

PUBLIC DISCLOSURE

February 23, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

NEEDHAM BANK

Cert # 26483

**1063 GREAT PLAIN AVENUE
NEEDHAM, MA 02492**

**Division of Banks
1000 Washington Street
Boston, MA 02118**

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

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

This document is an evaluation of the CRA performance of **The Needham Bank (or the “Bank”)**, prepared by the Division, the institution's supervisory agency as of **February 23, 2015**. The agency evaluates performance in the assessment area as it is delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. The Division rates the CRA performance of an institution consistent with the provisions set forth in Massachusetts Regulation 209 CMR 46.00 et seq.

INSTITUTION'S CRA RATING: This institution is rated “Satisfactory.”

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

The assigned rating is based on the results of two performance tests: the Lending Test and the Community Development Test. The Bank's performance under each of these two tests is summarized below:

Lending Test: “Satisfactory”

- Needham Bank's loan-to-deposit ratio is reasonable given the institution's size, financial condition, and credit needs of its assessment area.
- A majority (57.8 percent) of the Bank's residential loans and small business loans are inside the assessment area.
- The geographic distribution of loans reflects a less than adequate dispersion throughout the assessment area.
- The distribution of borrowers reflects, given the demographics of the assessment area, an adequate penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.
- The Bank has not received any CRA-related complaints since the last CRA evaluation.

Community Development Test: “Satisfactory”

The institution demonstrates adequate responsiveness to the community development needs of its assessment area through community development loans, qualified investments, and community development services, considering its capacity and the need and availability of such opportunities for community development in the assessment area.

SCOPE OF THE EXAMINATION

Intermediate Small Bank (ISB) CRA procedures were utilized for the evaluation. These procedures utilize two performance tests: the Lending Test and the Community Development Test. This evaluation considered the Bank's lending and community development activities for the period of December 4, 2012 through February 23, 2015. The data and applicable timeframes for the Lending Test and the Community Development Test are discussed below.

The Bank is primarily a real estate secured lender. This is reflected in the Bank's most recent Consolidated Report of Condition and Income (Call Report) as of December 31, 2014, which shows that 97.3 percent of the Bank's loan portfolio is secured by real estate. For purposes of this evaluation, greater emphasis is placed on the Bank's residential lending performance as it was the Bank's primary lending focus throughout the evaluation period. Small farms loans and consumer loans were not analyzed as part of this evaluation as these loans also do not constitute a substantial portion of the Bank's loan portfolio or recent lending activity.

The Lending Test focused on home mortgage and small business lending. Home mortgage lending data analyzed included full-year data from January 1, 2013 through December 31, 2014. Information related to home mortgage lending was derived from the Loan Application Registers (LARs) maintained by the Bank, pursuant to the Home Mortgage Disclosure Act (HMDA). The LARs contain data about home purchase and home improvement loans, including refinancing of one- to four-family and multifamily properties (five or more units). The evaluation emphasized the Bank's home mortgage lending performance in 2013 as this is the most recent year for which aggregate lending data is available. The Bank's home mortgage lending performance is compared with aggregate HMDA data, which is a measure of home mortgage loan demand. Aggregate lending data reflects the lending activity of all HMDA reporting lenders that originated at least a single home mortgage in the Bank's designated assessment area. The Bank's home mortgage lending performance was also compared with demographic data. Home mortgage lending data for 2014 is illustrated in the Bank's lending data; however, the Bank's 2013 performance is more heavily weighted for the purpose of assigning a rating.

Small business lending data was also analyzed. Small business loans for the purpose of this evaluation are defined as commercial real estate loans and commercial and industrial loans with original balances of \$1 million or less. The Bank's small business loan data was derived from a sample of originated business loans in 2014. As an ISB, the Bank is not required to collect and report small business loan data. The Bank's 2014 small business lending performance is focused on as this is the most recent full-year lending data available. The Bank's small business lending performance is compared to pertinent 2014 demographic information.

The Community Development Test included an analysis of the Bank's qualified community development loans, investments, and services from December 4, 2012 through February 23, 2015. Qualified community development grants and donations for the same period were also included. Qualified equity investments currently held by the Bank were also included regardless of investment date. The investments were valued at the December 31, 2014 book value.

Demographic information is from the 2010 U.S. Census unless otherwise noted. Financial data was derived from the December 31, 2014 Report of Condition and Income (Call Report).

PERFORMANCE CONTEXT

Description of Institution

The Needham Bank, a Massachusetts state chartered mutually owned bank, opened for business on May 9, 1892. In addition to its main office, located at 1063 Great Plain Avenue in Needham, the Bank operates five branch offices located in Dedham, Dover, Medfield, Wellesley and Westwood. The main office and all five branch offices are located in upper-income census tracts. All branches are equipped with 24 hour automated teller machines (ATMs) and four of the five locations have drive-up facilities. The Bank has one remote ATM located at Beth Israel Deaconess Hospital in Needham, an upper-income census tract. All of the Bank's ATMs (7) are deposit taking and are connected to SUM[®], an alliance between many community banks that have agreed not to assess ATM surcharge fees to any of the other member banks' customers. The Bank opened one branch (Dover) since the previous examination.

The Needham Bank is a full-service financial institution that offers a wide variety of products and services. The Bank offers a variety of residential mortgage loans including fixed, adjustable and jumbo rate mortgages to purchase, improve or refinance a home, a first-time homebuyer program, home equity lines of credit, and home equity loans. The Bank offers commercial and small business loans for the purchase or refinance of commercial real estate loans, business lines of credit, business term loans and business construction loans. The Bank also offers deposit products and services, including checking accounts, savings accounts, money market accounts, certificates of deposit, and ATM and debit cards. Services for businesses include business on-line banking and remote deposit capture. Other services include telephone banking 24/7 for balance inquiry, transferring funds between accounts and reviewing recent activity; online banking with bill pay and electronic statements; online account opening and online mortgage applications; mobile banking; text banking and remote deposit capture.

As of December 31, 2014, the Bank had total assets of \$1.7 billion and total deposits of \$1.1 billion. Total loans were \$1.4 billion and represented 84.2 percent of total assets. The Bank's net loan-to-deposit ratio, as of the same date, was 118.0 percent. Since the last CRA evaluation, the Bank's assets have increased 45.8 percent, deposits have grown 35.7 percent and net loans have increased 56.5 percent. Per Bank Management, asset growth has increased over the past year attributed to loans primarily funded by short-terms, low rates, and FHLB advances.

The Needham Bank is primarily a residential lender with a majority of the loan portfolio secured by residential properties. As noted in Table 1, approximately 60.3 percent of the loans are secured by residential one to four-family properties, followed by construction and land development at 19.3 percent, and multi-family residential loans at 5.4 percent. Loans secured by commercial real estate accounted for 12.3 percent of the loan portfolio, while commercial and industrial loans represent 2.4 percent of loans. Total real estate loans account for 97.3 percent of the total loan portfolio.

Table 1 illustrates the current distribution of the Bank's loan portfolio.

Table 1		
Loan Distribution as of December 31, 2014		
Loan Type	Dollar Amount (000's)	Percent of Total Loans
Construction, Land Development and Other Land Loans	271,773	19.3
1-4 Family Residential Properties	848,225	60.3
Multi-Family (5 or more) Residential	75,259	5.4
Commercial	173,594	12.3
Total Real Estate Loans	1,368,851	97.3
Commercial and Industrial	34,252	2.4
Consumer	2,845	0.2
Loans and Leases, net of unearned income	(2)	0.1
Total Loans	1,405,946	100.0

Source: Report of Condition and Income (Call Reports) December 31, 2014

The Division last evaluated the Bank's CRA performance as of December 3, 2012 and assigned a rating of "Satisfactory."

There are no apparent financial or legal impediments that would limit the Bank's ability to help meet the credit needs of its assessment area. Based upon the Bank's asset size, product offerings, and branch network, its ability to meet the community's credit needs remains strong.

Description of Assessment Area

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

The Bank's assessment area contains 25 cities and towns located in Norfolk, Middlesex, and Worcester Counties. The following cities and towns are in Norfolk County: Brookline, Dedham, Dover, Franklin, Medfield, Medway, Millis, Needham, Norfolk, Norwood, Walpole, Wellesley, and Westwood. Middlesex County's cities and towns are: Ashland, Framingham, Holliston, Hopkinton, Natick, Newton, Sherborn, Waltham, Watertown, Wayland, and Weston. Worcester County includes Milford. Since the previous examination, 16 cities and towns have been added to the assessment area.

To assess the Bank's lending performance for this evaluation, consideration is given to demographic data in the assessment area. Refer to Table 2 for pertinent demographic information about the assessment area.

Table 2 Demographic Information					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts) (2013)	133	0.7	11.3	36.1	51.9
Geographies (Census Tracts) (2014)	133	0.7	8.3	31.6	59.4
Population by Geography	669,192	0.7	9.8	37.0	52.5
Owner-Occupied Housing by Geography	170,330	0.2	5.6	37.8	56.4
Distribution of Families by Income Level	163,853	15.5	13.4	18.7	52.4
Distribution of Households by Income Level	246,615	19.7	12.9	15.9	51.5
Business Geography	64,733	0.2	7.0	30.1	62.7
Median Family Income (MFI)		\$120,299	Households Below Poverty Level Median Housing Value Unemployment Rate		
HUD Adjusted MFI (2013) (Middlesex County)		\$101,000			6.9%
HUD Adjusted MFI (2013) (Norfolk County)		\$88,000			\$536,732
HUD Adjusted MFI (2013) (Worcester County)		\$81,300			5.3%
Families Below Poverty Level		3.9%			

Source: 2010 U.S. Census Data, 2014 D&B Data, 2013 FFIEC-Updated MFI

Economic and Demographic Data

As the data in Table 2 shows, the Bank's assessment area consists of 133 census tracts, of which there is 1 low-income census tract, 15 moderate-income census tracts, 48 middle-income census tracts, and 69 upper-income census tracts. The one low-income census tract is located in Framingham and the 15 moderate-income census tracts are located in Framingham (5), Milford (1) Newton (1), Waltham (6) and Watertown (2). In 2014, due to the reallocation of census tracts, the Bank's assessment area now consists of one low-income census tract (Framingham) and 11 moderate-income census tracts located in Framingham (4), Milford (1), Newton (1), Waltham (4) and Watertown (1); 42 middle-income census tracts and 79 upper-income census tracts for a total of 133 census tracts.

The assessment area has a total population of 669,192 residing in 163,853 families. Of all family households in the area, 15.5 percent are low-income, 13.4 percent are moderate-income, 18.7 percent are middle-income, 52.4 percent are upper-income and 3.9 percent are families below the poverty level. Of the 246,615 households, 48,597 or 19.7 percent are low-income and 31,789 or 12.9 percent are moderate-income and 17,009 or 6.9 percent are households that are below the poverty level. This poverty rate typically indicates a reduced ability to secure a mortgage loan, thereby reducing a financial institution's ability to penetrate these markets through residential loan products.

The assessment area consists of 260,086 total housing units, of which 170,330 or 65.5 percent are owner-occupied, 76,285 or 29.3 percent are rental units and 13,471 or 5.2 percent are vacant units. Of the 170,330 owner-occupied housing units, 260 or 0.2 percent are in low-income census tracts and 9,541 or 5.6 percent are in moderate-income census tracts. The median housing value in 2010 for the assessment area was \$536,732, and the median age of the housing stock was 54 years.

The 2014 Business Geo-demographic Data shows there are 64,733 businesses in the assessment area, of which 71.4 percent have gross annual revenues of \$1 million or less, 6.0 percent have gross annual revenues greater than \$1 million, and the remaining 22.6 percent have unknown revenues. Of total businesses in the assessment area, 0.2 percent is in low-income census tract, 7.0 percent are in moderate-income census tracts, 30.1 percent are in middle-income tracts, and 62.7 percent are in upper-income tracts. The highest proportion of these business establishments are engaged in the

services industry (49.0 percent). Non-classifiable establishments (12.8 percent), retail trade (10.2 percent), and construction (7.0 percent) make up a significant share of the establishments. In terms of employees, approximately 64.5 percent of the area's businesses employ four or fewer people. Included among the largest employers in the assessment area are Advantage Resourcing, Analog Devices, Bose Corporation, College of the Holy Cross, EMC Corporation, Hanover Insurance, and Harvard Pilgrim Health Care.

According to the 2010 U.S. Census, the unemployment rate for the assessment area was 5.0 percent. More recent data obtained from the U.S. Bureau of Labor and Statistics indicates that the unemployment rate was 5.3 percent for Massachusetts as of December 2014.

The Bank faces strong competition from other financial institutions that originated loans within the assessment area. These institutions range in size from small credit unions and mortgage companies with single office locations to the largest banks in New England. Among the more prominent lenders competing with the Bank are Bank of America, Brookline Savings Bank, Dedham Savings Bank, Middlesex Savings, Santander Bank, and Wellesley Bank. The 2013 aggregate lending data shows that 469 lenders originated 40,455 residential mortgage loans in the Bank's assessment area. Needham Bank ranked 25th with a 0.8 percent market share. The top three lenders consisted of Bank of America with 8.4 percent, Wells Fargo Bank with 6.6 percent and Mortgage Master with 5.3 percent.

The assessment area has no one primary credit need. The area's residents need a variety of retail loan products to meet personal needs and an array of home financing programs for the purchase, construction, improvement, or refinance of a residence. The area's business base also requires numerous commercial credit options to meet a wide variety of financing purposes.

Community Contact

As part of the evaluation process, third parties active in the assessment area are contacted to assist in assessing the credit and community development needs of the community. The information obtained helps to determine whether local financial institutions are responsive to the credit and community development needs of the communities, and what credit and community development opportunities, if any, are available.

A community contact was conducted with a local private non-profit organization that supports people in Needham who have under-met health, educational or social needs and promotes volunteerism, community, and a sense of shared responsibility. The Council runs a variety of programs; including a medical equipment loan program, food pantry, thrift shop, a child assault prevention program in the town's elementary schools and more.

While the Bank's assessment area largely consists of middle- and upper-income census tracts, the community contact stressed that the elderly are facing housing issues as well as transportation issues. Most senior citizens cannot afford to stay in their homes and public transportation is very limited.

Overall, the contact was very pleased with the responsiveness of the local community financial institutions to the area's credit needs, but did state the need for financial literacy classes and how to get people to attend these classes. The contact also expressed the need for helping small businesses in the area by providing small dollar loans and savings accounts.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LENDING TEST

The Lending Test addresses Needham Bank's record of meeting the credit needs of its designated assessment area through consideration of the institution's home mortgage and small business lending. The institution's lending performance is evaluated pursuant to the following criteria: 1) the average net loan-to-deposit (LTD) ratio since the previous evaluation; 2) the concentration of lending within the assessment area; 3) the dispersion of loans to borrowers and small businesses in low-, moderate-, middle- and upper-income geographies in the assessment area; 4) the distribution of loans among borrowers of low-, moderate-, middle- and upper-income levels and businesses of revenue sizes; and 5) the response to CRA complaints.

The Bank's overall performance with respect to the Lending Test is Satisfactory. The following sections discuss the analysis and conclusions regarding the Bank's performance under each criterion.

LOAN-TO-DEPOSIT ANALYSIS

This performance criterion determines what percentage of the Bank's deposit base is reinvested in the form of loans and evaluates its appropriateness. The average net loan-to-deposit ratio serves as a measure of the institution's distribution of loans with respect to deposits. These ratios are based on total loans, net of unearned income and net of the allowance for loan and lease losses, as a percentage of total deposits. The average net loan-to-deposit ratio since the previous evaluation is reasonable given the institution's size, financial condition, and assessment area credit needs.

The Bank's net LTD ratio, as calculated from Call Report data, averaged 113.9 percent over the past nine calendar quarters from December 31, 2012 through December 31, 2014. The ratio ranged from a low of 102.2 percent as of March 31, 2013, to a high of 120.0 percent as of September 30, 2014, having remained consistent during the evaluation period. Per Bank Management, the most recent trend for net LTD is upward because of the Bank increasing its portfolio and investment strategy.

Needham Bank maintained a higher ratio to those of comparable institutions, as shown in the following table. The institutions were selected based on their asset size, geographic location, and loan portfolio composition.

Table 3		
Loan-to-Deposit Comparison		
Bank Name	Total Assets ('000s) as of 12/31/14	Average Net LTD Ratio 12/31/12 - 12/31/14
Needham Bank	1,670,517	113.9
Dedham Institution for Savings	1,270,547	89.4
Watertown Savings Bank	1,104,660	53.8
Village Bank	833,802	83.8

Source: FFIEC Report of Condition and Income (Call Reports)

During the examination period, the Bank sold 120 loans totaling \$36 million to MassHousing, Fannie Mae, Ditech, Chase, and Federal Loan Home Bank. The Bank is a member of the Federal Home Loan Bank system and borrows funds to support additional loan commitments. This, in addition to the Bank's LTD ratio, demonstrates its willingness to reinvest in the community through its lending services.

ASSESSMENT AREA CONCENTRATION

This performance criterion evaluates whether the Bank is meeting the credit needs within its assessment area. The analysis includes both residential lending and small business lending.

Based on a review of home loan and small business data, a majority (57.8 percent) of the Bank's lending activity occurs within the institution's assessment area. The distribution of loans by number is weighted more in this analysis, as the number of loans correlates more closely to the number of individuals or families that were able to obtain home mortgage loans and is not skewed by large dollar amounts inside or outside the assessment area.

Table 4 illustrates the Bank's record of extending residential mortgage loans and small business loans inside and outside the assessment area by number and dollar amount over the period reviewed.

Table 4 Distribution of Loans Inside and Outside of Assessment Area										
Loan Category or Type	Number Loans					Dollar Volume \$('000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Loan 2013	332	60.3	219	39.7	551	233,343	60.0	155,511	40.0	388,854
Home Loan 2014	363	54.1	308	45.9	671	273,085	55.6	217,990	44.4	491,075
Total Home Loan	695	56.9	527	43.1	1,222	506,428	57.6	373,501	42.4	879,929
Small Business 2013	15	78.9	4	21.1	19	3,613	70.3	1,524	29.7	5,137
Small Business 2014	37	72.5	14	27.5	51	4,872	55.0	3,993	45.0	8,865
Total Small Business	52	74.3	18	25.7	70	8,485	60.6	5,517	39.4	14,002
Grand Total	747	57.8	545	42.2	1,292	514,913	57.6	379,018	42.4	893,931

Source: 2013 and 2014 HMDA LARs, 2013 and 2014 Sample of Small Business Loans

GEOGRAPHIC DISTRIBUTION

The geographic distribution of loans was reviewed to determine how well the Bank is addressing the credit needs throughout the assessment area. This performance criterion focuses on the distribution of lending in the area's low- and moderate-income census tracts. Considering assessment area demographics, aggregate data, and performance context factors, the distribution of home mortgage and small business loans reflects a less than adequate penetration in the low- and moderate-income geographies. During the previous CRA evaluation the Bank did not have any low- or moderate-income census tracts. In 2013, the Bank expanded its assessment area resulting in the addition of one low-income and 15 moderate-income census tracts. Although the volume of loans is low, the Bank is now penetrating these census tracts.

Home Mortgage Loans

For residential lending examiners looked at the number of loans in the census tracts and compared them to the aggregate data and the percent of total owner-occupied housing units with the emphasis on the low- and moderate-income census tracts.

As noted in table 5, the one low-income census tract has less than 0.1 percent of housing, resulting in very limited lending opportunities. In 2013, the Bank did not originate any loans in the low-income census tract.

The lending opportunity in moderate-income census tracts is also limited with only 5.9 percent of the assessment area's owner occupied housing located in these census tracts. The Bank's percentage in moderate-income census tracts fell below the aggregate level and demographic indicators.

In 2014, the percentage of loans in all tract income levels was similar to the Bank's 2013 lending performance, with the majority of loans originated in the middle-income census tracts (14.3 percent) and upper-income census tracts (85.4 percent). There was no lending in the low-income census tracts and the Bank originated 1 or 0.3 percent to moderate-income census tracts.

Table 5						
Geographic Distribution - Home Mortgage Loans						
Census Tract Income Level	2013 Aggregate Lending	2013 Bank Lending		Owner-Occupied Housing Units	2014 Bank Lending	
	%	#	%		#	%
Low	0.1	0	0.0	0.2	0	0.0
Moderate	5.9	5	1.5	5.6	1	0.3
Middle	35.7	45	13.6	37.8	52	14.3
Upper	58.3	282	84.9	56.4	310	85.4
Total	100.0	332	100.0	100.0	363	100.0

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

Small Business Loans

The geographic distribution of small business loans reflects a poor dispersion throughout the assessment area. The Bank did not make any loans in low- or moderate-income census tracts.

Table 6			
Geographic Distribution - Small Business Loans			
Census Tract Income Level	2014 Businesses (% of #)	2014 Bank Data	
		#	%
Low	0.2	0	0.0
Moderate	7.0	0	0.0
Middle	30.1	4	10.8
Upper	62.7	33	89.2
Total	100.0	37	100.0

Source: 2014 D&B Data, 2014 Sample of Small Business Loans

BORROWER PROFILE

This performance criterion evaluates the distribution of the Bank's residential and small business loans based on borrower characteristics. Analyses were conducted of the Bank's residential mortgage loans inside the assessment area based on borrower income and the Bank's small business loans inside the assessment area based on size of business. For residential lending, emphasis is placed on loans to low- and moderate-income borrowers, and for small business lending, emphasis is placed on loans to businesses with gross annual revenues (GAR) of \$1 million or less. Based on the review of the HMDA LARs and the CRA Small Business Loan Register, the Bank has achieved an adequate penetration of loans among individuals of different income levels and businesses of different revenue sizes.

Home Mortgage Loans

As reflected in Table 7, the Bank's distribution of loans to low-income borrowers, at 0.9 percent, is below the aggregate of 3.3 percent. It is noted that lending to low-income borrowers was significantly lower than the percentage of low-income families (15.5 percent) in the area. However, for a significant portion of these low-income families qualifying for home mortgage loans is difficult, given the current economic environment. According to the 2010 U.S. Census Data, 3.9 percent of all families and 6.9 percent of all households in the assessment area are below poverty level and would have difficulty qualifying for home financing.

In 2013, the Bank originated 3.6 percent of total loans to moderate-income borrowers, which was significantly lower than the aggregate of 11.3 percent and also below the percentage of moderate-income families at 13.4 percent.

In 2014, the distribution of home loans among the borrower income categories was comparable to 2013, in that upper-income borrowers accounted for the majority of the home loans. The Bank's overall performance was consistent for low-income borrowers (0.8 percent) but increased for moderate-income borrowers (5.5 percent). As mentioned previously, home prices are still considered high and largely out-of-reach for most low- and moderate-income borrowers.

Table 7						
Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	2013 Aggregate Lending	2013 Bank Lending		% of Total Families	2014 Bank Lending	
	%	#	%		#	%
Low	3.3	3	0.9	15.5	3	0.8
Moderate	11.3	12	3.6	13.4	20	5.5
Middle	20.0	21	6.3	18.7	29	8.0
Upper	54.2	204	61.5	52.4	215	59.2
N/A	11.2	92	27.7	0.0	96	26.5
Total	100.0	332	100.0	100.0	363	100.0

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

Needham Bank has made positive efforts to address the credit needs of low- and moderate-income borrowers. The Bank offers first-time homebuyer mortgages. During the evaluation period, the Bank originated three loans totaling \$381,584 to low-income borrowers and five loans totaling \$1,153,450 to moderate-income borrowers. The Bank originates loans through the

MassHousing and Freddie Mac loan programs. MassHousing and Freddie Mac offer a variety of loan programs geared toward low- and moderate-income borrowers which feature competitive interest rates and flexible underwriting standards.

Small Business Loans

The distribution of small business loans in the Bank's assessment area reflects an adequate distribution of lending to business with GARs of \$1 million or less. In 2014, the Bank originated 32.4 percent of small business loans to businesses with revenues less than or equal to \$1 million.

Table 8			
Distribution of Small Business Loans by Revenues			
GARs \$(000s)	2014 Businesses (% of #)	2014 Bank Data	
		#	%
≤ \$1,000	71.4	12	32.4
> \$1,000	6.0	17	46.0
Not Reported	22.6	8	21.6
Total	100.0	37	100.0

Source: 2014 D&B Data and 2014 Sample of Small Business Loans

The Bank offers SBA 504 loans. This program offers financing for qualified businesses that may not be eligible for traditional bank financing.

RESPONSE TO CRA COMPLAINTS AND FAIR LENDING

The Bank has not received any CRA-related complaints during the evaluation period. As a result, this performance criterion is not applicable.

The Division provides comments regarding the institution's fair lending policies and procedures pursuant to Regulatory Bulletin 1.3-106. The Bank has a written Fair Lending Policy. The Bank provides ongoing educational opportunities to employees, members of the Board and management on fair lending regulations. The Bank employs a second review process. The Bank makes exceptions to the loan policy.

MINORITY APPLICATION FLOW

The Bank's HMDA LARs for 2013 and 2014 were reviewed to determine if the application flow from the 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 669,192 individuals of which 19.1 percent are minorities. The assessment areas minority and ethnic population is 2.9 percent Black/African American, 7.5 percent Asian, 0.1 percent American Indian, 0.0 percent Hawaiian/Pacific Islander, 5.7 percent Hispanic or Latino and 2.9 percent other.

In 2013, the Bank received 411 HMDA reportable loan applications from within its assessment area. Of these applications, 32 or 7.8 percent were received from minority applicants, of which 22 or 68.8 percent resulted in originations. The aggregate received 50,556 HMDA reportable loan applications of which 4,904 or 9.7 percent were received from minority applicants and

3,790 or 77.3 percent were originated. For the same time period, the Bank also received 6 or 1.4 percent of applications from ethnic groups of Hispanic origin within its assessment area of which 6 or 100.0 percent were originated versus the aggregate that received 1,259 applications or 2.5 percent of which 846 or 67.2 percent were originated.

For 2014, the Bank received 426 HMDA reportable loan applications from within its assessment area. Of these applications, 25 or 5.9 percent were received from minority applicants, of which 18 or 72.0 percent resulted in originations. For the same time period, the Bank received 4 or 0.9 percent of applications from ethnic groups of Hispanic origin within its assessment area of which 3 or 75.0 percent were originated.

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 2013. The comparison of this data assists in deriving reasonable expectations for the rate of applications the Bank received from minority residential loan applicants. Refer to Table 10 for information on the Bank's minority application flow as well as the aggregate lenders (excluding the Bank) in the Bank's assessment area.

Table 10 MINORITY APPLICATION FLOW					
RACE	Bank 2013		2013 Aggregate Data	Bank 2014	
	#	%		#	%
American Indian/ Alaska Native	1	0.3	0.1	0	0.0
Asian	19	4.6	7.0	17	4.0
Black/ African American	2	0.5	0.8	0	0.0
Hawaiian/Pacific Islander	0	0.0	0.1	0	0.0
2 or more Minority	0	0.0	0.1	0	0.0
Joint Race (White/Minority)	10	2.4	1.6	8	1.9
Total Minority	32	7.8	9.7	25	5.9
White	217	52.8	66.2	256	60.1
Race Not Available	162	39.4	24.1	145	34.0
Total	411	100.0	100.0	426	100.0
ETHNICITY					
Hispanic or Latino	3	0.7	1.5	1	0.2
Not Hispanic or Latino	236	57.4	73.6	275	64.6
Joint (Hisp/Lat /Not Hisp/Lat)	3	0.7	1.0	3	0.7
Ethnicity Not Available	169	41.2	23.9	147	34.5
Total	411	100.0	100.0	426	100.0

Source: US Census 2010, HMDA LAR Data 2013 and 2014, HMDA Aggregate Data 2013

The Bank's performance was below the 2013 aggregate's performance level for both racial and ethnic minority applicants.

COMMUNITY DEVELOPMENT TEST

The Community Development Test evaluates the Bank's responsiveness to the community development needs of its assessment area through the provision of community development loans, qualified investments, and community development services as appropriate, considering the institution's capacity and the need and availability of such opportunities for community development in the institution's assessment area(s). The Bank's community development performance demonstrates an adequate responsiveness to the community development needs of its assessment area.

Community Development Loans

For the purpose of this evaluation, a community development loan is a loan that: (1) has community development as its primary purpose, (2) has not already been reported by the Bank for consideration under small business or home mortgage lending (unless it is a multi-family dwelling loan), and (3) benefits the Bank's assessment area or a broader statewide or regional area that includes the Bank's assessment area.

During the evaluation period, the Bank originated 12 community development loans totaling \$4.7 million inside their assessment area. During the previous CRA evaluation period, the Bank originated four community development loans totaling \$1.0 million. As the Bank adequately addressed the community development needs of its assessment area, qualified community development loans originated outside the Bank's assessment area were included. The Bank originated four community development loans, totaling \$2.8 million outside their assessment area for a total of 16 community development loans totaling \$7.5 million.

Listed below are the qualified community development loans made during the evaluation period:

- The Bank provided six SBA 504 loans totaling \$2.8 million to local businesses inside the assessment area and two SBA 504 loans totaling \$1.3 million to businesses outside the assessment area. The U.S. Small Business Administration 504 Loan program is designed to provide financing for the purchase of fixed assets, (real estate, buildings, and machinery). The development of these businesses will create employment opportunities and contribute to the overall economic development of the community.
- The Bank provided two Mass Capital loans totaling \$385,000. The Massachusetts Capital Access Program (CAP) is designed to assist small businesses obtain loans for numerous business purposes including start-up costs, equipment purchases, expansion, real estate acquisition and working capital lines of credits
- On November 15, 2013, the Bank originated two loans totaling \$3.7 million to a local developer to finance the construction of a 20 unit (40B) condominium. The project falls under the State of Massachusetts 40B program that supports affordable housing developments by using flexible rules if at least 20-25 percent of the units have long-term affordability. Four of the 20 housing units are designated as affordable units and \$748,600 qualified as community development.

- On May 8, 2014, the Bank originated two loans totaling \$2.9 million to a local developer for the purchase of land and construction of an eight unit 40B condominium. As two of the eight units are designated as affordable housing for individuals or families of low- or moderate-income, \$726,000 is qualified as community development.
- On November 14, 2014, the Bank originated a loan for \$9.5 million to a developer for the acquisition of an existing commercial building which will be razed for the construction of 33 new residential units. Of the 33 total units, four are designated as affordable housing for individuals or families. The qualified loan amount considered for community development is \$1.1 million.

Community Development Investments

A qualified investment for the purposes of this evaluation is a lawful investment, deposit, donation, or grant that has community development as its primary purpose.

The Bank's qualified investments consist of a new equity investment in mortgage-backed securities, as well as donations to various community development organizations. The Bank's total investments and donations during the evaluation period was \$3.1 million and represent a significant increase over the prior evaluation when the total was \$130,825.

Federal National Mortgage Association (FNMA) Mortgage Backed Securities

During the evaluation period, the Bank invested in several mortgage-backed securities backed by loans to low- and moderate-income homebuyers. The book value of these securities as of December 30, 2014 is \$3.1 million.

Qualified Donations

The Bank donated \$1.5 million to charitable organizations from December 4, 2012 through February 23, 2015. Of this total, \$213,775 or 13.9 percent was qualified CRA contributions. The last examination the Bank made 33 donations totaling \$130,825. These funds primarily supported organizations that provide community services to low- and moderate-income individuals and families.

Table 9 details all qualified donations made during the review period by year and community development category.

Table 9 Qualified Community Development Grants and Donations								
Activity Year	Qualifying Category						Totals	
	Affordable Housing		Community Services		Economic Development/ Revitalization			
	#	\$	#	\$	#	\$	#	\$
December 2012	1	10,000	8	2,644	0	0	9	12,644
2013	3	15,300	32	81,749	0	0	35	97,049
2014	8	16,500	32	68,837	2	3,505	42	88,842
January 2015	0	0	3	15,240	0	0	3	15,240
Total	12	41,800	75	168,470	2	3,505	89	213,775

Source: Internal Bank Records

A sample of the organizations receiving benefit of the donations is listed below:

Birthday Wishes – Founded in 2002 as a volunteer organization serving one local shelter, this organization has expanded to serve more than 185 shelters and transitional living facilities. Their goal is to provide birthday parties to all homeless children and to make their model available to homeless family programs nationwide.

Cradles to Crayons – Cradles to Crayons provides children from birth through age 12, living in homeless or low-income situations, with the essential items they need to thrive at home, at school and at play. They supply these items free of charge by engaging and connecting communities that *have* with communities that *need*.

The Smile in Every Seat Program provides free access to The Center for the Arts in Natick's programming for economically disadvantaged people and families in Natick and surrounding communities. Free tickets are distributed to local service councils and not-for-profit organizations serving disadvantaged children, families, and the elderly enabling them to attend concerts, family series performances, classical music events, and theater performances.

Project Just Because – This organization supplies adults and children in need with a variety of support. They provide clothing, toiletries, gift baskets, career items, school supplies, blankets, toys, furniture, baby items, and household items.

Women of Means - Founded in 1999, Women of Means provides free medical care to women and children who rely on shelters for safety and survival. In addition, to free, accessible patient-centered care, they also provide health education sessions for women and offer outreach and advocacy support.

Needham Steps Up - The mission of Needham Steps Up is to bridge the opportunity gap for income-eligible Needham Public School students through mentoring and educational support that help make college and post-secondary success a reality.

Heading Home - Heading Home provides emergency, transitional and permanent housing, and support services, to low-income homeless and formerly homeless families and individuals. Heading Home's mission is to end homelessness by providing a supported pathway to self-sufficiency that begins with a home, together with critical services such as life skills, financial literacy, and job training.

Community Development Services

A community development service is a service that has community development as its primary purpose and is generally related to the provision of financial services or technical services or assistance. Officers and employees of the Bank are involved in local community development and non-profit organizations in various capacities. Bank personnel provided these organizations with financial and management expertise while serving as directors, officers, loan committee members and volunteers.

The following illustrates notable examples of the Bank's community development services:

Charles River Center –The mission of Charles River has always been to improve the quality of life by helping each individual with a developmental disability achieve his or her highest possible level of independence so that he or she can fully participate, benefit, and become a contributing member of the community. A Board Member is on the Finance and Housing Committee.

Medfield Affordable Housing Committee –This organization is responsible to manage the town’s 40B housing developments and provides down payment assistance for purchasers of 40B housing. The CEO is the Treasurer.

Southwest Affordable Housing – This organization provides housing assistance to low-income residents. The President and First Vice President are Members.

The Needham Community Council – The Council is a private non-profit organization which supports people in Needham who have under-met health, educational or social needs and promotes volunteerism, community and a sense of shared responsibility. An Assistant Vice President Branch Manager is the Treasurer.

Sapna’s Kids – Sapna’s Kids mission is to provide children from low-income households with the opportunity to realize their potential and achieve their dreams. More specifically, the organization helps to enhance the learning experience of low-income public school students, gives them the chance to explore the world beyond their neighborhood and empowers their teachers with the financial flexibility to innovate unique teaching methods. The Commercial Loan Portfolio Administrator and the Bank’s Analyst are the founders of this organization.

Family Promise Metrowest – This organization offers hope to homeless families with children through safe transitional shelter, meals and supportive case management as they seek permanent housing. The First Vice President Compliance Officer is a Board Member and is also on the Finance Committee.

Educational Services and Seminars

Bank officers have participated in seminars and other events sponsored by the Bank during the evaluation period. These events provide opportunities for Bank representatives to inform those in attendance about the products and services offered by the Bank and to gain information about unmet credit needs in the assessment area. The following is a sample of seminars and events performed by the Bank:

On March 23, 2013, the Bank sponsored a first time home buyer seminar. Speakers included a Bank representative, a real estate agent, a closing attorney and a representative from MassHousing.

On October 31, 2014, the Bank hosted a webinar for small business owners. Topics included: financing, marketing, and business planning.

In November 2014, the Bank participated in a financial literacy discussion with students involved in the “Needham Steps Up Program” at Needham High School. Topics discussed were: how banks operate; checking accounts; debit versus credit; savings; budgets and the basics of banking.

Other Community Services

The Bank has designed an unsecured loan product for low- and moderate-income individuals who could use financial assistance to improve their overall financial situation. The product is a three year unsecured term loan fixed at the prime rate at loan inception. All of the loans are referred to the Bank by the municipal housing agencies for the purpose of consolidating debt into one affordable low interest loan. The maximum loan amount is \$15,000. In 2013, the Bank originated one loan.

The Bank participates in the Interest on Lawyers' Trust Accounts (IOLTA). Lawyers place large client deposits, such as escrow accounts, in interest bearing accounts, with the interest to be paid to the client. Deposits that would individually be too small or too short-term to generate interest are pooled into IOLTA accounts. Interest earned on the account is utilized to help fund improvements in the administration of justice and delivery of legal services to low-income clients.

The Bank participates in the Massachusetts Community and Banking Council's (MCBC) Basic Banking in Massachusetts program. This statewide program is designed to offer low cost checking and savings accounts to low- and moderate-income individuals.

The Bank is a member of the Federal Home Loan Bank and has been approved for the Equity Builder Program. The Equity Builder Program (EBP) offers members grants to provide households with incomes at or below 80 percent of the area median income with down-payment, closing-cost, home-buyer counseling, and rehabilitation assistance.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

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

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

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks at 1063 Great Plain Avenue, Needham, MA 02492".

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

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

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