

PUBLIC DISCLOSURE

March 8, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Needham Co-Operative Bank
26483**

**1063 Great Plain Avenue
Needham, Massachusetts 02190**

**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 **Needham Co-Operative Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **March 8, 2005**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. 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.

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. The rating period for this evaluation is April 29, 2002 through March 8, 2005.

The assigned CRA rating is based on the results of three performance tests: (1) Lending Test, (2) Investment Test, and (3) Service Test. The greatest weight in assigning the overall CRA rating was given to the Lending Test.

Lending Test

Lending levels reflect an adequate responsiveness to the assessment area's credit needs. An adequate percentage of the bank's home mortgage, small business, and construction lending was originated within the assessment area. Geographically, loans were distributed throughout the assessment area. The bank achieved an adequate penetration among retail customers of different income levels. The bank originated an adequate dollar volume of community development loans in its community. The bank makes limited use of innovative or flexible lending practices, with its first time homebuyer program being the only such product.

Investment Test

The bank has an adequate level of qualified investments. Based on limited investment opportunities within the assessment area, the bank demonstrated an adequate responsiveness to the area's economic development needs.

Service Test

The bank's delivery systems are accessible to essentially all portions of the assessment area. There have been no changes in the branch structure. Services do not vary in a way that inconveniences portions of the assessment area. In addition, the bank provides an adequate level of community development services.

LENDING, INVESTMENT, AND SERVICE TEST TABLE:

The following table indicates the performance level of the institution with respect to the lending, investment, and service tests.

PERFORMANCE LEVELS	Needham Co-Operative Bank		
	PERFORMANCE TESTS		
	Lending Test	Investment Test	Service Test
Outstanding			
High Satisfactory			
Low Satisfactory	X	X	X
Needs to Improve			
Substantial Noncompliance			

DESCRIPTION OF INSTITUTION:

Needham Co-Operative Bank is a Massachusetts state-chartered financial institution incorporated in 1892. The bank operates through its main office in Needham and its three branch office locations in Medfield, Wellesley, and Westwood. Each office is equipped with an automated teller machine (ATM) that is linked to the CIRRUS and NYCE networks.

As of December 31, 2004, the bank's assets totaled \$442.9 million. Loans comprise the greatest share of assets at \$281.1 million or 63.5 percent. Bank held securities total \$147 million and consist mainly of government mortgage pools and municipal bonds. The bank is primarily a residential mortgage lender with 59.1 percent of the portfolio secured by one- to four-family properties. Construction and land development loans comprise the next largest share of the portfolio at 29.1 percent. Most of these loans are extended to builders to finance the construction of one- to four-family residences. Refer to Table 1 for additional information concerning the loan portfolio.

Table 1

Table 1 – Loan Distribution as of 12/31/2004		
Loan Type	Dollar Amount (000s)	Percent of Total Loans (%)
Construction and Land Development	82,075	29.1
1-4 Family Residential	166,629	59.1
Multi-Family (5 or more) Residential	1,566	0.6
Commercial	30,171	10.7
Total Real Estate Loans	280,441	99.5
Commercial and Industrial	0	0.0
Consumer	1,193	0.4
Less: Unearned Income	(551)	(0.2)
Total Loans	281,083	100.0

Source: Report of Condition and Income – December 31, 2004

The bank offers its customers a range of loans, including fixed- and adjustable-rate mortgages, home equity loans, and collateral loans. The bank also finances commercial real estate and construction and land development loans. Further, the bank offers a mix of deposit services, including savings, checking, certificates of deposits, and retirement accounts.

The bank's quarterly loan-to-deposit ratio has averaged 88.7 percent since the previous evaluation. All loans originated by the bank are retained. Lending is primarily funded through deposit growth and earnings.

The FDIC last evaluated the bank’s CRA performance on April 29, 2002, and assigned a rating of “Satisfactory.” The Massachusetts Division of Banks also reviewed the bank’s CRA performance at that time and assigned a rating of “Satisfactory.”

There are no apparent legal or financial impediments to the bank’s ability to meet the local area’s credit needs.

DISCRIPTION OF ASSESSMENT AREA

CRA requires financial institutions to define an assessment area within which its CRA performance will be evaluated. Needham Co-Operative Bank has defined its assessment area to include the Massachusetts’ towns of Dover, Medfield, Needham, Wellesley, and Westwood.

The assessment area is located approximately 10 miles southwest of Boston and falls entirely within Norfolk County and the Boston Metropolitan Statistical Area (MSA). The assessment area includes 17 census tracts, all of which are upper-income. The area has a total population of 87,472 and is residential in character. Refer to Table 2 for pertinent demographic information concerning the assessment area for 2003.

Table 2

Demographic Information for Boston Metropolitan Statistical Area					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/BNAs)	17	0.00	0.00	0.00	100.00
Population by Geography	87,472	0.00	0.00	0.00	100.00
Owner-Occupied Housing by Geography	25,492	0.00	0.00	0.00	100.00
Business by Geography	7,524	0.00	0.00	0.00	100.00
Farms by Geography	123	0.00	0.00	0.00	100.00
Family Distribution by Income Level	23,121	7.20	8.97	14.84	68.98
Distribution of Low and Moderate Income Families throughout AA Geographies	3,740	0.00	0.00	0.00	100.00
Median Family Income	68,341	Median Housing Value	245,511		
HUD Adjusted Median Family Income for 2003	80,800	Unemployment Rate (2000 US Census)	2.28%		
Households Below Poverty Level	9.16%				

Source: 2000 US Census and 2003 HUD updated MFI

In June 2003, new MSA boundaries were defined by the Office of Management and Budget (OMB) to be effective January 2004. The new definitions resulted in changes to the boundaries of many existing MSAs and the creation of new statistical areas – Metropolitan Divisions (MDs). These changes affected the bank’s assessment area as it is now a part of the Boston-Quincy MD. As a result, the median family income decreased for the area from \$68,341 to \$62,948, thus lowering the number of low- and moderate-income families throughout the assessment area. Refer to Table 3 for pertinent demographic information concerning the assessment area given the geographic boundaries in effect for 2004.

Table 3

Demographic Information for Boston – Quincy Metropolitan Division					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/BNAs)	17	0.00	0.00	0.00	100.00
Population by Geography	87,472	0.00	0.00	0.00	100.00
Owner-Occupied Housing by Geography	25,492	0.00	0.00	0.00	100.00
Business by Geography	7,512	0.00	0.00	0.00	100.00
Farms by Geography	129	0.00	0.00	0.00	100.00
Family Distribution by Income Level	23,121	6.49	7.81	13.51	72.19
Distribution of Low and Moderate Income Families throughout AA Geographies	3,306	0.00	0.00	0.00	100.00
Median Family Income		62,948	Median Housing Value		224,547
HUD Adjusted Median Family Income for 2004		75,300	Unemployment Rate (2000 US Census)		2.55%
Households Below Poverty Level		11.12%			

Source: 2000 US Census and 2004 HUD updated MFI

Although residential in character, the assessment area also has a diverse business base. Based on 2004 Business Geodemographic Data, the assessment area is home to 7,641 businesses. Approximately 48 percent of these establishments are centered in the service industry. Retail trade businesses and those involved in finance, insurance, and real estate also comprise a significant share of the local businesses. Approximately 64 percent of the assessment area’s businesses are considered “small businesses” as their gross annual revenues are \$1 million or less. GTE Government Systems, Coca-Cola, Medfield State Hospital, Wellesley College, and Sun Life are among the area’s larger employers.

Needham Co-Operative Bank’s assessment area represents a highly competitive market in terms of retail banking services and home mortgage lending. Large regional banks such as Bank of America, BankNorth, Citizens Bank, and Sovereign Bank have branches throughout the bank’s assessment area. Offices of other local area banks such as Benjamin Franklin Savings Bank, Dedham Institution for Savings, Middlesex Savings Bank, Strata Bank, and Wellesley Co-Operative Bank also operate in the area. Numerous mortgage companies and out of state lenders such as Washington Mutual Bank, Wells Fargo Home Mortgage, Countrywide Home Loans, Chase Manhattan Mortgage Corporation, and Citimortgage Inc. also compete for mortgage loans in the communities in which the bank operates.

Like much of Massachusetts, the assessment area is experiencing steep increases in housing prices. Recent statistics published by the Warren Group show that the area’s median home sales prices for 2004 ranged from \$512,000 in Medfield to \$860,000 in Dover. Unfortunately, the incomes of many local residents and those interested in relocating to the area are not keeping pace with the growth in the cost of housing. Continued increases in the local real estate prices will make homeownership nearly impossible for all but the affluent.

A community contact was made with a social service agency that provides group housing for the area's mentally challenged. Most of the residents of the group home are at poverty level. Banks are able to provide grants and construction financing for the group homes.

The FDIC's Community Contact Database was also accessed to review comments provided by different local government housing agencies and a local real estate agent. All three contacts stated that housing costs have risen at a rate faster than most people's income. They also confirmed that the area has experienced a lack of affordable housing. Especially hard hit has been the elderly population. A newly built home in the area costs in excess of a million dollars. There is a strong demand for elderly housing. State and federal government intervention with community banks may be able to help with some affordable housing initiatives. Lower cost condominiums are also at a premium, as some communities do not allow for the construction or conversion of condominiums. Newer condominiums being built are more luxury type units than affordable. Building and zoning restrictions have added to the spiraling housing costs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:

LENDING TEST

The lending test evaluates a bank's record of helping to meet the credit needs of its assessment area, including any low- and moderate-income geographies. The bank's lending performance is rated on the following: (1) lending activity, (2) the geographic distribution of the loans, (3) the distribution of loans based on borrower income characteristics, (4) the record of community development lending, and (5) the use of innovative or flexible lending practices.

Needham Co-Operative Bank is primarily a home mortgage lender with 59.7 percent of the portfolio secured by mortgages on residential properties. Therefore, the evaluation focused primarily on the bank's home mortgage lending record. Information concerning the home mortgage lending was derived from the Loan Application Registers (LAR) maintained by the bank pursuant to the Home Mortgage Disclosure Act (HMDA). The LARs contain data about permanent financing for home purchase, home improvement, and refinanced loans, on one- to four-family and multifamily (five or more units) properties. Needham Co-operative Bank also offers construction and business purpose loans. As construction lending represents the second largest share of the bank's portfolio at 29.1 percent, this product was also analyzed using the bank's loan portfolio report. While business loans are offered, they represent a small percentage of the portfolio at 10.7 percent. Therefore, only a limited review of the bank's business lending was conducted. Information concerning the small business lending was obtained from the CRA LARs.

This evaluation considered home mortgage, construction, and small business lending data from January 1, 2003 through December 31, 2004. Performance under the Lending Test has been rated "Low Satisfactory."

Lending Activity

Needham Co-Operative Bank has 63.5 percent of its total assets invested in loans. Overall, the lending levels reflect an adequate responsiveness to area's credit needs. Refer to Table 4 for information concerning home mortgage and small business lending within the assessment area.

Table 4

Table 4 – Distribution of Loans Inside and Outside the Assessment Area										
Loan Category or Type	Number of Loans					Dollars in Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2003	147	65.9	76	34.1	223	48,512	63.9	27,383	36.1	75,895
2004	87	61.3	55	38.7	142	38,657	62.1	23,641	37.9	62,298
Subtotal	234	64.1	131	35.9	365	87,169	63.1	51,024	36.9	138,193
Small Business										
2003	2	50.0	2	50.0	4	1,160	58.0	841	42.0	2,001
2004	7	53.8	6	46.2	13	2,638	43.6	3,418	56.4	6,056
Subtotal	9	52.9	8	47.1	17	3,798	47.1	4,259	52.9	8,057
TOTAL	243	63.6	139	36.4	382	90,967	62.2	55,283	37.8	146,250

Source: HMDA LAR and CRA Data Collection (2003 – 2004)

As Table 4 shows, 365 home mortgage loans totaling over \$138 million were originated since January 1, 2003. The majority of residential loans, by both number and dollar volume, occurred within the bank's assessment area. The proportion of lending occurring within the assessment area has remained relatively constant throughout the review period. During 2003, 81 percent of the bank's residential loans were refinances and the remaining were home purchase loans. The high percentage of refinances is due to the low interest rates in 2003. In 2004, 31 percent of the bank's loans were refinances, 42 percent were home purchases, and 27 percent were home improvement loans (new product introduced in 2004).

In 2003, Needham Co-Operative Bank was ranked 16th among the 311 HMDA reporting lenders that originated home loans in the bank's assessment area. The bank originated 147 of the 10,243 home mortgage loans for a 1.4 percent market share. The three local lenders with greater market shares included: Bank of America, Citizens Bank of Massachusetts, and Dedham Savings Bank. Each is much larger than Needham Co-Operative Bank. Other lenders who have a larger market share include many national mortgage companies such as: Washington Mutual Bank, FA, Wells Fargo Home Mortgage, and Countrywide Home Loans. Market share information is not yet available for 2004.

As illustrated in Table 4, Needham Co-Operative Bank is also a source of credit for local business customers. Commercial lending, however, remains a small part of the bank's lending strategy and is primarily done to accommodate customers. Since January 1, 2003, 17 small business loans totaling just over \$8 million have been originated. Over half of the loans by number, but less than half by dollar, were originated within the assessment area. Because of the limited number of originations, a market comparison is impractical.

Not reflected in Table 4 are the loans extended to local area builders to construct residential housing. From January 1, 2003 to December 31, 2004, the bank originated 161 residential construction loans with original balances totaling \$128.9 million. Of these credits, 119 loans totaling \$91.6 million financed the construction of residences within the assessment area. This equates to 73.9 percent by number and 71.0 percent by dollar volume. Construction financing represents an important credit need for the local area businesses engaged in real estate development. No market share data for the construction lending is available for comparison.

Geographic Distribution of Loans

The geographic distribution of loans was reviewed to assess how well the bank is addressing the credit needs throughout the assessment area. Since the census tracts that make up the assessment area are exclusively upper-income, only limited weight is placed on this performance criterion and more emphasis is given to the analysis of lending by borrower income. Nonetheless, the geographic distribution appears adequate and is consistent with the area's demographics and the bank's branch locations.

Since January 1, 2003, the bank originated home mortgage loans in all census tracts. The highest concentration of home mortgage lending was within Needham's five census tracts. This high concentration of lending makes sense considering the bank's long time presence in that community and the fact that 34 percent of the area's owner-occupied housing stock is in this town. Dover accounted for the next largest share of the home mortgage lending. Most of the remaining home mortgage loans were distributed in Medfield, Wellesley, and Westwood. Loan volume in these communities is assisted by the branch office presence in those towns.

The distribution of the construction lending is similar to that of the home mortgage lending. Specifically, the highest concentration of lending was within the town of Needham with a strong penetration in the towns of Dover, Medfield, Wellesley, and Westwood.

Distribution of Loans by Borrower Income

This factor assesses how well the bank is addressing the housing credit needs of the area's low-, moderate-, middle-, and upper-income residents. Special consideration is placed on the bank's record of lending to low- and moderate-income borrowers residing in the assessment area. Information presented in Table 5 - Home Purchase, Table 6 - Home Improvement, and Table 7 - Home Refinance illustrates the loan penetration among all borrowers' income levels. The bank's lending during 2003 is compared to aggregate and the percentage of households within each income group. Conversely, as the 2004 aggregate lending data is not available, the comparison will be limited to the percentage of households by different income levels. Additionally, it is important to keep in mind that the median family income used for comparison in 2003 differed from that in 2004 due to the MSA boundary changes.

Table 5

Table 5 – Distribution of HMDA Home Purchase Loans by Borrower Income							
Borrower Income Level	% of Households	Aggregate Lending Data (% of #)	2003		% of Households	2004	
	2003	2003	#	%	2004	#	%
Low	11.9	0.5	1	2.9	11.0	3	10.0
Moderate	8.6	5.0	4	15.4	8.1	3	10.0
Middle	12.6	14.8	5	19.2	12.0	5	16.7
Upper	66.9	75.5	14	53.8	68.9	18	60.0
Income NA	***	4.4	2	7.7	***	1	3.3
Total	100.0	100.0	26	100.0	100.0	30	100

Source: 2000 U.S. Census, HMDA LAR (2003 – 2004), and HMDA Aggregate Data (2003).

As illustrated in Table 5, a substantial majority of the bank’s home purchase lending was to upper-income borrowers. This is not surprising as over half of the area’s households are upper-income. The percentage of lending to middle-income borrowers compared well to the percentage of middle-income households and aggregate lending. The percentage of lending to moderate-income borrowers was higher than the percentage of moderate-income households and aggregate. The percentage of lending to low-income borrowers was lower than the percentage of low-income households, but higher than aggregate. However, the volume of lending was so low that the difference of one loan would change the level of lending. Additionally, with recent median home sales prices in the assessment area ranging from \$512,000 in Medfield to \$860,000 in Dover, achieving homeownership is difficult for nearly all, but the affluent.

Table 6

Table 6 – Distribution of HMDA Home Improvement Loans by Borrower Income							
Borrower Income Level	% of Total Households	Aggregate Lending Data (% of #)	2003		% of Total Households	2004	
	2003	2003	#	%	2004	#	%
Low	11.9	1.7	0	0.0	11.0	0	0.0
Moderate	8.6	5.1	0	0.0	8.1	3	11.1
Middle	12.6	17.1	0	0.0	12.0	5	18.5

Upper	66.9	74.4	0	0.0	68.9	18	66.7
	***	1.7	0	0.0	***	1	3.7
Total	100.0	100.0	0	0.0	100.0	27	100.0

Source: 2000 U.S. Census, HMDA LAR (2003 – 2004), and HMDA Aggregate Data (2003).

As stated previously, the bank did not offer a home improvement product until 2004. Therefore, this analysis will be limited to the bank’s performance in 2004. As shown in Table 6, a substantial majority of the bank’s home improvement lending was to upper-income borrowers. Home improvement lending to moderate-, middle- and upper-income applicants is fairly consistent with the percentage of households. The bank did not originate any home improvement loans to any low-income applicants, although the opportunity is relatively low.

Table 7

Table 7 – Distribution of HMDA Home Refinance Loans by Borrower Income							
Borrower Income Level	% of Total Households	Aggregate Lending Data (% of #)	2003		% of Total Households	2004	
	2003		2003	#	%	2004	#
Low	11.9	2.0	10	8.3	11.0	3	10.0
Moderate	8.6	3.9	13	10.7	8.1	0	0.0
Middle	12.6	16.7	34	28.1	12.0	6	20.0
Upper	66.9	69.1	50	41.3	68.9	18	60.0
	***	5.3	14	11.6	***	3	10.0
Total	100.0	100.0	82	100.0	100.0	30	100

Source: 2000 U.S. Census, HMDA LAR (2003 - 2004), and HMDA Aggregate Data (2003).

As illustrated in Table 7, a substantial majority of the bank's refinance lending was to upper-income borrowers. During 2003, interest rates were at an all time low; thereby, causing a large number of loan applicants to refinance their existing home loans and consolidate other high interest debt. The bank outperformed aggregate lending and the percentage of households for both moderate- and middle-income borrowers. The bank also outperformed aggregate lending to low-income borrowers and was comparable to low-income households. As the refinance boom slowed during 2004, the total number of originations declined. As a result, the bank did not originate any refinance loans to moderate- income borrowers, but performed better with respect to lending to low- and middle-income borrowers.

For construction lending, there was no information available concerning the gross annual revenues of the homebuilders. The average loan size, however, was \$770,000. This high average loan amount is attributed to the strong demand for high-end housing in the local area. Also, several of the loans were multi-million dollar loans that financed the construction of more than one residence.

Community Development Lending

For the purpose of this evaluation, a community development loan is one that (1) has community development as its primary purpose, (2) has not already been reported by the bank for consideration under small business or home mortgage lending (unless it is a multifamily dwelling loan), and (3) benefits the bank's assessment area or a broader statewide or regional area that includes the bank's assessment area.

Needham Co-Operative Bank's community development efforts are adequate based on the local opportunities and its available resources. Listed below are the qualified community development loans originated during the review period:

- The bank financed the construction of two different Chapter 40B condominium projects in the Town of Needham totaling \$3,370,000. The two projects yielded 20 units, of which 5 were designated to be purchased by a low- or moderate-income household. A lottery was held for qualified applicants.
- The bank financed the construction of a Chapter 40B project in the Town of Dover totaling \$2.1 million. The project will yield 20 units, of which 5 were designated to be purchased by a low- or moderate-income household.
- The bank financed two construction loans totaling \$422,000 with Charles River Association for Retarded Citizens (CRARC). These loans were to rehabilitate CRARC's newly acquired housing to meet the standards to accommodate the housing needs of adults with mental and physical disabilities.

Innovative or Flexible Lending Products

The bank makes limited use of innovative and/or flexible lending practices to better serve the assessment area's credit needs. The First Time Homebuyer program is the only product offered that is considered either flexible or innovative. The loan program features a reduced interest rate with the bank's adjustable 5/1 product, lower closing costs, no points, and relaxed underwriting guidelines. Loans may not exceed \$250,000. The bank originated 12 loans totaling \$2.8 million since January 1, 2003.

The bank will also make concessions to borrowers who purchase a condominium unit from a Chapter 40B community development housing project. Some of the concessions include 95 percent financing without mortgage insurance or loan ratio exceptions. Additional flexible terms can be included if the borrowers are first time homebuyers. The bank originated three home loans to low- and moderate-income buyers of the 40B units, of which, two were also first time home buyers.

INVESTMENT TEST

The Investment Test evaluates the bank's record of meeting the assessment area's credit and economic development needs through its qualified investments. A qualified investment for the purpose of this CRA evaluation is a lawful investment, deposit, membership share, or grant that has community development as its primary purpose. The evaluation considered (1) investment and grant activity, (2) the responsiveness to credit and community development needs, and (3) community development initiatives.

The bank has \$7,900 in qualified grants equating to .10 percent of the bank's net operating income for 2003¹ and .09 percent for 2004². The bank has been actively searching for qualified investments through its investment broker but it has had difficulty identifying investment opportunities within the bank's assessment area. Therefore, performance under the Investment Test is rated "Low Satisfactory."

¹ As of December 31, 2003

² As of December 31, 2004

Investment and Grant Activity

Qualified Charitable Contributions and Grants: Needham Co-Operative Bank has provided cash contributions to local organizations that provide education, training, affordable housing, youth programs, and health and human services to individuals of limited income. Since January 1, 2003, the bank provided \$7,900 in qualified grants to local community development organizations. Of this amount, \$3,350 was donated to a local nonprofit agency that provides housing and other miscellaneous services to individuals with developmental disabilities. The donation was specifically directed to help fund the expansion and enhancement of the client's residential housing.

Responsiveness to Credit and Community Development Needs

The bank's level of qualified investments exhibits a low responsiveness to credit and community development needs. The bank recently lost its investment in the Federal National Mortgage Association (FNMA) mortgage backed security when it was called. As a result, the bank informed its investment broker of its interest in acquiring additional qualified investments. However, the investment broker indicated that qualified investments are very difficult to find and are in high demand.

The bank has many municipal bonds in its securities portfolio; however, none could be identified as having a community development purpose. Additionally, the bank holds mortgage backed securities (Government National Mortgage Association, FNMA, and Federal Home Loan Mortgage Corporation), but none were qualified. Municipal bonds and mortgage backed securities do suggest that the bank is helping meet some of the credit needs within its assessment area and region.

The bank rarely uses innovative or complex investments to support community development initiatives. The bank's investments are fairly common. However, opportunities to participate in more innovative or complex investments are not currently available within the bank's assessment area.

SERVICE TEST

The Service Test evaluates a bank's record of helping to meet the credit needs of its assessment area by analyzing both the availability and effectiveness of a bank's system for delivering retail banking services and the extent and innovativeness of its community development services. Consideration is given to the following: (1) accessibility of delivery systems, (2) changes in branch locations, (3) reasonableness of business hours and services in meeting assessment area needs, and (4) any community development services. Performance under the Service Test is rated "Low Satisfactory."

Accessibility of Delivery Systems

The Needham Co-Operative Bank's systems for delivering retail banking services are reasonably accessible to essentially all portions of the bank's assessment area. As noted previously, the assessment area is comprised entirely of upper-income census tracts. The bank maintains three full-service branches in addition to its main office. The offices do not exclude or inconvenience portions of the assessment area. The town of Dover is the only community in the assessment area that lacks a branch office. However, the branches in Needham and Westwood are easily accessible to residents of that town. All office locations have an ATM on site for added convenience and accessibility. The Medfield and Wellesley offices have drive-up ATMs. The bank is a member of the SUM alliance, a group of financial institutions that have agreed not to assess an additional access fee for a non-customer's use of a proprietary ATM.

The bank offers ATM cards to its checking, statement savings, and money market accountholders. Customers can use the cards to obtain cash and to make purchases at locations with participating networks. The bank also offers debit cards through MasterCard for the added convenience of making point-of-sale transactions.

The bank offers Telephone Banking. This service improves accessibility to services by permitting customers to inquire about balances, check status of checks written, make loan payments within the bank, and transfer funds between accounts 24-hours a day.

The bank also offers PC Bank On-line Banking. This service extends accessibility to services by permitting customers the ability to pay bills on-line, transfer funds, and review transactions from any computer that has Internet access.

The bank employs seven bilingual individuals that collectively speak Cantonese Chinese, Mandarin Chinese, Toisan Chinese, Gujarati, Hindi, Igbo, Italian, Russian, Tagalog, and Urdu. The bilingual employees can potentially improve access to the bank's financial services to consumers who do not speak English.

Changes in Branch Locations

There have been no changes to the branch locations since the previous FDIC CRA evaluation. However, the bank maintains a branch closing policy in the event that a closure is contemplated. The policy details the procedures management will follow before opening or closing a branch.

Reasonableness of Services and Business Hours

Needham Co-Operative Bank's services and business hours do not vary in a way that inconveniences any portion of the assessment area. All of the bank's retail and business services are available at each office location. Residential, consumer, and commercial loan applications are available and accepted at all offices.

Business hours are similar among all offices with each location open Monday through Friday from 7:00 a.m. until 3:00 p.m. Business hours are extended until 7:00 p.m. one night per week at each location. In addition, each office is opened on Saturdays from 7:00 a.m. until 12:00 p.m.

Community Development Services

Needham Co-Operative Bank provides an adequate level of community development services. A community development service has community development as its primary purpose and is generally related to the provision of financial services or technical assistance.

Officers of the bank are involved in various local community development and nonprofit organizations. Listed below are the primary activities:

- Charles River Association for Retarded Citizens (ARC) - A vice president is on the board of directors for this private nonprofit social service agency. As a board member, the bank's officer helps oversee all aspects of the ARC, including its day programs, facilities management, financial responsibilities, and residential programs.
- Needham Opportunities, Inc. - A vice president is a board member with this nonprofit organization formed to stimulate economic and affordable housing opportunities for Needham residents and the tenants of the Needham Housing Authority (NHA). The organization is a subsidiary of the NHA and is responsible for purchasing or renting housing for clients of the authority.
- Medfield Affordable Housing Committee - A vice president has been appointed to the board of directors for this town housing committee. The primary responsibility of the committee is to oversee the transfer of ownership of town-owned single family dwellings to qualified low- and moderate-income buyers. The committee is also engaged in identifying additional affordable housing opportunities in the town. The bank's officer also lends financial expertise to the committee as treasurer.
- Massachusetts Affordable Housing Alliance – A vice president has discussed affordable housing needs within the Town of Needham with a representative who plans to work with the Needham Housing Authority and Needham Opportunities Inc.

RESPONSE TO CRA COMPLAINTS

A review of FDIC records and the bank's CRA Public File disclosed no complaints relating to Needham Co-Operative Bank's CRA performance.

FAIR LENDING

A fair lending review was conducted and no violations of anti-discriminatory laws or regulations was noted.

APPENDIX A

SCOPE OF EXAMINATION:

<p style="text-align: center;">Needham Co-Operative Bank</p> <p>SCOPE OF EXAMINATION: Full Scope Large Bank Procedures</p>
<p>TIME PERIOD REVIEWED: April 29, 2002 to March 8, 2005</p>
<p>PRODUCTS REVIEWED: Residential mortgage loans, small business loans, and loans to real estate developers to finance the construction of residential real estate.</p>

APPENDIX B - GENERAL DEFINITIONS

GEOGRAPHY TERMS

Block: Small areas bounded on all sides by visible features such as streets, roads, streams or rail road tracks, and invisible features like city or town boundaries or property lines. Blocks are subdivisions of census tracts or block numbering areas (BNA), and are assigned a unique three-digit number.

Block Group: Clusters of blocks within a census tract or BNA, having a four-digit number and a three-digit suffix. The four-digit number corresponds to the same number given to the census tract or BNA in which it is located.

Block Numbering Areas (BNAs): Statistical subdivisions of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. BNAs do not cross county lines.

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.

Non-Metropolitan Area: All areas outside of metropolitan areas. The definition of non-metropolitan area is not consistent with the definition of rural areas. Urban and rural

classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan areas.

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) but excluding 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.

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

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 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.

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.

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

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.

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.

APPENDIX C - INVESTMENT DEFINITIONS

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. The equity investments are subject to limits specified by the bank's regulator. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community as well as to the financial and marketing needs of the bank. 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. Any real estate ownership should generally be temporary, with ownership reverting to members or organizations in the community.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. They procure loans and investments that conventional financial institutions are unable to invest in, and they link financing to other developmental activities. 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. CDFIs share a common mission and can be chartered as a credit union or bank. CDFIs can also be unregulated nonprofit institutions that gather private capital from a range of social investors for community development lending or investing. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, microenterprise funds, and community development venture capital funds. A certified CDFI must meet eligibility requirements, which include: 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; and not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Low Income Housing Tax Credits: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended, which is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department, through the Internal Revenue Service, distributes low-income housing tax credits to housing credit agencies. 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 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 in place throughout the compliance period, usually 30 years.

Qualified Investments: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development to support the following endeavors: 1) affordable housing; 2) community services targeting low- and moderate-income individuals; 3) activities that promote economic development by financing small farms and small businesses; and 4) activities that revitalize or stabilize low- and moderate-income geographies.