

# **PUBLIC DISCLOSURE**

**May 17, 2004**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Northampton Cooperative Bank  
26454**

**67 King Street  
Northampton, Massachusetts 01060**

**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.

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## 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 **The Northampton Cooperative Bank (NCB)** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **May 17, 2004**. 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:*** This institution is rated Satisfactory.

A review of the bank's CRA performance indicates a Satisfactory record of meeting the credit needs of all segments of its assessment area. This rating is supported by the following:

- The bank has a good distribution of its lending to low- and moderate-income borrowers when compared to aggregate lending and demographic information.
- The distribution of residential lending to low- and moderate geographies is in line with the demographics of the assessment area and the performance of other lenders.
- Over 98 percent of originated residential loans, by both number and dollar volume, were extended within the bank's assessment area.
- Since the previous FDIC evaluation, the bank has maintained an average net loans-to-deposits ratio of 73 percent.
- No violations of the substantive provisions of the anti-discrimination laws and regulations were identified during this evaluation.
- The bank has not received any CRA related complaints since the prior FDIC evaluation.

## DESCRIPTION OF INSTITUTION

The Northampton Co-operative Bank (NCB) is a \$136.3 million mutually-owned institution headquartered in Northampton, Massachusetts, where its full-service main office is located. NCB also operates a second full-service branch office in Northampton as well one in Amherst, Massachusetts. Hours at the three offices include Saturday hours to help meet the banking needs of the community. The bank offers drive-up and Automated Teller Machine (ATM) service at each of its branches. Other services available include telephone and Internet banking which is available 24 hours a day, 7 days a week. Telephone banking allows customers to check account balances, transfer funds, pay loans, and obtain rate and product information. Internet banking will allow all the customer activities available under telephone banking plus online bill-pay services. The bank's offices are all located in the Springfield, Massachusetts Metropolitan Statistical Area (MSA), which makes the Home Mortgage Disclosure Act (HMDA) applicable to the institution. The Amherst branch office was opened on October 1, 2000. All three branches are located in middle-income census tracts. NCB has plans to open a branch in the Village of Florence.

On December 31, 2003, the bank held total assets of approximately \$136 million, of which \$66.1 million (48.6 percent) was in the form of loans, while total deposits were reported at \$115.5 million. NCB is primarily a residential lender with 78.7 percent of its loan portfolio secured by 1-4 family residential and 8.0 percent multifamily loans. The remainder of the portfolio is comprised of 9.8 percent commercial real estate, 0.4 percent commercial industrial, and 0.62 percent consumer. A detailed listing of the lending and deposit products offered by the bank is contained in the CRA public file, which is available for review at the bank's main office in Northampton.

The most recent Commonwealth of Massachusetts CRA evaluation conducted on October 20, 1998, assigned a rating of "High Satisfactory." The previous FDIC evaluation, dated June 1, 1999, assigned a rating of "Satisfactory." The bank's financial condition does not appear to be a factor in preventing the extension of credit in a safe and sound manner.

## DESCRIPTION OF ASSESSMENT AREA

CRA requires each financial institution to identify an assessment area in which it intends to focus its lending efforts. This area is used by regulators to evaluate a bank's record of helping to meet the credit needs of the community.

Boundaries of the assessment area defined by NCB have remained relatively unchanged since the 1999 FDIC evaluation. The assessment area was expanded to include the towns of Deerfield and Montague in Franklin County due to increased lending activities in these areas. As of this evaluation the bank's defined assessment area includes all twenty communities in Hampshire County and eleven communities in Franklin County. The bank's 3 offices and 13 of these communities are included in the Springfield Metropolitan Statistical Area (MSA). There are 38 census tracts in NCB's assessment area. Based on the 2000 census, 3 tracts are identified as Moderate-Income, 16 as Middle-Income, 18 as Upper-Income, and 1 where the income category was designated NA. The NA census tract is the campus of Hampshire College and is located in the Town of Amherst. The 3 Moderate-income tracts are in the towns of Montague, Amherst (University of Massachusetts campus), and Ware.

There were material shifts in the demographic data between the 1990 and the 2000 census. The following table presents side-by-side comparisons for some of the primary factors considered in this performance evaluation.

	#		Low (% of #)		Mod (% of #)		Middle (% of #)		Upper (% of #)		NA (% of #)	
	1990	2000	1990	2000	1990	2000	1990	2000	1990	2000	1990	2000
<b>Geographies</b>	38	38	2.6	NA	2.6	7.9	52.6	42.1	31.6	47.4	10.6	2.6
<b>Population by Geography</b>	175,999	182,900	5.7	NA	3.8	9.8	64.6	48.6	24.8	41.6	1.1	0.0
<b>Owner-occupied Housing Units</b>	38,870	44,979	0.0	NA	2.0	3.5	69.3	53.3	28.7	43.2	0.0	0.0
<b>Families</b>	40,190	41,876	16.2	15.1	15.8	16.0	25.0	23.2	43.0	45.7	NA	NA

NCB operates in a highly competitive residential lending market. A market ranking report generated from PCI's CRA Wiz indicates that 225 other lenders reported residential loan originations under the Home Mortgage Disclosure Act (HMDA) during 2002 and within NCB's defined assessment area. Of these institutions, NCB was ranked 14th overall with a 1.86 percent market share. For loans used to purchase a residence NCB was also ranked 14th with a 1.92 percent market share and for refinanced loans NCB achieved a ranking of 12th with a 1.92 percent market share.

The median income for the Springfield MSA and Massachusetts Non-MSA areas for 2003 are \$56,800 and \$60,300, respectively. A low-income individual would earn less than \$30,150 in 2003. The median housing value based on the 2000 census was \$145,000. Assuming a 6 percent rate, a 30 year mortgage, and a 95 percent loan-to-value, a payment of \$826 would be required. In order to meet a housing ratio of 28 percent, an applicant would need to earn at least \$35,400. Please see Appendix B for a more detailed breakdown of income categories for 2002 and 2003.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

NCB was evaluated using the small bank performance criteria: (1) lending to borrowers of different incomes, (2) geographic distribution of loans, (3) lending within the assessment area, (4) averaged net loan-to-deposit ratio, and (5) response to consumer complaints. This evaluation considered the bank's residential lending activity from January 1, 2002, through December 31, 2003. Residential lending distributions for 2001 were analyzed but since there was not a material difference when compared to 2002 activity it was not presented in the tables of this evaluation. Residential lending was selected for analysis because it represents a significant majority of the bank's loan portfolio. Only originated loans were considered in this evaluation as NCB does not purchase residential loans.

The analysis of the lending performance included a review of both number and dollar volume of lending in each category. Most of the tables present only the number of loans originated. Dollar volume will only be addressed when materially different from the percentages relating to numbers of loans or otherwise meaningful to the analysis. Refer to Appendix C for the definitions of various terms used throughout this evaluation.

### **BORROWER CHARACTERISTICS**

This performance criterion analyzes lending to borrowers of different income levels. The most weight in this criterion is placed on the bank's lending to low- and moderate-income borrowers. Based on the level of competition in the assessment area (aggregate lending), local demographic characteristics, and the affordability of housing, the bank has achieved a good distribution among borrowers of different incomes.

#### ***Residential Loans***

Table 1 provides detail on the distribution of residential lending based on the income of the borrower(s) during 2002 and 2003. The bank's 2002 performance is compared to the activity of all lenders (aggregate) that reported originated loans in the assessment area under HMDA during 2002 as well as to the percent of families in each category. The bank's 2003 performance is compared to the percent of families in each category since 2003 aggregate data is not yet available.

As shown in the table, the bank has placed a higher percentage of its HMDA reported loans to low-income borrowers than aggregate during 2002. However, the performance in placement to moderate-income borrowers lagged aggregate. The bank's performance for 2003 indicates a material improvement in both number and percentage within the low- and moderate-income categories. Aggregate data is not yet available for 2003. When compared to the percentage of families within each income category the bank and aggregate lag demographics. This is a function of housing affordability. As noted under the Description of the Assessment Area section of this evaluation it would be difficult for a low-income borrower to qualify for a home

loan given the current market conditions. Additionally, based on the 2000 census, 2,108 of the 6,334 low-income families are below the poverty level.

<b>Table 1 - Distribution of HMDA Loans by Borrower Income</b>									
<b>Borrower Income Level</b>	<b>% of Total Families</b>		<b>Aggregate Lending Data (% of #)</b>	<b>NCB 2002</b>		<b>NCB 2003</b>		<b>Total</b>	
	<b>1990</b>	<b>2000</b>		<b>2002</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>
<b>Low</b>	16.2	15.1	2.5	6	3.9	12	4.6	18	4.3
<b>Moderate</b>	15.8	16.0	11.8	15	9.9	40	15.2	55	13.3
<b>Middle</b>	25.0	23.2	24.9	27	17.8	62	23.6	89	21.5
<b>Upper</b>	43.0	45.7	55.2	97	63.8	141	53.6	238	57.3
<b>\$0/NA Income</b>	NA	NA	5.6	7	4.6	8	3.0	15	3.6
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>152</b>	<b>100</b>	<b>263</b>	<b>100</b>	<b>415</b>	<b>100</b>

*Source: 1990 and 2000 U.S. Census, HMDA LARs (2002 and 2003), and HMDA Aggregate Data*

## **GEOGRAPHIC DISTRIBUTION OF LOANS**

The main focus of analyzing the bank's lending distribution is to determine the dispersion of loans among geographies that comprise the bank's assessment area. The bank's assessment area in 2002 was based on 1990 Census designations and was comprised of one low-income tract which was the campus of the University of Massachusetts in Amherst. The moderate-income tract was also located in Amherst and accounted for only 3.8 of the assessment area population.

The 2000 Census designated the University of Massachusetts campus as a moderate-income tract and added two others, one each in Ware and Montague. The moderate-income tract which had existed in Amherst was changed to middle-income. Both Ware and Montague are approximately 20 miles from the nearest NCB branch in Amherst. Ware has two community banks operating in town and Montague is adjacent to Greenfield which also has two community banks. Given the demographic and market competition, NCB's geographic distribution of residential loans reflects a reasonable dispersion throughout the assessment area.

## ***Residential Loans***

Table 2 illustrates the distribution of home loans by income category of the census tract in which the property is located. For comparison purposes, the percentage of owner-occupied housing units (based on the 1990 and 2000 Census), within each census tract income level and the aggregate data for 2002 is included in the table.

<b>Table 2 - Distribution of HMDA Loans by Income Category of the Census Tract</b>									
<b>Census Tract Income Level</b>	<b>% of Total Owner- Occupied Housing Units</b>		<b>Aggregate Lending Data (% of #)</b>	<b>NCB 2002</b>		<b>NCB 2003</b>		<b>Total</b>	
	<b>1990</b>	<b>2000</b>	<b>2002</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	0.0	NA	0.1	0	0.0	0	0.0	0	0.0
<b>Moderate</b>	2.0	3.5	2.0	6	4.0	0	0.0	6	1.4
<b>Middle</b>	69.3	53.3	66.8	101	66.4	99	37.6	200	48.2
<b>Upper</b>	28.7	43.2	29.8	45	29.6	164	62.4	209	50.4
<b>N/A</b>	0.0	0.0	1.3	0	0.0	0	0.0	0	0.0
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>152</b>	<b>100</b>	<b>263</b>	<b>100</b>	<b>415</b>	<b>100</b>

*Source: 1990 and 2000 U.S. Census, HMDA LARs (2002 and 2003), and HMDA Aggregate Data*

Table 2 indicates a material change in the lending within the moderate-income tracts between 2002 and 2003. This is understandable given that in 2002 the only moderate-income tract in the assessment area was in Amherst where the bank has a branch. Due to the 2000 Census changes, the moderate-income tracts with meaningful lending opportunities are geographically separated from the bank's branches (20 miles) and there is strong local competition in these towns from local banks. Therefore, NCB's inability to place any loans in moderate-income tracts during 2003 does not significantly impact the bank's overall performance.

### **LENDING INSIDE THE ASSESSMENT AREA**

This performance category measures the bank's record of lending within its assessment area and NCB's performance is strong. NCB management has not only included all of Hampshire County but also expands the area to include any town where they receive more than occasional application activity.

<b>Table 3 - Distribution of Loans Inside and Outside the Assessment Area</b>										
<b>Loan Category or Type</b>	<b>Number of Loans</b>					<b>Dollars in Loans (000s)</b>				
	<b>Inside</b>		<b>Outside</b>		<b>Total</b>	<b>Inside</b>		<b>Outside</b>		<b>Total</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	
Home Mortgage										
2002	152	98.1	3	1.9	155	21,702	97.7	521	2.3	\$22,223
2003	263	98.9	3	1.1	266	35,514	98.9	410	1.1	\$35,924
<b>Total</b>	415	98.6	6	1.4	421	57,216	98.4	931	1.6	\$58,147

Source: HMDA LARs (2002 and 2003)

As depicted in Table 3, the overwhelming majority of the bank's lending by both number and dollar volume during 2002 and 2003 was within the assessment area.

### **LOAN-TO-DEPOSIT RATIO**

This performance category evaluates a small bank's net LTD ratio. This ratio shows the percentage of deposits which is invested in loans and indicates management's willingness to extend credit. To account for seasonal variations or other anomalies, the quarterly LTD ratios since the previous evaluation are averaged to calculate the average net LTD ratio.

Given NCB's resources and market competition, the bank's level of lending reflects adequate responsiveness to credit needs. The average LTD ratio for the 19 quarters since the previous FDIC evaluation is 72.8 percent. During the previous 19 quarters, the bank's LTD ratio has indicated a continued downward trend from a high of 81.7 on June 30, 1999 to a recent ratio of 56.6 on December 31, 2003.

This downward trend is attributable to deposit growth outpacing loan growth. The reduction in loan growth has resulted from management selling almost all of its fixed rate mortgages, which has represented the significant majority of its lending activity over the last several years. As an example, management stated that they sold over \$20 million in fixed rate loans during the 18 month period ending on December 31, 2003.

### **RESPONSE TO CONSUMER COMPLAINTS**

This performance category considers a bank's record of responding to CRA-related complaints. A review of FDIC records and the Public File maintained by the bank pursuant to the CRA disclosed no such complaints.

### **COMPLIANCE WITH ANTI-DISCRIMINATION LAWS AND REGULATIONS**

No violations of the substantive provisions of the anti-discriminatory laws and regulations were identified during the compliance examination.

## APPENDIX A

### SCOPE OF EXAMINATION

<b>The Northampton Cooperative Bank</b>
<b>SCOPE OF EXAMINATION:</b> A review of NCB's Community Reinvestment Act performance using the Small Bank Examination Procedures. The review included an analysis of the bank's residential lending performance within its assessment area.
<b>TIME PERIOD REVIEWED:</b> 2002 and 2003.
<b>PRODUCTS REVIEWED:</b> All residential loans (HMDA reportable) originated in 2002 and 2003.

### MEDIAN FAMILY INCOME RANGES

#### *Springfield, MA MSA*

Income Category	Income Definition	2002	2003
<b>Median Family Income</b>		\$50,700	\$56,800
<b>Low</b>	Less than 50%	\$0 - \$25,249	\$0 - \$28,399
<b>Moderate</b>	50% to less than 80%	\$25,250 - \$40,559	\$28,400 - \$45,439
<b>Middle</b>	80% to less than 120%	\$40,559 - \$60,839	\$45,440 - \$68,159
<b>Upper</b>	120% and greater	\$60,840 & above	\$68,160 & above

#### *Massachusetts Non-MSA*

Income Category	Income Definition	2002	2003
<b>Median Family Income</b>		\$52,100	\$60,300
<b>Low</b>	Less than 50%	\$0 - \$26,049	\$0 - \$30,149
<b>Moderate</b>	50% to less than 80%	\$26,050 - \$41,679	\$30,150 - \$48,239
<b>Middle</b>	80% to less than 120%	\$41,680 - \$62,519	\$48,240 - \$72,359
<b>Upper</b>	120% and greater	\$62,520 & above	\$72,360 & above

### GENERAL DEFINITIONS

#### GEOGRAPHY TERMS

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

**Metropolitan Area (MA):** One or more large population centers and adjacent communities that have a high degree of economic and social integration. Each MA must contain either a place with a minimum population of 50,000 of Census Bureau-defined urbanized area and a total MA population of at least 100,000 (75,000 in New England). An MA comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county. In New England, MAs are composed of cities and towns rather than whole counties.

**Metropolitan Statistical Area (MSA):** One or more metropolitan areas that have economic and social ties.

**Primary Metropolitan Statistical Area (PMSA):** A large urbanized county or cluster of counties that demonstrate very strong internal economic and social links, in addition to close ties to other portions of the larger area. If an area qualifies as an MA and has more than one million persons, PMSAs may be defined within it.

**Consolidated Metropolitan Statistical Area (CMSA):** The larger area of which PMSAs are component parts.

## **HOUSING TERMS**

**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 which is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

**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.

**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.

**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.

## **INCOME TERMS**

**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.

**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.

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

**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 consist of only one person, median household income is usually less than median family income.

**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 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 geography.

**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 geography.

**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 geography.

**HUD Adjusted Income Data:** The U.S. Department of Housing and Urban Development (HUD) issues annual estimates which update median family income from the metropolitan and non-metropolitan areas. HUD starts with the most recent U.S. Census data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

## **OTHER TERMS**

**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.