

# **PUBLIC DISCLOSURE**

**September 5, 2013**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**CREDIT UNION OF THE BERKSHIRES  
CERT # 67758**

**744 WILLIAMS STREET  
PITTSFIELD, MASSACHUSETTS 01201**

**Division of Banks  
1000 Washington St, 10<sup>th</sup> Floor  
Boston, Massachusetts 02118**

**NOTE:** This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.

## GENERAL INFORMATION

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

This document is an evaluation of the CRA performance of Credit Union of the Berkshires (or the Credit Union), prepared by the Division, the institution's supervisory agency as of September 5, 2013. The Division rates the CRA performance of an institution consistent with the provisions set forth in Massachusetts Regulation 209 CMR 46.00.

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

A CRA rating of "Satisfactory" is assigned. An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Credit Union of the Berkshires was evaluated according to Small Institution CRA Examination Procedures, which apply to an institution with assets of less than \$250 million, adjusted annually (currently at \$300 million) as of December 31 of both of the prior two calendar years. The rating is supported by the following conclusions:

- The Credit Union's average loan-to-share ratio for the past eight quarters is 34.5 percent and shows a declining trend.
- The Credit Union originated a substantial majority of consumer loans inside the assessment area.
- The distribution of consumer loans reflects a good penetration of borrowers of different income levels.
- The geographic distribution of consumer loans reflects an adequate penetration throughout the assessment area.
- No CRA-related complaints were received during the evaluation period and there were no fair lending issues or concerns.

### **SCOPE OF THE EXAMINATION**

This evaluation considered the Credit Union's consumer lending from January 1, 2012 to August 30, 2013. The Credit Union does not make loans reported pursuant to the Home Mortgage Disclosure Act (HMDA). Consumer loan data was obtained from internal reports provided by the Credit Union.

Based on the Credit Union's loan portfolio composition as of June 30, 2013, the Credit Union's primary lending activity by dollar volume consists of used vehicle loans at 35.9 percent followed by other real estate loans/lines of credit at 33.5 percent.

## **PERFORMANCE CONTEXT**

### **Description of the Institution**

Credit Union of the Berkshires is a state-chartered community credit union founded in 1939. The Credit Union was established to serve the credit needs of individuals employed in education or public service within Berkshire County. Membership in the Credit Union is limited to individuals who live, work, or attend school in Berkshire County. As of September 30, 2013, the Credit Union has 2,171 members.

The institution's sole office is located at 744 Williams Street Pittsfield, Massachusetts, which is located in an upper-income census tract. Business hours for the branch are 9:00 a.m. to 4:30 p.m. Monday through Friday and 9:00 a.m. to 12:00 p.m. on Saturday. The Credit Union offers extended hours through the drive-up teller window. Branch services and hours of operation are similar to those of competing institutions. While the Credit Union does not offer its own ATM Network, members of the Credit Union can use Greylock Federal Credit Union's network of ATMs free of charge.

The Credit Union maintains a website at [www.cuotb.org](http://www.cuotb.org). The Credit Union's website includes information about products and services, loan rates, savings rates, branch location, hours of operation, and online-banking services such as viewing account balances, account history, account transfers, bill pay, e-statements, and check requests.

The Credit Union offers a range of products aimed to meet the personal needs of its members. Loan products include personal loans, home improvement loans, auto loans, equity loans and lines of credit. The Credit Union offers regular savings accounts, checking accounts, holiday and vacation clubs, and additional services such as money orders, notary services, direct deposit and cashier's checks.

As of June 30, 2013, the Credit Union's assets totaled \$23.4 million and loans totaled \$6.4 million, or 27.3 percent of total assets. Since the previous examination, the Credit Union's assets have increased by 8.1 percent while the Credit Union's loan portfolio has decreased 34.4 percent. While the Credit Union wants to make more loans, it has been unable to compete with the low interest rates on consumer loans offered by automobile dealers. In addition, because the Credit Union does not offer first mortgages, the recent refinance trend adversely affected the Credit Union's ability to originate home equity loans and lines of credit as borrowers would simply refinance their home and take cash out at competitive rates.

As reflected in Table 1, the Credit Union is primarily a consumer lender. Used vehicle loans account for 35.9 percent of the portfolio by dollar amount. Other real estate loans/lines of credit account for the second largest portion of the loan portfolio at 33.5 percent of the portfolio by dollar amount.

<b>Table 1</b>		
<b>Loan Portfolio Distribution as of June 30, 2013</b>		
<b>Loan Type</b>	<b>Dollar Amount \$ ('000s)</b>	<b>Percent of Total Loans (%)</b>
Used Vehicle Loans	2,288	35.9
Total Other Real Estate Loans/Lines of Credit	2,134	33.5
New Vehicle Loans	749	11.8
All Other Unsecured Loans/Lines of Credit	597	9.4
Total All Other Loans/Lines of Credit	359	5.6
Total First Mortgage Real Estate	242	3.8
<b>Total</b>	<b>6,369</b>	<b>100.00</b>

Source: June 30, 2013 Call Report

The Credit Union was last examined for compliance with the CRA by the Division on May 19, 2008. The examination resulted in a CRA rating of Satisfactory.

Except for its relative small asset size and limited product offering, there are no apparent financial or legal impediments that would limit the Credit Union's ability to help meet the credit needs of its assessment area.

### Description of Assessment Area

CRA requires financial institutions to define an assessment area within which its CRA performance will be evaluated. The Credit Union's assessment area, as currently defined, meets the technical requirements of the CRA regulation since it: (1) consists of one or more political subdivisions, (2) includes the geographies where the Credit Union has its main office, branches, and deposit-taking ATMs, as well as the surrounding geographies in which the institution originated a substantial portion of its loans, (3) consists of whole census tracts, (4) does not extend substantially beyond state boundaries, (5) does not reflect illegal discrimination, and (6) does not arbitrarily exclude low- and moderate-income areas.

The Credit Union's assessment area is comprised of all cities and towns located in Berkshire County. Refer to the table below for pertinent demographic information.

<b>Table 2</b>					
<b>Assessment Area Demographic Information</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)	39	2.6	10.3	66.6	20.5
Population by Geography	131,219	2.6	10.6	66.8	20.0
Owner-Occupied Housing by Geography	38,332	0.6	6.9	69.5	23.0
Family Households by Income Level	33,202	21.8	17.0	22.6	38.6
Distribution of Low and Moderate Income Families throughout AA Geographies	12,882	3.7	16.8	67.5	12.0
Median Family Income		\$56,400	Median Housing Value		\$232,658
Families Below Poverty Level		7.9%	Unemployment Rate		7.5%
Households Below Poverty Level		12.2%	Unemployment Rate (2012)		6.7%

Sources: 2010 U.S. Census data & 2012 Bureau of Labor Statistics

The Credit Union's assessment area is comprised of 39 census tracts, of which 2.6 percent are low-income, 10.3 percent are moderate-income, 66.6 percent are middle-income, and 20.5 percent are upper income. The low-income census tract is located in the City of Pittsfield. Of the four moderate-income census tracts, there are 2 in Pittsfield and one each in Adams, and North Adams.

The assessment area has a total population of 131,219, of which 2.6 percent live in low-income tracts, 10.6 percent live in moderate-income tracts, 66.8 percent live in middle-income tracts, and 20.0 percent live in upper-income tracts. The assessment area contains 33,202 family households, of which 21.8 percent are low-income, 17.0 percent are moderate-income, 22.6 percent are middle-income, and 38.6 percent are upper-income. Of all families, 7.9 percent are below the poverty level.

Of the 68,364 housing units in the assessment area, 56.1 percent are owner-occupied, 25.3 percent are rental-occupied units, and 18.6 percent are vacant. Of the owner-occupied housing units, 0.6 percent are in low-income tracts, 6.9 percent are in moderate-income tracts, 69.5 percent are in middle-income tracts, and 23.0 percent are in upper-income tracts. According to the 2010 U.S. Census, the median housing value in the assessment area is \$232,658. More recent data indicates that as of September 2013, the median housing values for Berkshire County are \$167,000.

According to the 2010 U.S. Census, the unemployment rate of the assessment area is 7.5 percent. More recent data indicates that as of September 2013, the unemployment rate for Berkshire County counties is 6.8 percent.

### **Community Contact**

While a community contact was not performed in conjunction with the CRA review, examiners had previously met with an individual from a local organization that specializes in family programs, substance abuse programs, and neighborhood programs for a previous CRA examination.

The organization stated that the primary credit need of the area was providing opportunities for first-time homebuyers through programs such as down payment assistance and financial literacy seminars. The contact also cited the need for career training opportunities, support and technical assistance to neighborhoods and services promoting positive youth development.

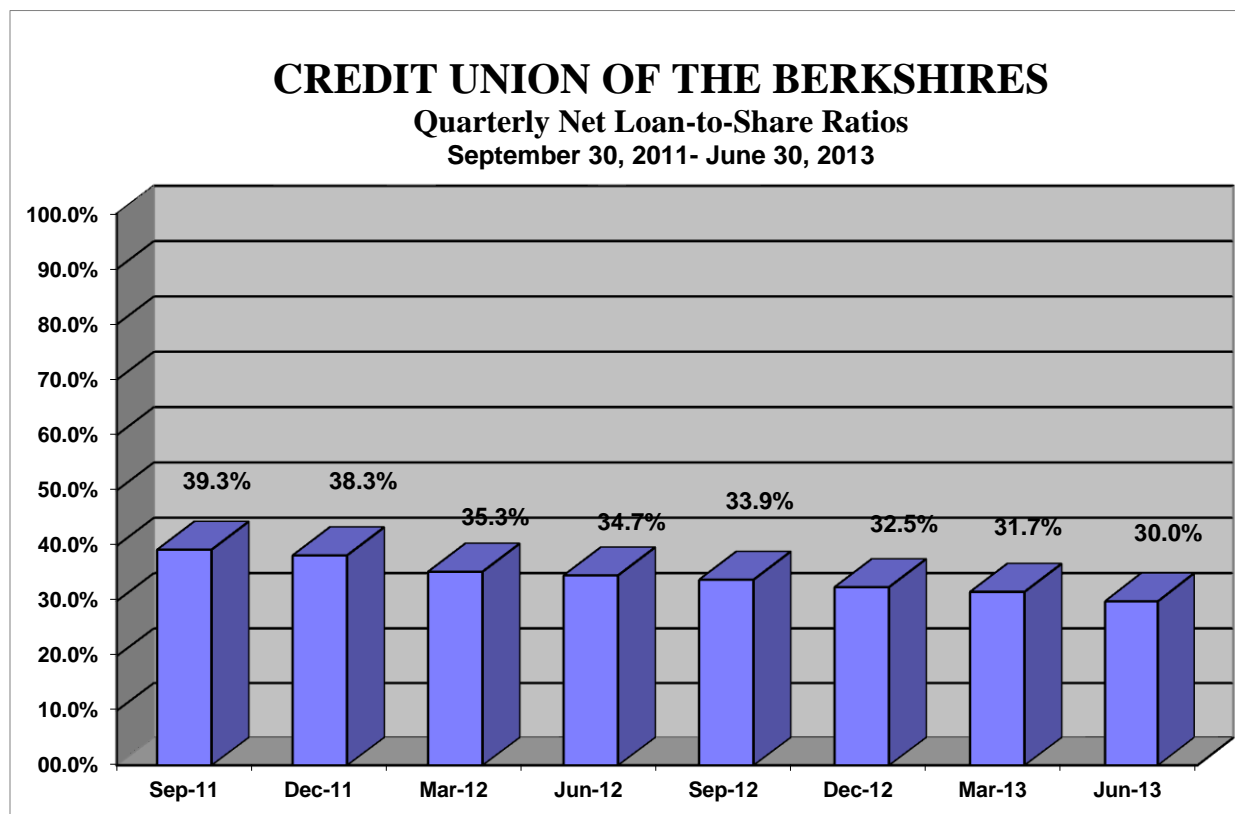
## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

Small Institution CRA evaluation procedures were utilized to assess the CRA performance. These procedures consider the institution's performance pursuant to the following criteria: net loan-to-share (LTS) ratio, assessment area concentration, lending to borrowers of different incomes, geographic distribution of loans, the institution's action in response to CRA complaints, and a fair lending review.

### **1. LOAN TO SHARE (LTS) ANALYSIS**

This performance criterion determines what percentage of the Credit Union's share base is reinvested in the form of loans and evaluates its appropriateness.

The Credit Union's net LTS ratio as of June 30, 2013 was 30.0 percent. The Credit Union's average quarterly net LTS ratio was 34.5 percent and was calculated by averaging the previous 8 quarterly net LTS ratios between September 30, 2011 and June 30, 2013. As shown in the graph below, the net LTS ratio reached 39.3 percent in September 2011 to its current low of 30.0 percent. .



*Source: Call Reports from September 30, 2011 through June 30, 2013*

Changes in loan and share amounts were analyzed to assess fluctuations in the net Loan-to-Share ratios. Since the previous examination, the Credit Union's net LTS ratio has decreased significantly. Management attributed the decrease of the LTS ratio to the fact the institution has seen an increase in shares and a decrease in its loan portfolio. Management attributes the increase in shares to members moving their funds from the stock market to local institutions like Credit Union of the Berkshires. The drop off in lending is more complex. Members continue to be unemployed for prolonged periods of time or underemployed which has softened the demand

for loans. Competition in the area has also been strong, with larger institutions attracting more business. Finally, the Credit Union has been unable to compete with the low financing offered by auto dealerships and other financial institutions that may have indirect lending programs.

Comparison of the LTS ratio was made to other credit unions of similar asset size:

Loan to Share Ratio Comparison*			
	Asset Size	LTS %	Borrowers/Members
Landmark Credit Union	\$28,876,569	46.8	21.0
Credit Union of the Berkshires	\$23,383,046	31.2	29.4
Alpha Credit Union	\$28,117,328	23.2	17.9

\*Source NCUA Financial Performance Report – Ratio Analysis at June 30, 2013

As shown in this data, the LTS is not out of the range of comparison of credit unions of similar size. Also, the ratio remains low due to the relative absence of mortgage loans and their high balances when compared to share account balances. According to this data, approximately 30 percent of the Credit Union’s members are borrowers, which compares favorably to the other credit unions and reflects a willingness to offer loan products to its membership.

Although there are mitigating factors, based on the preceding information and general decline in lending over the previous eight quarters, the Credit Union’s average LTS ratio does not meet the standards of satisfactory performance.

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

This performance criterion evaluates whether the Credit Union is meeting the credit needs within its assessment area. As shown in the table below, the Credit Union originated a substantial majority of consumer loans inside the assessment area and exceeds the standards for satisfactory performance.

Table 3 Distribution of Consumer Loans Inside and Outside of Assessment Area										
Loan Category or Type	Number of Loans					Dollar Volume ('000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
2012 Consumer Loans	252	97.3	7	2.7	259	2,296	96.4	86	3.6	2,382
2013 Consumer Loans	141	97.9	3	2.1	144	1,499	97.7	36	2.3	1,535
<b>Grand Total</b>	<b>393</b>	<b>97.5</b>	<b>10</b>	<b>2.5</b>	<b>403</b>	<b>3,795</b>	<b>96.9</b>	<b>122</b>	<b>3.1</b>	<b>3,917</b>

Sources: Credit Union generated consumer loan reports

In 2012, the Credit Union originated 97.3 percent of consumer loans in the assessment area by number and 96.4 percent by dollar volume. In 2013, the Credit Union originated 97.9 percent of consumer loans inside the assessment area by number and 97.7 percent by dollar volume.

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

The distribution of loans by borrower income was reviewed to determine the extent to which the Credit Union is addressing the credit needs of the area’s residents, particularly those of low- or moderate-income. The consumer loan conclusions are based primarily on the Credit Union’s lending activity to low- and moderate-income borrowers as compared to demographics of the assessment area.

Borrower income for consumer loans was compared to the median family income (MFI) for the Pittsfield, MA Metropolitan Statistical Area (MSA) for 2012 and 2013. The median family income for the Pittsfield MSA was \$69,800 in 2012 and \$56,400 in 2013.

Because the Credit Union is predominately a consumer loan originator, the Credit Union typically relied upon the income of only one borrower to make the credit decision. Comparing one borrower’s income with the median family income of the Pittsfield, MA MSA potentially inflates the levels of lending to low- and moderate-income borrowers because the median family income typically includes the income of two individuals.

<b>Table 5 Distribution of Consumer Loans by Borrower Income</b>					
<b>Borrower Income Level</b>	<b>% of Families by Income Level</b>	<b>2012</b>		<b>2013</b>	
		<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	21.8	64	25.4	24	17.0
<b>Moderate</b>	17.0	76	30.2	29	20.6
<b>Middle</b>	22.6	54	21.4	32	22.7
<b>Upper</b>	38.6	58	23.0	56	39.7
<b>Total</b>	<b>100.0</b>	<b>252</b>	<b>100.0</b>	<b>141</b>	<b>100.0</b>

*Source: Credit Union generated consumer loan report, MFI for Pittsfield, MA MSA, 2010 U.S. Census*

In 2012, the Credit Union originated 25.4 percent of consumer loans to low-income borrowers and 30.2 percent to moderate-income borrowers. The percentage of lending to low-income borrowers is 3.6 percent higher than the percentage of low-income families and the lending percentage to moderate-income borrowers is 13.2 percent higher than the percentage of moderate-income families.

In 2013, the Credit Union originated 17.0 percent of consumer loans to low-income borrowers and 20.6 percent to moderate-income borrowers. The Credit Union’s consumer lending to low-income borrowers was slightly lower than the percentage of low-income families, while lending to moderate-income borrowers was again higher than the percentage of families. Overall, the Credit Union originated 22.4 percent of consumer loans to low-income borrowers and 26.7 percent to moderate-income borrowers.

Although it is noted that consumer loans are generally originated utilizing the income of one borrower while the MFI is the income of a family, the distribution of borrowers reflects, given the demographics of the assessment area, a good penetration of consumer loans among individuals of different incomes levels, including low- and moderate-income, and thus meets the standards for satisfactory performance.



#### 4. GEOGRAPHIC DISTRIBUTION

The geographic distribution of loans was reviewed to determine how well the Credit Union is addressing the credit needs throughout the assessment area, particularly in low- and moderate-income tracts. The consumer loan conclusions are based primarily on the Credit Union's lending activity in low- and moderate-income tracts as compared to demographics of the assessment area.

<b>Table 6</b>					
<b>Distribution of Consumer Loans by Tract</b>					
<b>Tract Income Level</b>	<b>% of Households</b>	<b>2012</b>		<b>2013</b>	
		<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	3.8	2	0.8	0	0.0
<b>Moderate</b>	10.8	38	15.7	28	20.8
<b>Middle</b>	66.5	167	68.7	87	64.4
<b>Upper</b>	18.9	36	14.8	20	14.8
<b>Total</b>	<b>100.0</b>	<b>243</b>	<b>100.0</b>	<b>135</b>	<b>100.0</b>

*Source: Credit Union generated consumer loan reports & 2010 U.S. Census. Percentage of households does not include NA tracts.*

In 2012, the Credit Union originated 0.8 percent of consumer loans in the low-income census tract, which was below the 3.8 percent of households. Consumer lending in moderate tracts was better as the Credit Union originated 15.7 percent in moderate-income tracts- nearly 5 percent higher than the percentage of households.

In 2013, the Credit Union did not originate any loans in the low-income census tract- a decrease from the previous year. Consumer lending in moderate-income census tracts, like the previous year, exceeded the percentage of households. The Credit Union originated 20.8 percent of its consumer loans in moderate-income census tracts, an increase of 5.1 percent from the previous year.

It should be noted that 9 loans from 2012 and 6 loans from 2013 were not included in the analysis as they could not be coded by geography.

The distribution of consumer loans reflects an adequate penetration in the low- and moderate-income geographies and meets the standards for satisfactory performance.

#### 5. RESPONSE TO CRA COMPLAINTS/FAIR LENDING POLICIES AND PRACTICES

The Division provides comments regarding the institution's fair lending policies and procedures pursuant to the Regulatory Bulletin 1.3-106.

A review of the public file indicated that the Credit Union received no complaints pertaining to the institution's CRA performance since the previous examination.

The Credit Union has a written residential loan policy which incorporates elements of fair lending. The Credit Union has a written consumer loan policy which also incorporates fair lending.

All loan denials are reviewed by the institution's Credit Committee and then presented to the Board of Directors.

Based upon the review of the Credit Union's public comment file and its performance relative to fair lending policies and practices, no violations of anti-discrimination laws and regulations were identified.

## **PERFORMANCE EVALUATION DISCLOSURE GUIDE**

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

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

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks at 744 Williams Street, Pittsfield, Massachusetts 01201."

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

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