

PUBLIC DISCLOSURE

February 26, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Melrose Co-operative Bank
Certificate Number: 26511

638 Main Street
Melrose, Massachusetts 02176

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

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

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

TABLE OF CONTENTS

Institution Rating	1
Scope of Evaluation	2
Description of Institution	4
Description of Assessment Area.....	5
Conclusions on Performance Criteria	8
Discriminatory or Other Illegal Credit Practices Review	14
Division of Banks Fair Lending Policies and Procedures	15
Glossary	17

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**. An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Melrose Co-operative Bank's (MCB or bank) Community Reinvestment Act (CRA) performance under the Lending 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 performance.

- The loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- The bank made a majority of loans in the assessments area.
- The geographic distribution of loans reflects poor dispersion throughout the assessment area.
- The distribution of borrowers reflects, given the demographics of this assessment area, reasonable penetration among retail customers of different income levels 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 overall rating.

SCOPE OF EVALUATION

General Information

This evaluation assessed MCB's CRA performance using Interagency Small Institution Examination Procedures, as established by the Federal Financial Institutions Examination Council (FFIEC). The procedures have one test: the CRA Small Bank Lending Test. The evaluation considers activities since the prior CRA evaluation, dated February 23, 2015.

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

This evaluation does not include any lending activity performed by affiliates. Examiners reference demographic information from the 2015 United States (U.S.) Census Bureau's American Community Survey (ACS) in this evaluation unless otherwise noted. Examiners obtained financial data from the December 31, 2017, Consolidated Report of Condition and Income (Call Report), unless otherwise noted.

Loan Products Reviewed

Examiners determined that the bank's major product lines are home mortgage loans, home equity lines of credit, and small business loans. This conclusion considered the bank's business strategy and the number and dollar volume of loans originated during the evaluation period.

The evaluation considered all home mortgage loans MCB reported on its 2016 and 2017 Home Mortgage Disclosure Act (HMDA) Loan Application Registers (LARs). MCB originated 156 loans totaling \$82.1 million in 2016 and 128 loans totaling \$67.8 million in 2017. Although performance tables depict both 2016 and 2017 HMDA data, examiners focused on 2016 lending performance, as this is the most recent year for which HMDA aggregate data is available. Examiners used aggregate lending data for comparative purposes, as it includes all home mortgage loans in the assessment area originated or purchased by HMDA-reporting institutions. Examiners analyzed 2017 HMDA activity to identify any significant trends.

Examiners considered home equity lines of credit (HELOCs) originated in 2016 and 2017 at management's request. Examiners completed the HELOC analysis based on a statistically random sample of HELOCs originated in 2016 and 2017. Examiners sampled 24 HELOCs totaling \$3.4 million from 2016 and 24 HELOCs totaling \$2.7 million from 2017. The bank originated 45 HELOCs in 2016 and 60 HELOCs in 2017. These samples are representative of the bank's performance during the evaluation period.

Last, examiners considered the bank's small business loans originated in 2016 and 2017. The CRA defines small business loans as commercial real estate and commercial and industrial loans of \$1 million or less. The bank only originated three small business loans in 2016 and three

small business loans in 2017. With so few originations during the review period, the small business loan analysis did not yield meaningful conclusions. Therefore, with the exception of the *Assessment Area Concentration* factor, performance tables do not present separate small business lending tables.

The bank's home mortgage lending performance received most weight in assigning the overall rating due to MCB's business strategy and the greater number of originations during the evaluation period compared to HELOCs and small business loans. The bank did not originate any farm loans since the last evaluation; therefore, the evaluation did not consider this product. While examiners reviewed and analyzed both the number and dollar volume of loans, the evaluation emphasized performance by number of loans because the number of loans better indicates of the number of individuals and businesses served.

DESCRIPTION OF INSTITUTION

Background

MCB is a state-chartered stock institution headquartered in Melrose, Massachusetts. The bank has no affiliates or subsidiaries. The bank received a Satisfactory rating at its previous joint FDIC and Division Performance Evaluation, dated February 23, 2015 based on the Interagency Small Institution Examination Procedures.

Operations

The bank's sole office is located at 638 Main Street in Melrose, which is in a middle-income census tract. This office also has an automated teller machine (ATM). The bank's primary focus is residential lending, but it offers credit and deposit products for both individuals and businesses. MCB offers HELOCs, residential mortgages, constructions loans, automobile loans, secured and unsecured personal loans, and commercial real estate loans. Deposit products include checking accounts, savings accounts, money market accounts, certificates of deposit, and IRAs. Other services include online banking and bill payment, mobile banking, eStatements, online mortgage applications, and telephone banking.

Ability and Capacity

Assets totaled approximately \$302.8 million as of December 31, 2017, and included total loans of \$251.4 million. Total loans represent approximately 82.9 percent of assets. Assets increased 30.7 percent since the previous evaluation, at which time the bank had total assets of approximately \$209.9 million. The bank's lending portfolio increased due to significant home mortgage loan purchases during the evaluation period. The following table illustrates the bank's loan portfolio.

Loan Portfolio Distribution as of 12/31/2017		
Loan Category	\$(000s)	%
Construction and Land Development	10,638	4.2
Secured by Farmland	-	-
1-4 Family Residential including Home Equity Loans	201,518	79.8
Multi-family (5 or more) Residential	12,534	4.9
Commercial Real Estate	27,718	11
Total Real Estate Loans	252,408	99.9
Commercial and Industrial	-	-
Agricultural	-	-
Consumer	85	0.1
Other	-	-
Less: Unearned Income	-	-
Total Loans	252,493	100
<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 area credit needs.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. MCB delineated one contiguous assessment area within Middlesex and Essex Counties in the Cambridge-Newton-Framingham, Massachusetts Metropolitan Division (15764). The following sections discuss demographic and economic information for the assessment area.

Economic and Demographic Data

MCB has designated five municipalities containing 31 census tracts as its assessment area. These municipalities include Malden (11), Melrose (5), Saugus (5), Stoneham (5), and Wakefield (5). The bank's assessment area previously included only the City of Melrose, so the expanded assessment area includes significantly more census tracts. The census tracts reflect the following income designations according to the 2015 ACS:

- 2 low-income tracts,
- 10 moderate-income tracts,
- 16 middle-income tracts, and
- 3 upper-income tracts.

The 2 low-income census tracts are located in Malden, and the 10 moderate-income census tracts are located in Malden (8), Melrose (1), and Saugus (1). The expanded assessment area significantly increased the number of low- and moderate-income tracts previously contained in the bank's assessment area. The area does not have any underserved or distressed census tracts.

The 2015 ACS changed the area's census tract income levels from 2016, which reflected 2010 U.S. Census data. For 2016, the assessment area had no low-income tracts and 10 moderate-income tracts. Consequently, Geographic Distribution performance in 2016 primarily considers bank lending in moderate-income census tract, whereas 2017 performance considers bank lending in both low- and moderate-income tracts.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	31	6.5	32.3	51.6	9.7	0.0
Population by Geography	163,822	7.2	32.1	51.6	9.1	0.0
Housing Units by Geography	66,648	7.6	30.5	52.7	9.1	0.0
Owner-Occupied Units by Geography	38,243	3.0	24.4	61.0	11.7	0.0
Occupied Rental Units by Geography	25,188	14.5	39.8	40.3	5.4	0.0
Vacant Units by Geography	3,217	9.0	31.4	51.3	8.3	0.0
Businesses by Geography	10,584	9.8	20.3	61.5	8.4	0.0
Farms by Geography	143	4.2	17.5	73.4	4.9	0.0
Family Distribution by Income Level	40,687	24.9	18.9	22.9	33.4	0.0
Household Distribution by Income Level	63,431	28.2	16.6	18.7	36.5	0.0
Median Family Income – MD 15764		\$100,380	Median Housing Value			\$371,339
			Median Gross Rent			\$1,208
			Families Below Poverty Level			6.2%

Source: 2010 U.S. Census, 2015 ACS, and 2017 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.

The area contains 66,648 housing units, of which 57.4 percent are owner-occupied, 37.8 percent are occupied rental units, and 18.7 percent are vacant. The Geographic Distribution criterion compares home mortgage loans and HELOCs to the distribution of owner-occupied housing units. The median housing value for the area is \$371,339, and the median gross rent is \$1,208.

According to the 2015 ACS, there are 63,431 households and 40,687 families, a subset of households, in the assessment area. Of the 40,687 families, 6.2 percent have incomes below poverty level.

Examiners used the 2016 and 2017 FFIEC-updated median family income data to analyze home mortgage loans and HELOCs under the Borrower Profile criterion. The following table shows the low-, moderate-, middle- and upper-income categories for each year.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper >:120%
Cambridge-Newton-Framingham, MA MD Median Family Income (15764)				
2016 (\$98,600)	<\$49,300	\$49,300 to <\$78,880	\$78,880 to <\$118,320	>\$118,320
2017 (\$104,800)	<\$52,400	\$52,400 to <\$83,840	\$83,840 to <\$125,760	>\$125,760

Source: FFIEC

According to the U.S. Bureau of Labor Statistics, the civilian labor force in Massachusetts is approximately 3.5 million workers, with 128,600 unemployed workers. Massachusetts' seasonally adjusted unemployment rate is 3.5 percent as of December 2017. Education and

health services, the largest industry in the Boston area, had the largest local employment gain from December 2016 to December 2017. Professional and business services had the next largest annual employment gain in the Boston area.

The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by gross annual revenue (GAR) level. According to 2017 D&B data, service industries represent the largest portion of assessment area businesses at 46.5 percent; followed by retail trade (13.7 percent); construction (10.1 percent); and finance, insurance, and real estate (8.5 percent). In addition, 71.5 percent of area businesses have four or fewer employees, and 91.0 percent operate from a single location.

Competition

The assessment area is competitive in the market for financial services. According to FDIC Deposit Market Share data as of June 30, 2017, 18 financial institutions operated 46 full-service branches within the assessment area. Of these institutions, MCB ranked 8th with a deposit market share of 5.1 percent.

In 2016, MCB was ranked 27th with a 1.1 percent market share of home mortgage lending. The top ten financial institutions control 35.3 percent of the market. There were multiple large financial institutions lending within the bank's designated assessment area, with only five local financial institutions ahead of MCB: Leader Bank, Eastern Bank, Salem Five Mortgage CO, LLC., Metro Credit Union, and The Savings Bank. With the exception of The Savings Bank, each of these local institutions have significantly more assets or large mortgage lending operations relative to MCB. StonehamBank and Wakefield Co-operative Bank represent institutions more comparable to MCB in terms of mortgage lending operations.

Community Contact

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

Examiners interviewed a representative of a local social services organization. The contact noted that affordable housing in the area is a major concern due to limited availability. Furthermore, the contact noted that many of the available affordable homes in the area are in need of renovation. The contact also identified small dollar loans and social services, including fuel assistance, as being in high demand in the area.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

MCB demonstrated reasonable performance under the Lending Test. LTD Ratio, Assessment Area Concentration, and Borrower Profile performance primarily support this conclusion.

Loan-to-Deposit Ratio

MCB's LTD ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. The average LTD ratio over the last 12 quarters from March 31, 2015, through December 31, 2017, was 91.6 percent and it steadily increased. The ratio ranged from a low of 77.7 percent as of March 31, 2015 to a high of 106.9 percent as of December 31, 2017. The bank's increased lending through correspondent lenders since the previous evaluation contributed to the increased LTD ratio. MCB maintained a ratio within the range of comparable institutions, as shown in the following table. Examiners selected comparable institutions based on asset size and lending focus.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 12/31/2017 \$(000s)	Average Net LTD Ratio (%)
Melrose Co-operative Bank	301,857	91.6
Sage Bank	143,443	122.3
Wakefield Co-operative Bank	221,066	86.3
Washington Savings Bank	219,170	96.1

Source: Reports of Condition and Income 03/31/2015 through 12/31/2017

Assessment Area Concentration

Overall, the bank made a majority of its loans inside the assessment area at 52.1 percent. While a majority of sampled HELOCs were inside the assessment area, the majority of home mortgage loans were outside the assessment area. The majority of home mortgage loans outside the assessment area resulted from management's decision to originate loans through correspondents. Most loans originated through correspondent lenders were located outside the assessment area.

In 2016, MCB was ranked 27th with a 1.1 percent market share of home mortgage lending within the assessment area. The only comparable community bank ahead of MCB was The Savings Bank, ranked 24th. The bank's strong market share in the assessment mitigates the effect of originating a majority of HMDA loans outside the assessment area. Additionally, the bank originated exactly 50.0 percent of small business loans inside the assessment area.

The following table shows the breakout of loans made inside and outside of the assessment area.

Lending Inside and Outside of the Assessment Area											
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)	
	Inside		Outside			Inside		Outside			
	#	%	#	%		\$	%	\$	%		
Home Mortgage											
2016	72	46.2	84	53.8	156	23,605	28.7	58,544	71.3	82,149	
2017	56	43.8	72	56.3	128	20,666	30.5	47,128	69.5	67,794	
Subtotal	128	45.1	156	54.9	284	44,271	29.5	105,672	70.5	149,943	
Small Business											
2016	1	33.3	2	66.7	3	150	12.2	1,075	87.8	1,225	
2017	2	66.7	1	33.3	3	975	61.9	600	38.1	1,575	
Subtotal	3	50.0	3	50.0	6	1,125	40.2	1,675	59.8	2,800	
HELOC											
2016	24	100.0	0	0.0	24	3,417	100.0	0	0.0	3,417	
2017	21	87.5	3	12.5	24	2,580	95.2	130	4.8	2,710	
Subtotal	45	93.8	3	6.2	48	5,997	97.9	130	2.1	6,127	
Total	176	52.1	162	47.9	338	51,393	32.3	107,477	67.7	158,870	
<i>Source: Evaluation Period: 1/1/2016 - 12/31/2017</i> <i>Due to rounding, totals may not equal 100.0</i>											

Geographic Distribution

The geographic distribution of loans reflects poor dispersion throughout the assessment area. Both home mortgage and HELOC performances support this conclusion. As noted under *Description of Assessment Area*, the assessment area did not contain any low-income census tracts in 2016; therefore, the bank's 2016 lending performance in moderate-income tracts had the most significant effect on criterion conclusions.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects poor dispersion throughout the assessment area. In 2016, the bank's performance in moderate-income census tracts was below the percentage of owner-occupied housing and aggregate performance. MCB ranked 73rd with a 0.3 percent market share for lending in moderate-income tracts, which was significantly below its overall ranking and market share. Community banks such as Everett Co-operative, The Savings Bank, and Wakefield Co-operative ranked above MCB. Increased competition from large mortgage companies contributed to the bank's performance. The bank's standard product offering also does not contain the underwriting flexibility associated with many products offered by these mortgage companies.

In 2017, the bank did not make any loans in the low-income tracts; however, these tracts contained just 3.0 percent of owner-occupied housing units. The bank increased the number and

percentage of loans in moderate-income tracts, but the percentage still fell well below the percentage of owner-occupied units.

Geographic Distribution of Home Mortgage Loans							
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	Market Share % of #	#	%	\$(000s)	%
Low							
2016	--	--	--	--	--	--	--
2017	3.0	--	--	0	0.0	0	0.0
Moderate							
2016	23.6	22.9	0.3	4	5.6	1,243	5.3
2017	24.4	--	--	5	8.9	1,637	7.9
Middle							
2016	51.3	51.5	1.4	46	63.9	13,505	57.2
2017	61.0	--	--	24	42.9	7,198	34.8
Upper							
2016	25.1	25.7	1.3	22	30.6	8,857	37.5
2017	11.7	--	--	27	48.2	11,831	57.2
Totals							
2016	100.0	100.0	1.1	72	100.0	23,605	100.0
2017	100.0	--	--	56	100.0	20,666	100.0

*Source: 2010 U.S. Census & 2015 ACS Census; 1/1/2016 - 12/31/2017 Bank Data, 2016 HMDA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0*

Home Equity Lines of Credit

The geographic distribution of HELOCs reflects poor dispersion throughout the assessment area. The bank originated no loans in moderate-income geographies in 2016. In 2017, the bank made no loans in low-income geographies and three loans in moderate-income geographies. The percentage of moderate-income loans was significantly lower than the percentage of owner-occupied units. Management attributed its poor dispersion to lower pricing and more flexible underwriting by the significant number of national banks operating in the assessment area. The following table details the distribution of HELOCs by geography income level.

Geographic Distribution of HELOCs					
Tract Income Level	% of Owner-Occupied Housing Units	#	%	\$(000s)	%
Low					
2016	--	--	--	--	--
2017	3.0	0	0.0	0	0.0
Moderate					
2016	23.6	0	0.0	0	0.0
2017	24.4	3	14.3	198	7.7
Middle					
2016	51.3	12	50.0	1,830	53.6
2017	61.0	11	52.4	1,395	54.1
Upper					
2016	25.1	12	50.0	1,587	46.4
2017	11.7	7	33.3	987	38.3
Totals					
2016	100.0	24	100.0	3,417	100.0
2017	100.0	21	100.0	2,580	100.0
<i>Source: 2010 U.S. Census & 2015 ACS; 1/1/2016 - 12/31/2017 Bank Data. Due to rounding, totals may not equal 100.0</i>					

Small Business Loans

The geographic distribution of small business loans reflects poor dispersion throughout the assessment area. The bank made one loan inside the assessment area in 2016 and two loans inside the assessment area in 2017. None of these loans was originated in low- or moderate-income geographies.

Borrower Profile

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes. The bank's reasonable home mortgage and HELOC performance supports this conclusion.

Home Mortgage Loans

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate-income borrowers, is reasonable. Home mortgage lending to low-income borrowers, at 2.8 percent, is reasonable when compared to the aggregate percentage in 2016. A low-income family, with an income of \$49,300 or less, would have difficulty qualifying for a mortgage under conventional underwriting standards, considering the median housing value of \$371,339. Therefore, the demand and opportunity for lending to low-income families is relatively limited. This helps explain the difference between bank and aggregate performance of lending to low-income borrowers and the percentage of families of this income level. Bank lending to low-income borrowers decreased to one loan in 2017.

Home mortgage lending to moderate-income borrowers is also reasonable, as the bank's 2016 lending percentage is slightly less than the aggregate's percentage and demographics. Lending to moderate-income borrowers decreased in 2017. The negative trend is partially attributed to increased competition from larger national banks and mortgage companies. As noted earlier, the increased presence of national banks and mortgage companies, who have more flexible underwriting and lower pricing capabilities than MCB, decreased the bank's ability to compete for loans to low- and moderate- income borrowers.

In 2016, the bank ranked 36th with a 0.8 percent market share for lending to low-income borrowers. MCB ranked 30th with a 0.9 percent market share for moderate-income borrowers.

Distribution of Home Mortgage Loans by Borrower Income Level							
Borrower Income Level	% of Families	Aggregate Performance % of #	Market Share % of #	#	%	\$(000s)	%
Low							
2016	23.1	3.8	0.8	2	2.8	379	1.6
2017	24.9	--	--	1	1.8	190	0.9
Moderate							
2016	16.4	16.9	0.9	10	13.9	2,719	11.5
2017	18.9	--	--	6	10.7	1,421	6.9
Middle							
2016	24.9	29.2	0.9	18	25.0	4,837	20.5
2017	22.9	--	--	16	28.6	5,144	24.9
Upper							
2016	35.5	38.4	1.5	39	54.2	13,740	58.2
2017	33.4	--	--	31	55.4	13,262	64.2
Not Available							
2016	0.0	11.7	0.4	3	4.2	1,930	8.2
2017	0.0	--	--	2	3.6	649	3.1
Totals							
2016	100.0	100.0	1.1	72	100.0	23,605	100.0
2017	100.0	--	--	56	100.0	20,666	100.0

*Source: 2010 U.S. Census & 2015 ACS Census; 1/1/2016 - 12/31/2017 Bank Data, 2016 HMDA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0*

Home Equity Lines of Credit

The distribution of sampled consumer loans reflects reasonable penetration to low- and moderate-income individuals. Though the bank made one loan in both 2016 and 2017 to low-income individuals, the bank increased its performance in lending to moderate-income individuals from 2016 to 2017. In 2016, the bank made three loans, or 12.5 percent of originations, to moderate-income individuals. This is comparable to the percentage of families. In 2017, the bank made six loans at 28.6 percent of originations to moderate-income individuals, equaling the percentage of families in this income category.

Distribution of HELOCs by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low					
2016	23.1	1	4.2	125	3.7
2017	24.9	1	4.8	62	2.4
Moderate					
2016	16.4	3	12.5	415	12.1
2017	18.9	4	19.0	355	13.7
Middle					
2016	24.9	6	25.0	540	15.8
2017	22.9	7	33.3	1,168	45.2
Upper					
2016	35.5	14	58.3	2,337	68.4
2017	33.4	9	42.9	997	38.6
Totals					
2016	100.0	24	100.0	3,417	100.0
2017	100.0	21	100.0	2,582	100.0
<i>Source: 2010 U.S. Census & 2015 ACS Census; 1/1/2016 - 12/31/2017 Bank Data. Due to rounding, totals may not equal 100.0</i>					

Small Business Loans

The distribution of small business loans reflects reasonable penetration to businesses with GARs of \$1 million or less. As noted in the *Assessment Area Concentration*, the bank made one small business loan inside the assessment area in 2016 and two small business loans inside the assessment area in 2017. The bank originated the 2016 small business loan and one of the 2017 small business loans to businesses with GARs of \$1 million or less. The revenue was not available for the other 2017 small business loan inside the assessment area.

Response to Complaints

The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore, this consideration did not affect the institution's overall CRA rating.

APPENDIX

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. A review of the bank's public comment file indicated the bank received no complaints pertaining to the institution's CRA performance since the previous examination. The fair lending review was conducted in accordance with the Federal Financial Institutions Examination Council (FFIEC) Interagency Fair Lending Examination Procedures. Based on these procedures, no evidence of disparate treatment was noted.

Minority Application Flow

Examiners reviewed MCB's 2016 and 2017 HMDA LARs to determine if the minority application flow reflected the assessment area's demographics.

For 2016, according to the 2010 U.S. Census data, the bank's assessment area had a population of 159,430, of which 23.6 percent are minorities. The assessment area's minority population includes 0.1 percent American Indian, 9.4 percent Asian/Pacific Islander, 6.4 percent Black, 5.0 percent Hispanic, and 2.7 percent other race.

For 2017, according to the 2015 ACS data, the bank's assessment area has a population of 163,822, of which 26.1 percent are minorities. The assessment area's 2017 minority population includes 0.1 percent American Indian/Alaskan Native, 11.2 percent Asian/Pacific Islander, 6.3 percent Black, 6.1 percent Hispanic, and 2.3 percent other race.

Examiners compared MCB's 2016 and 2017 residential lending to 2016 aggregate data. This comparison assists in deriving reasonable expectations for the minority application rate. Refer to the following table for information regarding the bank's minority application flow as well as the aggregate.

MINORITY APPLICATION FLOW					
RACE	Bank 2016		2016 Aggregate Data	Bank 2017	
	#	%	%	#	%
American Indian/ Alaska Native	0	0.0	0.1	0	0.0
Asian	0	0.0	8.1	2	2.8
Black/ African American	0	0.0	3.8	0	0.0
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	2.2	1.4	0	0.0
Total Minority	2	2.2	13.6	2	2.8
White	76	81.7	66.2	58	81.7
Race Not Available	15	16.1	20.2	11	15.5
Total	93	100.0	100.0	71	100.0
ETHNICITY					
Hispanic or Latino	3	3.2	4.3	1	1.4
Not Hispanic or Latino	72	77.4	74.2	55	77.5
Joint (Hisp/Lat /Not Hisp/Lat)	1	1.1	1.3	2	2.8
Ethnicity Not Available	17	18.3	20.2	13	18.3
Total	93	100.0	100.0	71	100.0

Source: HMDA Aggregate Data 2016, HMDA LAR Data 2016 and 2017

In 2016, the bank received 2 of 93 HMDA reportable loan applications within its assessment area from racial minority applicants. The bank's application flow was below the aggregate performance of 13.6 percent for applications received from minorities. The bank received 4 applications, or 4.3 percent of total applications, from an ethnic minority demographic in 2016. The bank's application flow was comparable to the aggregate performance of 5.6 percent. In 2017, the bank's racial and ethnic minority application flow rates were comparable to 2016, at 2.8 and 4.1 percent, respectively.

General minority application flow of the bank is below the demographic of the assessment area and the aggregate lender trends. Upon further examination and discussion with bank management, the relatively low minority application flow is a result of both the bank's size and significant competition in the assessment area. The bank's primary presence (including its only physical branch) is in Melrose, which comprises 7.3 percent of the assessment area's minority population. Comparatively, Malden, where several large national banks and mortgage lenders maintain a presence, holds approximately 73.0 percent of the minority population. The fact that some of the largest national and local lenders maintain a significant presence in Malden is important to note and illustrates a highly competitive environment, which helps mitigate MCB's performance. Still, the bank's current marketing practices reflect a desire to lend throughout their assessment area, and they remain cognizant of the need to continue marketing and outreach efforts to reach all demographics. The bank's minority application flow is adequate.

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.

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.

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.

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.

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 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.

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 638 Main Street Melrose, MA 02176."

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Federal Deposit Insurance Corporation, at 638 Main Street Melrose, MA 02176."

[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.