

PUBLIC DISCLOSURE

January 23, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Norwood Co-operative Bank
Certificate Number: 26555

11 Central Street
Norwood, Massachusetts 02062

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

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

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

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INSTITUTION RATING

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

Norwood Co-operative Bank's satisfactory Community Reinvestment Act (CRA) performance under the Lending Test and Community Development Test supports the overall rating. Examiners did not identify any evidence of discriminatory or other illegal credit practices. The following points summarize the bank's Lending Test and Community Development Test performance.

The Lending Test is rated Satisfactory.

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

The Community Development Test is rated Satisfactory.

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

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated December 9, 2013, to the current evaluation dated January 23, 2017. The Massachusetts Division of Banks (Division) and the Federal Deposit Insurance Corporation (FDIC) conducted this evaluation jointly using the Interagency Intermediate Small Institution Examination Procedures to evaluate Norwood Co-operative Bank's CRA performance. These procedures include two tests: the CRA Small Bank Lending Test and the Community Development Test.

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

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

The Community Development Test considered the following factors.

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

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

Loan Products Reviewed

Examiners reviewed the bank's lending activity and 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 the overall conclusions due to the larger loan volume when compared to small business lending during the most recent calendar year. Also, no other loan types, such as small farm loans or consumer loans, represent a major product line. Therefore, they provided no material support for conclusions or ratings and are not presented.

This evaluation considered all home mortgage loans reported on the bank's 2015 and 2016 year-to-date (YTD) Home Mortgage Disclosure Act (HMDA) Loan Application Registers (LARs). For 2015 the bank reported 278 HMDA reportable loans totaling \$82.4 million, and YTD 2016 the bank reported 241 HMDA reportable loans totaling \$88.4 million.

According to bank records, the bank originated 27 small business loans totaling \$10.7 million in 2015 and 23 small business loans totaling \$4.7 million for 2016. D&B data for 2015 and 2016 provided a standard of comparison for the small business loans. Bank records indicate that the lending focus and product mix remained consistent throughout the evaluation period.

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 because the number of loans is a better indicator of the number of individuals and businesses served.

For the Community Development Test, bank management provided data on community development loans, qualified investments, and community development services since the prior CRA evaluation dated December 9, 2013.

DESCRIPTION OF INSTITUTION

Background

Norwood Co-operative Bank is headquartered at 11 Central Street in Norwood, Massachusetts and operates in the eastern part of Massachusetts, in Norfolk and Bristol Counties. Norwood Co-operative Bank is a wholly owned subsidiary of 1889 Financial Services Corporation which is wholly owned by 1889 Bancorp MHC. The institution received a Satisfactory rating at its previous CRA evaluation conducted by the Division and the FDIC, dated December 9, 2013, based on Interagency Intermediate Small Institution Examination Procedures.

Operations

The bank operates one full-service branch at its headquarters location. The bank is primarily a residential lender offering traditional community banking products; including home mortgage loans, commercial, consumer, construction and community development loans. The bank offers a variety of deposit services including checking, savings, money market deposit accounts, and certificates of deposit. The bank also offers non-traditional services to include MassHousing loans, first time home buyer programs, Home Affordable Modification Program (HAMP) loans, and investment and insurance products. Alternative banking services include internet and mobile banking and electronic bill pay. The bank did not open or close any branches, and no merger or acquisition activities occurred since the previous evaluation.

Ability and Capacity

Assets totaled approximately \$442 million as of September 30, 2016, and included total loans of approximately \$344 million and total deposits of approximately \$372 million. The loan portfolio is illustrated in the following table.

Loan Portfolio Distribution as of 09/30/16		
Loan Category	\$(000s)	%
Construction and Land Development	43,573	12.7
Secured by Farmland	0	0.0
1-4 Family Residential	167,474	48.7
Multi-family (5 or more) Residential	12,466	3.6
Commercial Real Estate	114,378	33.3
Total Real Estate Loans	337,891	98.3
Commercial and Industrial	5,757	1.7
Agricultural	0	0.0
Consumer	284	0.0
Other	0	0.0
Less: Unearned Income	135	0.0
Total Loans	343,797	100.0
Source: 09/30/2016 Reports of Condition and Income		

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

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. Norwood Co-operative Bank designated its assessment area to include the municipalities of Bellingham, Canton, Dedham, Easton, Foxboro, Franklin, Mansfield, Medfield, Medway, Millis, Norfolk, North Attleboro, Norton, Norwood, Plainville, Raynham, Sharon, Stoughton, Walpole, Westwood, and Wrentham. Five of the communities are located in Bristol County and are part of the Providence-New Bedford-Fall River, RI-MA Metropolitan Statistical Area (MSA). The remaining 16 communities are located in Norfolk County and are part of the Boston-Quincy MA Metropolitan Division (MD). Both areas are contained within the Boston-Worcester-Manchester, MA-RI-NH Consolidated Statistical Area. The following sections discuss demographic and economic information for the assessment area.

Economic and Demographic Data

The assessment area includes 74 census tracts (CTs) in Norfolk and Bristol Counties. These tracts reflect the following income designations according to the 2010 U.S. Census:

- 0 low-income tracts,
- 2 moderate-income tracts,
- 29 middle-income tracts, and
- 43 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)	74	0.0	2.7	39.2	58.1	0.0
Population by Geography	393,521	0.0	1.1	41.0	57.9	0.0
Housing Units by Geography	147,493	0.0	1.3	44.1	54.6	0.0
Owner-Occupied Units by Geography	111,487	0.0	1.1	39.8	59.1	0.0
Occupied Rental Units by Geography	29,921	0.0	1.5	58.9	39.7	0.0
Vacant Units by Geography	6,085	0.0	2.7	51.7	45.7	0.0
Businesses by Geography	32,298	0.0	1.4	42.2	56.5	0.0
Farms by Geography	784	0.0	1.3	37.6	61.1	0.0
Family Distribution by Income Level	102,636	12.3	13.3	19.6	54.8	0.0
Household Distribution by Income Level	141,408	16.1	11.8	16.0	56.2	0.0
Median Family Income MSA - 14454 Boston, MA MD	83,664	Median Housing Value				402,169
Median Family Income MSA - 39300 Providence-Warwick, RI-MA MSA	70,496	Median Gross Rent				1,133
		Families Below Poverty Level				3.1%

Source: 2010 U.S. Census and 2015 D&B Data

The Federal Financial Institutions Examination Council (FFIEC) updated median family income level is used to analyze home mortgage loans under the Borrower Profile criterion. The low-, moderate-, middle-, and upper-income categories are presented in the following table.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Boston, MA MD Median Family Income (14454)				
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
Providence-Warwick, RI-MA MSA Median Family Income (39300)				
2015 (\$74,400)	<\$37,200	\$37,200 to <\$59,520	\$59,520 to <\$89,280	≥\$89,280
2016 (\$73,100)	<\$36,550	\$36,550 to <\$58,480	\$58,480 to <\$87,720	≥\$87,720

Source: 2016 FFIEC-Estimated Median Family Income data

There are 147,493 housing units. Of these, 76 percent are owner-occupied, 20 percent are occupied rental units, and 4 percent are vacant. The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units.

Data obtained from the U.S. Bureau of Labor and Statistics indicates that the November 2016 unemployment rate was 2.9 percent for Massachusetts statewide, 2.4 percent for the Boston MSA, and 4.2 percent for the Providence MSA.

According to 2015 D&B data, there were 32,298 businesses within the assessment area. Gross annual revenues (GARs) for these businesses are below.

- 77.3 percent have \$1 million or less.
- 6.3 percent have more than \$1 million.
- 16.4 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 distribution at 48.8 percent; followed by retail trade (12.6 percent); construction (10.3 percent); and finance and insurance at (8.4 percent). In addition, 69.9 percent of area businesses have four or fewer employees, and 89.2 percent operate from a single location.

Competition

The assessment area is competitive in the market for financial services. According to the FDIC Deposit Market Share data as of June 30, 2016, there were 54 financial institutions that operated 407 full-service branches within Norfolk and Bristol Counties. Of these institutions, Norwood Co-operative Bank ranked 23rd with a 1.08 percent deposit market share.

There is a high level of competition for home mortgage loans among banks, credit unions, and non-depository mortgage lenders. In 2015, 411 lenders reported a total of 16,192 residential mortgage loans originated or purchased in the bank's assessment area. Norwood Co-operative

Bank ranked 18th out of this group of lenders with a market share of 1.22 percent. The top five most prominent lenders within the assessment area are large national lenders and account for 23.12 percent of total market share.

The bank is not required to collect or report its small business data, and it has not elected to do so. Therefore, the analysis of small business lending under the Lending Test does not include comparisons against aggregate data. However, the aggregate data reflects the level of demand for small business loans and is therefore included for that purpose. According to aggregate data for 2015, 113 institutions reported 24,742 small business loans in the assessment area, indicating a moderate degree of competition for this product.

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 and related opportunities for financial institutions. Examiners use this information to help determine whether local financial institutions are responsive to the needs of the assessment area.

For this evaluation, examiners conducted a community contact with a local government organization that promotes economic and community development in the bank's assessment area. The contact stated that affordable housing is a primary need in the community. Home prices in the area have risen considerably in the last decade, pricing many low- and moderate-income individuals and families out of the market. Seniors and other individuals that rely on fixed incomes are especially vulnerable to the rising home prices. The contact also stated that increasing the rental housing stock in the area would benefit individuals that cannot qualify for home purchase credit.

Credit and Community Development Needs and Opportunities

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that affordable housing was the area's greatest need. Financial institutions can participate by funding affordable housing developments, offering specialized loan products such as first time homebuyer loans, and partnering with local organizations whose mission is to provide housing to low- and moderate-income individuals and families.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Norwood Co-operative Bank demonstrated reasonable performance under the Lending Test. Geographic Distribution and Borrower Profile performance support this conclusion.

Loan-to-Deposit Ratio

The LTD ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. The bank's LTD ratio, calculated from Call Report data, averaged 85.9 percent over the past 12 calendar quarters from December 31, 2013, to September 30, 2016. The ratio ranged from a low of 79.0 percent as of March 31, 2014, to a high of 92.5 percent as of March 31, 2016. The ratio has steadily increased during the evaluation period. The bank maintained an average ratio similar to those of comparable institutions, as shown in the following table. Examiners selected comparable institutions based on their asset size, geographic location, and lending focus.

Loan-to-Deposit Ratio Comparison		
Institution	Total Assets \$(000s)	Average LTD Ratio (%)
Norwood Co-operative Bank	441,868	85.9
Bridgewater Savings Bank	533,784	88.0
Mansfield Co-operative Bank	482,556	93.4
Mechanics Co-operative Bank	502,557	94.4

Source: Call Report data

Assessment Area Concentration

The bank made a majority of home mortgage and small business loans, by number and dollar volume, within its assessment area. The table below shows the percentage by number and dollar amount for each year and product line under evaluation.

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	197	70.9	81	29.1	278	50,602	61.4	31,844	38.6	82,446
YTD 2016	155	64.3	86	35.7	241	40,158	45.4	48,272	54.6	88,430
Subtotal	352	67.8	167	32.2	519	90,760	53.1	80,116	46.9	170,876
Small Business										
2015	21	77.8	6	22.2	27	6,426	60.2	4,245	39.8	10,671
2016	18	78.3	5	21.7	23	3,499	73.8	1,243	26.2	4,742
Subtotal	39	78.0	11	22.0	50	9,925	64.4	5,488	35.6	15,413
Total	391	68.7	178	31.3	569	100,685	54.0	85,604	46.0	186,289

Source: Bank records, 1/1/2015 - 9/30/2016 HMDA data

Borrower Profile

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes in the assessment area. The bank's reasonable 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. They also focused on 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, is reasonable. Examiners focused on the comparison to aggregate data. As shown in the following table, the bank's home mortgage lending to low- and moderate-income borrowers in 2015 exceeded that of aggregate performance. This performance is noteworthy considering the median housing price of \$402,169, which makes home-ownership difficult for low- and moderate-income borrowers. The bank does offer several products aimed at first-time home buyers, which have contributed to the bank's success in exceeding aggregate performance in lending to borrowers of low- and moderate-income.

Market share data for 2015 further support the bank's reasonable performance. The bank ranked 5th in lending to low-income borrowers with a 2.9 percent market share and 13th in lending to moderate-income borrowers with a 1.8 percent market share. These market ranks are better than the bank's overall ranking of 18th.

Distribution of Home Mortgage Loans by Borrower Income Level						
Assessment Area: Norwood CRA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2015	12.3	2.3	11	5.6	1,007	2.0
2016	12.3	--	12	7.7	1,239	3.1
Moderate						
2015	13.3	10.5	30	15.2	6,054	12.0
2016	13.3	--	23	14.8	4,510	11.2
Middle						
2015	19.6	20.3	60	30.5	11,787	23.3
2016	19.6	--	35	22.6	8,242	20.5
Upper						
2015	54.8	48.0	85	43.1	26,587	52.5
2016	54.8	--	76	49.0	23,703	59.0
Not Available						
2015	0.0	18.8	11	5.6	5,167	10.2
2016	0.0	--	9	5.8	2,464	6.1
Totals						
2015	100.0	100.0	197	100.0	50,602	100.0
2016	100.0	--	155	100.0	40,158	100.0

Source: 2010 U.S. Census; 1/1/2015 - 9/30/2016 Bank Data, 2015 HMDA Aggregate Data, "--" data not available.

Small Business Loans

The distribution of small business loans reflects reasonable penetration of loans to businesses with GARs of \$1 million or less. The following table shows that for 2015, 52.4 percent of the bank's small business loans by number and 58.7 percent by dollar amount were originated to businesses with GARs of \$1 million or less. These numbers compare favorably to aggregate performance of 47.2 percent by number for 2015. While the bank is not a small business reporter, comparison to aggregate data provides relevant performance context for the bank's performance. The bank's 2016 figures also show an increased percentage of small business loans, by number and dollar amount, were made to businesses with GARs of \$1 million or less. This level of lending reflects reasonable performance.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000					
2015	77.3	11	52.4	3,769	58.7
2016	82.9	12	66.7	2,173	62.1
>1,000,000					
2015	6.3	10	47.6	2,657	41.3
2016	7.3	6	33.3	1,236	35.3
Revenue Not Available					
2015	16.4	0	0.0	0	0.0
2016	9.8	0	0.0	0	0.0
Totals					
2015	100.0	21	100.0	6,426	100.0
2016	100.0	18	100.00	3,499	100.0

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

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. The analysis of geographic distribution focuses on lending in low- and moderate-income census tracts; however, the bank's assessment area includes no low-income census tracts and only two moderate-income census tracts. While the bank did not make any home mortgage or small business loans in the two moderate-income census tracts during the period reviewed, these two tracts account for a very small portion of the assessment area and have limited lending opportunities. Only 1.1 percent of the assessment area's owner-occupied housing units are located there, and the aggregate market originated only 0.8 percent of all home mortgage loans in these two tracts. Similarly, only 1.4 percent of all businesses are located in these two tracts.

Due to the make-up of the assessment area by census tract income level, this criterion of the Lending Test bears less weight on the bank's overall CRA rating.

Response to Complaints

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

COMMUNITY DEVELOPMENT TEST

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

Community Development Loans

During the evaluation period, the bank originated four community development loans totaling approximately \$1.7 million inside the assessment area. All of these loans were used for affordable housing purposes, including instances where the monthly rents for residential units in multifamily properties are priced below fair market rent values established by the United States Department of Housing and Urban Development (HUD).

The bank made the following loans with community development purposes.

- In 2015, the bank originated a \$425,000 mortgage loan for a mixed-use building containing 36 residential units and 9 commercial units. The monthly rents for each of the residential units are less than the HUD fair market rents.
- In 2015, the bank originated a \$686,250 mortgage loan for a multifamily building containing 11 residential units. All of the units were priced below HUD fair market rents.
- Also in 2015, the bank originated a \$100,000 loan for the completion of a condominium development in the assessment area. Four of the sixteen condominiums are designated for affordable housing purposes; the pro rata portion of the loan amounts to \$25,000.
- In 2016, the bank originated a \$600,000 loan for a mixed-use, seven unit property. Six of the units are for residential purposes, and all of those units are rented below fair market rates.

Qualified Investments

The bank did not carry any qualified community development equity investments on its books during the examination period; however, it provided assistance to community development efforts in the assessment area through direct grants and charitable contributions to area groups and organizations.

During the examination period, the bank granted \$354,377 in charitable donations to community organizations, of which \$66,677, or 19 percent, were qualified investments under the CRA.

The following are notable examples of organizations that have received qualified contributions from the bank.

- **Norwood Meals on Wheels** – Meals on Wheels provides daily meals to those in need for reasons of age, disability, or convalescence.
- **United Way of Tri-County** – Bank employees made donations to the United Way, the dollar amount of which was matched by funds from the bank’s charitable trust. These donations specifically benefitted the local Norwood Food Pantry, which provides food to residents in need.
- **Gift of Warmth** – Gift of Warmth assists individuals and families who aren't able to afford heat for their homes.
- **Philip O. Coakley Middle School** – The bank donated to provide scholarships for low-income students to attend summer school.
- **The Abundant Table** – This organization provides weekly free meals to individuals and families in need residing in the Greater Boston suburbs of Norwood, Walpole, Canton, Dedham, Westwood, and the surrounding area.
- **Norwood Board of Health** – The bank donated a dental chair that the Board of Health uses to provide low cost dental care to the town’s children, with a specific focus on low-income children.

Community Development Services

During the evaluation period, bank employees provided 21 instances of financial expertise or technical assistance to seven different community development-related organizations. Below are some notable examples of the bank’s community development services and employee involvement.

- **Norwood Housing Authority** – Norwood Housing Authority is a municipal agency that provides housing for income-qualified Norwood residents. The President and Chief Executive Officer (CEO) is a member of the board.
- **Norwood Circle of Hope** – This nonprofit organization offers assistance for families with financial need due to catastrophic illness. A bank officer is a member of the board and provides assistance with fundraising.
- **Walpole Community Food Pantry** – The Walpole Community Food Pantry provides food and other necessities to eligible Walpole residents based on economic need. A bank officer is a member of the board and provides fundraising assistance.
- **Metro West YMCA** – The YMCA provides resources the community needs to address the most pressing social issues: child welfare, education, employment, housing, and substance abuse. The President and CEO is a member of the board, assists with fundraising, and supplies staff with financial services training.

Educational Seminars

Employees of Norwood Co-operative Bank have conducted and participated in numerous seminars designed to educate consumers about banking and banking products available to meet their specific needs.

- The bank held seven first time homebuyer seminars during the examination period. These seminars educate first time homebuyers on the purchase of a new home and provide awareness of available programs that offer additional assistance to first time buyers, such as those offered by MassHousing. Seminars include topics such as budgeting, credit scores, appraisals, and home inspections.
- The bank held seven free informational seminars on Social Security benefits.
- The bank held three educational forums on basic banking products and savings strategies for special needs students in the Life Skills program at Norwood High School. The students participated in a tour of the bank and spoke with representatives from various departments. Additionally, bank officers presented an educational program to accounting classes at Norwood High School. The purpose of the program was to provide students with an overview of the various aspects of borrowing money on either a personal or commercial basis. The topics covered: how a lender evaluates a borrower, the impact of missed payments, credit scores and why they matter, credit card features and pitfalls, and the true cost of money.

Other Community Services

- The bank's deposit products meet the Basic Banking in Massachusetts guidelines set forth by the Massachusetts Community and Banking Council. This statewide program offers low-cost checking and savings accounts to low- and moderate-income individuals.
- The bank offers checkbook balancing services to elderly customers.
- The bank participates in the Interest on Lawyers' Trust Accounts (IOLTA) program. Interest earned on these accounts is utilized to help fund improvements in the administration of justice and delivery of legal services to low-income clients. During the period under review the bank paid \$13,531 in interest from these accounts to the IOLTA Committee.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

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

APPENDIX

FAIR LENDING POLICIES AND PROCEDURES

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

MINORITY APPLICATION FLOW

Examiners reviewed the bank’s HMDA LARs for 2015 and Q1–Q3 of 2016 to determine if the application flow from different minority groups within the assessment area was reflective of assessment area demographics.

The bank’s residential lending in 2015 was compared to 2015 aggregate lending data. 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 following table for information on the bank’s minority application flow as well as a comparison to aggregate lending data.

Minority Application Flow					
RACE	Bank 2015		2015 Aggregate Data	Bank 2016	
	#	%	%	#	%
American Indian/ Alaska Native	0	0.0	0.2	0	0.0
Asian	9	2.4	4.3	7	2.2
Black/ African American	3	0.8	2.2	7	2.2
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)	3	0.8	1.3	2	0.7
Total Minority	15	4.0	8.2	16	5.1
White	313	81.9	69.2	225	72.4
Race Not Available	54	14.1	22.6	70	22.5
Total	382	100.0	100.0	311	100.0
ETHNICITY					
Hispanic or Latino	4	1.1	1.3	7	2.3
Not Hispanic or Latino	309	80.9	74.8	224	72.0
Joint (Hisp/Lat /Not Hisp/Lat)	5	1.3	1.1	2	0.6
Ethnicity Not Available	64	16.7	22.8	78	25.1
Total	382	100.0	100.0	311	100.0

Source: U.S. Census 2010, HMDA LAR Data 2015 and Q1- Q3 2016, HMDA Aggregate Data 2015

According to the 2010 U.S. Census data, the bank’s assessment area has a population of 393,521 of which 11.4 percent are minorities. The assessment area’s minority population consists of 0.1 percent American Indian, 3.7 percent Asian/Pacific Islander, 3.2 percent Black/African American, 2.7 percent Hispanic, and 1.7 percent other race.

In 2015, the bank received 382 HMDA reportable loan applications within its assessment area. Of these applications, 4.0 percent were received from racial minority applicants. The bank's application flow was below the aggregate's performance of 8.2 percent. In 2015, the bank received 9 applications representing 2.4 percent of applications from the Hispanic or Latino ethnic group. The bank's application flow from this ethnicity category was equal to the aggregate performance of 2.4 percent.

In 2016, the bank increased its applications from Hispanic applicants (2.9 percent), and its applications to minorities by race was above 2015 (5.1 percent). Overall, considering the demographic composition of the assessment area, comparisons to aggregate data, the bank's minority application flow is adequate.

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.