

PUBLIC DISCLOSURE

October 15, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Cornerstone Bank
Certificate Number: 90282

176 Main Street
Spencer, Massachusetts 01562

Division of Banks
1000 Washington Street
Boston, MA 02118

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

TABLE OF CONTENTS

Institution Rating	1
Scope of Evaluation	2
Description of Institution	4
Description of Assessment Area	6
Conclusions on Performance Criteria	9
Glossary	22

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated **High 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.

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

The Lending Test is rated High Satisfactory.

- The loan-to-deposit (LTD) ratio is more than reasonable given the institution's size, financial condition, and assessment area credit needs.
- The bank originated a substantial majority of its home mortgage and small business loans in the assessment area.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- The distribution of borrowers reflects good penetration of loans among individuals 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 Lending Test rating. Fair lending policies and procedures are adequate.

The Community Development Test is rated High Satisfactory.

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

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated March 3, 2014 to the current evaluation dated October 15, 2018. Examiners used the Interagency Intermediate Small Institution Examination Procedures to evaluate Cornerstone Bank's CRA performance. These procedures include two tests: the CRA Small Bank Lending Test and the Community Development Test.

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

- Loan-to-deposit ratio
- Assessment area concentration
- Geographic distribution
- Borrower profile
- Response to CRA-related complaints
- Fair Lending Policies and Procedures

The Community Development Test considered the following factors.

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

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

Loan Products Reviewed

Examiners determined that the bank's major product lines are home mortgage 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 bank's record of originating home mortgage loans contributed more weight to overall conclusions due to the larger loan volume when compared to small business lending during 2016 and 2017.

This evaluation considered all home mortgage loans reported on the bank's 2016 and 2017 Home Mortgage Disclosure Act (HMDA) Loan Application Registers (LARs). For 2016 the bank reported 397 loans totaling \$80.6 million, and for 2017 the bank reported 648 loans totaling \$130.1 million. Examiners identified a large substantial increase in loan volume by number and amount due to the merger between Spencer Savings Bank and South Bridge Savings Bank in 2016. Similarly, the evaluation considered all small business loans originated during 2016 and 2017.

For the Lending Test, examiners reviewed the number and dollar volume of home mortgage and small business loans. While number and dollar volume of loans are presented, examiners emphasized performance by number of loans because the number of loans is a better indicator of the number of individuals and businesses served.

For the Community Development Test, bank management provided data on community development loans, qualified investments, and community development services since the prior CRA evaluation dated March 3, 2014.

DESCRIPTION OF INSTITUTION

Background

Spencer Savings Bank was a mutual savings bank with its main operations in Spencer, Massachusetts. The bank has been operating in Central Massachusetts since its opening in 1871. The bank operated six full-service branches throughout Central Massachusetts until its merger with Southbridge Savings Bank in 2017. The merger resulted in the creation of Cornerstone Bank.

Cornerstone Bank is a mutual savings bank headquartered in Worcester Massachusetts. Cornerstone Bank is a wholly owned subsidiary of SSB Community Bancorp. The bank has been serving Central Massachusetts since 2017. The bank received a rating of High Satisfactory from the Division of Banks on its previous examination dated March 3, 2014 using the FFIEC Intermediate Small Bank CRA Procedures.

Operations

The bank currently operates 15 full service locations and one off-site ATM. The offices are located in Charlton, Holden, Leicester, North Oxford, Rutland, Southbridge (2), Spencer (3), Sturbridge, Warren, Webster, and Worcester (2). The bank also operates one remote ATM inside Union Station in Worcester. Of these locations one is located in a low-income census tract in Southbridge, four in moderate-income census tracts in Spencer, Warren and Worcester, six in middle-income census tracts and five in upper-income census tracts.

The bank offers a variety of products and services to its customers. The bank offers consumers Checking Accounts, Savings Accounts, Certificates of Deposit, Individual Retirement Accounts, Consumer Loans, Home Equity Loans and Lines of Credit as well as Mortgages. The bank also offers multiple services for their customers like Online Banking & Bill Pay, Mobile Banking, Telephone Banking, Digital Wallet, Overdraft Protection, and personal Debit and Credit Cards. The bank offers commercial customers Checking Accounts, Saving Accounts, Commercial Loans and Lines of Credit, Commercial Real Estate Loans, SBA Lending Solutions, Equipment and Vehicle Financing and other business solutions. The bank also provides investment options through SSB Investment Services.

Ability and Capacity

Assets totaled approximately \$1.132 billion as of June 30, 2018 and included total loans of \$990 million and securities totaling \$36.6 million. The bank's net loan-to-deposit (LTD) ratio, as of the same date, was 105.4 percent. During the evaluation period the bank sold 321 loans totaling \$60.9 million. These loans are not included in the LTD Ratio. The loan portfolio is illustrated in the following table.

Loan Portfolio Distribution as of 06/30/2018		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	21,644	2.2
Secured by Farmland	407	0.0
Secured by 1-4 Family Residential Properties	591,149	59.4
Secured by Multi-Family (5 or more) Residential Properties	33,379	3.4
Secured by Non-farm Non-residential Properties	299,191	30.0
Agricultural Production and Other Loans to Farmers	0	0.0
Commercial and Industrial Loans	38,059	3.8
Consumer	10,558	1.1
Obligations of States and Political Subdivisions in the United States	0	0.0
Other Loans	899	0.1
Lease Financing Receivables (net of unearned income)	0	0.0
Gross Loans	995,286	100.0
Less: Unearned Income	0	0.0
Total Loans and Leases	995,286	100.0
<i>Source: 06/30/2018 Call Report</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. Cornerstone Bank's designated assessment areas are in the Springfield, MA and the Worcester, MA-CT Metropolitan Statistical Areas (MSA). The following sections discuss demographic and economic information for the assessment area.

Economic and Demographic Data

The assessment area consists of 112 census tracts in the states of Massachusetts and Connecticut. The counties are Worcester County, and Hampden County in Massachusetts and Windham County in Connecticut. The entire assessment area is located in the Springfield, MA MSA and the Worcester MA-CT MSA. These tracts reflect the following income designations according to the 2015 ACS U.S. Census Data:

- 15 low-income tracts,
- 21 moderate-income tracts,
- 46 middle-income tracts,
- 27 upper-income tracts, and
- 3 census tract with no income designation.

The following table illustrates select demographic characteristics of the assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	112	13.4	18.8	41.1	24.1	2.7
Population by Geography	510,736	11.8	16.6	43.1	27.5	0.9
Housing Units by Geography	209,720	12.4	17.7	43.7	25.4	0.7
Owner-Occupied Units by Geography	121,092	3.6	11.3	51.2	33.8	0.1
Occupied Rental Units by Geography	70,100	27.0	26.9	31.3	13.0	1.7
Vacant Units by Geography	18,528	14.6	24.7	41.6	17.7	1.3
Businesses by Geography	29,482	9.7	15.3	41.6	28.8	4.5
Farms by Geography	842	3.4	7.7	52.9	35.6	0.4
Family Distribution by Income Level	124,792	23.3	17.0	20.2	39.6	0.0
Household Distribution by Income Level	191,192	27.2	14.9	17.2	40.7	0.0
Median Family Income MSA - 44140 Springfield, MA MSA		\$67,381	Median Housing Value			\$235,808
Median Family Income MSA - 49340 Worcester, MA-CT MSA		\$81,137	Median Gross Rent			\$924
			Families Below Poverty Level			9.0%
Source: 2010 U.S. Census & 2015 ACS Census 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 2016 and 2017 FFIEC-updated median family income level is used to analyze home mortgage loans under the Borrower Profile criterion. The low-, moderate-, middle- and upper-income categories are presented in the following table. These categories are based on FFIEC-updated median family incomes for 2016 and 2017 respectively.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Springfield, MA MSA Median Family Income (44140)				
2016 (\$68,000)	<\$34,000	\$34,000 to <\$54,400	\$54,400 to <\$81,600	≥\$81,600
2017 (\$66,600)	<\$33,300	\$33,300 to <\$53,280	\$53,280 to <\$79,920	≥\$79,920
Worcester, MA-CT MSA Median Family Income (49340)				
2016 (\$78,500)	<\$39,250	\$39,250 to <\$62,800	\$62,800 to <\$94,200	≥\$94,200
2017 (\$84,000)	<\$42,000	\$42,000 to <\$67,200	\$67,200 to <\$100,800	≥\$100,800
<i>Source: FFIEC, Due to rounding, totals may not equal 100.0</i>				

There are 209,720 housing units. Of these, 57.7 percent are owner-occupied, 33.4 percent are occupied rental units, and 8.8 percent are vacant. The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units. There are no owner-occupied housing units in the census tract without an income designation.

According to 2017 D&B data, there are 29,482 businesses in the assessment area. Service industries represent the largest portion of business at 45.0 percent; followed by retail trade (13.7 percent); construction (9.7 percent); and finance, insurance, and real estate (8.2 percent). In addition, 70.4 percent of area business have four or fewer employees and 88.2 percent operate from a single location.

The analysis of small business loans under the Borrower Profile criterion compares the bank's lending to the distribution of businesses by gross annual revenue (GAR) level. The area businesses are distributed by GAR level as follows:

- 83.6 percent have \$1 million or less,
- 6.2 percent have more than \$1 million, and
- 10.2 percent have unknown revenues.

Data obtained from the U. S. Bureau of Labor and Statistics indicates that the 2017 year-end unemployment rate was 3.5 percent statewide. However, the unemployment rate for the assessment area was 5.2 percent.

Competition

The assessment area has a moderately competitive deposit environment. There are 21 depository institutions active in the market with over 133 branches. Cornerstone Bank ranks 6th among these institutions with 9.3 percent of the deposit market share.

The assessment area is a highly competitive mortgage lending environment. Residential lending market share reports for 2017 show 404 lenders originated or purchased 15,001 loans totaling over \$4.0 billion. Cornerstone Bank ranked 8th out of this group of lenders, with a market share of 2.2 percent. The three most prominent home mortgage lenders accounted for 14.4 percent of total market share.

Community Contact

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

Examiners contacted a representative from a local community development organization in the assessment area. The contact discussed the needs for the local area. According to the contact, affordable housing and economic development are the most needed in the area. The contact explained how residents are traveling to the larger cities for work as there are few jobs in the community. They also discussed the need for down payment assistance or programs that offer a lower down payment to make purchasing homes more affordable. The contact did state that local banks were very helpful in offering first time home buyers programs for those looking to purchase their first home. Overall, the contact indicated that financial institutions have been very responsive to the credit and community development needs.

Examiners contacted a representative of a chamber of commerce in the assessment area. The contact identified a significant need for economic development of the manufacturing sector. The contact noted a particular need to develop the local workforce to build manufacturing skills. The entry-level jobs in manufacturing face significant competition from retail outlets. The contact mentioned that local financial institutions, including Cornerstone Bank, have reached out in the community to provide financial education. The contact noted that such financial education could be supplemented by adding career development aspects to the curriculum.

Credit and Community Development Needs and Opportunities

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that affordable housing and economic development represent community needs for the assessment area. The area has a large number of active financial institutions, however opportunities exist to provide services to low-income families in the rural portions of the assessment area as well as Worcester. Additionally, first time homebuyer and workforce development programs may meet community development needs.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Cornerstone Bank demonstrated good performance under the Lending Test. Geographic Distribution and Borrower Profile performance primarily support this conclusion.

Loan-to-Deposit Ratio

The LTD ratio is more than reasonable given the institution's size, financial condition, and assessment area credit needs. The bank's LTD ratio, calculated from Call Report data, averaged 105.4 percent over the past 18 calendar quarters from March 31, 2014, to June 30, 2018. The ratio ranged from a low of 96.8 percent as of December 31, 2015, to a high of 116.1 percent as of December 31, 2016. The ratio remained generally stable during the evaluation period. Cornerstone Bank maintained a ratio similar to those of comparable institutions, as shown in the following table. Examiners selected comparable institutions based on their asset size, geographic location, and lending focus.

Loan-to-Deposit Ratio Comparison		
Institution	Total Assets \$(000s)	Average LTD Ratio (%)
Cornerstone Bank	1,132,009	105.4%
Main Street Bank	1,007,951	82.7%
Avidia Bank	1,556,863	109.3%
Country Bank for Savings	1,598,920	100.9%
<i>Source: Call Report data</i>		

Assessment Area Concentration

The bank originated a good percentage of home mortgage loans and small business loans, by number and dollar volume, within its assessment area. See the following table.

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	195	76.8	59	23.2	254	35,883	60.1	23,847	39.9	59,730
2017	328	78.5	90	21.5	418	53,686	66.1	27,574	33.9	81,260
Subtotal	523	77.8	149	22.2	672	89,569	63.5	51,421	36.5	140,990
Small Business										
2016	65	86.7	10	13.3	75	13,172	83.8	2,541	16.2	15,713
2017	74	82.2	16	17.8	90	10,397	73.6	3,736	26.4	14,133
Subtotal	139	84.2	26	15.8	165	23,569	79.0	6,277	21.0	29,846
Total	666	79.1	175	20.9	837	113,138	66.2	57,698	34.0	170,836
Source: Evaluation Period: 1/1/2016 - 12/31/2017 Bank Data; Due to rounding, totals may not equal 100.0										

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. The bank's reasonable performance of small business and home mortgage lending supports this conclusion. Examiners focused on the percentage by number of loans in low- and moderate-income census tracts.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the assessment area. Examiners focused on the comparison to 2016 and 2017 aggregate data. In 2016, the bank's performance in low-income census tracts was consistent with aggregate lenders and the demographic of owner-occupied institutions. For moderate-income census tracts, the bank performed below the aggregate level and the demographic.

In 2017, the bank's performance in low-income census tracts fell below the aggregate level, while the performance in moderate-income tracts improved significantly. The bank's performance in moderate-income census tracts was above both the aggregate lending level and the demographic.

Market share data supported the bank's reasonable performance. While the bank's rank in low-income census tracts remained consistent, the bank's rank in moderate-income census tracts rose from 50th in 2016 to 5th in 2017 out of hundreds of lenders. The increase in rank is primarily attributed to the 2017 merger. The bank was consistently the 1st or 2nd ranked local lender in the assessment area, generally outranked by large national banks and mortgage companies.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2016	3.0	2.8	7	3.6	2,831	7.9
2017	3.6	5.3	12	3.7	2,806	5.2
Moderate						
2016	10.5	9.7	10	5.1	953	2.7
2017	11.3	12.5	58	17.7	8,097	15.1
Middle						
2016	53.9	51.0	124	63.6	21,195	59.1
2017	51.2	49.1	157	47.9	23,196	43.2
Upper						
2016	32.6	36.6	54	27.7	10,904	30.4
2017	33.8	32.9	101	30.8	19,587	36.5
Not Available						
2016	0.0	0.0	0	0.0	0	0.0
2017	0.1	0.2	0	0.0	0	0.0
Totals						
2016	100.0	100.0	195	100.0	35,883	100.0
2017	100.0	100.0	328	100.0	53,686	100.0
Source: 2010 U.S. Census & 2015 ACS Census; 1/1/2016 - 12/31/2017 Bank Data, 2016 & 2017 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0						

Small Business Loans

The geographic distribution of small business loans reflects good dispersion. In 2016, the bank's performance was consistent with the demographic of businesses in low- and moderate-census tracts. In 2017, the bank exceeded the demographic in both low- and moderate-income census tracts. The following table illustrates the bank's loans in the assessment area by census tract income level.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low					
2016	13.2	9	13.8	2,153	16.3
2017	9.7	8	10.8	547	5.3
Moderate					
2016	14.2	8	12.3	1,235	7.3
2017	15.3	15	20.3	1,095	10.5
Middle					
2016	45.2	38	58.5	7,906	60.0
2017	41.6	30	40.5	6,444	62.0
Upper					
2016	27.3	10	15.4	2,148	16.3
2017	28.8	17	23.0	1,842	17.7
Not Available					
2016	0.1	0	0.0	0	0.0
2017	4.5	4	5.4	469	4.5
Totals					
2016	100.0	65	100.0	13,172	100.0
2017	100.0	74	100.0	9,493	100.0
Source: 2016 & 2017 D&B Data; 1/1/2016 - 12/31/2017 Bank Data; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0					

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 performance in home mortgage and small business lending support this conclusion. Examiners focused on the percentage by number of home mortgage loans to low- and moderate-income borrowers. They also focused on the percentage by number of small business loans to businesses with GARs of \$1 million or less.

Home Mortgage Loans

The bank's 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. In 2016, the bank was consistent with aggregate lending trends; slightly above in low-income census tracts, and slightly below in moderate-income census tracts. However, 2017 performance reflected significant improvement to low-income borrowers. The bank performance in originating loans to low-income borrowers was almost double that of aggregate lending. The bank's performance in lending to moderate-income borrowers in 2017 also increased from 2016, above the aggregate lending levels and the demographic of moderate-income families in the assessment area.

Market Share further supported the bank's good performance under this criterion. The bank's market share rank to low- and moderate-income borrowers rose significantly from 2016 to 2017. As of 2017, the bank is in the top ten institutions out of hundreds in the assessment area.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2016	21.7	4.9	13	6.7	781	2.2
2017	23.3	5.9	36	11.0	2,903	5.4
Moderate						
2016	17.2	16.9	29	14.9	3,657	10.2
2017	17.0	22.0	76	23.2	9,585	17.9
Middle						
2016	21.8	23.5	50	25.6	7,637	21.3
2017	20.2	23.8	73	22.3	9,501	17.7
Upper						
2016	39.3	38.4	88	45.1	16,785	46.8
2017	39.6	33.7	123	37.5	26,149	48.7
Not Available						
2016	0.0	16.3	15	7.7	7,023	19.6
2017	0.0	14.6	20	6.1	5,548	10.3
Totals						
2016	100.0	100.0	195	100.0	35,883	100.0
2017	100.0	100.0	328	100.0	53,686	100.0
<i>Source: 2010 U.S. Census & 2015 ACS Census ; 1/1/2016 - 12/31/2017 Bank Data, 2016 & 2017 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0</i>						

Small Business Loans

The distribution of small business loans reflects good penetration of loans to businesses with GARS of \$1 million or less. The following table shows that in 2016, the bank made 73.9 percent of its loans to businesses with GARS of \$1 million or less which exceeded the aggregate by 29.0 percent. The number of loans made to businesses with GARS of \$1 million or less was 64.4 percent in 2017.

Lending to businesses with GARS of \$1 million or less was below the percentage of businesses with GARS of \$1 million or less in 2016 and 2017. However, the aggregate lending trends provide important context of the market for small business loans. Approximately 44.9 percent of the small business loans originated were provided to businesses with GARS of \$1 million or less in 2016. Similarly, only 46.8 percent of these businesses received small business loans in 2017. This percentage suggests a smaller market of businesses that either request or qualify for financing within the demographic of small businesses. As the bank's lending exceeds that of aggregate lending, its performance is good.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000					
2016	83.4	49	75.4	9,780	74.2
2017	83.5	48	64.9	6,476	62.3
>1,000,000					
2016	6.1	16	24.6	3,392	25.8
2017	6.0	26	35.6	3,921	41.3
Revenue Not Available					
2016	10.5	0	0.0	0	0.0
2017	10.5	0	0.0	0	0.0
Totals					
2016	100.0	65	100.0	13,172	100.0
2017	100.0	73	100.0	9,493	100.0
<i>Source: 2016 & 2017 D&B Data; 1/1/2016 - 12/31/2017 Bank Data; 2016 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0</i>					

Lending-Related Activity

In addition to 2016 and 2017 HMDA data, the bank provided additional information regarding its efforts to expand credit to low- and moderate-income borrowers. In 2015, the bank purchased 3 loans totaling \$251,928 from the Worcester Habitat for Humanity. The purchase of these loans provided liquidity to the organization to continue the development of homes for low- and moderate-income families. The loan purchase further illustrates the bank's commitment to lend to individuals of different income levels.

Response to Complaints

The bank did not receive any CRA-related complaints since the previous evaluation.

Discriminatory or Other Illegal Credit Practices

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.

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. Fair Lending policies and procedures are considered adequate.

Minority Application Flow

The bank's HMDA LARs for 2016 and 2017 were reviewed to determine if the application flow from the different racial groups within the bank's assessment area was reflective of the assessment area's demographics.

According to the 2015 ACS US Census Data, the bank's assessment area contained a total population of 510,736 individuals of which 22.4 percent are minorities. The assessment areas minority and ethnic population is 5.1 percent Black/African American, 4.6 percent Asian, 0.1 percent American Indian, 0.0 percent Hawaiian/Pacific Islander, 10.6 percent Hispanic or Latino and 2.0 percent other.

The bank's level of lending was compared with that of the aggregate's lending performance level for the most recent year that data was available, the year 2017. The comparison of this data assists in deriving reasonable expectations for the rate of applications the bank received from minority residential loan applicants. Refer to the table below for information on the bank's minority application flow as well as the aggregate lenders in the bank's assessment area.

MINORITY APPLICATION FLOW						
RACE	Bank 2016		2016 Aggregate Data	Bank 2017		2017 Aggregate Data
	#	%	%	#	%	%
American Indian/Alaska Native	1	0.3	0.3	0	0.0	0.3
Asian	2	0.7	5.0	5	1.0	4.7
Black/African American	2	0.7	3.2	3	0.6	3.5
Hawaiian/Pacific Islander	0	0.0	0.2	4	0.8	0.1
2 or more Minority	0	0.0	0.0	0	0.0	0.1
Joint Race (White/Minority)	3	1.0	1.1	2	0.4	1.1
Total Minority	8	2.7	9.8	14	2.8	9.8
White	257	84.8	70.0	415	82.2	69.0
Race Not Available	38	12.5	20.2	76	15.0	21.2
Total	303	100.0	100.0	505	100.0	100.0
ETHNICITY						
Hispanic or Latino	0	0.0	4.6	10	2.0	5.5
Not Hispanic or Latino	258	85.2	74.5	411	81.4	72.5
Joint (Hisp/Lat /Not Hisp/Lat)	2	0.6	1.1	5	1.0	1.2
Ethnicity Not Available	43	14.2	19.8	79	15.6	20.8
Total	303	100.0	100.0	505	100.0	100.0
<i>Source: 2015 ACS US Census Data, HMDA Aggregate Data 2016, HMDA Aggregate Data 2017, HMDA LAR Data 2016 and 2017 *Due to rounding, totals may not equal 100.0 percent.</i>						

In 2016, the bank received 303 HMDA reportable loan applications from within its assessment area. Of these applications, 8 or 2.7 percent were received from minority applicants, of which 6 or 75.0 percent resulted in originations. The aggregate received 24,936 HMDA reportable loan applications of which 2,436 or 9.8 percent were received from minority applicants and 1,505 or 61.8 percent were originated. For the same time period, the bank also received 2 or 0.6 percent of applications from ethnic groups of Hispanic origin within its assessment area of which 2 or 100.0 percent were originated versus the aggregate that received 1,409 applications or 5.7 percent of which 975 or 69.2 percent were originated.

In 2017, the bank received 505 HMDA reportable loan applications from within its assessment area. Of these applications, 14 or 2.8 percent were received from minority applicants, of which 8 or 57.1 percent resulted in originations. The aggregate received 21,701 HMDA reportable loan applications of which 2,120 or 9.8 percent were received from minority applicants and 1,352 or 63.8 percent were originated. For the same time period, the bank also received 15 or 3.0 percent of applications from ethnic groups of Hispanic origin within its assessment area of which 12 or 80.0 percent were originated versus the aggregate that received 1,447 applications or 6.7 percent of which 909 or 62.8 percent were originated.

The bank has responded to the difficulty in obtaining minority applications with significant forms of outreach, throughout the Greater Worcester area. In addition, the bank continues to monitor its minority application flow for new opportunities or strategies to improve. Considering the demographic composition of the assessment area, comparisons to aggregate data in 2017, and the bank's efforts in majority minority census tracts, the bank's minority application flow is adequate.

COMMUNITY DEVELOPMENT TEST

Cornerstone Bank demonstrated good responsiveness to the community development needs of its assessment area through community development loans, qualified investments, and community development services. Examiners considered the institution's capacity and the need and availability of such opportunities.

Community Development Loans

Cornerstone Bank originated 28 community development loans totaling approximately \$14.3 million during the evaluation period. This level of activity represents 2.1 percent of average total assets and 2.5 percent of average total loans since the prior CRA evaluation. Of the 28 community development loans, 17 totaling \$6.8 million qualified for economic development (primarily through the SBA 504 program), expanding employment in the assessment area or the broader regional area. These loans demonstrate the bank's responsiveness to this community development need identified by a community contact.

The bank's community development lending includes seven loans totaling \$2.2 million that do not directly benefit the assessment area. As the bank has been responsive to the community development needs of its assessment area, examiners considered these seven loans under the Community Development Test. The following table illustrates the bank's community development lending activity by year and purpose.

Community Development Loans												
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize Or Stabilize		Neighborhood Stabilization Projects		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
03/04/2014-12/31/2014	1	849	0	0	0	0	0	0	0	0	1	849
2015	4	4,123	0	0	2	713	0	0	0	0	6	4,836
2016	3	730	1	239	7	3,182	0	0	0	0	11	4,151
2017	0	0	0	0	6	1,599	0	0	0	0	6	1,599
YTD 2018	1	200	1	1,300	2	1,320	0	0	0	0	4	2,820
Totals	9	5,902	2	1,539	17	6,824	0	0	0	0	28	14,255

Source: Bank records

Below are notable examples of the bank's community development loans:

- In 2016, the bank made a loan for \$258,750.00 for the purchase of a six-unit rental property in Worcester. All six units will be rented out through the Housing Choice Voucher Program, which is mainly for very-low income families, the elderly and the disabled. Under the program, a voucher from the government for 70% of the monthly rent.
- In 2016, the bank made a loan for \$239,200 to a local organization that provides people with disabilities and their families the resources, services and opportunities to be contributing members of their communities and to achieve the most fulfilling and meaningful lives possible.

The proceeds from this loan were used to purchase a building for new office space as well as land for the companies 100+ vehicles used for transporting their clients.

- In 2015, the bank made a loan for \$750,000 for the refinance of a residential rental property. The property consists of 16 one and two-bedroom apartments. All 16 units are considered affordable housing as the current rents are below the HUD Fair Market Rents.
- In 2015, the bank originated two loans totaling \$3.0 million to refinance and renovate a waste water treatment facility for a mobile home park in the assessment area. The park is occupied primarily by low-income seniors, and has received Community Development Block Grants to further support renovations.
- The bank originated two loans totaling \$1.3 million to construct a facility for a small business in 2018. The loans were originated through the SBA 504 program, and automatically qualify for an economic development purpose.

Qualified Investments

Cornerstone Bank made 465 qualified investments totaling approximately \$4.2 million. This total includes qualified equity investments of approximately \$3.3 million and donations of \$889,034. This dollar amount of equity investments equates to 0.3 percent of average total assets and 6.1 percent of average investments since the merger in 2017.

The following table illustrates the bank's community development investments by year and purpose.

Qualified Investments										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize Or Stabilize		Totals	
	#	\$	#	\$	#	\$	#	\$	#	\$
Prior Period	1	83,748	0	0	1	218,894	0	0	2	302,642
03/04/2014-12/31/2014	7	44,250	71	137,282	1	175	0	0	79	181,707
2015	13	88,000	97	159,120	1	175	0	0	111	247,295
2016	8	13,100	108	168,870	2	2,675	0	0	118	184,245
2017	6	9,000	101	176,304	3	3,949	1	500	111	189,653
YTD 2018	5	10,000	43	57,275	2	3,000,000	1	500	51	3,067,775
Totals	40	163,850	420	696,051	10	3,225,868	2	1,000	472	4,173,317

Source: Bank records

Below are notable examples of the bank's qualified investment activities:

Equity Investments

- In 2018, the bank purchased two investments totaling \$3.0 million in Small Business Investment Company (SBIC) funds. This investment program increases access to capital

for small businesses, expanding economic development nationwide. Historically, SBIC activity covers a regional area including the assessment area.

- The bank maintained an investment in mortgage backed securities for low- and moderate income borrowers. Purchased prior to the evaluation period, the current book value of these securities amount to \$83,478.

Donations

- *Habitat For Humanity Metrowest/Greater Worcester* – Habitat for Humanity is an organization developing affordable housing for families in need. The organization also assists with veteran support and critical home repair. The target demographic of the organization are families earning no more than 60 percent of the median family income. Cornerstone’s multi-year donations provided important funding for fulfilling Habitat for Humanity’s mission.
- *Worcester Community Action Council* – The mission of this organization is to help individuals in Central Massachusetts move to economic self-sufficiency. The federally-designated community action agency provides emergency and social service programs, including heat assistance, High School Equivalency preparation, workforce development, and low-cost childcare. Cornerstone Bank provided donations to the organization over several years during the evaluation period.
- *United Way of Southbridge, Sturbridge, and Charlton* – The nonprofit organization pools fundraising and support for the purpose of helping those most in need. The goals include improving area health, education, and financial stability. The majority of organizations benefitted by the United Way’s efforts qualify for CRA, including Big Brothers Big Sisters, the Bridge of Central MA, Community Legal Aid, and Literacy Volunteers of South Central MA. The bank provided multiple donations to the organization.
- *Massachusetts Small Business Development Center* – The statewide organization’s primary mission is to assist start-up and existing business grow and improve. The organization provides counseling, loan assistance, and strategic analysis. The bank provided two donations to the program during the evaluation period.
- *YWCA of Central Massachusetts* – The YWCA promotes gender equality, racial justice, and economic empowerment. The organization provides childcare, advocacy for victims of domestic abuse, and temporary housing. The bank made a donation to the organization in 2017.

Community Development Services

During the evaluation period, bank employees provided 173 instances of financial expertise or technical assistance to 41 different community development-related organizations in the assessment area.

Below are notable examples of the bank's community development services:

Employee Involvement

- *Catholic Charities* – An Assistant Vice President of the bank serves an Advisory Committee member for Catholic Charities. Catholic Charities is committed to meeting the needs of the poor, the homeless and the infirm and to enhance the quality of life for all. Catholic Charities is committed to strengthening families and to serving individuals in need, regardless of race, ethnic, cultural or religious origins, ability to pay or mental, physical or developmental challenges.
- *Habitat For Humanity* – A Senior Vice President of the bank serves on the Board of Directors for Habitat for Humanity-MetroWest/Greater Worcester. Habitat for Humanity is a non-profit housing organization that works towards building strength, stability, and self-reliance in partnership with families in need of decent and affordable housing. Habitat homeowners help build their own homes alongside volunteers and pay an affordable mortgage.
- *South Middlesex Opportunity Council (SMOC)* – A Vice President of the bank serves on the Board of Directors for the SMOC as a representative for the Greater Worcester area. SMOC looks to improve the quality of life of low-income and disadvantaged individuals and families by advocating for their needs and rights, providing services, educating the community, building a community of support and participating in coalitions with other advocates and searching for new resources and partnerships. SMOC provides multiple services, including addiction services, SMOC fuel assistance, Section 8 Housing program and many others.
- *Volunteer Income Tax Assistance (VITA)* – A member of Senior Management of the bank is a certified tax preparer for the VITA program. This program offers free tax help to low-income individuals and limited English speaking taxpayers who need assistance in preparing their own tax returns. IRS certified volunteers provide free basic income tax return preparation with electronic filing qualified individuals.
- *Financial Abuse Specialist Team (FAST)* – A Vice President of the bank serves as a member of FAST. FAST was developed by a special commission created by the legislature to improve the Elder Protective Services Program in Massachusetts. FAST consists of financial and legal experts who volunteer their services to provide targeted guidance and consultation to Regional Protective Services workers on difficult financial exploitation cases and assist them in understanding account statements and transactions as well as financial products and legal instruments.

Financial Education and Support

The bank also provided educational workshops to local schools, serving a primary community development need within the assessment area. The workshops provided financial literacy covering multiple topics. A description of the workshops is listed below.

- *Neighborworks: First Time Homebuyers* – During the examination period, the bank participated in first time homebuyer seminars to help borrowers understand the financing process. These seminars were conducted in downtown Worcester over 8 times during the evaluation period.
- *Dollars for Scholars* – The bank partnered with the United Way of Greater Worcester to provide multiple sessions of their Dollars for Scholars program. The program teaches girls the importance of financial literacy.

Other Services

- *Interest on Lawyer's Trust Accounts (IOLTA)* – the bank participates in the Massachusetts IOLTA Program. Interest earned on IOLTA accounts is sent to be utilized to help fund improvements in the administration of justice and delivery of legal services to low-income clients. The low-income residents of Massachusetts who depend on IOLTA-funded legal assistance have pressing non-criminal legal needs that can sometime affect safety or survival itself. The bank's IOLTA program generated \$47,356 during the evaluation period.
- *Basic Banking* – the bank offers a low cost checking and saving product that meet the Basic Banking in Massachusetts guidelines set forth by the Massachusetts Community and Banking Council (MCBC). This state wide program is designed to offer low-cost checking and savings accounts to low- and moderate-income individuals.
- *Branch Locations* – Cornerstone Bank operates one branch and one ATM in a low-income census tract and four branches and ATMs in moderate-income census tracts of the assessment area. These branches and ATMs demonstrate the availability of banking services to low- and moderate-income individuals.

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 non-metropolitan 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. Census tract boundaries normally follow visible features, but they may follow governmental unit boundaries and other non-visible features in some instances. They always nest within counties. Census tracts average about 4,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogenous for population characteristics, economic status, and living conditions to allow for statistical comparisons.

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

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

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

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

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI

facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

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

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

Community Development Loan: A loan that

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

Community Development Service: A service that

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

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

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

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

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: Performance under the applicable tests is analyzed using only quantitative factors (for example, geographic loan distribution, borrower profile loan 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.

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

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

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

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

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

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

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

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

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

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

Non-metropolitan Area: All areas outside of metropolitan areas. The definition of non-metropolitan 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 non-metropolitan areas.

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

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

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

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

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

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

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

Underserved middle-income nonmetropolitan geographies: A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for

- Population size, density, and dispersion indicating the area’s population is sufficiently small, thin, and
- Distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

Upper-Income: Individual income that is 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.

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.