

PUBLIC DISCLOSURE

April 24, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bay State Savings Bank
Certificate Number: 90311

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Worcester, Massachusetts 01608

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

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INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory** by the FDIC and **High Satisfactory** by the Division of Banks.* 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.

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

The Lending Test is rated Satisfactory by the FDIC and High Satisfactory by the Division.

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

The Community Development Test is rated Satisfactory by the FDIC and High Satisfactory by the Division.

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

* Please note the FDIC's rating matrix does not provide for a "High Satisfactory" rating; however, the FDIC and the Division agree on the bank's overall performance levels.

SCOPE OF THE EVALUATION

General Information

This evaluation covers the period from the prior evaluation, dated October 21, 2014, to the current evaluation, dated April 24, 2017. Examiners used the Interagency Intermediate Small Institution Examination Procedures to evaluate Bay State Savings Bank's CRA performance. The procedures include two tests: the CRA Small Bank Lending Test and the Community Development Test. This is the bank's first examination under these procedures.

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

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

The Community Development Test considered the following factors.

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

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

Loan Products Reviewed

Examiners determined the bank's major product lines are home mortgage and small business loans, considering the bank's business strategy and the number and dollar volume of loans originated during the evaluation period. Based on higher lending activity during the review period, examiners placed greater significance on the analysis of home mortgage lending. The bank's loan portfolio has not changed significantly since the previous evaluation.

Information concerning the bank's home mortgage lending was derived from its 2015 and 2016 Home Mortgage Disclosure Act (HMDA) loan application registers (LARs). The bank reported 210 originated and purchased home mortgage loans totaling \$62.5 million in 2015 and 210 loans totaling \$56.7 million in 2016. Examiners compared the bank's 2015 HMDA lending to 2015 aggregate HMDA data. Aggregate data for 2016 is not yet available. Examiners compared bank lending from both years to demographics from the 2010 U.S. Census.

Small business loans include commercial real estate and commercial and industrial loans with original amounts of \$1 million or less. Due to its asset size, the bank is not subject to data collection and reporting of small business loans. However, the bank maintains the information in

the same format required by the CRA. The bank originated 28 small business loans totaling \$3.4 million in 2015 and 42 small business loans totaling \$9.0 million in 2016.

Examiners did not review small farm or consumer loans due to the low volume of originations. The bank has not originated any small farm loans since the last evaluation, and its consumer loan portfolio accounts for only 1.4 percent of all loans.

Examiners reviewed the number and dollar volume of home mortgage and small business loans to conduct the Lending Test. While Lending Test tables present the number and dollar volume of loans, examiners emphasized performance by number of loans, because the number of loans is a better indicator of the number of individuals or businesses served.

For the Community Development Test, examiners reviewed all community development activities since the previous CRA evaluation, dated October 21, 2014.

DESCRIPTION OF INSTITUTION

Background

Bay State Savings Bank, established in 1895, is a full-service, stock-owned savings bank headquartered in Worcester County, Massachusetts. The bank is a wholly-owned subsidiary of 1895 Corp, which is wholly-owned by 1895 MHC, a mutual holding company. Bay State Savings Bank operates two wholly-owned securities subsidiaries, controls a charitable trust, and invests in a limited liability partnership. The bank currently holds \$377.2 million in assets as of December 31, 2016. The bank received an Outstanding rating at its previous FDIC and Division Performance Evaluation, dated October 21, 2014, based on Small Institution Examination Procedures.

Operations

Bay State Savings Bank's main headquarters and loan servicing center are located at 28 Franklin Street in Worcester. The bank has six full-service branches and one limited-service location. The bank operates branches in the following cities and towns in Worcester County: Worcester (four), Holden (one), and Auburn (one full-service branch and the limited-service branch located at Auburn High School). Each of the full-service branches has automated teller machines (ATMs) available to the public. The bank has two branches in low-income census tracts (Worcester) and one in a moderate-income census tract (Auburn, MA). Since the previous evaluation, the bank has not opened or closed any branches since the prior evaluation.

Bay State Savings Bank offers commercial and consumer products, including loans for residential and commercial real estate, loans backed by investment properties, home equity lines of credit, and secured and unsecured consumer loans. The bank also offers Small Business Administration (SBA) loans and alternative services such as online and mobile banking.

Ability and Capacity

Assets totaled approximately \$377 million as of December 31, 2016 and included \$318 million in loans and \$34.3 million in securities. The following table illustrates the loan portfolio.

Loan Portfolio Distribution as of 12/31/2016		
Loan Category	\$(000s)	%
Construction and Land Development	9,185	2.8
Secured by Farmland	0	0.0
1-4 Family Residential	216,224	67.0
Multi-family (5 or more) Residential	9,130	2.8
Commercial Real Estate	83,401	25.9
Total Real Estate Loans	317,940	98.6
Commercial and Industrial	0	0.0
Agricultural	0	0.0
Consumer	4,591	1.4
Other	0	0.0
Less: Unearned Income	-	0.0
Total Loans	322,531	100.0
<i>Source: Reports of Income and Condition</i>		

The loan portfolio has grown approximately 26 percent, and the portfolio mix has remained relatively static since the last exam. Management continues to focus on one-to-four family residential real estate and commercial lending.

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

DESCRIPTION OF ASSESSMENT AREA

Economic and Demographic Data

The CRA requires financial institutions to define one or more assessment areas within which the bank will focus its lending efforts. Bay State Savings Bank has designated a single assessment area in the Worcester, MA-CT Metropolitan Statistical Area (MSA). The agencies evaluated the institution's CRA performance based on its activity within this defined assessment area.

The assessment area contains 118 of 172 census tracts in Worcester County and includes the following cities and towns:

- Auburn
- Barre
- Berlin
- Boylston
- Charlton
- Clinton
- Douglas
- Dudley
- Grafton
- Holden
- Hubbardston
- Lancaster
- Leicester
- Leominster
- Millbury
- Northborough
- Northbridge
- Oakham
- Oxford
- Paxton
- Princeton
- Rutland
- Shrewsbury
- Spencer
- Sterling
- Sutton
- Upton
- Webster
- West Boylston
- Westborough
- Westminster
- Worcester

The assessment area has not changed since the previous evaluation. It includes 12 low-income, 23 moderate-income, 45 middle-income, and 36 upper-income census tracts, as well as 2 census tracts with no income designation. All 12 low-income tracts and 13 of the 23 moderate-income census tracts are in the City of Worcester. The remaining moderate-income census tracts are located in the following communities: Auburn, Clinton, Leominster, Webster, and Whitinsville. The census tracts with no income designation are located in Worcester and are home to Clark University (7312.02) and the College of the Holy Cross (7329.02).

The following table provides assessment area demographic information.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	118	10.2	19.5	38.1	30.5	1.7
Population by Geography	552,097	9.2	15.8	38.5	35.8	0.6
Housing Units by Geography	223,994	10.1	17.9	39.4	32.6	0.0
Owner-Occupied Units by Geography	137,074	2.6	11.2	44.5	41.7	0.0
Occupied Rental Units by Geography	70,367	21.4	29.3	31.4	18.0	0.0
Vacant Units by Geography	16,553	23.5	25.5	31.2	19.7	0.0
Businesses by Geography	33,622	11.0	15.6	36.5	36.8	0.1
Farms by Geography	888	2.5	7.1	40.3	50.1	0.0
Family Distribution by Income Level	138,194	20.5	16.3	21.3	41.8	0.0
Household Distribution by Income Level	207,441	25.1	14.8	17.7	42.4	0.0
Median Family Income MSA - 49340 Worcester, MA-CT MSA		\$77,128	Median Housing Value			\$289,259
			Median Gross Rent			\$865
			Families Below Poverty Level			7.0%
<i>Source: 2010 U.S. Census and 2016 D&B Data Due to rounding, totals may not equal 100.0 (*) The NA category consists of geographies that have not been assigned an income classification.</i>						

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

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Worcester, MA-CT MSA Median Family Income (49340)				
2015 (\$81,500)	<\$40,750	\$40,750 to <\$65,200	\$65,200 to <\$97,800	≥\$97,800
2016 (\$78,500)	<\$39,250	\$39,250 to <\$62,800	\$62,800 to <\$94,200	≥\$94,200
<i>Source: FFIEC</i>				

Of the 223,994 housing units within the assessment area, over 60 percent are owner-occupied. The percentage of owner-occupied units within the low- and moderate-income census tracts is significantly below the percentage of total housing units in these tracts. Furthermore, vacant and occupied rental units comprise 83 percent of housing units in low-income census tracts and 62 percent of housing units in moderate-income census tracts. These factors indicate limited opportunities for owner-occupied home mortgage lending within these communities.

Housing values within the low-income census tracts are high in relation to the MFI in these tracts. The average median housing values (MHV) in the 12 low-income census tracts represent 84.3 percent (\$243,845) of the assessment area MHV; however, the average MFI of \$30,888 in these tracts represents only 37.9 percent of the Worcester, MA-CT MSA MFI as of the 2010 U.S. Census.

Housing values within moderate-income census tracts are more affordable. The average MHV within moderate-income census tracts represents 86.0 percent (\$248,762) of the assessment area MHV, while the average MFI of \$55,420 in these tracts represents 68.8 of the Worcester, MA-CT MSA MFI.

According to 2016 D&B data, there were 33,622 non-farm businesses located in the assessment area. The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by GAR level. Gross annual revenues (GARs) for these businesses are detailed below.

- 82.6 percent have \$1 million or less.
- 6.5 percent have more than \$1 million.
- 10.9 percent have unknown revenues.

Service industries represent the largest portion of businesses in the assessment area at 48.7 percent, followed by: retail trade (13.0 percent), construction (9.4 percent), and finance, insurance, and real estate (8.3 percent). In addition, 69.7 percent of area businesses have four or fewer employees, and 89.0 percent operate from a single location.

Data obtained from the U.S. Bureau of Labor and Statistics indicates that the 2016 year-end unemployment rate was 3.1 percent for Massachusetts as a whole. The unemployment rate of Worcester County was slightly lower at 3.0 percent. Both the statewide and county unemployment rates had declined steadily through December 2016 until the Worcester County unemployment rate increased to 4.4 percent in January 2017. As of April 2017 the countywide unemployment rate had fallen to 4.1 percent.

Competition

Competition among financial institutions within the Worcester, MA-CT MSA is high, as 42 financial institutions operate 268 retail bank offices within the MSA. Furthermore, the area is served by many large regional and national financial institutions, including Bank of America and TD Bank. As of June 2016, Bay State Savings Bank's eight branches held approximately \$285 million in deposits. The bank's 1.6 percent market share of all deposits in the MSA ranks 20th.

Aggregate HMDA data for 2015 indicates that 389 financial institutions originated or purchased nearly 17,000 reportable loans within the assessment area. The bank ranked 50th, originating 103 loans with a less than one percent market share.

Community Contact

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying the credit and community development needs. This information helps determine whether local financial institutions are responsive to these needs, and it helps confirm what credit and community development opportunities are available.

Examiners contacted a representative from a local community development corporation that operates in Worcester, MA. The organization's efforts focus on improving the availability and affordability of housing, as well as economic opportunity in the most underserved neighborhoods of Central Worcester. The contact indicated, due to several factors (including the revitalization of the downtown area), there is a need for affordable housing units. Additionally, the contact opined that despite a number of banks participating in the organization's programs, local institutions could do more to help address the community's needs.

Credit and Community Development Needs and Opportunities

Examiners identified the primary credit needs of the assessment area based on demographic and economic information, discussions with management, and the conversation with the community contact. Although numerous credit needs are apparent, examiners determined the primary credit needs of the community are loans for affordable housing and small businesses.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Bay State Savings Bank demonstrated satisfactory performance under the Lending Test, as detailed in the following sections.

Loan-to-Deposit Ratio

The LTD ratio is more than reasonable given the institution's size, financial condition, and assessment area credit needs. The bank's average net LTD ratio was 108.7 percent for the period from September 30, 2014 through December 31, 2016. During those ten quarters, the LTD ratio ranged from a low of 105.1 percent on December 31, 2016 to a high of 113.6 percent on March 31, 2015. The bank's average net LTD ratio increased since the previous evaluation by roughly ten percent.

Examiners conducted further analysis to compare the bank's LTD ratio to similarly situated banks, which were selected based on asset size, loan portfolio composition, and geographic location. The table below shows that Bay State Savings Bank had the highest LTD ratio.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 12/31/16 \$(000s)	Average Net LTD Ratio (%)
Bay State Savings Bank	377,247	108.7
Savers Co-operative Bank	498,287	105.7
Dean Co-operative Bank	279,432	83.9
Spencer Savings Bank	562,806	79.3
Athol Savings Bank	400,237	74.2
<i>Source: Reports of Income and Condition 9/30/14 through 12/31/16</i>		

Assessment Area Concentration

The bank originated a majority of home mortgage and small business loans within the assessment area. By number, the bank made 57.4 percent of its loans inside the assessment area. Although the bank originated a majority of home mortgage loans outside the assessment area in 2015, the ratio in the assessment area increased to 53.3 percent in 2016, resulting in 51.2 percent of total home mortgage loans made in the assessment area.

At the prior evaluation, the bank made 84.6 percent of home mortgage loans within the assessment area, although 2014 data showed a drop off in the percentage of loans in the assessment area. The bank's advertisements through Bankrate.com primarily contributed to the decreasing percentage of assessment area loans. Bankrate.com advertises interest rates online and expands the bank's market area into Norfolk and Suffolk Counties. The following table shows bank lending inside and outside of the assessment area.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollars Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home										
2015	103	49.0	107	51.0	210	19,156	30.7	43,329	69.3	62,485
2016	112	53.3	98	46.7	210	20,428	36.0	36,281	64.0	56,709
Subtotal	215	51.2	205	48.8	420	39,584	33.2	79,610	66.8	119,194
Small Business										
2015	25	89.3	3	10.7	28	3,327	95.8	154	4.2	3,481
2016	41	97.6	1	2.4	42	8,913	98.7	119	1.3	9,032
Subtotal	66	94.3	4	5.7	70	12,240	97.8	273	2.2	12,513
Total	281	57.4	209	42.6	490	51,824	39.3	79,883	60.7	131,707

Source: 2015 and 2016 Bank HMDA and Small Business Loan Data

Geographic Distribution

The geographic distribution of home mortgage and small business loans reflects excellent dispersion throughout the assessment area. The bank's excellent performance in home mortgage and small business lending supports this conclusion.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects excellent dispersion throughout the assessment area, particularly in low- and moderate-income census tracts. The following table details this review.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2015	2.6	2.6	6	5.8	1,101	5.7
2016	2.6	--	10	8.9	1,780	8.7
Moderate						
2015	11.2	10.6	17	16.5	2,525	13.2
2016	11.2	--	18	16.1	2,701	13.2
Middle						
2015	44.5	41.1	45	43.7	7,103	37.1
2016	44.5	--	44	39.3	7,479	36.6
Upper						
2015	41.7	45.6	35	34.0	8,427	44.0
2016	41.7	--	40	35.7	8,468	41.5
Totals						
2015	100.0	100.0	103	100.0	19,156	100.0
2016	100.0	--	112	100.0	20,428	100.0

Source: 2010 U.S. Census; 1/1/2015 - 12/31/2016 Bank Data, 2015 HMDA Aggregate Data, "--" data not available

The bank's percentage of loans in low-income tracts doubled the aggregate's percentage in 2015. Bank lending in low-income tracts increased in 2016. The bank's performance exceeded the percentage of owner-occupied units in low-income tracts. Bay State Savings Bank's percentage of loans in moderate-income census tracts also exceeded aggregate data and the percentage of owner-occupied units in 2015. The bank's lending in moderate-income tracts remained steady in 2016.

Market share data further supports the bank's excellent performance. In 2015, the bank ranked 50th with a 0.6 percent market share out of nearly 400 institutions that originated or purchased a home mortgage loan within the bank's assessment area. However, the bank performed much better in the low- and moderate-income census tracts within the assessment area. Bay State Savings Bank ranked 16th with a 1.4 percent market share in the low-income tracts and 33rd with a 1.0 percent market share in the moderate-income tracts.

Small Business Loans

The geographic distribution of small business loans reflects excellent dispersion. The following table shows that the bank's performance in low- and moderate-income census tracts exceeds business demographics.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	Bank Data			
		#	%	\$(000s)	%
Low					
2015	10.9	6	24.0	1,076	32.3
2016	11.0	7	17.1	1,152	12.9
Moderate					
2015	15.4	4	16.0	170	5.2
2016	15.6	7	17.1	1,419	15.9
Middle					
2015	36.6	8	32.0	1,431	43.0
2016	36.5	17	41.4	5,024	56.4
Upper					
2015	37.0	7	28.0	650	19.5
2016	36.8	10	24.4	1,318	14.8
Not Available					
2015	0.1	0	0	0	0
2016	0.1	0	0	0	0
Totals					
2015	100.0	25	100.0	3,327	100.0
2016	100.0	41	100.0	8,913	100.0

Source: 2015 and 2016 D&B data; 1/1/2015 – 12/31/2016 Bank Data

In 2015, the bank's small business lending in low-income tracts significantly exceeded the percentage of businesses in these tracts. The percentage of bank loans in moderate-income tracts was similar to demographics. In 2016, the bank again exceeded the percentage of businesses in low-income tracts, but not as significantly as in 2015. The bank increased both the number and percentage of loans in moderate-income tracts in 2016, slightly exceeding the percentage of businesses in these tracts.

Borrower Profile

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes. The bank's reasonable performance in both home mortgage and small business lending supports this conclusion. Examiners focused on the percentage by number of home mortgage loans to low- and moderate-income borrowers and the percentage by number and dollar amount of small business loans to businesses with GARs of \$1 million or less.

Home Mortgage Loans

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate-income, is reasonable. The following data shows the distribution of loans by borrower income level within the assessment area, and presents loan activity in comparison to aggregate data and family income levels.

In

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2015	20.5	5.4	4	3.9	356	1.9
2016	20.5	--	5	4.5	584	2.9
Moderate						
2015	16.3	18.1	20	19.4	2,399	12.5
2016	16.3	--	20	17.9	2,534	12.4
Middle						
2015	21.3	21.1	21	20.4	3,128	16.3
2016	21.3	--	29	25.9	5,363	26.3
Upper						
2015	41.8	36.9	46	44.7	10,863	56.7
2016	41.8	--	47	42.0	9,914	48.5
Not Available						
2015	0.0	18.4	12	11.7	2,410	12.6
2016	0.0	--	11	9.8	2,033	10.0
Totals						
2015	100.0	100.0	103	100.0	19,156	100.0
2016	100.0	--	112	100.0	20,428	100.0

Source: 2010 U.S. Census; 1/1/2015 - 12/31/2016 Bank Data, 2015 HMDA Aggregate Data, "--" data not available

2015, the bank's lending performance to low-income families slightly trailed aggregate performance. Lending to moderate-income borrowers is reasonable, with the percentage of bank loans slightly higher than the aggregate performance and demographic data. In 2016, bank lending to low-income borrowers increased slightly, while the percentage of loans to moderate-income borrowers slightly decreased.

Additionally, the percentage of loans to low-income families was significantly less than the

percentage of low-income families within the assessment area. However, a review of demographic data helps explain the disparity between the percentage of bank and aggregate loans to low-income families and the percentage of low-income families. Families below the poverty level represent 7.0 percent of total families and most likely would not qualify for home financing given the median home values within the assessment area. Market rank reports show that the bank ranked 67th with a 0.4 percent market share in lending to low-income borrowers. The bank ranked 50th with a 0.7 percent market share in lending to moderate-income borrowers.

The bank originated 11 loans to low- and moderate-income borrowers through its First Time Homebuyer program during the review period. Although this program does not specifically target these potential borrowers, it does provide benefits that make home mortgage loans more attainable for low- and moderate-income borrowers.

Small Business Loans

The distribution of borrowers reflects reasonable penetration to businesses with GARs of \$1 million or less. The following table illustrates the bank’s performance compared to demographic data.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000					
2015	76.7	21	84.0	3,011	90.5
2016	82.6	25	61.0	4,237	47.5
>1,000,000					
2015	5.6	4	16.0	316	9.5
2016	6.5	16	39.0	4,676	52.5
Revenue Not Available					
2015	17.7	0	0	0	0
2016	10.9	0	0	0	0
Totals					
2015	100.0	25	100.0	3,327	100.0
2016	100.0	41	100.0	8,913	100.0

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

The bank’s percentage of loans to businesses with GARs of \$1 million or less exceeded demographics in 2015. While the percentage of loans decreased below demographic percentages in 2016, the number and dollar amount of loans to businesses with GARs of \$1 million or less increased.

Despite the increasing trend in loans to larger businesses, many of these loans were made through state and federal programs created to benefit smaller businesses. While these businesses had GARs over \$1 million, they still qualified for small business loan programs. The bank is a preferred SBA Lender, utilizing the 7a and 504 SBA loan products. The bank also participates in

the Massachusetts Small Business Banking Partnership, which incentivizes community banks to provide loans to creditworthy small businesses. The Massachusetts State Treasurer allocates state funding to qualifying community banks to make loans to small businesses.

Response to Complaints

The bank has not received any complaints regarding its CRA performance since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

COMMUNITY DEVELOPMENT TEST

Bay State Savings Bank’s community development performance demonstrates good responsiveness to the community development needs of its assessment area through community development loans, qualified investments, and community development services. Examiners considered the institution’s capacity and the need and availability of such opportunities for community development in the institution’s assessment area.

Community Development Loans

The bank originated 19 community development loans totaling approximately \$6.5 million during the evaluation period, which represents 1.7 percent of total assets and 2.1 percent of average total loans since the previous evaluation. The majority of community development loans promoted economic development through financing small businesses.

The following table illustrates the bank’s community development lending activity by year and purpose.

Community Development Loans												
Activity Year	Qualifying Category										Totals	
	Affordable Housing		Community Service		Economic Development		Revitalize or Stabilize		Neighborhood Stabilization			
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2015	2	333	1	12	1	15	1	1,100	0	0	5	1,460
2016	2	508	2	456	8	3,614	0	0	0	0	12	4,578
1/1/17-4/24/17	0	0	1	330	1	100	0	0	0	0	2	430
Total	4	841	4	798	10	3,729	1	1,100	0	0	19	6,468

Source: Bank Records.

Below are notable examples of the bank’s community development lending.

- The bank originated two loans totaling \$507,700 to a community development corporation (CDC) located in Worcester. The CDC develops and rehabilitates affordable housing in the city’s low- and moderate-income neighborhoods. The loans were used to renovate and improve multi-family properties that provide affordable housing.
- The bank originated two loans totaling \$561,000 to an organization that provides residential services, shared living, and community support services to disabled individuals. The proceeds of the loans were used to purchase and renovate a new office

building to expand the organization. The majority of clients served by the organization receive public financial assistance and are low- or moderate-income individuals.

- In 2015, the bank originated a \$1.1 million loan that provided permanent financing to a business located within the Worcester Redevelopment Authority’s (WRA) Downtown Urban Revitalization Area. The loan helped expand an existing business that employs more than 20 individuals in a low-income geography and is consistent with the WRA’s revitalization plan, which includes attracting new or expanding existing commercial and industrial businesses in the revitalization area.
- The bank made two loans totaling \$333,000 for the purpose of purchasing and improving affordable multi-family housing in the City Worcester. The multi-family housing units are located in low- or moderate-income census tracts and have below-market rents.

Qualified Investments

The bank made 119 qualified investments totaling \$224,299, most of which were donations. Of the total qualified investments, 70.7 percent by dollar amount went to organizations that support community services to low- and moderate-income individuals. The following table includes investments that benefitted the regional or statewide area that includes the bank’s assessment area.

Qualified Investments												
Activity Year	Qualifying Category										Totals	
	Affordable Housing		Community Service		Economic Development		Revitalize or Stabilize*		Neighborhood Stabilization Projects			
	#	\$	#	\$	#	\$	#	\$	#	\$	#	\$
10/21/14-12/31/14	0	0	11	13,405	2	3,000	2	22,000	0	0	15	38,405
2015	3	5,250	36	65,386	3	4,000	3	4,500	0	0	45	79,136
2016	3	4,000	30	53,683	1	2,500	5	15,500	0	0	39	75,683
1/1/17-4/24/17	1	2,500	17	26,075	1	1,500	1	1,000	0	0	20	31,075
Total	7	11,750	94	158,549	7	11,000	11	43,000	0	0	119	224,299

Source: Bank Records.

Below are examples of recipients of the bank’s community development investments.

- **Community Investment Tax Credits (CITC)** – Through the CITC program, the bank donated \$25,000 to the Worcester Common Ground CDC and Main South CDC. These

CDCs provide affordable housing in Worcester and promote revitalization of the city's low-income neighborhoods.

- **Abby's House** – This organization maintains a homeless shelter and affordable housing units for women. Other programs include emergency food services, literacy programs, financial counseling, and advocacy services. The bank provided two donations totaling \$8,500 to the organization during the evaluation period.
- **Worcester Community Action Council** - This organization helps people move to economic self-sufficiency and alleviates poverty through education, child care, health, housing, and youth employment programs and services. The bank provided four donations totaling \$6,500 to the organization during the evaluation period.
- **Massachusetts Small Business Development Center** – This organization provides technical assistance, training programs, and capital access to prospective or existing small businesses. This organization serves a greater statewide area that includes the bank's assessment area. The bank provided three donations totaling \$7,500 to the organization during the evaluation period.
- **Girls Inc.** – This organization provides educational youth programs to at-risk, low-income individuals. The organization's programs include science, technology, engineering, and math education; pregnancy and drug abuse prevention; media and economic literacy; health and fitness; and violence prevention. The bank provided three donations totaling \$11,333 during the evaluation period.

Community Development Services

During the evaluation period, bank employees performed 365 instances of financial expertise or technical assistance to 28 different community development organizations throughout the assessment area. A majority of these instances were involvement on the boards of organizations that provide community services to low- and moderate-income individuals. The following table illustrates the bank's community development services by year and purpose.

Community Development Services						
Activity Year	Qualifying Category					Totals
	Affordable Housing	Community Service	Economic Development	Revitalize or Stabilize	Neighborhood Stabilization Projects	
	#	#	#	#	#	
10/21/14-12/31/14	4	26	4	0	0	34
2015	7	103	16	1	0	127
2016	16	104	6	3	0	129
1/1/17-4/24/17	9	61	3	2	0	75
Total	36	294	29	6	0	365

Source: Bank Records.

Examples of the bank’s community development services include:

- **Rachel’s Table** – Rachel’s Table distributes donated and purchased foods without charge to agencies feeding needy families and individuals in Worcester. The group provides training programs about food safety and efficient food distribution. An assistant vice president of the bank served on the organization’s board of directors.
- **Habitat for Humanity** – This organization builds affordable housing for low- and moderate-income families. Two members of the bank’s management served on the organization’s board of directors.
- **Worcester Business Development Corporation (WBDC)** – The WBDC is a private, non-profit organization that promotes economic development in Worcester. WBDC has created small businesses, jobs, and complex development projects. The bank president served on WBDC’s audit and finance committee.
- **Friendly House** – This organization provides social services, shelter, children’s programs, and food services to low-income families in Worcester. A vice president of the bank served as treasurer for the organization.
- **Worcester Community Housing Resources** – This organization creates and preserves affordable housing for low- and moderate-income households and supports neighborhood revitalization throughout Worcester County. A senior vice president of the bank served on the organization’s loan committee.
- **Resources for Community & People (RCAP Solutions)** – RCAP Solutions is a non-profit organization offering client and community resources for people and businesses.

Examples of services include affordable housing options, homelessness prevention, workforce development, property management, and loans to homeowners and small businesses in underserved markets not eligible for traditional loan resources. A vice president of the bank serves on the organization's loan committee.

Financial Education and Outreach:

- **Financial Literacy** – Over the evaluation period, bank employees presented financial literacy classes and seminars at Worcester Public Schools, Latin American Health Alliance, You Inc., and other community organizations in the assessment area. These financial literacy classes were targeted to low- and moderate-income individuals in Worcester.

The bank has two branches and ATMs in low-income census tracts in Worcester, as well as one branch and ATM in a moderate-income census tract in Auburn. These branches and ATMs demonstrate the availability of banking services to low- and moderate-income individuals.

**DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES
REVIEW**

Examiners did not identify any evidence of discriminatory or other illegal practices. Therefore, this criterion did not impact the institution's CRA rating.

APPENDIX Division of Banks

FAIR LENDING POLICIES AND PROCEDURES

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

Minority Application Flow

The bank's HMDA LARs for 2015 and 2016 were reviewed to determine if the application flow from different minority groups was reflective of the assessment area demographics.

The bank's residential application flow in 2015 was compared to the 2015 aggregate. The comparison of this data assists in deriving reasonable expectations for the rate of applications the institution received from minority residential loan applicants. Refer to the table below for information on the bank's minority application flow as well as a comparison to the aggregate within the assessment area.

Minority Application Flow					
RACE	Bank 2015		2015 Aggregate Data	Bank 2016	
	#	%	%	#	%
American Indian/ Alaska Native	1	0.6	0.2	0	0.0
Asian	12	6.7	5.6	8	3.8
Black/ African American	4	2.2	2.9	7	3.4
Hawaiian/Pacific Islander	0	0.0	0.1	0	0.0
2 or more Minority	0	0.0	0.1	0	0.0
Joint Race (White/Minority)	2	1.1	1.1	0	0.0
Total Minority	19	10.6	10.0	15	7.2
White	114	63.7	69.3	163	78.0
Race Not Available	46	25.7	20.7	31	14.8
Total	179	100.0	100.0	209	100.0
ETHNICITY					
Hispanic or Latino	9	5.0	4.2	6	2.9
Not Hispanic or Latino	124	69.3	74.6	170	81.3
Joint (Hisp/Lat /Not Hisp/Lat)	1	0.6	1.0	3	1.4
Ethnicity Not Available	45	25.1	20.2	30	14.4
Total	179	100.0	100.0	209	100.0

Source: 2010 U.S. Census; 2015 and 2016 HMDA Reported Data; 2015 HMDA Aggregate Data

According to the 2010 U.S. Census data, the bank's assessment area had a population of 552,097 individuals, of which 21.7 percent are minorities. The assessment area's minority and ethnic population consists of 0.2 percent American Indian, 4.8 percent Asian/Pacific Islander, 4.5 percent Black, 10.0 percent Hispanic, and 2.2 percent Other Race.

In 2015, the bank received 179 HMDA reportable loan applications within its assessment area. Of these applications, 19 or 10.6 percent were received from racial minority applicants. This is slightly higher than the aggregate's performance of 10.0 percent of applications received from minorities. For the same year, the bank received 10 applications representing 5.6 percent of applications from the Hispanic or Latino ethnic group. This is slightly higher than the aggregate's performance of 5.2 percent of applications received from the Hispanic or Latino ethnic group.

In 2016, the bank received 7.2 percent of applications from racial minorities and 4.3 percent of applications from Hispanic or Latino applicants.

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

GLOSSARY

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

Community Development: For loans, investments, and services to qualify as community development activities, their primary purpose must:

- (1) Support affordable housing for low- and moderate-income individuals;
- (2) Target community services toward low- and moderate-income individuals;
- (3) Promote economic development by financing small businesses or farms;
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies; or
- (5) Enable or facilitate projects or activities that address needs regarding foreclosed or abandoned residential properties in designated target areas.

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Bank CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Community Development Loan: A loan that

- (1) Has as its primary purpose community development; and
- (2) Except in the case of a wholesale or limited purpose bank:
 - (i) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multi-family dwelling loan (as described in Appendix A to Part 203 of this title); and
 - (ii) Benefits the bank's assessment area(s) or a broader statewide or regional area including the bank's assessment area(s).

Community Development Service: A service that

- (1) Has as its primary purpose community development;
- (2) Is related to the provision of financial services; and
- (3) Has not been considered in the evaluation of the bank's retail banking services under § 345.24(d).

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

Distressed Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or
- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

Family Income: Includes the income of all members of a family that are age 15 and older.

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Disclosure Loan Application Register (HMDA LAR): The HMDA LARs record all applications received for residential purchase, refinance, home improvement, and temporary-to-permanent construction loans.

Home Mortgage Loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multi-family (five or more families)

dwelling loans, loans to purchase manufactured homes, and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Household Income: Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households are only one person, median household income is usually less than median family income.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (for example, geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Low Income Housing Tax Credit: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary

counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Micropolitan Statistical Area: CBSA associated with at least one urbanized area having a population of at least 10,000, but less than 50,000.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area: All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Investment Company (SBIC): SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture

or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

Small Business Loan: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Underserved Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

Upper-Income: Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, "urban" consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

"Urban" excludes the rural portions of "extended cities"; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.