21.7	24.0	30	36.6	15	25.0	45	31.7
<b>Upper</b>	32.2	36.0	22	26.8	22	36.7	44	31.0
<b>NA</b>	0.0	14.5	5	6.1	1	1.6	6	4.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>82</b>	<b>100.0</b>	<b>60</b>	<b>100.0</b>	<b>142</b>	<b>100.0</b>

Source: 2000 U.S. Census, HMDA/LAR, HMDA Aggregate Data

In 2009, BankGloucester's lending to low-income borrowers at 8.5 percent was above the aggregate at 6.2 percent. In 2010, the Bank's lending to low-income borrowers increased by percentage to 10.0 percent. For 2009, the Bank's lending to moderate-income borrowers at 22.0 percent was above the aggregate at 19.3 percent. Additionally, the Bank's lending to moderate-income borrowers increased in 2010 to 26.7 percent. Overall, the Bank's record of lending to low and moderate-income borrowers was very good and demonstrates the Bank's willingness to lend to borrowers of all income levels.

Based on the above information, BankGloucester's loan distribution by borrower income exceeds the standards for satisfactory performance.

#### 4. GEOGRAPHIC DISTRIBUTION OF LOANS

An analysis of the geographic distribution of residential loans and a comparative analysis of 2009 HMDA aggregate data indicates that BankGloucester's loans are reasonably distributed throughout the Bank's assessment area. Based on the 2000 census data, BankGloucester's assessment area contains 8 Census tracts; four that are moderate-income and four that are middle-income.

A review of HMDA reportable loans extended within the various Census tracts contained within BankGloucester's assessment area was conducted to assess how well the Bank is addressing the credit needs throughout its assessment area. The following table presents the Bank's performance as well as the 2009 aggregate data (exclusive of BankGloucester) of HMDA reportable lending by percentage. In addition, the table also reflects the percentage of owner-occupied housing units in each of the Census tract income categories.

Distribution of Home Mortgage Loans by Income Category of the Census Tract								
Census Tracts	% Total Owner-Occupied Housing Units	2009 Aggregate Lending Data (% of #)	2009 Bank		2010 Bank		Total	
			#	%	#	%	#	%
<b>Moderate</b>	28.5	23.1	28	34.2	22	36.7	50	35.2
<b>Middle</b>	71.5	76.9	54	65.8	38	63.3	92	64.8
<b>Total</b>	100.0	<b>100.0</b>	<b>82</b>	<b>100.0</b>	<b>60</b>	<b>100.0</b>	<b>142</b>	<b>100.0</b>

Source: U.S. Census, HMDA/ LAR, 2009 Aggregate Data

In 2009, BankGloucester's percentage of lending within moderate-income census tracts at 34.2 percent was well above the aggregates at 23.1 percent and well above the owner occupied housing units of 28.5 percent. For calendar years 2009 and 2010, the Bank's lending within moderate-income tracts accounted for 35.2 percent of loans originated by the Bank. The Bank's performance is considered good and is considered to exceed the standards for satisfactory performance.

#### 5. REVIEW OF COMPLAINTS/FAIR LENDING POLICIES AND PRACTICES

BankGloucester received no CRA related complaints in the period under review. The Bank has a satisfactory record of implementing fair lending policies and practices. The Bank maintains a Fair Lending Policy, which is incorporated within its Lending Policy.

A Fair Lending review was conducted for compliance with fair lending laws and regulations and no evidence of disparate treatment was detected. This review was conducted in accordance with the Federal Financial Institutions Examination Council (FFIEC) Interagency Fair Lending Examination Procedures. Loan policies and procedures were reviewed as part of this evaluation.

### **Minority Application Flow**

The Bank's assessment area population consists of 3.8 percent minorities. The 2009 and 2010 Loan Application Registers maintained by the Bank pursuant to HMDA show that BankGloucester did not receive any minority HMDA reportable applications within its assessment area. Also, the 2009 aggregate data (exclusive of BankGloucester) in comparison to the Bank's data revealed that the aggregate had only 1.1 percent of its total loan applications from minority applicants. Additionally, the Bank had no applications from ethnic groups during 2009 and 2010, while the aggregate had 1.0 percent of its total applications from the Hispanic applicants. As BankGloucester's volume is so low, 1 percent of total applications would be less than one application.



## 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 160 Main Street, Gloucester, MA 01930."

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

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