

# **PUBLIC DISCLOSURE**

January 14, 2019

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**WATERTOWN SAVINGS BANK**

Certificate Number: 23298

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Watertown, MA 02472

Division of Banks  
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Boston, Massachusetts 02118

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

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## INSTITUTION RATING

**INSTITUTION'S CRA RATING:** This institution is rated **High Satisfactory**. An institution in this group has a good 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.

Watertown Savings Bank's 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 reasonable given the institution's size, financial condition, and assessment area credit needs.
- The bank made a majority of its home mortgage loans in the assessment area.
- The geographic distribution of loans reflects good dispersion throughout the assessment area.
- The distribution of borrowers reflects excellent penetration of loans among individuals of different income levels.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the Lending Test rating.

### **The Community Development Test is rated High Satisfactory**

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

## **SCOPE OF EVALUATION**

### **General Information**

The evaluation covers the period from the prior evaluation dated September 26, 2016, to the current evaluation dated January 14, 2019. Examiners used the Interagency Intermediate Small Institution (ISI) Examination Procedures to evaluate Watertown Savings Bank's CRA performance. The procedures include two tests: the Lending Test and the Community Development Test. The evaluation references demographic and economic information from the 2010 United States (U.S.) Census, 2015 American Community Survey (ACS) Census, Warren Group Housing Statistics, and the U.S. Bureau of Labor Statistics (BLS). Bank financial data reflects the September 30, 2018 Consolidated Reports of Condition and Income (Call Report).

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

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.

### **Loan Products Reviewed**

The bank's portfolio remains weighted in residential real estate loans, including those secured by 1-4 family and multi-family properties at 87.8 percent. As a result, home mortgage lending performance was considered as part of this evaluation. Commercial, small farm loans, consumer, and other loan types were not considered due to the low volume of originations and the overall small percentage of the loan portfolio represented by these loan types.

Examiners evaluated home mortgage lending data from July 1, 2016 through December 31, 2017, on the bank's Home Mortgage Disclosure Act (HMDA) Loan Application Registers (LARs). The first two quarters of 2016 were considered during the prior evaluation period, and as such were omitted from this performance evaluation. The bank originated 95 home mortgage loans totaling \$35.1 million during the second half of 2016, and originated 196 loans totaling \$89.9 million in 2017. As 2017 is the only full year for which lending data was considered, performance in 2017 receives more weight than 2016.

Examiners considered the number and dollar volume of home mortgage loan originations; however, emphasis is placed on the number of loans as it provides a better overall indicator of the number of individuals served by the institution.

The bank's lending performance for 2017 was compared with aggregate lending data for all HMDA reporters and assessment area demographics. As a result, performance for the second half of 2016 was compared to 2016 aggregate data, demographic measures, and market share statistics.

The Community Development Test included an analysis of the bank's qualified investments, and community development services from September 26, 2016 through January 14, 2019. The bank did not submit any community development loans for review. For the purpose of this evaluation, a qualified investment is a lawful investment, deposit, donation, or grant that has community development as its primary purpose.

A community development service is a service that has community development as its primary purpose and is generally related to the provision of financial services or technical services or assistance.

## **DESCRIPTION OF INSTITUTION**

### **Background**

Watertown Savings Bank is a mutual savings bank founded in 1870 and headquartered in Watertown, Massachusetts. The bank operates in the eastern part of Massachusetts, in Middlesex County. The bank received an Outstanding rating at its previous CRA evaluation conducted by the Division, dated September 26, 2016, based on Interagency Intermediate Small Institution Examination Procedures.

### **Operations**

In addition to the main office located in Watertown, the bank operates nine full-service branches in Arlington, Belmont, Lexington, Waltham (2), and Watertown (4). One of the Waltham branches is located in a moderate-income level census tract. The remaining branches are all either located in upper- or middle-income census tracts. In addition, the bank operates two automated teller machines (ATMs), both located in Waltham, MA. The bank has neither opened nor closed any branches, and no merger or acquisition activities have occurred since the last examination.

Watertown Savings offers a wide variety of products and services to consumers and businesses. The bank offers loan products including home mortgage, commercial, and consumer loans, with a primary focus on residential lending.

Alternative banking services include online banking, mobile banking, electronic bill pay, mobile deposits, and ATMs.

### **Ability and Capacity**

Assets totaled approximately \$1.2 billion as of the September 30, 2018 quarterly call report, including total loans of approximately \$589 million and total deposits of approximately \$1.0 billion. Total assets increased by 2.9 percent since the previous evaluation. Residential loans, including multi-family loans, account for the largest portion of the loan portfolio at 87.8 percent. Collectively, loans secured by commercial real estate and commercial and industrial loans represent 8.4 percent of the loan portfolio. The loan portfolio is illustrated in the following table.

<b>Loan Portfolio Distribution as of 09/30/18</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction and Land Development	20,503	3.6
Secured by Farmland	0	0.0
1-4 Family Residential	510,121	86.5
Multi-family (5 or more) Residential	7,702	1.3
Commercial Real Estate	44,350	7.5
<b>Total Real Estate Loans</b>	<b>582,676</b>	<b>98.8</b>
Commercial and Industrial	5,024	0.9
Agricultural	0	0.0
Consumer	1,805	0.3
Other	31	0.0
Less: Unearned Income	41	0.0
<b>Total Loans</b>	<b>589,495</b>	<b>100.0</b>
<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 examiners will evaluate its CRA performance. Watertown Savings Bank designated its assessment area to include the municipalities of Arlington, Belmont, Lexington, Newton, Waltham, and Watertown. This assessment area is entirely within the Cambridge-Newton-Framingham, MA Metropolitan District (MA) (15764). The following sections discuss demographic and economic information for the assessment area.

### **Economic and Demographic Data**

The assessment area includes 59 census tracts in Middlesex County and includes the following tract income designation according to the 2015 American Community Survey (ACS) data:

- 3 moderate-income tracts
- 21 middle-income tracts, and
- 35 upper-income tracts.

Moderate-income tracts in 2017 are solely located in Waltham. In 2016, there were four moderate-income census tracts in Waltham, one in Newton, and one in Watertown. One of the bank's branches is located in a previously delineated moderate-income tract.

The bank's 2016 home mortgage lending performance was compared to 2010 U.S. Census demographic data, while 2017 home mortgage lending performance was compared to demographic data based on the 2015 estimates. The most relevant differences between 2016 and 2017 demographic information are as follows:

- The number of moderate-income census tracts decreased from 6 to 3;
- The number of middle-income census tracts decreased from 24 to 21;
- The number of upper-income census tracts increased from 29 to 35;
- The percentage of owner-occupied housing units in moderate-income census tracts decreased from 5.3 percent to 1.1 percent. The change can be attributed to the change in tract classification;
- The percentage of families below the poverty level increased from 3.8 percent to 4.0 percent.



Demographic information for the assessment area is displayed in the chart below.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	59	0.0	5.1	35.6	59.3	0.0
Population by Geography	285,628	0.0	3.4	38.3	58.3	0.0
Housing Units by Geography	115,557	0.0	4.0	40.7	55.4	0.0
Owner-Occupied Units by Geography	68,009	0.0	1.1	34.0	64.9	0.0
Occupied Rental Units by Geography	41,351	0.0	8.1	51.5	40.4	0.0
Vacant Units by Geography	6,197	0.0	7.8	41.9	50.3	0.0
Family Distribution by Income Level	69,132	15.4	12.9	17.1	54.6	0.0
Median Family Income MSA - 15764 Cambridge-Newton-Framingham, MA MD		\$100,380	Median Housing Value			\$590,582
Families Below Poverty Level		4.0%	Median Gross Rent			\$1,538

*Source: 2010 U.S. Census & 2015 ACS Census and 2017 D&B Data*  
 (\*) 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 criterion. The low-, moderate-, middle-, and upper-income categories are presented in the following table. These categories are based on the FFIEC-updated median family income of \$98,600 in 2016 and \$104,800 in 2017.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
<b>Cambridge-Newton-Framingham, MA MD Median Family Income (15764)</b>				
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*

The assessment area consists of 115,557 housing units with a median value of \$590,582. Of these, 58.9 percent are owner-occupied, 35.6 percent are occupied rental units, and 5.4 percent are vacant. According to Warren Group Housing, assessment area municipalities had an average median sales price of \$772,276 from 2016 – 2018. Waltham was the least expensive area, with an average median sales price of \$538,167, while Lexington had the most expensive sales price of \$965,333. Median home sales prices demonstrated a rising trend over the evaluation period, rising to an average median price of \$813,708 in 2018. These factors suggest an expensive housing area, which may present challenges for low- and moderate-income borrowers to obtain home purchase loans, particularly for families earning below \$52,400 per year.

### ***Competition***

There is a high level of competition for home mortgage loans among many banks, credit unions, and non-depository mortgage lenders in the assessment area. In 2016, 349 lenders reported 11,344 originated or purchased residential mortgage loans. Watertown Savings ranked 18<sup>th</sup> out of this group with a 1.4 percent market share. The competition level within the assessment area remained steady in 2017, 320 lenders originating or purchasing 7,528 residential mortgage loans. Watertown Savings ranked 17<sup>th</sup> with a 1.3 percent market share.

The assessment area is a competitive market for financial services. According to FDIC Deposit Market Share data as of June 30, 2018, 20 financial institutions operated 77 full-service branches within the assessment area. Of these institutions, Watertown Savings ranked 4<sup>th</sup> with a deposit market share of 9.2%.

### ***Community Contact***

As part of the evaluation process, examiners contact third parties active in the assessment area to help assess credit and community development needs. The information obtained helps to determine whether local financial institutions are responsive to these needs and what credit and community development opportunities, if any, are available.

Examiners contacted two organizations in the assessment area. Both contacts focus on affordable housing solutions for low- and moderate-income families. The contacts noted that there is a growing population of housing-insecure individuals experiencing difficulty obtaining satisfactory employment due to opportunity, age or health. Both contacts noted the difficulty of finding or developing affordable housing in the metro west area, due to significant investor competition for properties and land. For one contact, the most significant development project in the area occurred over five years ago; there have been no significant opportunities since.

In spite of the limited lending and investment opportunities, both contacts felt the involvement from local financial institutions is good. The contacts specifically mentioned Watertown as one of the most visible and responsive institutions in the area. In terms of improvement, both contacts suggested increased community development service. One contact noted that while financial literacy classes were good, ongoing financial coaching or mentoring appeared to be a model with more impact. The other contact mentioned that institutions could take steps to ensure that all consumers are aware of the fee-free checking services offered. This would be particularly helpful for the underbanked, or even vulnerable individuals that may be in accounts with fee structures that may not be advantageous.

### ***Credit and Community Development Needs and Opportunities***

Considering information from the community contacts, bank management, and demographic and economic data, examiners determined that loans for affordable housing represent a primary credit need for the assessment area. The real estate market in the area is competitive. As a result, real estate prices have continued to increase dramatically. Examiners also determined that community services for low- and moderate-income individuals, particularly with regards to financial education, represent a significant need in the assessment area.

## CONCLUSIONS ON PERFORMANCE CRITERIA

### LENDING TEST

Watertown Savings Bank demonstrated Good performance under the Lending Test. Geographic Distribution and Borrower Profile performance support this conclusion.

### Loan-to-Deposit Ratio

The LTD ratio is reasonable given the institution’s size, financial condition, and assessment area credit needs. The bank’s LTD ratio, calculated from Call Report data, averaged 55.9 percent over the past nine calendar quarters from September 30, 2016 to September 30, 2018. The ratio ranged from a low of 54.8 percent as of June 30, 2017 to a high of 57.6 percent as of June 30, 2018. The ratio remained relatively stable during the evaluation period. Examiners selected comparable institutions based on their asset size, geographic location, and lending focus.

<b>Loan-to-Deposit Ratio Comparison</b>		
<b>Institution</b>	<b>Total Assets as of 9/30/18 \$(000s)</b>	<b>Average LTD Ratio (%)</b>
Cambridge Trust Company	1,998,944	78.6
East Cambridge Savings Bank	1,042,746	92.3
<b>Watertown Savings Bank</b>	<b>1,163,817</b>	<b>55.9</b>
Wellesley Bank	835,964	110.3
<i>Source: Call Report data</i>		

As illustrated above, the bank has a lower LTD ratio compared to similarly situated institutions. In spite of the low ratio, the bank maintains a reasonable lending volume in the area as a top 20 lender in a market area with hundreds of institutions. Based on the above information and the bank’s capacity to lend, the capacity of other similarly situated banks, the types of loans offered by the bank, and the lending opportunities available, the bank’s LTD ratio is reasonable.

### Assessment Area Concentration

The bank made a majority of home mortgage loans, by number and dollar amount, within its assessment area. The average of the years under review is used to determine the percentage as shown below.

<b>Lending Inside and Outside of the Assessment Area</b>										
<b>Loan Category</b>	<b>Number of Loans</b>				<b>Total #</b>	<b>Dollar Amount of Loans \$(000s)</b>				<b>Total \$(000s)</b>
	<b>Inside</b>		<b>Outside</b>			<b>Inside</b>		<b>Outside</b>		
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
Q3-Q4 2016	67	70.5	28	29.5	95	24,717	70.4	10,377	29.6	35,094
2017	96	49.0	100	51.0	196	46,724	52.0	43,177	48.0	89,901
<b>Total</b>	<b>163</b>	<b>56.0</b>	<b>128</b>	<b>44.0</b>	<b>291</b>	<b>71,441</b>	<b>57.2</b>	<b>53,554</b>	<b>42.8</b>	<b>124,995</b>
<i>Source: Evaluation Period: 7/1/2016 - 12/31/2017 Bank Data</i>										

The bank's 2017 lending does not represent a majority of loans inside the assessment area. Discussions with bank management and further analysis attribute this performance to loans purchased outside of the assessment area. As mentioned in the previous criterion, the bank maintained a good market share within their assessment area, substantiating a strong presence in the assessment area.

### **Geographic Distribution**

The geographic distribution of loans reflects good dispersion throughout the assessment area. The bank's good performance of home mortgage lending supports this conclusion. Examiners focused on the percentage by number of loans in moderate-income census tracts in comparison to aggregate data.

In 2016, lending in moderate-income census tracts was significantly above aggregate performance and the percentage of owner-occupied units. Watertown Savings surpassed aggregate performance by 8.5 percentage points and was 9.6 percentage points ahead of the demographic comparator.

In 2017, lending in moderate-income census tracts was more comparable to the aggregate but still led the percentage of owner-occupied units. Watertown Savings trailed the aggregate by 0.2 percentage points and led the demographic comparator by 1.0 percentage points. The change in performance can largely be accounted for by the ACS survey's middle-income designation of some census tracts that had previously been considered moderate-income.

Market share data correlates with the bank's performance compared to the aggregate. In 2016, the bank ranked seventh out of 145 lenders in originating loans in moderate-income census tracts, with a 2.9 percent market share. This ranking was above the bank's 2016 overall market share. In 2017, the bank ranked 22<sup>nd</sup> out of 171 lenders in originating loans in moderate-income census tracts, with a 1.2 percent market share. This ranking was below the bank's 2017 overall market share.

The following table shows the bank's performance.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Moderate						
Q3-Q4 2016	5.3	6.4	10	14.9	2,877	11.6
2017	1.1	2.3	2	2.1	3,465	7.4
Middle						
Q3-Q4 2016	38.0	42.1	45	67.2	15,331	62.0
2017	34.0	34.9	69	71.9	26,882	57.5
Upper						
Q3-Q4 2016	56.6	51.6	12	17.9	6,509	26.3
2017	64.9	62.9	25	26.0	16,377	35.1
<b>Totals</b>						
Q3-Q4 2016	<b>100.0</b>	<b>100.0</b>	<b>67</b>	<b>100.0</b>	<b>24,717</b>	<b>100.0</b>
<b>2017</b>	<b>100.0</b>	<b>100.0</b>	<b>96</b>	<b>100.0</b>	<b>46,724</b>	<b>100.0</b>
<i>Source: 2010 U.S. Census &amp; 2015 ACS Census; 7/1/2016 - 12/31/2017 Bank Data, 2016 &amp; 2017 HMDA Aggregate Data, "--" data not available.</i>						

### **Borrower Profile**

The distribution of borrowers reflects excellent penetration among individuals of different income levels in the assessment area. The bank's excellent performance of home mortgage lending supports this conclusion. Examiners focused on the percentage by number of home mortgage loans to low- and moderate-income borrowers in comparison to aggregate data.

The bank's home mortgage lending to low-income borrowers substantially exceeded aggregate performance in both 2016 and 2017. The bank surpassed the aggregate by 15.0 percent in 2016 and by 5.2 percent in 2017. The bank's performance leads the demographic comparator by 0.8 percent in 2016 and trails it in 2017 by 8.1 percent.

The bank's home mortgage lending to moderate-income borrowers substantially exceeded the aggregate in both 2016 and 2017. The bank outperformed the aggregate by 9.2 percent in 2016 and by 9.8 percent in 2017. The bank also exceeded the demographic comparator in both 2016 and 2017, by 2.5 percent and 4.8 percent respectively. This performance is excellent considering the median housing price of \$590,582 is high and makes home ownership difficult for low- and moderate-income borrowers to qualify for a mortgage.

Market share data provides further support excellent performance. The bank consistently originated loans to low- and moderate-income borrowers at levels above its overall rank. In 2016, the bank ranked 1<sup>st</sup> in loans to low-income borrowers, with a market share of 11.6 percent. The

bank ranked 10<sup>th</sup> in loans to moderate-income borrowers in the same year, with a share of 2.6 percent. In 2017, the bank ranked 5<sup>th</sup> in loans to low-income borrowers with a market share of 4.3 percent. The bank had a rank of 9<sup>th</sup> in loans to moderate-income borrowers with a market share of 2.9 percent.

<b>Distribution of Home Mortgage Loans by Borrower Income Level</b>						
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>Low</b>						
2016	15.6	1.4	11	16.4	2,026	8.2
2017	15.4	2.1	7	7.3	2,039	4.4
<b>Moderate</b>						
2016	13.9	7.2	11	16.4	3,392	13.7
2017	12.9	7.9	17	17.7	4,868	10.4
<b>Middle</b>						
2016	18.6	17.6	16	23.9	4,341	17.6
2017	17.1	16.9	16	16.7	5,868	12.6
<b>Upper</b>						
2016	51.9	64.4	26	38.8	11,491	46.5
2017	54.6	62.8	45	46.9	24,586	52.6
<b>Not Available</b>						
2016	0.0	9.3	3	4.5	3,467	14.0
2017	0.0	10.3	11	11.5	9,363	20.0
<b>Totals</b>						
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>67</b>	<b>100.0</b>	<b>24,717</b>	<b>100.0</b>
<b>2017</b>	<b>100.0</b>	<b>100.0</b>	<b>96</b>	<b>100.0</b>	<b>46,724</b>	<b>100.0</b>
<i>Source: 2010 U.S. Census &amp; 2015 ACS Census; 7/1/2016 - 12/31/2017 Bank Data, 2016 &amp; 2017 HMDA Aggregate Data, "--" data not available.</i>						

### **Response to CRA-related 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**

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.

### Minority Application Flow

According to the 2015 ACS U.S. Census Data, in 2017 the bank's assessment area contained a total population of 285,628 individuals of which 26.2 percent are minorities. The assessment area's minority and ethnic population is 3.3 percent Black/African American, 13.0 percent Asian, 0.1 percent American Indian/Alaska Native, 0.0 percent Hawaiian/Pacific Islander, 7.1 percent Hispanic or Latino and 2.7 percent other.

The bank's level of lending was compared with aggregate lending performance levels for 2016 and 2017. 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.

<b>MINORITY APPLICATION FLOW</b>						
<b>RACE</b>	<b>Bank 2016 (Q3-Q4)</b>		<b>2016 Aggregate Data</b>	<b>Bank 2017</b>		<b>2017 Aggregate Data</b>
	<b>#</b>	<b>%</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>%</b>
American Indian/ Alaska Native	0	0.0	0.2	0	0.0	0.2
Asian	1	1.4	14.8	3	2.7	15.3
Black/ African American	0	0.0	0.8	1	0.9	1.4
Hawaiian/Pacific Islander	0	0.0	0.1	0	0.0	0.1
2 or more Minority	0	0.0	0.0	1	0.8	0.0
Joint Race (White/Minority)	2	2.8	2.5	1	0.9	2.8
<b>Total Minority</b>	<b>3</b>	<b>4.1</b>	<b>18.4</b>	<b>6</b>	<b>5.3</b>	<b>19.7</b>
White	65	89.0	62.0	90	80.4	58.3
Race Not Available	5	6.9	19.6	16	14.3	22.0
<b>Total</b>	<b>73</b>	<b>100.0</b>	<b>100.0</b>	<b>112</b>	<b>100.0</b>	<b>100.0</b>
<b>ETHNICITY</b>						
Hispanic or Latino	<b>0</b>	<b>0.0</b>	<b>1.8</b>	<b>0</b>	<b>0.0</b>	<b>2.3</b>
Joint (Hisp/Lat /Not Hisp/Lat)	<b>0</b>	<b>0.0</b>	<b>1.1</b>	<b>4</b>	<b>3.6</b>	<b>1.3</b>
Not Hispanic or Latino	67	91.8	77.7	91	81.3	75.1
Ethnicity Not Available	6	8.2	19.4	17	15.3	21.3
<b>Total</b>	<b>73</b>	<b>100.0</b>	<b>100.0</b>	<b>112</b>	<b>100.0</b>	<b>100.0</b>

In 2016, the bank received 73 HMDA reportable loan applications within its assessment area. Of these applications, 3 or 4.1 percent were received from racial minority applicants, of which 23 or 100.0 percent resulted in originations. The aggregate received 18.4 percent of applications from racial minority applicants and originated 76.4 percent. The bank received no 2016 applications from ethnic minority applicants within its assessment area percent versus the aggregate ethnic minority application flow of 2.9 percent.

In 2017, the bank received 112 HMDA reportable loan applications within its assessment area. Of these applications, 6, or 5.3 percent, were received from racial minority applicants, of which 4 or 66.7 percent resulted in originations. The aggregate received 19.8 percent of its applications from racial minority applicants and originated 76.3 percent. For the same year, the bank also received 4 or 3.6 percent of applications from ethnic minority consumers within its assessment area, all of which were originated. This compares favorably to the aggregate ethnic minority application flow of 3.6 percent and an origination rate of 64.4 percent.

Application flow for racial and ethnic minorities in 2016 and 2017 trended below aggregate data, specifically in Asian applicants. The bank exhibited signs of improvement among ethnic minority applicants in 2017. The bank has exhibited a commitment to monitoring its lending trends to better ensure that individuals of all backgrounds feel welcome to apply for credit. It was noted that the community organizations contacted expressed similar difficulty reaching out to the Asian demographic in the area. Additionally, examiners considered the concentration of Asian market share among large national banks and mortgage companies. Due to the bank’s current fair lending controls, and the competitive market for racial minority applicants, the bank’s minority application flow is adequate.

### **COMMUNITY DEVELOPMENT TEST**

Watertown Savings Bank demonstrated good responsiveness to the assessment area’s community development needs through community development investments and services. The bank was recognized by community contacts as responsive in meeting the needs of its community, exemplified by services initiated during the evaluation period and investments that still have a strong impact today. Examiners also considered the institution’s capacity and the need and availability of such opportunities

### **Qualified Investments**

Watertown Savings Bank made 190 qualified investments totaling approximately \$52.2 million, approximately 4.5 percent of average total assets since the last evaluation. Affordable housing represented the primary investment by dollar amount, while community services to low- and moderate-income individuals represented the greatest number of donations. The following table details qualified investments by year and purpose.

<b>Qualified Investments</b>										
<b>Activity Year</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize Or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
Prior Period	57	21,262,419			21	7,480,372			<b>78</b>	<b>28,742,791</b>
9/26/2016-12/31/16	2	4,076,533	7	7,300	1	864,894			<b>10</b>	<b>4,948,727</b>
2017	11	10,036,515	45	76,664	5	3,134,546	2	6,789	<b>63</b>	<b>13,254,514</b>
2018	7	5,046,938	32	172,385					<b>39</b>	<b>5,219,323</b>
<b>Totals</b>	<b>77</b>	<b>40,422,405</b>	<b>84</b>	<b>256,349</b>	<b>27</b>	<b>11,479,812</b>	<b>2</b>	<b>6,789</b>	<b>190</b>	<b>52,165,355</b>

Source: Bank records



### ***Equity and Security Investments***

The bank committed approximately \$51.9 million in the form of security investments. One security investment was for the 2013 rehabilitation of a Watertown affordable housing project. While this was a prior period investment, a recent community contact identified this as a project that still has a significant impact on the affordable housing stock in Watertown. The current book value of the investment totaled \$415,000.

The remaining \$51.5 million in security investments were Ginnie Mae and SBA Securities. Ginnie Mae Securities are geared to expand affordable housing markets through FHA, HUD, and Community Facilities projects. SBA Securities expand economic development by financing small businesses as defined by the Small Business Administration. While these were nationwide investments, both vehicles impacted the regional area including the assessment area. Approximately \$28.3 million in securities were from prior evaluation periods, while \$23.1 million was originated during the current evaluation period.

### ***Donations and Grants***

Additional qualified investments occurred in the form of grants to local organizations, totaling \$289,288. The following are examples of organizations that received qualified donations through the bank during the evaluation period.

- **MetroWest Collaborative Development, Inc.** – This Newton-based community development organization advocates and develops affordable housing in the area. The organization provides services for low-income individuals, whether they are prospective homeowners or renters. The aim is to build support for Community Development through with partners and constituents. The bank made a donation to this organization in 2017.
- **St. Patrick: SVDP Food Pantry** – This Watertown non-profit provides food for individuals in need. The bank made annual donations to the organization in 2017 and 2018 as part of their “Customer Choice” philanthropic initiative.
- **American Red Cross: Hurricane Harvey** – Declared a national emergency in August of 2017, the Red Cross responded to the needs of the disaster area in Texas. The bank utilized an employee match program and donated to the Red Cross to support their revitalization efforts in 2017.
- **REACH Beyond Domestic Violence** - REACH is a non-profit organization focused on addressing domestic violence through both intervention and prevention services. REACH is located in Waltham. REACH received donations from the bank in 2017 and 2018.
- **More than Words** – A nonprofit social enterprise, the organization focuses on building skills of the most vulnerable youth in the Greater Boston area. This includes the homeless, court-involved, or foster care recipients. These individuals are given employment in the

bookselling business, and are provided with workforce development skill through workshops, site visits and mentoring. The bank made donations to this organization in 2017 and 2018.

- **Chesterbrook Community Foundation, Inc.** - The foundation provides mentoring, academic support, and after-school and evening programs to children and teens living in public housing in Waltham. The bank made donations to the foundation in 2017 and 2018.
- **Boys and Girls Clubs** – Multiple Boys and Girls clubs in the area (Newton, Waltham, and Watertown) focus on providing academic and enrichment support services for low- and moderate-income youth. The bank made multiple donations to these qualified organizations in 2016, 2017, and 2018, providing essential funds.

### **Community Development Services**

During the evaluation period, bank employees provided 54 instances of financial expertise or technical assistance to 18 different community development-related organizations in the assessment area.

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

#### ***Employee Involvement***

Employees have used their time and ability on behalf of the bank in service of local community organizations. These efforts all aligned with employee areas of technical expertise. The following are notable examples of individual employee services:

- **Brigham House** - An Assistant Vice President and an Assistant Branch Manager provide serve as periodic personal bankers to the residents of the Brigham House. The Brigham House is an assisted living facility primarily occupied by low- and moderate income individuals. The bank volunteers provide monthly basic banking services and in special cases offer specialized financial assistance.
- **Springwell Money Management** - A Vice President and Branch Manager of the bank serves on the Board. The goal of the Springwell Money Management program is to assist vulnerable low-income seniors with financial management tasks, including paying bills, budgeting and acting as a financial representative. In addition to advisory role on the Board, the bank employee also provides training for the Springwell volunteers regarding online banking and helps establish their financial representative status in some cases.
- **The Marshall Home Fund** - A Bank Vice President of Marketing served as Co-President of the organization during the evaluation period. This fund is committed to assisting those in need to receive the health, housing, and other essential services that they require to maintain their safety and comfort. This organization works cooperatively with other social service

agencies, local and state government officials, and the community at large to support the elderly to the best of its ability.

- **Watertown Housing Partnership** - The Watertown Housing Partnership is responsible for overseeing the development and preservation of affordable housing in the municipality. Services include oversight of the town zoning provisions, affordable housing advocacy, and administering public funds delegated for housing. A Senior Vice President of the Bank serves as a Board Member of the organization.
- **Watertown Boys and Girls Club** – This organization provides academic support and enrichment for young people in need. The majority of individuals who attend the Watertown Boys and Girls Club come from low- and moderate-income families. The President of the Bank serves on the Board of the Watertown Boys and Girls Club.
- **Friends of Waltham Seniors** - A Community Relations Vice President of the bank serves as a clerk on the Board of the organization. The organization aims to support low-income seniors with essentials, including, furniture, meals, and fuel and heating assistance.

### ***Financial Education and Support***

The bank also provided educational workshops to local organizations, 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.

- **Waltham Alliance for Teaching, Community Organizing, and Housing (WATCH)** – A community development corporation centered on empowerment of vulnerable individuals, WATCH aims to expand affordable housing and services for those most in need. During the examination period, the bank collaborated with the organization and provided lending staff for the First Time Homebuyer Class. The lending staff detailed the mortgage application process for low-income individuals pursuing affordable housing.
- **Housing Corporation of Arlington** – The Housing Corporation of Arlington aims to meet the needs of low- and moderate-income residents. Four bank employees conducted two financial workshops on site for clientele from 2017 to 2018. The workshop covered financial topics including, managing credit, budgeting, and fraud prevention.
- **Opportunities for Inclusion** – This organization provides individuals with intellectual and developmental disabilities with the tools, skills and resources to become as self-sufficient as possible. The Chief Financial Officer provided five workshops during the evaluation period. The workshop encouraged basic budgeting and banking skills.

### ***Other Services***

- **Branch Collections** - During the evaluation period, the bank utilized its branch network as collection points for broader charitable endeavors. As a result of the bank’s efforts, customers were able to contribute to initiatives, including Coats for Kids and More than Words. In

addition to collecting the goods, bank staff also organized and distributed the collected items to the proper organizations.

- **Interest on Lawyer's Trust Accounts (IOLTA)** - The bank participated in the program during the evaluation period. 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 \$7,492 during the evaluation period.
- **Free Checking Account** - The bank offers a low cost checking account product that meet the Basic Banking in Massachusetts guidelines set forth by the Massachusetts Community and Banking Council (MCBC). This statewide program is designed to offer low-cost checking and savings accounts to low- and moderate-income individuals.
- **Branch Location** - Watertown Savings Bank operated two branches 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 nonmetropolitan median family income, if a person or geography is located outside an MSA.

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

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

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

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

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

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

**Community Development Financial Institutions (CDFIs):** CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to

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

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

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

**Community Development Loan:** A loan that

- (1) Has as its primary purpose community development; and
- (2) Except in the case of a wholesale or limited purpose bank:
  - (i) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a 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.

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

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

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or

- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

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

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

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

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

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

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

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

**Home Mortgage Loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multi-family (five or more families) dwelling loans, loans to purchase manufactured homes, and refinancing of home improvement and home purchase loans.

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

**Small Business Investment Company (SBIC):** SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of

the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

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

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

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

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

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

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

## PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 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 60 Main Street Watertown, MA 02472."

- 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.