



## PUBLIC DISCLOSURE

June 22, 2015

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Middlesex Federal Savings, F.A.  
Charter Number 701452

1 College Avenue, Somerville, MA 02144

Office of the Comptroller of the Currency

99 Summer Street, Suite 1400, Boston, MA 02110

**NOTE:** 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 federal financial supervisory agency concerning the safety and soundness of this financial institution.

**INSTITUTION'S CRA RATING: This institution is rated Satisfactory.**

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

**The Community Development Test is rated: Satisfactory.**

The major factors supporting the institution's Community Reinvestment Act (CRA) rating are:

- The Bank's level of lending, as reflected by the loan-to-deposit ratio, is reasonable.
- The majority of originated and purchased loans are within the Bank's assessment area (AA).
- The borrower distribution of home loans reflects a reasonable distribution among individuals of different income levels.
- The distribution of business loans reflects excellent distribution among businesses of different sizes.
- The geographic distribution of home loans and business loans reflects excellent distribution in low- and moderate-income census tracts.
- The Bank's community development performance demonstrates adequate responsiveness to community development needs in its assessment area through qualified loans, investments, and services.

## **Scope of Examination**

Middlesex Federal Savings, Federal Association (MFS or Bank) was evaluated using Intermediate Small Bank examination procedures, which include a Lending Test and a Community Development (CD) test. The Lending Test evaluates the Bank's record of meeting the credit needs of the Bank's AAs through its lending activities. The CD test evaluates the Bank's responsiveness to CD needs in its AAs through qualified CD loans, investments, and services.

The evaluation period for the Lending Test covers the Bank's performance from January 1, 2013 through December 31, 2014. For the period from January 1, 2013 through December 31, 2013, the Bank's performance was compared to the 2010 U.S. Census Data and the 2004 Metropolitan Area (MA) Boundaries. For the period from January 1, 2014 through December 31, 2014, the performance was compared to the 2010 U.S. Census Data and the 2014 MA Boundaries.

The evaluation period for the CD test is from June 18, 2012, the date of the prior Performance Evaluation, through June 22, 2015. CD loans, investments, and services submitted by management were verified to ensure they met the regulatory definition for community development.

The Bank's primary loan products, based on originations during the evaluation period, are residential mortgages and commercial loans. Residential loans, including home purchase, refinance, and home improvement loans, represent 61% of the Bank's originations and/or purchases by number and 28% by dollar volume during the evaluation period. During the same period, commercial loans represented 72% of total originations by dollar amount and 39% by the number of loans.

The Bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). We reviewed the testing results of the Bank's HMDA data for residential real estate loans originated and purchased and found that the data was reliable. All residential real estate loans originated and purchased during the assessment period were included in our evaluation of the Bank's lending.

To evaluate the Bank's lending inside its assessment area we used the Bank's HMDA data and a random sample of 20 commercial loans originated between January 1, 2013 to December 31, 2014. We also used a sample of 20 commercial loans to evaluate the Bank's business lending.

A full scope review was performed on AA 1 – Middlesex County as the majority of deposits, lending activity, and physical presence is in this market. There was not a meaningful volume of HMDA data or business loan activity during the evaluation period in AA 2 – Boston/Quincy Metropolitan Division (MD) to perform an analysis.

## **Description of Institution**

MFS is a \$339 million mutual thrift headquartered in Somerville, Massachusetts. The Bank has three operating subsidiaries, Highland Investment Corporation (holds Bank's investments), Midshares, Inc. (holds Bank's premises), and One College, LLC (holds Bank's repossessed real property). Affiliate activities were not considered in this evaluation. In addition to the Bank's main office located in Somerville, MA, the institution has two full service branches, one located at Teele Square in Somerville, MA, and the other located in Medford, MA. The main office is located in a middle-income geography and the Medford branch is located in an upper-income geography. The Bank's Teele Square office is in a moderate-income geography. Branch hours are typically 8:30AM to 4:00PM on Monday through Friday, and 8:30AM to 12:00PM on Saturday. No branches were closed during the evaluation period. There have not been any significant changes to MFS's corporate structure since the last CRA evaluation.

MFS is a full service, intrastate institution, offering a standard array of traditional loan and deposit products for both personal and business customers. The Bank's website, [www.middlesexfederal.com](http://www.middlesexfederal.com), provides a listing and description of its deposit and loan services. The Bank offers a variety of different account access alternatives including telephone banking and online banking with bill pay options. The Bank operates automated teller machines (ATMs) at all three of its branches and is a member of the

SUM ATM network, which allows member customers to access their accounts from participating SUM network ATMs without a surcharge.

As of March 31, 2015, total assets were \$339 million, deposits totaled \$247 million, and net Tier 1 Capital was \$38 million. The loan portfolio totaled \$239 million, or 71% of total assets, as of the same date. The following table provides a summary of the loan mix.

<b>Loan Portfolio Summary by Loan Product March 31, 2015</b>	
<b>Loan Category</b>	<b>% of Gross Loans and Leases</b>
1-4 Family Residential Mortgage – Closed End	57%
Home Equity	3%
Commercial & Industrial	2%
Commercial Real Estate	35%
Construction and Development	3%

*Source: FDIC Call Report*

The Bank has no financial or legal impediments to meeting the credit needs of the community. The Bank was rated “Satisfactory” using intermediate small bank procedures at the last CRA evaluation dated June 18, 2012.

## **Description of Assessment Area(s)**

The CRA requires a bank to define an AA in which it will be evaluated. MFS has two AAs that meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income tracts.

### *Full Scope AA 1 – Middlesex County*

MFS has designated all of Middlesex County as AA 1. The AA is part of the Cambridge-Newton-Framingham, MA MD. Middlesex County is made up of 54 cities/towns and is one of the largest counties in Massachusetts. According to the 2010 U.S. Census and the 2004 MA Boundaries, AA 1 is comprised of 318 census tracts, which included 17 low-income tracts (5%), 75 moderate-income tracts (24%), 136 middle-income tracts (43%), and 89 upper-income tracts (28%). There was one census tract that was not assigned an income classification. The 2010 U.S. Census Data and 2013 HUD updated median family income indicates that 38% of families in AA 1 are considered low- or moderate-income and approximately 8% of the households are below the poverty line.

Demographic information for AA 1 based on 2010 U.S. Census and 2004 MA Boundaries is broken down below:

<b>Demographic Information for MFS AA 1 – Middlesex County</b>					
Income Level	Total #	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)*	318	5%	24%	43%	28%
Population by Geography	1,503,085	4%	22%	46%	28%
Owner Occupied Housing by Geography	366,303	2%	16%	50%	32%
Family Distribution by Income Level	366,038	21%	17%	22%	40%
2010 Census Median Family Income (MFI)		\$97,382	Median Housing Value**		\$468,308
HUD Updated MFI: 2013		\$101,000	Families Below the Poverty Level		7%
			Unemployment Rate ***		3.3%

Source: 2010 U.S. Census Data and 2004 MA Boundaries

\*There is one census tract (< 1%) that has not been assigned an income classification and is NA.

\*\*Data from Zillow.com

\*\*\*Data from US Bureau of Labor Statistics as of 04/30/2015. Rate is Middlesex County.

Based on the 2010 U.S. Census Data and the 2014 MA Boundaries, AA 1 (Middlesex County) is still comprised of 318 census tracts. There are 12 low-income census tracts (4%), 64 moderate-income census tracts (20%), 127 middle-income tracts (40%), 114 upper-income tracts (36%), and one census tract (<1%), which has not been assigned any income classification. The percent of families considered low- or moderate-income declined to 35% from the 38% noted above and approximately 8% of the households are below the poverty line.

Demographic information for AA 1 based on 2010 U.S. Census Data and 2014 MA Boundaries is broken down below:

<b>Demographic Information for MFS Bank AA 1 – Middlesex County</b>					
Income Level	Total #	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)*	318	4%	20%	40%	36%
Population by Geography	1,503,085	3%	19%	42%	36%
Owner Occupied Housing by Geography	366,303	1%	12%	44%	43%
Family Distribution by Income Level	366,038	20%	15%	21%	44%
2010 Census Median Family Income (MFI)		\$90,625	Median Housing Value**		\$468,308
HUD Updated MFI: 2014		\$90,625	Families Below the Poverty Level		8%
			Unemployment Rate ***		3.3%

Source: 2010 U.S. Census data and 2014 MA Boundaries

\*There is one census tract (< 1%) that has not been assigned an income classification and is NA.

\*\*Data from Zillow.com

\*\*\*Data from US Bureau of Labor Statistics as of 04/30/2015. Rate is Middlesex County.

MFS operates in a highly competitive market with significant competition from local commercial banks, savings banks, and credit unions. The Federal Deposit Corporation's Institutions Deposit (FDIC) Market Share Report, as of June 30, 2014, indicates that 52 institutions operate branches within AA 1 – Middlesex County. MFS ranks 36<sup>th</sup> with a deposit market share of less than 1%. Competitors within the Bank's AA 1 include Middlesex Savings Bank, Century Bank and Trust Company, Cambridge Savings Bank, Eastern Bank, Enterprise Bank and Trust Company, Cambridge Trust Company, Northern Bank and Trust Company, and Brookline Bank. Larger nationwide financial institutions that provide further competition and are deposit share leaders include Bank of America, Citizens Bank, TD Bank, and Santander Bank.

Several nationwide entities provide additional competition for mortgage loans including J P Morgan Chase Bank, Wells Fargo Bank, Mortgage Master, Citi Mortgage, Inc., and Bank of America. The 2013 Institution Market Share report indicates that MFS competes with 533 lenders within its AA 1. The top ten lenders dominate the market with an overall market share of approximately 42%. MFS ranks 145<sup>th</sup> with a market share of less than 1%.

Small business lending within the Bank's AA also remains highly competitive. The top five financial institutions for small business lending within AA 1 are American Express, FSB, FIA Card Services, Citibank, Chase Bank USA, and Capital One Bank (USA). These institutions control 62% of the small business lending market share, according to the 2013 Peer Small Business Market Share data report. The report indicates there are 106 financial institutions competing in the small business lending market within AA 1.

According to the Moody's economic indicators as of May 2015, the Cambridge-Newton-Framingham MD continues to expand steadily. The healthcare sector remains at the forefront of job gains posting a double growth rate when compared to the national average. Hiring within the technology and public sector have also remained strong. The labor force expansion within AA 1 has outpaced the state as well as national averages resulting in an unemployment rate that is well below the state and national levels. The home values have also rebounded as noted by the Case-Shiller single family house price index, which is 3% above its prerecession high in 2006 as of May 2015. The improved home values have also encouraged more home building within the AA.

The unemployment rate of 3.3% for Middlesex County as of April 2015 is at the lowest it has been in the past five years. The unemployment rate in AA 1 compares favorably to the state and national average of 4.1% and 5.4%, respectively.

The economy in AA 1 is expected to expand further in the near term, with healthcare, technology, and an improving housing market being the major drivers for the expansion. The stability from education and healthcare industries as well as the robust growth in high-tech services will allow the local economy in AA 1 to expand at a healthy pace. Biotechnology and pharmaceutical companies are expected to account for an increasingly large share of total employment over the long run. Major employers within

AA 1 as indicated by Labor and Workforce Development (mass.gov) include Harvard University, EMC Corporation, Laboratory for Nuclear Science, Staples, Inc., Massachusetts Institute of Technology, Bentley University, Brandeis University, Boston College, Boston Scientific Corporation, and Vertex Pharmaceuticals.

The local housing market within AA 1 continues to improve with an increase noted in the median housing prices. The median housing value in AA 1 is significantly higher when compared to the median income levels. The expensive housing market limits the availability of affordable housing for low- and moderate-income families in this AA. Based on data from Zillow.com, the average median cost of housing for the towns that are part of AA 1 is \$468 thousand. This is well above the median housing cost in the state of Massachusetts of \$324 thousand.

In assessing the Bank's performance, we contacted a local organization whose purpose is to provide homeless and near homeless individuals and families with individualized supportive services and tailored housing solutions with a goal of obtaining and maintaining affordable housing. The contact indicated that the need for affordable housing remains a challenge due to the high median housing values and the high rents in the area. The contact also indicated that prevention of homelessness and financial literacy programs is an identified need within the community. MFS, along with other local financial institutions, was perceived favorably for their involvement with the organization and the community. Our contact mentioned that there are several different opportunities for participations by local financial institutions. The banks can help by providing financing and grants for local community development organizations whose mission is to expand affordable housing for low- and moderate-income individuals. The contact also mentioned that the banks could also help provide basic financial literacy for low- and moderate-income individuals.

We also reviewed a recent community contact for an organization that works in affordable housing development, community organizing, homelessness prevention, asset building and school- and community-based mediation in the City of Somerville. Our contact was the Chairman of the community development organization. The contact discussed several opportunities for participation by local financial institutions and the continued need for flexible financing opportunities for affordable housing among low- and moderate-income borrowers and financing for small businesses.

#### *Limited Scope AA 2 – Suffolk County*

AA 2 contains a portion of Suffolk County and is part of the Boston-Quincy, MA MD, 14484. The AA includes two neighborhoods of Allston and Brighton, MA and is comprised of 17 census tracts.

Our analysis was based on AA1 – Middlesex County when arriving at the overall conclusion as a vast majority of the Bank's deposits are located within this AA and all of the Bank's three facilities are located in this market. HMDA data and business loans

were not analyzed in AA 2 – Suffolk County as there was not a meaningful volume of activity in the AA to perform an analysis.

## Conclusions with Respect to Performance Tests

### LENDING TEST

MFS’s performance under the lending test is satisfactory. MFS’s loan-to-deposit ratio is reasonable. A majority of the Bank’s loans were originated inside the Bank’s AA. Overall, the distribution of loans reflects a reasonable distribution among individuals of different income levels and excellent distribution among businesses of different sizes. Overall, the geographic distribution of home loans and business loans reflects excellent distribution in the low- and moderate-income census tracts.

#### Loan-to-Deposit Ratio

The Bank’s loan-to-deposit ratio is reasonable given the Bank’s size, financial condition, and AA credit needs. The Bank’s net loan-to-deposit ratio averaged 87% over the last 12 quarters, since the previous CRA evaluation. During this period, the loan-to-deposit ratio ranged from a quarterly low of 69% to a high of 99%. MFS’s loan-to-deposit ratio is higher than the national peer bank median quarterly average of 83% over the same period.

#### Lending in Assessment Area

A majority of MFS’s loans were made within the Bank’s assessment area and the Bank meets the standard for satisfactory performance. MFS originated 71% by number and 66% by dollar amount of loans in the AAs. The following table details the Bank’s lending within the AA by number and dollar amount of loans.

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	25	71	10	29	35	14,401	75	4,859	25	19,260
Home Refinance	65	72	25	28	90	24,120	65	13,165	35	37,285
Home Improvement	12	71	5	29	17	2,907	53	2,534	47	5,441
Business Loans	13	65	7	35	20	9,120	61	5,821	39	14,941
Totals	115	71	47	29	162	50,548	66	26,379	34	76,927

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

The distribution of home loans originated in the Bank’s AA reflects reasonable distribution among individuals of different income levels. The distribution of business loans reflects excellent distribution among businesses of different sizes. HMDA data



and business loans were not analyzed in AA 2 – Suffolk County as there was not a meaningful volume of activity in the AA to perform an analysis.

### Conclusion for full-scope AA 1 – Middlesex County

#### *Home Loans*

The distribution of home loans originated and/or purchased during 2013 reflects reasonable distribution among borrowers of different income levels. Home refinance represents a significant portion of the overall originations made by the Bank during 2013. The percent of home refinance loans made to low-income borrowers is near to the percent of aggregate lending data for HMDA reporters and to the percent of low-income families in the AA. The percent of home refinance loans made to moderate-income borrowers meets the percent of aggregate lending data as well as the percent of moderate-income families within AA 1.

The percent of home purchase loans made to low- and moderate-income borrowers significantly exceeds the percent of peer aggregate lending data for low- and moderate-income borrowers. The percent of home purchase loans to moderate-income borrowers also significantly exceeds the percent of moderate-income families within AA 1. The percent of home improvement loans made to low-income borrowers significantly exceeds the percent of peer aggregate lending data for low-income borrowers. The Bank did not make any home improvement loans to moderate-income borrowers during 2013. The Bank only made six home improvement loans in total during 2013.

The Bank's overall performance for home loans made to borrowers of different income levels is considered satisfactory given the lack of affordable housing and significant market competition within AA 1. The lack of affordable housing limits lending opportunities for low- and moderate-income borrowers. The median housing value in AA 1 continues to improve and is significantly higher relative to the median family income in AA 1. Based on the data collected from Zillow.com, the average median home price in AA 1 is \$468,308. The 2013 HUD updated median family income is \$105,000, which means that a low-income borrower would earn less than \$52,500, making it difficult to qualify for a home loan. Additionally, a moderate-income borrower would also encounter difficulty qualifying for a home loan with an income range of at least \$52,500 but less than \$84,000.

Market competition for home loans is significant within AA 1. According to 2013 Peer Mortgage Market Share data for home loans made to low- and moderate-income borrowers, mortgage lending in AA 1 is dominated by larger nationwide banks and mortgage companies with the top ten institutions holding approximately 43% of the overall market share.

The following tables show the distribution of home loan products among borrowers of different income levels compared to the aggregate lending data for HMDA reporters as well as the percent of families in each income category within AA 1.

<b>Table 2 – Aggregate Lending Data for Borrower Distribution in MFS AA 1 (2013)</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% Aggregate Data	% of Number of Loans	% Aggregate Data	% of Number of Loans	% Aggregate Data	% of Number of Loans	% Aggregate Data	% of Number of Loans
Home Purchase	8	17	20	50	26	33	46	0
Home Improvement	8	17	18	0	29	17	45	66
Home Refinance	6	5	17	17	28	33	49	45

Source: HMDA – reported data from 1/1/2013-12/31/2013; 2010 U.S. Census data and 2004 MA Boundaries.

<b>Table 2A – Borrower Distribution of Home Loans in MFS AA 1 (2013)</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	21	17	17	50	22	33	40	0
Home Improvement	21	17	17	0	22	17	40	66
Home Refinance	21	5	17	17	22	33	40	45

Source: HMDA – reported data from 1/1/2013-12/31/2013; 2010 U.S. Census Data and 2004 MA Boundaries.

The borrower distribution of home loans originated and/or purchased during 2014 reflects a reasonable distribution among borrowers of different income levels. The percent of home refinance loans made to moderate-income borrowers significantly exceeds the percent of peer aggregate lending data as well as percent of moderate-income families within AA 1. The percent of home purchase loans made to moderate-income borrower meets the percent of peer aggregate lending data and significantly exceeds the percent of moderate-income families within AA 1. The Bank did not make any home refinance or home purchase loans to low-income borrowers during 2014. The percent of home improvement loans to low- and moderate-income borrowers significantly exceeds the percent of peer aggregate lending date.

The Bank’s performance is considered satisfactory given the lack of affordable housing and significant market competition within AA 1. As noted above the median housing value in AA 1 is significantly higher relative to the median family income in AA 1. The 2014 HUD updated median family income is \$90,625, which means that a low-income borrower would earn less than \$45,313, making it difficult to qualify for a home loan. Additionally, a moderate-income borrower would also encounter difficulty qualifying for a home loan with an income range of at least \$45,313 but less than \$72,500. Based on

the 2013 Peer Mortgage Market Share data for home loans made to low-income borrowers, mortgage lending to low-income borrowers within AA 1 is dominated by larger financial institutions. The top six institutions account for approximately 33% of the market share for home loans made to low-income borrowers.

The following tables show the distribution of home loan products among borrowers of different income levels compared to the aggregate lending data for HMDA reporters as well as the percent of families in each income category within AA 1.

<b>Table 3 – Aggregate Lending Data for Borrower Distribution in MFS AA 1 (2014)</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% Aggregate Data	% of Number of Loans	% Aggregate Data	% of Number of Loans	% Aggregate Data	% of Number of Loans	% Aggregate Data	% of Number of Loans
Home Purchase	8	0	20	20	26	30	46	50
Home Improvement	8	17	18	50	29	0	45	33
Home Refinance	6	0	17	54	28	23	49	23

Source: HMDA – reported data from 1/1/2014-12/31/2014; 2010 U.S. Census data and 2014 MA boundaries.

<b>Table 3A – Borrower Distribution of Home Loans in MFS AA 1 (2014)</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	20	0	15	20	21	30	44	50
Home Improvement	20	17	15	50	21	0	44	33
Home Refinance	20	0	15	54	21	23	44	23

Source: HMDA – reported data from 1/1/2014-12/31/2014; 2010 U.S. Census Data and 2014 MA boundaries.

### Business Loans

The distribution of business loans reflects excellent distribution among businesses of different sizes. The percent of business loans, by number and dollar amount, made to businesses with revenues less than \$1 million, significantly exceeds the percent of peer aggregate lending data as well as the percent of AA businesses with revenues less than \$1 million. MFS originated 85% by count and 81% by dollar amount of loans to businesses with revenues less than \$1 million.

The following table shows the distribution of business loans among different sized businesses in the AA.

<b>Table 4 - Borrower Distribution of Loans to Businesses in MFS AA</b>				
Business Revenues (or Sales)	≤ \$1,000,000	>\$1,000,000	Unavailable / Unknown	Total
% of AA Business	72	6	22	100
% Aggregate Lending Data	48	52	0	100
% of Bank Loans in AA by #	85	15	0	100
% of Bank Loans in AA by \$	81	19	0	100

Source: Loan sample (1/1/13-12/31/14); 2010 Census Data

## **Geographic Distribution of Loans**

The geographic distribution of home loans and business loans reflects excellent distribution in the low- and moderate-income tracts in AA 1. We did not perform analysis of the distribution of loans by the income level of the geography for AA 2, as there was not a meaningful volume of loans within this AA. We found no conspicuous gaps or areas of low penetration in the Bank's lending patterns.

### Conclusion for full-scope AA 1 – Middlesex County

#### *Home Loans*

The Bank's geographic distribution of home loans originated and/or purchased during 2013 reflects excellent distribution in the low- and moderate-income census tracts. Home refinance represents a significant portion of the overall originations made by the Bank during 2013. The percent of home refinance loans exceeds the percent of peer aggregate lending data and the percent of owner-occupied housing within low-income geographies. The percent of home refinance loans made in moderate-income geographies significantly exceeds the percent of peer aggregate lending data as well as the percent of owner-occupied housing within moderate-income geographies. The percent of home improvement loans significantly exceeds the percent of peer aggregate lending data within moderate-income geographies and the percent of home purchase loans exceeds the percent of peer aggregate lending data.

There were no home purchase or home improvement loans made in low-income tracts during 2013. However, this is reasonable given the significant market competition and the percent of owner-occupied housing in low-income tracts within AA 1. Only 2% of owner-occupied units within the Bank's AA are in low-income tracts. The 2013 Peer Mortgage Market Share data for home loans made in low-income geographies indicates that larger nationwide institutions dominate the overall market share with the top ten institutions accounting for 38% of the overall market share. Given the lack of owner occupied housing in the low-income geographies and the Bank's excellent geographic distribution for all loans in the moderate-income tracts, the overall distribution is considered excellent during 2013.

The following tables detail the Bank’s performance compared to the percentage of owner-occupied housing units in each census tract income level as well as the lending data for all HMDA reporters within the Bank’s AA.

<b>Table 5 - Aggregate Lending Data for Geographic Distribution in MFS AA 1 (2013)</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% Aggregate Lending Data	% of Number of Loans	% Aggregate Lending Data	% of Number of Loans	% Aggregate Lending Data	% of Number of Loans	% Aggregate Lending Data	% of Number of Loans
Home Purchase	2	0	16	17	49	83	33	0
Home Improvement	1	0	12	17	52	67	35	16
Home Mortgage Refinance	2	3	13	33	47	43	38	21

Source: HMDA – reported data from 1/1/2013-12/31/2013; 2010 U.S. Census Data and 2004 MA Boundaries

<b>Table 5A – Geographic Distribution of Home Loans in MFS AA 1 (2013)</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	2	0	16	17	50	83	32	0
Home Improvement	2	0	16	17	50	67	32	16
Home Mortgage Refinance	2	3	16	33	50	43	32	21

Source: HMDA – reported data from 1/1/2013-12/31/2013; 2010 U.S. Census Data and 2004 MA Boundaries

The Bank’s geographic distribution of home loans originated and/or purchased during 2014 also reflects excellent distribution in moderate-income census tracts. The percent of home refinance, home purchase, and home improvement loans all significantly exceed the percent of peer aggregate lending data as well as the percent of owner-occupied units within moderate-income geographies. The Bank did not make any home loans within low-income geographies during 2014. However, this is reasonable given the significant market competition and the low percent of owner-occupied housing in low-income tracts in the AA. Only 1% of owner-occupied units within the Bank’s AA are in low-income tracts. Given the lack of owner occupied housing in the low-income geographies and the Bank’s excellent geographic distribution for all loans in the moderate-income tracts, the overall distribution is considered excellent during 2014.

The following tables detail the Bank’s performance compared to the percentage of owner-occupied housing units in each census tract income level as well as the lending data for all HMDA reporters within the Bank’s AA.

<b>Table 6 - Aggregate Lending Data for Geographic Distribution in MFS AA 1 (2014)</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% Aggregate Lending Data	% of Number of Loans	% Aggregate Lending Data	% of Number of Loans	% Aggregate Lending Data	% of Number of Loans	% Aggregate Lending Data	% of Number of Loans
Home Purchase	2	0	16	40	49	40	33	20
Home Improvement	1	0	12	17	52	67	35	16
Home Mortgage Refinance	2	0	13	20	47	67	38	13

Source: HMDA – reported data from 1/1/2014-12/31/2014; 2010 U.S. Census Data and 2014 MA Boundaries

<b>Table 6A – Geographic Distribution of Home Loans in MFS AA 1 (2014)</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	1	0	12	40	44	40	43	20
Home Improvement	1	0	12	17	44	67	43	16
Home Mortgage Refinance	1	0	12	20	44	67	43	13

Source: HMDA – reported data from 1/1/2014-12/31/2014; 2010 U.S. Census Data and 2014 MA Boundaries

### Business Loans

The Bank’s geographic distribution of business loans reflects excellent distribution throughout census tracts of different income levels. The percent of business loans to small businesses in moderate-income geographies significantly exceeds the percent of peer aggregate lending data as well as the percent of small businesses in moderate-income geographies. The Bank did not make any business loans within low-income geographies during the evaluation period. However, this is reasonable given the significant market competition for business loans within the AA. Based on the 2013 Peer Small Business Market Share data, the top three institutions account for approximately 49% of the overall small business lending market share within AA 1.

The following tables detail the Bank’s performance compared to the percentage of small businesses in each census tract income level as well as the aggregate lending data for all business loan reporters within the Bank’s AA.

<b>Table 7 - Aggregate Lending Data for Geographic Distribution in MFS AA 1</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% Aggregate Lending Data	% of Number of Loans	% Aggregate Lending Data	% of Number of Loans	% Aggregate Lending Data	% of Number of Loans	% Aggregate Lending Data	% of Number of Loans
Small Business Loans	4	0	17	45	46	55	33	0

Source: Loan sample (1/1/13-12/31/14); 2010 Census Data

<b>Table 7A – Geographic Distribution of Business Loans in MFS AA 1</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of Businesses	% of Number of Loans	% of Businesses	% of Number of Loans	% of Businesses	% of Number of Loans	% of Businesses	% of Number of Loans
Small Business Loans	3	0	14	45	40	55	43	0

Source: Loan sample (1/1/13-12/31/14); 2010 Census Data

### Responses to Complaints

The Bank did not receive any CRA related complaints during this evaluation period.

### COMMUNITY DEVELOPMENT TEST

The Bank’s performance under the CD test is rated Satisfactory. MFS’s community development performance demonstrates adequate responsiveness to community development needs in its assessment area through CD loans, investments, and services.

### Number and Amount of Community Development Loans

Community development lending is adequate. During the evaluation period, the Bank originated three qualified CD loans totaling \$1.2 million that benefitted AA 1 and three CD loans totaling \$1.25 million that benefitted the greater statewide area, which includes the Bank’s AA. The CD loans were used to help finance affordable housing, an identified need in the AA. The highlights of the Bank’s CD loans are as follow:

- A \$500 thousand loan was made to provide financing for a 13 unit affordable housing complex located in Cambridge, MA.

- A \$250 thousand loan was made to provide financing for an eleven unit mixed use building, which includes two affordable housing units located in Medford, MA.
- A \$458 thousand loan was made to provide construction financing for two affordable housing condominium units located in Melrose, MA.

### **Number and Amount of Qualified Investments**

The Bank made a satisfactory level of community development investments and donations. The Bank has one prior period investment with \$4.7 million outstanding as of April 30, 2015. The prior investment was made with a Community Investment Fund. The fund invests primarily in debt instruments that support affordable housing and economic deployment for low- and moderate-income individuals and communities. The Bank designated the target regions of Cambridge, Medford, Somerville, and Arlington as qualified investment areas for CD purposes.

During the assessment period, qualifying community development grants and donations totaled \$19 thousand and benefited 13 different community development organizations. All of the 13 organizations benefit AA 1. While the actual level of Bank donations was higher, the aforementioned donations met the definition of community development.

### **Extent to Which the Bank Provides Community Development Services**

Accessibility to the Bank's delivery systems in the AA is good. MFS's delivery systems are accessible to geographies and individuals of different income levels throughout the AA. The Bank has three full-service locations in its AA. Of the three locations, one branch is in a moderate-income geography, one is located in a middle-income geography, and one is located in an upper-income geography. The branches are easily accessible to all residents. No branches were opened or closed during the evaluation period.

The Bank provides a satisfactory level of community development services. During the evaluation period, five Bank officers/employees provided financial expertise and/or services to five qualified community development organizations serving AA 1.

CD service activities in the AA during the evaluation period include:

- A member of the Bank's Board of Directors serves on the Executive Committee and as a Trustee of an organization that provides affordable long-term housing to elderly individuals. According to the director of the organization, over 90% of the residents are low- and moderate-income individuals.
- A Loan Officer at the Bank serves on a scholarship committee at a high school in the Bank's AA. The main purpose of the Committee is to provide financial assistance to needy graduates of the high school in their full-time pursuit of higher education. The



majority of the students awarded scholarships are low- and moderate-income individuals.

- A Bank employee serves on the Board and the Credit Committee of a community development corporation whose mission is to promote economic development in Massachusetts, New Hampshire, Maine, and Vermont by providing financing to small businesses through the Small Business Administration's 504 loan program.
- A Bank employee assists with a money management program at a local organization. The program is offered through an organization whose mission is to support older and disabled individuals to live independently by providing information, advice, and access to quality services and resources. The money management program helps promote self-sufficient living by providing free assistance to older and disabled low- or moderate-income individuals with budgeting, paying bills, and keeping track of financial matters on a monthly basis.
- A Bank employee works with a local organization in Medford, MA, to help raise funds and plan fundraising events. The mission of the organization is to support low- and moderate-income individuals as well as organizations serving low- or moderate-income individuals.

### **Responsiveness to Community Development Needs**

Considering the Bank's capacity, the need, and the availability of CD opportunities, MFS's CD performance demonstrates adequate responsiveness to the needs of the AA.

### **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 195.28(c), in determining a federal savings association's (FSA) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the FSA, or in any assessment area by an affiliate whose loans have been considered as part of the FSA's lending performance. We found no evidence of discriminatory or other illegal credit practices.