

PUBLIC DISCLOSURE

February 2, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Independence Bank
57379**

**1370 South County Trail
East Greenwich, Rhode Island 02818**

**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.....1

II. Institution Rating2

III. Description of Institution.....3

IV. Description of Assessment Area5

V. Conclusions6

VI. Appendix A (General Definitions).....10

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 **Independence Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **February 2, 2005**. 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.

This rating is supported by the following factors:

- The bank's net loans to total deposits at September 30, 2004 was 66.9 percent. This ratio is reasonable and reflects the bank's willingness to extend credit.
- The bank's level of lending in its assessment area is adequate given its overall business strategy and unique performance context.
- The bank's level of lending to low- and moderate-income borrowers is reasonable. Such lending is supplemented by a high volume of lending under the Small Business Administration Loan programs outside of its assessment area.
- The geographic distribution of the bank's lending is adequate given the overall lending patterns for the institution. There are no low-income and only two moderate-income census tracts within the assessment area. Therefore, this performance criterion was not heavily weighted in the overall rating of the institution.

DESCRIPTION OF INSTITUTION

Independence Bank became insured by the FDIC in March 2003. Prior to becoming an insured financial institution the bank operated as a finance company specializing in franchise loans. The bank, which operates out of its only office located in East Greenwich, Rhode Island, continues to specialize in small business loans to franchises throughout the country.

Total assets were reported at \$49 million at September 30, 2004, of which approximately 55 percent represented loans. Independence Bank is primarily a commercial lender with 58.7 percent of loans consisting of commercial and industrial loans, followed by residential lending at 38.2 percent and commercial real estate at 4.6 percent. Table 1 summarizes the bank's loan portfolio at September 30, 2004.

Table 1 - Loan Distribution as of 09/30/2004		
Loan Type	Dollar Amount (000s)	Percent of Total Loans (%)
1-4 Family Residential	10,432	38.2
Commercial	1,245	4.6
Total Real Estate Loans	11,677	42.8
Commercial and Industrial	16,049	58.7
Consumer	44	0.2
Other	1	0.0
Less: Unearned Income	462	1.7
Total Loans	27,309	100.0

Source: Report of Condition

As previously discussed, the bank operated as a finance company prior to its conversion to a bank. At March 31, 2003, the bank had \$12.5 million of loans. All of those loans, with the exception of \$13,000 in consumer loans, were commercial and industrial (primarily franchise loans). By the end of September of 2003, the bank had booked approximately \$1 million of residential one- to four-family residential loans. Within the same two quarters of operations, the bank's commercial and industrial loans increased by \$450,000. During this time period, the institution was increasing its staff and developing a residential lending department. Residential lending increased significantly during the fourth quarter of 2003, when the bank originated nearly \$5 million of residential one- to four-family loans. The bank's commercial and industrial loans also increased by \$5 million during the same quarter.

During 2004, the bank's residential loan portfolio nearly doubled to \$10.4 million. The increase in the bank's residential lending during 2004 was somewhat hampered by the slowdown in the refinance market created by the rising interest rates. Independence Bank's commercial and industrial loan portfolio declined slightly during 2004. It is apparent that management's efforts were focused on the bank's expansion into residential lending.

Independence Bank has strong competition from several financial institutions within its assessment area. In total there are 20 financial institutions operating 49 branches within the 7 towns that comprise the bank's assessment area. These financial institutions include but are not limited to the following: Citizens Bank of Rhode Island, Centerville Savings Bank, Bank Rhode Island, Bank of America, Sovereign Bank, Domestic Bank, and Washington Trust Company, as well as representatives of regional and national banking and mortgage companies. The market influence from these institutions appears to be significant.

Market share information based on 2003 aggregate HMDA reporter performance data indicates that 278 mortgage companies, savings banks, commercial banks, cooperative banks, and credit unions have originated 22,950 residential mortgage loans within the bank's assessment area. Out of those 278 lenders, Independence Bank ranked 99th for loan originations in its first year of operation. While the bank's ranking might normally be cause for concern, there are factors mitigating the bank's market rank: It is a de novo institution that received insurance coverage in March 2003 but did not begin operations as a bank until May of that year. At that time, the bank began preparing to make residential loans, of which most were originated in the fourth quarter of that year. Market rank data is not available for 2004.

This is the institution's first FDIC CRA evaluation. Based on the bank's asset size, small bank CRA procedures were used for this evaluation. Because commercial lending represents a significant portion of the bank's lending business, it will be included in the analysis.

DESCRIPTION OF ASSESSMENT AREA

Independence Bank defines its assessment area as the following municipalities: Coventry, West Warwick, Warwick, West Greenwich, East Greenwich, Exeter, and North Kingstown. The bank's assessment area is located within the Providence-New Bedford-Fall River, RI-MA Metropolitan Statistical Assessment Area (MSA).

According to the 1990 Census Data, the bank's assessment area contained a total population of 190,397 individuals, which comprised the 72,505 households. The census data also indicates that the assessment area included 76,705 housing units of which 52,360 or 68 percent are owner-occupied.

According to 2000 census data, the population of the bank's assessment area is 199,461 (79,592 households and 83,304 housing units). The assessment is comprised of 45 census tracts: 2 moderate-income, 26 middle-income and 17 upper-income tracts. The composition of census tracts changed slightly based on the change in MSAs that occurred in 2004. As of 2004, there are 27 middle-income and 16 upper-income census tracts. Moderate-income census tracts remained at two.

The median family income for the Providence-Fall River-Warwick, RI-MA MSA for 2003 was \$58,400. Based on the MSA changes that occurred for 2004, the MSA was renamed the Providence-New Bedford-Fall River, RI-MA MSA. The median family income for 2004 was \$61,300. The income figures are based on estimated Department of Housing and Urban Development (HUD) information.

Like much of Rhode Island, the area's housing prices continue to steadily rise. Recent statistics published by the Warren Group show that the area's median home sales prices for 2004 ranged from a low of \$211,000 in West Warwick to \$435,000 in East Greenwich. The averaged median sales price now more closely approximates \$293,857. The continued rising home prices present an obvious impediment for those pursuing homeownership.

Numerous businesses operate throughout the area. According to 2004 Business Geodemographic Data, the area has 11,885 non-farm businesses within the area's seven municipalities. The highest proportion of business establishments are engaged in the service industry. Businesses involved in retail trade, finance, and construction also make up a significant share of the establishments. Approximately 67 percent of the businesses have revenues of \$1 million or less and about 60 percent employ four or fewer people. The unemployment rate for Rhode Island, which is not seasonally adjusted, was 4.6 percent at year-end 2004.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The small bank CRA performance standards were used to evaluate Independence Bank's performance since its inception in March 2003. These standards require consideration of the following performance criteria: Loan-to-Deposit (LTD) ratio, lending in the assessment area, lending to borrowers of different incomes, geographic distribution of loans, and response to consumer complaints. This analysis was based on 2003 and 2004 residential and small business lending. The bank's performance with regard to each of these criteria is presented below:

Loan-to-Deposit Ratio

Independence Bank's performance pursuant to this criterion is considered reasonable. Independence Bank's LTD ratio was 66.9 percent at September 30, 2004. The quarterly LTD ratio is typically averaged since the previous FDIC CRA evaluation and then compared to similarly situated institutions. However, that average results in an anomaly, because of the bank's unique situation of being a finance company prior to becoming a bank and starting with loans on its books. Data obtained from the bank's Reports of Condition and Income, from inception through September 30, 2004, resulted in an average quarterly LTD ratio of 270.0 percent. If the LTD ratio for the first quarter of the 2003 is eliminated, the bank's LTD ratio from June 2003 through September 2004 was 67.0 percent. The bank's LTD ratio reflects a strong commitment from bank management to use depositors' funds to provide loans.

Lending in the Assessment Area

Independence Bank's performance pursuant to this criterion is considered acceptable. Table 2 shows the institution's lending within its assessment area. As noted, the bank originated 57 loans totaling \$9.5 million in its assessment area during the evaluation period.

Table 2 - Distribution of Loans Inside and Outside of the Assessment Area										
Loan Category or Type	Number of Loans					Dollars in Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2003	26	76.5	8	23.5	34	3,612	82.0	795	18.0	4,407
2004	25	56.8	19	43.2	44	2,730	57.7	1,998	42.3	4,728
Subtotal	51	65.4	27	34.6	78	6,342	69.4	2,793	30.6	9,135
Small Business										
2003	0	0.0	76	100.0	76	0	0.0	16,941	100.0	16,941
2004	6	5.9	95	94.1	101	3,133	11.6	23,847	88.4	26,980
Subtotal	6	2.4	171	93.8	177	3,133	7.1	40,788	92.9	43,921
Total	57	22.4	193	75.7	255	9,475	17.9	43,581	82.1	53,056

Source: HMDA LAR (2004), Residential (3/1/03 - YE2003) and Small Business (3/1/03 - 2004) Data provided by Bank

While the bank's lending within its assessment area accounts for less than a majority of its total lending during the evaluation period, there are several mitigating factors. It is noted that the bank is an atypical institution that has created a niche in franchise lending throughout the United States using the Small Business Administration (SBA) loan guarantee programs. This was the bank's primary focus prior to becoming a bank in March 2003 and continues to be an area of expertise for bank management. As a de novo bank, it is important for management to continue to emphasize its area of expertise while branching into new business lines in order to maintain the overall profitability of the institution.

Another aspect to consider is whether the lending activity within the bank's assessment area is reasonable given the size of the institution, its operating plan, and the short period of time that the bank has been in existence. Since its inception as a bank, over one half of the loan growth retained on its books by dollar volume has been within its assessment area. Such performance demonstrates reasonable performance and is indicative of management's commitment to lending within the bank's assessment area.

Another factor considered in this analysis is that the residential refinance market has slowed considerably during 2004. That has impacted the institution's ability to generate significant volumes of residential loans, as it was able to do in the last quarter of 2003.

Lending to Borrowers of Different Incomes

Overall, the bank's performance pursuant to this criterion is considered reasonable. Table 3 depicts the bank's lending by borrower income.

Table 3 - Distribution of HMDA Loans by Borrower Income								
Borrower Income Level	% of Total Households	Aggregate Lending Data (% of #)	2003		2004		Total	
			2003	#	%	#	%	#
Low	18.6	4.2	0	0.0	0	0.0	0	0.0
Moderate	13.6	17.2	4	15.4	4	16.0	8	15.7
Middle	18.2	29.6	6	23.1	6	24.0	12	23.5
Upper	49.6	42.7	16	61.5	15	60.0	31	60.8
\$0/NA Income	0.0	6.4	0	0.0	0	0.0	0	0.0
Total	100	100	26	100	25	100	51	100

Source: U.S. Census, Residential Loan Data provided by bank (3/1/03 - YE2003), HMDA LAR (2004), and HMDA Aggregate Data (2003).

As noted in the preceding Table, the bank did not originate any residential loans to low-income borrowers. This is not unreasonable, given that the averaged median home sales price for 2004 was almost \$300,000 for the bank's assessment area. Additionally, only 4.2 percent of the HMDA reportable loans by other lenders went to low-income borrowers. The bank's lending percentage to moderate-income borrowers is only slightly below that reflected by the aggregate data for 2003 and actually exceeds the level expected given the percentage of the assessment area households that are moderate-income.

Independence Bank's business lending was also reviewed for lending to businesses of different sizes. In this analysis, the bank's niche lending to franchises and its de novo status was considered. The bank only originated six business loans within its assessment area during this evaluation period. While none of those loans were to businesses with gross annual revenues of \$1 million or less, the bank is the number nine SBA lender within the Boston SBA region. Further, the majority of the bank's overall commercial lending is to individual franchisees with gross annual revenues of \$1 million or less.

Geographic Distribution of Loans

The geographic distribution of the bank's lending is considered reasonable. Table 4 depicts the geographic distribution of the bank's lending.

Table 4 - Distribution of HMDA Loans by Income Category of the Census Tract								
Census Tract Income Level	% of Total Owner-Occupied Housing Units	Aggregate Lending Data (% of #)	2003		2004		Total	
		2003	#	%	#	%	#	%
Low	0.0	0.0	0	0.0	0	0.0	0	0.0
Moderate	3.5	3.2	0	0.0	0	0.0	0	0.0
Middle	56.8	54.8	16	61.5	15	60.0	31	60.8
Upper	39.7	42.0	10	38.5	10	40.0	20	39.2
Total	100	100	26	100	25	100	51	100

Source: U.S. Census, Residential Loan Data provided by bank (3/1/03 - YE2003), HMDA LAR (2004), and HMDA Aggregate Data (2003).

There are no low-income census tracts and only two moderate-income tracts within the bank's assessment area. The two moderate-income tracts are located in Warwick, where the bank has no branch locations. As noted in the preceding Table, those two tracts contain only 3.5 percent of the owner-occupied housing units in the bank's assessment area. It is also noted that only 3.2 percent of the aggregate's lending was within those two tracts. Because of the lack of low-income census tracts and the low number of moderate-income tracts within the bank's

assessment area, the institution's performance pursuant to this performance criterion carried little weight in the overall rating of the institution.

Response to Consumer Complaints

A review of FDIC records, as well as the Public File maintained by the bank pursuant to CRA, disclosed no complaints. Therefore, this performance criterion is not applicable.

Other Information

A review of the bank's loan policies and procedures was conducted at this examination. A sample of originated and denied applications was also reviewed for compliance with governing fair lending laws and regulations. The review did not identify any violations of the substantive provisions of the fair lending laws and regulations.

APPENDIX A - 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.

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.