

## **PUBLIC DISCLOSURE**

**March 3, 2014**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**SPENCER SAVINGS BANK  
Certificate # 90282**

**176 MAIN STREET  
SPENCER, MASSACHUSETTS 01562**

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

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

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

## **TABLE OF CONTENTS**

|      |   |     |
|------|---|-----|
| I.   | General Information .....   | 1   |
| II.  | Institution Rating  |     |
| a.   | Overall Rating .....  | 2   |
| b.   | Scope of Examination .....  | 3   |
| c.   | Description of Institution .....  | 5   |
| d.   | Description of Assessment Area.....                                       | 6   |
| e.   | Conclusions With Respect To Performance Tests .....                       | 9   |
| III. | Appendix A: Division of Banks – Fair Lending Policies and Procedures..... | A-1 |

## **GENERAL INFORMATION**

The Community Reinvestment Act (CRA) requires the Massachusetts Division of Banks (Division) and the Federal Deposit Insurance Corporation (FDIC) to use their authority when examining financial institutions subject to their 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 agencies 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 **Spencer Savings Bank (or the Bank)**, prepared by the Division and the FDIC, the institution's supervisory agencies as of **March 3, 2014**. The agencies evaluate performance in assessment area(s), as they are 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.* The FDIC rates the CRA performance institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345 of the FDIC's Rules and Regulations.

**INSTITUTION'S CRA RATING: This institution is rated “Satisfactory” by the FDIC, and “High Satisfactory” by the Division.**

Please note that the FDIC's CRA regulation does not have separate categories within the Satisfactory rating; whereas, the Division's CRA regulation includes both a High Satisfactory and a Satisfactory rating. 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” by the FDIC**

**“High Satisfactory” by the Division**

- The loan-to-deposit ratio is good given the institution's size, financial condition, and assessment area credit needs. The Bank's average net LTD ratio over the 13 quarters since the prior CRA evaluation dated October 18, 2010, was 94.2 percent.
- The Bank originated a majority of its residential mortgages and small business loans inside the assessment area.
- The distribution of residential loans reflects good penetration among individuals of different income levels (including low- and moderate-income). The distribution of small business loans reflects a good penetration to businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- There were no CRA-related complaints filed against the Bank during the review period, therefore this performance criterion was not a factor in assigning the overall rating.

**Community Development Test:**

**“Satisfactory” by the Division and the FDIC**

- The Bank demonstrated adequate responsiveness to the community development needs of its assessment area. The Bank met these community development needs through community development loans, qualified donations, and community development services.

## **SCOPE OF EXAMINATION**

This evaluation was conducted jointly by the Division and FDIC. Spencer Savings Bank's CRA performance was assessed using Intermediate Small Bank (ISB) CRA evaluation procedures. These procedures, established by the Federal Financial Institutions Examination Council (FFIEC), are used as the Bank had total assets of at least \$300 million, but less than \$1.202 billion, as of December 31 of each of the prior two calendar years. The Bank's performance is evaluated based upon a Lending Test and a Community Development Test. The Lending Test considers the institution's performance pursuant to the following criteria: loan-to-deposit (LTD) ratio; assessment area concentration; geographic distribution of loans; lending to borrowers of different incomes and businesses of different sizes (borrower profile); and, record of taking action in response to CRA complaints. The Community Development Test considers the number and dollar amount of community development loans, qualified investments, and community development services.

This evaluation focused on residential mortgage and small business loans, as these reflect the primary loan products offered by Spencer Savings Bank. Considering the Bank's loan portfolio distribution and volume of lending by loan type during the evaluation period, more weight is given to the Bank's performance of residential mortgage lending than to small business lending performance when arriving at overall conclusions. Consumer loans and small farm loans were not considered in the evaluation as these loans represent a nominal percentage of the loan portfolio.

Information regarding residential mortgage lending was derived from the Bank's Loan Application Registers (LARs), reported pursuant to the Home Mortgage Disclosure Act (HMDA). The HMDA LARs contain data about home purchase and home improvement loans, including refinancing, of one-to-four family and multi-family (five or more units) properties. The primary focus of this evaluation is lending performance in 2012, as this is the most recent year for which aggregate data is available. Aggregate lending data is used for comparison purposes within the evaluation, and includes lending information from institutions that reported at least one loan in the Bank's assessment area in 2012. Residential lending activity for 2013 was also analyzed to identify any significant trends or anomalies and will also be included in the tables. The borrower profile and geographic distribution criteria consider only those loans made within the Bank's designated assessment area.

Demographic information from the 2010 U. S. Census data is used when evaluating the residential mortgage lending for 2012 and 2013. Financial data was derived from the December 31, 2013 FFIEC Report of Condition and Income (Call Report).

As an ISB, Spencer Savings Bank is not required to collect and report its small business loan data. The Bank has elected to collect this data internally, and information concerning small business lending was derived from internal loan reports. For purposes of this evaluation, small business loans include commercial real estate and commercial and industrial loans in amounts of \$1 million or less. Comparisons to small business aggregate data are not included, as the aggregate lenders are generally much larger institutions required to report small business lending data. Instead, the Bank's small business lending performance is compared to pertinent business demographic information provided by Dun & Bradstreet (D&B).

The timeframe subject to analysis for purposes of the Community Development Test is October 18, 2010, through March 3, 2014. Data on community development loans, investments, and services during the evaluation period was provided by Bank management.

## **PERFORMANCE CONTEXT**

### **Description of Institution**

Spencer Savings Bank is a mutual savings bank with its main operations in Spencer, Massachusetts. The Bank has been operating in Central Massachusetts since its opening in 1871. The Bank currently operates six full-service branches located throughout the Central Massachusetts area. The offices are located in Spencer (two offices, including the main office); Leicester; Rutland; Warren; and Worcester. The Worcester office opened in September 2012. The Bank also has two remote automated teller machines (ATMs), which are cash dispensary only. One of the ATMs is located inside Flexcon Corporation in Spencer, which is only accessible to Flexcon employees; and the other one at Pine Acres Campground in Oakham, which will be closing by May 2014. There have been no significant changes to the Bank's organizational structure since the previous CRA evaluation.

The Bank offers a variety of products and services. Checking and savings accounts offered by the Bank include basic and interest-bearing checking accounts, statement savings, money market savings, holiday club savings, certificates of deposit, and individual retirement accounts. For commercial customers, the Bank offers business checking including debit card, commercial savings accounts, merchant credit card services, night depository service, and bill payment services.

Residential financing programs include adjustable- and fixed-rate options for the purchase, refinance, improvement, and construction of residential property. In addition, the Bank offers home equity lines of credit, and home equity loans. Auto loans, installment loans and overdraft protection lines of credit are also offered. Commercial lending programs include term loans, lines of credit, business construction loans and Small Business Administration (SBA) loans. Other services offered by the Bank include telephone banking 24 hours a day, mobile banking, 24-hour ATMs, online banking with bill pay, and deposit overdraft transfer services. In addition, Spencer Savings Investment Services offers securities and insurance products through LPL Financial and its affiliates.

At December 31, 2013, the Call Report date used for this examination, the Bank had total assets of \$406.1 million. The Bank's primary business focus is residential real estate lending. Loans secured by one-to-four family residential properties account for the largest share loans, at 60.7 percent of the portfolio. These loans include closed-end mortgage loans (including junior liens) as well as revolving home equity lines of credit. As shown in Table 1, loans of all types total \$326.1 million, or 80.3 percent of total assets.

**Table 1**  
**Loan Portfolio as of December 31, 2013**

| Loan Type   | Dollar Amount (\$'000s) | Percent of Total (%) |
|---|-------------------------|----------------------|
| Construction, Land Development, and Other Land Loans  | 8,380                   | 2.6                  |
| Secured by Farmland   | 193                     | 0.1                  |
| 1-4 Family Residential (Revolving, open-end loans)  | 14,247                  | 4.4                  |
| 1-4 Family Residential (Closed-end loans secured by first liens)                            | 171,853                 | 52.7                 |
| 1-4 Family Residential (Closed-end loans secured by junior liens)                           | 11,711                  | 3.6                  |
| Multi-Family (5 or more) Residential  | 15,995                  | 4.9                  |
| Secured by Nonfarm Nonresidential Properties  | 88,248                  | 27.1                 |
| <b>Total Real Estate Loans</b>  | <b>310,627</b>          | <b>95.3</b>          |
| Commercial and Industrial   | 12,609                  | 3.9                  |
| Loans to Individuals for Household, Family and Other Personal Expenditures (Consumer Loans) | 2,799                   | 0.9                  |
| Other Loans   | 55                      | minimal              |
| <b>Total Loans</b>  | <b>326,090</b>          | <b>100.0</b>         |

*Source: Report of Condition and Income (Call Reports) as of December 31, 2013.*

Spencer Savings Bank was rated “High Satisfactory” by the Division and “Satisfactory” by the FDIC at the prior CRA evaluation on October 18, 2010. There are no significant financial or legal impediments that would limit the Bank’s ability to help meet the credit needs of its assessment area.

### Description of Assessment Area

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, (5) does not reflect illegal discrimination, and (6) does not arbitrarily exclude low- and moderate-income areas.

Spencer Savings Bank’s assessment area is composed of 13 towns located in Worcester County in Central Massachusetts, including Brookfield, Charlton, East Brookfield, Holden, Leicester, North Brookfield, Oakham, Paxton, Rutland, Spencer, Warren, West Brookfield, and Worcester. These towns are all part of the Worcester, Massachusetts Metropolitan Statistical Area (MSA). The assessment area has 62 census tracts, including: 12 low-income tracts; 14 moderate-income tracts; 27 middle-income tracts; 7 upper-income tracts; and 2 tracts that do not have an income designation.

The Bank added the City of Worcester to its assessment area upon opening a branch there in September 2012. The Bank’s assessment area expanded from 18 census tracts in 2011 to 62 census tracts as a result. All low- and moderate-income census tracts of the assessment area are located in Worcester. Table 2 depicts select demographics of the Bank’s assessment area.

**Table 2**  
**Assessment Area Demographics (2010 U.S. Census)**

| <b>Demographic Characteristics</b>   | #       | Low % of # | Moderate % of # | Middle % of #     | Upper % of # | NA % of # |
|--|---------|------------|-----------------|-------------------|--------------|-----------|
| Geographies (Census Tracts)  | 62      | 19.3       | 22.6            | 43.6              | 11.3         | 3.2       |
| Population by Geography  | 267,800 | 19.0       | 21.2            | 44.9              | 13.6         | 1.3       |
| Owner-Occupied Housing Units by Geography                                  | 58,552  | 6.2        | 15.9            | 58.6              | 19.3         | 0.0       |
| Businesses by Geography (2012)   | 20,911  | 23.3       | 18.7            | 43.4              | 14.4         | 0.2       |
| Businesses by Geography (2013)   | 19,000  | 23.7       | 18.8            | 43.3              | 14.0         | 0.2       |
| Family Distribution by Income Level  | 63,700  | 28.3       | 18.4            | 21.6              | 31.7         | 0.0       |
| Distribution of Low and Moderate Income Families throughout AA Geographies | 2,743   | 28.5       | 25.4            | 38.3              | 7.8          | 0.0       |
| Median Family Income   |         | \$79,121   |                 |                   |              |           |
| FFIEC Adjusted Median Family Income for 2012                               |         | \$81,300   |                 | Unemployment Rate |              |           |
| Families Below Poverty Level   |         | 10.6%      |                 |                   |              | 7.7%      |

Source: 2010 U.S. Census, 2012 FFIEC updated MFI; December, 2013 Bureau of Labor Statistics for Worcester MA MSA

### *Population*

According to the 2010 U.S. Census, Spencer Savings Bank's assessment area has a total population of 267,800, including 102,109 households, of which 63,700 are families. Of the families in the assessment area, 28.3 percent are low-income, 18.4 percent are moderate-income, 21.6 percent are middle-income, and 31.7 percent are upper-income. A closer look at family demographics reveals that 10.6 percent are below the poverty threshold, and 4.2 percent receive some form of public assistance. Considering the median housing values throughout the assessment area, families of this income level would likely have difficulty securing a home mortgage loan; therefore, the opportunity to lend to the low-income population is somewhat limited.

### *Housing*

Spencer Savings Bank's assessment area includes 112,975 housing units, of which 58,552 (51.8 percent) are owner-occupied, 43,557 (38.6 percent) are occupied rentals, and 10,866 (9.6 percent) are vacant. The median age of housing stock is 37 years and the median monthly gross rent is \$833. Table 3 lists the adjusted median housing values from the towns within the Bank's assessment area as of the end of 2013 and 2012 according to The Warren Group.

**Table 3**  
**Median Housing Values**

| Town             | 2012 (\$) | 2013 (\$) |
|------------------|-----------|-----------|
| Brookfield       | 172,500   | 216,700   |
| Charlton         | 220,000   | 250,000   |
| East Brookfield  | 169,422   | 168,950   |
| Holden           | 232,000   | 257,000   |
| Leicester        | 167,750   | 202,750   |
| North Brookfield | 120,000   | 168,000   |
| Oakham           | 185,750   | 225,000   |
| Paxton           | 213,900   | 245,000   |
| Rutland          | 238,850   | 240,000   |
| Spencer          | 177,500   | 179,900   |
| Warren           | 129,000   | 154,000   |
| West Brookfield  | 159,900   | 175,000   |
| Worcester        | 160,200   | 179,450   |

As shown in Table 3, median housing values within the Bank's assessment area were as low as \$120,000 in North Brookfield and as high as \$238,850 in Rutland in 2012. In 2013, the lowest median housing value was in Warren at \$154,000 and the highest in Holden at \$257,000. In all the towns except East Brookfield the housing values rose from 2012 to 2013.

#### *Business Information*

According to 2013 D&B business demographic data, there are 19,000 businesses in the assessment area, of which 72.1 percent have gross annual revenues (GARs) of \$1 million or less, 5.0 percent have GARs greater than \$1 million, and the remaining 22.9 percent have unknown revenues.

Of total businesses in the assessment area, 23.7 percent are in the low-income census tracts, 18.8 percent are in the moderate-income census tracts, 43.3 percent are in middle-income census tracts, 14.0 percent are in upper-income census tracts, and 0.2 percent are in the N/A census tracts.

#### *Competition*

The Bank faces strong competition from mortgage and small business lenders throughout its assessment area. In 2012, there were 340 institutions that reported HMDA loans and 75 lenders that reported small business loan activity in counties covered by the assessment area, 25 of which were locally based financial institutions.

Aggregate HMDA data for calendar year 2012, the most recent year for which aggregate data is available, shows Spencer Savings Bank ranked 6<sup>th</sup>, with a 2.2 percent market share, out of the 299 financial institutions that originated or purchased a HMDA-reportable loan in the Bank's assessment area. The five financial institutions ranked ahead of Spencer Savings Bank were all large national banks.

#### *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 an organization that provides affordable housing and housing rehabilitation services in the city of Worcester. The contact stated that the community needs credit for home improvement and repairs as the city's housing stock ages, and for homeowners struggling with their mortgages. The contact envisions the best method to disburse this credit would be through the creation of a community loan fund so as to mitigate the risk to the banks.

The contact would also like to see financial institutions partner with MassHousing to offer programs such as Get the Lead Out to help qualified homeowners. Overall, the contact was pleased with local financial institutions' involvement in the community.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS**

### **LENDING TEST**

#### **Loan-to-Deposit (“LTD”) Ratio**

This performance criterion determines what percentage of the Bank’s deposit base is invested in loans. At 94.2 percent, the Bank’s average net LTD ratio for the 13 quarters since the last CRA evaluation is good considering the institution’s size, financial condition, and assessment area credit needs.

Spencer Savings Bank’s net LTD ratio as of December 31, 2013 is 103.5 percent. During the evaluation period, the Bank’s quarterly net LTD ratio fluctuated over the period from a low of 81.1 percent as of March 31, 2011, to a high of 104.2 percent as of September 30, 2010.

The Bank’s average LTD ratio was compared to a group of three other financial institutions of similar asset size and loan portfolio composition that operate in Central Massachusetts. As shown in Table 4, the average LTD ratios ranged from 70.3 percent to 103.8 percent.

| Table 4<br>Net Loan-to-Deposit Ratio |                       |   |  |                         |
|--------------------------------------|-----------------------|---|--|-------------------------|
| Bank                                 | Assets<br>(\$'000s)   | Beginning LTD<br>Ratio<br>(12/31/2010)<br>(%) | Ending LTD<br>Ratio<br>(12/31/2013)<br>(%) | Net LTD<br>Ratio<br>(%) |
| Southbridge Savings Bank             | 439,771               | 107.7   | 105.2                                      | 103.8                   |
| Hometown Bank                        | 364,798               | 94.3  | 97.5                                       | 98.1                    |
| <b><i>Spencer Savings Bank</i></b>   | <b><i>406,124</i></b> | <b><i>83.1</i></b>                            | <b><i>103.5</i></b>                        | <b><i>94.2</i></b>      |
| Greenfield Co-operative Bank         | 333,119               | 70.9  | 76.1                                       | 70.3                    |

In addition, Spencer Savings Bank’s LTD ratio does not reflect the volume of loans the Bank has sold on the secondary market. For the period under review, the Bank sold 223 loans totaling \$39.5 million.

#### **Assessment Area Concentration**

This performance criterion determines what percentage of Spencer Savings Bank’s lending was inside and outside the assessment area. As Table 5 illustrates, the Bank originated a majority of its home mortgage and small business loans within its designated assessment area, both by number and dollar volume.

**Table 5**  
**Distribution of Loans Inside and Outside of Assessment Area**

| Loan Type                   | Number of Loans |             |            |             | Dollar Volume ('000s) |               |             |               |             |                |
|-----------------------------|-----------------|-------------|------------|-------------|-----------------------|---------------|-------------|---------------|-------------|----------------|
|                             | Inside          |             | Outside    |             | Total #               | Inside        |             | Outside       |             | Total \$       |
|                             | #               | %           | #          | %           |                       | \$            | %           | \$            | %           |                |
| <b>2012 HMDA</b>            |                 |             |            |             |                       |               |             |               |             |                |
| Home Purchase               | 47              | 70.2        | 20         | 29.8        | 67                    | 7,775         | 59.4        | 5,307         | 40.6        | <b>13,082</b>  |
| Home Improvement            | 37              | 82.2        | 8          | 17.9        | 45                    | 4,474         | 78.9        | 1,195         | 21.1        | <b>5,669</b>   |
| Refinance                   | 135             | 72.2        | 52         | 27.8        | 187                   | 21,022        | 65.7        | 10,955        | 34.3        | <b>31,977</b>  |
| <b>2012 Total</b>           | <b>219</b>      | <b>73.2</b> | <b>80</b>  | <b>26.8</b> | <b>299</b>            | <b>33,271</b> | <b>65.6</b> | <b>17,457</b> | <b>34.4</b> | <b>50,728</b>  |
| <b>2013 HMDA</b>            |                 |             |            |             |                       |               |             |               |             |                |
| Home Purchase               | 46              | 61.3        | 29         | 38.7        | 75                    | 8,474         | 51.4        | 8,023         | 48.6        | <b>16,497</b>  |
| Home Improvement            | 46              | 80.7        | 11         | 19.3        | 57                    | 5,257         | 79.3        | 1,376         | 20.7        | <b>6,633</b>   |
| Refinance                   | 117             | 77.5        | 34         | 22.5        | 151                   | 16,380        | 72.9        | 6,093         | 27.1        | <b>22,473</b>  |
| <b>2013 Total</b>           | <b>209</b>      | <b>73.9</b> | <b>74</b>  | <b>26.1</b> | <b>283</b>            | <b>30,111</b> | <b>66.0</b> | <b>15,492</b> | <b>34.0</b> | <b>45,603</b>  |
| <b>Total Home</b>           | <b>428</b>      | <b>73.5</b> | <b>154</b> | <b>26.5</b> | <b>582</b>            | <b>63,382</b> | <b>65.8</b> | <b>32,949</b> | <b>34.2</b> | <b>96,331</b>  |
| <b>Small Business Loans</b> |                 |             |            |             |                       |               |             |               |             |                |
| 2012                        | 27              | 61.4        | 17         | 38.6        | 44                    | 3,405         | 32.2        | 7,159         | 67.8        | 10,564         |
| 2013                        | 24              | 72.7        | 9          | 27.3        | 33                    | 3,840         | 71.5        | 1,527         | 28.5        | 5,367          |
| <b>Total Small Business</b> | <b>51</b>       | <b>66.2</b> | <b>26</b>  | <b>33.8</b> | <b>77</b>             | <b>7,245</b>  | <b>45.5</b> | <b>8,686</b>  | <b>54.5</b> | <b>15,931</b>  |
| <b>Grand Total</b>          | <b>479</b>      | <b>72.7</b> | <b>180</b> | <b>27.3</b> | <b>659</b>            | <b>70,627</b> | <b>62.9</b> | <b>41,635</b> | <b>37.1</b> | <b>112,262</b> |

Source: HMDA LARs and Small Business Loan Data for 2012 & 2013.

### *Residential Mortgage Lending*

In 2012, the Bank originated 299 loans, of which 219 (73.2 percent) were originated inside the assessment area. The trend of lending inside the assessment area was consistent in 2013, at 73.9 percent inside the assessment area. The percentage of loans by dollar volume inside the assessment area was around eight percent lower than the percentage by number. Overall, at 73.5 percent by number and 65.8 percent by dollar volume, the Bank originated a majority of residential mortgage loans inside the assessment area during the evaluation period.

### *Small Business Lending*

The Bank also originated a majority of its small business loans by number in the assessment area in 2012 and 2013. In 2012, the Bank only originated 32.2 percent of its small business loans by dollar volume within its assessment area, and increased this percentage to 71.5 percent by dollar volume in 2013. While a majority of loans were made inside the assessment area by number in 2012, the lower percentage inside the assessment area by dollar volume was impacted by the significant number of loans the Bank made in amounts of \$100,000 or less inside the assessment area that year.

## **Borrower Profile**

This performance criterion evaluates the distribution of Spencer Savings Bank's residential mortgages by borrower income level, and small business loans by GAR level. 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 GARs of \$1 million or less.

Overall, the distribution of borrowers reflects, given the demographics of the assessment area, good penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.

#### *Residential Mortgage Lending*

Table 6 shows the distribution of residential mortgage loans originated in 2012 and 2013 by borrower income level. Demographic and aggregate data are included for comparison purposes.

| Table 6<br>Distribution of HMDA Loans by Borrower Income |              |                     |                      |              |            |              |
|--|--------------|---------------------|----------------------|--------------|------------|--------------|
| Median Family Income Level                               | % Families   | Aggregate Data 2012 | Spencer Savings Bank |              |            |              |
|  |              |                     | 2012                 |              | 2013       |              |
|  |              |                     | % of #               | #            | %          | #            |
| <b>Low</b>   | 28.3         | 9.2                 | 25                   | 11.4         | 17         | 8.1          |
| <b>Moderate</b>  | 18.4         | 21.2                | 56                   | 25.6         | 40         | 19.1         |
| <b>Middle</b>  | 21.6         | 24.5                | 59                   | 26.9         | 57         | 27.3         |
| <b>Upper</b>   | 31.7         | 28.0                | 76                   | 34.7         | 86         | 41.2         |
| <b>N/A</b>   | 0.0          | 17.1                | 3                    | 1.4          | 9          | 4.3          |
| <b>Total</b>   | <b>100.0</b> | <b>100.0</b>        | <b>219</b>           | <b>100.0</b> | <b>209</b> | <b>100.0</b> |

Source: 2012 and 2013 HMDA LARs, 2012 Aggregate Data and 2010 U.S. Census Data.

In 2012, the Bank originated 11.4 percent of its residential mortgage loans to low-income borrowers, which exceeded aggregate data at 9.2 percent. The Bank's performance in 2013 was slightly below its level of lending to low-income borrowers in 2012 at 8.1 percent. Of the 132 institutions that originated or purchased at least one residential mortgage loan to low-income borrowers in the Bank's assessment area in 2012, Spencer Savings Bank ranked 6<sup>th</sup>, with a 2.7 percent market share. The five lenders ranked ahead of the bank are all large national banks.

The Bank's performance of lending to moderate-income borrowers at 25.6 percent exceeded the aggregate lending level 21.2 percent and demographic data at 18.4 percent. Spencer Savings Bank ranked 6<sup>th</sup> with a 2.6 market share out of the 154 lenders that originated or purchased at least one residential mortgage loan to moderate-income borrowers in the assessment area in 2012. The trend in 2013 showed that the Bank continued to exceed the demographic data.

#### *Small Business Lending*

Spencer Savings Bank's distribution of small business loans reflects reasonable penetration to businesses of different sizes. Table 7 illustrates the distribution of the Bank's small business loans within the assessment area by the revenue size of the business, and includes business demographics for comparison purposes.

| Table 7 - Distribution of Small Business Loans by Business Size |                 |                      |              |           |              |  |
|---|-----------------|----------------------|--------------|-----------|--------------|--|
| Gross Annual Revenues (000s)                                    | % of Businesses | Spencer Savings Bank |              |           |              |  |
|   |                 | 2012                 |              | 2013      |              |  |
|   |                 | #                    | %            | #         | %            |  |
| <b>≤ \$1,000</b>  | <b>72.1</b>     | 20                   | 74.1         | 16        | 66.7         |  |
| <b>&gt; \$1,000</b>   | <b>5.0</b>      | 7                    | 25.9         | 8         | 33.3         |  |
| <b>Revenue Not Reported</b>                                     | <b>22.9</b>     | 0                    | 0.0          | 0         | 0.0          |  |
| <b>Total</b>  | <b>100.0</b>    | <b>27</b>            | <b>100.0</b> | <b>24</b> | <b>100.0</b> |  |

Source: Bank's Small Business Loan data for 2012 and 2013; Business Geo-demographic data for 2013.

As shown in Table 6, the Bank originated 74.1 percent of its small business loans to businesses with GARs of \$1 million or less in 2012. The Bank's performance is slightly above the percentage of businesses in the assessment area that reported GARs of \$1 million or less. This shows the Bank's willingness to meet the credit needs of small businesses within its assessment area. In 2013, the Bank originated 66.7 percent of its small business loans to businesses with GARs of \$1 million or less, which is slightly below the demographic data, but within a reasonable range.

## **Geographic Distribution**

The geographic distribution of loans was reviewed to assess the Bank's performance of addressing credit needs throughout its assessment area, particularly within low- and moderate-income census tracts. Overall, the geographic distribution of loans reflects reasonable dispersion throughout the assessment area. It is noted that Spencer Savings Bank added Worcester to its assessment area in September 2012 with the opening of a branch within the city. The recent nature of opening the Worcester branch is taken into consideration when evaluating performance under this factor. The lower penetration rates in low- and moderate-income census tracts, particularly in 2012, are mitigated by the fact the Bank had only opened the Worcester branch in late 2012.

### *Residential Mortgage Lending*

The distribution of residential mortgage loans by income level of census tract reflects reasonable dispersion throughout the assessment area, particularly in low and moderate-income geographies.

| Census Tract Income Level | % Owner-Occupied Housing Units | Aggregate Lending Data 2012 | Spencer Savings Bank |              |            |              |
|---------------------------|--------------------------------|-----------------------------|----------------------|--------------|------------|--------------|
|                           |                                |                             | 2012                 |              | 2013       |              |
|                           |                                |                             | % of #               | #            | %          | #            |
| Low                       | 6.2                            | 4.7                         | 1                    | 0.5          | 4          | 1.9          |
| Moderate                  | 15.9                           | 13.7                        | 3                    | 1.7          | 9          | 4.3          |
| Middle                    | 58.6                           | 59.2                        | 173                  | 79.0         | 156        | 74.7         |
| Upper                     | 19.3                           | 22.3                        | 42                   | 19.2         | 40         | 19.1         |
| N/A                       | 0.0                            | 0.1                         | 0                    | 0.0          | 0          | 0.0          |
| <b>Total</b>              | <b>100.0</b>                   | <b>100.0</b>                | <b>219</b>           | <b>100.0</b> | <b>209</b> | <b>100.0</b> |

*Source: 2012 and 2013 HMDA LARs, 2012 Aggregate Data and 2010 U.S. Census Data*

As shown in Table 8, the Bank originated 0.5 percent of its residential mortgage loans in low-income census tracts, and 1.7 percent in moderate-income tracts in 2012. As these tracts were not part of their assessment area until the end of September 2012 when the Bank opened a branch in Worcester, the comparison against aggregate is of limited validity. In 2013, the Bank originated 1.9 percent of its residential mortgage loans in the low-income census tracts and 4.3 percent in the moderate-income census tracts. This is below demographics, but reflects an increasing trend from 2012 lending levels. Aggregate data for 2013 was not available as of the evaluation date.

### *Small Business Lending*

The geographic distribution of small business loans reflects reasonable dispersion throughout the assessment area. Table 9 indicates the distribution of small business loans by census tract income level compared to business demographic data.

| Census Tract Income Level | % of Businesses | Spencer Savings Bank |              |           |              |
|---------------------------|-----------------|----------------------|--------------|-----------|--------------|
|                           |                 | 2012                 |              | 2013      |              |
|                           |                 | #                    | %            | #         | %            |
| <b>Low</b>                | 23.7            | 6                    | 22.2         | 7         | 29.2         |
| <b>Moderate</b>           | 18.8            | 4                    | 14.8         | 4         | 16.7         |
| <b>Middle</b>             | 43.3            | 14                   | 51.9         | 13        | 54.2         |
| <b>Upper</b>              | 14.0            | 3                    | 11.1         | 0         | 0.0          |
| <b>N/A</b>                | 0.2             | 0                    | 0.0          | 0         | 0.0          |
| <b>Total</b>              | <b>100.0</b>    | <b>27</b>            | <b>100.0</b> | <b>24</b> | <b>100.0</b> |

Source: Bank's Small Business Loan data for 2012 and 2013; Business Geo-demographic data for 2013.

Spencer Savings Bank originated 22.2 percent of its small business loans within low-income census tracts in 2012, which was just below demographics at 23.7 percent. In addition, the Bank originated 14.8 percent of these loans within moderate-income census tracts which was below demographics at 18.8 percent. The Bank's 2013 small business lending within low- and moderate-income census tracts increased to 29.2 percent and 16.7 percent, respectively. The percentages in 2013 reflect a positive trend when compared to demographics and 2012 Bank lending levels.

## **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

The Bank's compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. No evidence of discriminatory acts or illegal credit practices was identified.

## **COMMUNITY DEVELOPMENT TEST**

Spencer Savings Bank's community development performance demonstrates an adequate responsiveness to the community development needs of its assessment area. The Bank met these community development needs through community development loans, qualified grants, and community development services.

### **Community Development Loans**

For purposes of this evaluation, a community development loan is defined as 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 multifamily 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 nine community development loans totaling \$2,134,000. This equates to 0.7 percent of net loans as of December 31, 2013. Summarized in Table 10 are the community development loans by community development category and year originated.

| Community Development Category     | 2011     |                | 2012     |                | 2013     |                |
|------------------------------------|----------|----------------|----------|----------------|----------|----------------|
|                                    | #        | \$             | #        | \$             | #        | \$             |
| Affordable Housing for LMI         | 2        | 700,000        | 4        | 744,000        | 1        | 425,000        |
| Community Services Targeted to LMI | 0        | 0              | 0        | 0              | 0        | 0              |
| Promote Economic Development       | 1        | 210,000        | 0        | 0              | 1        | 55,000         |
| Revitalize LMI geographies         | 0        | 0              | 0        | 0              | 0        | 0              |
| <b>Total</b>                       | <b>3</b> | <b>910,000</b> | <b>4</b> | <b>744,000</b> | <b>2</b> | <b>480,000</b> |

*Source: Internal bank records*

As a majority of the community development loans made by Spencer Savings Bank were secured by multi-family properties and for affordable housing, it important to note that the fair market rents were based on data published by the Office of Management and Budgeting and the Department of Housing and Urban Development; the figures are updated annually. Low- and moderate-income individuals and families are likely to benefit from the housing, as each affordable housing-related loan was secured by property located in a low- or moderate-income area, and rents were all below fair market value. The following list details each of the community development loans made by Spencer Savings Bank during the evaluation period.

- In 2011, the Bank renewed a line of credit (LOC) totaling \$210,000 to a local community development corporation (CDC). This organization provides financing to businesses that otherwise would not qualify for conventional financing. This LOC will enable this organization to grant loans to local businesses.
- In 2011, the Bank originated a \$300,000 loan for the acquisition and renovation of two multi-family buildings and two vacant lots in Worcester. The subject properties were vacant and were completely refurbished. The units have 30-year affordability restrictions, and must be rented to residents whose income is at or below 60 percent of median family income; two units are designated for residents whose income is at or below 50 percent of median family income. In addition, the properties are all located in a low-income census tract.
- In 2011, the Bank originated a \$400,000 loan for refinancing and renovating a seven-unit property and a five unit property, both of which are in a low-income census tract in Worcester.
- In 2012, the Bank originated a \$175,000 LOC secured by a nine-unit rooming house located in a moderate-income census tract of Worcester. In addition, the LOC will be used to purchase distressed residential properties for renovation and sale.
- In 2012, the Bank originated a \$256,000 loan for the purchase a five-unit and a four-unit property in a low-income census tract of Worcester.

- In 2012, the Bank originated a \$125,000 loan to refinance a six-unit property located in a low-income census tract of Worcester.
- In 2012, the Bank originated a \$188,000 loan to purchase a six-unit property located in a low-income census tract of Worcester.
- In 2013, the Bank entered into a participation LOC to a local CDC with five other banks participating) totaling \$330,000 to a local CDC. The amount of each bank's participation in this LOC is \$55,000, or 16.7 percent. This organization has a purpose of helping businesses that do not qualify for conventional financing. This LOC will enable this organization to grant loans to these types of businesses.
- In 2013, the Bank originated a \$425,000 loan to refinance an eight- and a seven-unit property located in a low-income census tract of Worcester.

## Qualified Investments

A qualified investment for purposes of this CRA evaluation is a lawful investment, deposit, donation, or grant that has community development as its primary purpose. During the evaluation period, the Bank made \$96,481 in qualified donations.

The Bank's qualified investments during the evaluation period consist solely of donations. For calendar years 2011 and 2012, the Bank's donations represented 1.0 percent and 0.3 percent of pre-tax net operating income, respectively. Table 11 illustrates the Bank's community development donations by year and by purpose.

| Community Development Category     | Table 11<br>Community Development Donations |          |               |           |               |           |               |           |                   |           |
|------------------------------------|---|----------|---------------|-----------|---------------|-----------|---------------|-----------|-------------------|-----------|
|                                    | 10/18/2010-12-31-2010                       |          | 2011          |           | 2012          |           | 2013          |           | 1/1/2014-3/3/2014 |           |
|                                    | \$  | #        | \$            | #         | \$            | #         | \$            | #         | \$                | #         |
| Affordable Housing for LMI         | 0   | 0        | 5,000         | 1         | 2,500         | 2         | 1,500         | 2         | 0                 | 0         |
| Community Services Targeted to LMI | 600   | 4        | 17,751        | 24        | 23,995        | 26        | 30,175        | 22        | 9,960             | 10        |
| Promote Economic Development       | 0   | 0        | 5,000         | 1         | 0             | 0         | 0             | 0         | 0                 | 0         |
| Hurricane Sandy Relief             | 0   | 0        | 0             | 0         | 0             | 0         | 0             | 0         | 0                 | 0         |
| <b>Total</b>                       | <b>600</b>                                  | <b>4</b> | <b>27,751</b> | <b>26</b> | <b>26,495</b> | <b>28</b> | <b>31,675</b> | <b>24</b> | <b>9,960</b>      | <b>10</b> |

*Source: Internal bank records*

The following list provides a representative example of the organizations to which the Bank made community development donations during the evaluation period:

**Worcester Community Action Council, Inc.** – This organization, located in Worcester, has a primary purpose of helping low- and moderate-income individuals achieve self-sufficiency. The organization was started in 1965 under President Lyndon B. Johnson's "War on Poverty."

**Devereux Massachusetts** – This non-profit health organization, located in Rutland, supports many of the most underserved and vulnerable members of their community. The organization offers programs such a behavioral treatment residences where students reside in group homes and they have intensive foster care services. The organization targets its services toward children of low- to moderate-income families.

**The NeighborWorks® HomeOwnership Center** – This organization offers an extensive menu of services and programs to train, counsel, and finance both potential homebuyers and veteran homeowners. This organization is part of a nationwide network of community organizations that operate in distressed neighborhoods with significant low- and moderate-income populations. This organization has expanded its service area to Southern Worcester County.

**Abby Kelley Foster House, Inc.** This organization was founded in 1976, and has provided more than 11,500 homeless women and children with a safe place to stay, regroup, and rebuild.

## Community Development Services

A community development service has community development as its primary purpose and is generally related to the provision of financial services or technical services and assistance. Shown in Table 12 is the number of community development services provided by the Bank during the evaluation period.

| Table 12<br>Community Development Organizations         |          |
|---|----------|
| Community Development Category                          |          |
| Affordable Housing for Low- and Moderate-Income         | 1        |
| Promote Economic Development                            | 3        |
| Community Services Targeted to Low- and Moderate-Income | 2        |
| <b>Total</b>  | <b>6</b> |

*Source: Internal bank records*

Bank officers and employees are involved in local community development and non-profit organizations in various capacities. Bank personnel provide these organizations with financial and management expertise while serving as Directors, officers, Loan Committee members, and volunteers. Below is a representative example of employee involvement throughout the evaluation period:

**Standup For Kids—Worcester** – This national organization is dedicated to stabilization and rescuing homeless and at-risk youth. Two Vice Presidents and a branch manager serve on the Board of this organization.

**Quaboag Valley Community Development Corporation (QVCDC)** – This non-profit organization focuses on the Ware River Valley Economic Target Area, consisting of the towns within the assessment area that have been highly affected by adverse economic conditions in recent years. A former Assistant Vice President served on the Executive Board of this organization. A Vice President also serves on the Board.

**Quaboag Valley Business Assistance Corp.** – This organization is part of the QVCDC and its purpose is to help businesses that do not qualify for conventional financing. The organization grants loans to these businesses through its own LOC it has established with six local banks, including SSB. A Vice President of Commercial Lending serves as a Director and chairs the Loan Committee of this organization. A former Vice President also served on the Board.

**Newhope** – This organization works to end domestic violence by helping people live safer lives. This non-profit human service agency assists the most vulnerable citizens in the community including low- and moderate-income individuals who are in crisis. The Bank’s Executive Vice President/Lending just completed a four year term as a Board member.

**Oak Hill Community Development Corporation** – This organization is focused on providing affordable housing for low- and moderate-income individuals. Programs include down payment assistance and financial literacy courses. The Bank’s former Vice President served on the Board and the Finance Committee.

**Worcester East Side Community Development Corporation** – This organization focuses its efforts on the East Side of Worcester that include; develop affordable housing, preservation of current housing stock, reclamation of vacant lots and creation of useable neighborhood open space. The Banks Senior Vice President continues to serve on the loan committee.

### *Educational Services*

The Bank also conducted or sponsored educational workshops or programs during the evaluation period. These seminars are noted below:

**First Time Homebuyer’s Seminars:** The Bank offered in-house first-time homebuyers seminars at their Worcester and Spencer offices. These seminars offered a free appraisal for applicants and had representatives from a local CDC – Neighborworks. The Bank participated in a first-time homebuyer’s seminar at Worcester East Side CDC. This organization helps promote affordable housing in Worcester’s East side. In addition, the Bank participated in first-time homebuyer’s seminars sponsored by Neighborworks that promoted an extensive menu of services and programs to train, counsel, and finance both potential homebuyers and veteran homeowners. All seminars were targeted toward low- and moderate-income individuals. For the period under review there were eight seminars conducted.

**Boys and Girls Club Girls “Night Out”:** In 2011, the Bank’s former Vice President participated in a basic money management seminar geared for inner-city high school students that are club members.

**Woman’s Initiative:** In 2012 and 2013, several Bank employees participated in a mentoring program with an objective of teaching girls financial and budgeting skills. This United Way sponsored program was held at Worcester East Middle School, which is located in a low-income census tract.

**Tri-Valley, Inc. CDC:** Two Vice Presidents participate in this organization’s Money Management Program. The mission of this program is to promote and maintain a level of independence for elders and individuals with disabilities. The Vice Presidents help on a monthly basis with one-on-one bill paying and overall assistance with financial decisions.

## **Other Community Services**

- *Interest on Lawyers Trust Accounts (IOLTA)* - The Bank maintains Interest on Lawyers Trust Accounts (IOLTA), a funded program of Massachusetts, which provides legal assistance to over 100,000 individuals across the state. IOLTA continues to be the primary source for consumer, family, education, disability, and elder law services for low-income clients. The goal of the program is to use the interest received for the improvement of the administration of justice and for civil and legal services for low-income clients.
- The Bank also 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.

**APPENDIX A**  
**Division of Banks**  
**Fair Lending Policies and Procedures**

The Bank's fair lending performance was reviewed 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, no violations of anti-discrimination laws and regulations were identified.

### **MINORITY APPLICATION FLOW**

According to the 2010 U.S. Census Data, the Bank's assessment area had a population of 267,800, of which 29.4 percent are minorities. The assessment area's minority and ethnic population is 7.2 percent Black/African American, 4.5 percent Asian, 0.2 percent American Indian, 0.1 percent Hawaiian/Pacific Islander, 14.9 percent Hispanic or Latino and 2.5 percent other.

For 2012 and 2013, the Bank received 684 HMDA reportable loan applications from within its assessment area. Of these applications, 9 or 1.3 percent were received from minority applicants. For the same time period, the Bank also received 10 applications or 1.5 percent from applicants of Hispanic origin within its assessment area.

The Bank's level of lending was compared with aggregate lending for 2012, the most recent year that data was available. 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 A-1 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 A1 – Minority Application Flow**

| RACE                           | Bank 2012  |              | 2012 Aggregate Data |              | Bank 2013  |              | Bank TOTAL |              |
|--------------------------------|------------|--------------|---------------------|--------------|------------|--------------|------------|--------------|
|                                | #          | %            | #                   | #            | #          | %            | #          | %            |
| American Indian/ Alaska Native | 0          | 0.0          | 22                  | 0.2          | 0          | 0.0          | 0          | 0.0          |
| Asian                          | 0          | 0.0          | 471                 | 3.3          | 2          | 0.6          | 2          | 0.3          |
| Black/ African American        | 0          | 0.0          | 376                 | 2.6          | 1          | 0.3          | 1          | 0.2          |
| Hawaiian/Pac Isl.              | 0          | 0.0          | 20                  | 0.1          | 1          | 0.3          | 1          | 0.2          |
| 2 or more Minority             | 0          | 0.0          | 4                   | 0.0          | 0          | 0.0          | 0          | 0.0          |
| Joint Race (White/MINORITY)    | 2          | 0.6          | 122                 | 0.8          | 3          | 1.0          | 5          | 0.6          |
| <b>Total Minority</b>          | <b>2</b>   | <b>0.6</b>   | <b>1,015</b>        | <b>7.0</b>   | <b>7</b>   | <b>2.2</b>   | <b>9</b>   | <b>1.3</b>   |
| White                          | 335        | 92.5         | 10,420              | 72.0         | 275        | 85.4         | 610        | 89.0         |
| Race Not Available             | 25         | 6.9          | 3,047               | 21.0         | 40         | 12.4         | 65         | 9.70         |
| <b>Total</b>                   | <b>362</b> | <b>100.0</b> | <b>14,482</b>       | <b>100.0</b> | <b>322</b> | <b>100.0</b> | <b>684</b> | <b>100.0</b> |
| <hr/>                          |            |              |                     |              |            |              |            |              |
| <b>ETHNICITY</b>               |            |              |                     |              |            |              |            |              |
| Hispanic or Latino             | 0          | 0.0          | 505                 | 3.5          | 7          | 2.2          | 7          | 1.0          |
| Not Hispanic or Latino         | 335        | 92.5         | 10,903              | 75.3         | 276        | 85.7         | 611        | 88.5         |
| Joint (Hisp/Lat /Not Hisp/Lat) | 2          | 0.6          | 107                 | 0.7          | 1          | 0.3          | 3          | 0.5          |
| Ethnicity Not Available        | 25         | 6.9          | 2,967               | 20.5         | 38         | 11.8         | 63         | 10.0         |
| <b>Total</b>                   | <b>362</b> | <b>100.0</b> | <b>14,482</b>       | <b>100.0</b> | <b>322</b> | <b>100.0</b> | <b>684</b> | <b>100.0</b> |

Source: 2012 and 2013 HMDA LAR, 2012 HMDA Aggregate Data

The Bank's performance was significantly below the 2012 aggregate's performance level for minority applicants. The Bank received 0.6 percent of its total applications from minorities while the aggregate was 7.0 percent. The Bank's 2012 performance for ethnic minorities was 0.6 percent compared to the 2012 aggregate's performance of 4.2 percent.