

PUBLIC DISCLOSURE

November 1, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Watertown Municipal Credit Union
Certificate Number: 67615

149 Main Street
Watertown, Massachusetts 02472

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

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

The Community Reinvestment Act (CRA) requires the Massachusetts Division of Banks (Division) to use 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 **Watertown Municipal Credit Union (Credit Union)** prepared by the Division, the institution's supervisory agency, as of **November 1, 2016**. The Division rates the CRA performance of an institution consistent with the provisions set forth in the Division's regulation 209 CMR 46.00.

Small institution CRA procedures were utilized for the evaluation. This procedure evaluates the performance of the Lending Test which consists of: Loan-to-Share Analysis, Borrower's Characteristics and Response to CRA Complaints. Home mortgage lending data analyzed included full-year data from January 1, 2014 through December 31, 2015. Information related to home mortgage lending was derived from the Loan Application Registers (LARs) maintained by the Credit Union, pursuant to HMDA. 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.

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 members, including low- and moderate-income individuals, in a manner consistent with its resources and capabilities.

The assigned rating is based on the following performance factors:

- The average loan-to-share ("LTS") ratio (27.3 percent) is adequate given the institution's size, financial condition, product offerings, and membership credit needs.
- The distribution of loans to members of different income levels is reasonable.
- The Review of Complaints and the Fair Lending Section indicated the Credit Union has made reasonable efforts in attracting and servicing all applicants within its membership.

GENERAL INFORMATION

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This document is an evaluation of the CRA performance of **Watertown Municipal Credit Union** (Credit Union), prepared by the Division, the institution’s supervisory agency as of November 1, 2016

According to CRA regulations, an institution shall delineate one or more assessment areas within which the institution will meet the credit needs and by which the Division will evaluate the institution’s CRA performance. Credit unions whose membership by-laws provisions are not based upon residence are permitted to designate its membership as its assessment area. Therefore, since the Credit Union has defined its membership as its assessment area, as opposed to a geographic area, an evaluation of credit extended within defined geographic areas was not conducted. This evaluation was based upon an analysis of the Credit Union’s performance in providing loans to its membership; providing loans to individuals of various incomes, including low- and moderate-income members; and the Credit Union’s response to CRA complaints and fair lending performance.

PERFORMANCE CONTEXT

Description of Institution

Background

Watertown Municipal Credit Union, incorporated in 1934, is a Massachusetts state-chartered credit union headquartered in Watertown, Massachusetts. The credit union sets its membership to permanent full-time, permanent part-time, retired, appointed and elected officials, of the Town of Watertown and members of their immediate families. The prior CRA Performance Evaluation, conducted by the DOB, resulted in a Satisfactory rating.

Operations

The Credit Union operates one branch located at the Town of Watertown Town Hall, 149 Main Street in Watertown, which is open Monday to Friday from 9:00 AM to 4:00 PM. The Credit Union offers personal unsecured loans, home mortgages, holiday loans, and new and used automobile loans. The Credit Union also maintains a website, www.watertownmecu.com.

Ability and Capacity

As of March 31, 2016 the Credit Union had total assets of \$11.7 million including total loans of \$2.1 million. The loan portfolio, as detailed in the following table, is concentrated in 1st mortgage real estate by dollar volume. By count, the loan portfolio is heavily concentrated in unsecured loans and lines of credit.

Loan Portfolio Distribution as of September 30, 2016		
Loan Category	\$(000s)	%
Total 1 st Mortgage Real Estate Loans/Lines of Credit	1,382,535	66.5
Total Other Real Estate Loans/Lines of Credit	97,644	4.7
Unsecured Loans/Lines of Credit	319,899	15.5
Used Vehicle Loans	54,778	2.6
New Vehicle Loans	183,218	8.8
Total All Other Loans/Lines of Credit	39,374	1.9
Total Loans	2,077,448	100.0

Source: NCUA 5300 Call Report as of September 30, 2016.

Description of Assessment Area

According to CRA regulations, an institution shall delineate one or more assessment areas within which the institution will meet the credit needs and by which the Division will evaluate the institution's CRA performance. Credit unions whose membership by-laws provisions are not based upon residence are permitted to designate its membership as its assessment area. Therefore, since the Credit Union has defined its membership as its assessment area, as opposed to a geographic area, an evaluation of credit extended within defined geographic areas was not conducted. This evaluation was based upon an analysis of the Credit Union's performance in providing loans to its membership; providing loans to individuals of various incomes, including low- and moderate-income members; and the Credit Union's response to CRA complaints and fair lending performance.

In accordance with the requirements of 209 CMR 46.41, the Credit Union defines its membership as its assessment area. According to the Credit Union's by-laws, the Credit Union sets its membership to permanent full-time, permanent part-time, retired, appointed and elected officials, of the Town of Watertown and members of their immediate families. The Credit Union currently has 802 members.

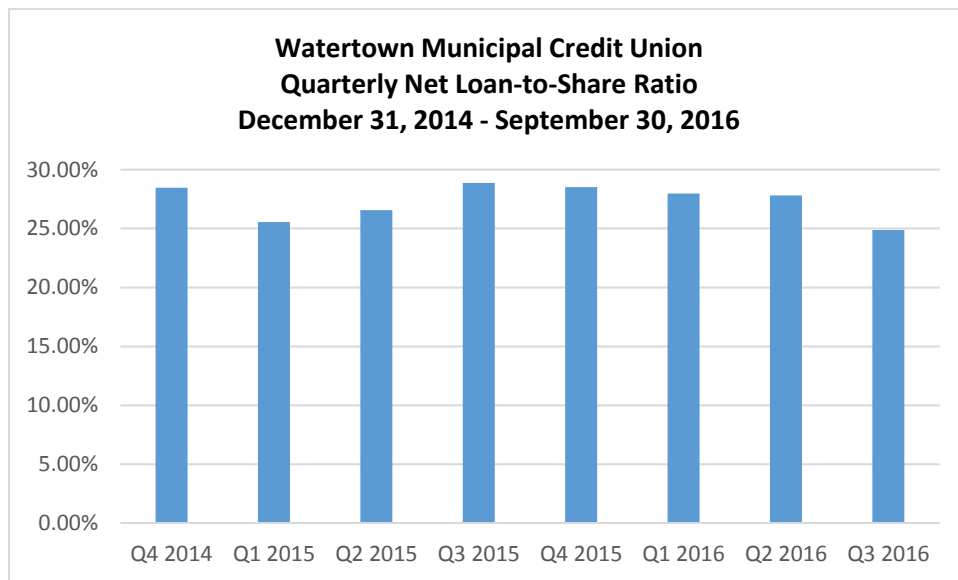
CONCLUSIONS ON PERFORMANCE CRITERIA

Loan-to-Share (LTS) Analysis

An analysis of the Credit Union's last eight quarterly net loan-to-share ratios for the period of December 31, 2014 through September 30, 2016 was conducted to determine the extent of the Credit Union's lending compared to shares received from its membership. Using the National Credit Union Administration's (NCUA) quarterly Call Reports, the average net loan-to-share ratio for this period was 27.3 percent. This ratio is based on loans net of unearned income and net of the allowance for loan and lease losses as a percentage of total shares.

The low net LTS ratio is attributed to the declining number of Credit Union members since the previous examination. This level of lending is consistent with the credit needs of the members.

The following chart is provided for further analysis:



Source: NCUA 5300 Call Report Data

As shown in the chart above, the Credit Union's net LTS ratio ranged from a low of 24.9 percent on September 30, 2016 to a high of 28.9 percent on September 30, 2015. Over these eight quarters, net loans decreased by 13.9 percent and shares decreased 1.6 percent. The LTS ratio is adequate given the institution's size and scope.

Distribution of Credit Among Different Income Levels

A sample of the Credit Union’s consumer loan data from January 1, 2014 through December 31, 2015 was analyzed in order to determine the distribution of credit based on the income level of borrowers. The loan sample consisted of personal unsecured loans and used and new automobile loans. This examination compares the borrower income to the median family income for the Cambridge-Newton-Framingham MA, Metropolitan Division (MD) which was \$93,300 in 2014 and \$101,700 in 2015.

The four income categories that define the income level of borrowers include low-, moderate-, middle-, and upper-income. The analysis of borrower income level was identified as the ratio of borrower income to the Median Family Income for the MD.

As defined by the U.S. Department of Housing and Urban Development (HUD), low-income is the income level or area that earns less than 50 percent of the MD’s median family income. Moderate-income is defined as the income level or area that earns 50-79 percent of the MD’s median family income. Middle-income is defined as the income level or area that earns 80-119 percent of the MD’s median family income, while upper-income is defined as the income level that is greater than 120 percent of the MD’s median family income.

Please refer to the table below for the distribution of loans by borrower income.

Distribution of Loans By Borrower Income Level				
Borrower Income Level	2014 Credit Union		2015 Credit Union	
	#	%	#	%
Low	2	20.0	1	10.0
Moderate	3	30.0	3	30.0
Middle	5	50.0	6	60.0
Upper	0	0.0	0	0.0
Total	10	100.0	10	100.0

In 2014, the Credit Union made two loans, or 20.0 percent of the sampled loans, to low-income borrowers and three loans, or 30.0 percent to moderate income borrowers. In 2015, while a majority of the sampled loans were originated to middle-income borrowers, the Credit Union made one loan, or 10.0 percent of sampled loans, to a low-income borrower and three loans to moderate-income borrowers. The Credit Union demonstrates a reasonable level of performance in providing loans to borrowers of different incomes.

Review of 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. The Credit Union receive 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 violations of the anti-discrimination laws and regulations were identified.

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 "149 Main Street, Watertown, MA 02472."

- 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