

PUBLIC DISCLOSURE

November 16, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Southbridge Credit Union
Certificate Number: 66374

205 Main Street
Southbridge, Massachusetts 01550

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

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

The following summarizes Southbridge Credit Union's performance.

- The loan-to-share (LTS) ratio is good given the institution's size, financial condition, and assessment area credit needs.
- The credit union made a majority of its home mortgage loans within the assessment area.
- The geographic distribution of loans reflects adequate dispersion throughout the assessment area.
- The distribution of borrowers reflects an adequate penetration of loans among 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 CRA rating.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated March 26, 2007 to the current evaluation dated November 16, 2015. Examiners used the Interagency Small Institution Examination Procedures to evaluate Southbridge Credit Union's CRA performance.

Examiners evaluated the credit union's CRA performance pursuant to the following criteria.

- Loan-to-share (LTS) ratio
- Assessment area concentration
- Geographic distribution
- Borrower profile
- Response to CRA complaints.

The Southbridge Credit Union (Credit Union) was last examined by the Division of Banks (Division) for compliance with the Community Reinvestment Act (CRA) on March 26, 2007. The examination resulted in a CRA rating of High Satisfactory.

Loan Products Reviewed

This evaluation focused on home mortgage lending activity from January 1, 2014 to September 30, 2015. The Credit Union's most recent National Credit Union Administration (NCUA) 5300 Call Reports as of September 30, 2015, shows that 74.7 percent of the Credit Union's loan portfolio is real estate loans followed by used vehicle loans at 11.7 percent.

Information related to residential mortgage lending was derived from the Loan Application Registers (LARs) maintained by the Credit Union, 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 Credit Union's home mortgage lending performance in 2014, as this is the most recent year for which aggregate lending data is available.

The Credit Union'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 Credit Union's designated assessment area. The Credit Union's home mortgage lending performance was also compared with demographic data. Home mortgage lending data for the first three quarters of 2015 (YTD2015) is referenced to illustrate trends in the Credit Union's lending data.

Examiners considered both the number and dollar volume of home mortgage loan originations; however, an emphasis is placed on the number of loans. Examiners emphasized the number of loans because it is not influenced by factors including applicant income, or housing value, and provides a better overall indicator of the number of individuals served by the institution.

Financial data was derived from the September 30, 2015 NCUA 5300 Call Report.

DESCRIPTION OF INSTITUTION

Background

Southbridge Credit Union is a state-chartered community credit union, incorporated under the laws of the Commonwealth of Massachusetts in 1938. The Credit Union's membership is open to anyone who lives or works in Worcester, Bristol, Franklin, Hampshire, Norfolk, Hampden and Middlesex counties in Massachusetts. As of September 30, 2015, the Credit Union has 11,286 members.

Operations

The Credit Union is headquartered in Southbridge and operates four full service offices: the main office located at 205 Main Street, Southbridge, a branch located at 514 Main Street, Fiskdale, a branch located at 732 Southbridge St, Auburn, and a branch located at 120 Charlton Road in Sturbridge. The Credit Union also operates a loan center at 155 Main St, Southbridge next to the main office.

Since the last exam, the Credit Union has opened one new branch. In November 2007, the Credit Union opened the branch located at 732 Southbridge St., Auburn, a middle-income tract.

The Credit Union's business hours are readily accessible to all members, with extended hours on Thursday and limited hours on Saturday. The Credit Union offers automated teller machines (ATMs) at each of the four branches as well as two stand-alone ATMs located in Southbridge and Webster. The Credit Union is a member of the SUM and Allpoint networks.

The Credit Union offers a variety of loan products to its members. These include auto loans, motorcycle loans, RV loans, mobile home loans, unsecured personal loans, home equities, and fixed and adjustable rate mortgages. Deposit products offered include checking and savings accounts, certificates of deposit, and individual retirement accounts. Other services include online banking with eStatements and bill pay, mobile banking, wire transfers, telephone banking, and credit and debit cards.

Ability and Capacity

As of September 30, 2015, the Credit Union had total assets of \$163.0 million and total shares of \$121.0 million. Total loans were \$116.3 million and represented 71.3 percent of total assets. The Credit Union's net LTS ratio, as of the same date, was 95.4 percent. Since the last CRA evaluation, the Credit Union's assets have increased 6.5 percent, shares have decreased 6.7 percent and total loans have increased 19.2 percent.

The Credit Union sells loans to the secondary market. The Credit Union sold 21 loans totaling \$3.5 million from January 1, 2014 to September 30, 2015.

The following table provides additional details regarding the composition of the Credit Union's loan portfolio as of September 30, 2015.

Loan Portfolio Distribution as of September 30, 2015		
Loan Type	Dollar Amount (\$)	Percent of Total Loans
Total 1st Mortgage Real Estate Loans/Lines of Credit	73,557,538	63.3
Total Other Real Estate Loans/Lines of Credit	13,238,664	11.4
Used Vehicle Loans	13,606,662	11.7
All Other Unsecured Loans/Lines of Credit	4,180,346	3.5
New Vehicle Loans	6,383,851	5.5
Total All Other Loans/Lines of Credit	5,310,689	4.6
Unsecured Credit Card Loans	0	0.0
Total	116,277,750	100.0

Source: NCUA 5300 Call Report September 30, 2015

There are no apparent financial or legal impediments that would limit the Credit Union's ability to help meet the credit needs of its assessment area.

DESCRIPTION OF ASSESSMENT AREA

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

Economic and Demographic Data

The Credit Union’s assessment area contains 18 tracts located in Worcester County. These tracts reflect the following income designations according to the 2010 U.S. Census:

- 1 low-income tract
- 4 moderate-income tracts
- 12 middle-income tracts
- 1 upper-income tract

The following towns and cities make up the Credit Union’s assessment area; Auburn, Oxford, Sturbridge, Southbridge, Charlton, and Dudley. The assessment area has changed from the previous CRA evaluation with the addition of the towns of Auburn and Oxford.

Refer to the following table for pertinent demographic information about the assessment area.

Assessment Area Demographic Information					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	18	5.6	22.2	66.6	5.6
Population by Geography	80,255	2.9	15.6	72.0	9.5
Owner-Occupied Housing by Geography	22,388	0.8	11.3	78.1	9.8
Family Distribution by Income Level	21,348	19.4	18.2	25.2	37.2
Total Households	30,410	23.8	14.8	20.0	41.4
Median Family Income (MFI)		\$77,128	Median Housing Value		\$276,108
HUD Adjusted MFI Worcester MSA/MD for 2014		\$77,900	Unemployment Rate (2010 US Census)		7.5%
HUD Adjusted MFI Worcester MSA/MD for 2015		\$81,500			
Families Below Poverty Level		5.9%			

Source: 2010 US Census Data, 2014 & 2015 HUD updated MFI

The Federal Financial Institutions Examination Council (FFIEC) Estimated Median Family Income (MFI), as illustrated in the following table, was used to determine low, moderate, middle, and upper-income designations for individuals and geographies within the assessment area.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Worcester MSA/MD Median Family Income				
2014 (\$77,900)	<\$38,950	\$38,950 to <\$62,320	\$62,320 to <\$93,480	≥\$93,480
2015 (\$81,500)	<\$40,750	\$40,750 to <\$65,200	\$65,200 to <\$97,800	≥\$97,800
<i>Source: FFIEC Median Family Incomes</i>				

The assessment area has a total of 21,348 family households. Of all family households in the area, 19.4 percent are low-income, 18.2 percent are moderate-income, 25.2 percent are middle-income, 37.2 percent are upper-income and 5.9 percent are families below the poverty level. Of the 30,410 households, 23.8 percent are low-income, 14.8 percent are moderate-income and 8.4 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 32,824 total housing units, of which 22,388 or 68.2 percent are owner-occupied, 8,022 or 24.4 percent are rental units and 2,414 or 7.4 percent are vacant units. Of the 22,388 owner-occupied housing units, 0.8 percent are in low-income census tracts and 11.3 percent are in moderate-income census tracts.

The assessment area median housing value is \$276,108. Additional information obtained from The Warren Group show that the average median sales price in Worcester County was \$233,544 in 2014 and \$241,744 in 2015.

According to the 2010 U.S. Census, the unemployment rate for the assessment area was 7.5 percent. Recent data obtained from the U.S. Bureau of Labor and Statistics indicates that the unemployment rate for Worcester County was 4.8 percent as of September 2015. As of the same date, the statewide unemployment rate was 4.5 percent.

Competition

The Credit Union competes with several local institutions within the assessment area including Southbridge Savings Bank, Hometown Bank, Savers Cooperative Bank, Webster First Federal Credit Union, and Webster Five Cents Savings Bank.

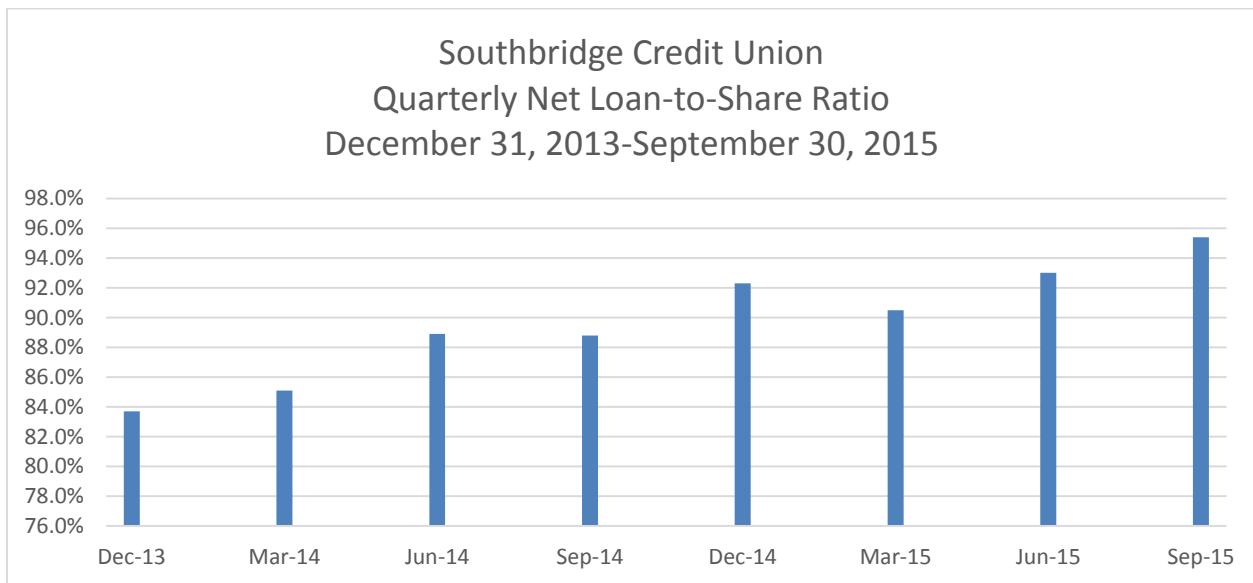
PERFORMANCE CRITERIA

Loan-to-Share (LTS) Analysis

This performance criterion determines what percentage of the Credit Union's share base is reinvested in the form of loans and evaluates its appropriateness. The average net LTS ratio serves as a measure of the institution's distribution of loans with respect to shares. 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 shares. The average net LTS ratio since the previous evaluation is good given the institution's size, financial condition, and assessment area credit needs.

The Credit Union's net LTS ratio, as calculated from NCUA 5300 Quarterly Call Report data, averaged 89.7 percent over the past 8 calendar quarters from December 31, 2013 through September 30, 2015. The ratio ranged from a low of 83.7 percent as of December 2013, to a high of 95.4 percent as of September of 2015, growing steadily during the evaluation period. Over the past 8 calendar quarters, assets have decreased 4.6%, net loans have increased 10.6 percent and shares have decreased 2.9%. Per Credit Union Management, the decrease in assets and shares is a direct result of the Credit Union's asset liability strategy during the period under review.

The following graph is provided for further analysis.



For comparison purposes, the Credit Union's net LTS ratio was compared against the net LTS ratios of three similarly situated institutions.

Peer Group Net Loan-to-Share Comparison		
Credit Union Name	Total Assets as of 9/30/2015	Net LTS Ratio 9/30/2015
Homefield Credit Union	135,885	96.2
Southbridge Credit Union	163,003	95.4
Alden Credit Union	140,388	93.9
Shrewsbury Federal Credit Union	124,859	53.9

Source: NCUA 5300 Statement of Financial Condition as of June 30, 2015

As shown in the table above, three similarly situated Credit Unions' quarterly net LTS ratios as of September 30, 2015 were 96.2 percent, 93.9 percent and 53.9 percent. At 95.4 percent, the Credit Union's LTS is greater than two of the similarly situated institutions.

During the examination period, the Credit Union sold 21 loans totaling \$3.5 million to the Federal Home Loan Bank (FHLB).

Assessment Area Concentration

The Credit Union made a majority of home mortgage loans, by number and dollar volume, within its assessment area as shown in the following table.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollars Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2014	49	61.3	31	38.7	80	6,351	58.5	4,502	41.5	10,853
YTD2015	34	54.8	28	45.2	62	5,980	58.6	4,218	41.4	10,198
Total	83	58.5	59	41.5	142	12,331	58.6	8,720	41.4	21,051

Source: 2014 & YTD 9/30/2015 HMDA

Geographic Distribution

This criterion evaluates the distribution of the Credit Union's loans within the assessment area by census tract income level, including lending in low- and moderate-income census tracts. The overall geographic distribution of loans reflects adequate dispersion throughout the assessment area.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2014	0.8	1.3	0	0.0	000	0.0
YTD2015	0.8	N/A	0	0.0	000	0.0
Moderate						
2014	11.3	12.3	14	28.6	1,453	22.9
YTD2015	11.3	N/A	5	14.7	548	9.2
Middle						
2014	78.1	64.2	28	57.1	3,666	57.7
YTD2015	78.1	N/A	17	50.0	2,713	45.4
Upper						
2014	9.8	22.2	7	14.3	1,232	19.4
YTD2015	9.8	N/A	12	35.3	2,719	45.4
Totals						
2014	100.0	100.0	49	100.0	6,351	100.0
YTD2015	100.0	N/A	34	100.0	5,980	100.0
<i>Source: 2010 U.S. Census; 2014 and YTD 9/30/2015, HMDA Reported Data; 2014 HMDA Aggregate Data;</i>						

In 2014, the Credit Union's performance in moderate-income census tracts was 28.6 percent which is significantly higher than the aggregate. In YTD2015, the Credit Union performance remained the same in low-income census tracts and decreased in moderate-income tracts as compared to the 2014 activity. It should be noted there is only one low-income census tract in the Credit Union's assessment area and is located in Southbridge. The Credit Union ranked 4th originating 14 loans with a market share of 5.11 percent for loans originated in moderate-income census tracts. Wells Fargo Bank was number one with 26 loans or a market share of 9.5 percent, followed by Savers Co-Operative Bank with 17 loans and a market share of 6.2 percent and Southbridge Savings Bank tied for third with 14 loans and a market share of 5.11 percent for loans originated in moderate-income census tracts. The percentage of owner occupied units in this tract are 0.8 leaving little opportunity to originate loans in this tract.

Borrower Profile

The distribution of loans by borrower income was reviewed to determine the extent to which the Credit Union is addressing the credit needs of the area's residents, particularly those of low- or moderate-income.

The distribution of originations by borrower income reflects, given the product lines offered by the institution, adequate penetration among individuals of different income levels in the assessment area. Examiners focused on the percentage by number of home mortgage loans to low- and moderate-income borrowers.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2014	19.4	6.4	6	12.2	271	4.3
YTD2015	N/A	N/A	0	0.0	000	0.0
Moderate						
2014	18.2	21.9	8	16.4	865	13.6
YTD2015	N/A	N/A	6	17.7	662	11.1
Middle						
2014	25.2	26.3	15	30.6	1,821	28.7
YTD2015	N/A	N/A	11	32.3	1,548	25.9
Upper						
2014	37.2	30.1	18	36.7	3,134	49.3
YTD2015	N/A	N/A	17	50.0	3,770	63.0
Income Not Available						
2014	0.0	15.3	2	4.1	260	4.1
YTD2015	N/A	N/A	0	0.0	000	0.0
Total						
2014	100.0	100.0	49	100.0	6,351	100.0
YTD2015	N/A	N/A	34	100.0	5,980	100.0
<i>Source: 2010 U.S. Census; 2014 and YTD 9/30/2015 HMDA Reported Data; 2014 HMDA Aggregate Data</i>						

In 2014, the Credit Union's performance was higher than the aggregate for low-income borrowers and lower for moderate-income borrowers, reflecting an adequate performance. The Credit Union decreased its lending by percentage to low-income borrowers and increased slightly by percentage to moderate-income borrowers in YTD2015. The Credit Union ranked 7th originating 6 loans with a market share of 4.2 percent for loans originated to low-income individuals. The Credit Union ranked 5th originating 17 loans with a market share of 3.5 percent for loans originated to moderate-income individuals.

It is noted that lending to low-income borrowers was lower than the percentage of low-income families (19.4 percent) in the assessment area. However, for a significant portion of these low-income families, qualifying for home mortgage loans is difficult given the current economic environment.

Response to CRA Complaints and Fair Lending Policies and Practices

The Credit Union's Fair Lending Policy was reviewed to determine how this information relates to the guidelines established by Regulatory Bulletin 1.3-106, the Division's Community Reinvestment and Fair Lending Policy. A review of the Credit Union's public comment file indicated the Credit Union received no complaints pertaining to the institution's CRA performance since the previous examination. The fair lending review was conducted in accordance with the Federal Financial Institutions Examination Council (FFIEC) Interagency Fair Lending Examination Procedures. Based on these procedures, no evidence of disparate treatment was noted.

Southbridge Credit Union has a written Fair Lending Policy.

Currently, five bilingual employees speak Spanish to assist non-English speaking customers and potential customers at the Credit Union. As a result, the Credit Union is able to provide better service to customers of different ethnic backgrounds.

Minority Application Flow

The Credit Union's HMDA LARs for 2014 and YTD2015 were reviewed to determine if the application flow from different minority groups was reflective of the assessment area demographics.

The Credit Union's residential lending in 2014 was compared to the 2014 aggregate lending performance. The comparison of this data assists in deriving reasonable expectations for the rate of applications the institution received from minority residential loan applicants. Refer to the table below for information on the Credit Union's minority application flow as well as a comparison to aggregate lending data within the assessment area.

Minority Application Flow					
RACE	2014 Credit Union		2014 Aggregate Data	YTD2015 Credit Union	
	#	%	%	#	%
American Indian/ Alaska Native	0	0.0	0.2	0	0.0
Asian	0	0.0	1.1	0	0.0
Black/ African American	0	0.0	0.9	0	0.0
Hawaiian/Pacific Islander	0	0.0	0.1	0	0.0
2 or more Minority Races	0	0.0	0.0	0	0.0
Joint Race (White/Minority)	0	0.0	1.0	0	0.0
Total Minority	0	0.0	3.3	0	0.0
White	62	92.5	78.2	48	100.0
Race Not Available	5	7.5	18.5	0	0.0
Total	67	100.0	100.0	48	100.0
ETHNICITY					
Hispanic or Latino	7	10.5	3.5	1	2.1
Not Hispanic or Latino	54	80.5	77.0	47	97.9
Joint (Hisp/Lat /Not Hisp/Lat)	1	1.5	1.2	0	0.0
Ethnicity Not Available	5	7.5	18.3	0	0.0
Total	67	100.0	100.0	48	100.0

Source: U.S. Census 2010, HMDA LAR Data 2014 and YTD 9/30/2015, HMDA Aggregate Data 2014

According to the 2010 U.S. Census data, the Credit Union's assessment area had a population of 80,255 individuals, of which 11.6 percent are minorities. The assessment area's minority and ethnic population consists of 0.2 percent American Indian, 1.4 percent Asian/Pacific Islander, 1.0 percent Black, 7.8 percent Hispanic, and 1.2 percent other.

In 2014, the Credit Union received 67 HMDA reportable loan applications within its assessment area. Of these applications, none were received from racial minority applicants. This is below the aggregate's performance of 3.3 percent of applications received from minorities. In 2014, the Credit Union received 8 applications representing 12.0 percent of applications from the Hispanic or Latino ethnic group. The Credit Union's application flow from minority applicants was above the aggregate's performance of 4.7 percent of applications received from the Hispanic or Latino ethnic group.

In YTD2015, the Credit Union decreased its performance to Hispanic applicants (2.1 percent) and did not receive any applications from racial minorities.

The Credit Union's minority application flow, when compared to the aggregate's lending performance levels and the assessment area demographics, is reasonable.

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 45 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 "205 Main St. Southbridge, MA 01550"

- 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.