

PUBLIC DISCLOSURE

March 7, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Salem Five Cents Savings Bank
Certificate Number: 23296

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Salem, Massachusetts 01970

Division of Banks
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Boston, Massachusetts 02118

Federal Deposit Insurance Corporation
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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 Division of Banks or the Federal Deposit Insurance Corporation concerning the safety and soundness of this financial institution.

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INSTITUTION RATING

INSTITUTION’S CRA RATING: This institution is rated **Satisfactory**.

PERFORMANCE LEVELS	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X		
Satisfactory**		X	X
Needs to Improve			
Substantial Noncompliance			

** The Lending Test is weighted more heavily than the Investment and Service Tests when arriving at an overall rating.*

*** FDIC rules and regulations stipulate use of a “high satisfactory” and “low satisfactory” rating for the three tests. This jointly issued public evaluation uses the term “satisfactory” in lieu of “low satisfactory” for the Lending, Investment, and Service Test ratings, as the Division does not have a “low satisfactory” rating.*

The Lending Test is rated High Satisfactory.

- Given the institution’s performance context, lending levels reflect good responsiveness to the credit needs of its assessment areas.
- Salem Five Cents Savings Bank (Salem Five) made an adequate percentage of loans within its assessment areas during the review period.
- The geographic distribution of loans reflects adequate penetration throughout the assessment areas.
- The distribution of borrowers reflects good penetration among retail customers of different income levels and business customers of different sizes.
- Salem Five uses innovative and flexible lending programs to assist in meeting the credit needs of its assessment area.
- Salem Five is a leader in originating community development loans. During the review period, Salem Five originated 43 community development loans totaling approximately \$72.0 million.

The Investment Test is rated Satisfactory.

- The institution has an adequate level of qualified community development investments and grants.
- Salem Five exhibits adequate responsiveness to credit and community economic development needs.
- The institution occasionally uses of innovative and complex investments to support community development initiatives.

The Service Test is rated Satisfactory.

- Delivery systems are reasonably accessible to essentially all portions of the institution's assessment area.
- To the extent changes have been made, the institution's opening and closing of branch offices has not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies or to low- and moderate-income individuals.
- Services (including, where appropriate, business hours) do not vary in a way that inconveniences certain portions of the assessment area, particularly low- and moderate-income geographies and individuals.
- The institution provides an adequate level of community development services.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated January 14, 2013, to the current evaluation dated March 7, 2016. Examiners used the Interagency Large Institution Examination Procedures to evaluate Salem Five's Community Reinvestment Act (CRA) performance. These procedures include three tests: the Lending Test, Investment Test, and Service Test.

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

- Assessment area concentration
- Geographic distribution
- Borrower profile
- Community development loans
- Innovative and flexible lending practices
- Response to CRA-related complaints

The Investment Test considered the following criteria.

- Number and dollar amount of qualified investments
- Responsiveness to credit and community development needs
- Innovativeness or complexity of qualified investments

The Service Test considered the following criteria.

- Accessibility of delivery systems
- Changes in branch locations
- Reasonableness of business hours and services
- Community development services

Loan Products Reviewed

Examiners determined that Salem Five's major product lines are home mortgage and small business loans. This conclusion considered Salem Five's business strategy and the number and dollar volume of loans originated during the evaluation period. Salem Five's record of originating home mortgage loans contributed more weight to overall conclusions due to the larger loan volume (52.2 percent, including 1-4 family and multi-family real estate) when compared to small business lending (38.3 percent) during 2014 and 2015 and loan portfolio composition.

As a bank subsidiary, examiners also considered Salem Five Mortgage Company's (SFMC) residential lending activity. Examiners did not consider other product lines such as small farm loans, consumer, and other loan types due to the low or no origination volume and small portion of the loan portfolio represented by these loan types. Therefore, they provided no material support for conclusions or ratings and they are not presented.

This evaluation considered all home mortgage entries on Salem Five's 2014 Home Mortgage Disclosure Act (HMDA) Loan Application Registers (LARs) and the first nine months of 2015. In 2014, Salem Five reported 40 loans totaling \$35.2 million. In the first nine months of 2015, the bank reported 29 loans totaling \$25.5 million. Additionally, home mortgage loans originated by SFMC in 2014 and the first nine months of 2015 and reported on the Salem Five's LAR, were also included where noted. Unless otherwise specified, this performance evaluation will herein refer to both Salem Five and SFMC as the bank.

This evaluation also considered all small business loans reported on Salem Five's CRA Loan Register in 2014 and the first nine months of 2015. In 2014, Salem Five reported 471 small business loans totaling \$137.9 million. In the first nine months of 2015, Salem Five reported 528 loans totaling \$158.5 million. Salem Five's subsidiary, SFMC, does not originate small business loans.

This evaluation presents information for 2014, the most recent year for which aggregate data is available, and 2015 data for trends, for both HMDA and small business loans. Examiners also used pertinent demographics based on 2010 U.S. Census data for comparisons.

For the Lending Test, examiners reviewed the number and dollar volume of home mortgage and small business loans. While the evaluation presents the number and dollar volume of loans, examiners emphasized performance by number of loans. The number of loans is a better indicator of the number of businesses and individuals served. As CRA permits, examiners considered the mortgage lending activity of SFMC. In accordance with CRA examination procedures, examiners included SFMC loans for all lending-related activities except for consideration under the Assessment Area Concentration performance factor. Examiners weighted the performance under the Lending Test more heavily than the Investment and Service Tests in arriving at an overall CRA rating.

Examiners reviewed community development loans, investments and services, as well as innovative and/or flexible lending practices from the prior evaluation date of January 14, 2013, through the current examination date of March 7, 2016.

Since the prior examination, Salem Five opened a branch in Needham, Massachusetts, in February 2016 and expanded its CRA assessment area. For evaluation purposes, examiners analyzed Salem Five's CRA performance based on the assessment area in effect prior to the branch opening since any activity would have minimal impact on the evaluation.

DESCRIPTION OF INSTITUTION

Background

Salem Five is a stock savings bank headquartered in Salem, Massachusetts that operates primarily throughout the Boston-Cambridge-Newton, Massachusetts-New Hampshire (MA-NH) Metropolitan Statistical Area (MSA). Salem Five is a wholly owned subsidiary of Salem Five Bancorp, a Massachusetts single bank holding company. The bank has 1 affiliate, Stoneham Properties, and 10 subsidiaries, including Salem Five Mortgage Company LLC; Salem Five Financial, a full-service brokerage company; and Salem Five Insurance Agency LLC. The other subsidiaries do not offer financial products or services to the public. Additionally, the bank operates Salem Five Charitable Foundation (Salem Foundation), Salem Five Heritage Charitable Foundation (Heritage Foundation), and Stoneham Savings Salem Five Charitable Foundation (Stoneham Foundation).¹ Salem Five uses these three foundations to provide charitable contributions to community-based organizations throughout the bank's assessment area. The bank received a Satisfactory rating at its previous FDIC and Massachusetts Division of Banks CRA Performance Evaluation as of January 14, 2013, based on Interagency Large Institution Examination Procedures.

Operations

Salem Five primarily serves Middlesex, Essex, and Suffolk Counties, and the City of Needham in Norfolk County through 30 full-service branch offices. Branch offices are located in Salem (2), Swampscott, Hamilton, Danvers (2), Peabody (2), Saugus, Boston, Malden, Lynn (2), North Andover (2), Marblehead, Beverly (2), Middleton, Woburn, Sudbury, Reading, Stoneham (2), Burlington (2), Concord, Tewksbury, Bedford, and Needham, Massachusetts. Of these offices, 1 is located in a low-income census tract in Lynn; 4 are in moderate-income census tracts in Beverly, Malden, Peabody, and Woburn; 18 branches are in middle-income census tracts; and 7 offices are in upper-income census tracts.

The bank acquired five new offices since the previous evaluation resulting from the merger with Stoneham Savings Bank. The Stoneham Savings Bank branches are in Burlington, North Andover, Tewksbury, and Stoneham (2). Additionally, Salem Five opened three branches since the previous evaluation in Bedford, Concord, and Needham. Of the eight new offices, five are located in middle-income tracts and three are in upper-income census tracts. Salem Five subsequently closed a Stoneham branch in a middle-income census tract.

Salem Five offers a wide array of consumer and business loan products and services. Consumer loan products include residential mortgages offered primarily through SFMC, home equity lines of credit, construction loans, automobile loans, overdraft protection, student loans, and consumer third-party credit cards.

¹ Stoneham Savings Bank merged into and with Salem Five on November 23, 2013

For business loans, Salem Five offers Small Business Administration (SBA) loans, term loans, lines of credit, construction lending, government loans, international lines of credit and wire transfers, and third-party business credit cards. Consumer deposit products include checking, savings, money market, certificates of deposit, and individual retirement accounts. Business deposit products consist of checking, debit/Automated Teller Machines (ATM) cards, savings, money market, Interest on Lawyer Trust accounts, sweep accounts, and zero balance accounts.

Additionally, the bank offers insurance services and investment services through their subsidiaries, Salem Five Insurance Agency and Salem Five Financial. Alternative banking services include internet and mobile banking, telephone banking, and electronic bill pay. The bank also has ATMs at each branch and two free standing ATMs.

Ability and Capacity

Assets totaled \$3.8 billion as of December 31, 2015, and grew 26.7 percent since the previous evaluation. Total loans of \$2.7 billion represent 70.8 percent of total assets. The loan portfolio composition remained relatively unchanged since the prior evaluation except for loans secured by farmland and commercial real estate loans. At the prior evaluation, loans secured by farmland represented 14.4 percent of the loan portfolio and commercial real estate comprised 12.9 percent of the portfolio. The bank currently has no loans secured by farmland and increased commercial real estate loans as they represent 24.4 percent of the loan portfolio. The bank primarily focuses on 1-4 residential lending representing 47.4 percent of the portfolio, followed by commercial real estate. The loan-to-deposit ratio over the past 12 quarters is 91.1 percent, and ranged from a low of 87.3 percent as of September 30, 2014 to a high of 96.1 as of December 31, 2015. The following table illustrates the loan portfolio.

Loan Portfolio Distribution as of 12/31/2015		
Loan Category	\$(000s)	%
Construction and Land Development	165,182	6.1
Secured by Farmland	0	0.0
1-4 Family Residential	1,288,293	47.4
Multi-family (5 or more) Residential	131,567	4.8
Commercial Real Estate	663,610	24.4
Total Real Estate Loans	2,248,652	82.7
Commercial and Industrial	378,774	13.9
Agricultural	0	0.0
Consumer	75,964	2.8
Other	15,240	0.6
Less: Unearned Income	0	0.0
Total Loans	2,718,630	100.0
<i>Source: Reports of Condition and Income</i>		

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

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment area (AA) within which its CRA performance will be evaluated. Salem Five designated its AA in the Cambridge-Newton-Framingham, MA Metropolitan District (MD) (15764) and the Boston, MA MD (14454). The Cambridge-Newton-Framingham, MA MD and the Boston, MA MD are part of the Boston-Cambridge-Newton, MA-NH Metropolitan Statistical Area (MSA).

Economic and Demographic Data

The AA includes the following towns:

Acton	Chelsea	Lawrence	Maynard	Rockport	Waltham
Andover	Concord	Lexington	Medford	Rowley	Wayland
Bedford	Danvers	Lincoln	Melrose	Salem	Wenham
Beverly	Essex	Lowell	Middleton	Saugus	Wilmington
Billerica	Everett	Lynn	Nahant	Stoneham	Winchester
Boston	Framingham	Lynnfield	North Andover	Sudbury	Woburn
Boxford	Gloucester	Malden	North Reading	Swampscott	
Burlington	Hamilton	Manchester	Peabody	Tewksbury	
Carlisle	Hudson	Marblehead	Reading	Topsfield	
Chelmsford	Ipswich	Marlborough	Revere	Wakefield	

The AA consists of 341 census tracts with the following income designations according to the 2010 U.S. Census:

- 43 low-income tracts,
- 79 moderate-income tracts,
- 131 middle-income tracts,
- 87 upper-income tracts, and
- 1 not applicable tract.

Since the previous evaluation, the bank expanded its assessment area. It now includes Acton, Carlisle, Chelmsford, Chelsea, Concord, Framingham, Hudson, Lawrence (remaining census tracts), Lincoln, Lowell, Marlborough, Maynard, Sudbury, Tewksbury, Waltham, and Wayland. The low-income tracts are in Boston, Chelsea, Framingham, Gloucester, Lawrence, Lowell, Lynn, and Salem. The moderate-income tracts are located in Beverly, Chelsea, Everett, Framingham, Gloucester, Lawrence, Lowell, Lynn, Malden, Marlborough, Medford, Melrose, Peabody, Revere, Salem, Saugus, Waltham, and Woburn. There is also one census tract with no corresponding income delineation, which covers the Suffolk Downs Racetrack.

The following table details specifics regarding the assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	341	12.6	23.2	38.4	25.5	0.3
Population by Geography	1,616,402	10.5	22.9	41.1	25.6	0.0
Housing Units by Geography	657,865	10.1	23.5	41.6	24.8	0.0
Owner-Occupied Units by Geography	384,445	4.2	17.5	47.0	31.3	0.0
Occupied Rental Units by Geography	230,453	19.3	32.8	33.2	14.8	0.0
Vacant Units by Geography	42,967	14.0	26.8	38.3	20.8	0.0
Businesses by Geography	136,038	7.3	15.3	39.0	38.3	0.0
Farms by Geography	2,245	2.8	13.9	49.4	34.0	0.0
Family Distribution by Income Level	397,664	24.4	17.1	20.3	38.2	0.0
Household Distribution by Income Level	614,898	27.5	15.2	17.3	40.0	0.0
Median Family Income MSA - 14454 Boston, MA MD	83,664	Median Housing Value		404,276		
		Median Gross Rent		1,095		
Median Family Income MSA - 15764 Cambridge-Newton-Framingham, MA MD	90,625	Families Below Poverty Level		7.2%		
<p>Source: 2010 U.S. Census and 2015 D&B Data (*) The NA category consists of geographies that have not been assigned an income classification.</p>						

According to 2015 D&B data there were 136,038 businesses. Gross annual revenues (GARs) for these businesses are below.

- 74.5 percent have \$1 million or less.
- 7.0 percent have more than \$1 million.
- 18.5 percent have unknown revenues.

The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by GAR level. Service industries represent the largest portion of businesses at 51.3 percent; followed by retail trade (12.1 percent); finance, insurance, and real estate (10.1 percent); and construction (7.6 percent). In addition, 68.0 percent of area businesses have four or fewer employees, and 90.1 percent operate from a single location.

Examiners used the FFIEC Estimated Median Family Income data to analyze home mortgage loans under the Borrower Profile section of the Lending Test. The following table presents the low-, moderate-, middle-, and upper-income categories. These categories are based on the 2014 and 2015 FFIEC estimate median family incomes.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Boston, MA MD Median Family Income (14454)				
2014 (\$87,200)	<\$43,600	\$43,600 to <\$69,760	\$69,760 to <\$104,640	≥\$104,640
2015 (\$90,000)	<\$45,000	\$45,000 to <\$72,000	\$72,000 to <\$108,000	≥\$108,000
Cambridge-Newton-Framingham, MA MD Median Family Income (15764)				
2014 (\$93,300)	<\$46,650	\$46,650 to <\$74,640	\$74,640 to <\$111,960	≥\$111,960
2015 (\$101,700)	<\$50,850	\$50,850 to <\$81,360	\$81,360 to <\$122,040	≥\$122,040
<i>Source: FFIEC</i>				

There are 657,865 housing units in the assessment area, 384,445 of which are owner-occupied, 230,453 are occupied rental units, and 42,967 are vacant. The median housing value of \$404,276 suggests a relatively expensive housing market.

According to the Warren Group housing sales data, in 2015, the median home sales averaged \$423,422 throughout the three counties that formed the assessment area. Median sales prices ranged from \$338,767 in Essex to \$489,000. This suggests a relatively affluent area and a potential barrier for lower-income families obtaining affordable housing. Furthermore, over the 3-year period since the previous evaluation, housing prices have steadily increased from an average median sales price of \$374,667 in 2013.

Competition

Salem Five operates in a competitive lending environment. The bank faces competition from large national and regional institutions, including mortgage companies, community banks, and credit unions. Residential lending market share reports for 2014 revealed that 507 lenders reported 43,639 originations totaling approximately \$14.4 trillion in the assessment area. The top 3 financial institutions were Wells Fargo Bank NA, JP Morgan Chase Bank NA, and Guaranteed Rate Inc. with a combined 15.0 percent market share.

Community Contact

As part of the evaluation process, examiners contacted 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. It also shows what credit and community development opportunities are available.

Examiners conducted two community contacts with nonprofit community development organizations serving portions of the Salem Five’s assessment area. The first organization focuses on community development needs such as affordable housing and economic development. The community contact noted improving trends in local economic conditions and that the area would benefit from more permanent mortgage products focused toward affordable housing. The contact also stressed the need for more small business lending options including, but not limited to, micro-loans and other innovative and flexible small business lending products.

The contact identified the need for additional affordable housing units, first-time homebuyer programs, financial literacy, and workforce development programs to support economic expansion and increased employment.

The second contact was a community development organization serving the cities with low- and moderate-income populations north of Boston and up to New Hampshire. The community contact's organization meets area needs by providing workforce development and affordable housing support for homeless or near-homeless families. The high unemployment rate, due to the seasonal nature of many businesses, and the high cost of rental housing were two issues identified by the contact. The contact also identified small business financing as a primary credit need and expanding the development of affordable rental housing as a community development need. The contact mentioned several local and national financial institutions as helpful. Additionally, the contact mentioned that there are plenty of opportunities for collaboration between financial institutions and community organizations.

Credit and Community Development Needs and Opportunities

Examiners considered information gathered from community contacts, the bank, and available economic data to determine the AA's primary credit needs. The bank and the community contacts indicated generally strong or improving economic conditions within parts of the AA. However, the contacts identified a need for affordable housing and additional small business resources. Economic data for the AA supports this assessment of credit and community development needs. The AA's median housing values of more than \$404,276 make homeownership difficult for low-and moderate-income borrowers.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

The Salem Five's Lending Test performance is rated High Satisfactory. The sections below discuss its performance under each criterion.

Lending Activity

This performance criterion considers the volume of Salem Five and SFMC's lending in relation to Salem Five's financial condition and resources. Lending levels reflect good responsiveness to assessment area credit needs. During 2014 and 2015, Salem Five and SFMC originated a combined 4,728 home mortgages totaling \$1.5 billion. Salem Five originated 999 small business loans totaling \$296.5 million. Of these totals, 2,128 home mortgage loans totaling approximately \$684.5 million and 666 small business loans totaling approximately \$168.9 million were inside the assessment area.

SFMC attained a good market rank for HMDA lending inside the assessment area, ranking the 10th largest originator of home mortgage loans by loan volume, among the 507 HMDA lenders in the combined assessment area. SFMC's market share was 2.1 percent by number and 2.4 percent by dollar volume. Salem Five did not rank favorable as SFMC originates all residential mortgage loans. The HMDA loans reported on Salem Five's HMDA LAR are commercial loans that have a purpose consistent with HMDA reporting requirements.

With regard to 2014 small business lending, Salem Five attained a reasonable market rank at the county level. The bank ranked 20th out of 137 small business lenders in the area. The market share was 0.6 percent.

Among the higher ranked lenders were larger financial institutions and mortgage companies that operate regionally or nationally. These include JP Morgan Chase Bank, N.A., Wells Fargo Bank, NA; Guaranteed Rate Inc.; Bank of America, NA; and Quicken Loans. Salem Five was the second highest performing state-chartered financial institution, following Eastern Bank.

The highest ranked lenders for small business reporting were credit card companies. American Express, Capital One Bank, FIA Card Services, and Chase Bank USA accounted for 61.3 percent of the market at the county level. Salem Five was the 4th highest ranked state-chartered institution.

Market rank information for 2015 was not available as of the evaluation date. In 2015, the bank's HMDA loan volume decreased by number and dollar amount, 27.5 and 27.7 percent, respectively. Salem Five originated 29 home mortgage loans in 2015. However, SFMC's HMDA loan volume increased by number and dollar amount, 12.3 and 17.1, respectively. Salem Five's small business loan volume increased by approximately 12.1 percent by number and 15.0 percent by dollar amount, respectively. The bank originated 528 small business loans in 2015.

Assessment Area Concentration

This performance criterion measures the percentage of Salem Five’s lending that benefited assessment area residents and businesses and evaluates the adequacy of such lending. As stated previously, this performance criterion only reflects home mortgage and small business loans made by Salem Five.

Salem Five originated an adequate percentage of loans in its assessment area. Although 36.2 percent of originated home mortgage loans originated were inside the assessment area, the majority of originated small business loans (which account for the largest percentage of loans originated by Salem Five independently) were in the assessment area resulting in an overall majority in the assessment area. Please see the following table for more detail.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollars Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2014	12	30.0	28	70.0	40	3,956	11.2	31,280	88.8	35,236
2015	13	44.8	16	55.2	29	10,396	40.8	15,064	59.2	25,460
Subtotal	25	36.2	44	63.8	69	14,352	23.6	46,344	76.4	60,696
Small Business										
2014	316	67.1	155	32.9	471	80,280	58.2	57,666	41.8	137,946
2015	350	66.3	178	33.7	528	88,658	55.9	69,908	44.1	158,566
Subtotal	666	66.7	333	33.3	999	168,938	57.0	127,574	43.0	296,512
Total	691	64.7	377	35.3	1,068	183,290	51.3	173,918	48.7	357,208

Source: 2014 and 2015 HMDA Reported Data, 2014 and 2015 CRA Reported Data

Geographic Distribution

The geographic distribution of loans reflects adequate dispersion throughout the assessment area. Examiners focused on the percentage by number of loans in low- and moderate-income census tracts in 2014 and year-to-date 2015.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects adequate dispersion throughout the assessment area. Examiners focused on the comparison to aggregate data. The following table shows that the bank’s 2014 performance in low-income census tracts is slightly below aggregate data, but comparable to demographics. Similarly, the bank’s performance in moderate-income census tracts remains slightly below aggregate and demographic data.

The bank’s market share ranking in low- and moderate-income census tracts further substantiates the adequate performance. The bank was the 11th highest ranked lender in low-income census tracts and obtained a market share of 1.9 percent. In moderate-income census tracts, the bank ranked 9th with a 2.0 percent market share.

For 2015, the bank's performance remained comparable to 2014 levels, falling slightly in low-income census tracts and increasing in moderate-income census tracts.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2014	4.2	4.7	40	4.1	7,069	2.3
2015	4.2	--	41	3.5	8,848	2.3
Moderate						
2014	17.5	17.6	154	15.9	36,774	12.0
2015	17.5	--	205	17.7	50,698	13.4
Middle						
2014	47.0	46.0	487	50.4	140,103	45.7
2015	47.0	--	612	52.7	181,338	48.0
Upper						
2014	31.3	31.7	286	29.6	122,501	40.0
2015	31.3	--	303	26.1	137,196	36.3
NA						
2014	0.0	0.0	0	0.0	0	0.0
2015	0.0	--	0	0.0	0	0.0
Totals						
2014	100.0	100.0	967	100.0	306,447	100.0
2015	100.0	--	1,161	100.0	378,080	100.0
<i>Source: 2010 U.S. Census; 2014 and 2015 HMDA Reported Data; 2014 HMDA Aggregate Data "--" data not available</i>						

Small Business Loans

The geographic distribution of small business loans reflects good dispersion throughout the assessment area. In 2014, Salem Five originated approximately 7.9 percent of small business loans in low-income census tracts. This is greater than the aggregate and demographics. Similarly, the following table shows that Salem Five's performance in moderate-income census tracts is above demographics and aggregate data. Salem Five achieved reasonable market share ranks at the county level. Salem Five ranked 21st in low-income census tract originations out of 59 lenders and 20th in moderate-income census tract originations out of 137 lenders.

The 2015 performance is comparable to 2014. Salem Five's originations in low-income census tracts decreased. In 2015, the number and percentage of loans in moderate-income census tracts increased.

Geographic Distribution of Small Business Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2014	7.1	6.4	25	7.9	6,596	8.2
2015	7.3	--	21	6.0	6,163	7.0
Moderate						
2014	15.2	15.9	58	18.4	13,908	17.3
2015	15.3	--	69	19.7	18,946	21.4
Middle						
2014	39.0	41.4	167	52.8	41,764	52.0
2015	39.0	--	203	58.0	48,834	55.1
Upper						
2014	38.7	36.2	66	20.9	18,012	22.4
2015	38.3	--	57	16.3	14,715	16.6
NA						
2014	0.0	0.1	0	0.0	0	0.0
2015	0.0	--	0	0.0	0	0.0
Totals						
2014	100.0	100.0	316	100.0	80,280	100.0
2015	100.0	--	350	100.0	88,658	100.0
<i>Source: 2010 U.S. Census; 2014 and 2015 CRA Reported Data; 2014 CRA Aggregate Data "--" data not available</i>						

Borrower Profile

The distribution of borrowers reflects good penetration among individuals of different income levels and businesses of different sizes in the assessment area. The bank's good performance of home mortgage and Salem Five's adequate small business lending support this conclusion. Examiners focused on the number of home mortgage loans to low- and moderate-income borrowers. They also focused on the number of small business loans to businesses with GARs of \$1 million or less.

Home Mortgage

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate-income borrowers, is good. Examiners focused on the comparison to aggregate data as well as comparison to demographic data. The bank's 2014 home mortgage lending to low-income borrowers, at 5.0 percent is similar to aggregate. For low-income family originations, the bank's lending was less than demographics. The income of low-income families (including the segment below the poverty line) compared to the relatively affluent median housing prices helps explain the difference between the bank's performance and the area's income level demographics. For moderate-income originations, the bank's lending is greater than the aggregate and demographics.

The bank's 2014 market share supports its good performance. The bank ranked 12th in lending to low-income applicants with a 2.1 percent market share and 8th to moderate-income applicants with a 2.5 percent market share. In 2015, lending to low-income families increased in both the number and percentage of originations. The bank's lending to moderate-income borrowers increased substantially. The bank's number of originations to moderate-income borrowers increased by 68.5 percent compared to 2014, and the percentage of loans to moderate-income borrowers increased to 25.8 percent. This is greater than demographics.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2014	24.4	5.4	48	5.0	6,732	2.2
2015	24.4	--	75	6.5	11,932	3.2
Moderate						
2014	17.1	16.3	178	18.4	38,919	12.7
2015	17.1	--	300	25.8	70,813	18.7
Middle						
2014	20.3	22.2	289	29.9	80,294	26.2
2015	20.3	--	309	26.6	88,278	23.3
Upper						
2014	38.2	38.9	444	45.9	177,607	58.0
2015	38.2	--	461	39.7	194,117	51.3
Income Not Available						
2014	0.0	17.2	8	0.8	2,895	0.9
2015	0.0	--	16	1.4	12,940	3.4
Total						
2014	100.0	100.0	967	100.0	306,447	100.0
2015	100.0	--	1,161	100.0	378,080	100.0
<i>Source: 2010 U.S. Census; 2014 and 2015 HMDA Reported Data; 2014 HMDA Aggregate Data; "--" data not available</i>						

Small Business Lending

The distribution of the small business loans reflects adequate penetration of loans to businesses with GARs of \$1 million or less. The following table shows that Salem Five originated 40.2 percent of its loans to businesses with GARs of \$1 million or less. This is slightly less than the aggregate. This lending level is also less than demographics. Aggregate performance suggests that loan demand may be higher for higher-revenue businesses in the area. Salem Five's 2015 performance was similar to 2014.

Distribution of Small Business Loans by Gross Annual Revenue Category						
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
<=\$1,000,000						
2014	70.1	44.4	127	40.2	23,904	29.8
2015	74.5	--	155	44.3	28,081	31.7
>\$1,000,000						
2014	6.7	--	189	59.8	56,376	70.2
2015	7.0	--	195	55.7	60,577	68.3
Revenue Not Available						
2014	23.2	--	0	0.0	0	0.0
2015	18.5	--	0	0.0	0	0.0
Totals						
2014	100.0	100.0	316	100.0	80,280	100.0
2015	100.0	--	350	100.0	88,658	100.0
<i>Source: 2010 U.S. Census; 2014 and 2015 CRA Reported Data; 2014 CRA Aggregate Data "--" data not available</i>						

Innovative or Flexible Lending Practices

This criterion includes all innovative and flexible lending activities since the prior evaluation, covering the period of January 4, 2013 through March 7, 2016.

The bank uses innovative and flexible lending programs to assist in meeting the credit needs of its assessment area. The following highlights the various innovative and flexible loan programs the bank offers. The majority of programs involve government-related subsidies and guarantees. The bank did not develop any new programs since the previous evaluation.

Residential Lending Programs

- *Federal National Mortgage Association (FNMA)*: The bank originates loans through various FNMA programs. The bank originated 520 loans for \$107.8 million through these programs. The following describes the programs used during the evaluation period.
 - *Refi Plus*: This program is part of FNMA’s Home Affordable Refinance Program (HARP), intended to provide access to low-cost refinancing for responsible homeowners facing decreasing home values. This refinance program provides reduced verification and documentation requirements and targets low- and moderate-income borrowers. During the evaluation period, the bank extended 459 Refi Plus loans for \$95.3 million.

- *HomePath*: This program is available for borrowers to buy properties FNMA is selling and offers mortgages with low down payments. Lenders repossessed these properties when foreclosing on the previous owners' mortgages. The flexible underwriting criteria and relatively low purchase prices assist prospective low- and moderate-income families obtain homes. During the evaluation period, the bank originated 36 HomePath loans for \$6.4 million to low- and moderate-income borrowers.
- *MyCommunity*: This is a first-time homebuyer program with flexible underwriting guidelines (including low or no down payment) and lower interest rates. Borrowers must attend approved homebuyer training. Private mortgage insurance may be required. All borrowers must meet specific income guidelines. During the evaluation period, the bank extended 25 MyCommunity loans for \$6.1 million to low- and moderate-income borrowers.
- *MassHousing*: These loans expand the supply of affordable housing for low- and moderate-income borrowers. The bank originates loans through multiple loan programs, including the Massachusetts Housing Finance Agency (MHFA) Tax Credit Loan Program, MassHousing Priority Mortgage, MassHousing Rehab, and MassHousing Right Rate. During the evaluation period, the bank originated 412 MassHousing loans totaling \$91.9 million.
- *United States Department of Agriculture*: This loan program is geared to meet the needs of low-income individuals and homeowners in rural areas. Borrowers must occupy the property they are purchasing or improving and must meet income guidelines. The bank has widely expanded their involvement in this program during the evaluation period. The bank originated 80 loans for \$17.2 million to low-income borrowers during the evaluation period.

Commercial Lending Programs

Salem Five offers several commercial products to help meet the credit needs of small businesses within its community. The programs offer flexible lending criteria, providing more readily available access to financing for many small business borrowers. The following summarizes the various programs:

- *Small Business Administration (SBA)*: Salem Five is a participating SBA lender. The following describes the SBA programs it offers.
 - *SBA 7a program*: The 7a program provides financing for start-up costs. The SBA guarantees between 75 and 85 percent based on the loan amount, which cannot exceed \$5 million. Purposes of the program include working capital, the purchase of equipment, or the improvement of existing small business real estate. Salem Five originated 51 SBA 7a loans for \$20.2 million.

- *SBA 504 program:* This program is geared toward developing community businesses. Borrowers can use the loan proceeds to purchase or improve facilities or equipment, but the loan’s purpose must meet an economic development goal of job creation or public policy energy reduction. Salem Five originated 11 SBA 504 loans for \$3.5 million.
- *Massachusetts Business Development Corporation Capital Access Program (MASSCAP):* The Commonwealth of Massachusetts established this program. The Massachusetts Business Development Corporation administers the program and acts as an agent of the Massachusetts Office of Business Development. MASSCAP assists Salem Five in originating loans to small businesses that might not otherwise qualify under Salem Five’s standard underwriting guidelines. Salem Five originated 16 loans for \$1.2 million.

Community Development Lending

The bank is a leader in originating community development loans. The bank originated 43 community development loans during the review period totaling approximately \$72.1 million. This represented 2.7 percent of total loans (\$2.7 billion) and 1.9 percent of total assets (\$3.7 billion) as of December 31, 2015. Community services for low- or moderate-income individuals received the largest dollar amount.

The bank’s community development lending for the current review period represents a dramatic increase since the prior evaluation period where the bank originated 7 community development loans for approximately \$5.9 million. The increase in community development lending represents a 514.3 percent increase. The bank’s community development loans convey the bank’s commitment to providing financing for community development purposes throughout the assessment area. The majority of the loans also meet the needs identified by the community contact, further underscoring the bank’s overall community development responsiveness. The bank extended eleven loans outside of the assessment area (but within the broader statewide or regional area) that qualified for community development. These loans accounted for \$36.3 million of the total. The following table details the community development lending by community development purpose and by year.

Community Development Lending												
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Neighborhood Stabilization		Totals	
	#	\$	#	\$	#	\$	#	\$	#	\$	#	\$
2013	5	7,124	9	11,103	2	8,598	0	0	0	0	16	26,825
2014	4	5,690	10	8,050	1	2,000	0	0	0	0	15	15,740
2015	1	937	8	9,485	2	4,100	1	15,000	0	0	12	29,522
YTD 2016	0	0	0	0	0	0	0	0	0	0	0	0
Total	10	13,751	27	28,638	5	14,698	1	15,000	0	0	43	72,087

Source: Bank Records

The following community development loans are examples of originations by Salem Five during the evaluation period.

2013

- Salem Five participated in a \$47.2 million loan to finance the construction of a 200-unit luxury apartment complex in Waltham. The bank's participation was \$10 million and approximately 10 percent of the units constructed will be affordable housing. The qualified community development amount of this transaction is \$1 million.
- Salem Five originated a \$4 million line of credit to a community organization in Malden. The organization's goal is to increase affordable housing developments in the assessment area.
- Salem Five originated a \$1.1 million SBA 504 loan to a local business within the assessment area. The business used the funds to purchase and renovate a commercial property that they will occupy as a new location. As part of the SBA 504 requirements, the primary purpose of the loan program is to finance small businesses and help them create or retain low- and moderate-income jobs.

2014

- Salem Five originated a working capital line of credit for \$625,000, secured by business assets, and a commercial construction loan for \$1.8 million to a local community nonprofit organization. The community organization, located in Lynn, aims to assist low- and moderate-income families and help them to achieve self-sufficiency.
- Salem Five originated a \$25,000 working capital loan to a nonprofit childcare program in the Salem area. The organization provides services to low- and moderate-income families in the area. The United Way and the Commonwealth of MA provide funding to the organization.
- Salem Five originated a \$12.7 million loan to finance the construction of a 238-unit apartment project on the Belmont-Cambridge line. The project is an approved 40B construction, where 20 percent of the units will be designated as affordable housing units. The community development amount for this transaction is \$3.2 million. Although this affordable housing project is not located within the assessment area, it is located just outside the assessment area providing affordable housing for residents who may work or use facilities in the assessment area.

2015

- Salem Five extended the term of a commercial construction loan for \$1.3 million. The organization provides educational assistance for children and support for low-income families in Massachusetts.

- Salem Five originated a \$2.5 million loan for a refinance of a working capital line of credit for a small business located in Chelsea. The company is located in a low-income area. The financing will help retain the current jobs, which are primarily low- and moderate-income.
- The bank originated a \$1.6 commercial loan to a small business located in Lawrence. The loan provided financing to one of the partners to prevent the partner from selling the company to another owner and moving the business out of Lawrence. The company employs between 15-20 individuals who are primarily low- or moderate-income. The business is located in a moderate-income tract.

INVESTMENT TEST

Salem Five's Investment Test performance is rated Satisfactory. The institution has an adequate level of qualified community development investments and grants, although rarely in a leadership position, particularly those that are not routinely provided by private investors. The institution exhibits adequate responsiveness to credit and community economic development needs. The institution occasionally uses innovative and/or complex investments to support community development initiatives.

Investment Activity

The bank's qualified equity investments and donations totaled approximately \$4.1 million. This is consistent with the prior evaluation's totals. This figure includes the new and current book value of existing qualified equity investments and grants made to qualified organizations.

Equity investments consist of 1 new FNMA investment for \$1.9 million and 4 existing FNMA investments with book values totaling approximately \$1.6 million. The current equity investment total of \$3.6 million is 0.4 percent of total investments and .09 percent of total assets. The following are the qualified FNMA investments and grants/donations for the evaluation period.

Qualified Investments												
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Neighborhood Stabilization		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	4	1,597	0	0	0	0	0	0	0	0	4	1,597
2014	1	1,973	0	0	0	0	0	0	0	0	1	1,973
2015	0	0	0	0	0	0	0	0	0	0	0	0
YTD 2016	0	0	0	0	0	0	0	0	0	0	0	0
Subtotal	5	3,570	0	0	0	0	0	0	0	0	5	3,570
Qualified Grants & Donations	70	90	303	419	1	2	7	50	0	0	381	561
Total	75	3,660	303	419	1	2	7	50	0	0	386	4,131

Source: Bank Records

As stated, the bank purchased one pool of FNMA securities during the evaluation period. The underlying loans were originated to low- and moderate-income borrowers with the majority in the bank's assessment area. The new investment is for slightly more than \$1.9 million.

Qualified Grants/Donations

The bank's donations are made through four mediums. Three are Charitable Foundations: the Salem Foundation, the Heritage Foundation, and the Stoneham Foundation, collectively referred to as the Foundations. On a more limited level, the bank makes direct donations.

The Salem Foundation focuses on support within three priority areas: economic self-sufficiency, workforce development, and financial literacy. The Salem Foundation helps the community make decisions about financial challenges and opportunities, maintains quality employment, and assists low- and moderate-income individuals financially sustain themselves and their families.

The Heritage Foundation awards grants with a \$5,000 minimum value to nonprofit organizations that support education, health and human services, youth programs, affordable housing, and community development. The Heritage Foundation was established to honor the charitable giving legacy of the Heritage Co-operative Bank as part of the Salem Five and Heritage Co-operative Bank merger agreement. To qualify for a Heritage Foundation grant, the nonprofit organization must be located in Salem, Marblehead, Beverly, Peabody, or Danvers.

The Stoneham Foundation awards grants to nonprofit organizations that support organizations that assist individuals with disabilities, the elderly, and youth programs. The Stoneham Foundation was established to honor the charitable giving legacy of the Stoneham Savings Bank as part of the Salem Five and Stoneham Savings Bank merger agreement.

The bank's direct donations are generally small and the bank primarily awards them to organizations to support fundraising efforts.

The Foundations and the bank's qualified donations total \$561,000. This is an increase from \$452,495 at the prior evaluation. Both evaluation periods were roughly 36 months. It also represents 37.4 percent of the total combined Foundations' contributions of \$1.5 million. Individual year totals are \$190,000 (2013), \$172,000 (2014), \$180,000 (2015), and \$19,000 (year to date 2016). There have been no donations made by the Heritage and Stoneham Foundations to date 2016. The following table reflects how the qualified grants and donations were utilized by year.

Community Development Grants and Donations												
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Neighborhood Stabilization		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2013												
Foundation:												
Salem	12	14	65	101	1	2	2	16	0	0	80	133
Heritage	2	15	5	30	0	0	0	0	0	0	7	45
Stoneham	0	0	13	5	0	0	0	0	0	0	13	5
Bank	4	2	12	5	0	0	0	0	0	0	16	7
Subtotal	18	31	95	141	1	2	2	16	0	0	116	190
2014												
Foundation:												
Salem	12	12	63	71	0	0	2	18	0	0	77	101
Heritage	3	10	8	30	0	0	0	0	0	0	11	40
Stoneham	2	8	8	5	0	0	0	0	0	0	10	13
Bank	7	3	15	9	0	0	1	6	0	0	23	18
Subtotal	24	33	94	115	0	0	3	24	0	0	121	172
2015												
Foundation:												
Salem	13	12	71	97	0	0	2	10	0	0	86	119
Heritage	2	8	6	30	0	0	0	0	0	0	8	38
Stoneham	1	1	9	9	0	0	0	0	0	0	10	10
Bank	7	3	17	10	0	0	0	0	0	0	24	13
Subtotal	23	24	103	146	0	0	2	10	0	0	128	180
2016												
Foundation:												
Salem	3	2	9	16	0	0	0	0	0	0	12	18
Bank	2	0	2	1	0	0	0	0	0	0	4	1
Subtotal	5	2	11	17	0	0	0	0	0	0	16	19
Total	70	90	303	419	1	2	7	50	0	0	381	561

Source: Bank Records

The following is a sample of organizations supported by Salem Five:

- *Girls Inc of Lynn*: A nonprofit organization dedicated to inspiring all girls to be strong, smart, and bold. The organization has responded to the changing needs of girls and their families by providing essential resources and challenging programs to disadvantaged, low-income girls.
- *Community Action Programs Inter-City, Inc. (CAPIC)*: CAPIC's mission is to identify and address the needs, problems, and concerns of those in poverty and to enable the individually poor to achieve and maintain self-sufficiency. CAPIC is located in Chelsea, serving the assessment area's low-income individuals.
- *Habitat for Humanity Greater Lowell*: A nonprofit organization whose mission is to build and renovate decent, affordable, and energy efficient homes throughout Lowell.
- *Plummer Home for the Boys*: This nonprofit organization helps young people who leave the foster care or juvenile justice system without safe, stable, and permanent family connections. Homeless and/or those unemployed are the majority of individuals receiving assistance.

Responsiveness to Credit and Community Development Needs

The institution exhibits adequate responsiveness to credit and community economic development needs. The large number of community development donations that assist with affordable housing needs, social services, and community development substantiates this responsiveness.

Community Development Initiatives

The institution occasionally uses innovative and/or complex investments to support community development initiatives. The Foundation's Board reviews, analyzes, and approves the organization's request based on the Foundation's strategy and purpose.

SERVICE TEST

Salem Five's Service Test performance is rated Satisfactory. Delivery systems are reasonably accessible to all essentially all portions of the bank's assessment area. To the extent changes have been made, the institution's opening and closing of branch offices has not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies or to low- and moderate-income individuals. Services (including, where appropriate, business hours) do not vary in a way that inconveniences certain portions of the assessment area, particularly low- and moderate-income geographies and individuals. The institution provides an adequate level of community development services. The bank was active in providing community development financial services and technical assistance to several community development organizations throughout the assessment area. In addition, personnel provide financial education through various seminars and events. The bank's community development services resulted in a better-educated community, increased awareness of community needs, and contributed to improving the communities served.

Accessibility of Delivery Systems

Delivery systems are reasonably accessible to essentially all portions of the institution's assessment area. Salem Five operates 30 branches. All offer an ATM. In addition to the branch network, the bank operates two stand-alone ATMs (one each in a middle-income census tract in Salem and in an upper-income census tract in North Andover) and participates in the SUM, NYCE, Master Card/Cirrus, and Visa/Plus networks. Drive-up facilities and coin machines are available at 19 branches.

The following table compares the distribution of branch locations with population demographics by income level. The assessment area's composition increased in the number of low- and moderate-income census tracts by 17 and 20, respectively from the prior evaluation due to the Stoneham Savings Bank merger and assessment area expansion.

Distribution of Branches				
Census Tract Income	% of Tracts	% of Population	Branches	
			#	%
Low	12.6	10.5	1	3.4
Moderate	23.2	22.9	4	13.3
Middle	38.4	41.1	18	60.0
Upper	25.5	25.6	7	23.3
N/A	0.3	0.0	0	0
Total	100.0	100.0	30	100.0

Source: Bank Records

There is no material difference in the services provided to any portion of the assessment area. Retail services are reasonably accessible to essentially all portions of the assessment area. The bank's office locations are distributed in such a way that no portion of the assessment area is inconvenienced and alternative delivery systems are available to compensate for any limitations on physical access to the bank's facilities, such as on-line banking, telephone banking, mobile banking, and consumer cellphone and tablet applications. With mobile technology, Salem Five offers Apple Pay, People Pay Transfers, Cardless Cash Access, Mobile Remote Deposit Capture, Visa Checkout, BeB mobile and tablet applications, consumer tablet applications, eGift cards (part of People Pay), text banking, and e-mail & text alerts.

Please refer to the Operations section of the Description of Institution for additional branch discussion. In addition to 30 full service branches, the SFMC has 7 mortgage offices. Six of these offices are in Massachusetts: Chelmsford, Mansfield (not in assessment area), Plymouth (not in assessment area), Salem, Waltham, and Wellesley; and one located in York, Maine (not in assessment area). Customers are able to visit a mortgage office and speak with a mortgage loan officer about the different mortgage loan options available.

Changes in Branch Locations

To the extent changes have been made, the institution's opening and closing of branch offices has not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies or to low- and moderate-income individuals. During the

evaluation period, Salem Five opened five new offices resulting from the Stoneham Savings Bank merger. These included a branch in Burlington, North Andover, Tewksbury, and Stoneham (two). Salem Five also closed an acquired branch. Salem Five opened an additional three branches since the previous evaluation in Bedford, Concord, and Needham. Five of the new offices are located in middle-income tracts and three are in upper-income census tracts.

Reasonableness of Business Hours and Services

Services (including, where appropriate, business hours) do not vary in a way that inconveniences certain portions of the assessment area, particularly low- and moderate-income geographies and individuals. More than half of the branches (17) offer Saturday and Sunday hours, including the low- and moderate-income branch locations and most provide extended hours on Thursday and Friday. Monday through Wednesday lobby and drive-up service hours are generally consistent with local competition.

Community Development Services

Salem Five, including SFMC employees, provides an adequate level of community development services. During the evaluation period, Salem Five employees provided financial expertise or technical assistance to 100 different community development-related organizations in the assessment area. Personnel served as directors, officers, and volunteers. These community development services resulted in a better-educated community, increased awareness of community needs, and contributed to improving the communities served. The following table illustrates the community development services by year and purpose. Please note, due to the process in which Salem Five collects service activities, YTD 2016 does not reflect any activity.

Community Development Services						
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Neighborhood Stabilization	Totals
	#	#	#	#	#	#
2013	2	17	2	0	0	21
2014	6	24	5	0	0	35
2015	7	33	4	0	0	44
YTD 2016	0	0	0	0	0	0
Total	15	74	11	0	0	100

Source: Bank Records

Below are some examples of organizations that employees were involved in during the evaluation period.

Girls, Inc. of Lynn: The organization serves girls from low- and moderate-income families. Two senior vice presidents serve on this organization, one as a Board member and the other as a Treasurer.

Beverly Bootstraps: Beverly Bootstraps provides critical resources to low- and moderate-income families and individuals so that they may achieve self-sufficiency. This organization offers both emergency and long-term assistance including housing stability, access to food, adult and youth education, counseling, and advocacy. A vice president serves as the Treasurer.

Acord Food Pantry: The organization provides food for needy families and the elderly, predominately serving low- and moderate-income families. An assistant vice president serves as a Board member.

Mission of Deeds: The organization distributes beds, furniture, and household items to low- and moderate-income families and individuals living in Middlesex and Essex counties. More than half of the families that receive assistance are mothers (and their children) that previously lived in homeless shelters. A senior vice president serves on the Board.

Lynn Economic Opportunity Inc.: The organization's mission is to alleviate the immediate effects of poverty in the Lynn area while striving to eliminate its root causes and improve the quality of life for Lynn residents. A vice president serves as a Treasurer of the Board and the Chairman of the Finance/Audit Committee.

Habitat for Humanity of Greater Lowell: This organization's mission is to provide decent and affordable housing to families who would be forced by low-income circumstances to live in substandard housing. A senior loan officer is the Chairperson of the Revenue Committee.

Educational Services and Seminars

Salem Five continues to participate in an 8-week "Teach the Children to Save" national program in conjunction with the American Bankers Association at the Salem YMCA. This program teaches students the importance of saving. The majority of students are low- and moderate-income.

In 2013, 2014, and 2015, Salem Five participated in 29 First-Time Homebuyer seminars. Salem Five sponsored its own seminars as well as coordinated seminars with MassHousing, NeighborWorks, and the Plymouth Redevelopment Authority. The majority of attendees participating in the seminars are low- and moderate-income individuals.

Salem Five participates in the Money Smart Alliance, an FDIC-established program. The program helps to build personal financial management skills of adults and teenagers. Salem Five offers the courses at several schools and area Boys and Girls Clubs. The majority of the Boys and Girls Clubs in the assessment area are in low- or moderate-income geographies and primarily serve low- and moderate-income individuals and families.

Other Community Development Services

Salem Five is part of the Massachusetts Community & Banking Council's Basic Banking for Massachusetts Program. The voluntary program was started in 1994 to expand access to bank products and services and to encourage those with modest incomes to establish banking

relationships. Salem Five provides both a savings and a checking account that meet the Basic Banking for Massachusetts guidelines.

Salem Five services Interest on Lawyer's Trust Accounts (IOLTA). Salem Five remits the interest earned on these accounts monthly to the IOLTA Committee that distributes it to organizations that provide legal services to the needy. Salem Five's voluntary waiver of normal service fees on these accounts maximizes the charitable benefit. In 2014, Salem Five maintained 272 IOLTA accounts with a year-end balance of approximately \$11.8 million earning \$34,034 in interest. In 2015, Salem Five managed 282 accounts with a year-end balance of approximately \$17.4 million earning \$48,113 in interest. Salem Five also offers a business and non-profit checking account with no associated monthly service fee.

At no charge, the main branch in Salem allows numerous nonprofit organizations use of its community room. Various groups such as Citizens for Adequate Housing, Lynn Economic Opportunity, Inc., Kids After School, and the North Shore Community Development Coalition use the room more than 50 times annually.

The Volunteer Income Tax Assistance (VITA) program offers free tax assistance and preparation to individuals who generally earn \$54,000 or less annually, disabled persons, and limited English speaking taxpayers. In addition to VITA, the Tax Counseling for the Elderly program offers free tax help for all taxpayers, particularly those who are 60 years of age or older. Internal Revenue Service-certified volunteers provide free basic income tax return preparation with electronic filing to qualified individuals. Several employees volunteer.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

APPENDIX

SCOPE OF EVALUATION

SCOPE OF EVALUATION	
TIME PERIOD REVIEWED	January 14, 2013 – March 7, 2016
FINANCIAL INSTITUTION	Salem Five Cents Savings Bank
PRODUCTS REVIEWED:	
<ul style="list-style-type: none">• Home mortgage loans originated in 2014 and the first three quarters of 2015 reported on Salem Five's and SFMC's Loan Application Register (LAR).• Small business loans originated in 2014 and the first three quarters of 2015 reported on Salem Five's Loan Register.	

FAIR LENDING POLICIES AND PROCEDURES

The Division of Banks provides comments regarding the institution’s fair lending policies and procedures pursuant to Regulatory Bulletin 1.3-106.

Based on a review of Salem Five’s public comment file and its performance relative to fair lending policies and practices, examiners did not identify any violations of the anti-discrimination laws and regulations.

Minority Application Flow

Examiners reviewed the bank’s 2014 and 2015 HMDA LARs to determine if the application flow from different minority groups within the assessment area (AA) reflected AA demographics.

Examiners compared the bank’s 2014 residential lending to 2014 aggregate lending data. This data comparison assists in deriving reasonable expectations for the rate of applications the bank received from minority residential loan applicants. Refer to the following table for information on the bank’s minority application flow as well as a comparison to aggregate lending data.

Minority Application Flow					
RACE	Bank 2014		2014 Aggregate Data	Bank 2015	
	#	%	%	#	%
American Indian/ Alaska Native	0	0.0	0.2	0	0.0
Asian	32	2.6	6.5	58	4.2
Black/ African American	6	0.5	1.8	30	2.2
Hawaiian/Pacific Islander	2	0.2	0.1	0	0.0
2 or more Minority Races	0	0.0	0.0	1	0.1
Joint Race (White/Minority)	5	0.4	1.3	13	0.9
Total Minority	45	3.7	9.9	102	7.4
White	1,093	88.9	65.5	1,237	88.8
Race Not Available	91	7.4	24.6	54	3.8
Total	1,229	100.0	100.0	1,393	100.0
ETHNICITY					
Hispanic or Latino	25	2.0	4.6	42	3.0
Not Hispanic or Latino	1,099	89.4	70.0	1,286	92.3
Joint (Hisp/Lat /Not Hisp/Lat)	10	0.8	1.0	10	0.7
Ethnicity Not Available	95	7.8	24.5	55	4.0
Total	1,229	100.0	100.0	1,393	100.0

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

According to the 2010 U.S. Census data, the AA has a population of 1,499,016, of which 23.8 percent are minorities. The AA’s minority population consists of 0.1 percent American Indian, 7.5 percent Asian/Pacific Islander, 4.0 percent Black/African American, 9.5 percent Hispanic, and 2.8 percent other race.

In 2014, the bank received 1,229 HMDA reportable loan applications within its AA. Of these applications, the bank received 3.7 percent from racial minority applicants. The bank's application flow was below the aggregate's performance of 9.9 percent. In 2014, the bank received 25 applications representing 2.0 percent of applications from the Hispanic or Latino ethnic group. The bank's application flow from this ethnicity category was below the aggregate performance of 4.6 percent.

In 2015, the bank increased its applications from Hispanic applicants (3.0 percent) and its applications to minorities by race (7.4 percent).

Although below the demographic and aggregate performance in 2014, the bank has recognized their performance in this area and has taken steps to improve. The 2015 results show that the bank's efforts to increase their minority application flow are pointing to a positive trend.

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.

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: All Agencies have adopted the following language. Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1.0 million or less; activities that revitalize or stabilize low- or moderate-income geographies; or activities that support, enable or facilitate projects or activities that meet "eligible uses" criteria described in Section 2301(c) of the Housing and Economic Recovery Act of 2008 (HERA) and are conducted in designated target areas identified in plans approved by HUD in accordance with the Neighborhood Stabilization Program (NSP)

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
 - a. Rates of poverty, unemployment, and population loss; or
 - b. Population size, density, and dispersion; Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

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.

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 nonrelatives living with the family. Families are classified by type as either a married-couple family or other family, which 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).

Full-scope review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, 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 applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancing 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.

Limited-scope review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, 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.

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.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

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 percent 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 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

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 qualified investment is defined as any 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.

Small loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1.0 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small loan(s) to farm(s): 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, or are classified as loans to finance agricultural production and other loans to farmers.

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

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, and Part 345 of the Federal Deposit Insurance Corporation's Rules and Regulations, require all financial institutions to take the following actions within 30 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 (Address at main office)."

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Federal Deposit Insurance Corporation, at (Address at main office)."

[Please Note: If the institution has more than one assessment area, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that assessment area.]

- 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.