

# **PUBLIC DISCLOSURE**

**November 8, 1999**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Newton South Co-operative Bank  
26485**

**411 Watertown Street  
Newton, Massachusetts 02458**

**Federal Deposit Insurance Corporation**

**15 Braintree Hill Office Park  
Braintree, Massachusetts 02184**

**NOTE:** 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**

I. General Information ..... 3

II. Institution Rating..... 3

III. Description of Institution..... 4

IV. Description of Assessment Area ..... 5

V. Conclusions..... 6

## GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Newton South Co-operative Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **November 8, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

## INSTITUTION RATING

**INSTITUTION'S CRA RATING:** Newton South Co-operative Bank is rated Outstanding. This rating is based on the following factors:

- The average loan-to-deposit ratio of 97 percent indicates a substantial level of reinvesting deposits into loans.
- The bank has an excellent penetration of residential lending to borrowers of different incomes, with 5 percent of loans to low-income borrowers and 7 percent of loans to moderate-income borrowers.
- The bank's geographic distribution of loans is outstanding, taking into consideration housing characteristics and aggregate performance.
- A majority of loans were originated inside the assessment area, with 60 percent by number and 59 percent by dollar amount within the assessment area.
- No consumer complaints were filed related to the bank's efforts to meet the credit needs of the assessment area.
- Qualified investments and services are satisfactory, but do not contribute to or detract from an already outstanding rating based on the bank's lending performance.

Refer to the following pages for additional detail about the bank's CRA performance.

## DESCRIPTION OF INSTITUTION

Newton South Co-operative Bank (NSCB) is a \$86 million mutually owned bank. The bank's main office is located in the Nonantum section of the city at 411 Watertown Street, Newton, Massachusetts. In addition to its main office, the bank operates one full-service retail branch office located in the Newton Highlands section of the city at 56 Winchester Street in Newton. Although the bank currently does not offer automated teller machines (ATMs), one ATM is currently in the process of being installed at the main office and will be linked to Cirrus and NYCE networks.

NSCB's principal business is attracting deposits from the general public and investing these funds in home mortgages. As of September 30, 1999, the loan portfolio represented \$76 million or 88 percent of total assets. Below is the composition of the loan portfolio according to the bank's September 30, 1999 Call Report.

<u>Loan Type</u>	<u>Amount (000's)</u>	<u>Percent of Gross Loans</u>
Secured by 1-to-4 family residential (includes revolving, open-end loans)	\$54,517	71.6%
Secured by commercial real estate*	9,559	12.5%
Secured by multi-family residential	4,262	5.6%
Construction and land development	3,659	4.8%
Commercial loans	2,201	2.9%
Consumer and other loans	<u>1,985</u>	<u>2.6%</u>
Gross Loans	\$76,183	100.0%

*\*Includes loans secured by farmland and non-farm non-residential properties, as classified by the bank.*

As indicated above, the bank's primary lending focus is residential lending, as loans secured by residential properties (including multi-family and home equity loans) account for approximately 77 percent of the loan portfolio. The composition of the loan portfolio has remained relatively the same since the previous evaluation in 1996, with a slight increase in commercial loans, and a slight decrease in multi-family residential lending.

Information obtained from the Tactician CRA Analyzer revealed 232 different entities making HMDA-reportable loans (defined as loans to purchase, refinance, or improve residential real estate) within the assessment area in 1998. NSCB is ranked 28th with a just over one percent of the total market share for HMDA-reportable loans. Many large regional and national institutions compete in this market and are among the leading volume lenders in the assessment area.

There are no financial or legal impediments that limit the bank's ability to help meet the credit needs of its assessment area. Previous CRA Examinations conducted by the FDIC on July 17, 1996, and by the Commonwealth of Massachusetts Division of Banks on February 17, 1998, rated the bank's performance as Outstanding.

## DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area is comprised of the City of Newton, Massachusetts, which is located in Middlesex County and within the Boston Metropolitan Primary Statistical Area (MSA). Newton is located six miles west of Downtown Boston, and is convenient to Boston by way of the Massachusetts Turnpike and the Commuter Railway and rapid transit, both operated by the Metropolitan Boston Transit Authority. Newton also has convenient access to other communities via Interstate Route 95/128, where many high-technology firms are located. Due to the convenient location, Newton is an attractive residential community for people working in Downtown Boston and other communities along Route 95/128. The bank's main office is located in the Nonantum neighborhood of Newton, in which a significant number of family-owned small businesses are located.

### 1990 Census Statistics

The assessment area is comprised of 18 census tracts, including no low- or moderate-income census tracts, 4 middle-income census tracts, and 14 upper-income census tracts. According to 1990 census information, the median family income (MFI) for the assessment area is \$70,830, which is significantly higher than the Boston MSA MFI of \$48,749 and the Massachusetts MFI of \$44,367. The MFI for the Boston MSA is estimated by the Department of Housing and Urban Development (HUD) at \$59,600 in 1997, \$60,000 in 1998, and \$62,700 in 1999.

HUD defines low-income households as those having incomes of less than 50 percent of the MSA MFI; moderate-income households have at least 50 percent but less than 80 percent; middle-income households having at least 80 percent but less than 120 percent; and upper-income households having 120 percent or higher. There are 229,369 households in the assessment area, of which 14 percent are low-income, 10 percent are moderate-income, 16 percent are middle-income, and 60 percent are upper-income. There are 30,497 housing units in the assessment area, of which 20,297 or 67 percent are owner-occupied. Housing units are comprised of 57 percent single family residential units, 30 percent 2-4 family residential dwellings, and 13 percent multifamily units.

### Residential Real Estate Trends

Newton's desirable location and reputable education system drive high demand for its residential real estate. As a result, home prices in Newton are generally affordable only to affluent families. According to 1990 Census statistics, the median value of a home in the assessment area was \$290,361. More recent information compiled by *Banker & Tradesman*, indicates that housing prices have risen in the assessment area. The median price of a home in Newton was \$350,000 in 1998 and \$371,000 through August of 1999. This price range indicates that the housing throughout the assessment area is not necessarily affordable to low- and moderate-income families, who have incomes up to \$48,000 in 1998 and \$50,160 in 1999.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Performance criteria are reviewed to determine the level of commitment to the CRA. Factors include the loan-to-deposit ratio, lending to borrowers of different incomes within the assessment area, the geographic distribution of loans within the assessment area, the concentration of loans originated within the assessment, and consumer complaints. Qualified investments and services were also reviewed. In addition, a fair lending review for discrimination or other illegal credit practices is conducted to determine the bank's adherence to various consumer protection laws and regulations.

The lending performance is primarily based on the bank's residential loans as reported on the Home Mortgage Disclosure Act (HMDA) Loan Application Register (LAR) in 1997, 1998, and year-to-date 1999 (YTD 1999) through October 31, 1999. The HMDA-reportable data includes loans for the purpose of purchasing, refinancing, or improving residential property. In addition, commercial loans (both lines-of-credit and installment loans) are included in the analysis of the bank's performance. Although commercial loans do not represent a large portion of the loan portfolio, these loans represent a growing area of business for the bank. The commercial loan data was compiled by the bank and provided to the examiners during the examination (*Note: the information only includes data for installment loans that have balances as of the examination date; installment loans that may have been previously extended, but have since paid off are not included*).

### Loan-to-Deposit Ratio

NSCB's average loan-to-deposit (LTD) ratio exceeds standards for satisfactory performance. The quarterly average LTD ratio since June 17, 1996, is 97 percent. This ratio indicates that nearly all deposits are reinvested in the funding of loans. This ratio is higher than other similar institutions that originate loans in the assessment area; one other institution headquartered in Newton has an average loan-to-deposit ratio over the same time period of 87 percent. The Massachusetts Host-State Loan-to-Deposit Ratio compiled by the FDIC and the Office of the Comptroller of the Currency (OCC) is listed as 84 percent in 1998.

The bank's LTD ratio has increased steadily over the last three years. As of September 30, 1999, the ratio was 105 percent, up from 84 percent as of June 30, 1996. This increase is mainly due to the bank's focus on expanding loan products to existing customers and a commitment to keep all or most home mortgages in the bank's portfolio. In addition, the bank hired a full-time commercial loan officer and introduced commercial lines-of-credit as a new product available for business customers.

Taking into consideration the bank's competition for residential loans, the LTD ratios of other area institutions, and the level and trend of bank's LTD ratio, NSCB exceeds the standards for satisfactory performance.

## Lending to Borrowers of Different Incomes and Businesses of Different Sizes

### Residential Loans

NSCB has achieved an excellent lending penetration among borrowers of different incomes. The following tables reflect loans originated to each income category based on the bank's HMDA LAR from 1997, 1998, and YTD 1999, by number and dollar amount. For comparison purposes, the tables include the aggregate distribution of all HMDA reportable loans in the assessment area in 1997 and 1998.

<i>Distribution of HMDA Loans by Borrower Income</i>											
<i>Median Family Income Level</i>	<i>% Total House-holds</i>	<i>Aggregate Lending Data (% of #)</i>		<i>1997</i>		<i>1998</i>		<i>1999 Year to Date</i>		<i>Total</i>	
		<i>1997</i>	<i>1998</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
<i>Low</i>	14%	2%	1%	2	5%	3	7%	1	3%	6	5%
<i>Moderate</i>	10%	5%	5%	3	8%	1	2%	4	10%	8	7%
<i>Middle</i>	16%	15%	15%	11	30%	11	24%	15	38%	37	30%
<i>Upper</i>	60%	78%	79%	21	57%	31	67%	19	49%	71	58%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>37</b>	<b>100%</b>	<b>46</b>	<b>100%</b>	<b>39</b>	<b>100%</b>	<b>122</b>	<b>100%</b>

Source: U.S. Census, Tactician CRA Analyzer HMDA Aggregate Data, and HMDA LAR.

Note: figures above do not include loans originated for which income was reported as "NA" on the HMDA LAR.

<i>Distribution of HMDA Loans by Borrower Income</i>											
<i>Median Family Income Level</i>	<i>% Total House-holds</i>	<i>Aggregate Lending Data (% of \$)</i>		<i>1997</i>		<i>1998</i>		<i>1999 Year to Date</i>		<i>Total</i>	
		<i>1997</i>	<i>1998</i>	<i>\$ (000s)</i>	<i>%</i>	<i>\$ (000s)</i>	<i>%</i>	<i>\$ (000s)</i>	<i>%</i>	<i>\$ (000s)</i>	<i>%</i>
<i>Low</i>	14%	1%	1%	118	2%	195	2%	50	1%	363	2%
<i>Moderate</i>	10%	2%	2%	293	5%	75	1%	599	7%	967	4%
<i>Middle</i>	16%	10%	10%	1,813	34%	1,729	21%	2,756	32%	6,298	28%
<i>Upper</i>	60%	87%	87%	3,203	59%	6,209	76%	5,320	61%	14,732	66%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>5,427</b>	<b>100%</b>	<b>8,208</b>	<b>100%</b>	<b>8,725</b>	<b>100%</b>	<b>22,360</b>	<b>100%</b>

Source: U.S. Census, Tactician CRA Analyzer HMDA Aggregate Data, and HMDA LAR.

Note: figures above do not include loans originated for which income was reported as "NA" on the HMDA LAR.

## **Lending to Borrowers of Different Incomes and Businesses of Different Sizes (Continued)**

### ***Residential Loans (Continued)***

Although the actual number of loans originated by the bank is not necessarily significant, the bank's percentage of lending to low-income borrowers in 1997 and 1998 is much higher than aggregate performance by both number and dollar amount. The bank's percentage of lending to moderate-income borrowers is higher than aggregate in 1997, but lower in 1998. Overall, the bank originated 11 percent of all its loans to low- and moderate-income borrowers, compared to just over 6 percent for the aggregate. This is representative of the bank's commitment to serving the needs of low- and moderate-income borrowers.

When comparing the bank's performance with demographics of the assessment area, the bank's level of lending to low- and moderate-income borrowers appears low. As previously stated, approximately 14 percent of households in the assessment area are low-income, and 10 percent are moderate-income. However, taking into account the high cost of housing in Newton, prices are not necessarily affordable to low- or moderate-income households. NSCB originated 5 loans to low-income borrowers between 1997 and 1998, which represents five percent of the 99 loans in total loans originated to low-income borrowers in 1997 and 1998. Considering the bank's overall market share of just over one percent, this relatively high share of low-income borrowers is commendable.

### ***Business Loans***

During 1997, 1998, and YTD 1999, the bank originated 35 commercial loans totaling \$1,040,000 and 19 lines-of-credit totaling \$825,000 within the assessment area. All of these loans were for amounts less than or equal to \$100,000, with the exception of one commercial loan for \$110,000 and one line-of-credit for \$250,000. Further analysis of the information indicates that most of the installment loans and lines-of-credit are for amounts less than \$50,000. According to management, all of the loans were to small businesses with less than \$1 million in gross annual revenue with the exception of the \$250,000 line-of-credit. This data clearly illustrates the bank's commitment to serving the lending needs of small businesses in the assessment area.

### ***Overall Performance***

Considering the bank's percentage of residential lending to borrowers of low- and moderate-income, and comparison to aggregate data and census information, the bank's distribution of loans by borrower income level is outstanding. This rating is further strengthened by the bank's record of lending to small businesses.

## Geographic Distribution of Loans

### *Residential Loans*

NSCB has achieved an excellent dispersion of loans within the assessment area. Although the assessment area does not contain any low- or moderate-income census tracts, the bank does a majority of lending within the three middle-income census tracts located near the main office. The dispersion of residential loans is presented in the following tables by number and dollar amount. For comparison purposes, the tables also detail the aggregate distribution of 1997 and 1998 HMDA loans.

<i>Distribution of HMDA Loans by Income Category of the Census Tract</i>											
<i>Census Tract Income Level</i>	<i>% Total Housing Units</i>	<i>Aggregate Lending Data (% of #)</i>		<i>1997</i>		<i>1998</i>		<i>1999 Year to Date</i>		<i>Total</i>	
		<i>1997</i>	<i>1998</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
<i>Middle</i>	25%	23%	23%	25	66%	28	60%	19	49%	72	58%
<i>Upper</i>	75%	77%	77%	13	34%	19	40%	20	51%	52	42%
<i>Total</i>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>38</b>	<b>100%</b>	<b>47</b>	<b>100%</b>	<b>39</b>	<b>100%</b>	<b>124</b>	<b>100%</b>

*Source: U.S. Census, Tactician CRA Analyzer HMDA Aggregate Data, and HMDA LAR.*

<i>Distribution of HMDA Loans by Income Category of the Census Tract</i>											
<i>Census Tract Income Level</i>	<i>% Total Housing Units</i>	<i>Aggregate Lending Data (% of \$)</i>		<i>1997</i>		<i>1998</i>		<i>1999 Year to Date</i>		<i>Total</i>	
		<i>1997</i>	<i>1998</i>	<i>\$ (000s)</i>	<i>%</i>	<i>\$ (000s)</i>	<i>%</i>	<i>\$ (000s)</i>	<i>%</i>	<i>\$ (000s)</i>	<i>%</i>
<i>Middle</i>	25%	16%	19%	3,302	59%	4,809	55%	3,694	42%	11,805	51%
<i>Upper</i>	75%	84%	81%	2,271	41%	3,889	45%	5,031	58%	11,191	49%
<i>Total</i>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>5,573</b>	<b>100%</b>	<b>8,698</b>	<b>100%</b>	<b>8,725</b>	<b>100%</b>	<b>22,996</b>	<b>100%</b>

*Source: U.S. Census, Tactician CRA Analyzer HMDA Aggregate Data, and HMDA LAR.*

As illustrated by the previous tables, the bank's 1997 and 1998 distribution of loans by number and dollar amount within the middle-income census tracts is significantly higher than aggregate. The aggregate data suggests that lenders are focusing on more affluent areas of Newton, while NSCB is focusing on the lending needs of the immediate neighborhood, which contains a larger portion of affordable homes.

## **Geographic Distribution of Loans (Continued)**

### ***Residential Loans (Continued)***

Comparison of the bank's performance during the three periods to the distribution of housing further reveals an outstanding level of lending to the middle-income areas. Approximately 25 percent of all housing units (including rental housing) and 19 percent of owner-occupied housing units are located within middle-income census tracts, compared to the bank's 60 percent of loans in these areas.

### ***Business Loans***

The bank also had an outstanding distribution of commercial loans. Many of the small business loans and lines-of-credit were extended to small businesses located in middle-income areas. As previously discussed in the description of the assessment area, many small businesses are located in the Nonantum neighborhood of Newton, which includes two of the middle-income census tracts. These businesses provide valuable retail services to their neighborhoods. Of the 35 commercial installment loans originated for the period reviewed, 16 loans for a total of \$429,000 were originated to small businesses in middle income areas, which represents 46 percent of the number and 41 percent of the dollar volume of all commercial installment loans. Of the 18 lines-of-credit credit to small businesses, 6 lines for a total of \$225,000 are to businesses in middle income census tracts, which represents 33 percent of the number and 39 percent of the dollar volume of all lines-of-credit.

### ***Overall Performance***

Considering the comparisons to aggregate HMDA lending and the distribution of housing in the assessment area, the bank's has achieved an outstanding geographic distribution of loans. The bank's dispersion of small business loans further demonstrates the bank's commitment to lend throughout the entire assessment area.

### **Lending In Assessment Area**

NSCB meets the standards for satisfactory performance under the assessment area concentration criteria. The table on the following page displays the lending performance for loans from the bank's HMDA LAR for 1997, 1998, and YTD 1999, as well as small business loans, by number and dollar amount.

## Lending in the Assessment Area (Continued)

<i>Distribution of Loans Inside and Outside of the Assessment Area</i>								
<i>Loan Type</i>	<i>Number of Loans</i>				<i>Dollars in Loans (000s)</i>			
	<i>Inside</i>		<i>Outside</i>		<i>Inside</i>		<i>Outside</i>	
	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>
<i>Home Mortgage</i>								
1997	38	54%	32	46%	5,573	46%	6,556	54%
1998	47	60%	31	40%	8,698	64%	4,955	36%
YTD 1999	39	58%	28	42%	8,725	65%	4,672	35%
<b><i>Subtotal</i></b>	<b><i>124</i></b>	<b><i>58%</i></b>	<b><i>91</i></b>	<b><i>42%</i></b>	<b><i>22,996</i></b>	<b><i>59%</i></b>	<b><i>16,183</i></b>	<b><i>41%</i></b>
<i>Small Business</i>								
<i>Installment</i>	35	64%	20	36%	1,040	70%	447	30%
<i>Lines-of-Credit</i>	18	72%	7	28%	575	67%	279	33%
<b><i>Subtotal</i></b>	<b><i>53</i></b>	<b><i>66%</i></b>	<b><i>27</i></b>	<b><i>34%</i></b>	<b><i>1,615</i></b>	<b><i>69%</i></b>	<b><i>726</i></b>	<b><i>31%</i></b>
<b><i>Total</i></b>	<b><i>177</i></b>	<b><i>60%</i></b>	<b><i>118</i></b>	<b><i>40%</i></b>	<b><i>24,611</i></b>	<b><i>59%</i></b>	<b><i>16,909</i></b>	<b><i>41%</i></b>

*Source: U.S. Census, Tactician CRA Analyzer HMDA Aggregate Data, HMDA LAR, and Bank-provided Data*

As the table indicates, a majority of loans by number and dollar amount were originated inside the assessment area throughout the period reviewed. Although not a significant majority, the concentration of loans within the assessment area meets the standards for satisfactory performance.

### Response to Complaints

NSCB has not received any complaints regarding its performance in meeting assessment area credit needs since the prior evaluation.

### Qualified Investments and Services

A review of qualified investments and services was conducted. Investments and services are at a satisfactory level, but do not contribute to or detract from an already “Outstanding” rating.

#### *Qualified Investments*

A review of the bank’s investment holdings and charitable contributions revealed two organizations that receive charitable contributions that qualify for CRA purposes. The two organizations include:

## **Qualified Investments and Services (Continued)**

### ***Qualified Investments (Continued)***

- Each year, the bank donates \$500 to Consumer Credit Counseling, an organization founded to help individuals deal with credit issues or problems.
- The bank pledged \$25,000 toward a capital drive for the John M. Barry Boys & Girls Club in Newton, which is in process of being constructed. To date, the bank has contributed \$14,000 to this organization.

These contributions represent 0.44 percent, 0.03 percent, and 0.50 percent of pre-tax net operating income in 1997, 1998, and YTD 1999, respectively.

### ***Qualified Services***

The bank offers the following services to better meet the needs of the community.

- An officer of the bank serves on the Board of Directors for the John M. Barry Boys & Girls Club in Newton. This officer currently serves on the Building and Finance Committee for the club, which provides the organization with this officer's expertise on lending and financing.
- City of Newton employees are allowed to cash their paychecks at the bank regardless of whether they are customers of the bank.
- The bank offers "Basic Checking" accounts, which feature low-costs and conforms to Commonwealth parameters and provides banking service access to low- and moderate-income households.
- The bank has held several homebuyer seminars, which included information to potential buyers about the loan application process, as well as other issues related to the home purchase process.
- The bank has held seminars for small businesses, which provided information to existing and potential customers about business loan and deposit services available at the bank.
- The bank offers hours of operation that are comparable to other institutions in the area, and also includes extended hours on Friday when the bank is open from 8:30 a.m. to 6:00 p.m.

## **Qualified Investments and Services (Continued)**

### ***Qualified Services (Continued)***

- The bank has installed an ATM at its main office, but as of the date of this evaluation, was not activated. The ATM will be part of the SUM network, which enables non-NSCB customers to use the bank's ATM without a surcharge. The ATM will also be on the NYCE and Cirrus ATM networks, as well as the MasterCard and American Express cash advance networks.

In addition to these services, the bank will begin to offer business loans under the Massachusetts Capital Access Program (CAP), which was recently funded by the Commonwealth. This will enable the bank to approve business loans that may not meet the requirements under traditional underwriting.

### **Compliance with Anti-discrimination Laws and Regulations**

Loan application files were sampled and reviewed to assess the bank's record of complying with fair lending laws and regulations, including the Equal Credit Opportunity Act, the Fair Housing Act, and HMDA. No patterns or evidence of discrimination or unfair lending practices were identified.