

# **PUBLIC DISCLOSURE**

May 8, 2023

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Middlesex Savings Bank  
Certificate Number: 90183

6 Main Street  
Natick, Massachusetts 01760

Division of Banks  
1000 Washington Street, 10<sup>th</sup> Floor  
Boston, Massachusetts 02118

Federal Deposit Insurance Corporation  
350 Fifth Avenue, Suite 1200  
New York, New York 10118

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

## TABLE OF CONTENTS

INSTITUTION RATING .....	1
DESCRIPTION OF INSTITUTION .....	3
DESCRIPTION OF ASSESSMENT AREA.....	5
SCOPE OF EVALUATION.....	9
CONCLUSIONS ON PERFORMANCE CRITERIA.....	11
DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW .....	25
APPENDICES .....	25
DIVISION OF BANKS FAIR LENDING POLICIES AND PROCEDURES .....	25
LARGE BANK PERFORMANCE CRITERIA .....	27
GLOSSARY .....	29

## INSTITUTION RATING

**INSTITUTION’S CRA RATING:** This institution is rated **Outstanding**. An institution in this group has an outstanding 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.

PERFORMANCE LEVELS	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding		X	X
High Satisfactory	X		
Satisfactory**			
Needs to Improve			
Substantial Noncompliance			
<p>* The Lending Test is weighted more heavily than the Investment and Service Tests when arriving at an overall rating.</p> <p>**FDIC rules and regulations stipulate use of a “high satisfactory” and “low satisfactory” rating for the three tests. This jointly issued public evaluation uses the term “satisfactory” in lieu of “low satisfactory” for the Lending, Investment, and Service Test ratings, as the Division does not have a “low satisfactory” rating.</p>			

**The Lending Test is rated High Satisfactory.**

- Lending levels reflect good responsiveness to the assessment area’s credit needs.
- The institution originated a high percentage of loans in the assessment area.
- The geographic distribution of loans reflects adequate penetration throughout the assessment area.
- The distribution of borrowers reflects, given the product lines offered by the institution, excellent penetration among retail customers of different income levels and businesses of different size.
- The institution uses innovative and/or flexible lending practices to meet assessment area credit needs.
- The institution makes a relatively high level of community development loans.

**The Investment Test is rated Outstanding.**

- The institution has an excellent level of qualified community development, investment, and grants, often in a leadership position, particularly those that are not routinely provided by private investors.
- The institution exhibits excellent responsiveness to credit and community development needs.
- The institution makes significant use of innovative and/or complex investments to support community development initiatives.

**The Service Test is rated Outstanding.**

- Delivery systems are accessible to all portions of the institution's assessment area.
- To the extent changes have been made, the institution's opening and closing of branches has not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies and/or low- and moderate-income individuals.
- Services (including where appropriate, business hours) do not vary in a way that inconveniences certain portions of the assessment area, particularly low- and moderate-income geographies and/or individuals.
- The institution is a leader in providing community development services.

## DESCRIPTION OF INSTITUTION

Middlesex Savings Bank (MSB) is a state-chartered mutual savings bank headquartered in Natick, Massachusetts (MA). Middlesex Bancorp, MHC, a bank holding company, owns MSB. MSB operates two non-bank subsidiaries, Middlesex Securities Corporation and First Evergreen Properties. MSB received an “Outstanding” rating from the Massachusetts Division of Banks and FDIC at its last public evaluation dated January 27, 2020, based on Large Institution Examination procedures.

MSB operates 31 full-service branches located throughout Middlesex, Norfolk, and Worcester Counties. In addition to the 31 branches, MSB operates three commercial lending offices, three stand-alone automated teller machines (ATMs), and three cash-dispensing ATMs. Since the last evaluation, the bank opened a branch in Hudson and Westborough. The bank also closed a branch in Acton and relocated two branches (Acton and Maynard). Additionally, MSB removed one cash-dispensing ATM, due to access-related issues. The bank was not involved in any merger or acquisition activity.

MSB offers personal and business customers various financial services. The bank offers home mortgages, home equity loans and lines of credit, personal loans and lines of credit, and credit cards. The bank also offers commercial loans and lines of credit, commercial real estate loans, Small Business Administration (SBA) loans, and business credit cards. Deposit accounts include checking and savings accounts, certificates of deposits, and business cash management services. The bank also offers investment and insurance products. Alternative banking services include ATMs, online and mobile banking, remote deposit, and commercial payment processing services.

MSB’s assets totaled \$6.2 billion as of March 31, 2023, and included total loans of \$3.6 billion and total securities of \$2.1 billion. Residential loans including multifamily loans account for 42.9 percent of the bank’s loan portfolio. Commercial real estate loans and commercial and industrial loans represent the second largest portion of the portfolio at 41.5 percent. The following table illustrates the loan portfolio.

<b>Loan Portfolio Distribution as of 3/31/2023</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction, Land Development, and Other Land Loans	526,941	14.4
Secured by Farmland	1,172	0.0
Secured by 1-4 Family Residential Properties	1,406,063	38.4
Secured by Multifamily (5 or more) Residential Properties	163,722	4.5
Secured by Nonfarm Nonresidential Properties	1,185,418	32.4
<b>Total Real Estate Loans</b>	<b>3,283,316</b>	<b>89.6</b>
Commercial and Industrial Loans	332,895	9.1
Agricultural Production and Other Loans to Farmers	158	0.0
Consumer Loans	7,581	0.2
Obligations of State and Political Subdivisions in the U.S.	38,533	1.1
Other Loans	5	0.0
<b>Total Loans</b>	<b>3,662,488</b>	<b>100.0</b>
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any financial, legal, or other impediments that affect the bank's ability to meet assessment area credit needs.

## DESCRIPTION OF ASSESSMENT AREA

MSB designated a single assessment area that includes towns from the Boston-Cambridge-Newton, MA-New Hampshire (NH) Metropolitan Statistical Area (MSA) and the Worcester, MA-Connecticut (CT) MSA. The assessment area within the Boston-Cambridge-Newton, MA-NH MSA consists of geographies from the Boston, MA Metropolitan Division (MD) and the Cambridge-Newton-Framingham, MA MD. Both MSAs are part of the larger Boston-Worcester-Providence, MA-Rhode Island (RI)-NH-CT Combined Statistical Area (CSA). In conjunction with the Westborough branch opening on January 11, 2021, the bank added the towns of Grafton and Shrewsbury to the assessment area. The following table details the cities and towns in MSB's assessment area.

### Assessment Area Cities and Towns

#### Middlesex County

Acton	Dunstable	Littleton	Stow
Ashland	Framingham	Marlborough	Sudbury
Ayer	Groton	Maynard	Townsend
Bedford	Holliston	Natick	Tyngsborough
Boxborough	Hopkinton	Newton	Waltham
Carlisle	Hudson	Pepperell	Wayland
Chelmsford	Lexington	Sherborn	Westford
Concord	Lincoln	Shirley	Weston

#### Norfolk County

Bellingham	Franklin	Needham	Walpole
Dedham	Medfield	Norfolk	Wellesley
Dover	Medway	Norwood	Westwood
Foxborough	Millis	Sharon	Wrentham

#### Worcester County

Berlin	Harvard	Northborough	Westborough
Blackstone	Hopedale	Shrewsbury*	
Bolton	Mendon	Southborough	
Grafton*	Milford	Upton	

\*New to the assessment area since the previous evaluation

The 241 census tracts within the assessment area reflect the following income designations according to the 2020 United States (U.S.) Census:

- 3 low-income tracts,
- 13 moderate-income tracts,
- 74 middle-income tracts,
- 147 upper-income tracts, and
- 4 census tracts with no income designation.

All three low-income census tracts are in Framingham, and the moderate-income census tracts are in Framingham (3), Marlborough (2), Milford (1), Norwood (2), and Waltham (5). The four census tracts with no income designation represent the Laurence G. Hanscom Field Airport (2), Bentley University (1), and the Assabet Valley National Wildlife Refuge (1). Two of the low-income

census tracts in Framingham represent opportunity zones. Three census tracts in Marlborough, including two moderate-income are dispersed amongst two opportunity zones. The Opportunity Zone Program encourages growth in low-income communities by providing incentives for investment in certain census tracts.

Due to the release of 2020 U.S. Census data, census tract income designations and demographic data within MSB's assessment area changed from 2021 to 2022. Prior to these changes, the 2015 American Community Survey (ACS) determined census tract income designations. According to the 2015 ACS, the assessment area consisted of 215 census tracts, which included 2 low- and 14 moderate-income.

The following table shows the demographic characteristics of the assessment area based on 2020 U.S. Census data.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	241	1.2	5.4	30.7	61.0	1.7
Population by Geography	1,183,059	1.0	5.2	30.0	63.5	0.3
Housing Units by Geography	444,378	1.0	5.9	32.1	61.0	0.0
Owner-Occupied Units by Geography	316,550	0.3	3.1	28.9	67.7	0.0
Occupied Rental Units by Geography	108,645	3.1	13.8	40.6	42.4	0.0
Vacant Units by Geography	19,183	1.3	6.3	35.7	56.6	0.0
Businesses by Geography	148,447	1.1	5.6	30.1	63.1	0.1
Farms by Geography	3,355	1.0	6.7	29.1	63.2	0.0
Family Distribution by Income Level	304,125	13.9	12.9	18.6	54.6	0.0
Household Distribution by Income Level	425,195	18.6	12.2	15.0	54.2	0.0
Median Family Income MSA - 14454 Boston, MA		\$112,607	Median Housing Value			\$577,336
Median Family Income MSA - 15764 Cambridge-Newton-Framingham, MA		\$121,481	Median Gross Rent			\$1,576
Median Family Income MSA - 49340 Worcester, MA-CT MSA		\$96,860	Families Below Poverty Level			3.0%
Source: 2020 U.S. Census and 2022 D&B Data Due to rounding, totals may not equal 100.0% (* ) The NA category consists of geographies that have not been assigned an income classification.						

Within the 16 low- and moderate-income tracts, owner-occupied housing units account for just 3.4 percent of total units, compared to 96.6 percent in the middle- and upper-income census tracts. Additionally, the percentage of families below the poverty level is 3.0 percent.

According to 2021 D&B data, 134,215 non-farm businesses operate in the assessment area. The Borrower Profile analysis of small business loans analyzes the distribution of loans to businesses by



gross annual revenue (GAR) level. The following reflects GARs for non-farm businesses in the bank's assessment area.

- 87.3 percent have revenues of \$1 million or less,
- 5.1 percent have revenues greater than \$1 million, and
- 7.6 percent have non-reported revenues.

The services industry represents the largest portion of businesses at 41.8 percent, followed by non-classifiable establishments (18.9 percent); finance, insurance, and real estate (10.6 percent); retail trade (9.1 percent); and construction (7.8 percent). In addition, 63.8 percent of businesses in the assessment area have four or fewer employees, and 91.0 percent operate from a single location. This indicates that the majority of businesses in the assessment area are small.

According to data obtained from Moody's Analytics as of April 2023, high business and living costs have contributed to small business turnover and a relatively high rate of rental housing. The top employers in the Boston, MA MD include Mass General Brigham, Amazon Air Hub and Distribution, University of Massachusetts, and Stop & Shop Supermarket. In the Cambridge-Newton-Framingham, MA MD, the top employers include Harvard University, Massachusetts Institute of Technology, Raytheon Technologies, and Beth Israel Lahey Health. In the Worcester, MA-CT MSA, the top employers include UMass Memorial Health Care, University of Massachusetts Medical School, Reliant Medical Group, and Saint Vincent Hospital.

Examiners used the Federal Financial Institutions Examination Council (FFIEC)-updated median family income levels to analyze home mortgage loans under the Borrower Profile criterion. The following table presents the low-, moderate-, middle-, and upper-income categories for the metropolitan areas in the assessment area for 2020, 2021, and 2022.

<b>Median Family Income Ranges</b>				
<b>Median Family Incomes</b>	<b>Low &lt;50%</b>	<b>Moderate 50% to &lt;80%</b>	<b>Middle 80% to &lt;120%</b>	<b>Upper ≥120%</b>
<b>Boston, MA Median Family Income (14454)</b>				
2020 (\$109,800)	<\$54,900	\$54,900 to <\$87,840	\$87,840 to <\$131,760	≥\$131,760
2021 (\$113,700)	<\$56,850	\$56,850 to <\$90,960	\$90,960 to <\$136,440	≥\$136,440
2022 (\$129,500)	<\$64,750	\$64,750 to <\$103,600	\$103,600 to <\$155,400	≥\$155,400
<b>Cambridge-Newton-Framingham, MA Median Family Income (15764)</b>				
2020 (\$118,800)	<\$59,400	\$59,400 to <\$95,040	\$95,040 to <\$142,560	≥\$142,560
2021 (\$120,200)	<\$60,100	\$60,100 to <\$96,160	\$96,160 to <\$144,240	≥\$144,240
2022 (\$138,700)	<\$69,350	\$69,350 to <\$110,960	\$110,960 to <\$166,440	≥\$166,440
<b>Worcester, MA-CT MSA Median Family Income (49340)</b>				
2020 (\$95,300)	<\$47,650	\$47,650 to <\$76,240	\$76,240 to <\$114,360	≥\$114,360
2021 (\$96,700)	<\$48,350	\$48,350 to <\$77,360	\$77,360 to <\$116,040	≥\$116,040
2022 (\$107,900)	<\$53,950	\$53,950 to <\$86,320	\$86,320 to <\$129,480	≥\$129,480
<i>Source: FFIEC</i>				

According to the U.S. Bureau of Labor Statistics, the 2022 average unemployment rate was 3.1 percent in Middlesex County, 3.3 percent in Norfolk County, and 3.9 percent in Worcester County. These unemployment rates are similar to the Massachusetts statewide rate of 3.8 percent. Due to the COVID-19 pandemic, the unemployment rate was very high in 2020, but has steadily decreased since then.

The bank continues to operate in a highly competitive market for banking services. According to FDIC Deposit Market Share Data as of June 30, 2022, 47 financial institutions operated 365 branches in the assessment area. Despite the high competition level, MSB ranked 3<sup>rd</sup> with a deposit market share of 8.7 percent. National institutions held the majority of the assessment area's deposits. Specifically, Bank of America, N.A. ranked 1<sup>st</sup> with a 25.7 percent share; Citizens Bank, N.A. ranked 2<sup>nd</sup> with a 11.7 percent share; and TD Bank, N.A. ranked 4<sup>th</sup> with a 7.5 percent share. Following MSB, the next three highest-ranked state-chartered institutions were Needham Bank at 6<sup>th</sup>, Rockland Trust Company at 7<sup>th</sup>, and Avidia Bank at 8<sup>th</sup>, each with deposit market shares between 3 and 4 percent.

MSB's assessment area also represents a highly competitive market for home mortgage and small business loans. According to 2021 aggregate home mortgage data, 553 lenders reported 82,056 originated or purchased home mortgage loans. MSB ranked 20<sup>th</sup> with a 1.3 percent market share. The three most prominent mortgage lenders (Rocket Mortgage; Guaranteed Rate, Inc.; and Citizens Bank N.A.) accounted for 15.7 percent of the assessment area's home mortgage loans. The top 20 lenders were mortgage companies, national institutions, and credit unions. According to 2021 aggregate small business data, 241 lenders reported 99,273 small business loans in Middlesex, Norfolk, and Worcester Counties. MSB ranked 18<sup>th</sup> with a 1.2 percent market share. The three leading financial institutions (American Express, Bank of America, and JP Morgan Chase Bank)

accounted for a combined 42.9 percent market share and are all national institutions with large credit card operations.

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying the area's community and credit needs. This information helps determine whether local financial institutions are responsive to those needs. It also illustrates what credit opportunities are available.

Examiners relied on a recently completed community contact of a local town planning and community development organization that serves the assessment area. The organization supports community development initiatives such as economic development, revitalization and stabilization, and affordable housing. The organization administers the CDBG, conducts local small business support and networking programs, and manages the HOME Investment Partnerships Program (HOME). HOME provides funding for creating, buying, and maintaining affordable housing and rental assistance for low-income individuals. Regarding economic development, the contact noted that although small businesses generally have access to and are able obtain credit from local financial institutions, language barriers present significant challenges for business owners with limited English proficiency. The contact also mentioned that providing outreach in different languages would help to combat these barriers. As for housing, the contact noted that due to rising market prices, affordable housing is a constant issue. The organization receives many requests for down payment assistance and coverage for other funding gaps.

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that affordable housing and funding for community services represent the primary community development needs, and small business loans represent the assessment area's primary credit need.

## **SCOPE OF EVALUATION**

### **General Information**

This evaluation covers the period from the prior evaluation dated January 27, 2020, to the current evaluation dated May 8, 2023. Examiners used Interagency Large Institution Examination Procedures to evaluate MSB's CRA performance. These procedures include three tests: the Lending, Investment, and Service Test. Examiners used full-scope procedures to evaluate the bank's CRA performance in its assessment area.

Banks must achieve at least a Satisfactory rating on the Lending Test to obtain an overall Satisfactory rating. This evaluation does not include any lending activity performed by affiliates.

### **Activities Reviewed**

The bank's major product lines are home mortgage and small business loans. This conclusion considered the bank's business strategy and the number and dollar volume of originations during the evaluation period.

The bank's record of originating home mortgages received the most weight when determining overall Lending Test conclusions due to the higher number and dollar volume of originations during the evaluation period compared to small business loans. Home mortgage loans, including those secured by one-to-four family or multifamily properties, account for the largest category of the bank's loan portfolio by dollar amount at 42.9 percent. The Lending Test includes the bank's 2020, 2021, and 2022 Home Mortgage Disclosure Act (HMDA)-reportable originations and purchases. The bank reported 1,486 loans totaling \$498.5 million in 2020, 1,447 loans totaling \$510 million in 2021, and 1,257 loans totaling \$534.2 million in 2022. The volume of home mortgage originations declined in 2022 due to a higher interest rate environment.

Although the Assessment Area Concentration performance table includes HMDA activity from all three years, Geographic Distribution and Borrower Profile tables only reference 2022 HMDA lending, as the three years represent bank performance under these criteria for the full evaluation period.

The Lending Test also considered small business originations during 2020, 2021, and 2022. Examiners obtained information concerning small business loans from the bank's 2020, 2021, and 2022 Loan Registers. For small business lending, MSB made 1,826 loans totaling \$203.1 million in 2020, 1,281 loans totaling \$144.1 million in 2021, and 289 loans totaling \$63.2 million in 2022. In response to the COVID-19 pandemic, the bank originated 2,240 totaling \$242 million small business loans through the Small Business Administration's (SBA) Paycheck Protection Program (PPP), which explains the substantial volume in 2020. The PPP was part of the Coronavirus Aid, Relief, and Economic Security Act and was designed to help businesses retain workers and staff during the economic hardship from the pandemic. Although the Assessment Area Concentration performance table includes small business activity from all three years, Geographic Distribution and Borrower Profile tables only reference 2022 small business lending, as the three years represent bank performance under these criteria for the full evaluation period.

Examiners compared bank home mortgage lending to demographic data from the 2015 American Community Survey (ACS) and 2022 HMDA aggregate lending data. Examiners compared the bank's small business lending to 2022 CRA aggregate lending and D&B business demographic data. Examiners focused on comparisons to aggregate lending data because aggregate data better represents the level of loan demand in the assessment area.

Examiners reviewed both the number and dollar volume of home mortgage and small business loans. The analysis weighed the number of originations more heavily than the dollar volume, as the number of loans more reliably indicates the number of individuals and businesses served. Furthermore, examiners reviewed retail products and services targeted toward low- and moderate-income individuals or small businesses, delivery systems for providing retail-banking services, including branches and alternative delivery systems, and the impact of any branch openings and closings during the evaluation period. The evaluation considered community development loans, investments, and services, as well as innovative and/or flexible lending practices since the prior CRA evaluation dated January 27, 2020 through May 8, 2023.

## **CONCLUSIONS ON PERFORMANCE CRITERIA**

### **LENDING TEST**

The bank's overall Lending Test performance is rated High Satisfactory. The following sections discuss the bank's performance under each criterion.

#### **Lending Activity**

Lending levels reflect good responsiveness to assessment area credit needs. From 2020 to 2022, MSB originated or purchased 4,188 home mortgage loans totaling approximately \$1.5 billion and 3,396 small business loans totaling approximately \$410.7 million. Of this total, 3,140 home mortgage loans totaling approximately \$965.6 million and 2,907 small business loans totaling approximately \$312.0 million were in the assessment area. Home mortgage lending was consistent from 2020 to 2021, and due to an increase in home prices and interest rates, declined in 2022.

Examiners reviewed 2020 and 2021 home mortgage loan market share data and noted that the institutions ranking above MSB were national banks, large mortgage companies, and one credit union. During both years, MSB ranked 20<sup>th</sup> and was the number one ranked MA state-chartered bank and performed better than similarly situated institutions such as Cambridge Savings Bank, Avidia Bank, and UniBank for Savings.

Small business lending significantly increased since the last evaluation due to substantial PPP lending in 2020 and 2021. MSB experienced a decline in small business lending from 2021 to 2022 due to the SBA discontinuing the PPP loan program in May 2021. Mostly large national banks and credit card companies ranked above MSB. In both 2020 and 2021, MSB was the 4<sup>th</sup> ranked state-chartered institution originating small business loans in Middlesex, Norfolk, and Worcester County, trailing Eastern Bank, Rockland Trust Company, and Avidia Bank. However, MSB performed better than comparable banks such as Cambridge Savings Bank (22<sup>nd</sup>) and UniBank for Savings (25<sup>th</sup>). From 2020 to 2021, MSB's small business market share dropped from 16<sup>th</sup> to 18<sup>th</sup>, similar to other state-chartered institutions.

#### **Assessment Area Concentration**

The bank made a high percentage of its home mortgage and small business loans within its assessment area. As the following table illustrates, home mortgage lending concentration in the assessment area remained consistent. Conversely, as the PPP ceased in mid-2021, 2022 small business lending in the assessment area decreased.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2020	1,106	74.5	378	25.5	1,484	354,911	71.2	143,539	28.8	498,451
2021	1,088	75.2	359	24.8	1,447	345,639	67.8	164,409	32.2	510,047
2022	946	75.3	311	24.7	1,257	265,022	49.6	269,146	50.4	534,168
Subtotal	3,140	75.0	1,048	25.0	4,188	965,572	62.6	577,094	37.4	1,542,666
Small Business										
2020	1,591	87.1	235	12.9	1,826	160,584	79.1	42,542	20.9	203,126
2021	1,099	85.8	182	14.2	1,281	109,171	75.8	34,937	24.2	144,108
2022	217	75.1	72	24.9	289	42,196	66.5	21,243	33.5	63,439
Subtotal	2,907	85.6	489	14.4	3,396	311,951	76.0	98,722	24.0	410,673
Total	6,047	79.7	1,537	20.3	7,584	1,277,523	65.4	675,816	34.6	1,953,339
Source: Bank Data Due to rounding, totals may not equal 100.0%										

### **Geographic Distribution**

The geographic distribution of loans reflects adequate penetration throughout the assessment area. The bank's adequate performances for home mortgage and small business lending supports this conclusion.

#### ***Home Mortgage Loans***

The geographic distribution of home mortgage loans reflects adequate penetration throughout the assessment area. MSB's performance in low-income census tracts was in line with demographics and aggregate performance. In moderate-income census tracts, home mortgage lending was comparable to demographics and aggregate data.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2021	0.2	0.2	2	0.2	666	0.2
Moderate						
2021	3.8	4.0	37	3.4	7,242	2.1
Middle						
2021	25.9	24.3	204	18.8	46,565	13.5
Upper						
2021	70.1	71.5	845	77.7	291,166	84.2
Not Available						
2021	0.0	0.0	0	0.0	0	0.0
<b>Totals</b>						
<b>2021</b>	<b>100.0</b>	<b>100.0</b>	<b>1,088</b>	<b>100.0</b>	<b>345,639</b>	<b>100.0</b>
Source: 2015 ACS, Bank Data, 2021 HMDA Aggregate Data. Due to rounding, totals may not equal 100.0%						

### ***Small Business Loans***

The geographic distribution of small business loans reflects adequate penetration throughout the assessment area. The bank's performance in low-income census tracts slightly exceeded both demographics and the aggregate. In moderate-income geographies, the bank's performance was less than demographics and the aggregate.

<b>Geographic Distribution of Small Business Loans</b>						
<b>Tract Income Level</b>	<b>% of Businesses</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Low						
2021	0.7	0.7	10	0.9	820	0.8
Moderate						
2021	6.6	6.7	53	4.8	7,003	6.4
Middle						
2021	23.7	24.3	191	17.4	23,657	21.7
Upper						
2021	69.1	68.4	845	76.9	77,691	71.2
Not Available						
2021	0.0	0.0	0	0.0	0	0.0
<b>Totals</b>						
<b>2021</b>	<b>100.0</b>	<b>100.0</b>	<b>1,099</b>	<b>100.0</b>	<b>109,171</b>	<b>100.0</b>
<i>Source: 2021 D&amp;B Data, Bank Data, 2021 CRA Aggregate Data.            Due to rounding, totals may not equal 100.0%</i>						

### **Borrower Profile**

The distribution of borrowers reflects, given the product lines offered by the bank, excellent penetration among retail customers of different income levels and business customers of different sizes.

### ***Home Mortgage Loans***

The distribution of home mortgage borrowers reflects excellent penetration among individuals of different income levels. As shown in the following table, MSB's performance in lending to low-income borrowers was well above the aggregate. Although lending was less than demographics, low-income families with an income of less than \$69,350 may face challenges in qualifying for a traditional home mortgage given the median home value in the assessment area is \$577,336. Among moderate-income borrowers, lending was comparable to demographics and the aggregate.



Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2021	13.8	3.3	77	7.1	11,065	3.2
Moderate						
2021	12.4	12.2	132	12.1	26,846	7.8
Middle						
2021	18.1	19.9	199	18.3	44,993	13.0
Upper						
2021	55.7	52.5	649	59.7	256,138	74.1
Not Available						
2021	0.0	12.3	31	2.8	6,597	1.9
<b>Totals</b>						
<b>2021</b>	<b>100.0</b>	<b>100.0</b>	<b>1,088</b>	<b>100.0</b>	<b>345,639</b>	<b>100.0</b>
<i>Source: 2015 ACS, Bank Data, 2021 HMDA Aggregate Data.  Due to rounding, totals may not equal 100.0%</i>						

### ***Small Business Loans***

The distribution of small business loans reflects, given the product lines offered by the institution, good penetration among businesses customers of different size.

As shown in the following table, the bank originated a large number of loans where GAR information was not available. PPP loans represented a significant portion of these loans since PPP applicants were not required to provide revenue information. The large number of small business loans in the “Revenue Not Available” category distorts the results. Therefore, examiners could not conduct a meaningful analysis of 2021 lending to businesses of different sizes.

Distribution of Small Business Loans by Gross Annual Revenue Category						
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
<=\$1,000,000						
2021	87.4	44.8	123	11.2	16,237	14.9
>\$1,000,000						
2021	5.1	--	84	7.6	25,038	22.9
Revenue Not Available						
2021	7.6	--	892	81.2	67,896	62.2
<b>Totals</b>						
<b>2021</b>	<b>100.0</b>	<b>100.0</b>	<b>1,099</b>	<b>100.0</b>	<b>109,171</b>	<b>100.0</b>
<i>Source: 2021 D&amp;B Data, Bank Data, 2021 CRA Aggregate Data.</i> <i>Due to rounding, totals may not equal 100.0%</i>						

Instead, examiners evaluated PPP loans using loan size as a proxy for those with revenues not available. As illustrated in the following table, a majority of PPP loans by number had loan sizes of \$100,000 or less, indicating that the bank is helping to serve the needs of small businesses in the assessment area. Examiners also noted that the bank made a majority of loans with available revenue information to businesses with GARs of \$1 million or less.

Distribution of PPP Loans by Loan Size (2021)				
	#	%	\$(000s)	%
<\$100,000	689	78.7	20,969	30.9
\$100,000 - \$249,999	125	14.3	19,084	28.1
\$250,000 - \$1,00,000	61	7.0	27,830	41.0
<b>Total</b>	<b>875</b>	<b>100.0</b>	<b>67,883</b>	<b>100.0</b>
<i>Source: 1/1/2021 – 12/31/2021 Bank Data</i> <i>Due to rounding, totals may not equal 100.0%</i>				

### **Innovative or Flexible Lending Practices**

MSB uses innovative and flexible lending programs to assist in meeting the credit needs of its assessment area. During the evaluation period, MSB originated 2,357 innovative or flexible loans totaling approximately \$301.8 million. PPP loans accounted for the majority of loans with 2,240 or 95.0 percent, of total loans and \$242.8 million, or 80.1 percent, of total dollar volume. In addition to these loans, the bank originated 117 innovative or flexible loans totaling \$59.9 million, which represents a slight decrease from the last evaluation, when the bank originated 142 such loans totaling \$65.1 million in the assessment area. The following narratives provide detail on each program.

#### **Home Mortgage Lending Programs**

The following loan programs offer low down payments, easier qualification, and reduced rates and costs.

- *Restricted Deed/Affordable Housing:* This 30-year fixed-rate internal loan product assists low- and moderate-income homebuyers with purchasing deed-restricted affordable housing. The loan product offers flexible terms such as a low down payment, reduced closing costs, and no private mortgage insurance. The property must be an acceptable deed restricted affordable housing unit and borrowers must be low- or moderate-income.
- *First Time Homebuyer:* This fixed- or adjustable-rate internal product features a three percent down payment, flexible underwriting standards, and offers reduced closing costs. The bank designed this program to target low- and moderate-income borrowers. The bank requires that borrowers meet MassHousing-designated income limits.
- *Massachusetts Housing Partnership (MHP):* The MHP's ONE Mortgage program features a 30-year low fixed-rate option that allows borrowers to put down as little as three percent without private mortgage insurance. The program provides low- and moderate-income borrowers with affordable financing options.

#### Small Business Lending Programs

- *SBA 504 Loan Program:* This loan program provides small businesses with long-term financing through a Certified Development Company (CDC) and promotes business growth and job creation. Generally, the loan structure includes a 10.0 percent equity investment from the small business, 40.0 percent participation from the CDC, and 50.0 percent participation by the bank.
- *SBA Express Loan Program:* This program offers borrowers an accelerated turnaround time of up to 36 hours for approval on loan amounts up to \$500,000. The SBA provides a maximum guaranty of 50.0 percent, and no collateral is required for loans of \$25,000 or less.
- *SBA PPP Loan Program:* This program, offered in 2020 and 2021 during the COVID-19 pandemic, helped small businesses keep their workforce employed. Interest and principal payments could be deferred and the loan forgiven if businesses met certain criteria.
- *Tax Exempt Bonds:* The bank offers financing to businesses in connection with revenue bonds offered through the Massachusetts Development Finance Agency. This flexible financing option is available for nonprofits, affordable housing developers, municipal entities, manufacturers, and environmental enterprises. This program offers low interest rates and flexible terms to support economic development.
- *BDC Capital's Massachusetts CAP:* The bank participates in BDC Capital's Massachusetts Capital Access Program, which helps MA small businesses obtain loans from participating banks. Using cash collateral guarantees from a loan loss reserve fund, this program enables banks to originate loans they might otherwise be unable to originate.

Innovative or Flexible Lending Programs										
Type of Program	2020		2021		2022		2023 YTD		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
<b>Residential</b>										
Restricted Deed/Affordable Housing	5	914	6	1,556	3	588	0	0	14	3,058
First Time Homebuyer	6	2,283	7	1,781	19	6,313	5	1,764	37	12,141
Mass Housing Partnership (MHP)	18	4,430	17	3,561	4	1,220	2	377	41	9,588
SBA 504	3	2,758	7	3,380	3	1,053	2	1,523	15	8,713
SBA Express	0	0	0	0	3	325	4	530	7	855
SBA PPP	1,359	165,730	881	76,122	0	0	0	0	2,240	241,852
Tax Exempt Bonds	2	21,414	1	4,140	0	0	0	0	3	25,554
<b>Totals</b>	<b>1,393</b>	<b>197,529</b>	<b>919</b>	<b>90,540</b>	<b>32</b>	<b>9,499</b>	<b>13</b>	<b>4,194</b>	<b>2,357</b>	<b>301,762</b>
<i>Source: Bank Data</i>										

### **Community Development Loans**

MSB made a relatively high level of community development loans. In total, the bank originated 37 community development loans totaling approximately \$88.9 million during the evaluation period. These totals include 18 loans totaling \$47.6 million inside the assessment area and 19 loans totaling approximately \$41.3 million outside the assessment area, but in the greater MA-statewide area. Nearly half of MSB's community development loans were for affordable housing, illustrating the bank's responsiveness to the assessment area needs. The number and dollar volume of community development loans increased since the last evaluation. During the prior evaluation, the bank originated 14 loans (\$81.1 million) in the assessment area and 12 loans (\$19.9 million) outside the assessment area.

Community development lending during the evaluation period represents 1.5 percent of average total assets and 2.6 percent of average total loans. MSB's performance in both metrics decreased since the last evaluation (2.2 and 3.3 percent, respectively), and ranks below similarly situated institutions such as Avidia Bank (7.1 and 9.8 percent, respectively); Cambridge Savings Bank (2.2 and 2.9 percent, respectively); and UniBank for Savings (1.9 and 2.6 percent, respectively).

<b>Community Development Lending</b>										
<b>Activity Year</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
2020	4	22,789	1	1,160	2	3,908	5	10,269	<b>12</b>	<b>38,126</b>
2021	0	0	0	0	13	20,496	0	0	<b>13</b>	<b>20,496</b>
2022	5	18,526	2	3,574	3	6,373	0	0	<b>10</b>	<b>28,473</b>
2023 YTD	1	500	0	0	1	1,310	0	0	<b>2</b>	<b>1,810</b>
<b>Total</b>	<b>10</b>	<b>41,815</b>	<b>3</b>	<b>4,734</b>	<b>19</b>	<b>32,087</b>	<b>5</b>	<b>10,269</b>	<b>37</b>	<b>88,905</b>
<i>Source: Bank Data</i>										

The following represents examples of community development loans made within the assessment area:

- During the evaluation period, the bank originated three loans totaling approximately \$7.5 million to a human services nonprofit organization. The organization provides services to low- and moderate-income individuals and operates from a moderate-income census tract in Framingham. The first loan, originated in 2020, was a \$4.5 million PPP loan. Proceeds revitalized and stabilized a moderate-income census tract by helping to keep the organization within the community. The second loan, originated later in 2020, was a \$1.1 million loan. The organization used the proceeds to construct a 9-bedroom affordable housing dormitory intended to house individuals with serious emotional and behavioral challenges. Although this loan received credit for providing affordable housing to low- and moderate-income individuals, it also helped revitalize the moderate-income census tract within which the subject property resides. The third loan, originated in 2022, was a \$1.9 million refinance loan collateralized by the organization's community services center, two group homes, and a dormitory.
- In 2022, the bank originated a \$1.7 million loan to a community services nonprofit organization based in Hopkinton. The nonprofit operates a food pantry, clothing closet, 211 emergency program, and various other programs that specifically target low- and moderate-income individuals.
- In 2022, the bank originated a \$19.0 million loan to finance the development of a 56-unit residential property that will contain 14 affordable-rate units under MA statute 40B. The loan met the primary purpose of affordable housing and the bank received \$4.75 million of pro rata credit.

## INVESTMENT TEST

The bank's overall Investment Test performance is rated Outstanding. The following sections discuss the bank's performance under each criterion.

## Investment and Grant Activity

MSB has an excellent level of qualified community development investment and grants, often in a leadership position, particularly those that are not routinely provided by investors. MSB and the Middlesex Bank Charitable Foundation (Foundation) made 327 qualified investments totaling approximately \$39.4 million during the evaluation period. The bank's investments increased 35.3 percent by dollar from the prior evaluation. The increase in investments is higher than the bank's 24.2 percent increase in total assets. Total donations slightly increased by approximately \$1.6 million. The total dollar amount of equity investments and donations equates to 0.7 percent of average total assets and 2.0 percent of average total securities since the previous evaluation.

MSB's investment and donation performance as a percentage of average total assets was similar to that of three similarly situated institutions, whereas, performance as a percentage of average total securities was similar to one and less than two similarly situated institutions. The three similarly situated institutions include Avidia Bank (0.2 and 1.8 percent, respectively), Cambridge Trust Company (0.5 and 6.0 percent, respectively), and Enterprise Bank and Trust Company (0.7 and 4.0 percent, respectively). Although the bank's performance as a percentage of average total securities was less than that for two institutions, the scope for the Cambridge Trust Company and Enterprise Bank and Trust Company evaluations covered one year of the pandemic, whereas, Avidia Bank similar to MSB's scope, primarily covered the period of the pandemic. Consequently, new investment-related opportunities were limited during this time.

The following table illustrates the bank's community development investments by year and purpose.

Qualified Investments										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	3	6,143	3	12,056	4	7,942	0	0	10	26,141
2020	0	0	0	0	0	0	0	0	0	0
2021	0	0	0	0	0	0	0	0	0	0
2022	0	0	0	0	0	0	0	0	0	0
YTD 2023	1	5,000	0	0	1	5,000	0	0	2	10,000
<b>Subtotal</b>	<b>4</b>	<b>11,143</b>	<b>3</b>	<b>12,056</b>	<b>5</b>	<b>12,942</b>	<b>0</b>	<b>0</b>	<b>12</b>	<b>36,141</b>
Qualified Grants & Donations	24	310	290	2,946	1	5	0	0	315	3,261
<b>Total</b>	<b>28</b>	<b>11,453</b>	<b>293</b>	<b>15,002</b>	<b>6</b>	<b>7,947</b>	<b>0</b>	<b>0</b>	<b>327</b>	<b>39,402</b>
<i>Source: Bank Data</i>										

## Equity Investments

The bank has 12 investments totaling appropriately \$36.1 million, of which two totaling \$10.0 million, are new and 10 prior period investments totaling approximately \$26.1 million. The following represent examples of community development investments:

### *Prior Period Investments*

- The bank maintains a \$5.0 million equity investment in the Massachusetts Housing Investment Corporation Loan Fund (MHIC). MHIC is a private investor and lender that specializes in financing for affordable housing and community development throughout New England. MHIC invests in projects that create or rehabilitate affordable housing in low- and moderate-income neighborhoods. This investment fund has nine projects that created more than 500 housing units.
- The bank maintains a \$929,596 investment in the Bedford Village Preservation of Affordable Housing. Proceeds assisted in developing 96 affordable housing units in Bedford.

### *New Investments*

- In 2023, the bank invested \$5.0 million in the Healthy Neighborhoods Equity Fund II through the MHIC. This equity investment assists with developing quality affordable housing for low- and moderate-income individuals and families in and around the bank's assessment area.

### Grants and Donations

During the evaluation period, MSB and the Foundation made approximately \$3.3 million in qualified donations. Of the bank's 315 donations, 111 for approximately \$1.3 million related to COVID-19 relief. Community development organizations serving low- and moderate-income individuals and families throughout the assessment area benefitted from the donations. Due to pandemic-related activities, the total number and dollar amount of donations significantly increased. The bank's 49.3 percent increase in donations was higher than the 24.2 percent increase in assets during the evaluation period.

The following are examples of qualified grants and donations.

### *Grants*

- **Habitat for Humanity of Greater Worcester** - This organization provides below market affordable homes to families that earn 30 - 60 percent of the area median income and do not qualify for traditional loan financing. This organization serves the Greater Worcester area, including parts of the bank's assessment area.
- **Bethany Hill Place** –The bank made multiple grants to Bethany Hill Place. Grants support affordable housing and other services. Bethany Hill Place serves individuals and families that experience homelessness, addiction, and violence. The organization also provides financial literacy, college, and career counseling and tutoring for General Education Diplomas. The organization maintains 41 units of affordable, educational living in Framingham.

- **MetroWest Women’s Fund (MWF)** – MWF provides community services through educational opportunities to low-income women and girls living in the MetroWest area.

### **Responsiveness to Credit and Community Development Needs**

MSB exhibits excellent responsiveness to credit and community economic development needs. The bank provided approximately \$11.5 million in investments, grants, and donations for affordable housing initiatives. As noted by the community contact, affordable housing is a constant need. The bank’s new affordable housing investment will assist in creating 51 deed-restricted affordable housing units for individuals with incomes less than 80 percent of the area median income. The bank’s charitable foundation also made a large number of donations specifically for COVID-19 relief during the pandemic. Additionally, the bank and Foundation increased its grants and donations to community service organizations that serve low- and moderate-income families and individuals.

### **Community Development Initiatives**

MSB makes significant use of innovative and/or complex investments to support community development initiatives.

The bank’s new and prior period investments support the creation and preservation of affordable housing throughout the assessment area, which requires the collaboration of multiple partners. The bank also made a new investment and retained prior period investments in equity funds that provide small business development through innovative products to businesses that would not typically be able to obtain these funds through traditional financing methods.

## **SERVICE TEST**

The bank’s overall Service Test performance is rated Outstanding. The following sections discuss the bank’s performance under each criterion.

### **Accessibility of Delivery Systems**

Delivery systems are accessible to all portions of the institution’s assessment area. The following table illustrates the distribution of branches and ATMs by tract and income level.



<b>Branch and ATM Distribution by Geography Income Level</b>								
<b>Tract Income Level</b>	<b>Census Tracts</b>		<b>Population</b>		<b>Branches</b>		<b>ATMs</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Low	3	1.2	11,660	1.0	0	0.0	1	1.8
Moderate	13	5.4	62,000	5.4	1	3.2	2	3.6
Middle	74	30.7	355,309	30.0	8	25.8	15	26.8
Upper	147	61.0	750,790	63.4	22	71.0	38	67.8
NA	4	1.7	3,300	0.3	0	0.0	0	0.0
<b>Total</b>	<b>241</b>	<b>100.0</b>	<b>1,183,059</b>	<b>100.0</b>	<b>31</b>	<b>100.0</b>	<b>56</b>	<b>100.0</b>
<i>Source: 2020 US Census Data; Bank Data</i>								

As the table illustrates, MSB maintains a network of 31 branches, 53 full-service ATMs, and 3 cash dispensing ATMs throughout the assessment area. Although the bank maintains an ATM in a low-income tract, there are no branches. In the moderate-income census tracts, the distribution of branches and ATMs is less than demographics and the percentage of moderate-income census tracts. Although branch distribution in the moderate-income census tracts is less than demographics, other branches to serve the other moderate-income census tracts are within a 5-mile radius. The bank is also part of the ALLPOINT ATM Network, which offers customers surcharge-free ATM transactions at over 55,000 participating ATM locations worldwide.

In addition to its branches and ATMs, MSB offers alternative delivery systems to expand retail and commercial banking service access to all individuals and business customers. The bank offers personal and business online and mobile banking, remote deposit capture, remote wallet, and support through its call center. MSB employees also speak 23 different languages, which enhances accessibility to banking services for those that may be non-English speakers. Of the 16 low- and moderate-income census tracts in the assessment area, 11 have a minority population of 50 percent or greater.

### **Changes in Branch Locations**

To the extent changes have been made, the bank's opening and closing of branches has not adversely affected the accessibility of its delivery systems, particularly to low- and moderate-income geographies and/or to low- and moderate-income individuals. During the evaluation period, the bank opened a branch at 177 Broad Street, Hudson (middle-income) and 65 East Main Street Westborough (upper-income). The bank also relocated its 17 Nason Street, Maynard (middle-income) branch to 7 Digital Way, Maynard (middle-income), and its 291 Main Street, Acton (upper-income) branch to 279 Main Street, Acton (upper-income). Further, MSB closed its 577 Massachusetts Avenue, Acton (upper-income) branch and 67 Union Street, Natick (upper-income) stand-alone ATM due to access-related issues.

### **Reasonableness of Business Hours and Services**

Services, including business hours, do not vary in a way that inconveniences certain portions of the assessment area, particularly low- and moderate-income geographies and/or individuals. All retail

branches offer the same loan and deposit products. Except for the Concord, Hopkinton, Needham, and Wellesley locations (all in and surrounded by upper-income census tracts), all locations offer drive-thru teller services. All branches maintain the same operating hours. Branches are open Monday - Wednesday 9:00 a.m. - 4:00 p.m., Thursday 9:00 a.m. – 6:00 p.m., Friday 9:00 a.m. - 4:00 p.m., and Saturday 9:00 a.m. - 12:00 p.m. The bank maintains separate drive-thru hours from 8:30 a.m. - 4:30 p.m. Monday – Wednesday, 8:30 a.m. - 6:00 p.m. Thursday, 8:30 a.m. – 4:30 p.m. Friday, and 9:00 a.m. - 12:00 p.m. Saturday.

### **Community Development Services**

MSB is a leader in providing community development services. A majority of service activity consisted of employees and senior management serving on boards and committees of qualified community development organizations. As depicted in the table, the bank provided 111 instances or 2,356 hours of community development services to 58 different organizations. The number of organizations the bank assisted increased from 34 during the prior evaluation period to 58 organizations. Although the number of organizations increased, the following table also reflects a significant decline from 2020 to 2021 due to limited in-person activities in 2021.

<b>Community Development Services</b>					
<b>Activity Year</b>	<b>Affordable Housing</b>	<b>Community Services</b>	<b>Economic Development</b>	<b>Revitalize or Stabilize</b>	<b>Totals</b>
	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>
2020	4	34	3	0	<b>41</b>
2021	4	6	6	0	<b>16</b>
2022	6	25	8	0	<b>39</b>
YTD 2023	3	9	3	0	<b>15</b>
<b>Total</b>	<b>17</b>	<b>74</b>	<b>20</b>	<b>0</b>	<b>111</b>
<i>Source: Bank Data</i>					

The following are examples of community development services.

- **Project Just Because Inc. (PJB Inc.)** - PJB Inc., a nonprofit organization offers crisis assistance and provides necessities to low- and moderate-income MA residents. A senior vice president served as a Director.
- **MetroWest YMCA** – The MetroWest YMCA provides physical health- and wellness-rated activities. The MetroWest YMCA provides community services to low- and moderate-income residents through its financial aid assistance program. The MetroWest YMCA also operates a food distribution program at the Framingham branch. A senior vice president served as a Director.
- **Open Table** – Open Table, a local community service organization provides healthy foods to low- and moderate-income individuals. A senior vice president serves on the organization’s Board.

## **DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

Examiners reviewed the bank's compliance with the laws relating to discrimination and other illegal credit practices, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any discriminatory or other illegal credit practices.

## **APPENDICES**

### **DIVISION OF BANKS FAIR LENDING POLICIES AND PROCEDURES**

The Division of Banks provides comments regarding the institution's fair lending policies and procedures pursuant to Regulatory Bulletin 1.3-106. A review of the bank's public comment file illustrated the bank received no complaints pertaining to the institution's CRA performance since the previous examination. Examiners conducted the fair lending review in accordance with the FFIEC Interagency Fair Lending Examination Procedures. Based on these procedures, examiners did not note any evidence of disparate treatment.

### **MINORITY APPLICATION FLOW**

Examiners reviewed the bank's 2021 and 2022 HMDA LARs to determine if the application flow from the different racial groups reflected assessment area demographics. Considering the assessment area's composition and comparisons to 2021 and 2022 aggregate data, the bank's minority application flow is reasonable.

According to the 2020 U.S. Census Data, the assessment area contained a total population of 1,183,059 individuals, of which 26.8 percent are minorities. The minority population represented is 3.0 percent Black/African American, 11.0 percent Asian, 0.2 percent American Indian, 6.5 percent Hispanic or Latino, and 11.4 percent other.

In 2021, the bank received 1,301 HMDA reportable loan applications from within its assessment area. Of these applications, the bank received 79 or 6.1 percent from minority applicants, 64 or 81.0 percent, of which resulted in originations. The aggregate received 15.3 percent of its applications from minority consumers, of which it originated 68.9 percent. For the same period, the bank received 27 or 2.1 percent of all applications from ethnic groups of Hispanic origin within its assessment area, of which it originated 22 or 81.5 percent of loans. Examiners compared this performance to an aggregate ethnic minority application rate of 4.8 percent with a 63.6 percent origination rate.

In 2022, the bank received 860 HMDA reportable loan applications from within its assessment area. Of these applications, the bank received 75 or 8.7 percent from minority applicants, of which it originated 59 or 78.7 percent. For the same period, the bank received 31 or 3.6 percent of all

applications from ethnic groups of Hispanic origin within its assessment area, of which it originated 22 or 71.0 percent.

Examiners compared the bank's 2021 lending to aggregate. Examiners also analyzed the bank's 2022 lending for trends. The data comparison assists in deriving reasonable expectations for the application rate the bank received from minority home mortgage loan applicants. Refer to the following table for information on the bank's minority application flow as well as that for the aggregate in the bank's assessment area.

MINORITY APPLICATION FLOW					
RACE	Bank 2021 HMDA		2021 Aggregate Data	Bank 2022 HMDA	
	#	%	%	#	%
American Indian/ Alaska Native	2	0.2	0.1	2	0.2
Asian	58	4.5	11.5	52	6.0
Black/ African American	3	0.2	1.5	3	0.4
Hawaiian/Pacific Islander	0	0.0	0.1	0	0.0
2 or more Minority	0	0.0	0.1	1	0.1
Joint Race (White/Minority)	16	1.2	2	17	2.0
<b>Total Racial Minority</b>	<b>79</b>	<b>6.1</b>	<b>15.3</b>	<b>75</b>	<b>8.7</b>
White	990	76.1	59.4	663	77.1
Race Not Available	232	17.8	25.3	122	14.2
<b>Total</b>	<b>1,301</b>	<b>100</b>	<b>100</b>	<b>860</b>	<b>100</b>
ETHNICITY					
Hispanic or Latino	18	1.4	3.5	21	2.4
Joint (Hisp/Lat /Not Hisp/Lat)	9	0.7	1.3	10	1.2
<b>Total Ethnic Minority</b>	<b>27</b>	<b>2.1</b>	<b>4.8</b>	<b>31</b>	<b>3.6</b>
Not Hispanic or Latino	1,022	78.5	69.7	687	79.9
Ethnicity Not Available	252	19.4	25.5	142	16.5
<b>Total</b>	<b>1,301</b>	<b>100</b>	<b>100</b>	<b>860</b>	<b>100</b>
Source: 2020 US Census Data, HMDA Aggregate Data 2021, HMDA LAR Data 2021 and 2022					

## **LARGE BANK PERFORMANCE CRITERIA**

### **Lending Test**

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) through its lending activities by considering a bank's home mortgage, small business, small farm, and community development lending. If consumer lending constitutes a substantial majority of a bank's business, the FDIC will evaluate the bank's consumer lending in one or more of the following categories: motor vehicle, credit card, other secured, and other unsecured. The bank's lending performance is evaluated pursuant to the following criteria:

- 1) The number and amount of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, in the bank's assessment area;
- 2) The geographic distribution of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, based on the loan location, including:
  - i. The proportion of the bank's lending in the bank's assessment area(s);
  - ii. The dispersion of lending in the bank's assessment areas(s); and
  - iii. The number and amount of loans in low-, moderate-, middle- and upper-income geographies in the bank's assessment area(s);
- 3) The distribution, particularly in the bank's assessment area(s), of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, based on borrower characteristics, including the number and amount of:
  - i. Home mortgage loans low-, moderate-, middle- and upper-income individuals
  - ii. Small business and small farm loans to businesses and farms with gross annual revenues of \$1 million or less;
  - iii. Small business and small farm loans by loan amount at origination; and
  - iv. Consumer loans, if applicable, to low-, moderate-, middle- and upper-income individuals;
- 4) The bank's community development lending, including the number and amount of community development loans, and their complexity and innovativeness; and
- 5) The bank's use of innovative or flexible lending practices in a safe and sound manner to address the credit needs of low- and moderate-income individuals or geographies.

### **Investment Test**

The Investment Test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) through qualified investments that benefit its assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s). Activities considered under the Lending or Service Test may not be considered under the investment test. The bank's investment performance is evaluated pursuant to the following criteria:

- 1) The dollar amount of qualified investments;
- 2) The innovativeness or complexity of qualified investments;
- 3) The responsiveness of qualified investments to available opportunities; and
- 4) The degree to which qualified investments are not routinely provided by private investors.

## **Service Test**

The Service Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the bank's systems for delivering retail banking services and the extent and innovativeness of its community development services.

The bank's retail banking services are evaluated pursuant to the following criteria:

- 1) The current distribution of the bank's branches among low-, moderate-, middle-, and upper-income geographies;
- 2) In the context of its current distribution of the bank's branches, the bank's record of opening and closing branches, particularly branches located in low- or moderate-income geographies or primarily serving low- or moderate-income individuals;
- 3) The availability and effectiveness of alternative systems for delivering retail banking services (*e.g.*, RSFs, RSFs not owned or operated by or exclusively for the bank, banking by telephone or computer, loan production offices, and bank-at-work or bank-by-mail programs) in low- and moderate-income geographies and to low- and moderate-income individuals; and
- 4) The range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

The bank's community development services are evaluated pursuant to the following criteria:

- 1) The extent to which the bank provides community development services; and
- 2) The innovativeness and responsiveness of community development services.

## GLOSSARY

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**American Community Survey (ACS):** A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

**Area Median Income:** The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

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

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

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

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

- (1) Support affordable housing for low- and moderate-income individuals;
- (2) Target community services toward low- and moderate-income individuals;
- (3) Promote economic development by financing small businesses or farms; or
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies.

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

**Community Development Financial Institutions (CDFIs):** CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

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

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

**Community Development Loan:** A loan that:

- (1) Has as its primary purpose community development; and
- (2) Except in the case of a wholesale or limited purpose bank:
  - (i) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
  - (ii) Benefits the bank's assessment area(s) or a broader statewide or regional area including the bank's assessment area(s).

**Community Development Service:** A service that:

- (1) Has as its primary purpose community development;
- (2) Is related to the provision of financial services; and
- (3) Has not been considered in the evaluation of the bank's retail banking services under § 345.24(d).

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

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



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

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or
- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

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

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

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

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

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

**Home Mortgage Loans:** Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Small Business Investment Company (SBIC):** SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

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

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

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

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

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

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