

# **PUBLIC DISCLOSURE**

September 28, 2015

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Blue Hills Bank  
Certificate Number: 90160

1196 River Street  
Boston, Massachusetts 02136

Division of Banks  
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Federal Deposit Insurance Corporation  
350 Fifth Avenue, Suite 1200  
New York, New York 10118

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

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## INSTITUTION RATING

**INSTITUTION’S CRA RATING:** This institution is rated **Satisfactory** by the FDIC and the Commonwealth of Massachusetts Division of Banks.

Blue Hills Bank (BHB) has a satisfactory record of helping to meet the credit needs of its assessment areas, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. The following table indicates the performance level of BHB with respect to the Lending, Investment, and Service Tests.

PERFORMANCE LEVELS	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding		X	
High Satisfactory			X
Satisfactory**	X		
Needs to Improve			
Substantial Noncompliance			
<p><i>* The Lending Test is weighted more heavily than the Investment and Service Tests when arriving at an overall rating.</i></p> <p><i>** FDIC rules and regulations stipulate the use of a high satisfactory and low satisfactory for the three tests. For purposes of this jointly issued public evaluation, the term “satisfactory” will be used in lieu of the “low satisfactory” rating for the Lending, Investment and Service Test ratings.</i></p>			

**The Lending Test is rated Satisfactory.**

- Lending levels reflect adequate responsiveness to assessment areas’ credit needs;
- A substantial majority of home mortgage and small business loans are originated within the assessment areas;
- The distribution of loans reflects adequate penetration throughout the assessment areas;
- The distribution of borrowers reflects, given the product lines offered by the bank, adequate penetration among retail customers of different income levels and business customers of different revenue sizes;
- BHB originated an adequate level of community development loans; and,
- BHB uses innovative and/or flexible lending practices in order to serve the assessment areas’ credit needs.

**The Investment Test is rated Outstanding.**

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

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

- Delivery systems are accessible to essentially all portions of the institution's assessment areas.
- To the extent changes have been made, BHB's opening and closing of branches has not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies or to low- or moderate-income individuals.
- Services and business hours do not vary in a way that inconveniences portions of the assessment areas, particularly low- and moderate-income geographies or individuals.
- BHB provides a relatively high level of qualified community development services within its assessment areas that are responsive to assessment areas' needs and opportunities.

## SCOPE OF EVALUATION

### General Information

This evaluation covers the period from the prior evaluation dated May 29, 2012, to the current evaluation dated September 28, 2015. Examiners used the Interagency Large Bank Examination Procedures to evaluate BHB's CRA performance. These procedures include three tests: the Lending, Investment, and Service Tests.

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

- Lending activity
- Assessment area concentration
- Geographic loan distribution
- Borrower profile loan distribution
- Community development lending activities
- Innovative and/or flexible lending practices

The Investment Test considered the following factors:

- Investment and grant activity
- Responsiveness to credit and community development needs
- Community development initiatives

The Service Test considered the following factors:

- Accessibility of delivery systems
- Changes in branch locations
- Reasonableness of business hours and services in meeting the assessment areas' needs
- Community development services

The bank's management has delineated two separate assessment areas. Examiners utilized full-scope procedures to analyze the CRA performance in both assessment areas. More weight was given to BHB's performance within the Boston-Cambridge-Newton, MA-NH MSA assessment area (Boston, MA MSA AA) in assigning the overall performance rating, as this assessment area represents the majority of the bank's loans, deposits, and branch offices. The following table illustrates BHB's volume of deposits and branches within each assessment area as of June 30, 2015. The table also presents the number and dollar volume of home mortgage and small business loans originated or purchased within each assessment area during the evaluation period.

Assessment Area	Assessment Area Breakdown of Loans, Deposits, and Branches							
	Loans				Deposits		Branches	
	#	%	\$(000s)	%	\$(000s)	%	#	%
Boston-Cambridge-Newton, MA-NH MSA	997	71.7	417,862	70.8	1,124,593	80.5	7	70.0
Massachusetts Non-metropolitan Area	393	28.3	172,141	29.2	272,473	19.5	3	30.0
<b>Total</b>	<b>1,390</b>	<b>100.0</b>	<b>590,003</b>	<b>100</b>	<b>1,397,066</b>	<b>100</b>	<b>10</b>	<b>100.0</b>

*Source: Bank Records; FDIC Summary of Deposits (6/30/15)*

### **Loan Products Reviewed**

The CRA regulation requires a review of the lending performance of an institution in its defined assessment areas with respect to home mortgage, small business, and small farm lending. Based upon the bank's business focus and portfolio mix, it was determined that BHB's major product lines are home mortgage and small business loans. The June 30, 2015, Consolidated Reports of Condition and Income (Call Report) reflects that home mortgage loans represent 53.6 percent of total loans, followed by small business loans, at 38.0 percent of total loans. Farm and consumer lending do not represent major product lines for the institution, comprising 0.0 percent and 2.7 percent, respectively, of the total loan portfolio. Therefore, only home mortgage and small business loans were selected for the lending analysis.

Greater weight was given to home mortgage lending it represents a significant portion of overall lending activity during the review period. Nonetheless, small business lending has significantly increased since the prior evaluation as a result of management's strategy to grow its small business loan portfolio in line with its home mortgage loans. Also, BHB's acquisition of Nantucket Bank significantly increased the bank's small business loan volume, most of which occurred in the Massachusetts non-metropolitan area. In addition to evaluating home mortgage and small business lending, examiners reviewed the bank's community development loan, investment, and service activities for the period of May 29, 2012, through September 27, 2015.

A home mortgage loan is defined by the Call Reports as a loan secured by a one-to-four family or multi-family (five or more units) residential property. In 2013, BHB originated 398 home mortgage loans totaling approximately \$163 million. In 2014, BHB originated 448 home mortgage loans totaling approximately \$245 million. During 2015 through June 30, BHB originated 253 home mortgage loans totaling approximately \$113 million. Examiners reviewed the entire universe of 1,099 loans totaling approximately \$521 million from January 1, 2013, through June 30, 2015, to evaluate the bank's lending performance.

Examiners obtained home mortgage loan data from the bank's 2013, 2014, and 2015 Home Mortgage Disclosure Act (HMDA) Loan Application Registers. The bank's home mortgage lending, relative to geographic distribution and borrower profile, was compared, respectively, to the percentage of owner-occupied housing units by geography and families by income level in each assessment area using information from the 2010 U.S. Census and the Federal Financial Institutions Examination Council (FFIEC). Additionally, BHB's 2013 home mortgage lending performance was compared to 2013 HMDA aggregate lending performance, as 2014 and 2015 aggregate lending data was not yet available.

A small business loan is defined by the Call Reports as a loan originated in the amount of \$1 million or less that is secured by non-farm non-residential real estate, or as a commercial and industrial loan. In 2014, the bank originated 237 small business loans totaling approximately \$55 million. During 2015 through June 30, BHB originated 54 small business loans totaling approximately \$14 million. Examiners reviewed the entire universe of 291 loans totaling approximately \$69 million from January 1, 2014, through June 30, 2015, to evaluate the bank's lending performance.

Examiners obtained the small business data from the bank's 2014 and 2015 CRA Loan Application Registers. D&B data for 2014 was used for comparison purposes when assessing small business lending in 2014 and 2015, as 2015 D&B data is not yet available. Examiners did not consider small business loans originated during 2013 within the Lending Test, as small business loans comprised only a small portion of the bank's total loan portfolio at the time. Additionally, the bank had minimal business lending in 2013. The bank significantly increased its focus on small business loans in 2014.

BHB's CRA performance was further analyzed in relation to its performance context. The performance context includes, but is not limited to, bank size and structure, financial condition, loan mix, resources and limitations, assessment area demographics, economic factors, competition, credit needs, and available opportunities.

## DESCRIPTION OF INSTITUTION

### **Background**

BHB is a state-chartered bank headquartered in Boston, Massachusetts. The bank is a wholly-owned subsidiary of Blue Hills Bancorp, Inc., a one-bank holding company headquartered in Norwood, MA. The bank also has four subsidiaries, HP Security Corporation, Park Security Corporation, 1196 Corporation, and Blue Hills Bank Charitable Foundation, Inc. Blue Hills Bank Charitable Foundation, Inc. is a non-profit organization that provides charitable contributions to community-based organizations throughout the bank's assessment areas. None of these subsidiaries offer financial products or services to the general public.

In 2014, BHB acquired Nantucket Bank, a division of Santander Bank, N.A., which contributed \$80 million in small business and home equity loans. BHB's total assets have increased from \$979 million as of March 31, 2012, to \$1.8 billion as of June 30, 2015. The increase in asset size is primarily due to internal loan growth, its wholesale channel (commercial participations and syndicated loans), and the Nantucket Bank acquisition.

The FDIC and the Commonwealth of Massachusetts Division of Banks (DOB) last evaluated BHB's CRA performance on May 29, 2012, based on Interagency Large Institution Examination Procedures. The FDIC and the DOB assigned ratings of "Satisfactory" and "High Satisfactory," respectively.

### **Operations**

The bank primarily serves Norfolk, Suffolk, Plymouth, Middlesex, and Nantucket Counties through 10 full-service branch offices in Nantucket (3), Boston (2), Norwood, Dedham, Brookline, Milton, and West Roxbury, Massachusetts. Of these offices, two, including the main office, are located in moderate-income census tracts (20 percent), three branch offices are located in middle-income census tracts (30 percent), and five branch offices are located in upper-income census tracts (50 percent).

BHB has opened four new offices since the previous evaluation, including its Milton branch office (upper-income census tract) and three Nantucket offices (one middle-income and two upper-income census tracts). Additionally, BHB opened two loan production offices in Plymouth (middle-income census tract) and Boston (upper-income census tract) since the previous evaluation. The bank's administrative headquarters is located at 320 Norwood Park South in Norwood, MA. This office does not contain any retail banking facilities open to the public.

The bank offers a reasonable range of consumer and business loan and deposit products to serve its communities. Consumer loans include personal loans, lines of credit, home equity lines of credit, and residential mortgages. Business loans include term loans, vehicle and equipment loans, commercial mortgages, working capital lines of credit, letters of credit, and Small Business Administration (SBA) loans. Deposit products include checking, savings, certificates of deposit, and individual retirement accounts.

### **Ability and Capacity**

According to the June 30, 2015 Call Report, BHB's assets totaled \$1.8 billion. Total loans of \$1.3 billion represented 69.0 percent of total assets. During the prior evaluation, the bank's primary lending focus was home mortgage loans, which comprised 92.8 percent of the total loan portfolio. However, home mortgage loans currently comprise only 53.6 percent of the total loan portfolio as the result of a change in the bank's focus to commercial lending and the acquisition of Nantucket Bank's three branch offices in Nantucket, MA. Business loans have significantly increased since the prior evaluation and currently comprise 38.0 percent of the total loan portfolio. Therefore, as illustrated in the following table, BHB's loan portfolio is now more balanced among home mortgage and small business loans. The distribution of the loan portfolio by loan type is presented in the following table.

<b>Loan Portfolio Distribution as of 6/30/15</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction and Land Development	59,063	4.6
Secured by Farmland	0	0.0
1-4 Family Residential	579,463	45.6
Multi-family (5 or more) Residential	101,517	8.0
Commercial Real Estate	332,050	26.1
<b>Total Real Estate Loans</b>	<b>1,072,093</b>	<b>84.3</b>
Commercial and Industrial	151,024	11.9
Agricultural	0	0
Consumer	33,993	2.7
Other	14,746	1.1
Less: Unearned Income	(0)	(0.0)
<b>Total Loans</b>	<b>1,271,856</b>	<b>100.0</b>
<i>Source: 6/30/15 Consolidated Reports of Income and Condition</i>		

No legal or economic impediments were noted that would impact BHB's ability to satisfy the credit needs of its assessment areas.

## DESCRIPTION OF ASSESSMENT AREAS

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. BHB has designated two separate assessment areas within the State of Massachusetts. The assessment areas do not arbitrarily exclude any low- or moderate-income census tracts, do not reflect illegal discrimination, and otherwise meet the requirements of the CRA regulations.

The Boston, MA MSA AA consists of the entire Boston, MA Metropolitan Division (MD) and a portion of the Cambridge-Newton-Framingham, MA MD. The delineated assessment area does not include Essex County or the Rockingham County-Strafford County, NH MD portion of the Boston, MA MSA.

BHB's second assessment area includes all of Nantucket County within the Massachusetts Non-metropolitan area (Non-MSA AA). The bank added this assessment area as a result of acquiring Nantucket Bank's branch offices since the previous evaluation. Through June 1, 2015, the Non-MSA AA consisted of three census tracts designated by the FFIEC as underserved nonmetropolitan middle-income areas. As of June 1, 2015, one census tract continues to be designated as an underserved nonmetropolitan middle-income area.

The following table illustrates the breakdown of BHB's two assessment areas. More detailed descriptions for each assessment area are contained within the individual assessment area discussions.

<b>Description of Assessment Areas</b>			
<b>Assessment Area</b>	<b>Counties in Assessment Area</b>	<b># of CTs</b>	<b># of Branches</b>
Boston, MA MSA AA	Norfolk, Suffolk, Plymouth, Middlesex	753	7
Non-MSA AA	Nantucket	5	3
<b>Total</b>		758	10
<i>Source: Bank Records</i>			

The bank's assessment areas contain a total of 758 census tracts. The Office of Management and Budget (OMB) released revised delineations for geographies that became effective for analysis purposes beginning January 1, 2014. Although the total number of census tracts did not change within each assessment area, certain census tracts were moved from one income category to another. As a result of the revised OMB delineations, the assessment areas' distribution of census tracts by tract income level slightly changed from 2013 to 2014. Examiners used the initial 2010 designation to analyze 2013 lending data and the revised 2014 designation to analyze 2014 and 2015 lending data. The following table illustrates the number and percentage of assessment area geographies within each income category for 2013 and 2014.

<b>Distribution of Geographies by Income Category</b>				
<b>Tract Income Level</b>	<b>2013 Census Tracts</b>		<b>2014 Census Tracts</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Low	77	10.2	72	9.5
Moderate	153	20.2	142	18.7
Middle	296	39.0	285	37.6
Upper	217	28.6	244	32.2
NA	15	2.0	15	2.0
<b>Total</b>	<b>758</b>	<b>100</b>	<b>758</b>	<b>100</b>

*Source: 2010 U.S. Census; OMB Data*

### **Economic and Demographic Data**

Based on 2010 U.S. Census data, the total population within the assessment areas is 3,401,049. Approximately 7.9 percent and 18.3 percent of the assessment areas' population live in low-income or moderate-income census tracts, respectively. The unemployment rate and the percentage of families below the poverty level within the assessment areas were 7.0 and 6.7 percent, respectively. There are approximately 1.4 million housing units in the assessment areas. Of these housing units, 56.7 percent are owner-occupied, 36.0 percent are renter-occupied, and 7.3 percent are vacant. The median housing value of the assessment areas is \$444,257. The following table illustrates select demographic characteristics of the assessment areas, updated for OMB's census tract changes.

<b>Demographic Information of the Combined Assessment Area</b>						
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>NA* % of #</b>
Geographies (Census Tracts)	758	9.5	18.7	37.6	32.2	2.0
Population by Geography	3,401,049	7.9	18.3	40.8	32.9	0.1
Housing Units by Geography	1,396,522	7.4	18.6	41.9	32.1	0.0
Owner-Occupied Units by Geography	791,782	2.5	12.4	45.2	39.9	0.0
Occupied Rental Units by Geography	502,805	14.6	27.8	37.3	20.3	0.0
Vacant Units by Geography	101,935	9.5	20.9	39.2	30.4	0.0
Businesses by Geography	282,736	5.3	12.2	37.5	44.8	0.2
Family Distribution by Income Level	802,821	21.6	15.9	20.4	42.1	0.0
Families Below Poverty Level		6.7%	Median Housing Value			\$444,257
Households Below Poverty Level		10.6%	Median Gross Rent			\$1,192
Unemployment Rate		7.0%	Median Age of Housing Stock			55 years

*Source: 2010 U.S. Census (updated), 2014 D&B Data; (\*) The NA category consists of geographies that have not been assigned an income classification.*

According to 2014 D&B business demographic data, there are 282,736 businesses in the assessment areas, of which 70.7 percent have gross annual revenues (GARs) of \$1 million or less, 6.1 percent have GARs greater than \$1 million, and the remaining 23.2 percent did not report revenues. The services industry represents the largest portion of businesses at 46 percent; followed by non-classifiable establishments at 13 percent; retail trade at 12 percent; and finance, insurance and real estate at 10 percent. In addition, 64 percent of area businesses have four or fewer employees, and 91 percent operate from a single location.

For purposes of CRA evaluations, individuals are categorized as low-, moderate-, middle-, or upper-income based on their respective income levels as a percentage of the current median family income (MFI). The MFI figures are used to determine the distribution of home mortgage loans by borrower income level for loans originated. The FFIEC annually estimates adjusted MFI figures. Based on the MD and Massachusetts Non-MSA areas, the 2013, 2014, and 2015 MFI figures are illustrated in the following table. Additional MFI information is detailed within the individual assessment area discussions.

<b>Median Family Income</b>			
<b>MD/Statewide Non-MSA Area</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Boston, MA MD	\$88,000	\$87,200	\$90,000
Cambridge-Newton-Framingham, MA MD	\$101,000	\$93,300	\$101,700
Massachusetts Non-MSA	\$52,400	\$72,800	\$73,500
<i>Source: FFIEC</i>			

### **Competition**

The assessment areas are highly competitive in terms of the market for financial services. According to the FDIC Deposit Market Share data as of June 30, 2015, there are 109 FDIC-insured financial institutions that operate 1,147 full-service branches within the bank’s assessment areas. The top three institutions are State Street Bank and Trust Company, with 1 branch office and a deposit market share of 39.3 percent; Bank of America, NA, with 146 branch offices and a deposit market share of 18.7 percent; and Citizens Bank, NA, with 164 branch offices and a deposit market share of 8.9 percent. BHB ranks 19<sup>th</sup> with a deposit market share of 0.5 percent.

In 2013, 614 HMDA-reporting institutions originated 124,124 home mortgage loans in BHB’s assessment areas. The top five lenders by number of HMDA loan originations included: Mortgage Master; Bank of America, NA; Wells Fargo, NA; Guaranteed Rate Inc.; and Santander Bank, N.A. These leading institutions collectively accounted for 20.9 percent of the total market share of home mortgage loan originations. Based on BHB’s 2013 originations, its lending market share was 0.3 percent, by number, which ranked 72<sup>nd</sup>.

Other demographic and economic information for the individual assessment areas are discussed within the respective sections of this evaluation.

### **Community Contact**

During a CRA evaluation, it is customary for examiners to contact community representatives within an institution’s assessment areas to gain insight regarding local economic conditions and credit needs. For this evaluation, a community contact conducted from the Boston, MA MSA AA stated the area economy has expanded significantly since the recent recession. The contact noted that the area economy is driven by technology device production, hospitality, and the airport. While a strong economy exists within the Boston area, low-income housing is still needed. The National Housing Agency’s review of the area’s low-income housing found few facilities to be in livable conditions. The contact stated that although the area’s credit needs were being well served by local financial institutions, additional credit needs include home mortgage loans and home equity lines of credit.

### **Credit and Community Development Needs and Opportunities**

Based on demographic and economic data, two conclusions regarding the credit needs of the assessment area can be derived. First, the median age of housing stock in moderate-income census tracts at 55 years indicates a significant need for home improvement or similar-type loans. Second, the substantial number of low- and moderate-income families, at 37.5 percent, and information provided by the community contact indicate a strong need for affordable housing.

## **CONCLUSIONS ON PERFORMANCE CRITERIA**

### **LENDING TEST**

Overall, the bank's Lending Test performance is rated Satisfactory.

The lending test evaluates an institution's record of helping to meet the credit needs of its assessment areas by considering an institution's home mortgage, small business, small farm, and community development lending, as applicable. The bank's performance under the Lending Test reflects the following:

- Lending levels reflect adequate responsiveness to assessment area credit needs;
- A substantial majority of home mortgage and small business loans are originated within the assessment areas;
- The distribution of loans reflects adequate penetration throughout the assessment areas;
- The distribution of borrowers reflects, given the product lines offered by the bank, adequate penetration among retail customers of different income levels and business customers of different revenue sizes;
- BHB has originated an adequate level of community development loans; and,
- BHB uses innovative and/or flexible lending practices in order to serve assessment areas' credit needs.

### **Lending Activity**

Lending levels reflect adequate responsiveness to assessment area credit needs. During the review period, BHB originated or purchased 1,099 home mortgage loans totaling approximately \$521 million. Home mortgage lending increased each year during the evaluation period. In 2013, the bank ranked 72<sup>nd</sup> out of 614 HMDA-reporting institutions with a 0.3 percent market share. This performance is adequate considering the high level of competition.

The bank originated or purchased 291 small business loans totaling approximately \$69 million within its assessment areas. The vast majority of small business loans were made in 2014 in the Non-MSA AA. Small business lending is on pace to decline in 2015 based on volume from the first two quarters.

### **Assessment Area Concentration**

BHB originated a substantial majority of its home mortgage and small business loans, by number and dollar volume, within its assessment areas. The bank's lending within its assessment areas demonstrates excellent responsiveness to credit needs. The following table reflects the total number and dollar volume of home mortgage and small business loans originated inside and outside the assessment areas.

<b>Lending Inside and Outside of the Assessment Areas</b>										
<b>Loan Category</b>	<b>Number of Loans</b>				<b>Total #</b>	<b>Dollars Amount of Loans \$(000s)</b>				<b>Totals \$(000s)</b>
	<b>Inside</b>		<b>Outside</b>			<b>Inside</b>		<b>Outside</b>		
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	
Home Mortgage										
2013	398	88.8	50	11.2	448	163,083	89.5	19,064	10.5	182,147
2014	448	92.4	37	7.6	485	245,190	94.8	13,507	5.2	258,697
2015	253	88.2	34	11.8	287	112,787	81.5	25,672	18.5	138,459
<b>Subtotal</b>	<b>1,099</b>	<b>90.1</b>	<b>121</b>	<b>9.9</b>	<b>1,220</b>	<b>521,060</b>	<b>89.9</b>	<b>58,243</b>	<b>10.1</b>	<b>579,303</b>
Small Business										
2014	237	95.2	12	4.8	249	54,783	92.6	4,348	7.4	59,131
2015	54	84.4	10	15.6	64	14,160	74.2	4,918	25.8	19,078
<b>Subtotal</b>	<b>291</b>	<b>93.0</b>	<b>22</b>	<b>7.0</b>	<b>313</b>	<b>68,943</b>	<b>88.2</b>	<b>9,266</b>	<b>11.8</b>	<b>78,209</b>
<b>Totals</b>	<b>1,390</b>	<b>90.7</b>	<b>143</b>	<b>9.3</b>	<b>1,533</b>	<b>590,003</b>	<b>89.7</b>	<b>67,509</b>	<b>10.3</b>	<b>657,512</b>
<i>Source: Bank Records, 2013, 2014, and two quarters of 2015 HMDA Data and 2014 and 2015 CRA Data</i>										

As reflected above, the bank originated 88.8, 92.4, and 88.2 percent of the home mortgage loans within its assessment areas in 2013, 2014, and 2015, respectively. By dollar, the bank originated 89.5, 94.8, and 81.5 percent of the home mortgage loans within its assessment areas in 2013, 2014, and 2015, respectively.

The bank originated 95.2 percent and 84.4 percent of the small business loans within its assessment areas in 2014 and 2015, respectively. By dollar, the bank originated 92.6 percent and 74.2 percent of the small business loans within its assessment areas in 2014 and 2015, respectively.

### **Geographic Distribution**

The geographic distribution of loans reflects adequate penetration throughout the assessment areas. However, the Non-MSA AA does not contain any low- or moderate-income census tracts. Therefore, meaningful conclusions for the bank's performance in this assessment area were not derived.

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

The geographic distribution of home mortgage loans reflects adequate penetration throughout the assessment areas.

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

The geographic distribution of small business loans reflects adequate penetration throughout the assessment areas.

Refer to each individual assessment area for further details of the bank's geographic distribution performance.

## **Borrower Profile**

The distribution of borrowers reflects, given the product lines offered by the institution, adequate penetration among borrowers of different income levels (including low- and moderate-income persons) and business customers of different revenue sizes throughout the assessment areas.

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

The distribution of the bank's home mortgage loans reflects adequate penetration among borrowers of different income levels throughout the Boston, MA MSA and Non-MSA assessment areas.

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

The distribution of the bank's small business loans reflects adequate penetration among business customers of different revenue sizes throughout the Boston, MA MSA and Non-MSA assessment areas.

Refer to each individual assessment area for further details of the bank's borrower distribution performance.

## **Community Development Lending**

BHB originated an adequate level of community development loans since the previous evaluation. During the evaluation period, the bank funded 14 community development loans totaling \$31,444,000. This performance represents an improvement when compared to the 5 community development loans totaling \$13.2 million during the previous evaluation. As of June 30, 2015, BHB's community development loans represented 1.7 percent and 2.5 percent of total assets and net loans, respectively. The following table summarizes the bank's community development lending activity since the previous evaluation.

<b>Community Development Lending</b>												
<b>Activity Year</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Neighborhood Stabilization</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
2012*	1	900	1	6,500	0	0	1	6,500	0	0	3	13,900
2013	4	3,010	0	0	0	0	1	3,000	0	0	5	6,010
2014	2	5,150	2	3,350	0	0	1	500	0	0	5	9,000
2015**	0	0	1	2,534	0	0	0	0	0	0	1	2,534
<b>Totals</b>	<b>7</b>	<b>9,060</b>	<b>4</b>	<b>12,384</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>10,000</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>31,444</b>

*Source: Bank Records; \*May 29, 2012, through December 31, 2012; \*\*January 1, 2015, through September 27, 2015*

The following loans are examples of the bank's community development lending activity since the previous evaluation:

- In 2015, the bank originated a \$2.5 million loan to finance the headquarters of a non-profit organization whose mission is to provide social services through emergency shelters, domestic violence intervention programs, mental health programs, and substance abuse programs throughout the Greater Boston area. Most programs offer assistance based on need, regardless of ability to pay. The majority of services are provided to low-

and moderate-income individuals through government funding, including 40 percent from Medicaid.

- In 2013, the bank originated an \$825,000 commercial mortgage loan to purchase a mixed-use property in a low-income census tract within Suffolk County. The property includes 7 residential units and 3 commercial units. Six of the seven residential units are currently leased under the Section 8 Federal Low-Income Housing Assistance Program for Massachusetts residents. The Massachusetts Housing Partnership placed a deed restriction on the property, requiring the units to maintain rent prices that constitute affordable housing.
- In 2013, the bank originated a \$3.0 million loan to provide long-term refinancing infrastructure improvements to a multifamily apartment complex located in a low-income census tract within Suffolk County. The loan proceeds will be used to renovate all 55 residential units.
- In 2012, the bank originated a \$6.5 million loan to stabilize a moderate-income census tract through a refinance of an 80-unit apartment complex.
- In 2013, the bank originated a \$1.1 million loan to assist with financing of a 16-unit affordable apartment community in a moderate-income census tract within Suffolk County. The average monthly rent per one-bedroom unit is \$820 and per two-bedroom unit is \$925, which is deemed affordable for low- and moderate-income families.
- In 2014, the bank originated a \$15.0 million loan as part of a 38 percent participation to assist with financing the construction of a 7-building apartment complex consisting of 262 units within Norfolk County. Of the 262 total units, 25 percent are set aside as affordable housing under MA Chapter 40-B. Therefore, the bank received community development lending credit for the pro-rata share of units designated as affordable housing, or \$3.75 million.
- In 2012 and 2014, the bank originated loans totaling \$9.8 million to assist a local non-profit college move its campus within Boston and to renovate the new campus facilities. During the review period, the college was authorized to provide Federal Pell Grants under Title IV of the Higher Education Act and more than 80 percent of students receive financial aid. Specifically, over 40 percent of students receive Federal Pell Grants, which are not required to be repaid.
- In 2014, the bank originated a \$500,000 commercial real estate mortgage loan to a non-profit organization whose mission is to rehabilitate at-risk historic buildings in order to help revitalize Boston's urban neighborhoods. The proceeds were used to finance the restoration of a 150 year-old building in a moderate-income census tract within Suffolk County.

## **Innovative or Flexible Lending Practices**

The bank uses innovative and flexible lending practices to serve the credit needs of its assessment areas. These special lending programs are offered throughout both assessment areas.

The bank's innovative and flexible lending practices are evaluated pursuant to the following criteria: 1) The degree to which the loans serve low- and moderate-income creditworthy borrowers in new ways or loans serve groups of creditworthy borrowers not previously served by the institution; and 2) The success of each product, including the number and dollar volume of loans originated during the review period. The table on the following page illustrates the bank's innovative or flexible lending activities since the prior evaluation, covering May 29, 2012 through September 27, 2015. As illustrated in the following table, BHB's level of innovative or flexible loans has steadily increased throughout the evaluation period.

<b>Innovative or Flexible Lending Programs</b>										
<b>Type of Program</b>	<b>2012*</b>		<b>2013</b>		<b>2014</b>		<b>2015**</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
First Time Homebuyer	46	14,715	47	11,000	138	53,348	121	46,396	352	125,459
Massachusetts Housing Partnership ONE	16	1,802	59	7,074	30	7,311	26	6,423	131	22,610
Mass Housing Finance	18	4,596	14	3,624	14	3,727	30	7,832	76	19,779
FHLB Equity Builder	3	30	4	60	3	45	2	22	12	157
Boston Home Center Financial Assistance	0	0	0	0	6	42	9	66	15	108
Small Business	1	2,122	14	2,000	8	1,062	6	3,266	29	8,450
Get the Lead Out	0	0	0	0	0	0	2	35	2	35
<b>Totals</b>	<b>84</b>	<b>23,265</b>	<b>138</b>	<b>23,758</b>	<b>199</b>	<b>65,535</b>	<b>196</b>	<b>64,040</b>	<b>617</b>	<b>176,598</b>

*Source: Bank Records; \*May 29, 2012, through December 31, 2012; \*\*January 1, 2015, through September 27, 2015*

BHB offers its own *First-Time Homebuyer Program* that provides a \$500 discount on closing costs for first-time home buyers. Although not restricted by income of the borrower, many low- and moderate-income individuals participate in the program. Additionally, the program can also be combined with the MassHousing or Massachusetts Housing Partnership loan programs to allow for lower down payment options to qualified low- and moderate-income first-time homebuyers. During the review period, the bank originated 352 loans totaling approximately \$125.5 million under this program.

BHB participates in the *Massachusetts Housing Partnership (MHP) ONE Program*. The MHP ONE Program is offered through the Commonwealth of Massachusetts. This program offers low- and moderate-income first-time homebuyers (borrower has not owned a property in the past three years) a discounted, 30-year fixed-rate mortgage whereby no points are charged to the borrowers. Borrowers must put down a minimum of three percent of the purchase price when purchasing a single-family property, condominium, or two-family property to be used as a primary residence. Additionally, the program does not require low- and moderate-income borrowers to obtain private mortgage insurance. Further, low- and moderate-income borrowers may also qualify for an MHP subsidy in the initial years of ownership. During the review period, the bank originated 131 loans totaling approximately \$22.6 million through this program.

BHB is an approved lender through the *MassHousing Mortgage Loan Program (MMLP)*. The program is offered through MassHousing, the state's affordable housing bank. The MMLP offers borrowers the opportunity to purchase single-family residences with a down payment of 3 percent, a 30-year fixed rate mortgage, and the option to have borrower-paid mortgage insurance, lender-paid mortgage insurance, or no mortgage insurance in return for a slightly higher rate. During the review period, the bank originated 76 loans totaling approximately \$19.8 million through this program.

BHB participates in the *Federal Home Loan Bank of Boston's Equity Builder Program (EBP)*. The EBP provides BHB with grants to assist borrowers earning no more than 80 percent of the area median income with down payments, closing costs, homebuyer counseling, and rehabilitation assistance on units that borrowers will occupy as their primary residence. Eligible ownership units include one-to-four family homes, townhouses, duplexes, condominiums, cooperatives, and modular homes. To be eligible to receive assistance through the EBP, borrowers must complete a homebuyer counseling program administered by an approved agency. During the review period, the bank originated 12 loans totaling \$156,783 through this program.

BHB participates in *The Boston Home Center Financial Assistance Program*, which offers eligible applicants up to three percent of the purchase price towards down payment and/or closing costs for one-to-two unit properties. Down payment assistance loans are offered at zero percent interest with deferred payments and a 10-year term loan, whereby the loan is forgivable at the end of the term. The program is available to first-time homebuyers (borrower has not owned a property in the past three years) who meet the following criteria: successfully complete homebuyer and homeowner education classes, borrower has obtained a first mortgage pre-approval from a City of Boston participating mortgage lender, property is located in Boston and is the borrower's primary residence, borrower contributes a minimum of 1.5 percent of the purchase price for one-to-two unit properties, borrower's household assets are not more than \$75,000, borrower's credit score is at least 660, and borrower's household income is not more than 120 percent of the area median income. During the review period, the bank originated 15 loans totaling \$107,839 through this program.

In 2012, BHB became a preferred Small Business Administration (SBA) lender. During the review period, the bank originated 29 SBA loans for approximately \$8.5 million. The bank offers the following small business loan programs in cooperation with the SBA.

- *SBA Express Loan Program* – This program provides a streamlined approval process that enables faster turnaround times for approval and easy-to-use lines of credit. Revolving lines of credit or term loans can be originated up to \$350,000, and the SBA guarantees 50 percent. This is the most widely used SBA program offered by BHB.
- *SBA 7(a) Loan Program* – This program provides for term loans up to \$5 million, with an SBA guaranty of 85 percent for loans \$150,000 or less and 75 percent for loans greater than \$150,000, with a maximum of \$3.75 million guaranty. Borrowers benefit from long-term financing options, a fixed maturity, and no prepayment penalties for loans with terms of less than 15 years.

- *SBA 504 Loan Program* – These loans are provided through Certified Development Companies licensed by the SBA. Maximum loan amounts range from \$5 to \$5.5 million depending on the type of business. The main benefit to the borrower comes from the low down payment requirement (10-20 percent equity contribution) and flexibility in financing fees. The SBA guaranteed portion includes a long-term fixed rate and full amortization.
- *SBA Export Working Capital Loan Program* – This program targets businesses that are able to generate export sales and need additional working capital to support these sales. A maximum loan amount of \$5 million may have a term of 12 months or less. The SBA reviews each loan application for both credit and eligibility determination within 5 to 10 business days.

In 2015, BHB began participating in the “*Get the Lead Out*” loan program, a program offered through the Massachusetts Housing Finance Agency which provides low cost financing to owners of one-to-four family properties to remove lead paint and reduce the possibilities of lead poisoning among children. Owner-occupants who meet the income requirements are eligible for a zero percent deferred payment loan not due until the sale, transfer, or refinancing of the property. Non-profit organizations are eligible for zero percent fully amortizing loans on properties that are being rented to income-eligible households. The maximum loan amounts are \$20,000 for a single-family, \$25,000 for a two-family, \$30,000 for a three-family, and \$35,000 for a four-family property. During the review period, the bank originated 2 loans totaling \$35,351 through the program.

## **INVESTMENT TEST**

Overall, the bank's Investment Test performance is rated Outstanding.

The Investment Test evaluates the institution's record of helping to meet the credit needs of its assessment areas through its use of qualified investments that benefit the assessment areas or a broader statewide or regional area that includes the institution's assessment areas. A qualified investment for the purpose of this CRA evaluation is a lawful investment, deposit, donation, or grant that has community development as its primary purpose.

The institution'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 credit and community development needs; and 4) the degree to which the qualified investments are not routinely provided by private investors.

### **Investment Activity**

BHB has an excellent level of qualified community development investments and grants, often in a leadership position, and particularly ones that are not routinely provided by private investors. During the evaluation period, the bank's 254 qualified equity investments and charitable contributions totaled approximately \$20.6 million. This constituted 4.3 percent of total investments and 1.0 percent of total assets. Qualified equity investments totaled \$19,095,000 and qualified donations totaled \$1,511,000.

Both total equity investments and donations represent an increase from the previous evaluation, in which qualified investments totaled \$10.3 million and donations totaled \$245,000. The increase in both equity investments and charitable contributions is primarily due the BHB's growth in size, lending, marketing footprint and a stronger focus on CRA qualified donations.

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

BHB exhibits excellent responsiveness to credit and community economic development needs. The bank's responsiveness is evidenced by both the number and dollar amount of overall qualified investments, equity investments, and donations. In particular, the bank's charitable foundation has displayed a commitment to community development through the funding of financial literacy programs at schools within the bank's assessment areas and the disbursement of funds to organizations that have a qualified community development purpose.

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

The bank makes extensive use of innovative and/or complex investments to support community development initiatives. A breakdown of the community development investments, by year and purpose, is detailed below followed by a description of several of the community development investments and charitable contributions.

Blue Hills Bank - Qualified Investments												
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Neighborhood Stabilization		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior	0	0	12	10,129	0	0	0	0	0	0	12	10,129
2012	0	0	0	0	1	466	0	0	0	0	1	466
2013	0	0	0	0	1	3,000	0	0	0	0	1	3,000
2014	0	0	0	0	1	2,500	0	0	0	0	1	2,500
YTD 2015	0	0	0	0	1	3,000	0	0	0	0	1	3,000
Subtotals	0	0	12	10,129	4	8,966	0	0	0	0	16	19,095
Qualified Grants & Donations	27	218	179	1,088	30	175	2	30	0	0	238	1,511
<b>Totals</b>	<b>27</b>	<b>218</b>	<b>191</b>	<b>11,217</b>	<b>34</b>	<b>9,141</b>	<b>2</b>	<b>30</b>	<b>0</b>	<b>0</b>	<b>254</b>	<b>20,606</b>

Source: Bank Records, Equity Investments as of 7/30/2015

The majority of the bank's community development investments were extended inside the bank's Boston, MA MSA AA consisting of Plymouth, Norfolk, Suffolk and Middlesex Counties or a broader state regional area including both assessment areas. The lower concentration of investments in the Non-MSA AA is due to the bank's recent entry in this area in 2014. In the limited time that BHB has had to devote toward the Non-MSA AA, both the bank and its charitable foundation have sought out opportunities that resulted in 14 contributions totaling \$100,000. Further, the Non-MSA AA has fewer opportunities for qualified investments.

Overall, the qualified investments address several community development purposes, but primarily promoted community services and economic development. A further breakdown of community development investments, by assessment area and purpose, is detailed below.

Blue Hills Bank - Community Development Qualified Investments by Rated Area												
Rated Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Neighborhood Stabilization		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Greater Boston Assessment Area	19	170	173	1,036	30	175	2	30	0	0	224	1,411
Nantucket County Assessment Area	8	48	6	52	0	0	0	0	0	0	14	100
Regional Activities	0	0	12	10,129	4	8,966	0	0	0	0	16	19,095
Nationwide Activities	0	0	0	0	0	0	0	0	0	0	0	0
<b>Totals</b>	<b>27</b>	<b>218</b>	<b>191</b>	<b>11,217</b>	<b>34</b>	<b>9,141</b>	<b>2</b>	<b>30</b>	<b>0</b>	<b>0</b>	<b>254</b>	<b>20,606</b>

Source: Bank Records

## New Period Investments

### *Balance Point Capital Partners*

Balance Point Capital Partners, L.P. (BPCP) is the successor fund to the First New England Capital (FNEC) family of funds. This fund is BHB's largest small business investment corporation equity fund with an outstanding commitment of \$3 million as of July 30, 2015. The investment focuses on subordinated debt and equity stakes in lower-middle market companies. Lower-middle market companies are those that are ranked just above the small and medium enterprises (SME) or Main Street firms with revenues lower than \$5 million. The Fund focuses on service-oriented companies with low capital expenditure requirements in the healthcare, media and technology sectors. The Fund benefits a broader state regional area including both of the bank's assessment areas and promotes economic development.

### *North Atlantic Venture Fund (NAVD)*

NAVD is a small business investment company (SBIC) that provides both equity and subordinated debt funding to companies that provide technology products and services to community businesses. The bank's commitment to this fund is \$2.5 million as of July 30, 2015.

### *Access Capital Community Investment Fund*

The objective of this fund is to invest in geographically specific private placement debt securities designed to support underlying economic activities such as community development and affordable housing. The investment benefits the assessment areas and a broader state regional area. As of July 30, 2015, BHB's total commitment in this fund is \$466,007.

### *Brookside Mezzanine Fund III (BMF)*

BMF is a SBIC fund specializing in manufacturing, distribution, business service, health care service, retail, and restaurant businesses. The BMF benefits the assessment areas as well as a broader regional area.

## Prior Period Investments

### *Boston Community Loan Fund (BCLF)*

The bank has a continuing residual investment in BCLF. BCLF established Boston Community Capital (BCC), a nonprofit holding company, to respond to new credit and capital needs in low-income communities. BCLF became an affiliate of BCC, which established two new nonprofit affiliates: Boston Community Venture Fund and Boston Community Managed Assets. Together, these organizations comprise the BCC, a certified CDFI. Their mission is to build healthy communities where low-income people live and work. BCLF serves as a financial intermediary that connects low-income people and communities to the mainstream economy. The investment was funded prior to the last evaluation, but has a remaining book value of \$2 million.

### *Mass Housing Investment Corporation (MHIC)*

MHIC provides financing for affordable housing and community development throughout the state of Massachusetts. MHIC also purchases low-income housing tax credits through its subsidiary, Massachusetts Housing Equity Fund, Inc., and provides New Markets Tax Credit financing. BHB has a continuing investment in MHIC with a book value of \$361,112.

### *Mass Housing Equity Fund XIV*

The Mass Housing Equity Fund invests in low-income housing improvement projects and related commercial facilities in Massachusetts and in a limited number of commercial projects in economically disadvantaged neighborhoods in Massachusetts. BHB has a remaining investment in the fund with a book value of \$345,177.

### Charitable Contributions

Blue Hills Bank's Charitable Foundation is designed to further the bank's mission to strengthen the communities and its residents by providing funding to eligible non-profit organizations in its assessment areas. Donations and grants to qualified organizations made by the bank and the foundation during the evaluation period totaled \$1.9 million. Of this total, the Boston, MA MSA AA received a total of \$1.8 million in donations and grants and Non-MSA AA received \$100,000. The donations and grants were originated for community development purposes including affordable housing, economic development, social services, and stabilization of low- and moderate-income neighborhoods. Below are highlights of the community development donations.

*Massachusetts Affordable Housing Alliance (MAHA)* – MAHA works with both the private and public sector to increase affordable housing and sustainable homeownership throughout Massachusetts.

*West Roxbury YMCA* - The West Roxbury YMCA serves the residents and areas of West Roxbury, Roslindale, Jamaica Plain and Dedham. Their Families in Transition (FIT) program is an emergency shelter funded by the Department of Transitional Assistance. FIT, in concert with several other organizations, provides advocacy, employment support, health and wellness opportunities and childcare assistance to help homeless families find and sustain permanent housing. Another housing program, the Huntington House, features 66 single-room occupancy units administered by the Boston Housing Authority and is a HUD Section 8 Moderate Rehabilitation program.

*Boston Earned Tax Credit Coalition (Coalition)* - The Coalition's core service is free tax preparation provided by the Boston Tax Help Coalition. Every tax season, the Coalition operates free tax and wealth building services available to all eligible low- and moderate-income taxpayers in the city of Boston. Volunteers meet with over 11,000 clients and prepare their tax returns electronically free of charge. The goal is to maximize the taxpayer's federal tax dollars and to utilize the EITC and other tax credits that often go unclaimed by low-income households.

*Veteran Entrepreneurial Training and Resource Network (VETRN)* - VETRN is a nonprofit organization whose mission is to assist veteran small business owners in sustaining and growing their businesses. VETRN partners with small business accelerators, educational institutions, and business leaders to offer free entrepreneurial training.

*Financial Literacy Sponsorships – Everfi Financial Literacy (Everfi)*

Everfi uses the latest in new media technologies to teach financial literacy. EverFi provides students who successfully complete the course with certification in financial literacy, which can be a powerful tool for job applications, college search, and internships. These modules are presented to high school students and contain topics such as savings, banking, credit cards, credit scores, taxes, insurance, and investing. The Everfi program is specifically targeted towards Title 1 schools, a designation that is reached when at least 40 percent of the school's students are enrolled in a free or reduced cost lunch program.

In addition, during the evaluation period, there were nine high schools where BHB sponsored financial literacy courses resulting in 224 attendees. In all of the nine high schools, 50 percent or more of the students qualified and participated in free or reduced lunch programs.

*Pine Street Inn* - Pine Street Inn provides a comprehensive range of services, including permanent supportive housing, job training and placement, emergency shelter and street outreach to more than 1,600 homeless men and women each day.

**SERVICE TEST**

Overall, the bank's Service Test performance is rated High Satisfactory.

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

BHB has a reasonably effective system for delivering retail banking and community development services to the assessment areas. Retail banking services are accessible to essentially all portions of the assessment areas. To the extent changes have been made, the bank's opening and closing of branches has not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies or to low- or moderate-income individuals. Services and business hours do not vary in a way that inconveniences portions of the assessment areas, particularly low- and moderate-income geographies or individuals. BHB provides a relatively high level of qualified community development services within its assessment areas that are responsive to assessment area needs and opportunities.

### **Accessibility of Delivery Systems**

The bank's delivery systems, including full-service branches and ATMs, are accessible to essentially all portions of the assessment areas and all geographies and individuals of different income levels of the assessment areas. Alternative delivery systems are available to enhance the bank's branch services.

#### *Distribution of Branches*

The bank operates 10 full-service branch offices in the state of Massachusetts. Of the 10 offices, 2 (both Hyde Park offices) are located in moderate-income census tracts. In addition, the Brookline, Norwood, and Pleasant Street branches are in middle-income census tracts and the Roxbury, Milton, Orange Street, Amelia Drive, and Dedham branches are in upper-income census tracts. The bank does not have any branch offices in a low-income census tract. By comparison, 9 and 19 percent of the population and 8 and 18 percent of the combined assessment areas' census tracts are located in low- or moderate-income census tracts, respectively.

Further, in January 2014, the acquisition of Nantucket Bank added three offices, one of which is in a designated distressed or underserved non-metropolitan middle-income geography. Due to the high cost of housing and subsequent limited availability of housing stock for low- and moderate-income families in the Non-MSA AA, the branches have not generated many lending activities, particularly for low- and moderate-income borrowers. However, the bank's full array of products and services are available at all three branches. Therefore, the branches in Nantucket County have increased access to financial services to the low- and moderate-income populations in the Non-MSA AA.

### **Changes in Branch Locations**

To the extent changes have been made, the institution's record of opening and closing branches has not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies or to low- and moderate-income individuals. Since the last evaluation, the bank opened four branches in the combined assessment areas. This includes one branch office in a middle-income and three in upper-income census tracts. Three branches resulted from the January 2014 acquisition of offices from Nantucket Bank. All three of these branches are located in Nantucket County and comprise the Non-MSA AA. The other branch is a new full-service office in an upper-income census tract in Milton, MA, which is part of the Boston, MA MSA AA.

### **Reasonableness of Business Hours and Services**

The bank's services, including business hours, do not vary in a way that inconveniences portions of the assessment areas, particularly low- and moderate-income geographies and/or individuals. Branch hours are consistent with those of other local financial institutions.

The bank provides a variety of personal and business banking services designed to meet the credit needs of its assessment areas. These are available consistently at each branch. BHB offers personal deposit services such as checking, savings, money market accounts, certificate of deposits and overdraft protection. Regarding loans, there are a number of home mortgage and

consumer loan products available. Consumer loan products include personal, unsecured, passbook savings, and heat loans.

BHB offers a number of products and services for businesses including checking accounts, savings accounts, and merchant payment processing. In addition, BHB offers specific deposit accounts for municipalities and non-profit organizations. These accounts offer flexible terms and require no monthly maintenance services charges. Commercial loans include commercial real estate, commercial lines of credit, term loans and loans in partnership with the Small Business Administration.

**Community Development Services**

The bank provides a relatively high level of qualified community development services within its assessment areas that are responsive to assessment area needs and opportunities. The majority of community development services is within the Boston, MA MSA AA and primarily consists of bank officers and employees serving on boards for community development organizations. BHB was particularly responsive to the credit needs of the community through its efforts in financial literacy. For example, BHB designs and presents “Ms. Money and the Coins,” a creative and interactive musical presentation designed for elementary school students to teach saving and spending concepts.

A breakdown of the community development services, by year and purpose, is detailed below.

<b>Blue Hills Bank – Community Development Services</b>						
<b>Activity Year</b>	<b>Affordable Housing</b>	<b>Community Services</b>	<b>Economic Development</b>	<b>Revitalize or Stabilize</b>	<b>Neighborhood Stabilization</b>	<b>Totals</b>
	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>
2012	3	13	5	0	0	<b>21</b>
2013	3	16	6	0	0	<b>25</b>
2014	3	18	5	1	0	<b>27</b>
YTD 2015	3	18	5	1	0	<b>27</b>
<b>Total</b>	<b>12</b>	<b>65</b>	<b>21</b>	<b>2</b>	<b>0</b>	<b>100</b>
<i>Source: Bank Records</i>						

The following table details several of the community development services noted during the evaluation period.

<b>Blue Hills Bank - Community Development Services</b>				
<b>Brief Service Description</b>	<b>Community Development Purpose</b>	<b>Bank Sponsored Event, Program or Seminar</b>	<b>Technical Assistance or Direct Involvement by Bank Employee</b>	<b>Bank Product or Service</b>
<i>Accion East, Inc. Director served as an Advisory Board Member and a Branch Manager serves as an advisor at the Financial Education Workshops</i>	Economic Development		X	
<i>Catholic Charities. Executive Vice President serves on the Boston Board of Trustees</i>	Community Services		X	
<i>Hyde Park Board of Trade. Branch Manager serves as Treasurer</i>	Economic Development		X	
<i>Hyde Park Main Street. Branch Manager serves on the Board</i>	Economic Development		X	
<i>Lt. Governor's Inter-Agency Council Advisory. Director serves as a Council Member</i>	Community Services		X	
<i>Mass Affordable Housing Alliance. President serves as Member of the Kitchen Cabinet.</i>	Affordable Housing		X	
<i>Massachusetts Community &amp; Banking Council. Senior Vice President serves as a Board Member</i>	Economic Development		X	
<i>Mayor's Commission on Homelessness. Director serves on the Commission</i>	Community Services		X	
<i>Pilgrim Foundation. Branch Manager serves as the secretary</i>	Community Services		X	
<i>Pine Street Inn. Director of the Board serves as a fundraising organizer</i>	Affordable Housing		X	
<i>Thomas Menino YMCA (2). A Director and the Chief Marketing Officer serve on the Board of Directors</i>	Community Services		X	
<i>YMCA of Greater Boston. President serves on the Board of Directors</i>	Community Services		X	
<i>Source: Bank Records</i>				

### *Educational Seminars and Financial Literacy*

During the review period, all in 2014, BHB participated in 9 first-time home buyer seminars. These seminars led to the generation of 90 residential purchase mortgage loans totaling more than \$32.7 million in 2014, most of which went to low- or moderate-income borrowers.

### *Ms. Money and the Coins*

Ms. Money and the Coins is an educational, interactive, musical presentation that teaches elementary-aged students the concepts of spending, sharing and saving money. The series is presented by Blue Hills Bank Charitable Foundation and bank employees who design and choreograph the show. This is a unique musical presentation that demonstrates BHB's responsiveness to the financial literacy needs of the community. The show has been featured at over 100 schools and has been presented more than 170 times. There are 26 schools in the assessment areas that viewed the financial presentation. All of these schools had 50 percent or more of its students participating in the free or reduced lunch program.

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

Examiners evaluated the bank's compliance with anti-discrimination laws, including the Fair Housing Act and the Equal Credit Opportunity Act. The fair lending review revealed no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

## **METROPOLITAN AREA** **(Full-scope Review)**

### **DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE BOSTON, MA MSA**

Management has defined its assessment area in the Boston, MA MSA to include all 435 census tracts in the Boston, MA MD (Norfolk, Suffolk, and Plymouth Counties) and a portion of the Cambridge-Newton-Framingham, MA MD (all 318 census tracts in Middlesex County). Although not part of BHB's delineated assessment area, the Boston MSA also includes Essex County within the Cambridge-Newton-Framingham, MA MD as well as Rockingham and Strafford Counties within the Rockingham County-Strafford County, NH MD.

The bank operates 7 of its 10 full-service branch offices in the assessment area. The main office is located in the Hyde Park neighborhood of Boston in a moderate-income census tract. BHB operates its other six assessment area branches in one moderate-income, two middle-income, and three upper-income census tracts. During the review period, BHB opened its full-service Milton branch office in an upper-income census tract. The bank's lending and deposits in the Boston, MA MSA AA represent 72 percent and 80 percent of the total number of loans and deposits, respectively, within the assessment area.

#### **Demographic and Economic Data**

Collectively, the assessment area contains 753 census tracts. In 2014, certain census tract income designations changed as a result of revisions to the MSA delineations by the OMB. All assessment area census tract changes occurred within Middlesex County. Prior to the revised MSA delineations, the 753 census tracts consisted of the following designations: 77 (10.2 percent) low-income, 153 (20.3 percent) moderate-income, 293 (38.9 percent) middle-income, 215 (28.6 percent) upper-income, and 15 (2.0 percent) have no income designation. Examiners used the initial 2010 designation to analyze the 2013 lending data and the revised 2014 designation to analyze the 2014 and 2015 lending data.

The assessment area has a total population of 3,390,877. Approximately 21.6 percent and 15.9 percent of the assessment area's families are low-income and moderate-income, respectively. There are approximately 1.4 million housing units in the assessment area. Of these housing units, 57.0 percent are owner-occupied, 36.2 percent are renter-occupied, and 6.8 percent are vacant.

Based on the 2010 U.S. Census, selected demographic data for the Boston, MA MSA AA is shown in the following table. The data includes all census tract changes implemented by the OMB.

<b>Demographic Information of the Boston, MA MSA AA</b>						
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>NA* % of #</b>
Geographies (Census Tracts)	753	9.6	18.9	37.7	31.8	2.0
Population by Geography	3,390,877	7.9	18.3	40.8	32.9	0.1
Housing Units by Geography	1,385,196	7.4	18.7	42.1	31.8	0.0
Owner-Occ. Units by Geography	789,125	2.5	12.5	45.2	39.8	0.0
Occupied Rental Units by Geography	501,839	14.6	27.9	37.3	20.2	0.0
Vacant Units by Geography	94,232	10.2	22.6	40.7	26.5	0.0
Family Distribution by Income Level	800,421	21.6	15.9	20.4	42.1	0.0
Businesses by Geography	280,707	5.3	12.3	37.6	44.6	0.2
Families Below Poverty Level		6.7%	Median Housing Value			\$442,095
Households Below Poverty Level		10.6%	Median Gross Rent			\$1,191

*Source: 2010 U.S. Census (updated), 2014 D&B Data; (\*) The NA category consists of geographies that have not been assigned an income classification.*

According to 2014 D&B business demographic data, there are 280,707 businesses in the Boston MSA AA, of which, 70.6 percent have GARs of \$1 million or less, 6.2 percent have GARs greater than \$1 million, and the remaining 23.2 percent have unreported revenues. The services industry represents the largest portion of businesses at 46 percent; followed by non-classifiable establishments at 13 percent; retail trade at 12 percent; and finance, insurance and real estate at 10 percent. In addition, 63 percent of area businesses have four or fewer employees, and 91 percent operate from a single location.

The Boston, MA MSA AA's FFIEC-estimated 2013, 2014, and 2015 MFIs are presented in the following table. The estimated MFIs are presented separately for the Boston, MA MD and the Cambridge-Newton-Framingham, MA MD (Cambridge, MA MD).

<b>Median Family Income Ranges</b>					
<b>MSA/MD</b>	<b>Median Family Incomes</b>	<b>Low &lt;50%</b>	<b>Moderate 50% to &lt;80%</b>	<b>Middle 80% to &lt;120%</b>	<b>Upper ≥120%</b>
<b>Boston, MA MSA AA</b>					
Boston, MA MD	2013 (\$88,000)	<\$44,000	\$44,000 to <\$70,400	\$70,400 to <\$105,600	≥\$105,600
Boston, MA MD	2014 (\$87,200)	<\$43,600	\$43,600 to <\$69,760	\$69,760 to <\$104,640	≥\$104,640
Boston, MA MD	2015 (\$90,000)	<\$45,000	\$45,000 to <\$72,000	\$72,000 to <\$108,000	≥\$108,000
Cambridge, MA MD	2013 (\$101,000)	<\$50,500	\$50,500 to <\$80,800	\$80,800 to <\$121,200	≥\$121,200
Cambridge, MA MD	2014 (\$93,300)	<\$46,650	\$46,650 to <\$74,640	\$74,640 to <\$111,960	≥\$111,960
Cambridge, MA MD	2015 (\$101,700)	<\$50,850	\$50,850 to <\$81,360	\$81,360 to <\$122,040	≥\$122,040

According to the U.S. Bureau of Labor Statistics, the unemployment rate has steadily declined since the last evaluation. However, unemployment rates increased slightly in each county between December 2014 and July 2015. The following table reflects annual and current unemployment rates for the assessment area's counties, the State of Massachusetts, and the United States.

<b>Unemployment Rates</b>				
<b>Area</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>July 2015</b>
	%	%	%	%
Norfolk County	5.6	5.2	4.2	4.4
Suffolk County	6.0	5.5	4.5	4.8
Plymouth County	6.9	6.3	5.1	5.2
Middlesex County	5.2	4.8	3.9	4.1
State of Massachusetts	6.7	6.2	5.3	4.7
United States	7.9	6.7	5.6	5.3
<i>Source: U.S. Bureau of Labor Statistics</i>				

According to information obtained from Moody’s Analytics, dated May 2015, the Boston, MA MSA’s economy is expanding steadily. The labor force has grown substantially, outpacing both the state and national averages. Specifically, the healthcare sector leads the assessment area’s recent job gains, followed closely by the technology sector. Additionally, the most recent year-end unemployment rate within the Boston, MA MSA is below the state and national levels, as evidenced in the previous table.

The top employers within the Boston, MA MSA, based upon May 2015 Moody’s Analytics data, include Harvard University (11,298), Massachusetts General Hospital (10,000), Brigham & Women’s Hospital (10,000), and Massachusetts Institute of Technology (8,960).

The Boston, MA MSA’s housing market remains strong, as house prices continue to increase in line with the national average. Further, the number of single-family and multifamily permits has significantly increased as a result of the population growth since the last evaluation.

### **Competition**

The Boston, MA MSA AA is highly competitive in terms of the market for financial services. According to the FDIC Deposit Market Share data as of June 30, 2015, there are 109 FDIC-insured financial institutions that operate 1,139 full-service branches within the bank’s assessment area. Ranked by deposits, State Street Bank and Trust Company (39.4 percent) and Bank of America, NA (18.7 percent) are the only banks with a market share of over 10 percent. BHB ranks 23<sup>rd</sup> with a 0.4 percent deposit market share.

In 2013, 611 HMDA-reporting institutions originated 123,358 home mortgage loans in the Boston, MA MSA AA. The top five lenders by number of HMDA loan originations included: Mortgage Master; Bank of America, NA; Wells Fargo, NA; Guaranteed Rate Inc.; and Quicken Loans. These leading institutions collectively accounted for 20.9 percent of the total market share of home mortgage loan originations. Based on BHB’s 2013 originations, its market share was 0.3 percent by number of loans and ranked 73<sup>rd</sup>.

### **Credit and Community Development Needs and Opportunities**

Based on demographic and economic data, two conclusions regarding the credit needs of the assessment area can be derived. First, the median age of housing stock in low- and moderate-income census tracts at 61 years and 65 years, respectively, indicates a significant need for home

improvement or similar-type loans. Second, the substantial number of low- and moderate-income families, at 37.5 percent, indicates a strong need for affordable housing.

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN THE BOSTON, MA MSA**

### **LENDING TEST**

#### **Lending Activity**

Lending levels reflect adequate responsiveness to the credit needs of the Boston, MA MSA AA. During the review period, by number, BHB originated 85 percent of its home mortgage loans and 20 percent of its small business loans within this assessment area. By dollar, BHB originated 77 percent of its home mortgage loans and 27 percent of its small business loans within this assessment area.

#### **Geographic Distribution**

The geographic distribution of loans reflects adequate penetration throughout the assessment area. The bank's adequate distribution of home mortgage and small business loans supports this conclusion.

For this performance category, more emphasis is placed on the bank's performance within low- and moderate-income census tracts, as applicable. Only loans extended within the Boston, MA MSA AA are included in this analysis. Since demographic information for 2015 was not yet available, the bank's 2015 performance was compared to 2014 demographic information.

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

The geographic distribution of home mortgage loans reflects adequate penetration throughout the assessment area. The geographic distribution of home mortgage loans in the assessment area is presented in the following table. For comparison purposes, the percentage of owner-occupied housing units and 2013 aggregate lending performance in each income category is presented in the table.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2013	2.8	3.0	17	4.3	5,937	3.8
2014	2.5	NA	15	4.4	6,024	3.8
2015	2.5	NA	6	2.9	1,835	2.2
Moderate						
2013	14.0	12.7	42	10.7	11,045	7.1
2014	12.5	NA	32	9.4	13,184	8.3
2015	12.5	NA	31	15.2	8,479	10.1
Middle						
2013	48.0	44.7	136	34.6	35,842	23.0
2014	45.2	NA	125	36.6	46,419	29.1
2015	45.2	NA	84	41.2	27,918	33.3
Upper						
2013	35.2	39.6	198	50.4	102,975	66.1
2014	39.8	NA	168	49.3	93,324	58.5
2015	39.8	NA	83	40.7	45,531	54.4
NA						
2013	0.0	0.0	0	0.0	0	0.0
2014	0.0	NA	1	0.3	503	0.3
2015	0.0	NA	0	0.0	0	0.0
<b>Totals</b>						
<b>2013</b>	<b>100.0</b>	<b>100.0</b>	<b>393</b>	<b>100.0</b>	<b>155,799</b>	<b>100.0</b>
<b>2014</b>	<b>100.0</b>	<b>NA</b>	<b>341</b>	<b>100.0</b>	<b>159,454</b>	<b>100.0</b>
<b>2015</b>	<b>100.0</b>	<b>NA</b>	<b>204</b>	<b>100.0</b>	<b>83,763</b>	<b>100.0</b>
<i>Source: 2010 U.S. Census; 2013, 2014, and two quarters of 2015 HMDA Reported Data; 2013 HMDA Aggregate Data; "NA" is information which was not available as of the evaluation date</i>						

In 2013, BHB originated 4.3 percent of its home mortgage loans in low-income census tracts. In comparison to demographics, the bank's performance is similar to the percentage of owner-occupied housing units and 2013 HMDA aggregate lending performance in low-income census tracts, both at approximately 3.0 percent. The bank's lending performance in moderate-income census tracts, at 10.7 percent, is also similar to the percentage of owner-occupied housing units in moderate-income census tracts at 14.0 percent and 2013 HMDA aggregate lending performance in moderate-income census tracts at 12.7 percent.

In 2014, BHB originated 4.4 percent of its home mortgage loans in low-income census tracts. In comparison to demographics, the bank's performance is similar to the percentage of owner-occupied housing units in low-income census tracts at 2.5 percent. The bank's lending performance in moderate-income census tracts, at 9.4 percent, is also similar to the percentage of owner-occupied housing units in moderate-income census tracts at 12.5 percent.

In 2015, BHB originated 2.9 percent of its home mortgage loans in low-income census tracts. In comparison to demographics, the bank’s performance matches the percentage of owner-occupied housing units in low-income census tracts at 2.5 percent. The bank’s lending performance in moderate-income census tracts, at 15.2 percent, is also similar to the percentage of owner-occupied housing units in moderate-income census tracts at 12.5 percent.

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

The geographic distribution of small business loans reflects adequate penetration throughout the assessment area. The geographic distribution of small business loans in the assessment area is presented in the following table. For comparison purposes, the percentage of businesses in each census tract income category is presented in the table.

<b>Geographic Distribution of Small Business Loans</b>					
<b>Tract Income Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Low					
2014	5.3	0	0.0	0	0.0
2015	5.3	1	4.0	300	3.7
Moderate					
2014	12.3	8	23.5	2,759	25.9
2015	12.3	2	8.0	315	3.8
Middle					
2014	37.6	9	26.5	3,009	28.3
2015	37.6	11	44.0	3,748	45.7
Upper					
2014	44.6	14	41.2	4,431	41.6
2015	44.6	11	44.0	3,835	46.8
NA					
2014	0.2	3	8.8	449	4.2
2015	0.2	0	0.0	0	0.0
<b>Total</b>					
<b>2014</b>	<b>100.0</b>	<b>34</b>	<b>100.0</b>	<b>10,648</b>	<b>100.0</b>
<b>2015</b>	<b>100.0</b>	<b>25</b>	<b>100.0</b>	<b>8,198</b>	<b>100.0</b>
<i>Source: 2014 D&amp;B Data; 2014 and two quarters of 2015 CRA Data</i>					

In 2014, BHB did not originate any small business loans in low-income census tracts. The bank’s performance is compared to the percentage of businesses in low-income census tracts at 5.3 percent. The bank’s lending performance in moderate-income census tracts, at 23.5 percent, is significantly higher than the percentage of businesses in moderate-income census tracts at 12.3 percent.

In 2015, BHB originated 4.0 percent of its small business loans in a low-income census tract. In comparison to demographics, the bank's performance is similar to the percentage of businesses in low-income census tracts at 5.3 percent. The bank's lending performance in moderate-income census tracts, at 8.0 percent, is slightly lower than the percentage of businesses in moderate-income census tracts at 12.3 percent.

### **Borrower Profile**

The distribution of borrowers reflects adequate penetration among individuals of different income levels and businesses of different revenue sizes in the Boston, MA MSA AA. The bank's adequate distribution of home mortgage and small business loans supports this conclusion.

For this performance category, more emphasis is placed on the bank's lending to low- and moderate-income borrowers and to small businesses. Also, more weight is placed on the number of loans since low- and moderate-income individuals and small businesses typically borrow in smaller amounts. Only those loans extended within the assessment area are included in this analysis. Since demographic information for 2015 was not yet available, the bank's 2015 performance was only considered for trends.

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

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate-income borrowers, reflects adequate penetration given the demographics of the Boston, MA MSA AA.

The following table illustrates home mortgage loan originations and purchases categorized by borrower income level for 2013, 2014, and 2015. Also included in the table, for comparison purposes, is the percent of families and aggregate lending performance for each income category.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2013	22.4	5.2	34	8.6	3,814	2.4
2014	21.6	NA	7	2.1	1,043	0.7
2015	21.6	NA	2	1.0	283	0.4
Moderate						
2013	16.6	15.7	68	17.3	12,153	7.8
2014	15.9	NA	47	13.8	10,316	6.5
2015	15.9	NA	35	17.2	7,484	8.9
Middle						
2013	20.8	23.3	49	12.5	12,021	7.7
2014	20.4	NA	59	17.3	16,757	10.5
2015	20.4	NA	47	23.0	13,691	16.3
Upper						
2013	40.2	43.6	200	50.9	109,153	70.1
2014	42.1	NA	200	58.6	116,141	72.8
2015	42.1	NA	97	47.5	52,827	63.1
Income Not Available						
2013	0.0	12.2	42	10.7	18,658	12.0
2014	0.0	NA	28	8.2	15,197	9.5
2015	0.0	NA	23	11.3	9,478	11.3
<b>Total</b>						
<b>2013</b>	<b>100.0</b>	<b>100.0</b>	<b>393</b>	<b>100.0</b>	<b>155,799</b>	<b>100.0</b>
<b>2014</b>	<b>100.0</b>	<b>NA</b>	<b>341</b>	<b>100.0</b>	<b>159,454</b>	<b>100.0</b>
<b>2015</b>	<b>100.0</b>	<b>NA</b>	<b>204</b>	<b>100.0</b>	<b>83,763</b>	<b>100.0</b>
<i>Source: 2010 U.S. Census; 2013, 2014, and two quarters of 2015 HMDA Reported Data; 2013 HMDA Aggregate Data; "NA" is information which was not available as of the evaluation date</i>						

In 2013, BHB originated 8.6 percent of its home mortgage loans to low-income borrowers. In comparison to demographics, the bank's performance is slightly higher than 2013 HMDA aggregate lending performance to low-income borrowers at 5.2 percent and lower than the percentage of low-income families at 22.4 percent. The bank's lending performance to moderate-income borrowers, at 17.3 percent, is similar to both the 2013 HMDA aggregate lending performance to moderate-income borrowers at 15.7 percent and the percentage of moderate-income families at 16.6 percent.

In 2014, BHB originated 2.1 percent of its home mortgage loans to low-income borrowers. In comparison to demographics, the bank's performance is lower than the percentage of low-income families at 21.6 percent. The bank's lending performance to moderate-income borrowers, at 13.8 percent, is similar to the percentage of moderate-income families at 15.9 percent.

In 2015, BHB originated 1.0 percent of its home mortgage loans to low-income borrowers. In comparison to demographics, the bank's performance is lower than the percentage of low-income families at 21.6 percent. The bank's lending performance to moderate-income borrowers, at 17.2 percent, is similar to the percentage of moderate-income families at 15.9 percent.

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

The overall distribution of small business loans reflects, given the demographics of the Boston MSA AA, adequate penetration of loans to businesses of different sizes, including those with GARs of \$1 million or less.

The following table illustrates the revenue distribution of the bank's small business loans originated and purchased in 2014 and 2015. Also included in the table, for comparative purposes, is the percentage of GARs by business size and those businesses that did not report revenues within the assessment area.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category</b>					
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>≤ \$1,000,000</b>					
2014	70.6	22	64.7	6,077	57.1
2015	70.6	12	48.0	2,746	33.5
<b>&gt; \$1,000,000</b>					
2014	6.2	12	35.3	4,571	42.9
2015	6.2	13	52.0	5,452	66.5
<b>Revenue Not Available</b>					
2014	23.2	0	0.0	0	0.0
2015	23.2	0	0.0	0	0.0
<b>Total</b>					
<b>2014</b>	<b>100.0</b>	<b>34</b>	<b>100.0</b>	<b>10,648</b>	<b>100.0</b>
<b>2015</b>	<b>100.0</b>	<b>25</b>	<b>100.0</b>	<b>8,198</b>	<b>100.0</b>
<i>Source: 2014 D&amp;B Data; 2014 and two quarters of 2015 CRA Data; "NA" is information which was not available as of the evaluation date</i>					

In 2014 and 2015, BHB originated 64.7 percent and 48.0 percent of its small business loans, respectively, to businesses with GARs of \$1 million or less. This performance is lower than the percentage of small businesses in the assessment area (2014 demographic data) at 70.6 percent. In addition, the performance declined from 2014 to 2015.

### **Community Development Lending**

BHB originated an adequate level of community development loans in this assessment area. Since the previous evaluation, the bank originated 11 community development loans totaling \$29.1 million in the Boston, MA MSA AA. This activity includes five loans totaling \$6.8

million for affordable housing, three loans totaling \$10.0 million for revitalization and stabilization, and three loans totaling \$12.3 million for community development services. Please refer to the overall comments on page 14 for additional details regarding the bank's community development lending.

### **Innovative or Flexible Lending Practices**

The institution uses innovative and flexible lending practices in order to serve assessment area credit needs. Please refer to the overall comments on page 16 for additional details regarding these programs.

### **INVESTMENT TEST**

The bank has 224 qualified investments, grants, or donations totaling \$1,411,000 in this assessment area, representing 88.2 percent of the total number of investments. The community development investments, grants, or donations met affordable housing, economic development, social services, and revitalization needs of the assessment area. Refer to the overall Investment Test analysis starting on page 19 for additional details regarding the BHB's performance under this test.

### **SERVICE TEST**

The bank operates 7 of its 10 full-service offices in the assessment area. The main office is located in the Hyde Park neighborhood of Boston in a moderate-income census tract. BHB operates its other six assessment area branches in one moderate-income, two middle-income, and three upper-income census tracts. The bank's lending and deposits in the Boston, MA MSA AA represent 72 percent and 80 percent of the total number of loans and deposits, respectively, within the assessment area.

During the review period, BHB opened its full-service Milton office in an upper-income census tract. No branch offices have been closed since the last examination. Branch hours are reasonable and comparable to other local financial institutions operating in the assessment area. In addition to the branch structure, the bank provides a variety of access options to its customers. Refer to the overall Service Test analysis starting on page 24 for a description of these services.

### **Community Development Services**

The bank provides a relatively high level of community development services. Bank records show that employees in this assessment area participated in 100 community development services with various organizations since the last CRA evaluation. This performance represents 100 percent of all activities in the assessment areas. The types of services provided were responsive to the assessment area needs. Bank employees assisted a variety of organizations, which provided services to low- and moderate-income individuals, and small businesses in this assessment area. Please refer to the overall comments in the Community Development Services section of this performance evaluation for additional details regarding the bank's performance under this test.

## **NONMETROPOLITAN STATEWIDE AREA (Full-scope Review)**

### **DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE MASSACHUSETTS NON-MSA**

Management has defined its assessment area in the bank's Non-MSA AA to include all five census tracts in Nantucket County. The island of Nantucket has many seasonal residents and many businesses earn most of their revenue during July and August.

The bank operates 3 of its 10 full-service branch offices in the assessment area. BHB operates its three assessment area branches in one middle-income and two upper-income census tracts. Management added this assessment area since the last evaluation as a result of acquiring Nantucket Bank's branch offices in 2014. The bank's lending and deposits in the Non-MSA AA represent 28 percent and 20 percent of the total number of loans and deposits, respectively, within the assessment area.

#### **Demographic and Economic Data**

The assessment area contains five census tracts. These census tracts reflect the following current income designations: one (20.0 percent) middle-income and four (80.0 percent) upper-income. Additionally, through June 1, 2015, the Non-MSA AA consisted of three census tracts designated by the FFIEC as underserved nonmetropolitan middle-income areas. As of June 1, 2015, one census tract continues to be designated as an underserved nonmetropolitan middle-income census tract.

The assessment area has a total population of 10,172. Approximately 10.5 percent and 8.6 percent of the assessment area's families are low-income and moderate-income, respectively. The percentage of families and households below the poverty level within the assessment area are 3.6 percent and 5.9 percent, respectively. There are 11,326 housing units in the assessment area. Of these housing units, 23.5 percent are owner-occupied, 8.5 percent are renter-occupied, and 68.0 percent are vacant.

Based on the 2010 U.S. Census, selected demographic data for the Non-MSA AA is shown in the following table. The data includes all census tract changes implemented by the OMB.

<b>Demographic Information of the Massachusetts Non-MSA AA</b>					
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>
Geographies (Census Tracts)	5	0	0	20.0	80.0
Population by Geography	10,172	0	0	47.9	52.1
Housing Units by Geography	11,326	0	0	27.7	72.3
Owner-Occupied Units by Geography	2,657	0	0	40.3	59.7
Occupied Rental Units by Geography	966	0	0	50.2	49.8
Vacant Units by Geography	7,703	0	0	20.5	79.5
Family Distribution by Income Level	2,400	10.5	8.6	20.4	60.5
Businesses by Geography	2,029	0	0	30.2	69.8
Families Below Poverty Level	3.6%	Median Housing Value			\$975,534
Households Below Poverty Level	5.9%	Median Gross Rent			

*Source: 2010 U.S. Census (updated), 2014 D&B Data*

According to 2014 D&B business demographic data, there are 2,029 businesses in the Non-MSA AA, of which, 72.7 percent have GARs of \$1 million or less, 4.0 percent have GARs greater than \$1 million, and the remaining 23.3 percent have unreported revenues. The services industry represents the largest portion of businesses at 35 percent, followed by retail trade at 16 percent, non-classifiable establishments at 14 percent, and construction at 13 percent. In addition, 65 percent of area businesses have 4 or fewer employees, and 94 percent operate from a single location.

The Non-MSA AA's FFIEC-estimated 2013, 2014, and 2015 MFIs are presented in the following table.

<b>Median Family Income Ranges</b>					
<b>MSA/MD</b>	<b>Median Family Incomes</b>	<b>Low &lt;50%</b>	<b>Moderate 50% to &lt;80%</b>	<b>Middle 80% to &lt;120%</b>	<b>Upper ≥120%</b>
<b>Massachusetts Non-MSA AA</b>					
MA Non-MSA	2013 (\$52,400)	<\$26,200	\$26,200 to <\$41,920	\$41,920 to <\$62,880	≥\$62,880
MA Non-MSA	2014 (\$72,800)	<\$36,400	\$36,400 to <\$58,240	\$58,240 to <\$87,360	≥\$87,360
MA Non-MSA	2015 (\$73,500)	<\$36,750	\$36,750 to <\$58,800	\$58,800 to <\$88,200	≥\$88,200

According to the U.S. Bureau of Labor Statistics, the unemployment rate has steadily declined since the last evaluation. The assessment area's unemployment rates for 2012, 2013, and 2014 were above the unemployment rates for both the State of Massachusetts and United States during the same time period. Although the current (July 2015) unemployment rate is 2.5 percent, Nantucket County's unemployment rate dips each July and peaks each January due to seasonal business trends. The following table reflects annual and current unemployment rates for the assessment area's counties, the State of Massachusetts, and the United States.

<b>Unemployment Rates</b>				
<b>Area</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>July 2015</b>
	%	%	%	%
Nantucket County	10.0	8.0	7.9	2.5
State of Massachusetts	6.7	6.2	5.3	4.7
United States	7.9	6.7	5.6	5.3

*Source: U.S. Bureau of Labor Statistics*

According to information obtained from Commonwealth of Massachusetts, Nantucket County’s economy is expanding steadily. The labor force remains stable, as the area experiences a significant increase in business activity during the summer months, and a decline in the winter months. Overall, Nantucket County has experienced job growth of 0.5 percent between June 2013 and June 2014.

The top employers within Nantucket County, according to the Massachusetts Executive Office of Labor and Workforce Development, include the White Elephant Hotel, Bartlett’s Ocean View Farm, Jared Coffin House, Marine Home Center, and Nantucket Cottage Hospital.

According to the Boston Globe, Nantucket County’s housing market is limited in terms of inventory and price. The median housing value of \$975,534 is unattainable for low-, moderate-, and middle-income borrowers. However, in 2014, the town of Nantucket’s Planning Director approved housing opportunities for mixed-use developments. The Planning Director’s approval allows for the construction of six-unit buildings, which will cater to the area’s working class. Currently, Nantucket has a housing inventory of 22 public housing units for low- and moderate-income individuals.

**Competition**

The Non-MSA AA is limited in terms of competition for financial services. According to the FDIC Deposit Market Share data as of June 30, 2015, there are four FDIC-insured financial institutions that operate eight full-service branches within the bank’s assessment area. Ranked by deposits, BHB (40.8 percent) is the assessment area’s market share leader. The Cape Cod Five Cents Savings Bank (31.5 percent) and Bank of America, NA (21.5 percent) also have a market share of over 10 percent. These three institutions maintain seven of the eight branches in the assessment area.

In 2013, 100 HMDA-reportable institutions originated 766 home mortgage loans in the Non-MSA AA. The top five lenders by number of HMDA loan originations included: Cape Cod Five Cents Savings Bank; Santander Bank, NA; Bank of America, NA; TD Bank, NA; and Hingham Institution For Saving. These leading institutions collectively accounted for 50.0 percent of the total market share of home mortgage loan originations. Based on its 2013 originations, BHB’s market share was 0.7 percent by number of loans and ranked 22<sup>nd</sup>.

**Credit and Community Development Needs and Opportunities**

Based on demographic and economic data, three conclusions regarding the credit needs of the assessment area can be derived. First, the percentage of small businesses operating with a single location at 94 percent indicates a potential need for loans to provide business capital, especially

considering the seasonal business demand. Second, based on high median housing value of \$975,534, there is an acute need for affordable housing for low- and moderate-income families. Third, based on the median gross rent of \$1,615 and a 68 percent vacancy rate, there is the strong need for acquisition and renovation loans to creditworthy contractors or investors willing to provide affordable rental housing for low- and moderate-income individuals.

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN THE MASSACHUSETTS NON-MSA**

### **LENDING TEST**

#### **Lending Activity**

Lending levels reflect adequate responsiveness to the credit needs of the Non-MSA AA. During the review period, by number, BHB originated 15 percent of its home mortgage loans and 80 percent of its small business loans within this assessment area. By dollar, BHB originated 23 percent of its home mortgage loans and 73 percent of its small business loans within this assessment area.

#### **Geographic Distribution**

Since the Non-MSA AA does not contain low- or moderate-income census tracts, examiners did not analyze the geographic distribution of loans.

#### **Borrower Profile**

The distribution of borrowers reflects adequate penetration among individuals of different income levels and businesses of different revenue sizes in the Non-MSA AA. The bank's adequate distribution of home mortgage and small business loans supports this conclusion.

For this performance category, more emphasis is placed on the bank's lending to low- and moderate-income borrowers and to small businesses. Also, more weight is placed on the number of loans since low- and moderate-income individuals and small businesses typically borrow in smaller amounts. Only those loans extended within the assessment area are included in this analysis. Since demographic information for 2015 was not yet available, the bank's 2015 performance was compared to 2014 demographic information.

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

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate-income borrowers, reflects adequate penetration in the Non-MSA AA. The following table illustrates home mortgage loan originations and purchases categorized by borrower income level for 2014 and 2015. Also included in the table, for comparison purposes, is the percent of families and aggregate lending performance for each income category.

<b>Distribution of Home Mortgage Loans by Borrower Income Level</b>						
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Low						
2014	10.5	NA	0	0.0	0	0.0
2015	10.5	NA	1	2.0	155	0.5
Moderate						
2014	8.6	NA	5	4.7	817	1.0
2015	8.6	NA	0	0.0	0	0.0
Middle						
2014	20.4	NA	15	14.0	5,026	5.8
2015	20.4	NA	8	16.3	2,723	9.4
Upper						
2014	60.5	NA	78	72.9	65,120	76.0
2015	60.5	NA	36	73.5	23,181	79.9
Income Not Available						
2014	0.0	NA	9	8.4	14,773	17.2
2015	0.0	NA	4	8.2	2,965	10.2
<b>Total</b>						
<b>2014</b>	<b>100.0</b>	<b>NA</b>	<b>107</b>	<b>100.0</b>	<b>85,736</b>	<b>100.0</b>
<b>2015</b>	<b>100.0</b>	<b>NA</b>	<b>49</b>	<b>100.0</b>	<b>29,024</b>	<b>100.0</b>
<i>Source: 2010 U.S. Census; 2014 and two quarters of 2015 HMDA Reported Data; "NA" is information which was not available as of the evaluation date</i>						

In 2014, BHB did not originate any home mortgage loans to low-income borrowers. The percentage of low-income families is 10.5 percent. The bank's lending performance to moderate-income borrowers, at 4.7 percent, is slightly lower than the percentage of moderate-income families at 8.6 percent.

In 2015, BHB originated 2.0 percent of its home mortgage loans to low-income borrowers. In comparison to demographics, the bank's performance is lower than the percentage of low-income families at 10.5 percent. The bank did not originate any home mortgage loans to moderate-income borrowers. For comparison purposes, the percentage of moderate-income families is 8.6 percent.

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

The distribution of small business loans reflects, given the demographics of the Non-MSA AA, adequate penetration of loans to businesses of different sizes, including those with GARs of \$1 million or less.

The following table illustrates the revenue distribution of the bank's small business loans originated and purchased in 2014 and 2015. Also included in the table, for comparison purposes,

is the percentage of assessment area businesses with GARs less than or equal to \$1 million, greater than \$1 million, and those businesses that did not report revenues.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category</b>					
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
≤ \$1,000,000					
2014	72.7	22	10.8	2,628	6.0
2015	72.7	20	69.0	3,527	59.2
> \$1,000,000					
2014	4.0	6	3.0	1,210	2.7
2015	4.0	9	31.0	2,435	40.8
Revenue Not Available					
2014	23.3	175	86.2	40,297	91.3
2015	23.3	0	0.0	0	0.0
<b>Total</b>					
<b>2014</b>	<b>100.0</b>	<b>203</b>	<b>100.0</b>	<b>44,135</b>	<b>100.0</b>
<b>2015</b>	<b>100.0</b>	<b>29</b>	<b>100.0</b>	<b>5,962</b>	<b>100.0</b>

*Source: 2014 D&B Data; 2014 and two quarters of 2015 CRA Data*

In 2014, BHB originated or purchased 10.8 percent of its small business loans to businesses with GARs of \$1 million or less. This performance is significantly lower than the percentage of small businesses at 72.7 percent. However, in 2014, BHB’s acquisition of Nantucket Bank resulted in reporting 174 small business loan originations that occurred in 2014 prior to the merger. The GARs of these small business loans were unknown, which materially affected the percentage of small business loans to businesses with GARs of \$1 million or less. When only considering the loans originated by BHB in 2014, the bank originated 78.6 percent of its small business loans (22 of 28 loans) to businesses with GARs of \$1 million or less, which is higher than the demographic data at 72.7 percent.

In 2015, BHB originated 69.0 percent of its small business loans to businesses with GARs of \$1 million or less. This performance is similar to the percentage of small businesses in the assessment area (2014 demographic data) at 72.7 percent.

### **Community Development Lending**

BHB originated a low level of community development loans in this assessment area. Since the previous evaluation, the bank originated one community development loan totaling \$50,000 in the Non-MSA AA. The loan also enhanced the area’s community development services. Please refer to the overall comments on page 14 for additional details regarding the bank’s community development lending.

### **Innovative or Flexible Lending Practices**

The institution uses innovative and flexible lending practices in order to serve assessment area credit needs. Please refer to the overall comments on page 16 for additional details regarding these programs.

### **INVESTMENT TEST**

The bank has 14 qualified investments, grants, or donations totaling \$100,000 in this assessment area, representing 5.5 percent of total number of investments. The community development investments, grants, or donations met affordable housing and social service needs of the assessment area. Refer to the overall Investment Test analysis starting on page 19 for additional details regarding the BHB's performance under this test.

### **SERVICE TEST**

The bank operates 3 of its 10 full-service offices in the assessment area. Since the last evaluation, management has added this assessment area as a result of acquiring these branch offices in 2014. In 2014, BHB opened its three full-service branch offices in Nantucket County. No branch offices have been closed since the last examination. Branch hours are reasonable and comparable to other local financial institutions operating in the assessment area. In addition to the branch structure, the bank provides a variety of access options to its customers. Refer to the overall Service Test analysis starting on page 24 for a description of these services.

### **Community Development Services**

Bank records did not reflect any community development services in this assessment area. However, the bank did not have a branch presence in this assessment area until January 2014. Please refer to the overall comments in the Community Development Services section of this performance evaluation for additional details regarding the bank's performance under this test.

## APPENDIX

### SCOPE OF EVALUATION

SCOPE OF EVALUATION			
<b>TIME PERIOD REVIEWED</b>	May 29, 2012 - September 27, 2015		
<b>FINANCIAL INSTITUTION</b>			<b>PRODUCTS REVIEWED</b>
Blue Hills Bank			Home Mortgage Loans Small Business Loans
<b>AFFILIATE(S)</b>	<b>AFFILIATE RELATIONSHIP</b>		<b>PRODUCTS REVIEWED</b>
None	NA		NA

LIST OF ASSESSMENT AREAS AND TYPE OF EVALUATION			
<b>ASSESSMENT AREA</b>	<b>TYPE OF EXAMINATION</b>	<b>BRANCHES VISITED</b>	<b>OTHER INFORMATION</b>
Boston, MA MSA	Full-scope	None	NA
Massachusetts Non-MSA	Full-scope	None	NA

## MINORITY APPLICATION FLOW

According to the 2010 U.S. Census data, in 2013, the bank's combined assessment area contained a total population of 3,401,049 individuals of which 27.6 percent are minorities. The assessment area's racial and ethnic minority population is 7.7 percent Asian, 8.2 percent Hispanic or Latino, 8.2 percent Black/African American, 0.1 percent American Indian, and 3.4 percent other race.

For 2013, the bank received 518 HMDA-reportable loan applications within its combined assessment area. Of these applications, 103 or 19.9 percent were received from racial minority applicants, of which 70 or 68.0 percent resulted in originations. This figure is comparable to the aggregate data, whereby 70.6 percent of racial minority applications resulted in originations. Further, the Bank's application rate received by racial minorities of Hispanic origin exceeded the aggregate.

In 2014, the bank's received fewer racial minority applications by both number and percentage. Applications from Hispanic applicants increased slightly.

The bank's level of lending was compared with the aggregate lending performance level for 2013, the most recent year for which data was available. The comparison of this data assists in deriving reasonable expectations for the rate of applications the Bank received from minority residential loan applicants.

<b>MINORITY APPLICATION FLOW</b>					
<b>RACE</b>	<b>2013 Blue Hills Bank</b>		<b>2013 Aggregate Data</b>	<b>2014 Blue Hills Bank</b>	
	<b>#</b>	<b>%</b>	<b>% of #</b>	<b>#</b>	<b>%</b>
<i>American Indian/ Alaska Native</i>	0	0.0	0.1	0	0.0
<i>Asian</i>	31	6.0	6.7	26	4.4
<i>Black/ African American</i>	61	11.8	3.0	50	8.5
<i>Hawaiian/Pac Isl.</i>	0	0.0	0.1	0	0.0
<i>2 or more Minority</i>	0	0.0	0.0	3	0.5
<i>Joint Race (White/Minority)</i>	11	2.1	1.4	10	1.7
<b>Total Minority</b>	<b>103</b>	<b>19.9</b>	<b>11.3</b>	<b>89</b>	<b>15.1</b>
<i>White</i>	334	64.5	65.0	407	69.5
<i>Race Not Available</i>	81	15.6	23.7	90	15.4
<b>Total</b>	<b>518</b>	<b>100.00</b>	<b>100.00</b>	<b>586</b>	<b>100.00</b>
<b>ETHNICITY</b>	<b>#</b>	<b>%</b>	<b>% of #</b>	<b>#</b>	<b>%</b>
<i>Hispanic or Latino</i>	16	3.1	2.3	28	4.8
<i>Not Hispanic or Latino</i>	419	80.9	73.3	460	78.5
<i>Joint (Hisp/Lat /Not Hisp/Lat)</i>	6	1.2	0.9	7	1.2
<i>Ethnicity Not Available</i>	77	14.8	23.5	91	15.5
<b>Total</b>	<b>518</b>	<b>100.00</b>	<b>100.00</b>	<b>586</b>	<b>100.00</b>

Source: 2013 and 2014 HMDA LAR, 2013 HMDA Aggregate Data, 2010 U.S. Census Data

The bank's minority application flow, when compared to the aggregate's lending performance levels and the assessment area demographics, is reasonable.

## GLOSSARY

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

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

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

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

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

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

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

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

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

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

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

**Community Development Loan:** A loan that

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

**Community Development Service:** A service that

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

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

**Core Based Statistical 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).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Underserved Middle-Income Nonmetropolitan Geographies:** A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

**Upper-Income:** Individual income that is 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.