

# **PUBLIC DISCLOSURE**

January 5, 2017

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Middlesex Savings Bank  
Certificate Number: 90183

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Natick, Massachusetts 01760

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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 **Outstanding**.

PERFORMANCE LEVELS	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding		X	X
High Satisfactory	X		
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			
* The Lending Test is weighted more heavily than the Investment and Service Tests when arriving at an overall rating.			

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

- Lending levels reflect good responsiveness to assessment area credit needs.
- A high percentage of loans are made in the institution’s assessment area.
- The geographic distribution of loans reflects adequate penetration throughout the assessment area.
- The distribution of borrowers reflects, given the product lines offered by the institution, good penetration among retail customers of different income levels and business customers of different sizes.
- The bank exhibits a good record of serving the credit needs of the most economically disadvantaged areas of its assessment area, low-income individuals and/or very small businesses, consistent with safe and sound banking practices.
- The institution has made a relatively high level of community development loans.
- The institution uses innovative and flexible lending practices in order to serve assessment area credit needs.

**The Investment Test is rated Outstanding.**

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

**The Service Test is rated Outstanding.**

- The bank's delivery systems are readily accessible to all portions of the assessment area.
- To extent changes have been made, the institution's opening and closing of branches has not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies and to low- and moderate-income individuals.
- Services do not vary in a way that inconveniences certain portions of the assessment area, particularly low- and moderate- income geographies and individuals.
- The institution is a leader in providing community development services.

## SCOPE OF EVALUATION

### **General Information**

This evaluation covers the period from the prior evaluation dated September 11, 2013, to the current evaluation dated January 5, 2017. Examiners used the Interagency Large Institution Examination Procedures to evaluate Middlesex Savings Bank's (MSB) Community Reinvestment Act (CRA) performance. These procedures include three tests: the Lending Test, Investment Test, and Service Test.

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

- Assessment area concentration
- Geographic distribution
- Borrower profile
- Responsiveness to credit needs of highly disadvantaged areas, individuals, or/ or businesses
- Innovative and flexible lending practices
- Community development loans
- Response to CRA-related complaints

The Investment Test considered the following criteria.

- Number and dollar amount of qualified investments
- Responsiveness to credit and community development needs
- Innovativeness or complexity of qualified investments

The Service Test considered the following criteria.

- Accessibility of delivery systems
- Changes in branch locations
- Reasonableness of business hours and services
- Community development services

### **Loan Products Reviewed**

Examiners determined that the bank's major product lines are home mortgage and small business loans. This conclusion considered the bank's business strategy and the number and dollar volume of loans originated during the evaluation period.

The bank's record of originating home mortgage loans contributed more weight to overall conclusions due to the larger loan volume when compared to small business lending. Other product lines such as small farm loans, consumer, and other loan types were not considered due to the low volume of originations and the overall small portion of the loan portfolio represented by these loan types. Therefore, they provided no material support for conclusions or ratings and they are not presented.

This evaluation considered all home mortgage entries on the bank's 2015 Home Mortgage Disclosure Act (HMDA) Loan Application Registers (LARs) and the first nine months of 2016. In 2015, the bank reported 905 loans totaling \$271.9 million. In the first nine months of 2016, the bank reported 417 loans totaling \$140.0 million.

This evaluation also considered all small business loans reported on the bank's CRA Loan Register in 2015 and the first nine months of 2016. In 2015, the bank reported 524 small business loans totaling \$95.8 million. In the first nine months of 2016, the bank reported 193 loans totaling \$30.0 million. This evaluation presents information for 2015, the most recent year for which aggregate data is available, and 2016 data for trends, for both HMDA and small business loans. The FDIC validated the 2015 and 2016 HMDA LARs and CRA Loan Registers prior to the examination.

For the Lending Test, examiners reviewed the number and dollar volume of home mortgage and small business loans. While number and dollar volume of loans are presented, examiners emphasized performance by number of loans. The number of loans is a better indicator of the number of businesses and individuals served. The geographic distribution and borrower profile criteria only include analysis of loans extended within the bank's assessment area.

Examiners reviewed community development loans, investments and services, as well as innovative and/or flexible lending practices from the prior evaluation date of September 11, 2013, through the current examination date of January 5, 2017.

### **Interstate Banking and Branching Efficiency Act**

In addition to the review of the bank's overall assessment area, the Interstate Banking and Branching Efficiency Act (IBBEA) requires separate discussions of CRA performance in each Metropolitan Statistical Area (MSA). The bank maintains 29 branches in the Boston-Cambridge-Newton, MA-NH MSA (11460) and one branch in the Worcester, MA-CT MSA (49430). For the purposes of this evaluation, examiners will evaluate each MSA separately; however, the bank will only receive one CRA rating for the overall assessment area.

## **DESCRIPTION OF INSTITUTION**

### **Background**

MSB is a mutual savings bank headquartered in Natick, Massachusetts. Middlesex Bancorp, MHC, a bank holding company, owns MSB. The bank also operates two wholly owned subsidiaries, First Evergreen and Middlesex Securities Corporation. The institution received an “Outstanding” rating at its previous Division of Banks and FDIC Performance Evaluation, dated September 11, 2013, based on Large Institution Examination Procedures.

### **Operations**

MSB operates 30 full-service branches through Middlesex, Norfolk, and Worcester counties. The Service Test section of this evaluation includes a full list of these branches. In addition to the full service locations, the bank operates two commercial lending offices, three full-service automated teller machines (ATMs), and four cash-dispensing ATMs. The bank has opened two branches and closed two branches since the previous evaluation.

MSB offers a mix of consumer, commercial, and residential loan products including MassHousing home mortgages, Small Business Administration (SBA) loans, reverse mortgages, and automobile loans. The institution provides a variety of deposit services including checking, savings, money market deposit accounts, and certificates of deposit, for both individuals and businesses. The bank also offers investment advisory and trust services. Alternative banking services include internet and mobile banking, electronic deposit, and commercial payment processing services.

### **Ability and Capacity**

Assets totaled approximately \$4.4 billion as of September 30, 2016, and included total loans of \$2.9 billion and securities totaling \$1.3 billion. The loan portfolio is illustrated in the following table. Home mortgage and commercial loans comprise the largest portion of the portfolio, at approximately 48 percent each.

<b>Loan Portfolio Distribution as of 09/30/2016</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction, Land Development, and Other Land Loans	89,284	3.1
Secured by Farmland	566	0.0
Secured by 1-4 Family Residential Properties	1,280,221	45.0
Secured by Multi-Family (5 or more) Residential Properties	63,703	2.2
Secured by Non-farm Non-residential Properties	1,034,840	36.4
Agricultural Production and Other Loans to Farmers	0	0.0
Commercial and Industrial Loans	343,394	12.1
Consumer	11,209	0.4
Obligations of States and Political Subdivisions in the United States	20970	0.8
Other Loans	12	0.0
Lease Financing Receivables (net of unearned income)	0	0.0
<b>Gross Loans</b>	<b>2,844,199</b>	<b>100.0</b>
Less: Unearned Income	0	0.0
<b>Total Loans and Leases</b>	<b>2,844,199</b>	<b>100.0</b>

Source: 09/30/2016 Call Report

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 is evaluated. MSB designated a single assessment area in the Boston-Cambridge-Quincy, MA-NH MSA (11460) and the Worcester, MA-CT MSA (49430). The census tracts in the Boston-Cambridge-Quincy, MA-NH MSA are located in the Boston, MA Metropolitan Division (MD) (14454) and the Cambridge-Newton-Framingham, MA MD (15764). The following table details the cities and towns in the bank’s current assessment area.

<b>Assessment Area Cities and Towns</b>		
<b>Middlesex County</b>		
Acton	Holliston	Sherborn
Ashland	Hopkinton	Shirley
Ayer	Hudson	Stow
Bedford	Lexington	Sudbury
Boxborough	Lincoln	Townsend
Carlisle	Littleton	Tyngsboro
Chelmsford	Marlborough	Waltham
Concord	Maynard	Wayland
Dunstable	Natick	Westford
Framingham	Newton	Weston
Groton	Pepperell	
<b>Norfolk County</b>		
Bellingham	Medway	Walpole
Dover	Millis	Wellesley
Franklin	Needham	Wrentham
Medfield	Norfolk	
<b>Worcester County</b>		
Berlin	Hopedale	Southborough
Blackstone	Mendon	Upton
Bolton	Milford	Westborough
Harvard	Northborough	

Middlesex and Norfolk Counties are located in the Boston-Cambridge-Quincy, MA-NH MSA and Worcester County is located in the Worcester, MA-CT MSA. The following sections discuss demographic and economic information for the assessment area.

### **Economic and Demographic Data**

The assessment area includes 185 census tracts throughout Middlesex, Norfolk, and, Worcester Counties. These tracts reflect the following income designations according to the 2010 U.S. Census:

- 1 low-income tract,
- 11 moderate-income tracts,
- 53 middle-income tracts,
- 119 upper-income tracts, and
- 1 census tract with no income designation.

There are no census tracts in the assessment area designated as distressed, underserved, or a disaster area.

The town of Devens, MA, which is inside the assessment area is designated as an enterprise zone. The following table illustrates select demographic characteristics of the assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	185	0.5	5.9	28.6	64.3	0.5
Population by Geography	939,966	0.5	5.4	29.8	64.2	0.0
Housing Units by Geography	353,525	0.5	6.2	31.8	61.5	0.0
Owner-Occupied Units by Geography	255,088	0.1	2.7	29.0	68.2	0.0
Occupied Rental Units by Geography	81,214	1.7	16.5	40.1	41.6	0.0
Vacant Units by Geography	17,223	0.5	9.5	34.4	55.5	0.0
Businesses by Geography	81,351	0.2	5.2	25.4	69.2	0.0
Household Distribution by Income Level	336,302	17.7	12.1	15.1	55.1	0.0
Median Family Income MSA - 14454 Boston, MA MD	90,800	Median Housing Value		484,011		
		Median Gross Rent		1,194		
Median Family Income MSA - 15764 Cambridge-Newton-Framingham, MA MD	98,600	Families Below Poverty Level		3.3%		
Median Family Income MSA - 49340 Worcester, MA-CT MSA	78,500					
<i>Source: 2010 U.S. Census and 2016 D&amp;B Data</i>						
<i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

According to 2016 D&B data, there were 81,351 businesses in the assessment area. Gross annual revenues (GARs) for these businesses are below.

- 83.7 percent have \$1 million or less
- 7.4 percent have more than \$1 million
- 8.9 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 52.7 percent; followed by retail trade (10.4 percent); finance, insurance, and real estate (9.0 percent); and construction (7.9 percent). In addition, 72.5 percent of area businesses have four or fewer employees, and 88.7 percent operate from a single location.

Examiners used the 2015 FFIEC-updated median family income level to analyze home mortgage loans under the Borrower Profile criterion. The following table presents the low-, moderate-, middle-, and upper-income categories. These categories are based on the 2015 FFIEC-updated median family income categories.

<b>Median Family Income Ranges</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 MD (14454)</b>				
2015 (\$90,000)	<\$45,500	\$45,500 to <\$72,000	\$72,000 to <\$108,000	≥\$108,000
2016 (\$90,800)	<\$45,400	\$45,400 to <\$72,640	\$72,640 to <\$108,960	≥\$108,960
<b>Cambridge-Newton-Framingham, MA MD (15764)</b>				
2015 (\$101,700)	<\$50,850	\$50,850 to <\$81,360	\$81,360 to <\$122,040	≥\$122,040
2016 (\$98,600)	<\$49,300	\$49,300 to <\$78,880	\$78,880 to <\$118,320	≥\$118,320
<b>Worcester, MA-CT MSA (49430)</b>				
2015 (\$81,500)	<\$40,750	\$40,750 to <\$65,200	\$65,200 to <\$97,800	≥\$97,800
2016 (\$78,500)	<\$39,250	\$39,250 to <\$62,800	\$62,800 to <\$94,200	≥\$94,200
<i>Source: 2015 &amp; 2016 FFIEC- Estimated Median Family Income Data</i>				

There are 353,525 housing units within the assessment area. Of these, 72.1 percent are owner-occupied, 23.0 percent are occupied rental units, and 4.9 percent are vacant. The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units. There are no owner-occupied housing units in the census tract without an income designation.

Data obtained from the U.S. Bureau of Labor and Statistics indicated that the 2015 year-end unemployment rate was 4.9 percent statewide. However, the rates ranged from 4.0 percent in Middlesex County, 4.3 percent in Norfolk County, and 5.3 percent for Worcester County. Unemployment rates showed a constant decline throughout the evaluation period. In October 2016, the Massachusetts employment rate was down to 3.3 percent.

### **Competition**

The assessment area is highly competitive for the financial services market. According to the FDIC Deposit Market Share data, as of June 2016, there were 300 full-service branches within the bank's assessment area. In the three whole counties the bank is located in, there are 101 institutions that operate 997 branches. Of these institutions, MSB ranked 4<sup>th</sup> with a 4.0 percent market share. MSB was the highest ranked state chartered bank within these counties.

There is a high level of competition for home mortgage loans among several banks, credit unions, and non-depository mortgage lenders. In 2015, 510 lenders reported a total of 38,097 residential mortgage loans originated or purchased. MSB ranked 12<sup>th</sup> out of this group of lenders, with a market share of 1.6 percent. The ten most prominent home mortgage lenders accounted for 35.3 percent of total market share.

Small business aggregate data shows lending information for whole counties, therefore the peer small business data takes into consideration all lenders in Middlesex, Norfolk, and Worcester County. Based on the small business aggregate data for 2015, 144 lenders made 61,648 loans, showing a moderate level of competition.

MSB ranked 19<sup>th</sup> out of this group of lenders, with a 0.8 percent market share. The three most prominent small business lenders accounted for 49.1 percent of total market share.

### **Community Contact**

As part of the evaluation process, examiners contacted 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 contacted a community organization, which provides social services, affordable housing, and small business support to low-income and disadvantaged families and individuals in the Metro West and Worcester County area. The contact noted a need for affordable housing in the area, specifically in areas with public transportation. This contact also noted the increase of immigrants in the area in recent years, and a trend with immigrants being more likely to open up small businesses. Many immigrants, as well as low- and moderate-income individuals, have a hard time meeting traditional credit requirements, due to a lack of credit, or poor credit, and a lack of collateral. The contact stated a need for micro-lending, to help assist these individuals with starting a new business. The contact noted that small business micro-lending helps small businesses in the area survive, as well as “rebuilds the economy through income growth and job creation.”

Additionally, examiners contacted a social services organization, which assists disadvantaged individuals in the assessment area located in Framingham, MA. Although both contacts stated the lack of affordable housing in the assessment area, this contact noted that the majority of low- and moderate- income individuals in the assessment area are currently renting and are not in a position to save for a down-payment. The majority of low-income individuals are only able to afford the government assisted housing units available in multi-family housing properties. Therefore, affordable housing lending programs and affordable housing stock, though important, are not the most important need for the low- and moderate- income individuals in the assessment area. The community contact noted that low- and moderate- income individuals in the assessment area benefit most from services that would allow them to start saving money and assist in making ends meet. These services include food pantries, affordable daycare and afterschool programs, rent assistance, and help with affording heating costs. This contact also noted the need for career development programs, to make it easier for low- and moderate-income individuals to find jobs and be eligible for promotional opportunities. Overall, both contacts indicated that financial institutions have been responsive to the credit and community development needs.

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

The affluent nature of the bank’s assessment area limits the community development opportunities. The assessment area’s population consists of 64.2 percent upper-income individuals, 29.8 percent middle-income individuals, and only 5.9 percent low- and moderate-income individuals. Community development lending and equity investments are limited in the assessment area.

When these opportunities do present themselves, there is a high amount of competition from both local and national financial institutions. Additionally, there is a high amount of competition for community development service activities, specifically financial education. Considering information from the community contact, bank management, and demographic data, examiners determined that community development services represent the greatest need for the assessment area. Therefore, loans with limited fees, and grants made to organizations that provide community development services, present a large community development opportunity.

Additionally, there is a credit need for small business lending. Small businesses make up 83.7 percent of all businesses in the assessment area. Lending to small businesses will create economic growth, income growth, and job opportunities in the area, which will benefit low and moderate-income individuals.

As noted previously, many of the low- and moderate-income individuals in the assessment area would not meet the requirements for credit, or have the down payment, for affordable housing. Therefore, loans for the construction of multi-family housing complexes, which will increase the amount of affordable rental units and government-assisted units in the assessment area, will be the most beneficial to low- and moderate-income individuals.

## **CONCLUSIONS ON PERFORMANCE CRITERIA**

### **LENDING TEST**

The Lending Test evaluates the 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. The institution's lending performance is evaluated pursuant to the following criteria: 1) the volume of lending activity; 2) the proportion of lending within the assessment areas; 3) the dispersion of loans and the number and amount of loans in low-, moderate-, middle- and upper-income geographies in the assessment areas; 4) the distribution of loans among borrowers of low-, moderate-, middle- and upper-income; 5) the volume of community development lending; and 6) the use of innovative or flexible lending practices.

The bank's overall Lending Test performance is rated High Satisfactory. The sections below discuss the bank's performance under each criterion.

### **Lending Activity**

This performance criterion considers the volume of MSB's lending in relation to the bank's financial condition and resources. The bank's lending levels reflect good responsiveness to assessment area credit needs. During 2015 and the first three quarters of 2016, MSB originated 1,576 home mortgage loans, totaling approximately \$567.6 million, and 887 small business loans, totaling approximately \$158.3 million. Of this total, 1,068 home mortgage loans, totaling approximately \$340.6 million, and 727 small business loans, totaling approximately \$112.3 million, were inside the assessment area.

During 2015, MSB attained a good market rank for HMDA lending inside the assessment area. The bank was the 12<sup>th</sup> largest originator of home mortgage loans by loan volume, among the 510 HMDA lenders in the assessment area. The bank's market share was 1.6 percent by number and 1.2 percent by dollar volume. Among the higher ranked lenders were larger financial institutions and mortgage companies that operate on a regional or national basis. These include JPMorgan Chase Bank, NA; Wells Fargo Bank, NA; Loandepot.com, LLC; and Guaranteed Rate INC. The only state-chartered financial institution ranked above MSB was Leader Bank. Leader Bank is a large mortgage originator, and in 2015, the bank had 6,316 HMDA LAR lines.

With regard to small business lending in 2015, MSB attained a reasonable market rank at the county level. The bank ranked 19<sup>th</sup> out of 144 small business loan reporters in the area. The market share was 0.8 percent by number and 3.6 percent by dollar volume. The highest ranked lenders for small business reporting were credit card companies. These include American Express, FSB; Bank of America N.A.; Capital One Bank (USA), N.A.; and Citibank, N.A. MSB was the 4<sup>th</sup> highest ranked state-chartered institution.

Market rank information for 2016 was not available as of the evaluation date. Since only the first three quarters of 2016 were available, the 2015 loan volume cannot be compared to 2016 data. The bank's loan volume appears consistent with its financial resources and capabilities.

## Assessment Area Concentration

The bank made a high percentage of home mortgage and small business loans, by number and dollar volume, within its assessment area. See the following table.

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	606	67.0	299	33.0	905	187,476	68.9	84,438	31.1	271,914
2016	462	68.9	209	31.1	671	153,080	51.8	142,621	48.2	295,701
<b>Subtotal</b>	<b>1,068</b>	<b>67.8</b>	<b>508</b>	<b>32.2</b>	<b>1,576</b>	<b>340,556</b>	<b>60.0</b>	<b>227,059</b>	<b>40.0</b>	<b>567,615</b>
Small Business										
2015	426	81.3	98	18.7	524	68,423	71.4	27,392	28.6	95,815
2016	301	82.9	62	17.1	363	43,853	70.2	18,606	29.8	62,459
<b>Subtotal</b>	<b>727</b>	<b>82.0</b>	<b>160</b>	<b>18.0</b>	<b>887</b>	<b>112,276</b>	<b>70.9</b>	<b>45,998</b>	<b>29.1</b>	<b>158,274</b>
<b>Total</b>	<b>1,795</b>	<b>72.9</b>	<b>668</b>	<b>27.1</b>	<b>2,463</b>	<b>452,832</b>	<b>62.4</b>	<b>273,057</b>	<b>37.6</b>	<b>725,889</b>
<i>Source: Evaluation Period: 1/1/2015 - 9/30/2016</i>										

## Geographic Distribution

The geographic distribution of loans reflects adequate penetration throughout the assessment area. The bank's adequate performance of home mortgage and small business lending supports this conclusion. Examiners focused on the percentage by number of loans in low- and moderate-income census tracts.

### *Home Mortgage Loans*

The geographic distribution of home mortgage loans reflects adequate penetration throughout the assessment area. Examiners focused on the comparison to aggregate data but took into consideration trends based on 2016 lending. The following table shows that the bank's performance in the low-income census tract is similar to aggregate at 0.1 percentage points higher. Lending in low-income census tracts remained steady in 2016, increasing slightly by 0.2 percentage points. This comparison reflects adequate performance. In moderate-income areas, the bank's lending in 2015 is slightly lower than aggregate. Lending in moderate-income census tracts has increased in 2016, and the bank has already made more loans in moderate-income census tracts in the first nine months of 2016, than in all of 2015. In 2016, MSB made 3.0 percent of loans in moderate-income tracts. The bank's 2016 performance is comparable to the demographics of the area and shows a positive trend in lending to moderate-income census tracts for 2016.

Market share data further supported the bank's adequate performance. In 2015, the bank ranked 6<sup>th</sup> in lending to low-income census tracts with a 3.5 percent market share. The bank was ranked 31<sup>st</sup>, with a 1.0 percent market share, in lending to moderate-income census tracts. The moderate-income ranking is lower than the bank's overall market rank of 12<sup>th</sup> in the AA in 2015.

<b>Geographic Distribution of Home Mortgage Loans</b>						
<b>Tract Income Level</b>	<b>% of Owner-Occupied Housing Units</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>Low</b>						
2015	0.1	0.1	1	0.2	349	0.2
2016	0.1	--	2	0.4	285	0.2
<b>Moderate</b>						
2015	2.7	3.0	11	1.8	2,395	1.3
2016	2.7	--	14	3.0	2,450	1.6
<b>Middle</b>						
2015	29.0	28.2	148	24.4	31,619	16.9
2016	29.0	--	94	20.3	20,887	13.6
<b>Upper</b>						
2015	68.2	68.7	446	73.6	153,113	81.7
2016	68.2	--	352	76.2	129,458	84.6
<b>Not Available</b>						
2015	0.0	0.0	0	0.0	0	0.0
2016	0.0	--	0	0.0	0	0.0
<b>Totals</b>						
<b>2015</b>	<b>100.0</b>	<b>100.0</b>	<b>606</b>	<b>100.0</b>	<b>187,476</b>	<b>100.0</b>
<b>2016</b>	<b>100.0</b>	<b>--</b>	<b>462</b>	<b>100.0</b>	<b>153,080</b>	<b>100.0</b>
<i>Source: 2010 U.S. Census; 1/1/2015 - 9/30/2016 Bank Data, 2015 HMDA Aggregate Data, "--" data not available.</i>						

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

The geographic distribution of small business loans reflects adequate dispersion throughout the assessment area. Examiners focused on the comparison to aggregate data but took into consideration trends based on 2016 lending. The following table shows that the bank's performance in low-income census tracts is similar to aggregate, at 0.1 percentage points lower. This comparison reflects reasonable performance. The bank's level of lending in moderate-income areas compares reasonably to the aggregate level, at 0.6 percentage points lower. This minor difference reflects reasonable performance. There is a positive trend for lending in moderate-income census tracts in 2016 and the lending compares reasonably with the demographics of small businesses in the AA.



Market share data further supported the bank's adequate performance. In 2015, the bank ranked 22<sup>nd</sup>, out of 60 lenders, in lending to low-income census tracts with a 0.3 percent market share. The bank ranked 25<sup>th</sup>, out of 85 lenders who lent in moderate-income census tracts, with a 0.3 percent market share. Both rankings are slightly lower than the bank's overall market rank of 19th in the AA in 2015.

<b>Geographic Distribution of Small Business Loans</b>						
<b>Tract Income Level</b>	<b>% of Businesses</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>Low</b>						
2015	0.2	0.3	1	0.2	2	0.0
2016	0.2	--	0	0.0	0	0.0
<b>Moderate</b>						
2015	5.2	5.5	21	4.9	3,984	5.8
2016	5.2	--	18	6.0	2,606	5.9
<b>Middle</b>						
2015	25.3	25.0	77	18.1	10,002	14.6
2016	25.4	--	52	17.3	9,041	20.6
<b>Upper</b>						
2015	69.3	69.2	327	76.8	54,435	79.6
2016	69.2	--	231	76.7	32,206	73.5
<b>Not Available</b>						
2015	0.0	0.0	0	0.0	0	0.0
2016	0.0	--	0	0.0	0	0.0
<b>Totals</b>						
<b>2015</b>	<b>100.0</b>	<b>100.0</b>	<b>426</b>	<b>100.0</b>	<b>68,423</b>	<b>100.0</b>
<b>2016</b>	<b>100.0</b>	<b>--</b>	<b>301</b>	<b>100.0</b>	<b>43,853</b>	<b>100.0</b>
<i>Source: 2015 &amp; 2016 D&amp;B Data; 1/1/2015 - 9/30/2016 Bank Data; 2015 CRA Aggregate Data, "--" data not available.</i>						

### **Borrower Profile**

The distribution of borrowers reflects, given the product lines offered by the institution, good penetration among individuals of different income levels and businesses of different sizes in the assessment area. The bank's good performance of home mortgage and small business lending supports the conclusion. Examiners focused on the percentage, by number, of home mortgage loans to low- and moderate- income borrowers and on the percentage of small business loans to businesses with GARs of \$1 million or less.

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

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate-income borrowers, reflects good penetration. Examiners focused on the comparison to aggregate data.

Home mortgage lending to low-income borrowers, at 5.9 percent, is good when compared to aggregate data of 2.9 percent. A low-income family in the assessment area, with an average income of \$60,052, would not likely qualify for a mortgage under the conventional underwriting standards, especially considering the median housing value of \$484,011. Therefore, the demand and opportunity for lending to low-income families is relatively limited. This helps explain the difference between bank performance to low-income families and the 13.5 percent of families of this income level. The bank's performance of lending to moderate-income borrowers, at 12.7 percent, is similar to aggregate at 12.6 percent and is similar to the demographics of the assessment area. Lending in low-income census tracts shows a slight decrease in 2016, and lending remained similar in moderate-income census tracts in 2016. The bank did not change lending or marketing practices from 2015 to 2016. The applications from low-income borrowers decreased from 2015 to 2016, which could be related to the regular increase of housing values in the assessment area.

Market share data further supported the bank's good performance under this criterion. In 2015, the bank ranked 4<sup>th</sup> in lending to low-income borrowers with a 3.3 percent market share. The bank was ranked 11<sup>th</sup> in lending to moderate-income borrowers with a 1.9 percent market share. The bank's ranking for lending to low-income borrowers exceeds the overall market rank. The bank's ranking for lending moderate-income borrowers is relatively consistent with the bank's overall market rank of 12<sup>th</sup> in the assessment area in 2015.

<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>
<b>Low</b>						
2015	13.5	2.9	36	5.9	4,544	2.4
2016	13.5	--	22	4.8	3,088	2.0
<b>Moderate</b>						
2015	12.6	10.5	77	12.7	12,922	6.9
2016	12.6	--	59	12.8	10,276	6.7
<b>Middle</b>						
2015	18.4	18.4	113	18.6	24,647	13.1
2016	18.4	--	92	19.9	22,249	14.5
<b>Upper</b>						
2015	55.5	50.8	362	59.7	131,775	70.3
2016	55.5	--	274	59.3	101,641	66.4
<b>Not Available</b>						
2015	0.0	17.3	18	3.0	13,588	7.2
2016	0.0	--	15	3.2	15,826	10.3
<b>Totals</b>						
<b>2015</b>	<b>100.0</b>	<b>100.0</b>	<b>606</b>	<b>100.0</b>	<b>187,476</b>	<b>100.0</b>
<b>2016</b>	<b>100.0</b>	<b>--</b>	<b>462</b>	<b>100.0</b>	<b>153,080</b>	<b>100.0</b>
<i>Source: 2010 U.S. Census; 1/1/2015 - 9/30/2016 Bank Data, 2015 HMDA Aggregate Data, "--" data not available.</i>						

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

The distribution of small business loans reflects good penetration of loans to small businesses. The following table shows that the bank originated 61.5 percent of the 2015 reported small business loans to businesses with GARs of \$1 million or less. This exceeds aggregate lending to businesses with GARs of \$1 million or less by 12.6 percent. There is a positive trend of lending to business with GARs of \$1 million or less from 2015 to 2016.

Market share data further supported the bank's good performance. In 2015, the bank ranked 12<sup>th</sup> for lending to businesses with general annual revenues of \$1 million or less, out of 140 lenders, with a market share of 1.0 percent. This ranking is higher than the bank's overall ranking for small business lending in whole counties within the bank's assessment area.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category</b>						
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>&lt;=\$1,000,000</b>						
2015	77.8	48.9	262	61.5	27,388	40.0
2016	83.7	--	194	64.5	19,167	43.7
<b>&gt;1,000,000</b>						
2015	6.2	--	163	38.3	41,030	60.0
2016	7.4	--	105	34.9	24,631	56.2
<b>Revenue Not Available</b>						
2015	16.0	--	1	0.2	5	0.0
2016	8.9	--	2	0.7	55	0.1
<b>Totals</b>						
<b>2015</b>	<b>100.0</b>	<b>100.0</b>	<b>426</b>	<b>100.0</b>	<b>68,423</b>	<b>100.0</b>
<b>2016</b>	<b>100.0</b>	<b>--</b>	<b>301</b>	<b>100.0</b>	<b>43,853</b>	<b>100.0</b>
<i>Source: 2015 &amp; 2016 D&amp;B Data; 1/1/2015 - 9/30/2016 Bank Data; 2015 CRA Aggregate Data; "--" data not available.</i>						

Based on the bank's lending activity within the assessment area, the institution exhibits a good record of serving the credit needs of the most economically disadvantaged areas of its assessment area, low-income individuals, and small businesses, consistent with safe and sound banking practices.

### **Community Development Lending**

The bank's community development lending activities are evaluated pursuant to the following criteria: 1) the extent to which community development lending opportunities have been made available to the institution; 2) the responsiveness of the institution's community development lending; and 3) the extent of leadership the institution has demonstrated in community development lending.

MSB made a relatively high level of community development loans. The bank originated 22 community development loans, totaling approximately \$25.7 million, during the evaluation period. This number is comparable to the previous examination, when the bank originated 23 community development loans, totaling \$24.9 million. The current level of activity represents 0.6 of average total assets and 1.0 percent of average total loans since the prior CRA evaluation. The bank originated 12 of the community development loans, totaling approximately \$17.6 million, inside the assessment area. Eight out of 12 of these loans inside the bank's assessment area, totaling \$14.2 million, were made to organizations that serve a broader state-wide area in Massachusetts.

As noted previously, the bank operates in an affluent assessment area, with limited community development lending opportunities and high competition. The bank stated that they make sure to stay informed of community development lending opportunities, but cannot always compete with the rates national banks offer. Specifically, the bank provided evidence of an affordable housing loan opportunity, which the bank put in a bid for, but could not compete with the rates a national bank offered. Additionally, bank management indicated a lot of workers inside their assessment area cannot afford to live there and therefore find affordable housing just outside the assessment area.

Both community contacts stated that MSB was very responsive to the organizations needs and community needs with its lending efforts. MSB is the primary bank for multiple community service providers in the assessment area, and works with these organizations to find the cheapest lending products available. As noted earlier, the assessment areas greatest needs are community services, and economic development. The bank made a number of large loans to the largest community service provider in the assessment area, and made a number of loans to small business development corporations. Additionally, the bank made a number of loans for the construction of multi-family complexes. These complexes increase the amount of affordable rental units, and government-assisted rental units, in and around the assessment area.

Given the efforts made by the bank within the assessment area, as well as the limited community development opportunities combined with high competition, examiners determined that the bank met the needs of the assessment area with the community development loans. The community contacts stated that the bank was very responsive to the organizations needs and community needs with its lending efforts. Therefore, the bank received credit for community development loans made outside the assessment area. The table below details the bank’s community development lending by community development purpose and by year.

<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>
2013	1	35	1	820	1	2,500	0	0	0	0	3	3,355
2014	5	5,100	2	5,152	1	1,500	0	0	0	0	8	11,100
2015	4	3,268	1	1,500	0	0	0	0	0	0	5	4,768
YTD 2016	4	3,094	0	0	2	2,750	0	0	0	0	6	5,844
<b>Total</b>	<b>14</b>	<b>11,497</b>	<b>4</b>	<b>7,472</b>	<b>4</b>	<b>6,750</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>22</b>	<b>25,719</b>

*Source: Bank Records*

In addition to these community development loans, the bank currently has two demand lines of credit, totaling 9.5 million, to two community service organizations. Demand loans are not counted towards Community Development Lending since it is not new money, an extension, or a renewal of a loan. However, MSB completes a full underwriting review for each demand line of credit on an annual basis when renewing demand lines. The bank made the decision to originate demand lines of credit, as opposed to lines of credit that the bank formally renews every year, to limit the fees charged to these non-profit organizations.

Although these demand lines are not counted towards the total to community development loans, the lines show the commitment the bank has made to community service organizations in the assessment area.

The following originations represent a sample of community development loans made to organizations and corporations that benefit the entire assessment area:

- Over the evaluation period, the bank made multiple loans to an organization in Middlesex County, which has a mission “to improve the quality of life of low-income and disadvantaged individuals and families by advocating for their needs and rights; providing services; educating the community; building a community of support; participating in coalitions with other advocates and searching for new resources and partnerships.” The organization offers services ranging from behavioral health services and addiction services, to child care services, to family shelter services and heating system repair. In addition to the many social services offered, the bank has a housing corporation that develops and expands the supply of affordable housing for individuals and families, and provides individuals and families with training for homeownership. The organization offers these services in the MetroWest area and Worcester County. In the fall of 2013, the bank originated an \$820,000 line of credit to assist with the non-profits operating expenses. In 2014, the bank originated a \$4.5 million loan to the organization and extended a \$652,000 term loan. Lastly, in 2015, the bank increased the organization’s line of credit by \$1.5 million, to support increasing revenues and operating expenses.
- The organization mentioned above also has a microloan fund, which makes loans up to \$25,000 to businesses in the metro-west and Worcester area. The fund makes loans to small businesses that are unable to access bank financing, whether it be due to poor credit, a lack of credit, or a lack of collateral. The purpose of the loans is primarily for working capital. In 2016, the bank made a \$250,000 loan to this micro-fund. The loan is a five year term that the bank can extend in five years, or if the bank chooses not to extend, the organization has five years to repay the loan.
- The bank made loans to a business development corporation which, through relationships with banks, provides small and mid-size businesses with options for financing for real estate projects and/or equipment purchases. The bank extended two loans, one in 2013 and one in 2014, totaling \$4 million during the evaluation period.
- In 2016, the bank originated a \$2.5 million line of credit for the funding of a new Small Business Investment Company.

For information about loans made within the assessment area that benefitted a specific MSA, refer to the “Community Development” section in the conclusions for each individual MSA.

In addition to the loans made within the assessment area, the bank made 10 loans, totaling \$8.1 million, which benefitted towns outside the assessment area. All these loans were for the construction of multi-family housing, and a portion of the units are sold or rented as affordable rate units.

The bank received credit for the prorated share of the loan that would be going towards affordable housing. The following originations represent community development loans made to organizations and corporations that benefit towns outside the assessment area:

- In 2014, the bank made a \$420,000 term loan to an organization that helps disabled individuals. The organization used the loan proceeds to purchase and construct a group home in Stoughton, MA. The home houses 6 disabled individuals, all of whom receive subsistence payments are low- or moderate-income.
- In 2015, the bank increased a loan amount by \$500,000. The original loan amount was \$2.9 million. The loan proceeds are being used for the development of a 49 unit subdivision in Sutton, MA. The development company will sell 13 of the units at affordable rates.
- In 2016, the bank extended a mortgage of \$475,000 to finance the purchase and renovation of properties located in Dorchester and Jamaica Plain. The properties contain fourteen two-bedroom apartments and a five-bedroom group home. These units will be provided to low- and moderate-income disabled adults. The units are affordable and the U.S. Department of Housing and Urban Development is subsidizing them.

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

The institution'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 serve groups of creditworthy borrowers not previously served by the institution; and (2) the success of each product serving low- and moderate-income borrowers, including the number and dollar volume of loans originated during the review period. This criterion includes all innovative and flexible lending activities since the prior evaluation, covering the time period September 11, 2013 through January 5, 2017.

The bank makes use of innovative and flexible lending programs to assist in meeting the credit needs of its assessment area. The majority of programs involve government-related subsidies and guarantees, in addition to limited internal programs. Examiners noted that the bank created special programs in an attempt to meet specific needs of low- or moderate- income individuals or areas. The bank originated 74 innovative and flexible loans, totaling \$22.6 million, to individuals or businesses just outside the assessment area. As mentioned above in the performance context section, it is difficult for the bank's assessment area borrowers to find affordable loan products. The table below illustrates the bank's innovative and flexible lending programs.

Innovative or Flexible Lending Programs										
Type of Program	LE* -2013		2014		2015		YTD 2016		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Restricted Deed/ Affordable Housing	3	452	7	992	6	795	10	1,546	37	5,341
First Time Buyer	1	155	5	1,250	9	1,797	6	1,172	21	4,374
MassHousing Mortgage	3	1,058	6	1,200	13	2,701	12	2,447	60	13,506
MassHousing Partnership One Mortgage	N/A	N/A	20	3,858	30	5,786	30	5,661	80	15,304
HOME (Reverse Mortgages)	0	0	2	111	1	132	1	96	4	322
<b>Sub-Total Residential Loans</b>	<b>7</b>	<b>1,665</b>	<b>40</b>	<b>7,411</b>	<b>59</b>	<b>11,211</b>	<b>59</b>	<b>10,905</b>	<b>165</b>	<b>31,209</b>
Patriot Express	1	35	N/A	N/A	N/A	N/A	N/A	N/A	1	35
SBA 504	0	0	2	1,844	2	782	9	16,894	20	19,520
SBA 7/7A	1	729	5	2,993	2	925	5	2,153	13	6,800
SBA Express	2	22	12	1,020	5	410	8	851	27	2,303
Small Loan Advantage	0	0	1	83	0	0	0	0	1	83
MassCap	0	0	0	0	0	0	0	0	0	0
Mass Growth Capital	0	0	1	250	0	0	1	750	2	1,000
Mass Business Development Corp	2	7,882	0	0	1	625	0	0	3	2,303
<b>Sub-Total Commercial Loans</b>	<b>6</b>	<b>8,668</b>	<b>21</b>	<b>6,190</b>	<b>10</b>	<b>2,742</b>	<b>23</b>	<b>20,648</b>	<b>60</b>	<b>38,248</b>
<b>Totals</b>	<b>13</b>	<b>1,033</b>	<b>61</b>	<b>13,601</b>	<b>69</b>	<b>13,953</b>	<b>82</b>	<b>52,201</b>	<b>225</b>	<b>69,440</b>

Source: Bank Records - Last Evaluation (LE) dated September 11, 2013

The following highlights the various innovative and flexible loan programs offered by the bank.

#### Home Mortgage Lending Programs

MSB offered several home mortgage loan products over the evaluation period.

- *Affordable Housing/Restricted Deed* – The bank offers 30- and 40-year fixed-rate mortgages to low- and moderate-income borrowers to facilitate the purchase of deed restricted, affordable housing units. The loans allow for a reduced down payment, as well as flexible underwriting guidelines. According to the bank’s product origination manual, the property must be an acceptable deed restricted affordable housing unit, and borrowers must have a low-to-moderate family income based off of median family income of the MSA and as defined within the deed restrictions and verified by the municipality.
- *First Time Buyer* – The First Time Buyer program is another internal program offered by the bank. The key feature of the program is a reduced down payment for both adjustable- and fixed-rate mortgages, as well as flexible underwriting standards and reduced costs. The program is limited to single unit primary residences with maximum loan amounts of \$450,000. These first mortgages assist low-to-moderate income borrowers with their first home purchase. According to the bank’s product origination manual, the borrower’s total income must be within the Mass Housing income limits. Although the Mass Housing



income limits do allow some middle-income borrowers access to the program, the majority of people benefiting from this loan product are low- and moderate-income borrowers.

- *Masshousing - Mortgage* – An affordable 30-year fixed-rate loan for first-time or repeat homebuyers, this product primarily assists low- and moderate-income borrowers. Along with a reduced rate, the product offers a low down payment as well as flexible underwriting and payment protection services.
- *Masshousing Partnership - One Mortgage* – A 30-year fixed rate option that allows borrowers to put down as little as three percent without Private Mortgage Insurance.
- *Homeowners Options for Massachusetts Elders (HOME Program)* - A non-profit dedicated to protecting the equity of low- and moderate- income elder homeowners. HOME provides low and moderate income borrowers in Massachusetts, 60 years of age or older, with inexpensive reverse mortgages. The program does not charge any fees for originating the reverse mortgage.

MSB also provided no-interest financing in concert with specific Habitat for Humanity projects. While the loan itself is included in other aspects of the Lending Test, the transaction acts as an example of the bank's commitment to flexible financing for a greater availability of affordable housing.

#### Small Business Lending Programs

In addition to its standard commercial loan programs, the bank also offers the following flexible small business loan programs, in cooperation with a number of federal and state government organizations. These include the Small Business Administration (SBA), the Massachusetts Growth Capital Corporation, and the Massachusetts Capital Access Program.

- *SBA 7a Loan Programs* - This is the most common program within the SBA. The maximum loan amount is \$5 million, and the SBA guarantees 75.0 percent of the value of most loans. The majority of the loans originated under the program were Small Loan Advantage products, designed specifically to assist small businesses in underserved markets. This also demonstrates the bank's commitment to making credit accessible to small and startup businesses, a need mentioned by both community contacts.
- *Small Loan Advantage Program* – Loans originated under the program were Small Loan Advantage products, designed specifically to assist small businesses in underserved markets.
- *SBA Express Loan Program* – This program offers borrowers an accelerated turnaround time for approval on loan amounts of up to \$350,000. The bank gives a response to an application within 36 hours. The SBA provides a maximum guaranty of 50.0 percent, and no collateral is required for loans of \$25,000 or less.
- *SBA 504 Loan Program* – This loan program provides long-term fixed asset financing made through a Certified Development Company (CDC). Generally, the loan structure

includes a 10.0 percent equity investment by the small business, 40.0 percent participation from the CDC, and 50.0 percent participation by the bank.

- *Massachusetts Capital Access Program (MassCAP)* – The bank participates in the MassCAP, which is designed to help small businesses, with less than \$5 million in revenues, throughout Massachusetts obtain loans from participating banks. Using cash collateral guarantees from a loan loss reserve fund, this program enables banks to make loans they might otherwise be unable to grant.
- *Massachusetts Growth Capital Corporation (MGCC)* – The Massachusetts Growth Capital Corporation creates and preserves jobs for small businesses, women and minority owned businesses, and promotes economic development in underserved, gateway municipalities and low- and moderate- income communities. MGCC provides a centralized resource at the state level that offers working capital, loan guarantees, and targeted technical assistance to solve specific financial and operational problems. MGCC will provide 50 percent of the cost of such assistance while the assisted company will invest the other 50 percent.

## **INVESTMENT TEST**

The Investment Test evaluates an institution's record of helping to meet credit needs through qualified investments that benefit the assessment area or a broader statewide or regional area that includes the bank's assessment area. The regulation defines a qualified investment as a lawful investment, deposit, membership share, or grant that has as its primary purpose community development

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. Per the regulation, qualified investments considered in this evaluation include all those acquired or made since the previous CRA evaluation as well as those made in prior periods and still held by the institution.

Community development purposes include those that either: 1) provide affordable housing for low- or moderate- income individuals or areas; 2) provide community services targeting low- or moderate-income individuals or areas; 3) promote economic development by financing small businesses; 4) revitalize or stabilize low- or moderate-income geographies; or 5) support, enable or facilitate eligible projects or activities in accordance with the Neighborhood Stabilization Plan. Examiners do not consider activities under the Investment Test that they considered under the Lending or Service Test.

MSB's Investment Test performance is "Outstanding". The bank had an excellent level of qualified investments. Given the limited opportunities for qualified investments in such an affluent assessment area, the bank has focused their efforts on providing funds into the community by means of an excellent level of local grants. These investments provided excellent responsiveness to community development needs as identified by community contacts, and directly serve the most vulnerable portions of the population. In addition, the bank has kept pace in the growth of its equity investments, pursuing funds with traits applicable to CRA. Investment growth in such an affluent area exhibits the bank's commitment to their community.

### **Investment Activity**

MSB made 344 qualified investments totaling approximately \$23.4 million. This total includes qualified equity investments of approximately \$21.7 million and donations of \$1.6 million. Investments increased from last examination. The bank made \$15.9 million in equity investments during the previous evaluation period. This is a 36.5 percent increase in total equity investments, which is significantly higher than the increase in the bank's total assets of 10.3 percent. This performance is excellent, considering the evaluation period of the current period is 36 months compared to 46 months during the prior evaluation period. Total donations slightly increased, by approximately \$87,000. The institution, as well as the bank's charitable foundation, provided the donations. The bank's charitable foundation provided approximately \$1.2 million of total grants and donations, while the bank directly provided the remaining \$500,000.

The bank currently has a total of 11 community development equity investments in their portfolio. Of these 11 equity investments, the bank acquired four new investments, totaling \$7 million, since the last evaluation period. The total dollar amount of equity investments equates to 0.5 percent of average total assets and 1.7 percent of average investments since the last evaluation.

Of the total dollar amount, 90.5 percent contributed toward the economic development of small businesses. This is due to the bank's equity investments established within broader areas including the assessment area. These investments demonstrate the bank's commitment to small and developing businesses, which is an identified community development need in the relatively wealthy assessment area. With regards to donations, the bank provided approximately 87.5 percent of the bank's grants to organizations providing services to low- and moderate-income individuals within the assessment areas. This support for social services was another need outlined by local community organizations. The following table illustrates the bank's community development investments by year and purpose.

<b>Qualified Investments</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 Projects</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>
Prior Period	1	640	0	0	6	14,104	0	0	0	0	7	14,744
09/11/2013-12/31/2013	0	0	0	0	0	0	0	0	0	0	0	0
2014	0	0	0	0	0	0	0	0	0	0	0	0
2015	0	0	0	0	4	7,000	0	0	0	0	4	7,000
2016	0	0	0	0	0	0	0	0	0	0	0	0
Qualified Grants & Donations	18	165	312	1,441	2	25	1	10	0	0	333	1,641
<b>Totals</b>	<b>19</b>	<b>805</b>	<b>312</b>	<b>1,441</b>	<b>12</b>	<b>21,129</b>	<b>1</b>	<b>10</b>	<b>0</b>	<b>0</b>	<b>344</b>	<b>23,385</b>

*Source: Bank records*

Below are notable examples of the bank's qualified investments:

#### Equity Investments

- In 2011, the bank invested in the conversion of a high school into affordable rental units within Middlesex County. The project is collaboration a group of lenders alongside the Massachusetts Investment Corporation and the Massachusetts Housing Partnership. As of June 30, 2016, the book value of the bank's investment was \$639,868. This investment benefits the Boston-Cambridge-Newton, MA-NH MSA.
- In 2015, the bank purchased a \$2.0 million investment in a Small Business Investment Company. The company uses funds to finance small businesses. The purpose of the Small Business Investment Company is to provide financing to small businesses that then

in return are able to create jobs or retain jobs for low- and moderate-income individuals. The bank's investments benefit Middlesex, Norfolk, and Worcester counties. This investment benefits the broader statewide area of Massachusetts.

- In 2015, the bank invested \$2.0 million in a fund developed by a Small Business Development Company. This company focuses on financing small businesses that are then able to create or retain jobs for low- and moderate-income individuals throughout Massachusetts, benefiting the broader statewide area.
- The bank made two additional investments in 2015 for \$3.0 million to a fund designed to provide loans to small businesses either located in low- and moderate-income areas or employing low- or moderate-income individuals. This benefits the broader statewide area of Massachusetts.

### Donations

- The bank provided a \$65,000 donation to South Middlesex Opportunity Council (SMOC), a multi-service agency in the Metrowest area of Massachusetts. The mission of SMOC is to improve the quality of life for low-income or disadvantaged individuals. SMOC endeavors to meet area challenges through programs for education, workforce development, financial assistance, and housing services. Within such an expensive assessment area, these social services are critical to meet a basic standard of living.
- The bank made multiple donations to Lovin' Spoonfuls, a food rescue based in Boston. The mission of the organization is to facilitate the rescue and distribution of healthy fresh food that would otherwise be discarded. The organization completes this goal in partnership with local grocery stores, and provides the goods to multiple shelters and nonprofits in the Greater Boston Area, including Middlesex County.
- The bank has made annual donations to Habitat for Humanity, an affordable housing organization. Habitat for Humanity aims to build houses with low-income families and help them meet the responsibilities that go with homeownership. While the majority of donations were applied to a Habitat for Humanity location in the Greater Worcester area, the projects impacted the entire Middlesex County. Affordable housing was cited as a clear community development need, and continual support for this organization shows the bank's commitment to increase housing opportunities for families of all income levels.
- The Metrowest Free Medical program acts as a point of entry to those uninsured or underinsured in obtaining medical services. The organization serves approximately 1,000 individuals each year, providing health education, administrative assistance, and referrals medical providers. The bank provided a donation to this organization in the fall of 2013.
- The bank's foundation has provided a grant to the Center for Women and Enterprise, an organization providing technical and financial assistance to small businesses throughout Massachusetts. Established in 1995, the organization has served over 37,000 clients in

the development of their businesses, the majority of which were from low- or moderate-income families. The community contact identified this type of support for small businesses as an essential form of credit for the growth of the assessment area.

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

The institution exhibits excellent responsiveness to credit and community economic development needs. As noted previously, the community contact identified community development services as the primary need for low- and moderate-income individuals in the assessment area. The bank made a significant majority of donations to organizations that provide community services to these individuals. The bank made a majority of investments and donations, by dollar amount, to small business development corporations. The community contact stated that many immigrants, and other low- and moderate- income individuals, in the assessment area were interested in starting businesses, but the majority would be unable to obtain traditional financing from a bank. These development corporations help increase the amount of small businesses in the assessment area, which creates economic, income, and job growth.

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

The institution made significant use of innovative and complex investments to support community development initiatives. The bank invested in a number of Small Business Investment and Development Companies. These companies create innovative lending products for small businesses, which would be unable to obtain traditional bank financing. Many of these companies focus on making loans to start-ups, who do not currently have the collateral to qualify for a bank loan, and working with the company until they are able to obtain more traditional financing.

## **SERVICE TEST**

The bank's Service Test performance is rated "Outstanding." The Service Test evaluates an institution's record of helping to meet the credit needs of its assessment area 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.

MSB has an effective system for delivering retail banking and community development services to the assessment area. The bank's branches, all with 24-hour ATM, are located throughout the assessment area and are accessible and convenient to low- and moderate-income residents and low- and moderate-income census tracts. Generally, the services and products offered are similar to the bank's competitors.

In meeting community development service needs, the bank was a leader in its efforts and in offering its financial expertise to community development groups in the assessment area. In particular, bank officers have taken leadership roles within community organizations whose mission and programs provide significant support to the neediest areas of the assessment area. In many instances, the bank was the only financial institution involved in providing expertise and program support to local community development organizations meeting the most pressing community development needs in the assessment area, such as free financial education to low- and moderate-income individuals. bank individuals participate on many credit committees for a local community service organization, which provides housing loans and micro-loans for small businesses, to low- and moderate- income individuals who wouldn't otherwise qualify for a loan.

### **Retail Banking Services**

An institution's retail banking services are evaluated pursuant to the following criteria:

- 1) the distribution of the institution's branches among geographies of different income levels;
- 2) the record of opening and closing branches, particularly branches located in low- and moderate-income geographies or that primarily serve low- or moderate-income individuals;
- 3) the availability and effectiveness of alternate systems for delivering retail banking services; and the range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

The bank's retail services are accessible to all customers, including low- and moderate-income individuals and residents of the moderate-income geographies, in the assessment area. bank services include various deposit products and residential and commercial loan products. Changes in branch locations did not adversely affect the accessibility of services. Banking hours and services do not vary in a way that inconveniences certain portions of the assessment area.

The bank offers multiple deposit accounts, many of which are affordable due to their low-minimum balance requirements and low fee structures. The bank is a member of the

Massachusetts Community Banking Council Basic Banking for Massachusetts program, due to the number of affordable accounts offered. Types of affordable deposit accounts include, but are not limited to:

- *Freedom Blue Checking*- A low minimum balance checking account that only requires \$1.00 to open, and the \$10.00 monthly maintenance charge is waived with an average monthly balance of \$250, or a direct deposit.
- *EBlue*- This checking account also only requires \$1.00 to open and the ATM fees and monthly maintenance charge of \$5 is waived if you are under 25 years of age, carry an average monthly balance of \$100, or have direct deposit.
- *Basic Checking*- The account can be opened with as little as \$1.00. There is a \$3.00 monthly maintenance charge with no minimum balance required and no extra fees. Every month, the first ten checks the consumer writes are free, and then it's \$0.50 per check.

### **Accessibility of Delivery Systems**

The bank's delivery systems are accessible to all portions of the assessment area. The bank distributed locations in such a way that no portion of the assessment area is inconvenienced. Alternative delivery systems are available to supplement the bank's branches.

#### *Distribution of Branches*

In addition to its main office located in Natick, MSB operates 29 full-service branches located in the following communities: Acton (2); Ashland; Bedford; Bellingham; Boxborough; Concord (2); Framingham (2); Franklin; Groton; Holliston; Hopkinton; Littleton; Maynard (2); Medfield; Medway; Millis; Needham; Sherborn; Southborough; Sudbury; Walpole; Wayland(2); Wellesley; and Westford. There are 18 branches located in upper-income geographies, 11 in middle-income geographies, and 1 in a moderate-income geography. Branches are open Monday through Saturday, with extended evening hours on Thursdays. All branches offer the bank's complete line of loan products and most offer drive-up services. The branch located in a moderate-income geography, Worcester Road in Framingham, has both a drive-up teller and a drive-up ATM.

#### *Automated Teller Machines (ATMs)*

Bank ATMs are located at each of the branch offices, providing 24-hour account access. In addition to ATMs located at branch locations, MSB has four cash-dispensing ATMs and three full-service ATMs that accept deposits. There are five ATMs (two full-service) in upper-income geographies, one ATM (full-service) in a middle-income geography, and one cash dispensing ATM located in MetroWest Medical Center in a moderate-income geography in Framingham. The bank is also a member of the Allpoint ATM Network. As a result of its involvement in the Allpoint program, bank customers can avoid ATM surcharges at other participating ATMs.

#### *Commercial Lending Offices*

In addition to the full service branches, the bank has two loan production offices staffed with commercial lenders. These are located in Natick and Westborough, representing two upper-income geographies.



In addition to the branch network, ATMs, and commercial lending offices, MSB also provides a variety of alternative delivery systems. These alternatives allow consumers easier access to the bank's various retail services, and include:

*Information Center* – The bank operates an Information Center staffed with customer service representatives. The Information Center assists customers with multiple functions, including opening accounts, applying mortgages and home equities, stopping payment on checks, and applying for debit or ATM cards.

*Online Banking* – Available to consumers and many businesses free of charge, this service allows customers to view account balances, transfer funds, and make loan payments through the bank's website. Free bill payment is also available to checking account customers.

*Debit Cards* – The MSB debit card allows customers to pay for purchases at merchant locations that accept Visa and have the funds deducted directly from their checking account at no charge.

*Telephone Banking* – The bank operates a 24/7 automated phone banking system that allows customers to access account information, check balances, transfer funds between accounts, and make loan payments. The service is free of charge and also includes a Spanish language option.

*Mobile Banking* – Consumers and business customers can access account information through a phone or mobile device to view balances, transfer funds between accounts, make loan payments, and pay bills.

*Remote Deposit Capture* – This service allows customers to deposit checks using their mobile device.

*Bank-by-Mail* – All customers can perform account transactions by mail free of charge.

*Multi-lingual Services* – Approximately 81 of the bank's employees speak 31 different languages, including Spanish, Portuguese, Russian, and Hindu. The bank maintains this information on its internal Intranet so that employees can access these resources as necessary. These services are critical, as assessment area demographics and a community contact indicate that a large portion of low- and moderate-income individuals in the bank's community are first-generation Americans where English may not be their first language.

### **Changes in Branch Locations**

The bank's record of opening and closing branches did not adversely affect the accessibility of its delivery systems to low- and moderate- income geographies or individuals in its assessment area. The bank maintains an Office Relocation, Consolidation and Closing Policy that outlines factors that the bank considers when deciding to relocate, consolidate, or close a branch office.

The bank opened two branches and closed two branches since the previous evaluation. Both of the new branches are in upper-income tracts, while two of the closed branches were in middle-income tracts. The two closed branches were located in Framingham, MA and Millis, MA. The bank has two other branches in Framingham, MA that have remained open.

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

Overall, business hours do not vary in a way that inconveniences certain portions of the assessment area, particularly low- and moderate-income individuals. Branch hours are consistent at each location with weekday hours generally from 8:30 A.M. to 5:00 P.M. Branches with drive-up service and the main office open 30 minutes earlier. All branches offer extended hours until 6:30 P.M. on Thursday evenings and Saturday hours of 9:00 A.M. to 1:00 P.M. ATM, mobile, and online banking are available 24 hours a day, 7 days a week.

### **Community Development Services**

An institution's community development services are evaluated pursuant to the following criteria: 1) The extent of community development services offered and used; 2) The innovativeness of community development services, including whether they serve low- and moderate-income customers in new ways or serve groups of customers not previously served; 3) The degree to which they serve low- and moderate-income areas or individuals; and 4) the responsiveness to available opportunities for community development services.

The CRA regulation defines a community development service as a service that is primarily for community development purposes and related to the provision of financial expertise. Based upon the criteria above, the bank was a leader in providing community development services in the assessment area during the evaluation period. The bank provided 388 instances of community development services to over 20 different organizations, often on an ongoing basis. It is important to note that examiners counted each individual instance of financial literacy services. For example, if an individual conducted financial literacy course on a monthly basis, examiners counted a total of 12 instances of credit for the year. Additionally, one individual taught weekly classes during the school year. This person received 36 instances of service for each whole calendar year.

The bank acted as the principal financial institution in many instances of providing these community development services. The bank's variety of involvement covered community development opportunities in the area, from board involvement with local organizations, to financial education and technical assistance provided directly to individuals. A substantial majority of bank services were for community service purposes, which the community contact identified as the greatest need in the assessment area. The table below summarizes the bank's community development services by year and purpose.

Community Development Services						
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Neighborhood Stabilization Projects	Totals
	#	#	#	#	#	#
9/11/2013-12/31/2013	2	21	2	0	0	25
2014	4	133	5	0	0	142
2015	8	107	4	0	0	119
2016	8	89	5	0	0	102
<b>Total</b>	<b>22</b>	<b>350</b>	<b>16</b>	<b>0</b>	<b>0</b>	<b>388</b>
<i>Source: Bank records</i>						

Below are notable examples of the bank’s involvement in community organizations:

Employee Involvement

The bank devotes time and resources to assisting with community development initiatives within its assessment area by having representatives serve in leadership roles in community-based organizations. The following are examples of the organizations in which bank officers are involved. These examples demonstrate the bank’s leadership in responding to the most critical community development needs in the assessment area.

- 30-year old non-profit agency, HOME protects the equity of low- and moderate-income elder homeowners. As an independent third party, HOME receives no fees whatsoever for any loans generated. This allows HOME counselors to focus solely on HOME’s mission: To conserve and protect the equity of low- and moderate-income elder homeowners so they can age in place. HOME is recognized as a national leader in senior foreclosure prevention. A bank Senior Vice President is on the Board and is President of the Board.
- Bay Colony Development Corporation (BCDC) is a non-profit corporation operating as a Certified Development Corporation (CDC) that provides small business financing to Massachusetts businesses utilizing the SBA’s 504 loan program. BCDC provides growing businesses with long-term, fixed-rate financing for the purchase or refinance of major fixed assets, such as land, buildings, machinery and equipment. Additionally, the financing also allows the small business to create or retain low- or moderate-income jobs. These loans are typically secured by junior liens in conjunction with a loan secured by a senior lien from a bank. A bank senior vice president serves on the Board and Executive Committee of BCCD. In addition to his role with BCDC, this Senior Vice President is also on the Lender Advisory Committee of the National Association of Development Companies (NADCO), the national resource group for CDCs.
- Three bank officers serve in leadership roles for affordable housing trusts in Franklin, Lexington and Natick. As Board Members, these individuals ensure effective use of affordable housing grants so that low- and moderate-income borrowers receive down

payment assistance for the purchase of existing homes at fair market values. The bank officers provide a key service in maintaining the affordable housing stock in such affluent areas.

- A Commercial Lender is the Board President of Minute Man Arc. This organization provides care and assistance for children and adults with disabilities. Minute Man Arc offers Residential Services, Employment Assistance, and Day Habilitation services to individuals throughout Middlesex County, the majority of who fall into the low- and moderate-income demographic.
- A Senior Vice President of the bank serves as the Treasurer of the Board of Directors on the South Middlesex Opportunity Council (SMOC). This social service organization provides comprehensive services to economically disadvantaged individuals in Middlesex County, through housing services, financial assistance, and financial literacy support. As the treasurer, the bank employee is instrumental in managing the financial assets of the organization to ensure they continue to be able to meet their goals.
- Both a Branch Manager and a Regional Manager sit on the Finance Committee of Household Goods Inc. Based in Acton, MA, the organization collects and redistributes donated furniture to individuals in need. In these leadership positions, the bank employees manage the organization insurance policies and strategize new methods of raising funds to increase their activity.
- A Senior Vice President (SVP) of Marketing provided technical assistance to MetroWest ESL Fund during the evaluation period. This nonprofit aims to raise funds for adult English-as a-Second-Language (ESL) programs in Framingham. The population of immigrants with limited English skills far exceeds the limits of the ESL programs available, and there is a concerted effort to expand the service throughout the city. The SVP provides marketing and fundraising strategies to the nonprofit to better solicit funds from individuals and organizations. The program offers free ESL classes, citizenship classes, and high school equivalency classes. Although there are no income requirements, the majority of participants in these classes are low- and moderate- income.
- A Branch Manager is a member of the Baypath Elder Services Money Management Advisory Council. Baypath Elder Services is a Marlborough-based nonprofit that provides assistance to low-income elders by assisting them with their routine financial needs. The bank employee provides technical assistance in developing the Money Management Program and providing banking expertise.

### Financial Education and Support

MSB regularly provided assistance and education geared towards seniors, small businesses, at-risk youths, and first time homebuyers. Below are notable examples of financial education.

- During the evaluation period, a bank vice president provided several financial literacy classes each year to inmates of the Pondville Correctional facility. The individual based

the program on the FDIC Money Smart Financial education program. The sessions were to assist inmates in making better financial decisions upon release, easing the transition process. The bank is the only institution providing this type of service to the facility. There are 15 sessions a year. The prison is located in Norfolk, MA. Prisoners must participate in work programs and make \$1.00 to \$4.00 a day.

- The bank operated its own series of free small business seminars throughout its assessment areas during the evaluation period. Each seminar was held in a different town where the bank has a “branch footprint”. MSB held five sessions each throughout 2015 and 2016. Topics included digital marketing, financial statements, and accounting programs and periods.
- The bank also collaborated with the Framingham Downtown Revitalization Project, and SMOC to provide small business workshops specifically to businesses in Framingham located in a low- or moderate-income geography in 2015 and 2016. There were eight seminars offered in 2015 and 2016 combined. Topics were directed to startup businesses and covered obtaining financing, basic accounting, pricing and purchasing, and marketing on a limited budget. The bank was the only financial institution involved in the development of this program and this program is new since the last evaluation.
- The Vice President of Lending representative participated in two educational panels organized by Interise, an educational initiative meant to help small businesses in lower-income communities. Eighty-five percent of Interise businesses are owned by women, minorities, immigrants, or located in a low-income geography. On average, Interise small businesses create jobs at five times the annual rate of the private sector. The majority of jobs created are for low- or moderate-income individuals. Interise held both panels in 2014 for entrepreneurs seeking to grow their business.
- The bank provided four financial literacy education sessions in 2014 at the Shriver Job Corps Center in Devens, MA. Devens, MA is a regional enterprise zone and census designated place in the towns of Ayer and Shirley, MA. The Job Corps Center is a no-cost technical training program to help disadvantaged young people improve their employment opportunities. The bank representative covered a variety of financial health topics, including, credit reports, creating budgets, identity protection, and banking accounts.
- Bank employees provided on-site banking services and counseling to residents in the Shillman house, a Framingham apartment complex for seniors. Shillman house designates the majority of units for low- and moderate-income individuals or couples. The seminars are provided on a monthly basis.
- In 2013 and 2014, the bank provided financial literacy education to fourth graders attending the Woodrow Wilson Elementary School. The basic banking subjects were covered. The majority of students attending this Framingham school qualify for free or reduced-price lunch.

- Throughout the evaluation period, the bank participated in four first-time homebuyer courses in conjunction with SMOC. The bank and SMOC designed the course for low-income families, and provided basic information regarding the origination process. This is continued from the previous examination period.

#### Other Services

- MSB voluntarily participates in the MCBC Basic Banking program. In order to qualify, the bank offers a non-interest bearing basic checking account that particularly benefits low- and moderate-income individuals. All of the bank's savings accounts meet MCBC guidelines.
- In 2015, the bank assisted in the facilitation of a Federal Home Loan Bank (FHLB) affordable housing grant on behalf of an organization that benefits the Greater Boston area. The FHLB grant went toward the purchase of a group home for disabled individuals of low- and moderate-income. The bank assisted another organization in applying for an affordable housing grant, though the bank did not secure final financing.
- Under an agreement with the Massachusetts Bar Association, the bank participates in the Interest on Lawyer Trust Accounts (IOLTA) program. The interest paid on these accounts is used to provide legal assistance to low- and moderate-income individuals. Programs funded through IOLTA in Massachusetts provide legal assistance to over 100,000 individuals across the state. IOLTA continues to be the primary source for consumer, family, education, disability, and elder law services for low-income clients. As of December 31, 2016, MSB had 311 IOLTA accounts with balances of approximately \$24.0 million. During the evaluation period, the bank remitted \$110,520 to this program.

## **METROPOLITAN AREAS**

The CRA regulation requires financial institutions to define assessment areas within which its CRA performance is evaluated. MSB designated one assessment area located within the following geographies (AAs): 1.) the Boston, MA Metropolitan Division (MD) (14454) and the Cambridge-Newton-Framingham, MA MD that are part of the larger consolidated Boston-Cambridge-Newton, MA-NH Metropolitan Statistical Area (MSA) (14460) and 2.) the Worcester, MA-CT MSA (49430).

As stated previously, a description of the bank's CRA-related activities must also be provided for each Metropolitan Statistical Area in which the bank maintains a branch office. Ratings are not assigned based on individual performance in each MSA. The bank has 29 branches, out of 30, located in the Boston-Cambridge-Newton, MA-NH MSA. This includes the bank headquarters. Therefore, examiners gave more weight to the bank's performance in the Boston-Cambridge-Newton, MA-NH MSA. The following section provides a full scope analyses for the Boston-Cambridge-Newton, MA-NH MSA (14460) and (2) the Worcester, MA-CT MSA (49430).

### **DESCRIPTION OF INSTITUTION'S OPERATIONS IN BOSTON- CAMBRIDGE-NEWTON, MA-NH MSA**

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

The Boston-Cambridge-Newton, MA-NH MSA portion of MSB's designated assessment areas is comprised of 43 municipalities within Middlesex County and 11 municipalities within Norfolk County. Norfolk County is located south of Boston and Middlesex is located northwest of Boston. According to the 2010 U.S. Census, the assessment area is comprised of 163 census tracts and has a total population of 827,172. The census tracts reflect the following income designations:

- 1 low-income tract,
- 10 moderate-income tracts,
- 49 middle-income tracts,
- 102 upper-income tracts, and
- 1 census tract with no income designation.

The non-classified, low-, and moderate-income census tracts in the assessment area are located within the following towns within Middlesex County: Framingham, Marlborough, Newton, and Waltham. The bank has 29 branches in the assessment area. One branch is located in a moderate- income tract, five are located in middle- income tracts, and 23 are located in upper-income tracts. In addition, the bank has 7 ATMs, four of which are also cash dispensers, within the assessment area. Of the 7 ATMs, 1 is located in a moderate-income tract, 1 in a middle-income tract, and 5 are located in upper-income tracts. The following table illustrates select demographic characteristics of the assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	163	0.6	6.1	30.1	62.6	0.6
Population by Geography	827,172	0.6	5.7	31.4	62.3	0.0
Housing Units by Geography	311,643	0.6	6.5	33.4	59.5	0.0
Owner-Occupied Units by Geography	224,456	0.1	2.9	30.8	66.2	0.0
Occupied Rental Units by Geography	72,288	2.0	17.0	41.4	39.6	0.0
Vacant Units by Geography	14,899	0.6	9.8	34.7	54.9	0.0
Businesses by Geography	71,809	0.2	5.3	26.7	67.7	0.0
Farms by Geography	1,696	0.2	4.6	27.3	67.9	0.0
Family Distribution by Income Level	209,642	13.8	12.8	18.3	55.0	0.0
Household Distribution by Income Level	296,744	18.0	12.3	15.2	54.5	0.0
Median Family Income MSA - 14454 Boston, MA MD	83,664	Median Housing Value		494,991		
		Median Gross Rent		1,208		
Median Family Income MSA - 15764 Cambridge-Newton-Framingham, MA MD	90,625	Families Below Poverty Level		3.3%		
<p><i>Source: 2010 U.S. Census and 2016 D&amp;B Data</i>  <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i></p>						

According to 2016, Dunn & Bradstreet data, there were 71,809 businesses operating in the assessment area. GARs for the businesses are below:

- 83.9 percent have \$1 million or less.
- 7.4 percent have more than \$1 million.
- 8.7 percent have unknown revenues

The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by GAR level. The service industries represent the largest portion of businesses at 53.0 percent; followed by retail trade (10.2 percent); and finance, insurance, and real estate (9.1 percent). In addition, 72.7 percent of area businesses have four or fewer employees, and 88.9 percent operate from a single location.

Examiners used the 2015 and 2016 FFIEC-updated median family income level to analyze the bank's level of lending to home mortgage borrowers of different income levels within the assessment area under the Borrower Profile criterion. The following table presents the low-, moderate-, middle-, and upper-income categories. These categories are based on the median family income of \$90,000 and \$90,800 in the Boston MD during 2015 and 2016, respectively and incomes of \$101,700 and \$98,600 in the Cambridge-Newton-Framingham MD during the same time period.



<b>Median Family Income Ranges</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 MD Median Family Income (14454)</b>				
2015 (\$90,000)	<\$45,000	\$45,000 to <\$72,000	\$72,000 to <\$108,000	≥\$108,000
2016 (\$90,800)	<\$45,400	\$45,400 to <\$72,640	\$72,640 to <\$108,960	≥\$108,960
<b>Cambridge-Newton-Framingham, MA MD Median Family Income (15764)</b>				
2015 (\$101,700)	<\$50,850	\$50,850 to <\$81,360	\$81,360 to <\$122,040	≥\$122,040
2016 (\$98,600)	\$98,600	<\$49,300	\$49,300 to <\$78,880	\$78,880 to <\$118,320
<i>Source: FFIEC</i>				

There are 311,643 housing units. Of these, 72.0 percent are owner-occupied, 23.2 percent are occupied rental units, and 4.8 percent are vacant. The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units. There are no owner-occupied housing units in the census tract without an income designation.

According to U.S. Bureau of Labor and Statistics, the unemployment rates at year-end 2015 for Middlesex County and Norfolk County were 4.0 percent and 4.3 percent, respectively. The State of Massachusetts unemployment rate was 5.0 percent over the same time period. The unemployment rate has improved in both counties and the state over the past three years. According to Moody's Analytics, the largest employers within the Boston-Cambridge-Newton, MA-NH MSA include Massachusetts General Hospital, Brigham & Women's Hospital, and Boston University Corporation. The largest industry sectors include healthcare, technology, and finance.

### ***Competition***

According to the FDIC Deposit Market Share report as of June 30, 2016, 56 financial institutions operated 512 offices in Middlesex County and 48 financial institutions operated 253 offices in Norfolk County. Additionally, there are numerous mortgage brokers, credit unions, and finance companies that operate within the county. Thus, there is strong competition for loans and deposits in this assessment area. Within Middlesex County, MSB ranked 4<sup>th</sup> with 5.4 percent deposit market share inside the County, representing a considerable share of the market in the county. MSB was ranked 11<sup>th</sup>, with 2.6 percent deposit market share, within Norfolk County.

There is a high level of competition for home mortgage loans among numerous banks, credit unions, and non-depository mortgage lenders. In 2015, 531 lenders reported a total of 43,621 residential mortgage loans originated or purchased inside the assessment area. MSB ranked 12<sup>th</sup> out of this group of lenders, with a market share of 1.6 percent. The other financial institutions on the list were large national banks and mortgage companies. MSB was the highest ranked regional bank originating loans in the assessment area.

## **Community Contact**

As noted in the Overall Conclusions Section, 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. Both of the community organizations contacted serve the needs of the Boston-Cambridge-Newton, MA-NH MSA assessment area. Refer to the Overall Conclusions Section for information on the community organizations contacted and the current needs of the assessment area.

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

The affluent nature of the bank's assessment area, limits the community development opportunities. The demographic make-up of the Boston-Cambridge-Newton, MA-NH MSA assessment area is very similar to the overall assessment area, and has the same credit and community development needs. Considering information from the community contact, bank management, and demographic and economic data, examiners determined that the greatest need of the assessment area was community services to help low and moderate-income individuals with their expenses, and ideally allow them to save money. Additionally, examiners determined there is a credit need for small business lending, to create economic growth, income growth, and job opportunities in the assessment area. Lastly, examiners determined the need for multi-family complexes to increase the amount of affordable rental units in the area, and the amount of government assisted rental units in the assessment area. For more information on the credit and community development needs and opportunities of the assessment area, refer to the Overall Conclusions Section.

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN BOSTON- CAMBRIDGE- NEWTON, MA-NH MA**

### **LENDING TEST**

#### **Lending Activity**

This performance criterion considers the volume of MSB's lending in the Boston-Cambridge-Newton, MA-NH MSA. The bank's lending levels reflect good responsiveness to assessment area credit needs. During 2015 and the first three quarters of 2016, MSB originated 986 home mortgage loans, totaling approximately \$318.1 million, and 537 small business loans, totaling approximately \$80.2 million in the Boston-Cambridge-Newton, MA-NH MSA portion of the assessment area.

During 2015, MSB attained a good market rank for HMDA lending inside the assessment area. The bank was the 10<sup>th</sup> largest originator of home mortgage loans by loan volume, among the 491 HMDA lenders in the assessment area. The bank's market share was 1.7 percent by number and 1.3 percent by dollar volume. Among the higher ranked lenders were larger financial institutions and mortgage companies that operate on a regional or national basis. These include JPMorgan Chase Bank, NA; Wells Fargo Bank, NA; Loandepot.com, LLC; and Leader Bank. The only state-chartered financial institution ranked above MSB was Leader Bank. Leader Bank is a large mortgage originator, and in 2015, the bank had 6,316 HMDA LAR lines.

With regard to small business lending in 2015, MSB attained a reasonable market rank at the county level. The bank ranked 18<sup>th</sup> out of 137 small business loan reporters in the area. The market share was 0.9 percent by number and 3.7 percent by dollar volume. The highest ranked lenders for small business reporting were Credit Card companies. These include American Express, FSB; Bank of America N.A.; Capital One Bank (USA), N.A.; and Citibank, N.A. MSB was the 4<sup>th</sup> highest ranked state-chartered institution.

Market rank information for 2016 was not available as of the evaluation date. Since only the first three quarters of 2016 were available, the 2015 loan volume cannot be compared to 2016 data. The bank's loan volume appears consistent with its financial resources and capabilities.

#### **Geographic Distribution**

The geographic distribution of loan reflects adequate dispersion throughout the assessment area. The bank's adequate performance of home mortgage and small business lending supports this conclusion. Examiners focused on the percentage by number of loans in low- and moderate-income census tracts.

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

The geographic distribution of home mortgage loans reflects adequate dispersion throughout the assessment area. Examiners focused on the comparison to aggregate data. The following table shows that the bank's performance in low-income census tracts is similar to aggregate, at 0.1 percentage points higher. Lending in low-income census tracts is consistent in 2016.

Lending in moderate-income census tracts was less than aggregate, at 1.6 percentage points lower. Lending has increased in moderate-income census tracts in 2016. The bank exceeded the total amount of loans made in moderate-income tracts in 2015 in the first nine months of 2016. The bank increased lending in moderate-income census tracts 1.6 percentage points. The lending in moderate-income census tracts in 2016 exceeds the percent of owner occupied housing units in moderate-income census tracts in the Boston-Cambridge-Newton, MA-NH MSA assessment area.

Market share data further supported the bank's adequate performance. In 2015, the bank ranked 6<sup>th</sup> in lending to low-income census tracts, with a 3.5 percent market share. The bank was ranked 32<sup>nd</sup>, with 0.8 percent market share, in lending to moderate-income census tracts. The moderate-income ranking is lower than the bank's overall market rank of 10<sup>th</sup> in the Boston-Cambridge-Newton, MA-NH MSA assessment area in 2015.

<b>Geographic Distribution of Home Mortgage Loans</b>						
<b>Tract Income Level</b>	<b>% of Owner-Occupied Housing Units</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>Low</b>						
2015	0.1	0.1	1	0.2	349	0.2
2016	0.1	--	2	0.5	285	0.2
<b>Moderate</b>						
2015	2.9	3.2	9	1.6	2,020	1.2
2016	2.9	--	14	3.2	2,450	1.7
<b>Middle</b>						
2015	30.8	30.0	144	26.0	31,209	18.0
2016	30.8	--	91	21.1	20,113	13.9
<b>Upper</b>						
2015	66.2	66.7	400	72.2	140,238	80.7
2016	66.2	--	325	75.2	121,405	84.2
<b>Not Available</b>						
2015	0.0	0.0	0	0.0	0	0.0
2016	0.0	--	0	0.0	0	0.0
<b>Totals</b>						
<b>2015</b>	<b>100.0</b>	<b>100.0</b>	<b>554</b>	<b>100.0</b>	<b>173,816</b>	<b>100.0</b>
<b>2016</b>	<b>100.0</b>	<b>--</b>	<b>432</b>	<b>100.0</b>	<b>144,253</b>	<b>100.0</b>
<i>Source: 2010 U.S. Census; 1/1/2015 - 9/30/2016 Bank Data, 2015 HMDA Aggregate Data, "--" data not available.</i>						

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

The geographic distribution of reported small business loans reflects adequate dispersion throughout the assessment area. The following table shows that the bank's performance in low-income census tracts is equal to aggregate at 0.3 percent. The bank only made one loan in low-income census tracts in 2015, and none in the first nine months of 2016. Lending in moderate-income census tracts was similar to aggregate, at 0.6 percentage points lower. There was a positive trend in lending to businesses in moderate-income census tracts in the first nine months of 2016. The bank's lending in moderate-income census tracts increased by 0.7 percentage points in 2016.

Market share data further supported the bank's adequate performance. In 2015, the bank ranked 19<sup>th</sup>, out of 47 borrowers, in lending to low-income census tracts with a 0.4 percent market share. The bank ranked 25<sup>th</sup>, out of 73 lenders with 0.4 percent market share, in lending to moderate-income census tracts. The bank's ranking in low-income census tracts is comparable to the bank's overall small business ranking of 18<sup>th</sup>, out of 137 lenders, in the Norfolk and Middlesex counties. The bank's lending ranking in moderate-income census tracts falls below the overall ranking.

<b>Geographic Distribution of Small Business Loans</b>						
<b>Tract Income Level</b>	<b>% of Businesses</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>Low</b>						
2015	0.2	0.3	1	0.3	2	0.0
2016	0.2	--	0	0.0	0	0.0
<b>Moderate</b>						
2015	5.3	5.7	20	5.1	3,716	6.1
2016	5.3	--	16	5.8	1,881	4.8
<b>Middle</b>						
2015	26.7	26.3	75	19.2	9,524	15.5
2016	26.7	--	51	18.5	8,841	22.4
<b>Upper</b>						
2015	67.8	67.7	295	75.4	48,117	78.4
2016	67.7	--	208	75.6	28,713	72.8
<b>Not Available</b>						
2015	0.0	0.0	0	0.0	0	0.0
2016	0.0	--	0	0.0	0	0.0
<b>Totals</b>						
<b>2015</b>	<b>100.0</b>	<b>100.0</b>	<b>391</b>	<b>100.0</b>	<b>61,359</b>	<b>100.0</b>
<b>2016</b>	<b>100.0</b>	<b>--</b>	<b>275</b>	<b>100.0</b>	<b>39,435</b>	<b>100.0</b>
<i>Source: 2015 &amp; 2016 D&amp;B Data; 1/1/2015 - 9/30/2016 Bank Data; 2015 CRA Aggregate Data, "--" data not available.</i>						

## **Borrower Profile**

The distribution of borrowers reflects good penetration among individuals of different income levels and businesses of different sizes in the assessment area. The bank's good performance of home mortgage and small business lending supports this conclusion. Examiners focused on the percentage by number of home mortgage loans to low- and moderate-income borrowers and the percentage by number of small business loans to businesses with GARs of 1 million or less.

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

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate- income borrowers, shows good penetration. Examiners focused on the comparison to aggregate data.

Home mortgage lending to low-income borrowers, at 5.8 percent is good when compared to the aggregate data of 2.9 percent. A low-income family in the assessment area, with an average income of \$61,118, would not likely qualify for a mortgage under the conventional underwriting standards, especially considering the median housing value of \$494,991. Therefore, the demand and opportunity for lending to low income families is relatively limited. This helps explain the difference between bank performance to low-income families and the 13.8 percent of families of this income level. Lending to low-income borrowers showed a slight decrease in 2016, decreasing by 0.9 percentage points. The bank's lending to moderate- income borrowers was also good. The bank's lending exceeds aggregate by 2.7 percentage points. There was a slight increase in 2016 lending to moderate-income borrowers, increasing by 0.5 percentage points. The bank's 2016 lending to moderate- income borrowers is comparable to the percent of moderate-income families in the assessment area, exceeding the percent of families in moderate income areas in the Boston- Cambridge-Newton, MA-NH MSA by 0.9 percent points.

Market share data further supported the bank's more than reasonable performance under this criterion. In 2015, the bank ranked 5<sup>th</sup> in lending to low-income borrowers with a 3.2 percent market share. The bank was ranked 11<sup>th</sup> in lending to moderate-income borrowers, with a 2.1 percent market share. These market rankings are relatively consistent with the bank's overall market rank of 10<sup>th</sup> in the counties in the assessment area in the Boston-Cambridge-Newton, MA-NH MSA.

<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>
<b>Low</b>						
2015	13.8	2.9	32	5.8	3,986	2.3
2016	13.8	--	21	4.9	2,946	2.0
<b>Moderate</b>						
2015	12.8	10.5	73	13.2	12,366	7.1
2016	12.8	--	59	13.7	10,276	7.1
<b>Middle</b>						
2015	18.3	18.6	108	19.5	23,705	13.6
2016	18.3	--	90	20.8	22,148	15.4
<b>Upper</b>						
2015	55.0	50.4	325	58.7	120,652	69.4
2016	55.0	--	248	57.4	93,372	64.7
<b>Not Available</b>						
2015	0.0	17.5	16	2.9	13,107	7.5
2016	0.0	--	14	3.2	15,511	10.8
<b>Totals</b>						
<b>2015</b>	<b>100.0</b>	<b>100.0</b>	<b>554</b>	<b>100.0</b>	<b>173,816</b>	<b>100.0</b>
<b>2016</b>	<b>100.0</b>	<b>--</b>	<b>432</b>	<b>100.0</b>	<b>144,253</b>	<b>100.0</b>
<i>Source: 2010 U.S. Census; 1/1/2015 - 9/30/2016 Bank Data, 2015 HMDA Aggregate Data, "--" data not available.</i>						

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

The distribution of small business loans reflects good penetration of loan to businesses with GARs of less than \$1 million loans. The following table shows that the bank originated 61.6 percent of reported loans to businesses with GARs of \$1 million or less. This number exceeds aggregate lending to businesses in this revenue category by 12.3 percentage points. Lending in 2016 shows a positive trend, lending to businesses with GARs of \$1 million or less increased by 3.5 percentage points. This level of lending reflects a good performance.

Market share data further supported the bank's good performance under this criterion. In 2015, the bank ranked 11<sup>th</sup>, out of 137 lenders, in lending to businesses with gross annual revenues of \$1 million or less, with a market share of 1.1 percent market share. This market ranking exceeded the bank's overall market rank of 19<sup>th</sup>.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category</b>						
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>&lt;=\$1,000,000</b>						
2015	78.0	49.3	241	61.6	25,049	40.8
2016	83.9	--	179	65.1	18,560	47.1
<b>&gt;1,000,000</b>						
2015	6.2	--	149	38.1	36,305	59.2
2016	7.4	--	94	34.2	20,820	52.8
<b>Revenue Not Available</b>						
2015	15.8	--	1	0.3	5	0.0
2016	8.7	--	2	0.7	55	0.1
<b>Totals</b>						
<b>2015</b>	<b>100.0</b>	<b>100.0</b>	<b>391</b>	<b>100.0</b>	<b>61,359</b>	<b>100.0</b>
<b>2016</b>	<b>100.0</b>	<b>--</b>	<b>275</b>	<b>100.0</b>	<b>39,435</b>	<b>100.0</b>
<i>Source: 2015 &amp; 2016 D&amp;B Data; 1/1/2015 - 9/30/2016 Bank Data; 2015 CRA Aggregate Data; "--" data not available.</i>						

### **Community Development Lending**

MSB has made a relatively high level of community development loans in the Cambridge-Newton, MA-NH MSA since the previous examination. This conclusion takes into consideration the community development loans that specifically benefit the Boston- Cambridge- Newton, MA-NH MSA and the community development loans that benefit the overall assessment area, including towns and counties in the Boston- Cambridge- Newton, MA-NH MSA assessment area. The criterion for evaluating community development lending is included in the Overall Assessment Area Conclusions section of the public evaluation, in the “Community Development Lending” section.

The bank originated two affordable housing loans within the Boston- Cambridge-Newton, MA-NH MSA assessment area during the evaluation period. These affordable housing loans total approximately \$3.3 million. The bank extended a \$12.5 million dollar commercial mortgage, in 2014 for a 36 unit apartment building in Wellesley, MA. Of the total 36 units in the complex, 8 will be affordable rental units. The bank received the prorated amount of \$2.8 million for community development lending credit. In 2016, the bank originated a \$500,000 mortgage loan to a social services and housing organizations. The organization used the funds to purchase a residence in Stow, MA, and provide affordable housing for four clients.



Although the bank did not make any additional community development loans that specifically benefitted the Boston- Cambridge-Newton, MA-NH MSA, the bank made a number of community service and economic development loans that benefitted the entire assessment area, including the Boston- Cambridge-Newton, MA-NH MSA, please see the Community Development Lending section in the Overall section.

Information obtained from the community contact, bank management, and demographic and economic data further support the bank's high satisfactory community development lending performance in the Boston-Cambridge-Newton, MA-NH MSA portion of the assessment area. Similar to the overall assessment area, the Boston-Cambridge-Newton, MA-NH MSA assessment area towns are very affluent. Therefore, this limits community development lending opportunities. Additionally, there is a high amount of competition for community development loans in the assessment area. The community development loans that benefit the entire assessment area supplement the two loans that specifically benefitted the Boston-Cambridge-Newton, MA-NH MSA assessment area towns. The community contact identified community services and small business development as the greatest needs of the assessment area. These needs were met through the bank's loans to this social services agency and small business development corporations. Lastly, the bank's lending for a multi-family property increased the amount of affordable rental units in the area, and the amount government assisted rental units. The community contact stated that the majority of low- and moderate-income individuals can only afford to rent in the assessment area, and many individuals can only afford to rent government assisted units.

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

This criterion includes all innovative and flexible lending activities in the Boston- Cambridge-Newton, MA-NH MSA since the prior evaluation, covering the time period September 11, 2013 through January 5, 2017.

The bank makes use of innovative and flexible lending programs to assist in meeting the credit needs of its assessment area. The programs offered in the Boston- Cambridge-Newton, MA-NH MSA are the same as discussed in the overall evaluation. The majority of programs involve government-related subsidies and guarantees, in addition to limited internal programs. The bank's innovative and flexible lending in the Boston- Cambridge-Newton, MA-NH MSA is illustrated in the table below.

<b>Innovative or Flexible Lending Programs</b>										
<b>Type of Program</b>	<b>2013</b>		<b>2014</b>		<b>2015</b>		<b>YTD 2016</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>
Restricted Deed/ Affordable Housing	2	321	6	920	3	399	5	776	16	2,416
First Time Buyer	0	0	3	978	4	545	4	632	11	2,155
MassHousing Mortgage	2	650	5	1,033	8	1,763	4	867	19	4,313
MassHousing Partnership One Mortgage	N/A	N/A	11	2,324	13	5,786	15	3,053	39	11,163
HOME (Reverse Mortgages)	0	0	2	111	0	0	0	0	2	111
<b>Sub-Total Residential Loans</b>	<b>4</b>	<b>971</b>	<b>27</b>	<b>5,366</b>	<b>28</b>	<b>8,493</b>	<b>28</b>	<b>5,328</b>	<b>87</b>	<b>20,158</b>
Patriot Express	1	35	N/A	N/A	N/A	N/A	N/A	N/A	1	35
SBA 504	0	0	1	644	1	198	5	3,914	7	4,756
SBA 7/7A	1	729	4	493	2	925	3	1,333	10	3,480
SBA Express	2	22	8	765	4	350	6	471	20	1,608
Small Loan Advantage	0	0	1	83	0	0	0	0	1	83
MassCap	0	0	0	0	0	0	0	0	0	0
Mass Growth Capital	0	0	0	0	0	0	1	750	1	750
Mass Business Development Corp	2	7,882	0	0	0	0	0	0	2	7,882
<b>Sub-Total Commercial Loans</b>	<b>6</b>	<b>8,668</b>	<b>14</b>	<b>1,985</b>	<b>7</b>	<b>1,473</b>	<b>15</b>	<b>6,468</b>	<b>42</b>	<b>18,594</b>
<b>Totals</b>	<b>10</b>	<b>9,639</b>	<b>41</b>	<b>7,351</b>	<b>35</b>	<b>9,966</b>	<b>43</b>	<b>11,796</b>	<b>129</b>	<b>38,752</b>
<i>Source: Bank Records - Last Evaluation (LE) dated September 11, 2013</i>										

The descriptions of the specific innovative and flexible lending programs, referred to in the table above, are provided in the Overall Assessment Area Conclusions section of this public evaluation.

## INVESTMENT TEST

The criteria for evaluating community development lending are included in the Overall Assessment Area Conclusions section of the public evaluation, in the “Investment Test” section.

As noted in the overall section, the bank made an excellent level of qualified investments. Given the limited opportunities for qualified investments in such a wealthy assessment area, the bank has focused their efforts on providing funds to the community by means of an excellent level of local grants. These investments provided excellent responsiveness to community development needs as identified by community contacts, and directly serve the most vulnerable portions of the population. In addition, the bank has kept pace in the growth of its equity investments, pursuing funds with traits applicable to CRA. Investment growth in such an affluent area exhibits the bank’s commitment to their community.

### Investment Activity

MSB made 227 qualified investments, totaling approximately \$1.9 million, which specifically benefitted the Boston-Cambridge-Newton, MA-NH MSA towns in the assessment area. This total includes one qualified equity investment of \$639,868 million and 226 donations of \$1.2 million. Additionally, the bank made 10 equity investments, totaling \$21.1 million, and 96 donations, totaling \$389,000, which benefitted a broader statewide area.

The following table illustrates the bank’s community development investments, which specifically benefitted the Boston-Cambridge-Newton, MA-NH MSA, by year and purpose.

<b>Qualified Investments</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 Projects</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>
Prior Period	1	640	0	0	0	0	0	0	0	0	1	640
09/11/2013-12/31/2013	0	0	17	71	0	0	0	0	0	0	17	71
2014	2	29	63	236	0	0	1	10	0	0	66	275
2015	3	38	67	394	0	0	0	0	0	0	70	432
2016	3	22	69	432	1	5,000	0	0	0	0	73	459
<b>Totals</b>	<b>9</b>	<b>729</b>	<b>216</b>	<b>1,133</b>	<b>1</b>	<b>5,000</b>	<b>1</b>	<b>10</b>	<b>0</b>	<b>0</b>	<b>227</b>	<b>1,877</b>

*Source: Bank records*

Below are notable examples of the bank’s qualified investments:

### Equity Investments

- In 2011, the bank invested in the conversion of a high school into affordable housing units within Middlesex County. The project is a collaboration a group of lenders

alongside the Massachusetts Investment Corporation and the Massachusetts Housing Partnership. As of June 30, 2016, the book value of the bank's investment was \$639,868.

### Donations

- The bank made a donation to Maynard Community Chest, an all-volunteer, nonprofit organization that strengthens the community by supporting local charitable agencies that provide a broad range of essential human services to people who live or work in Maynard, Massachusetts. The Community Chest supports 17 organizations and provides many kinds of services to Maynard residents of all ages, abilities and types of need. A majority of these organization solely benefit low- and moderate- income individuals.
- The bank made a donation to Bethany Hill Place, which offers affordable, educational housing to more than 150 individuals and families every year. This organization serves households that have experienced homelessness, addiction, violence, and loss by providing for basic needs in the form of safe, affordable housing.
- The bank made a donation to a regional nonprofit economic development corporation, South Eastern Economic Development (SEED) Corporation. SEED focuses on job creation by financing all types of small businesses in Massachusetts and Rhode Island. SEED makes loans ranging from a \$1,000 Micro Loan to a \$5.5 million SBA 504 Loan and also administers a small business technical assistance program. The corporation specifically services Middlesex County.
- The bank made a donation to Framingham Downtown Renaissance. The nonprofit corporation is committed to facilitating the development of Downtown Framingham as a vibrant blend of commercial and residential mixed-use. The organization's primary focus is to recruit public and private partnerships and investments, in order to generate jobs and income, increase community connections and support good design at a location that is highly visible and critically important to the MetroWest region. Framingham has a low-income census tract, and four moderate-income census tracts. The job creation would be for low- and moderate-income individuals.

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

The bank exhibits excellent responsiveness to credit and community economic development needs. Of the total donations that benefitted the Boston-Cambridge-Newton, MA-NH MSA, the bank provided approximately 95.2 percent, by number, of the bank's grants to organizations providing services to low- and moderate-income individuals within the assessment area. This support for social services was a need outlined by local community organizations.

Additionally, the equity investment that specifically benefitted this MSA, was towards the conversion of a high school into affordable rental units. The community contact identified affordable rental units as the greatest affordable housing need for low- and moderate- income individuals in the assessment area.

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

The institution made significant use of innovative and complex investments to support community development initiatives. The bank invested in a number of Small Business Investment and Development Companies. These companies create innovative lending products for small businesses, which would be unable to obtain traditional bank financing. Many of these companies focus on making loans to start-ups, who do not currently have the collateral to qualify for a bank loan, and working with the company until they are able to obtain more traditional financing.

## **SERVICE TEST**

The Service Test evaluates an institution's record of helping to meet the credit needs of its assessment area 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.

MSB has an accessible system for delivering retail banking and community development services to the assessment area. The bank's branches, all with 24-hour ATMs, are located throughout the assessment area and are accessible and convenient to low- and moderate-income residents and low- and moderate-income census tracts. Generally, the services and products offered are comparable to similarly sized competitors.

In meeting community development service needs, the bank was a leader in its efforts and in offering its financial expertise to community development groups in the Boston-Cambridge-Newton, MA-NH MSA portion of the assessment area. In particular, bank officers have taken leadership roles within community organizations whose mission and programs provide significant support to the neediest areas of the assessment area. In many instances, the bank was the only financial institution involved in providing expertise and program support to local community development organizations meeting the most pressing community development needs in the assessment area, such as free financial education to low- and moderate-income individuals. Bank individuals participate on many credit committees for a local community service organization, which provides housing loans, and micro-loans for small businesses, to low- and moderate- income individuals who wouldn't otherwise qualify for a loan.

### **Retail Banking Services**

The bank offers the same retail banking series throughout the assessment area. For information on the bank's retail banking services refer to the "Service Test" in the Overall Conclusions Section.

### **Accessibility of Delivery Systems**

The bank's delivery systems are readily accessible to all portions of the Boston-Cambridge-Newton, MA-NH MSA assessment area. Bank locations are distributed in such a way that no portion of this assessment area is inconvenienced. Alternative delivery systems are available to supplement the bank's branches.

#### *Distribution of Branches*

In addition to its main office, MSB operates 28 full-service branches located in the following communities: Acton (2); Ashland; Bedford; Bellingham; Boxborough; Concord (2); Framingham (2); Franklin; Groton; Holliston; Hopkinton; Littleton; Maynard (2); Medfield; Medway; Millis; Natick (main office); Needham; Sherborn; Sudbury; Walpole; Wayland(2); Wellesley; and Westford. There are 17 located in upper-income geographies, 11 in middle-income geographies, and 1 in a moderate-income geography. Branches are open Monday through Saturday, with extended evening hours on Thursdays. All branches offer the bank's complete line of loan

products and most offer drive-up service. The branch located in a moderate-income geography, Worcester Road in Framingham, has both a drive-up teller and a drive-up ATM.

#### *Automated Teller Machines (ATMs)*

Bank ATMs are located at each of the branch offices providing 24-hour account access. In addition to ATMs located at branch locations, MSB also has four cash-dispensing ATMs and three full-service ATMs that accept deposits. There are five ATMs (two full-service) in upper-income geographies, one ATM (full-service) in a middle-income geography, and one cash dispensing ATM in a moderate-income geography in Framingham. The bank is also a member of the Allpoint ATM Network. As a result of its involvement in the Allpoint program, bank customers can avoid ATM surcharges at other participating ATMs.

#### *Commercial Lending Offices*

In addition to the full service branches, the bank has one loan production office staffed with commercial lenders. The office is located in Natick, in an upper-income geography.

In addition to the branch network, ATMs, and commercial lending offices, MSB also provides a variety of alternative delivery systems. These alternative delivery systems are offered throughout the entire assessment area, and are detailed in the “Service Test” in the Overall Conclusions Section.

### **Changes in Branch Locations**

The bank’s record of opening and closing branches did not adversely affect the accessibility of its delivery systems to low- and moderate- income geographies or individuals in its assessment area. The bank maintains an Office Relocation, Consolidation and Closing Policy that outlines factors that are considered when deciding to relocate, consolidate, or close a branch office. The bank opened two branches and closed two branches since the previous evaluation. Both of the new branches are in upper-income tracts, while two of the closed branches were in middle-income tracts and two were in upper-income tracts. The bank closed branches in Framingham, MA and Millis, MA. The bank has two other branches in Framingham, MA that have remained open, and Millis, MA kept the drive-up ATM open at the previous branch location.

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

Overall, business hours do not vary in a way that inconveniences portions of the assessment area, particularly low- and moderate-income individuals. Branch hours are consistent at each location with weekday hours generally from 8:30 A.M. to 5:00 P.M. Branches with drive-up service and the main office open 30 minutes earlier. All branches offer extended hours on Thursday evenings and Saturday hours of 9:00 A.M. to 1:00 P.M. ATM, mobile, and online banking are available 24 hours a day, 7 days a week.

## Community Development Services

The CRA regulation defines a community development service as a service for an organization that meets the definition of community development and the service is related to the technical expertise of the individual. Based upon the criteria above, the bank was a leader in providing community development services in the Boston-Cambridge-Newton, MA-NH MSA assessment area during the evaluation period. The bank provided 262 instances of community development services to dozens of organizations, often on an ongoing basis. These instances are in addition to the 124 community service activities with organizations that benefitted the entire assessment area. It is important to note that examiners counted each individual instance of financial literacy services. For example, if an individual conducted financial literacy courses on a monthly basis, examiners counted a total of 12 instances of credit for the year. Additionally, one individual taught weekly classes during the school year. This person received 36 instances of service for each whole calendar year

The bank acted as the principal financial institution in many instances of providing these community development services. The bank's variety of involvement covered community development opportunities in the area, from board involvement with local organizations, to financial education and technical assistance provided directly to individuals. A substantial majority of bank services were for community services purposes. The community contact identified community services as the greatest need for low- and moderate-income individuals, in this portion of the assessment area. The table below summarizes the bank's community development services by year and purpose.

<b>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 Projects</b>	<b>Totals</b>
	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>
9/11/2013-12/31/2013	0	14	0	0	0	14
2014	2	94	1	0	0	97
2015	3	69	0	0	0	72
2016	4	73	2	0	0	79
<b>Total</b>	<b>9</b>	<b>250</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>262</b>

*Source: Bank records*

Below are notable examples of the bank's involvement in community organizations:

### Employee Involvement

The bank devotes time and resources to assisting with community development initiatives within its assessment area by having representatives serve in leadership roles in community-based organizations. The following are examples of the organizations in which bank officers are involved. These examples demonstrate the bank's leadership in responding to the most critical community development needs in the assessment area.



- Three bank officers serve in leadership roles for affordable housing trusts in Franklin, Lexington and Natick. As Board Members, these individuals ensure effective use of affordable housing grants so that low- and moderate-income borrowers receive down payment assistance for the purchase of existing homes at fair market values. The bank officers provide a key service in maintaining the affordable housing stock in such affluent areas.
- A Senior Vice President (SVP) of Marketing provided technical assistance to MetroWest ESL Fund during the evaluation period. This nonprofit aims to raise funds for adult English-as a-Second-Language (ESL) programs in Framingham. The population of immigrants with limited English skills far exceeds the limits of the ESL programs available, and there is a concerted effort to expand the service throughout the city. The SVP provides marketing and fundraising strategies to the nonprofit to better solicit funds from individuals and organizations.
- A Regional Branch Manager holds a board position at Open Table, Inc., in Concord, MA. Open Table provides healthy food, friendship, and support to those in need. The organization holds weekly community supper programs and Food Pantries in Concord, Maynard, and Sudbury, MA.

### Financial Education and Support

MSB regularly provided assistance and education geared towards seniors, small businesses, at-risk youths, and first time homebuyers. Below are notable examples of financial education.

- During the evaluation period, the bank provided several financial literacy classes per year to inmates of the Pondville Correctional facility. The program was based on the FDIC Money Smart Financial education program. These sessions assist inmates in making better financial decisions upon release, easing the transition process. The bank is the only institution providing this type of service to the facility.
- The bank also collaborated with the Framingham Downtown Revitalization Project and SMOC to provide small business workshops in 2015 and 2016. The workshops specifically targeted businesses in Framingham specifically in a low- and moderate-income geographies. Topics were geared to startup businesses and covered obtaining financing, basic accounting, pricing and purchasing, and marketing on a limited budget. The overall project is located in a low-income census tract with the purpose to retain businesses and residents in the area. The bank was the only financial institution involved in the development of this program.
- Bank employees provided on-site banking services and counseling to residents in the Shillman house, a Framingham apartment complex for seniors. Shillman House designates the majority of units to low- and moderate-income individuals or couples.

- In 2013 and 2014, the bank provided financial literacy education to fourth graders attending the Woodrow Wilson Elementary School. The course covered basic banking subjects. The majority of students attending this Framingham school qualify for free or reduced-price lunch.

*Other Services*

The bank offers a number of other services, which benefit both MSAs in the assessment area. Please refer to the “Service Test” in the Overall Conclusions Section to read more about these services.

## **DESCRIPTION OF INSTITUTION’S OPERATIONS IN WORCESTER, MA-CT MSA**

The bank only has one branch in the Worcester, MA-CT MSA. Although a full scope analysis was completed, examiners gave the majority of weight in the Overall Rating to the performance conclusions in the Boston-Cambridge-Newton, MA-NH MSA.

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

MSB designated a portion of Worcester County as one of their assessment areas. Worcester County, along with Windham County, Connecticut, makes up the Worcester, MA-CT MSA. The bank selected 11 municipalities within Worcester County in their assessment area. The assessment area is located approximately 35 miles west from the City of Boston and approximately 11 miles east of the City of Worcester along the 495 Interstate. According to the 2010 U.S. Census, 22 census tracts comprise the assessment area. The assessment area has a total population of 112,794. The census tracts reflect the following income designations:

- 0 low-income tract,
- 1 moderate-income tract,
- 4 middle-income tracts, and
- 17 upper-income tracts.

There are no low-income tracts within the assessment area. The one moderate- income tract is located in Milford. The bank has one branch in the assessment area located in an upper-income tract. The branch is located in Southborough, MA. The bank also has a Commercial Lending Office located in Westborough, MA. The following table illustrates select demographic characteristics of the assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	22	0.0	4.5	18.2	77.3	0.0
Population by Geography	112,794	0.0	3.4	18.2	78.4	0.0
Housing Units by Geography	41,882	0.0	4.1	19.8	76.1	0.0
Owner-Occupied Units by Geography	30,632	0.0	1.4	16.0	82.7	0.0
Occupied Rental Units by Geography	8,926	0.0	12.6	29.7	57.7	0.0
Vacant Units by Geography	2,324	0.0	7.7	32.9	59.5	0.0
Businesses by Geography	9,542	0.0	4.2	15.2	80.5	0.0
Farms by Geography	277	0.0	1.1	12.3	86.6	0.0
Family Distribution by Income Level	29,750	10.8	11.0	19.2	58.9	0.0
Household Distribution by Income Level	39,558	15.8	10.3	14.8	59.1	0.0
Median Family Income MSA - 49340 Worcester, MA-CT MSA	77,128	Median Housing Value		402,305		
		Median Gross Rent		1,080		
		Families Below Poverty Level		2.9%		
<i>Source: 2010 U.S. Census and 2016 D&amp;B Data</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

According to the 2016 Dunn & Bradstreet data, there were 10,213 businesses operating in the assessment area. Gross annual revenues for the businesses are below:

- 81.7 percent have \$1 million or less.
- 7.2 percent have more than \$1 million.
- 11.1 percent have unknown revenues

The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by GAR level. The service industries represent the largest portion of businesses at 49.2 percent; followed by retail trade (11.1 percent); and construction (9.0 percent). In addition, 71.3 percent of area businesses have four or fewer employees, and 87.2 percent operate from a single location.

Examiners used the 2015 and 2016 FFIEC-updated median family income level to analyze the bank's level of lending to home mortgage borrowers of different income levels within the assessment area under the Borrower Profile criterion. The following table presents the low-, moderate-, middle-, and upper-income categories. These categories are based on the 2015 and 2016 FFIEC-updated median family income of \$81,500 and \$78,500, respectively.

<b>Worcester, MA-CT MSA (49430)</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>
2015 (\$81,500)	<\$40,750	\$40,750 to <\$65,200	\$65,200 to <\$97,800	≥\$97,800
2016 (\$78,500)	<\$39,250	\$39,250 to <\$65,800	\$62,800 to <\$94,200	≥\$94,200

*Source: FFIEC*

There are 41,882 housing units in the assessment area. Of these, 73.1 percent are owner-occupied, 21.3 percent are occupied rental units, and 5.6 percent are vacant. The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units.

According to U.S. Bureau of Labor and Statistics, the unemployment rate at year-end 2015 for Worcester County was 5.3 percent while the State of Massachusetts unemployment rate was 5.0 percent over the same time period. The unemployment rate has improved in both Worcester County and the state over the past three years. According to Moody’s Analytics, the largest employers within the Worcester, MA-CT MSA include the University of Massachusetts Memorial Health Care, the University of Massachusetts Medical School, and Fallon Clinic. The largest industry sectors include healthcare, higher education, and manufacturing.

***Competition***

According to the FDIC Deposit Market Share report as of June 30, 2016, 36 financial institutions operated 212 offices in Worcester County. In addition, many mortgage brokers, credit unions, and finance companies operate within the county, creating strong competition for loans and deposits in this assessment area. Of these institutions, MSB ranked 27<sup>th</sup> with 0.9 percent deposit market share inside the County.

Similarly, there is a high level of competition for home mortgage loans among several banks, credit unions, and non-depository mortgage lenders. In 2015, 329 lenders reported a total of 6,161 residential mortgage loans originated or purchased inside the assessment area. The bank ranked 22<sup>nd</sup>, with a 1.1 percent market share. The top four primary lenders – Loandepot.com, Wells Fargo, NA, JP Morgan Chase, NA, and Quicken Loans collectively hold 17.0 percent (by number of loans) and 18.2 percent (by dollar volume) of the market share.

**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. One of the community organizations contacted serves the needs of the Worcester, MA-CT MSA.

The community organization provides social services, affordable housing, and, small business support to low-income and disadvantaged families and individuals in the MetroWest and Worcester County area. The contact noted a need for affordable housing in the area, specifically in areas with public transportation. This contact also noted the increase of immigrants in the area in recent years, and a trend with immigrants being more likely to open up small businesses. Many immigrants, as well as low and moderate income individuals, have a hard time meeting

traditional credit requirements, due to a lack of credit, poor credit, or a lack of collateral. The contact stated a need for micro-lending, to help assist these individuals with starting a new business. The contact noted that small business micro-lending helps small businesses in the area survive, as well as “rebuilds the economy through income growth and job creation.”

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

As noted in the Overall Conclusions Section, the affluent nature of the bank’s assessment area, limits the community development opportunities. The demographic make- up of the Worcester, MA-CT MSA is very similar to the overall assessment area, and has similar credit and community development needs. Considering information from the community contact, bank management, and demographic and economic data, examiners determined that the greatest credit need, for this portion of the assessment area, is small business lending. The majority of businesses in the assessment are small businesses.

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN WORCESTER, MA-CT MSA**

### **LENDING TEST**

#### **Lending Activity**

This performance criterion considers the volume of MSB's lending in relation to the bank's financial condition and resources. The bank's lending levels reflect good responsiveness to assessment area credit needs. During 2015 and the first three quarters of 2016, MSB originated 82 home mortgage loans, totaling approximately \$22.5 million, and 61 small business loans, totaling approximately \$11.4 million in the Worcester, MA-CT MSA portion of the assessment area.

During 2015, MSB attained a good market rank for HMDA lending inside the assessment area. The bank was the 21<sup>st</sup> largest originator of home mortgage loans by loan volume, among the 299 HMDA lenders in the assessment area. The bank's market share was 1.1 percent by number and 1.0 percent by dollar volume. Among the higher ranked lenders were larger financial institutions and mortgage companies that operate on a regional or national basis. These include JPMorgan Chase Bank, NA; Wells Fargo Bank, NA; Loandepot.com, LLC; and Guaranteed Rate INC.

With regard to small business lending in 2015, MSB attained an adequate market rank at the county level. The bank ranked 22<sup>nd</sup> out of 87 small business loan reporters in the area. The market share was 0.5 percent by number and 2.8 percent by dollar volume. The highest ranked lenders for small business reporting were Credit Card companies. These include American Express, FSB; Bank of America N.A.; Capital One Bank (USA), N.A.; and Citibank, N.A.

Market rank information for 2016 was not available as of the evaluation date. Since only the first three quarters of 2016 were available, the 2015 loan volume cannot be compared to 2016 data. The bank's loan volume appears consistent with its financial resources and capabilities.

#### **Geographic Distribution**

The geographic distribution of loans reflects adequate dispersion throughout the Worcester assessment area. The bank's adequate performance of residential and small business lending primarily supports this conclusion. As the assessment area contains no low-income tracts, examiners focused on the percentage, by number of loans, in the one moderate-income census tract.

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

The geographic distribution of home mortgage loans reflects adequate penetration throughout the assessment area. The assessment area contains no low-income tracts and only one moderate-income tract. In 2015, the bank's lending performance in the moderate-income tract exceeded the demographic data for the percentage of owner-occupied housing units in the area. The bank originated 2 loans, or 3.8 percent of home mortgage loans, in the moderate-income geography within the assessment area. Further, MSB outperformed peer in lending to the moderate-income tract by 2.2 percent.

In addition, the bank ranked 19<sup>th</sup> out of 53 lenders in its assessment area, with a 1.8 percent market share for lending within the moderate-income tract. The leaders in this moderate-income tract were primarily large national banks and mortgage companies. The top institution, representing 9.0 percent of the market share, originated just 10 loans, demonstrating the limited opportunities to lend in this tract.

In 2016, the bank did not originate any loans in the moderate-income geography. Nevertheless, the data from 2016 only includes lending activity through the first three quarters of the year. Examiners compared the bank's lending performance in 2016 to the demographic data, as peer data is not available. As mentioned, there is only one moderate-income tract in the assessment area (7443.00). Within this tract, the owner-occupancy rate is only 24.3 percent compared to 65.3 percent rental occupancy rate. Given the low amount of owner-occupied units in the moderate-income tract, lending opportunities are limited and the bank's performance is reasonable.

<b>Geographic Distribution of Home Mortgage Loans</b>						
<b>Tract Income Level</b>	<b>% Owner-Occupied Housing Units</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>Low</b>						
2015	0.0	0.0	0	0.0	0	0.0
2016	0.0	--	--	0.0	0	0.0
<b>Moderate</b>						
2015	1.4	1.6	2	3.8	375	2.7
2016	1.4	--	0	0.0	0	0.0
<b>Middle</b>						
2015	16.0	14.9	4	7.7	410	3.0
2016	16.0	--	3	10.0	774	8.8
<b>Upper</b>						
2015	82.7	83.5	46	88.5	12,875	94.3
2016	82.7	--	27	90.0	8,053	91.2
<b>NA</b>						
2015	0.0	0.0	0	0.0	0	0.0
2016	0.0	--	0	0.0	0	0.0
<b>Total</b>						
<b>2015</b>	<b>100.0</b>	<b>100.0</b>	<b>52</b>	<b>100.0</b>	<b>13,660</b>	<b>100.0</b>
<b>2016</b>	<b>100.0</b>	<b>--</b>	<b>30</b>	<b>100.0</b>	<b>8,827</b>	<b>100.0</b>
<i>Source: 2010 U.S. Census; 1/1/2015 - 9/30/2016 Bank Data, 2015 HMDA Aggregate Data, "--" data not available Percentages may not add to 100.0 due to rounding.</i>						

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

The geographic distribution of small business loans reflects adequate penetration throughout the assessment area. Examiners compared the bank's lending with the business demographics in the area and 2015 aggregate data. In 2015, the bank originated one loan, representing 2.9 percent of all small business loans, within the moderate-income tract of the assessment area.



The bank's level of lending within the moderate-income tract is similar to the demographics, trailing by just 1.9 percent. Further, the bank's lending in the moderate-income tract is on par with peer performance. Examiners placed more weight on the analysis to peer data as peer performance provides a more realistic depiction of the actual lending activity, opportunity, and demand in the area.

In 2016, the bank's lending in the moderate-income tract increased representing 7.7 percent of small business loans. MSB's small business lending exceeded the demographics by 3.5 percent. Again, the 2016 data only accounts for the first nine months of the year. Additionally, there is limited opportunity for the bank to lend in low- and moderate-income geographies given the demographic make-up of the assessment area. With no low- and only one moderate-income census tract, small business lending in these geographies is challenging. Further, only 4.2 percent of businesses operate within the one moderate-income tract. Despite these challenges, MSB demonstrated an ability to lend within this tract and examiners consider the bank's small business lending adequate.

Market share data further supported the bank's good performance. In 2015, the bank ranked 27<sup>th</sup>, out of 51 lenders, in lending to moderate-income census tracts with a 0.1 percent market share. This ranking is slightly lower than the bank's overall market rank of 22<sup>nd</sup>, out of 87 lenders, in the Worcester, MA-NH assessment areas counties in 2015.

Geographic Distribution of Small Business Loans						
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2015	0.0	0.0	0	0.0	0	0.0
2016	0.0	--	0	0.0	0	0.0
Moderate						
2015	4.8	3.3	1	2.9	268	4.0
2016	4.2	--	2	7.7	725	16.0
Middle						
2015	14.7	14.6	2	5.7	478	7.0
2016	15.2	--	1	3.8	200	5.0
Upper						
2015	80.5	82.1	32	91.4	6,318	89.0
2016	80.5	--	23	88.5	3,493	79.0
Not Available						
2015	0.0	0.0	0	0.0	0	0.0
2016	0.0	--	0	0.0	0	0.0
<b>Totals</b>						
<b>2015</b>	<b>100.0</b>	<b>100.0</b>	<b>35</b>	<b>100.0</b>	<b>7,064</b>	<b>100.0</b>
<b>2016</b>	<b>100.0</b>	<b>--</b>	<b>26</b>	<b>100.0</b>	<b>4,418</b>	<b>100.0</b>
<i>Source: 2015 &amp; 2016 D&amp;B Data; 1/1/2015 - 9/30/2016 Bank Data; 2015 CRA Aggregate Data, "--" data not available.</i>						

## **Borrower Profile**

The distribution of borrowers reflects adequate penetration among individuals of different income levels and businesses of different sizes in the assessment area. The bank's adequate performance of home mortgage and small business lending primarily supports this conclusion. Examiners focused on the percentage by number of small business loans to businesses with GARs of \$1 million or less and the percentage by number of home mortgage loans to low- and moderate-income borrowers.

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

In 2015, the bank's lending performance to low-income borrowers trailed the demographic data for the percentage of families in the area. Similarly, MSB's lending to moderate-income borrowers also lagged behind the demographic data. However, it is important to note that the demographic data shows the percentage of all families, not just those who purchased or are in the market for, a new home loan. Thus, examiners placed more weight on the bank's performance compared to aggregate data, as this demonstrates the actual lending activity in the area by all institutions.

The aggregate data provides a better indicator of the opportunities and demand in the assessment area. MSB's lending to low-income borrowers exceeded peer data by approximately 5.1 percent. The bank's lending to moderate-income borrowers fell slightly behind aggregate by 3.0 percent. Nevertheless, market share reports further support the bank's reasonable performance. In 2015, MSB ranked 10<sup>th</sup> out of 91 lenders in originating loans to low-income borrowers and 45<sup>th</sup> out of 149 lenders originating loans to moderate-income borrowers within the assessment area. These rankings are relatively consistent with the bank's overall market rank of 22<sup>nd</sup> in the assessment area.

Examiners compared the bank's lending performance in 2016 to the demographic data, as peer data is not available. MSB's lending to low-income borrowers decreased as the bank originated only one loan in 2016. Similarly, lending to moderate-income individuals also decreased and the bank did not originate any loans to these borrowers. The bank's lending to low- and moderate-income borrowers fell significantly below the percent of families in the area. Nevertheless, the 2016 data represents only nine months of data and is not representative of a full year of lending activity. In addition, a low- or moderate-income family in the assessment area with an income less than \$62,800 would not likely qualify for a mortgage under conventional underwriting standards with a median housing price of \$402,305. Therefore, the demand and opportunity to lend is limited. This helps to explain the lower level of lending to low- and moderate-income individuals.

Overall, considering the bank exceeded and was just slightly below peer for lending to low- and moderate-income borrowers, respectively, and that 2016 data is not representative of a full year of lending activity, the bank's distribution of loans reflects adequate penetration among individuals with different income levels.

<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>
<b>Low</b>						
2015	10.8	2.6	4	7.7	558	4.1
2016	10.8	--	1	3.3	142	1.6
<b>Moderate</b>						
2015	11.0	10.7	4	7.7	556	4.1
2016	11.0	--	0	0.0	0	0.0
<b>Middle</b>						
2015	19.2	17.3	5	9.6	942	6.9
2016	19.2	--	2	6.7	101	1.1
<b>Upper</b>						
2015	58.9	53.8	37	71.2	11,123	81.4
2016	58.9	--	26	86.7	8,269	93.7
<b>Not Available</b>						
2015	0.0	15.7	2	3.8	481	3.5
2016	0.0	--	1	3.3	315	3.6
<b>Total</b>						
<b>2015</b>	<b>100.0</b>	<b>100.0</b>	<b>52</b>	<b>100.0</b>	<b>13,660</b>	<b>100.0</b>
<b>2016</b>	<b>100.0</b>	<b>--</b>	<b>30</b>	<b>100.0</b>	<b>8,827</b>	<b>100.0</b>
<i>Source: 2010 U.S. Census; 1/1/2015 - 9/30/2016 Bank Data, 2015 HMDA Aggregate Data, "--" data not available. Percentages may not add to 100.0 due to rounding</i>						

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

The distribution of small business loans reflects good penetration among businesses with GARs of \$1 million or less. As the table below demonstrates, MSB made a majority, 60.0 percent, of its loans to small businesses in 2015. Nevertheless, the bank's lending to small businesses significantly trailed the demographics by 16.5 percent. It is important to note, however, that the demographic data shows the percentage of businesses operating in the area, not just those who received a loan or are in the market for a new loan. Thus, examiners placed more weight on the bank's performance compared to peer data, as this provides a more representative picture of the lending activity, opportunity, and demand in the area. In 2015, MSB significantly outperformed peer by 14.7 percentage points demonstrating its commitment to lend to small businesses in the area.

In 2016, MSB made a majority of its loans, 57.7 percent, to small businesses. As no aggregate data is available, examiners compared the bank's performance to the demographic data. MSB's small business lending fell significantly below the demographic data for the percent of businesses in the assessment area. Nevertheless, the bank's lending activity appears on par with its 2015 performance considering the data only accounts for nine months of lending activity.

Overall, the bank made a majority of its loans to small businesses in 2015 and 2016. Considering the bank significantly exceeded peer performance for lending to small businesses in 2015 and its 2016 performance is following the same trend, the bank’s lending penetration to small businesses is good.

Market share data further supported the bank’s good performance under this criterion. In 2015, the bank ranked 15<sup>th</sup>, out of 87 lenders, in lending to businesses with gross annual revenues of \$1 million or less, with a market share of 0.7 percent market share. This market ranking is slightly higher than the bank’s overall market rank of 22<sup>nd</sup> for lending to small businesses in the counties in the Worcester, MA-NH portion of 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>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>&lt;=\$1,000,000</b>						
2015	76.5	45.3	21	60.0	2,339	33.1
2016	81.7	--	15	57.7	607	13.7
<b>&gt;1,000,000</b>						
2015	6.2	--	14	40.0	4,725	66.9
2016	7.2	--	11	42.3	3,811	86.3
<b>Revenue Not Available</b>						
2015	17.3	--	0	0.0	0	0.0
2016	11.1	--	0	0.0	0	0.0
<b>Totals</b>						
<b>2015</b>	<b>100.0</b>	<b>100.0</b>	<b>35</b>	<b>100.0</b>	<b>7,064</b>	<b>100.0</b>
<b>2016</b>	<b>100.0</b>	<b>--</b>	<b>26</b>	<b>100.0</b>	<b>4,418</b>	<b>100.0</b>
<i>Source: 2015 &amp; 2016 D&amp;B Data; 1/1/2015 - 9/30/2016 Bank Data; 2015 CRA Aggregate Data; "--" data not available.</i>						

### **Community Development Lending**

MSB has made a relatively high level of community development loans in the Worcester, MA-CT MSA since the previous examination. This conclusion takes into consideration the community development loans that specifically benefit Worcester, MA-CT MSA and the Overall Assessment Area. The criterion for evaluating community development lending is included in the Overall Assessment Area Conclusions section of the public evaluation, in the “Community Development Lending” section.

The bank originated two loans to a Realty Trust, for the construction of a housing development, with 14 single family homes, in Bolton, MA. One of these 14 homes will sell as an affordable-rate unit. In November 2013, the bank modified and extended a development loan of \$495,000 to the Realty Trust.

The bank will receive the prorated amount of \$35,357 for community development credit. In 2014, the bank extended a \$900,000 construction line of credit for the project. The bank received credit for the prorated amount of \$64,286. In total, the bank received credit for \$99,642 of community development lending in the Worcester, MA-CT MSA assessment area.

Although the bank did not make any additional community development loans that specifically benefitted the Worcester, MA-CT MSA, the bank made a number of community service and economic development loans that benefitted a broader statewide area. Since the previous evaluation, the bank made four community development loans, totaling \$7.5 million, to an organization that provides a wide array of social services, as well as affordable housing and small business micro-loans, to low- and moderate-income individuals throughout the entire assessment area. The bank also made four community development loans, totaling \$6.8 million, towards small business development corporations, which benefitted the entire assessment area. The description of these loans is included in the “Community Development Lending” section in the Overall Assessment Area Conclusions write up.

Information obtained from the community contact, bank management, and demographic and economic data further support the bank’s high satisfactory community development lending performance in the Worcester, MA-CT MSA portion of the assessment area. Similar to the overall assessment area, the Worcester, MA-CT MSA assessment area towns are very affluent. Therefore, community development opportunities are limited. The community contact specifically stated the need for the development of Worcester County through small business lending. The community development loans that benefit the entire assessment area supplement the loans that specifically benefitted the Worcester, MA-CT MSA assessment area towns. The bank made a number of loans to small business development corporations and investment companies that benefit the Worcester, MA-CT MSA assessment area. Additionally, the bank made multiple loans to a social services organization that benefits Worcester County. One of the loans was towards the organization’s micro-loan fund. The organization uses the funds to make micro-loans to low- and moderate-income individuals to start small businesses.

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

This criterion includes all innovative and flexible lending activities in the Worcester, MA-CT MSA since the prior evaluation, covering the time period September 11, 2013 through January 5, 2017. For specifics on the criterion for evaluating innovative and flexible lending, refer to the “Innovative and Flexible Lending Practices” section in the overall assessment area evaluation.

The bank makes use of innovative and flexible lending programs to assist in meeting the credit needs of its assessment area. The programs offered in the Worcester, MA-CT MSA are the same as discussed in the overall evaluation. The majority of programs involve government-related subsidies and guarantees, in addition to limited internal programs. The bank’s innovative and flexible lending in the Worcester, MA-CT MSA are illustrated in the table below.

<b>Innovative or Flexible Lending Programs</b>										
<b>Type of Program</b>	<b>LE* -2013</b>		<b>2014</b>		<b>2015</b>		<b>YTD 2016</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>
Restricted Deed/ Affordable Housing	0	0	0	0	2	201	3	467	5	668
First Time Buyer	1	155	0	0	0	0	1	414	2	569
MassHousing Mortgage	0	0	0	0	1	128	2	330	3	458
MassHousing Partnership One Mortgage	0	0	1	184	3	605	2	273	6	1,062
HOME (Reverse Mortgages)	0	0	0	0	1	132	0	0	1	132
<b>Sub-Total Residential Loans</b>	<b>1</b>	<b>155</b>	<b>1</b>	<b>184</b>	<b>7</b>	<b>1,066</b>	<b>8</b>	<b>1,484</b>	<b>17</b>	<b>2,889</b>
Patriot Express	0	0	N/A	N/A	N/A	N/A	N/A	N/A	0	0
SBA 504	0	0	0	0	0	0	1	4,150	1	4,150
SBA 7/7A	0	0	0	0	0	0	2	820	2	820
SBA Express	0	0	1	25	0	0	1	30	2	55
Small Loan Advantage	0	0	0	0	0	0	0	0	0	0
MassCap	0	0	0	0	0	0	0	0	0	0
Mass Growth Capital	0	0	0	0	0	0	0	0	0	0
Mass Business Development Corp	0	0	0	0	0	0	0	0	0	0
<b>Sub-Total Commercial Loans</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>25</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>5,000</b>	<b>5</b>	<b>5,025</b>
<b>Totals</b>	<b>1</b>	<b>155</b>	<b>2</b>	<b>209</b>	<b>0</b>	<b>0</b>	<b>12</b>	<b>6,484</b>	<b>22</b>	<b>7,914</b>

Source: Bank Records - Last Evaluation (LE) dated September 11, 2013

The descriptions of the specific Innovative and Flexible Lending Programs are provided in the overall conclusions section.

## INVESTMENT TEST

The criterion for evaluating community development lending is included in the Overall Assessment Area Conclusions section of the public evaluation, in the “Investment Test” section.

The institution has an adequate level of qualified community investments and grants. Given the limited opportunities for qualified investments in such a wealthy assessment area, the bank has focused their efforts on providing funds into the community by means of an adequate level of local grants. These investments provided good responsiveness to community development needs as identified by community contacts, and directly serve the most vulnerable portions of the population.

### Investment Activity

MSB made 11 qualified investments, totaling approximately \$15,000, which specifically benefitted the Worcester, MA-CT MSA assessment area. The bank did not make any equity investments that specifically benefitted the Worcester, MA-CT MSA. However, these investments are in addition to the 10 equity investments, totaling \$21.1 million, and 96 donations, totaling \$389,000, which benefitted both MSAs in the assessment area.

The following table illustrates the bank’s community development investments, which specifically benefitted the Worcester, MA-CT MSA, by year and purpose.

Qualified Investments												
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize Or Stabilize		Neighborhood Stabilization Projects		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	0	0	0	0	0	0	0	0	0	0	0	0
09/11/2013-12/31/2013	0	0	0	0	0	0	0	0	0	0	0	0
2014	0	0	4	4	0	0	0	0	0	0	0	0
2015	0	0	4	4	0	0	0	0	0	0	0	0
2016	0	0	3	7	0	0	0	0	0	0	0	0
<b>Totals</b>	<b>0</b>	<b>0</b>	<b>11</b>	<b>15</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>11</b>	<b>15</b>

*Source: Bank records*

Below are notable examples of the bank’s qualified investments:

### Donations

- The bank made a donation to United Parishes of Southborough Food Pantry, Westborough Food Pantry, and Our Father’s Table food pantry each year of the evaluation period.
- The bank provided a donation to the Harvard Farmer’s Market- Farm to Friend. Farm to



Friend works with a local network of small-scale growers and backyard farmers in Harvard, who contributed a portion of their harvest. The farmer's market distributes the portions to persons in the Harvard community who cannot afford to purchase local healthy fruits and vegetable on their own.

- The bank made a donation to Gan Rivkah Center. The center started as an affordable day care, and today provides accommodation for 27 women in need, with or without children. The Gan Rivkah center offers free classes on subjects like computers, job placement, ESL, GED, and general tutoring. All provided services are free, and the center will work with the women until they find permanent housing.

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

The bank exhibited good responsiveness to credit and community development needs. All of the donations that benefitted the Worcester, MA-CT MSA assessment area, were for community development services. This support for social services was a need outlined by the community contact. Donations to these community service organizations are the best way to directly benefit low- and moderate-income individuals.

Additionally, the bank made a number of equity investments to small business development corporations, which benefit the entire assessment area. Examiners identified small business lending as the greatest credit need of this portion of the assessment area. These small business development corporations make loans to small businesses that may not otherwise qualify for traditional bank financing.

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

The institution occasionally uses innovative and complex investments to support community development initiatives. The bank invested in a number of Small Business Investment and Development Companies. These companies create innovative lending products for small businesses, which would be unable to obtain traditional bank financing. Many of these companies focus on making loans to start-ups, who do not currently have the collateral to qualify for a bank loan, and working with the company until they are able to obtain more traditional financing.

## **SERVICE TEST**

The Service Test evaluates an institution's record of helping to meet the credit needs of its assessment area 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.

MSB has an effective system for delivering retail banking and community development services to the assessment area. The bank's branches, all with 24-hour ATMs, are located throughout the assessment area and are accessible and convenient to low- and moderate-income residents and low- and moderate-income census tracts. Generally, the services and products offered are comparable to similarly sized competitors.

### **Retail Banking Services**

The bank offers the same retail banking services throughout the assessment area. For information on the bank's retail banking services refer to the "Service Test" in the Overall Conclusions Section.

### **Accessibility of Delivery Systems**

The bank's delivery systems are accessible to all portions of the Worcester, MA-CT MSA assessment area. Although the bank only has one branch in the Worcester, MA-CT MSA, there are a number of branches near the border of the Worcester, MA-CT MSA, in the Boston-Cambridge-Newton, MA-NH MSA. Therefore, bank locations are distributed in such a way that no portion of the assessment area is inconvenienced. Alternative delivery systems are available to supplement the bank's branches.

#### *Distribution of Branches*

The bank operates one branch in the Worcester, MA-CT MSA. The branch is in Southborough, MA, and is in an upper income census tract. Additionally, individuals in the Worcester, MA-CT MSA could reasonably access branches located in the following communities: Ashland; Boxborough; Framingham (2); Holliston; Hopkinton; Littleton; and Maynard (2). Branches are open Monday through Saturday, with extended evening hours on Thursdays. All branches offer the bank's complete line of loan products and most offer drive-up service.

#### *Automated Teller Machines (ATMs)*

Bank ATMs are located at each of the branch offices providing 24-hour account access. Additionally, the bank has a Full Service ATM in Hopkinton, MA, which is reasonably accessible from this portion of the assessment area. This ATM is located near the moderate-income census tract in the Worcester, MA-CT MSA assessment area. The bank is also a member of the Allpoint ATM Network. As a result of its involvement in the Allpoint program, bank customers can avoid ATM surcharges at other participating ATMs.

### *Commercial Lending Offices*

In addition to the full service branches, the bank has one loan production office staffed with commercial lenders. The office is located in Westborough, in an upper-income geography.

In addition to the branch network, ATMs, and commercial lending offices, MSB also provides a variety of alternative delivery systems. These alternative delivery systems are offered throughout the entire assessment area, and are detailed in the “Service Test” in the Overall Conclusions Section.

### **Changes in Branch Locations**

The bank did not open or close any branches in this portion of the assessment area.

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

Overall, business hours do not vary in a way that inconveniences any portion of the assessment area, particularly low- and moderate-income individuals. Branch hours are consistent at each location with weekday hours generally from 8:30 A.M. to 5:00 P.M. Branches with drive-up service and the main office open 30 minutes earlier. All branches offer extended hours on Thursday evenings and Saturday hours of 9:00 A.M. to 1:00 P.M. ATM, mobile, and online banking are available 24 hours a day, 7 days a week.

### **Community Development Services**

The CRA regulation defines a community development service as a service that is primarily for community development purposes and is related to the provision of financial expertise. Based upon the criteria above, the bank provided an adequate level of community development services during the evaluation period. The bank provided two instances of community development services to two of organizations. These instances are in addition to the 124 community service activities with organizations that benefitted the entire assessment area. The table below summarizes the bank’s community development services by year and purpose.

<b>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 Projects</b>	<b>Totals</b>
	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>
9/11/2013-12/31/2013	0	0	0	0	0	<b>0</b>
2014	0	1	0	0	0	<b>1</b>
2015	0	0	0	0	0	<b>0</b>
2016	0	0	1	0	0	<b>1</b>
<b>Total</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>2</b>

*Source: Bank records*

Below are descriptions of the bank's community service instances in the Worcester, MA-CT MSA:

- A Vice President is the Vice Chair of Westborough's economic development council. The Council promotes development and works to improve the business climate of the town specifically by improving job creation for low- or moderate-income individuals for small businesses.
- A Vice President at the bank is a Vice President on the Board of Dress for Success in Worcester County. The non-profit assists low-income women with clothing for job interviews, and provides programs to aide them along the way.

Other Services

The bank offers a number of other services, which benefit both MSAs in the assessment area. Please refer to the "Service Test" in the Overall Conclusions Section to read more about these services.

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

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

## APPENDIX

### SCOPE OF EVALUATION

SCOPE OF EVALUATION	
<b>TIME PERIOD REVIEWED</b>	September 11, 2013 – January 5, 2017
<b>FINANCIAL INSTITUTION</b>	Middlesex Savings Bank
<b>PRODUCTS REVIEWED:</b>	
<ul style="list-style-type: none"> <li>• Home mortgage loans originated in 2015 and the first three quarters of 2016 reported on the bank’s Loan Application Register (LAR).</li> <li>• Small business loans originated in 2015, and the first three quarters of 2016.</li> </ul>	

### SUMMARY OF STATE AND MULTISTATE METROPOLITAN AREA RATINGS

List of Assessment Areas and Type of Evaluation			
Rated Area/ Assessment Area	Type of Evaluation	Branches Visited	Other Information
Overall Combined AA	Full-scope	None	185 Census Tracts
Boston-Cambridge- Newton MA-NH MSA	Full-scope	Main Office	163 Census Tracts
Worcester MA-CT MSA	Full-scope	None	22 Census Tracts

Rated Areas’ Ratings	
Rated Area’s Name	Overall Rated Area’s Rating
Overall Combined AA	Outstanding

## DIVISION OF BANKS FAIR LENDING POLICIES AND PROCEDURES

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

The bank maintains a written fair lending policy. The bank proactively and affirmatively supports the fair lending process through consistent underwriting procedures, regular monitoring, and appropriate audits.

### MINORITY APPLICATION FLOW

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

According to the 2010 U.S. Census Data, the bank's assessment area contained a total population of 939,966 individuals of which 16.9 percent are minorities. The assessment areas minority and ethnic population is 2.2 percent Black/African American, 7.2 percent Asian, 0.1 percent American Indian, 0.0 percent Hawaiian/Pacific Islander, 4.8 percent Hispanic or Latino and 2.7 percent other.

The bank's level of lending was compared with that of the aggregate's lending performance level for the most recent year that data was available, the year 2016. The comparison of this data assists in deriving reasonable expectations for the rate of applications the bank received from minority residential loan applicants. Please refer to the table below for information on the bank's minority application flow as well as the aggregate lenders in the bank's assessment area.

<b>MINORITY APPLICATION FLOW</b>					
<b>RACE</b>	<b>Bank 2015</b>		<b>2015 Aggregate Data</b>	<b>Bank 2016</b>	
	#	%	%	#	%
American Indian/ Alaska Native	0	0.0	0.1	0	0.0
Asian	36	4.5	8.6	18	4.6
Black/ African American	1	0.1	0.9	0	0.0
Hawaiian/Pacific Islander	0	0.0	0.1	0	0.0
2 or more Minority	0	0.0	0.0	0	0.0
Joint Race (White/Minority)	16	2.0	1.8	9	2.3
<b>Total Minority</b>	<b>53</b>	<b>6.6</b>	<b>11.5</b>	<b>27</b>	<b>6.9</b>
White	615	76.4	65.3	314	73.9
Race Not Available	137	17.0	23.2	76	19.2
<b>Total</b>	<b>805</b>	<b>100.0</b>	<b>100.0</b>	<b>395</b>	<b>100.0</b>
<b>ETHNICITY</b>					
Hispanic or Latino	<b>5</b>	<b>0.6</b>	<b>2.0</b>	<b>3</b>	<b>0.8</b>
Not Hispanic or Latino	657	81.6	73.9	314	79.5
Joint (Hisp/Lat /Not Hisp/Lat)	<b>7</b>	<b>0.9</b>	<b>1.0</b>	<b>2</b>	<b>0.5</b>
Ethnicity Not Available	136	13.9	23.1	76	19.2
<b>Total</b>	<b>805</b>	<b>100.0</b>	<b>100.0</b>	<b>395</b>	<b>100.0</b>

*Source: US Census 2010, HMDA LAR Data 2015 and two quarters 2016, HMDA Aggregate Data 2015*

In 2015, the bank received 805 HMDA reportable loan applications from within its assessment area. Of these applications, 53 or 6.6 percent were received from minority applicants, of which 44 or 83.0 percent resulted in originations. The aggregate had a racial minority application flow of 11.5 percent and an origination rate of minority applications of 69.6 percent. In the first two quarters of 2016, the bank's racial minority application rate remained consistent at 6.9 percent, and the origination rate of minority applications decreased slightly to 77.8 percent.

In 2015, the bank received 12 ethnic minority applications, comprising 1.5 percent of all applications, compared to an aggregate ethnic minority application rate of 2.6 percent. For the first two quarters of 2016, the bank's ethnic minority application rate was similar at 1.3 percent.

The bank's racial minority application flow was lower than the aggregate trend, specifically in the percentage of Asian applicants. This is reflective of the current lending environment; a review of market share shows that the majority of applications from Asian individuals are dominated by mortgage lenders and national banks. MSB compared reasonably to similarly situated institutions, such as Eastern Bank, Belmont Savings Bank and Cambridge Savings Bank. Comparatively, the performance of similarly situated institutions mitigates concern of the bank's minority application flow. In addition, the bank exhibited a focus in expanding its base of minority applicants through outreach, advertising, and operations. Due to the bank's efforts to ensure fair lending practices, the bank's minority application flow is adequate. The bank is encouraged to continue to monitor its lending trends going forward to remain apprised of any opportunities.



## 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 or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

**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.