

PUBLIC DISCLOSURE

June 13, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

WORCESTER CREDIT UNION

Cert # 64144

**520 WEST BOYLSTON STREET
WORCESTER, MA 01606**

**DIVISION OF BANKS
1000 WASHINGTON STREET
BOSTON, MA 02118**

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

The Community Reinvestment Act (CRA) requires the Massachusetts Division of Banks (“Division”) to use 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 Division must prepare a written evaluation of the institution's record of meeting the credit needs of its membership.

This document is an evaluation of the CRA performance of **Worcester Credit Union (Credit Union)** prepared by the Division, the institution’s supervisory agency as of **June 13, 2016**. The Division evaluates performance in the assessment area as it is delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution’s branches. The Division rates the CRA performance of an institution consistent with the provisions set forth in Massachusetts Regulation 209 CMR 46.00.

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, Lending Inside and Outside of the Assessment Area, Geographic Distribution, 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 assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. The Credit Union’s performance under this test is summarized below:

- Worcester Credit Union’s net loan-to-share ratio (67.9 percent) is reasonable given the institution’s size, financial condition, and credit needs of its assessment area.
- A majority (80.6 percent) of the Credit Union’s residential loans are inside the assessment area.
- The geographic distribution of loans reflects an adequate dispersion throughout the assessment area.
- The distribution of borrowers reflects, given the demographics of the assessment area, an adequate penetration among individuals of different income levels (including low- and moderate-income).
- The Credit Union has not received any CRA-related complaints since the last CRA evaluation.

PERFORMANCE CONTEXT

Description of Institution

Worcester Credit Union is a state chartered institution founded in 1976. As of March 31, 2016, the Credit Union has 7,439 members.

On January 15, 2016, Worcester Credit Union received the Low-Income Credit Union (LICU) designation. A LICU is one in which a majority of its membership (55.3 percent) qualify as low-income members. Low-income members are those who earn 80 percent or less than the median family income or total median earnings for individuals for the metropolitan area where they live, or the national metropolitan area, whichever is greater.

In addition to its main office, located at 520 West Boylston Street in Worcester, the Credit Union operates a full-service branch located at Worcester Technical High School, 1 Skyline Drive in Worcester. Both branches are located in middle-income census tracts. The high school branch is open to the public. The Credit Union has three ATMs, all deposit taking, and all connected to SUM[®], an alliance between many community financial institutions that have agreed not to assess ATM surcharge fees to any of the other member's customers. The Credit Union is also connected to Shared-Branching through Co-Op Network. Through this partnership, members can access their accounts and conduct business nationwide at any of the participating credit union locations within the co-op shared branch network, just as if they are at the credit union branch. Business hours are readily accessible to all members. The main branch is open Monday through Thursday from 8:30 a.m. to 4:30 p.m., Friday till 6:00 p.m., and Saturday from 8:00 a.m. to 1:00 p.m. The hours of operation at Worcester Technical High School is Monday through Friday from 8:00 a.m. to 4:00 p.m. The high school branch is only open during the school year.

On August 19, 2015, the Credit Union closed a branch located at 315 Main Street, Worcester, located in a low-income census tract.

Worcester Credit Union is a full-service financial institution that offers a wide variety of products and services. The Credit Union offers personal checking and savings accounts, certificates of deposits, individual retirement accounts, business savings, and business checking accounts. Home financing programs include mortgage loans (third party), home equity fixed rate loans, and variable lines of credit. Consumer loans include personal loans, new and used auto loans, boat loans, recreational vehicles and motorcycle loans. Other services offered by the Credit Union are free online banking and bill pay, paperless e-statements, mobile banking with mobile check deposit, debit master card, telephone teller, direct deposit and payroll deductions.

The Credit Union was last examined for compliance with CRA on November 17, 2008. The examination resulted in a CRA rating of Satisfactory. The Credit Union's assets have increased from \$71.5 million to \$77.3 million since the previous examination.

As of March 31, 2016, the Credit Union's asset size is \$77,306,171 with total loans of \$49,819,149 or 64.4 percent of total assets. The Credit Union's net-loan-to-share ratio, as of the same date, was 71.4 percent. First mortgage real estate loans and lines of credit represent the largest portion of

loans with 50.1 percent, followed by other real estate loans with 18.6 percent and used vehicle loans with 12.1 percent.

The following table provides additional details regarding the Credit Union's loan portfolio:

Table 1		
Loan Distribution as of March 31, 2016		
Loan Type	Dollar Amount	Percent of Total Loans
All Other Unsecured Loans/Lines of Credit	4,019,127	8.1
Non-Federally Guaranteed Student Loans	3,145,858	6.3
New Vehicle Loans	2,195,083	4.4
Used Vehicle Loans	6,017,268	12.1
Total 1 st Mortgage Real Estate Loans/Lines of Credit	24,983,947	50.1
Total Other Real Estate Loans/Lines of Credit	9,262,715	18.6
Total All Other Loans/Lines of Credit	195,151	0.4
Total Loans	49,819,149	100.0

Source: Report of Condition and Income (Call Reports) March 31, 2016

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. Based upon the Credit Union's asset size, product offerings, and branch network, its ability to meet the community's credit needs remains strong.

Description of Assessment Area

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. Worcester Credit Union designated a single assessment area in Massachusetts that includes a portion of the Worcester, MA-CT MSA. 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, unless otherwise permitted by the regulation, (5) does not reflect illegal discrimination, and (6) does not arbitrarily exclude low- and moderate-income areas. Refer to Table 2 for pertinent demographic and economic data about the assessment area.

Table 2 –Demographic Information of the Assessment Area

Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	71	16.9	19.7	38.0	22.6	2.8
Population by Geography	309,013	16.5	17.0	36.8	28.6	1.1
Owner-Occupied Housing by Geography	70,578	5.1	12.7	45.8	36.4	0.0
Family Distribution by Income Level	74,130	24.7	16.9	20.5	37.9	N/A
Household Distribution by Income Level	117,291	28.0	16.2	17.5	38.3	N/A
Median Family Income (MFI)		\$76,012	Median Housing Value			\$293,037
FFIEC-Estimated MFI for 2014		\$77,900	Unemployment Rate (2010 Census Data)			7.7%
Families Below Poverty Level		9.2%	Unemployment Rate, December 2014			5.3%
Households Below Poverty Level		12.7%	Unemployment Rate, December 2015			5.0%

Source: 2010 U.S. Census, 2014 FFIEC Estimated Median Family Income; () The NA category consists of geographies that have not been assigned an income classification.*

Economic and Demographic Data

The Credit Union's assessment area contains 10 cities and towns located in Worcester County. The cities and towns are: Auburn, Boylston, Grafton, Holden, Leicester, Millbury, Paxton, Shrewsbury, West Boylston and Worcester.

As the data in Table 2 shows, the Credit Union's assessment area consists of 71 census tracts, of which there are 12 low-income census tracts, 14 moderate-income census tracts, 27 middle-income census tracts, 16 upper-income census tracts and 2 N/A. The 12 low-income census tracts are all located in Worcester and the 14 moderate-income census tracts are located in Auburn (1) and Worcester (13). The 2 N/A are Holy Cross College and Clark University, both located in Worcester.

As defined by the U.S. Department of Housing and Urban Development (HUD) low-income is defined as income level or area that earns less than 50 percent of the MSA's median family income.

Moderate-income is defined as income level or area that earns 50 percent to less than 80 percent of the MSA’s median family income. Middle-income is defined as income level or area that earns 80 percent to less than 120 percent of the MSA’s median family income, while upper-income is defined as income level that is equal to or greater than 120 percent of the MSA’s median family income as illustrated in the following table.

Table 3 –Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
MSA Median Family Income (\$00,000)				
2014 (\$77,900)	<\$38,949	\$38,950 to <\$62,319	\$62,320 to <\$93,479	≥\$93,480
2015 (\$81,500)	<\$40,749	\$40,750 to <\$65,199	\$65,200 to <\$97,799	≥\$97,800
<i>Source: FFIEC</i>				

The assessment area has a total population of 309,013 residing in 74,130 families. Of all family households in the area, 24.7 percent are low-income, 16.9 percent are moderate-income, 20.5 percent are middle-income, 37.9 percent are upper-income and 9.2 percent are families below the poverty level. Of the 117,291 households, 32,798 or 28.0 percent are low-income and 18,952 or 16.2 percent are moderate-income and 14,912 or 12.7 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 128,185 total housing units, of which 70,578 or 55.1 percent are owner-occupied, 46,713 or 36.4 percent are rental units and 10,894 or 8.5 percent are vacant units. Of the 70,578 owner-occupied housing units, 3,631 or 5.1 percent are in low-income census tracts and 8,931 or 12.7 percent are in moderate-income census tracts. The median housing value in 2010 for the assessment area was \$293,037, and the median age of the housing stock was 59 years.

According to the 2010 U.S. Census, the unemployment rate for the assessment area was 7.7 percent. Information obtained from the U.S. Bureau of Labor and Statistics indicates that the unemployment rate for Massachusetts 2014 was 5.3 percent and for 2015 was 5.0 percent. Unemployment rates for Worcester County for 2014 was 6.1 percent and for 2015 was 5.3 percent.

The Credit Union faces strong competition from other financial institutions that originated loans within the assessment area. These institutions range in size from small credit unions and mortgage companies with single office locations to the largest banks in New England. Among the more prominent lenders competing with the Credit Union are Digital Federal Credit Union (DCU), Commerce Bank, Unibank and Bank of America.

The assessment area has no one primary credit need. The area’s residents need a variety of retail loan products to meet personal needs and an array of home financing programs for the purchase, construction, improvement, or refinance of a residence.

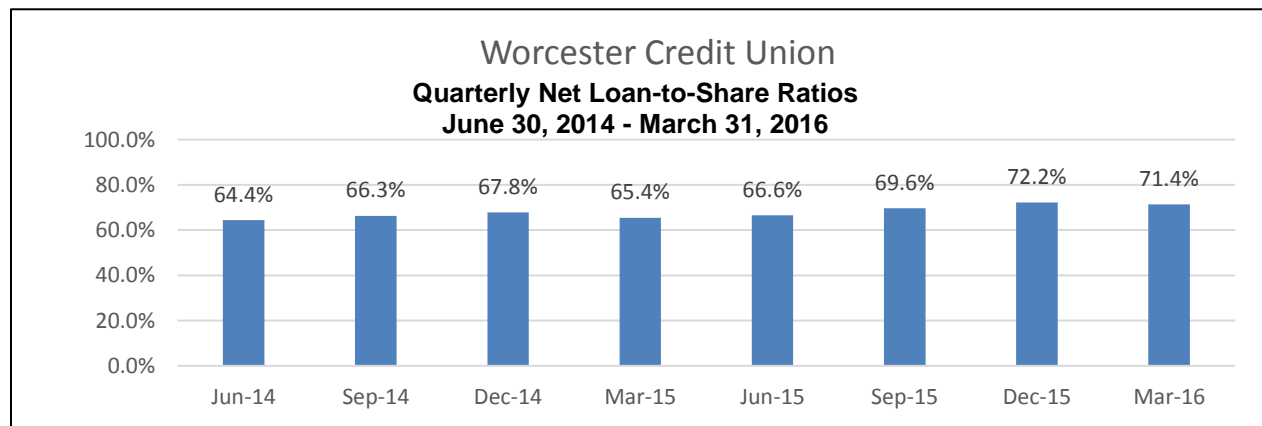
CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

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 loan-to-share 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 loan-to-share ratio since the previous evaluation is reasonable 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 67.9 percent over the past eight calendar quarters from June 30, 2014 through March 31, 2016. The ratio ranged from a low of 64.4 percent as of June 2014, to a high of 72.2 percent as of December 2015, having remained constant during the evaluation period. Over the past eight calendar quarters, net loans have increased 8.6 percent, assets have decreased 3.3 percent, and shares have decreased 2.1 percent. Per Credit Union management, the decrease is due to competition and a low rate environment.

The following graph is provided for further analysis.



For comparison purposes, the Credit Union's average net LTS ratio was compared against the average net LTS ratios of two similarly situated institutions (similar asset size and loan portfolio composition).

Credit Union Name	Total Assets as of 3/31/16	Average Net LTS Ratio 6/30/14 – 3/31/16
Athol Credit Union	\$100,837,086	98.8
Worcester Credit Union	\$77,306,171	67.9
Allcom Credit Union	\$69,376,747	51.5

Source: NCUA 5300 Statement of Financial Condition as of March 31, 2016

As shown in the table above, the two Credit Unions' average quarterly net LTS ratios were 98.8 percent and 51.5 percent. At 67.9 percent, the Credit Union's average LTS is greater than one and less than the other similarly situated institutions.

Assessment Area Concentration

This performance criterion evaluates whether the Credit Union is meeting the credit needs within its assessment area. Based on a review of home loans, a majority (80.6 percent) of the Credit Union's lending activity occurs within the institution's assessment area. The distribution of loans by number is weighted more in this analysis, as the number of loans correlates more closely to the number of individuals or families that were able to obtain home mortgage loans and is not skewed by large dollar amounts inside or outside the assessment area.

Table 5 illustrates the Credit Union's record of extending residential mortgage loans inside and outside the assessment area by number and dollar amount over the period reviewed.

Table 5 Distribution of Loans Inside and Outside of Assessment Area										
Loan Category of Type	Number Loans					Dollar Volume				
	Inside		Outside		Total #	Inside		Outside		Total \$(000s)
	#	%	#	%		\$(000s)	%	\$(000s)	%	
2014										
Home Purchase	1	50.0	1	50.0	2	72	26.5	200	73.5	272
Refinance	26	89.7	3	10.3	29	1,997	91.6	184	8.4	2,181
Home Improvement	0	0.0	1	100.0	1	0	0.0	15	100.0	15
Total	27	84.4	5	15.6	32	2,069	83.8	399	16.2	2,468
2015										
Home Purchase	4	66.7	2	33.3	6	550	49.0	572	51.0	1,122
Refinance	16	76.2	5	23.8	21	2,705	79.0	720	21.0	3,425
Home Improvement	7	87.5	1	12.5	8	408	88.5	53	11.50	461
Total	27	77.1	8	22.9	35	3,663	73.1	1,345	26.9	5,008
Grand Total	54	80.6	13	19.4	67	5,732	76.7	1,744	23.3	7,476

Source: 2014 and 2015 HMDA LARS

Geographic Distribution

This criterion evaluates the distribution of the Credit Union's loans within the assessment area by census tract income level. Examiners looked at the number of loans in the census tracts and compared them to the aggregate data and the percent of total owner-occupied housing units with the emphasis on the low-and moderate-income census tracts. Considering the Credit Union's assessment area demographics, aggregate data, and performance context factors, the distribution of home mortgage loans reflects adequate penetration in the low- and moderate-income geographies.

As shown in Table 6, the Credit Union (3.7 percent) was lower than both the aggregate (5.6 percent) and owner occupied housing (5.1 percent) percentages within the low-income census tracts.

The Credit Union originated 25.9 percent of its HMDA reportable loans within moderate-income census tracts. This is higher than both the aggregate lending (11.8 percent) and the owner-occupied housing percentage (12.7 percent) within the assessment area.

Although the volume of loans remained the same in 2015, with the Credit Union originating 27 loans, the Credit Union is consistent with its lending performance in both the low- and moderate-income census tracts as noted in the table below.

Table 6 Geographic Distribution - Home Mortgage Loans						
Census Tract Income Level	2014 Aggregate Lending	2014 Credit Union Lending		Owner-Occupied Housing Units	2015 Credit Union Lending	
	%	#	%		#	%
Low	5.6	1	3.7	5.1	3	11.1
Moderate	11.8	7	25.9	12.7	3	11.1
Middle	44.6	18	66.7	45.8	15	55.6
Upper	38.0	1	3.7	36.4	6	22.2
Total	100.0	27	100.0	100.0	27	100.0

Source: 2014 Aggregate Data, 2014 and 2015 HMDA LARs, and 2010 U.S. Census Data

Borrower Characteristics

This performance criterion evaluates the distribution of the Credit Union's residential loans based on borrower characteristics and emphasis is placed on loans to low- and moderate-income borrowers. Based on the review of the HMDA LARs, the Credit Union has achieved an adequate penetration of loans among individuals of different income levels.

As reflected in Table 7, the Credit Union's distribution of loans to low-income borrowers, at 3.7 percent, is lower than both the aggregate and the percentage of low-income families in the area. However, for a portion of these low-income families qualifying for home mortgage loans is difficult.

In 2014, the Credit Union originated 22.2 percent of total loans to moderate-income borrowers, which was higher than both the aggregate and moderate-income families.

Although the volume of lending remained the same in 2015, the Credit Union continues making loans to low- and moderate-income borrowers. The Credit Union originated 2 or 7.4 percent of loans to low-income borrowers and 3 or 11.1 percent to moderate-income borrowers.

Table 7						
Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	2014 Aggregate Lending	2014 Credit Union Lending		% of Total Families	2015 Credit Union Lending	
	%	#	%		#	%
Low	5.6	1	3.7	24.7	2	7.4
Moderate	20.7	6	22.2	16.9	3	11.1
Middle	22.2	8	29.6	20.5	6	22.2
Upper	35.3	11	40.8	37.9	16	59.3
N/A	16.2	1	3.7	N/A	0	0.0
Total	100.0	27	100.0	100.0	27	100.0

Source: 2014 Aggregate Data, 2014 and 2015 HMDA LARs, and 2010 U.S. Census Data

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.

Worcester Credit Union has a written Fair Lending Policy. The Credit Union has a second review process in place. All denied loan applications are reviewed by the President and the Assistant Vice President of Operations.

Minority Application Flow

The Credit Union’s HMDA LARs for 2014 and 2015 were reviewed to determine if the application flow from the different racial groups within the Credit Union’s assessment area was reflective of the assessment area’s demographics.

According to the 2010 U.S. Census Data, the Credit Union’s assessment area contained a total population of 309,013 individuals of which 29.0 percent are minorities. The assessment area’s minority and ethnic population is 6.7 percent Black/African American, 6.2 percent Asian, 0.2

percent American Indian, 0.0 percent Hawaiian/Pacific Islander, 13.4 percent Hispanic or Latino and 2.5 percent other.

In 2014, the Credit Union received 37 HMDA reportable loan applications from within its assessment area. Of these applications, 1 or 2.7 percent were received from minority applicants, of which 1 or 100.0 percent resulted in originations. The aggregate received 10,054 HMDA reportable loan applications of which 1,173 or 11.6 percent were received from minority applicants and 730 or 62.2 percent were originated. For the same time period, the Credit Union also received 5 or 13.5 percent of applications from ethnic groups of Hispanic origin within its assessment area of which 5 or 100.0 percent were originated versus the aggregate that received 628 applications or 6.2 percent of which 374 or 59.6 percent were originated.

In 2015, the Credit Union received 30 HMDA reportable loan applications from within its assessment area. Of these applications, 8 or 26.7 percent were received from minority applicants, of which 8 or 100.0 percent resulted in originations. For the same time period, the Credit Union received 1 or 3.3 percent of applications from ethnic groups of Hispanic origin within its assessment area of which 1 or 100.0 percent were originated.

The Credit Union's level of lending was compared with that of the aggregate's lending performance level for the most recent year that data was available, the year 2014. The comparison of this data assists in deriving reasonable expectations for the rate of applications the Credit Union received from minority residential loan applicants. The Credit Union's minority application flow is adequate due to the demographic makeup of the assessment area.

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 "520 West Boylston Street, Worcester, MA 01606"

- 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.