

PUBLIC DISCLOSURE

March 13, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Lee Bank
Certificate Number: 33645

75 Park Street
Lee, Massachusetts 01238

Division of Banks
1000 Washington Street, 10th Floor
Boston, Massachusetts 02118

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 Division of Banks or the Federal Deposit Insurance Corporation concerning the safety and soundness of this financial institution.

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INSTITUTION RATING

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

The following performance factors support Lee Bank's satisfactory Community Reinvestment Act (CRA) performance.

The Lending Test is rated Satisfactory.

- The loan-to-deposit (LTD) ratio is more than reasonable given the institution's size, financial condition, and assessment area credit needs.
- The bank made a majority of its home mortgage and small business loans in the assessment area.
- The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area.
- The distribution of borrowers reflects, given the demographics of the assessment area, a reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the rating.

The Community Development Test is rated Satisfactory.

- The institution demonstrated adequate responsiveness to the community development needs of its assessment area through community development loans, qualified investments, and community development services. Examiners considered the institution's capacity and the need and availability of such opportunities for community development in the assessment area.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated April 7, 2014, to the current evaluation dated March 13, 2017. The Commonwealth of Massachusetts Division of Banks (Division) and the Federal Deposit Insurance Corporation (FDIC) conducted this evaluation jointly using the Interagency Intermediate Small Institution Examination Procedures to evaluate Lee Bank's CRA performance. These procedures include two tests: Lending Test and the Community Development Test.

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

- Loan-to-deposit ratio
- Assessment area concentration
- Borrower profile
- Geographic distribution
- Response to CRA-related complaints

The Community Development Test considered the following factors.

- Number and dollar amount of community development loans, qualified investments and community development services
- The responsiveness of such activities to the community development needs of the assessment area

Banks must achieve at least a Satisfactory rating under each test to obtain an overall Satisfactory rating. This evaluation does not include any lending activity performed by affiliates.

Loan Products Reviewed

The Lending Test considered the bank's home mortgage and small business lending. The bank's most recent Report of Condition and Income (Call Report), dated December 31, 2016, indicated that residential lending, including all loans secured by one-to-four family and multi-family (five or more unit) residential properties, represented 63.5 percent of the loan portfolio. Commercial lending, consisting of commercial real estate and commercial and industrial loans, represented 34.9 percent of the loan portfolio. Residential lending also represented a significant majority of loan volume during the current review period. Consequently, examiners placed more weight on the bank's home mortgage lending performance. In addition, consumer loans do not represent a major product line and no small farm loans were originated; therefore, examiners did not perform any further analysis on these products.

Data reviewed includes all originated home mortgage loans reported on the bank's Home Mortgage Disclosure Act (HMDA) loan application registers (LARs) for full years 2015 and 2016. The LARs contain data about home purchase and home improvement loans, including refinances, of one-to-four family and multi-family properties. The institution reported 250 loans totaling \$51.7 million in 2015 and 365 loans totaling \$80.2 million in 2016; The bank's 2015 home mortgage lending performance was compared against 2015 aggregate lending data. Aggregate data includes the lending activity in the assessment area of all institutions subject to HMDA reporting requirements.

The evaluation focused on the bank's lending performance in 2015, as aggregate data for 2016 was not yet available.

As an intermediate small bank, Lee Bank is not required to collect or report small business data; however, the bank provided a list of all small business loans originated in 2015 and 2016. Therefore, the information was validated and both years were included in the analysis. The bank originated 104 small business loans totaling \$12.0 million in 2015 and 136 small business loans totaling \$12.7 million in 2016. D&B business demographic data for 2016 provided a standard of comparison for the sampled small business loans.

While dollar amounts are presented under the Lending Test, the evaluation is primarily based on the bank's lending performance by number of loans. The number of loans is a better indicator of the number of businesses and individuals served. Demographic information referenced in this evaluation was obtained from the 2010 United States (U.S.) Census, unless otherwise noted. Financial data about the bank was obtained from the December 31, 2016 Call Report.

The Community Development Test considered the number and dollar amount of community development loans, qualified investments, and community development services between April 7, 2014 and March 13, 2017.

DESCRIPTION OF INSTITUTION

Background

Lee Bank, established in 1852, is a state-chartered, stock-owned bank headquartered in Lee, Massachusetts. The Bank is a subsidiary of Berkshire Financial Services, Inc., which owns another financial institution, Freedom National Bank. The Division and FDIC conducted the prior CRA Evaluation using FFIEC Small Bank Examination Procedures as of April 7, 2014. The evaluation resulted in an overall Satisfactory rating

Operations

Lee Bank operates five full-service branches in Berkshire County, which comprises the Pittsfield, Massachusetts Metropolitan Statistical Area (MSA). The main office is located at 75 Park Street in Lee, with additional branch offices in Great Barrington, Lenox, Pittsfield, and Stockbridge. The office in Pittsfield is in a low-income tract, with the remainder of branches in middle- or upper-income tracts.

The bank offers home mortgage, commercial, and consumer loans, primarily focusing on residential and commercial lending. The bank provides a variety of deposit services including safe-deposit boxes; night depository; online banking; mobile banking; checking, savings, and money-market accounts; and consumer certificates of deposit. The bank did not open or close any branches, and no merger or acquisition activities occurred since the previous evaluation.

Ability and Capacity

As of December 31, 2016, total assets were \$335.5 million, total deposits were \$236.0 million, and total loans were \$281.0 million. Total assets increased 19.6 percent since the prior CRA evaluation, total loans increased 21.1 percent, and deposits increased 16.7 percent. The table below details the composition of the loan portfolio.

Loan Portfolio Distribution as of 12/31/2016		
Loan Category	\$(000s)	%
Construction and Land Development	4,103	1.5
Secured by Farmland	0	0.0
1-4 Family Residential	172,406	61.3
Multi-family (5 or more) Residential	6,062	2.2
Commercial Real Estate	78,088	27.8
Total Real Estate Loans	260,659	92.8
Commercial and Industrial	19,859	7.1
Agricultural	0	0.0
Consumer	510	0.1
Other	0	0.0
Less: Unearned Income	0	0.0
Total Loans	281,028	100.0
<i>Source: 12/31/2016 Call Report</i>		

Examiners did not identify any financial, legal, or other impediments that affect the bank's ability to meet assessment area credit needs.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. Lee Bank designated a single assessment area in the Pittsfield, Massachusetts MSA. The following sections discuss demographic and economic information for the assessment area.

Economic and Demographic Data

The AA includes 24 contiguous census tracts within the Pittsfield, Massachusetts MSA. These tracts reflect the following income designations according to the 2010 U.S. Census: 1 low-income, 2 moderate-income, 17 middle-income, and 4 upper-income census tracts. The City of Pittsfield contains the low- and moderate-income census tracts.

Demographic Information of the Assessment Area						
Assessment Area: Lee Bank AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	24	4.2	8.3	70.8	16.7	0.0
Population by Geography	83,298	4.1	10.3	69.3	16.3	0.0
Housing Units by Geography	46,516	5.3	9.0	69.7	16.0	0.0
Owner-Occupied Units by Geography	24,664	1.0	4.8	74.5	19.7	0.0
Occupied Rental Units by Geography	11,589	16.0	21.5	53.7	8.8	0.0
Vacant Units by Geography	10,263	3.8	5.0	76.1	15.2	0.0
Businesses by Geography	6,677	11.5	6.4	65.3	16.9	0.0
Farms by Geography	248	1.6	2.0	78.6	17.7	0.0
Family Distribution by Income Level	21,221	22.0	16.8	21.9	39.2	0.0
Household Distribution by Income Level	36,253	25.4	14.9	17.7	42.0	0.0
Median Family Income MSA - 38340 Pittsfield, MA MSA	64,783	Median Housing Value				245,037
		Median Gross Rent				745
		Families Below Poverty Level				8.6%
<small>Source: 2010 U.S. Census and 2016 D&B Data (*) The NA category consists of geographies that have not been assigned an income classification.</small>						

According to 2016 D&B data, there were over 6,677 non-farm businesses within the bank’s assessment area. Gross annual revenues (GARs) for these businesses are below:

- 81.6 percent have \$1 million or less.
- 6.5 percent have more than \$1 million.
- 11.9 percent have unknown revenues.

The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by GAR level. Service industries represent the largest portion of businesses at 46.4 percent. This is followed by: retail trade (15.9 percent); construction (8.8 percent); and finance, insurance, and real estate (7.4 percent). In addition, 69.8 percent of area businesses have four or fewer employees and 86.8 percent operate from a single location.

The FFIEC Median Family Income (MFI) level is used to analyze home mortgage loans under the Borrower Profile criterion. The following table indicates low-, moderate-, middle-, and upper-income categories for each year during the review period.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Pittsfield, MA MSA Median Family Income (38340)				
2015 (\$67,700)	<\$33,850	\$33,850 to <\$54,160	\$54,160 to <\$81,240	≥\$81,240
2016 (\$68,400)	<\$34,200	\$34,200 to <\$54,720	\$54,720 to <\$82,080	≥\$82,080
<i>Source: FFIEC</i>				

Competition

The bank’s AA is highly competitive for financial services. Sixteen financial institutions operate 48 retail bank offices. As of December 2016, Lee Bank’s five retail bank branches held \$212.4 million in deposits among the \$3.7 billion within the AA. Lee Bank’s deposit market share ranks second behind Berkshire Bank and represents 5.8 percent of all deposits within the AA.

In 2015, aggregate HMDA data indicated that 145 financial institutions originated 2,024 reportable loans. Lee Bank ranked second with 198 loans, representing a 9.8 percent market share. The three most prominent home mortgage lenders included Greylock Federal Credit Union, Lee Bank, and Academy Mortgage Corporation, which accounted for 42.6 percent of total market share.

The bank is not required to collect or report its small business loan data, however, it did provide the information for 2015 and 2016. The analysis of small business loans under the Lending Test within this report does not include comparisons against aggregate data. The aggregate data, however, reflects the level of demand for small business loans. Aggregate data for 2015 shows that 47 institutions reported 2,314 small business loans in the assessment area.

Community Contact

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying the credit and community development needs. This information helps determine whether local financial institutions are responsive to these needs. It also shows what credit and community development opportunities are available. Examiners reviewed an existing community contact, conducted within the current month, in conjunction with this evaluation. The contact works to improve the quality of life for residents of Berkshire County by increasing affordable housing opportunities; delivering community development programs and projects; and providing new and rehabilitated housing units. They also work to facilitate a variety of community development projects such as sewer and water systems, street and sidewalk renovations, construction of four senior centers, and the reuse of vacant buildings within the City of Pittsfield. The organization also manages and administers numerous affordable housing and Section 8 rental vouchers.

The contact indicated there is a need for affordable housing throughout the area. He stated that Berkshire County is divided into three areas: South County, a more affluent area where rents are higher; Pittsfield, which has a mixture; and North Adams where rents and income are low. The contact also stated that there is a huge second home market in the Berkshires, which decreases the availability of housing for locals. Also, the contact stated that immigrants own a large majority of small businesses in the area. Their lack of a credit rating makes obtaining credit difficult, but they require small dollar loans to finance day-to-day operations.

The contact stated that local financial institutions are very involved in their organization and are active in the community. The contact also indicated area banks are providing funding for affordable housing projects and services. They are also providing money for financial literacy programs.

Credit and Community Development Needs and Opportunities

Based upon the information from the community contact and management, as well as demographics and economic data, examiners concluded that affordable housing and loans for small businesses are the assessment area's primary need.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Lee Bank demonstrated a reasonable performance under the Lending Test. Borrower Profile and Geographic Distribution performance primarily support this conclusion.

Loan-to-Deposit Ratio

The LTD ratio is more than reasonable given the institution's size, financial condition, and assessment area credit needs. The bank's LTD ratio, calculated from Call Report data, averaged 116.8 percent over the past 11 quarters from June 30, 2014, through December 31, 2016. The bank's LTD ratio during this period fluctuated from a low of 113.1 percent as of September 30, 2016, to a high of 120.9 percent as of June 30, 2014. Examiners selected comparable institutions based on their asset size, geographic location, and lending focus. Two identified similarly situated institutions' average LTD ratios range between 99.1 to 100.1 percent.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 12/31/16 \$(000s)	Average Net LTD Ratio (%)
The Pittsfield Cooperative Bank	304,510	99.1
Adams Community Bank	487,536	100.1
Lee Bank	335,525	116.8
<i>Source: Reports of Income and Condition 06/30/2014 through 12/31/2016</i>		

The bank also sells loans to the secondary market, and those loans are not reflected in the bank's average LTD ratio. The bank sold 108 loans totaling approximately \$19.3 million in 2014, 126 loans for \$27.0 million in 2015, and 250 loans for \$48.1 million in 2016. This also demonstrates the bank's willingness to reinvest in the community through its lending services.

Assessment Area Concentration

The bank made a majority of home mortgage and small business loans, by number and dollar volume, within its assessment area. The bank's performance of home mortgage and small business lending in the assessment area was consistent throughout the evaluation period. Refer to the following table for details.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2015	198	79.2	52	20.8	250	42,282	81.8	9,404	18.2	51,686
2016	275	75.3	90	24.7	365	63,698	79.5	16,462	20.5	80,160
Subtotal	473	76.9	142	23.1	615	105,980	80.4	25,866	19.6	131,846
Small Business*										
2015	97	93.3	7	6.7	104	10,115	84.1	1,910	15.9	12,025
2016	126	92.7	10	7.3	136	10,759	84.7	1,945	15.3	12,704
Subtotal	223	92.9	17	7.1	240	20,874	84.4	3,855	15.6	24,729
Total	696	81.4	159	18.6	855	126,854	81.0	29,721	19.0	156,575

Source: 2015 and 2016 HMDA Reported Data, * 2015 and 2016 Bank Data

Borrower Profile

The distribution of borrowers reflects a reasonable penetration of loans to borrowers of different income levels and businesses of different sizes. Examiners emphasized the bank's record of home mortgage lending to low- and moderate-income borrowers and small business lending to businesses with GARs of \$1 million or less.

Home Mortgage Loans

The distribution of home mortgage loans to borrowers of different income levels is reasonable. In 2015, the bank's lending to low-income borrowers was below the aggregate performance and demographic percentages. Lagging demographics in lending to low-income borrowers is not unreasonable given the high cost of housing in the bank's assessment area families with low incomes. Despite being lower than the aggregate, Lee Bank ranked sixth out of 27 institutions that made loans to low-income borrowers within the AA. This ranking exceeded Berkshire Bank, a much larger institution also headquartered in the bank's assessment area.

In addition, the AA's top-ranked lender dominated the market for loans to both low- and moderate-income borrowers in 2015. Greylock Federal Credit Union (Greylock) originated 49 loans to low-income borrowers, while the next highest ranked lender, Academy Mortgage Corporation, originated only 14. Greylock's low-income designation by the National Credit Union Administration and the nature of its membership reduces the opportunities for other lenders in the area to make home mortgage loans to low- and moderate-income borrowers.

For moderate-income borrowers, the bank's 2015 lending lagged the aggregate performance, but was slightly higher than the demographic percentage. Lee Bank ranked third in lending to moderate-income borrowers in 2015. As previously discussed, Greylock was the number one lender to moderate-income borrowers. In 2015, the credit union originated 144 residential loans

to moderate-income borrowers. The next highest lender was Academy Mortgage Corporation with 45 loans, and Lee Bank was third with 34 loans. In 2016, Lee Bank's percentage of loans to moderate-income borrowers decreased even though there was an increase in the number of loans.

Distribution of Home Mortgage Loans by Borrower Income Level						
Assessment Area: Lee Bank AA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2015	22.0	6.8	8	4.0	659	1.6
2016	22.0	--	16	5.8	1,994	3.1
Moderate						
2015	16.8	18.2	34	17.2	4,409	10.4
2016	16.8	--	39	14.2	5,266	8.3
Middle						
2015	21.9	19.8	44	22.2	7,746	18.3
2016	21.9	--	49	17.8	8,320	13.1
Upper						
2015	39.2	43.2	108	54.5	28,378	67.1
2016	39.2	--	154	56.0	43,478	68.3
Not Available						
2015	0.0	12.0	4	2.0	1,090	2.6
2016	0.0	--	17	6.2	4,640	7.3
Totals						
2015	100.0	100.0	198	100.0	42,282	100.0
2016	100.0	--	275	100.0	63,698	100.0

Source: 2010 U.S. Census; 1/1/2015 - 12/31/2016 Bank Data, 2015 HMDA Aggregate Data, "--" data not available.

Small Business Loans

The distribution of small business loans reflects, given the demographics of the AA, reasonable penetration among businesses of different sizes. The following table illustrates the bank's 2016 small business lending performance and the distribution of businesses within the AA by GAR category. In 2016, the bank made a reasonable percentage of loans to businesses with GARs of \$1 million or less. Although less than the percentage of businesses in this revenue category, the bank's performance is adequate.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Assessment Area: Lee Bank AA					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	81.6	69	54.8	5,826	54.2
>1,000,000	6.5	47	37.3	3,934	36.5
Revenue Not Available	11.9	10	7.9	999	9.3
Total	100.0	128	100.0	12,057	100.0
<i>Source: 2016 D&B Data, 1/1/2016 - 12/31/2016 Bank Data.</i>					

Geographic Distribution

The geographic distribution of home mortgage and small business loans reflects reasonable dispersion throughout the assessment area. Examiners focused on the percentage by number of loans in low- and moderate-income census tract; however, the limited portion of owner-occupied housing units and businesses in these tracts limited the effect of this performance factor on the Lending Test rating.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the assessment area. As detailed in the following table, the bank's lending within the low-income census tract is in line with the demographics and aggregate market performance in 2015, but declined in 2016. The bank's performance in moderate-income census tracts is slightly lower than the demographics and the aggregate market performance in 2015, and it remained fairly consistent in 2016.

In 2015, Greylock, Berkshire Bank, and Lee Bank were the top three lenders in the low-income census tract, but each made only two loans. Twelve lenders competed for just 15 total loans in the low-income tract. In the two moderate-income tracts, Greylock made nearly four times the number of loans of any other lender and had a 32 percent market share. Lee Bank ranked fourth with seven loans in moderate-income tracts. Academy Mortgage Corporation and Adams Community Bank each originated eight loans, tying for second. Lee Bank's ranking exceeded that of Berkshire Bank and The Pittsfield Co-operative Bank, both of which are headquartered in Pittsfield.

Geographic Distribution of Home Mortgage Loans						
Assessment Area: Lee Bank AA						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2015	1.0	0.7	2	1.0	779	1.8
2016	1.0	--	1	0.4	89	0.1
Moderate						
2015	4.8	4.8	7	3.5	646	1.5
2016	4.8	--	9	3.3	717	1.1
Middle						
2015	74.5	75.0	144	72.7	30,461	72.0
2016	74.5	--	199	72.4	46,348	72.8
Upper						
2015	19.7	19.5	45	22.7	10,396	24.6
2016	19.7	--	66	24.0	16,544	26.0
Not Available						
2015	0.0	0.0	0	0.0	0	0.0
2016	0.0	--	0	0.0	0	0.0
Totals						
2015	100.0	100.0	198	100.0	42,282	100.0
2016	100.0	--	275	100.0	63,698	100.0
<i>Source: 2010 U.S. Census; 1/1/2015 - 12/31/2016 Bank Data, 2015 HMDA Aggregate Data, "--" data not available.</i>						

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion. The following table shows that the bank's performance in the low-income census tract is below the percentage of businesses operating in that tract. The large drop in dollar volume from 2015 to 2016 was due to a large project loan the bank originated in 2015. Additionally, the bank's lending in the moderate-income census tracts also lagged the percentage of businesses operating in those tracts. However, the bank increased the number of loans in both low- and moderate-income census tracts in 2016.

Geographic Distribution of Small Business Loans					
Assessment Area: Lee Bank AA					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low					
2015	11.2	2	2.1	1,351	13.4
2016	11.5	3	2.4	122	1.1
Moderate					
2015	6.6	1	1.0	210	2.1
2016	6.4	3	2.4	296	2.8
Middle					
2015	65.1	83	85.6	7,704	76.2
2016	65.3	111	88.1	8,617	80.1
Upper					
2015	17.2	11	11.3	850	8.4
2016	16.9	9	7.1	1,724	16.0
Totals					
2015	100.0	97	100.0	10,115	100.0
2016	100.0	126	100.0	10,759	100.0

Source: 2015 & 2016 D&B Data; 1/1/2015 - 12/31/2016 Bank Data

Response to Complaints

The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

COMMUNITY DEVELOPMENT TEST

Lee Bank demonstrated reasonable responsiveness to the community development needs of its assessment area through community development loans, qualified investments, and community development services. Examiners considered the institution’s capacity and the need and availability of such opportunities.

Community Development Loans

The bank originated five community development loans totaling approximately \$2.1 million during the evaluation period. This level of activity represents 0.6 percent of total assets and 0.7 percent of total loans as of the December 31, 2016, Call Report.

The following table illustrates the bank’s community development lending activity by year and purpose.

Community Development Loans												
Activity Year	Qualifying Category										Totals	
	Affordable Housing		Community Service		Economic Development		Revitalize or Stabilize		Neighborhood Stabilization			
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
4/7/14-12/31/14	0	0	0	0	1	510	0	0	0	0	1	510
2015	0	0	0	0	0	0	1	210	0	0	1	210
2016	1	50	0	0	2	1,298	0	0	0	0	3	1,348
1/1/17-3/13/17	0	0	0	0	0	0	0	0	0	0	0	0
Total	1	50	0	0	3	1,808	1	210	0	0	5	2,068

Source: Bank Records.

Below is a summary of the bank’s community development loans:

- The bank originated a \$50,000 line of credit to an affordable housing organization to fund improvements to real estate.
- The bank originated a \$210,000 loan for the acquisition of a commercial property located in a moderate-income tract in Pittsfield. The building was in the process of being foreclosed and was vacant at the time of sale. The loan will help revitalize and stabilize a moderate-income geography as the new business, which relocated from Great Barrington, will serve individuals and businesses in the immediate area and will provide new employment opportunities for residents.

- Over the evaluation period, the bank originated three SBA 504 community development loans for a total of \$1.8 million inside the AA. The SBA 504 program helps small businesses and promotes job creation and economic development.

Qualified Investments

During the evaluation period, the bank made 32 qualified grants and donations totaling \$75,815. The bank did not make any qualified equity investments during the evaluation period. The majority of the bank’s donations and grants went to organizations that provide community services to low- and moderate-income individuals.

The following table illustrates the bank’s community development investments by year and purpose. It should be noted that the following table includes investments that benefitted the regional or statewide area that includes the bank’s AA.

Qualified Investments												
Activity Year	Qualifying Category										Totals	
	Affordable Housing		Community Service		Economic Development		Revitalize or Stabilize*		Neighborhood Stabilization Projects			
	#	\$	#	\$	#	\$	#	\$	#	\$	#	\$
4/7/14-12/31/14	0	0	3	20,535	0	0	0	0	0	0	3	20,535
2015	2	1,000	13	26,060	0	0	1	100	0	0	16	27,160
2016	0	0	9	24,920	1	500	0	0	0	0	10	25,420
1/1/17-3/13/17	0	0	2	200	0	0	1	2,500	0	0	3	2,700
Total	2	1,000	27	71,715	1	500	2	2,600	0	0	32	75,815

Source: Bank Records.

Below are examples of organizations that received qualified charitable contributions and grants from the bank.

CONSTRUCT Inc. – This organization’s mission is to increase the stock of affordable housing, provide emergency assistance to prevent loss of housing, provide workforce development services, and provide transitional housing to individuals in the South Berkshire region.

Elizabeth Freeman Center – Located in a moderate-income tract, this organization provides a 24/7 hotline, emergency shelter, counseling, court advocacy, and supervised visitation programs to victims of domestic or sexual violence.

Volunteers in Medicine Berkshire Clinic – This free clinic provides access to health care to income-qualified, uninsured and underinsured residents of the Berkshire region. The majority of clients served by the clinic are low- and moderate-income.

City of Pittsfield – During the evaluation period, the bank donated to the City of Pittsfield’s Shannon Grant and ShotSpotter program, which support the city’s efforts to reduce gun violence, youth violence, and gang activity in the downtown area.

Berkshire Center for Justice, Inc. – This organization’s mission is to provide legal representation to those who cannot afford it. Along with direct legal services, the organization’s programs include weekly free legal clinics and community education programs.

Community Development Services

During the evaluation period, bank employees provided 44 instances of financial expertise or technical assistance to community development-related organizations. The following table illustrates the bank’s community development services by year and purpose.

Community Development Services						
Activity Year	Qualifying Category					Totals
	Affordable Housing	Community Development Organizations	Economic Development	Revitalize or Stabilize	Neighborhood Stabilization Projects	
	#	#	#	#	#	
4/7/14-12/31/14	2	4	2	0	0	8
2015	2	4	2	0	0	8
2016	4	7	2	1	0	14
1/1/17-3/13/17	4	7	2	1	0	14
Total	12	22	8	2	0	44

Source: Bank Records.

Below are notable examples of the bank’s community development services.

Berkshire Housing Corporation – This organization creates affordable housing, provides housing services and programs, and helps communities access and administer community development projects. A vice president of the bank serves on the organization’s Board of Directors.

Community Health Programs – Serving all of Berkshire County, this organization provides medical and dental care to individuals who have limited access to healthcare. A majority of people served are low- or moderate-income. The president of the bank serves on the organization’s Board.

Downtown Pittsfield Inc. - The organization’s mission is to revitalize downtown Pittsfield through promoting business development, lobbying to secure state and federal grants, and advocating for downtown development projects. The organization also works in partnership with the city on streetscape projects, parking improvements, and marketing initiatives. The president of the bank serves on the organization’s Board.

Lee Community Development Corporation - This Community Development Corporation’s (CDC) mission is to promote economic growth through downtown revitalization, business development, and the reuse of dormant paper mills. The Chairman of the bank’s Board of Directors serves as Director and President of the CDC.

Lenox Affordable Housing Trust - this organization provides grants to low- and moderate-income homebuyers to purchase a home or condominium in the Town of Lenox. A vice president of the bank serves as on the organization’s Board.

Pittsfield Economic Revitalization Corporation - This organization’s mission is to further the economic development of the City of Pittsfield to increase employment opportunities and facilitate growth and development of small businesses. A vice president of the bank serves on the organization’s Board and Finance Committee.

Financial Education and Outreach

Homebuyer and Homeownership Classes - In March 2016, the bank held a two-day first time homebuyers course in partnership with the Berkshire Housing Authority at its main office. In September 2016, the bank participated in an information session in Springfield on using Section 8 vouchers to purchase a home.

Lenox Partners in Education - Bank employees taught students at Lenox High School about credit cards, credit scores, and budgeting.

Money Matters Workshop - Bank employees taught students at Miss Halls School in Pittsfield the importance of banking, budgeting, debt, and interest.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore, this consideration did not affect the institution's overall CRA rating.

APPENDIX Division of Banks

FAIR LENDING POLICIES AND PROCEDURES

Examiners reviewed the bank's fair lending performance to determine how it relates to the guidelines established by Regulatory Bulletin 1.3-106, the Division's Community Reinvestment and Fair Lending Policy. Based upon the review of the bank's public comment file and its performance relative to fair lending policies and practices, examiners did not identify any violations of anti-discrimination laws and regulations.

Minority Application Flow

The bank's HMDA LARs for 2015 and 2016 were reviewed to determine if the application flow from different minority groups was reflective of the assessment area demographics.

The bank's residential lending in 2015 was compared to the 2015 aggregate lending performance. The comparison of this data assists in deriving reasonable expectations for the rate of applications the institution received from minority residential loan applicants. Refer to the table below for information on the bank's minority application flow as well as a comparison to aggregate lending data within the assessment area.

Minority Application Flow					
RACE	Bank 2015		2015 Aggregate Data	Bank 2016	
	#	%	%	#	%
American Indian/ Alaska Native	1	0.3	0.3	2	0.5
Asian	3	1.0	0.9	1	0.3
Black/ African American	0	0.0	1.9	4	1.0
Hawaiian/Pacific Islander	2	0.7	0.1	0	0.0
2 or more Minority Races	0	0.0	0.0	0	0.0
Joint Race (White/Minority)	5	1.7	1.3	4	1.0
Total Minority	11	3.7	4.5	11	2.8
White	238	80.1	78.9	328	85.0
Race Not Available	48	16.2	16.6	47	12.2
Total	297	100.0	100.0	386	100.0
ETHNICITY					
Hispanic or Latino	8	2.7	2.1	12	3.1
Not Hispanic or Latino	235	79.1	79.6	318	82.4
Joint (Hisp/Lat /Not Hisp/Lat)	4	1.4	1.6	4	1.0
Ethnicity Not Available	50	16.8	16.7	52	13.5
Total	297	100.0	100.0	386	100.0

Source: 2010 U.S. Census; 2015 and 2016 HMDA Reported Data; 2015 HMDA Aggregate Data

According to the 2010 U.S. Census data, the bank's assessment area contained a total population of 83,298 individuals, of which 10.7 percent are minorities. The assessment area's minority and ethnic population consists of 3.2 percent Black/African American, 1.2 percent Asian/Pacific Islander, 0.1 percent American Indian, 4.1 percent Hispanic, and 2.1 percent Other Race.

In 2015, the bank received 297 HMDA reportable loan applications within its assessment area. Of these applications, 3.7 percent were received from minority applicants. This is below the aggregate's performance of 4.5 percent of applications received from minorities. For the same year, the bank received 4.1 percent applications from the Hispanic or Latino applicants which is slightly higher than the aggregate of 3.7 percent.

In 2016, the bank received 2.8 percent of applications from racial minorities and 4.1 percent of applications from Hispanic or Latino applicants.

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; or
- (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 Areas (CBSAs): 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 more than 120 percent of the area median income, or a median family income that is more than 120 percent 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.

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, and Part 345 of the Federal Deposit Insurance Corporation's Rules and Regulations, 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 (Address at main office)."

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Federal Deposit Insurance Corporation, at (Address at main office)."

[Please Note: If the institution has more than one assessment area, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that assessment area.]

- 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.