

# **PUBLIC DISCLOSURE**

October 23, 2023

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Watertown Savings Bank  
RSSD # 886204

60 Main Street  
Watertown, MA 02472

Federal Reserve Bank of Boston  
600 Atlantic Avenue  
Boston, Massachusetts 02210

**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.

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**INSTITUTION'S CRA RATING: This institution is rated SATISFACTORY.**  
**The Lending Test is rated: OUTSTANDING**  
**The Community Development Test is rated: SATISFACTORY**

Watertown Savings Bank (Watertown or the bank) demonstrates an adequate responsiveness to the credit needs of its assessment area based on the following findings:

### **Lending Test**

- A reasonable loan-to-deposit ratio (considering seasonal variations) given the bank's size, financial condition, the credit needs of its assessment area, and taking into account, as appropriate, other lending-related activities such as loan originations for sale to the secondary markets and community development loans and qualified investments.
- A majority of the bank's loans and, as appropriate, other lending-related activities, are in its assessment area.
- A distribution of loans to and, as appropriate, other lending-related activities for individuals of different income levels (including low- and moderate-income individuals) that is excellent given the demographics of the bank's assessment area.
- An excellent geographic distribution of loans given the bank's assessment area.
- The bank had no CRA-related complaints over the review period.

### **Community Development Test**

- The bank's community development performance demonstrates adequate responsiveness to community development needs of its assessment area through qualified investments and community development services, considering the bank's capacity and the need and availability of such opportunities for community development in the bank's assessment area.

## SCOPE OF EXAMINATION

Watertown's performance review was based on CRA activities conducted using the Federal Financial Institutions Examination Council (FFIEC) Examination Procedures for Intermediate Small Institutions.<sup>1</sup> These procedures evaluate banks under two tests: the Lending Test and the Community Development Test. The Lending Test evaluates the bank's lending performance pursuant to the following criteria: loan-to-deposit (LTD) ratio, assessment area concentration of loans, geographic distribution of loans, loan distribution according to the income of the borrower, and response to CRA-related complaints. The Community Development Test measures the number and amount of community development loans; the number and amount of qualified investments; the extent to which the bank provides community development services; and the bank's responsiveness through such activities.

The Lending Test evaluated residential loans originated by the bank from January 1, 2021 to December 31, 2022. Home mortgage lending data was obtained from Loan Application Registers (LARs) maintained by the bank pursuant to the Home Mortgage Disclosure Act (HMDA). The LAR records data for home purchase loans, home improvement loans, and refinance loans for one-to-four-family and multifamily (five or more unit) properties. This evaluation does not include analysis of "other purpose" loans reported on the bank's LARs. Demographic data was derived from the 2020 United States Census Bureau's American Community Survey (ACS), unless otherwise noted. The residential lending data is shown compared to 2021 and 2022 aggregate data, which was obtained from data reported to the Consumer Financial Protection Bureau (CFPB). Aggregate data consists of lending information from all HMDA reporters that originated or purchased home mortgage loans in the assessment area. Other purpose loans were excluded from the aggregate.

The bank's net LTD ratio was calculated from FFIEC Call Reports from June 30, 2021 to June 30, 2023.

The Community Development Test included a review of community development loans, investments, and services for the period of August 24, 2021 through October 23, 2023. The Community Development Test is evaluated in the context of the community needs and the capacity of the bank. Third-party community organizations were contacted to provide additional insight into the credit and community development needs of the assessment area.

Watertown's CRA performance was last evaluated by the Federal Reserve Bank of Boston on August 23, 2021, using intermediate small institution examination procedures. During that evaluation, the bank received an overall rating of "Satisfactory," with the Lending Test rated "Satisfactory" and the Community Development Test rated "Outstanding."

## DESCRIPTION OF INSTITUTION

Watertown is a mutual savings bank headquartered at 60 Main Street, Watertown, MA. The bank was incorporated in 1870 and became a state member bank of the Federal Reserve System in 2011. Watertown has one non-lending subsidiary, Watertown Five, Inc. The subsidiary primarily

<sup>1</sup> "Intermediate small institution" means a bank or savings association with assets of at least \$376 million as of December 31 of both of the prior two calendar years and less than \$1.503 billion as of December 31 of either of the prior two calendar years.

buys, sells, and holds securities. The bank offers traditional loan and deposit products to consumers and businesses, such as checking and savings accounts, certificates of deposit, and consumer and business loans. In addition to its full-service branches, the bank also offers online banking through its website.

Including the main office, the bank has 10 full-service locations in Middlesex County, MA in the cities and towns of Watertown (5), Waltham (2), Arlington (1), Belmont (1), and Lexington (1). The bank has 2 stand-alone ATMs in Waltham. The bank has not closed a branch since the last examination. Based on ACS demographic data, one branch is in a moderate-income census tract, five are in middle-income tracts, and four are in upper-income tracts.

As of the June 30, 2023 FFIEC Call Report, bank assets total \$1.4 billion. Loans and leases total \$616.8 million, and deposits total \$1.3 billion. Watertown’s total assets decreased 6.7 percent from \$1.5 billion, as of June 30, 2021.

Considering the bank’s financial capacity, local economic conditions, assessment area demographics, and the competitive market in which it operates, the bank has demonstrated an ability to meet the credit needs in its assessment area. There are no legal or financial impediments that would impact the bank’s ability to meet the credit needs of its assessment area.

Table 1 shows the bank’s loan portfolio distribution as of June 30, 2023. Watertown is primarily a home mortgage lender, with home mortgage real estate loans, including multifamily loans and revolving loans, totaling \$543.2 million, or 88.0 percent, of the loan portfolio. Home mortgage loans mainly consist of 1-4 family closed-end loans secured by first liens. Commercial lending is the bank’s second largest business line with commercial real estate, construction and land development, and commercial and industrial loans together totaling \$73.4 million, or 11.9 percent, of the loan portfolio.

| <b>Table 1</b>                               |                               |                                   |
|--|-------------------------------|-----------------------------------|
| <b>Loan Distribution as of June 30, 2023</b> |                               |                                   |
| <b>Loan Type</b>                             | <b>Dollar Amount \$(000s)</b> | <b>Percent of Total Loans (%)</b> |
| Construction and Land Development            | 24,497                        | 4.0                               |
| Revolving 1-4 Family Residential             | 72,610                        | 11.8                              |
| 1-4 Family Residential                       | 458,504                       | 74.3                              |
| Multifamily (5 or more) Residential          | 12,051                        | 2.0                               |
| Commercial RE                                | 46,193                        | 7.5                               |
| <b>Total Real Estate Loans</b>               | <b>613,855</b>                | <b>99.5</b>                       |
| Commercial and Industrial                    | 2,678                         | 0.4                               |
| Consumer                                     | 572                           | 0.1                               |
| <b>Total Loans</b>                           | <b>617,105</b>                | <b>100.0</b>                      |

*Call Report as of June 30, 2023.*

*Total percentages shown may vary by 0.1 percent due to automated rounding differences.*

Watertown operates in a highly competitive banking environment. According to the June 30, 2023 FDIC Deposit Market Share Report, 19 FDIC-insured depository institutions maintain a branch within the assessment area. The top institution is Leader Bank, N.A., which operates 3 branches within the assessment area and has a deposit market share of 17.5 percent. Manufacturers and Traders Trust Company has the next largest deposit market share, at 17.4

percent. The next three institutions are Bank of America, N.A., Cambridge Savings Bank, and Citizens Bank, N.A., respectively. WSB ranked 6<sup>th</sup> with a deposit market share of 7.1 percent.

The bank also faces strong competition for loans. Despite this competition, the bank's market rank has risen. According to 2022 HMDA data, there were 313 HMDA reporters that originated or purchased 7,801 home mortgage loans within the bank's assessment area. Watertown ranked 18<sup>th</sup> among these HMDA reporters. The top three lenders were Citizens Bank, N.A., Leader Bank, N.A., and Guaranteed Rate, Inc., respectively. In 2021, there were 385 HMDA reporters that originated or purchased 18,185 home mortgage loans within the bank's assessment area. Watertown ranked 40<sup>th</sup> among these HMDA reporters. The top lenders were Guaranteed Rate, Inc., Leader Bank, and Citizens Bank, N.A., respectively.

## **DESCRIPTION OF ASSESSMENT AREA**

Watertown's assessment area includes six contiguous cities and towns in the eastern portion of Middlesex County, MA. Middlesex County is in the Cambridge-Newton-Framingham, MA, Metropolitan Division (Cambridge MD), which is part of the Boston-Cambridge-Newton, MA-NH Metropolitan Statistical Area. The cities and towns which comprise the assessment area are Arlington, Belmont, Lexington, Newton, Waltham, and Watertown. There have been no changes to the assessment area since the last examination.

Table 2 provides a summary of the demographic information for the bank's assessment area in 2022.

| Table 2<br>Assessment Area Demographics  |                        |                       |                          |              |  |             |                           |              |
|--|------------------------|-----------------------|--------------------------|--------------|--|-------------|---------------------------|--------------|
| Income Categories  | Tract Distribution     |                       | Families by Tract Income |              | Families < Poverty Level as % of Families by Tract |             | Families by Family Income |              |
|  | #                      | %                     | #                        | %            | #  | %           | #                         | %            |
| Low  | 0                      | 0.0                   | 0                        | 0.0          | 0  | 0.0         | 10,217                    | 14.2         |
| Moderate   | 8                      | 12.3                  | 6,483                    | 9.0          | 408  | 6.3         | 9,694                     | 13.5         |
| Middle   | 14                     | 21.5                  | 16,254                   | 22.6         | 627  | 3.9         | 12,758                    | 17.7         |
| Upper  | 42                     | 64.6                  | 49,267                   | 68.4         | 1,350  | 2.7         | 39,346                    | 54.6         |
| Unknown  | 1                      | 1.5                   | 11                       | 0.0          | 0  | 0.0         | 0                         | 0.0          |
| <b>Total AA</b>  | <b>65</b>              | <b>100.0</b>          | <b>72,015</b>            | <b>100.0</b> | <b>2,385</b>                                       | <b>3.3</b>  | <b>72,015</b>             | <b>100.0</b> |
|  | Housing Units by Tract | Housing Type by Tract |                          |              |  |             |                           |              |
|  |                        | Owner-occupied        |                          |              | Rental   |             | Vacant                    |              |
|  |                        | #                     | % by tract               | % by unit    | #  | % by unit   | #                         | % by unit    |
| Low  | 0                      | 0                     | 0.0                      | 0.0          | 0  | 0.0         | 0                         | 0.0          |
| Moderate   | 13,983                 | 4,598                 | 6.6                      | 32.9         | 8,491  | 60.7        | 894                       | 6.4          |
| Middle   | 30,600                 | 16,200                | 23.4                     | 52.9         | 12,822   | 41.9        | 1,578                     | 5.2          |
| Upper  | 72,985                 | 48,544                | 70.0                     | 66.5         | 21,052   | 28.8        | 3,389                     | 4.6          |
| Unknown  | 20                     | 11                    | 0.0                      | 55.0         | 9  | 45.0        | 0                         | 0.0          |
| <b>Total AA</b>  | <b>117,588</b>         | <b>69,353</b>         | <b>100.0</b>             | <b>59.0</b>  | <b>42,374</b>                                      | <b>36.0</b> | <b>5,861</b>              | <b>5.0</b>   |
| <p>Source: 2022 FFIEC Census Data<br/>2022 Dun &amp; Bradstreet Data<br/>2016-2020 U.S. Census Bureau: American Community Survey</p> <p>Note: Percentages may not total 100.0 percent due to rounding.</p> |                        |                       |                          |              |  |             |                           |              |

The assessment area contains 65 census tracts of which 8 tracts, or 12.3 percent, are moderate-income; 14 tracts, or 21.5 percent, are middle-income; and 42 tracts, or 64.6 percent, are upper-income. The one unknown-income census tract is in Waltham, where a university is located.

Over the review period, there were several census tract changes that impacted the demographics of the bank’s assessment area. Specifically, the number of moderate-income census tracts increased from three in Waltham to eight located in Waltham (5), Watertown (2), and Arlington (1). Middle-income census tracts decreased from 21 to 14; upper-income census tracts increased from 35 to 42; and unknown-income tracts increased from 0 to 1 tract. The bank still maintains one branch in a moderate-income tract, located in Waltham.

### Population

The assessment area has a total population of 297,527 individuals, of which 10.3 percent reside in moderate-income tracts, 24.3 percent reside in middle-income tracts, and 64.3 percent reside in upper-income tracts. Of the 72,015 families in the assessment area, 9.0 percent reside in moderate-income tracts, 22.6 percent reside in middle-income tracts, and 68.4 percent reside in upper-income tracts. The low percentages of individuals and families residing in moderate-

income tracts suggests limited opportunity for the bank to originate home mortgage loans in these tracts.

Though not reflected in Table 2, the percentage of families by census tract income level and the percentage of owner-occupied units by census tract income level have generally shifted proportionally to the shifts in number of census tracts. The data indicates a decrease in the percentage of low-income families between the 2015 and 2020 Census, moving from 15.4 percent to 14.2 percent. The percent of moderate-income families increased from 12.9 percent to 13.5 percent; middle-income families shifted from 17.1 percent to 17.7 percent; and upper-income families remained at 54.6 percent. Families residing below the poverty level decreased from 4.0 percent to 3.3 percent. The percentage of owner-occupied housing within the assessment area remained consistent, shifting slightly from 58.9 percent to 59.0 percent; rentals also remained consistent, moving from 35.8 percent to 36.0 percent; and vacant properties decreased slightly from 5.4 percent to 5.0 percent. Overall, these changes suggest that the population in the assessment area may be slightly increasing in wealth. However, economic barriers still exist to home ownership and the home mortgage market.

### *Housing*

Of the 117,588 housing units in the assessment area, the majority, 78.9 percent, are 1-4 family housing, 21.1 percent are multifamily (five or more units), and 0.1 percent are mobile homes. Within the assessment area, owner-occupied units account for 59.0 percent of the housing stock, while rental units account for 36.0 percent, and vacant units account for 5.0 percent. Within the moderate-income census tracts in the assessment area, 32.9 percent of housing units are owner-occupied, while 60.7 percent are rentals, and 6.4 percent are vacant, indicating limited lending opportunity for home mortgages in these tracts. Owner-occupancy rates increase with census tract income levels. For example, in moderate-income census tracts, 32.9 percent of the housing units are owner-occupied. In the middle- and upper-income census tracts, owner-occupancy rates increase to 52.9 percent and 66.5 percent, respectively. In Watertown, 11.4 percent of housing units are located in moderate-income census tracts. Owner occupancy is lower than the assessment area, at 48.7 percent. Rental occupancy in Watertown is higher than the assessment area, at 46.5 percent; and vacancy is generally consistent with the assessment area, at 4.8 percent. The rental occupancy rate in Watertown indicates limited opportunity for home loan originations.

According to 2020 U.S. Census data, the median housing value in the assessment area was \$762,356, which is above Middlesex County, at \$540,300, and above both the Cambridge MD, at \$495,161, and the City of Watertown, at \$599,126. The median housing value in the assessment area is significantly above the Commonwealth, at \$398,800. Recent data obtained from The Warren Group, Boston, MA, indicates that housing prices continue to rise. For calendar year 2022, the average median home sales price in the Commonwealth was \$530,000. Middlesex County was at \$705,000, and Watertown was at \$800,000. These elevated home prices likely present a barrier to home ownership for many low- and moderate-income borrowers.



*Income*

The FFIEC adjusts the median family income (MFI) of metropolitan areas annually, based on estimates. The MFI for low-income is defined as family income less than 50 percent of the area median income; moderate-income is defined as income of at least 50 percent and less than 80 percent of median income; middle-income is defined as income of at least 80 percent but less than 120 percent of median income; and upper-income is defined as 120 percent of median income and above. The following table displays the MFI incomes for the assessment area.

| <b>Table 3</b>                                   |             |             |
|--|-------------|-------------|
| <b>Median Family Income</b>                      |             |             |
| <b>MSA/MD/State</b>                              | <b>2021</b> | <b>2022</b> |
| Cambridge MD                                     | \$120,200   | \$138,700   |
| Non-MSA Massachusetts*                           | \$111,700   | \$119,400   |
| <i>FFIEC median family income estimates</i>      |             |             |
| <i>*Represents non-MSA portions of the state</i> |             |             |

The MFI for both the Cambridge MD and non-MSA Massachusetts increased over the review period. Based on the ACS, the MFI for the assessment area also increased, from \$131,291 in 2021 to \$158,042 in 2022. The MFI in the assessment area is above the Cambridge MD and the state of Massachusetts. Also, per the ACS, the MFI in Watertown of \$118,012 is below the assessment area, Middlesex County, and the Cambridge MD, but is above the state of Massachusetts. While MFIs increased year over year, elevated home prices continue to present a barrier to home purchasing.

*Employment Statistics*

According to the ACS, the unemployment rate for the assessment area was 3.5 percent, which was lower than Middlesex County (4.2 percent), the Cambridge MD (4.5 percent), and the Commonwealth (5.1 percent). Data released by the U.S. Bureau of Labor Statistics noted that in January of 2021, the unemployment rate in Massachusetts was at a high of 7.1 percent. The unemployment rate declined steadily in the following months, eventually landing at 2.6 percent as of August 2023.

**Community Contacts**

As part of the evaluation process, third parties that are active in community affairs are contacted to assist in assessing the housing and credit needs in the bank’s assessment area. Relevant information from this practice assists in determining whether local financial institutions are responsive to the credit needs of the community, and whether additional opportunities are available.

A community contact was conducted with the executive director of an organization that offers career training, support services, and affordable housing. The contact stated that affordable housing is the primary need in the city in which they are headquartered. Per the community contact, based on the high market values and rapid growth of real estate prices in the assessment area, the only low- or moderate-income individuals who own property in the assessment area generally purchased homes decades ago. The contact stated that the substantial majority of low-

and moderate-income individuals who reside in certain areas of the assessment area live in subsidized affordable housing. The contact further noted that low-income housing tax credits are a critical tool for affordable housing development; there is strong competition among banks for these credits. In addition, the contact stated that MassSave HEAT loans can be impactful for low- or moderate-income families. The contact also noted that programs such as the MassHousing ONE Mortgage Program are beneficial to low- and moderate-income borrowers.

A second community contact was conducted with an individual involved with community development and planning for a municipality in the assessment area. The contact stated that one challenge is affordable housing, noting that it is expensive to create, and a part of that challenge is financing. The contact would like to see less costly financing for affordable housing. The contact stated that Watertown is a good corporate citizen and that a member of Watertown’s board of directors has served on the affordable housing partnership.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS**

**LENDING TEST**

Watertown’s performance under the Lending Test is rated Outstanding.

The following information further details the data compiled and reviewed, as well as conclusions on the bank’s performance.

**Loan-to-Deposit Ratio**

This performance criterion determines the percentage of the bank’s deposit base that is reinvested in the form of loans and evaluates its appropriateness. The bank demonstrates a reasonable loan-to-deposit ratio (considering seasonal variations) given the bank's size, financial condition, the credit needs of its assessment area, and taking into account, as appropriate, other lending-related activities such as loan originations for sale to the secondary markets and community development loans and qualified investments.

The bank's net LTD figures are calculated from the bank's quarterly FFIEC Call Reports. The ratio is based on total loans net of unearned income and net of the allowance for loan and lease losses as a percentage of total deposits.

Table 4 provides a comparison of the bank’s average LTD over the past 9 quarters under evaluation to similarly sized institutions. The bank’s average LTD ratio of 44.3 percent is reasonable.

| <b>Table 4<br/>Loan-to-Deposit Ratio Comparison</b> |                                  |                                    |
|---|----------------------------------|------------------------------------|
| <b>Institutions</b>                                 | <b>Total Assets*<br/>\$(000)</b> | <b>Average LTD Ratio**<br/>(%)</b> |
| Watertown Savings Bank                              | <b>1,416,091</b>                 | <b>44.3</b>                        |
| East Cambridge Savings Bank                         | 1,604,208                        | 93.7                               |
| North Shore Bank                                    | 1,631,309                        | 83.4                               |
| Winchester Cooperative Bank                         | 759,992                          | 74.3                               |
| The Village Bank                                    | 1,924,009                        | 84.2                               |

\*Call Report as of June 30, 2023

\*\*Call Reports from June 30, 2021 to June 30, 2023.

Although the bank’s LTD ratio is below similarly sized banks, it is considered reasonable based on management’s strategy for managing the loan portfolio, management’s overall financial strategy, and a competitive lending environment. Moreover, lending volume during this evaluation period was similar to the previous examination despite the decrease in the LTD ratio.

Further, examiners can consider “lending-related activities,” including lending-related qualified investments when evaluating the LTD ratio. Although lending-related community development activities are evaluated under the community development test applicable to intermediate small institutions, these activities may also augment the loan-to-deposit ratio analysis.<sup>2</sup> During the review period, the bank purchased two pools of mortgaged backed securities (MBS), totaling \$8 million. In addition, the bank holds 25 MBS pools, totaling approximately \$20 million. Examiners will continue to monitor the bank’s performance under this criterion.

**Assessment Area Concentration**

This criterion evaluates the concentration of loans originated by the bank within its assessment area. A majority of Watertown’s loans and, as appropriate, other lending-related activities are in its assessment area. Table 5 presents the bank’s levels of lending inside and outside the assessment area for the entire evaluation period.

| Table 5<br>Lending Inside and Outside the Assessment Area |            |             |                  |           |            |             |                 |           |
|---|------------|-------------|------------------|-----------|------------|-------------|-----------------|-----------|
| Loan Types  | Inside     |             |                  |           | Outside    |             |                 |           |
|   | #          | %           | \$(000s)         | %         | #          | %           | \$(000s)        | %         |
| Home Improvement  | 8          | 88.9        | \$7,955          | 96.5      | 1          | 11.1        | \$285           | 3.5       |
| Home Purchase - Conventional                              | 98         | 56.3        | \$67,973         | 57.2      | 76         | 43.7        | \$50,892        | 42.8      |
| Multi-Family Housing                                      | 2          | 100         | \$1,620          | 100       | 0          | 0           | \$0             | 0         |
| Refinancing   | 116        | 71.6        | \$64,505         | 71.9      | 46         | 28.4        | \$25,183        | 28.1      |
| <b>Total HMDA related</b>                                 | <b>224</b> | <b>64.6</b> | <b>\$142,053</b> | <b>65</b> | <b>123</b> | <b>35.4</b> | <b>\$76,360</b> | <b>35</b> |
| <b>TOTAL LOANS</b>  | <b>224</b> | <b>64.6</b> | <b>\$142,053</b> | <b>65</b> | <b>123</b> | <b>35.4</b> | <b>\$76,360</b> | <b>35</b> |

HMDA data for 2021 and 2022.

Total percentages shown may vary by 0.1 percent due to automated rounding differences.

The bank made a majority of its HMDA loans in the assessment area over the review period. During 2021 and 2022, the bank made a total of 347 HMDA loans. Of these loans, 64.6 percent by number and 65.0 percent by dollar volume were made inside the assessment area. Home purchase loans comprised the largest portion of the bank’s total HMDA loans. Of the home purchase loans made in 2021 and 2022, 56.3 percent were made inside the assessment area. This percentage was lower than all other loan types. The lower percent by number of home purchase lending in the assessment area is in part due to the high cost of housing in the assessment area and the competitive banking environment. The bank made a majority of total HMDA loans inside the assessment area in each year of the review period.

**Borrower Profile**

This criterion analyzes the distribution of loans to borrowers of different income levels. The

<sup>2</sup> Interagency Questions and Answers Regarding Community Reinvestment. § 11.26(b)—I\_AI.

bank demonstrates a distribution of loans to and, as appropriate, other lending-related activities for individuals of different income levels (including low- and moderate-income individuals) that is excellent given the demographics of the bank's assessment area.

Although both the number and the dollar volume of the bank's loans were reviewed, the number of loans originated was given more weight than the dollar volume of loans originated as the number of loans has a more direct correlation to the number of borrowers served.

Table 6 provides a comparison of the bank's lending by income level of the borrower to the income distribution of families in the assessment area. The table further outlines the bank's performance by loan type in comparison to the aggregate group.

| Table 6<br>Distribution of 2021 and 2022 Home Mortgage Lending By Borrower Income Level  |                                  |              |              |               |              |              |            |              |              |               |              |              |                                |
|--|----------------------------------|--------------|--------------|---------------|--------------|--------------|------------|--------------|--------------|---------------|--------------|--------------|--------------------------------|
| Borrower<br>Income Level   | Bank And Aggregate Loans By Year |              |              |               |              |              |            |              |              |               |              |              | Families by<br>Family Income % |
|  | 2021                             |              |              |               |              |              | 2022       |              |              |               |              |              |                                |
|  | Bank                             |              | Agg          | Bank          |              | Agg          | Bank       |              | Agg          | Bank          |              | Agg          |                                |
|  | #                                | %            | %            | \$(000)       | \$%          | \$%          | #          | %            | %            | \$(000)       | \$%          | \$%          |                                |
| <b>Home Purchase Loans</b>   |                                  |              |              |               |              |              |            |              |              |               |              |              |                                |
| Low  | 3                                | 8.8          | 1.4          | 1,228         | 6.5          | 0.5          | 5          | 7.8          | 1.7          | 1,920         | 3.9          | 0.7          | 14.2                           |
| Moderate   | 4                                | 11.8         | 8.0          | 1,571         | 8.3          | 4.0          | 4          | 6.3          | 6.7          | 1,790         | 3.6          | 3.0          | 13.5                           |
| Middle   | 6                                | 17.6         | 14.9         | 3,121         | 16.6         | 10.1         | 9          | 14.1         | 14.4         | 4,972         | 10.1         | 8.9          | 17.7                           |
| Upper  | 15                               | 44.1         | 61.7         | 9,566         | 50.8         | 68.6         | 29         | 45.3         | 59.8         | 24,113        | 49.1         | 66.0         | 54.6                           |
| Unknown  | 6                                | 17.6         | 14.0         | 3,334         | 17.7         | 16.9         | 17         | 26.6         | 17.4         | 16,358        | 33.3         | 21.5         | 0.0                            |
| <b>Total</b>   | <b>34</b>                        | <b>100.0</b> | <b>100.0</b> | <b>18,820</b> | <b>100.0</b> | <b>100.0</b> | <b>64</b>  | <b>100.0</b> | <b>100.0</b> | <b>49,153</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b>                   |
| <b>Refinance Loans</b>   |                                  |              |              |               |              |              |            |              |              |               |              |              |                                |
| Low  | 10                               | 16.1         | 2.4          | 2,979         | 9.8          | 1.1          | 5          | 9.3          | 4.7          | 1,900         | 5.6          | 2.1          | 14.2                           |
| Moderate   | 3                                | 4.8          | 9.4          | 1,567         | 5.2          | 5.4          | 5          | 9.3          | 11.1         | 1,998         | 5.9          | 6.2          | 13.5                           |
| Middle   | 9                                | 14.5         | 18.0         | 3,875         | 12.8         | 13.2         | 3          | 5.6          | 17.4         | 1,283         | 3.8          | 12.2         | 17.7                           |
| Upper  | 25                               | 40.3         | 59.6         | 10,025        | 33.0         | 68.9         | 16         | 29.6         | 56.3         | 11,825        | 34.7         | 66.0         | 54.6                           |
| Unknown  | 15                               | 24.2         | 10.7         | 11,942        | 39.3         | 11.3         | 25         | 46.3         | 10.5         | 17,111        | 50.2         | 13.5         | 0.0                            |
| <b>Total</b>   | <b>62</b>                        | <b>100.0</b> | <b>100.0</b> | <b>30,388</b> | <b>100.0</b> | <b>100.0</b> | <b>54</b>  | <b>100.0</b> | <b>100.0</b> | <b>34,117</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b>                   |
| <b>Home Improvement Loans</b>  |                                  |              |              |               |              |              |            |              |              |               |              |              |                                |
| Low  | 0                                | 0.0          | 3.5          | 0             | 0.0          | 2.4          | 0          | 0.0          | 3.4          | 0             | 0.0          | 1.6          | 14.2                           |
| Moderate   | 0                                | 0.0          | 6.5          | 0             | 0.0          | 3.4          | 0          | 0.0          | 11.4         | 0             | 0.0          | 6.9          | 13.5                           |
| Middle   | 0                                | 0.0          | 16.6         | 0             | 0.0          | 11.3         | 1          | 33.3         | 16.8         | 100           | 3.4          | 12.3         | 17.7                           |
| Upper  | 1                                | 20.0         | 69.6         | 600           | 11.9         | 72.3         | 0          | 0.0          | 63.3         | 0             | 0.0          | 67.7         | 54.6                           |
| Unknown  | 4                                | 80.0         | 3.8          | 4,440         | 88.1         | 10.7         | 2          | 66.7         | 5.1          | 2,815         | 96.6         | 11.6         | 0.0                            |
| <b>Total</b>   | <b>5</b>                         | <b>100.0</b> | <b>100.0</b> | <b>5,040</b>  | <b>100.0</b> | <b>100.0</b> | <b>3</b>   | <b>100.0</b> | <b>100.0</b> | <b>2,915</b>  | <b>100.0</b> | <b>100.0</b> | <b>100.0</b>                   |
| <b>Total Home Mortgage Loans</b>   |                                  |              |              |               |              |              |            |              |              |               |              |              |                                |
| Low  | 13                               | 12.7         | 2.2          | 4,207         | 7.7          | 0.9          | 10         | 8.3          | 3.0          | 3,820         | 4.4          | 1.1          | 14.2                           |
| Moderate   | 7                                | 6.9          | 8.9          | 3,138         | 5.8          | 4.9          | 9          | 7.4          | 8.9          | 3,788         | 4.4          | 4.1          | 13.5                           |
| Middle   | 15                               | 14.7         | 17.0         | 6,996         | 12.9         | 12.0         | 13         | 10.7         | 16.0         | 6,355         | 7.4          | 10.0         | 17.7                           |
| Upper  | 42                               | 41.2         | 60.8         | 20,266        | 37.3         | 68.9         | 45         | 37.2         | 59.3         | 35,938        | 41.7         | 66.3         | 54.6                           |
| Unknown  | 25                               | 24.5         | 11.1         | 19,716        | 36.3         | 13.3         | 44         | 36.4         | 12.9         | 36,284        | 42.1         | 18.4         | 0.0                            |
| <b>Total</b>   | <b>102</b>                       | <b>100.0</b> | <b>100.0</b> | <b>54,323</b> | <b>100.0</b> | <b>100.0</b> | <b>121</b> | <b>100.0</b> | <b>100.0</b> | <b>86,185</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b>                   |
| Source: 2022 FFIEC Census Data<br>2016-2020 U.S. Census Bureau: American Community Survey<br>Note: Percentages may not total 100.0 percent due to rounding.<br>Multifamily loans are not included in the borrower distribution analysis. |                                  |              |              |               |              |              |            |              |              |               |              |              |                                |

Under this criterion, the bank’s lending activity is compared to an aggregate group of lenders operating inside the assessment area and to the percentage of families in the assessment area within each income level. Overall, the bank’s level of lending to low-income borrowers has largely exceeded aggregate data, reflecting excellent penetration among these individuals.

The bank extended 13 loans, or 12.7 percent, to low-income borrowers in 2021, and 10 loans, or 8.3 percent in 2022, which exceeded the aggregate, at 2.2 percent and 3.0 percent, respectively. Of note, in 2022, half of the loans made to low-income borrowers were for home purchase. The

bank was ranked 7<sup>th</sup> in lending to low-income borrowers in the assessment area in 2021 and improved its ranking to 2<sup>nd</sup> in 2022.

The bank's lending to moderate-income borrowers improved year over year, while the aggregate remained the same. The bank made 7 loans, or 6.9 percent, and 9 loans, or 7.4 percent, of its HMDA loans by number to moderate-income borrowers in 2021 and 2022, respectively. The bank was generally in line with the aggregate of 8.9 percent in both 2021 and 2022. A notable percentage (57 percent in 2021 and 44 percent in 2022) of loans made to moderate-income borrowers were for home purchase.

With regard to additional income levels, the bank made 15 loans, or 14.7 percent, to middle-income borrowers in 2021. In 2022, 13 loans, or 10.7 percent, were made to these borrowers. The bank made 42 loans, or 41.2 percent, to upper-income borrowers in 2021 and 45 loans, or 37.2 percent, to these borrowers in 2022. Unknown-income borrowers received 25 loans, or 24.5 percent, and 44 loans, or 36.4 percent, in 2021 and 2022, respectively.

The bank extended a higher number of refinance loans to low- and moderate-income borrowers, which is reflective of housing costs and market conditions. However, almost 50 percent of the loans made to low- and moderate-income borrowers in 2022 were for home purchase, which is notable.

The bank offers a thirty-year fixed mortgage with a reduced rate and reduced closing costs for first time homebuyers. While loans made under this offering have been captured in the table above, the bank's participation is noteworthy. Although there is no income restriction to qualify for the product, the reduced rate and costs enhance mortgage accessibility to low- and moderate-income individuals.

As illustrated previously, the MFI in the assessment area is approximately \$158,042, indicating that low-income families earn under \$79,021 annually, and moderate-income families earn between \$79,021 and \$126,433, annually. With the median home value of \$762,356 and rising, home prices outpace family income, making home ownership difficult for many families, including low- or moderate-income borrowers. While the bank's lending is also compared to Families by Family Income, it is acknowledged that this metric may be challenging to meet given these demographics. Nevertheless, the bank's overall performance in lending to low-income individuals is noteworthy.

### **Geographic Distribution of Loans**

This performance criterion evaluates the bank's distribution of loans to census tracts of all income levels. The bank demonstrates an excellent geographic distribution of loans given the bank's assessment area.

Table 7 provides a comparison of the bank's lending by census tract income level to the aggregate lending data and demographics of the assessment area.

| Table 7<br>Distribution of 2021 and 2022 Home Mortgage Lending By Income Level of Geography |                                  |              |              |               |              |              |            |              |              |               |              |              |                           |
|---|----------------------------------|--------------|--------------|---------------|--------------|--------------|------------|--------------|--------------|---------------|--------------|--------------|---------------------------|
| Geographic<br>Income Level  | Bank And Aggregate Loans By Year |              |              |               |              |              |            |              |              |               |              |              | Owner Occupied<br>Units % |
|   | 2021                             |              |              |               |              |              | 2022       |              |              |               |              |              |                           |
|   | Bank                             |              | Agg          | Bank          |              | Agg          | Bank       |              | Agg          | Bank          |              | Agg          |                           |
|   | #                                | %            | %            | \$(000)       | %            | %            | #          | %            | %            | \$(000)       | %            | %            |                           |
| <b>Home Purchase Loans</b>  |                                  |              |              |               |              |              |            |              |              |               |              |              |                           |
| Low   | 0                                | 0.0          | 0.0          | 0             | 0.0          | 0.0          | 0          | 0.0          | 0.0          | 0             | 0.0          | 0.0          | 0.0                       |
| Moderate  | 1                                | 2.9          | 2.2          | 720           | 3.8          | 1.6          | 6          | 9.4          | 8.9          | 4,492         | 9.1          | 6.1          | 6.6                       |
| Middle  | 24                               | 70.6         | 36.5         | 12,251        | 65.1         | 26.9         | 35         | 54.7         | 22.0         | 25,610        | 52.1         | 15.9         | 23.4                      |
| Upper   | 9                                | 26.5         | 61.3         | 5,849         | 31.1         | 71.5         | 23         | 35.9         | 69.0         | 19,051        | 38.8         | 77.9         | 70.0                      |
| Unknown   | 0                                | 0.0          | 0.0          | 0             | 0.0          | 0.0          | 0          | 0.0          | 0.1          | 0             | 0.0          | 0.1          | 0.0                       |
| <b>Total</b>  | <b>34</b>                        | <b>100.0</b> | <b>100.0</b> | <b>18,820</b> | <b>100.0</b> | <b>100.0</b> | <b>64</b>  | <b>100.0</b> | <b>100.0</b> | <b>49,153</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b>              |
| <b>Refinance Loans</b>  |                                  |              |              |               |              |              |            |              |              |               |              |              |                           |
| Low   | 0                                | 0.0          | 0.0          | 0             | 0.0          | 0.0          | 0          | 0.0          | 0.0          | 0             | 0.0          | 0.0          | 0.0                       |
| Moderate  | 3                                | 4.8          | 1.5          | 4,274         | 14.1         | 1.0          | 9          | 16.7         | 6.3          | 5,246         | 15.4         | 4.6          | 6.6                       |
| Middle  | 49                               | 79.0         | 31.9         | 19,056        | 62.7         | 24.4         | 24         | 44.4         | 20.8         | 13,138        | 38.5         | 15.1         | 23.4                      |
| Upper   | 10                               | 16.1         | 66.6         | 7,058         | 23.2         | 74.6         | 21         | 38.9         | 72.9         | 15,733        | 46.1         | 80.3         | 70.0                      |
| Unknown   | 0                                | 0.0          | 0.0          | 0             | 0.0          | 0.0          | 0          | 0.0          | 0.0          | 0             | 0.0          | 0.0          | 0.0                       |
| <b>Total</b>  | <b>62</b>                        | <b>100.0</b> | <b>100.0</b> | <b>30,388</b> | <b>100.0</b> | <b>100.0</b> | <b>54</b>  | <b>100.0</b> | <b>100.0</b> | <b>34,117</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b>              |
| <b>Home Improvement Loans</b>   |                                  |              |              |               |              |              |            |              |              |               |              |              |                           |
| Low   | 0                                | 0.0          | 0.0          | 0             | 0.0          | 0.0          | 0          | 0.0          | 0.0          | 0             | 0.0          | 0.0          | 0.0                       |
| Moderate  | 0                                | 0.0          | 0.6          | 0             | 0.0          | 0.4          | 0          | 0.0          | 4.8          | 0             | 0.0          | 2.8          | 6.6                       |
| Middle  | 3                                | 60.0         | 28.0         | 3,180         | 63.1         | 18.8         | 3          | 100.0        | 20.5         | 2,915         | 100.0        | 15.6         | 23.4                      |
| Upper   | 2                                | 40.0         | 71.4         | 1,860         | 36.9         | 80.8         | 0          | 0.0          | 74.6         | 0             | 0.0          | 81.5         | 70.0                      |
| Unknown   | 0                                | 0.0          | 0.0          | 0             | 0.0          | 0.0          | 0          | 0.0          | 0.1          | 0             | 0.0          | 0.0          | 0.0                       |
| <b>Total</b>  | <b>5</b>                         | <b>100.0</b> | <b>100.0</b> | <b>5,040</b>  | <b>100.0</b> | <b>100.0</b> | <b>3</b>   | <b>100.0</b> | <b>100.0</b> | <b>2,915</b>  | <b>100.0</b> | <b>100.0</b> | <b>100.0</b>              |
| <b>Multifamily Loans</b>  |                                  |              |              |               |              |              |            |              |              |               |              |              |                           |
| Low   | 0                                | 0.0          | 0.0          | 0             | 0.0          | 0.0          | 0          | 0.0          | 0.0          | 0             | 0.0          | 0.0          | 0.0                       |
| Moderate  | 1                                | 100.0        | 20.0         | 1,000         | 100.0        | 10.0         | 0          | 0.0          | 50.0         | 0             | 0.0          | 19.3         | 20.4                      |
| Middle  | 0                                | 0.0          | 60.0         | 0             | 0.0          | 49.2         | 1          | 100.0        | 25.0         | 620           | 100.0        | 43.5         | 30.3                      |
| Upper   | 0                                | 0.0          | 20.0         | 0             | 0.0          | 40.7         | 0          | 0.0          | 25.0         | 0             | 0.0          | 37.3         | 49.4                      |
| Unknown   | 0                                | 0.0          | 0.0          | 0             | 0.0          | 0.0          | 0          | 0.0          | 0.0          | 0             | 0.0          | 0.0          | 0.0                       |
| <b>Total</b>  | <b>1</b>                         | <b>100.0</b> | <b>100.0</b> | <b>1,000</b>  | <b>100.0</b> | <b>100.0</b> | <b>1</b>   | <b>100.0</b> | <b>100.0</b> | <b>620</b>    | <b>100.0</b> | <b>100.0</b> | <b>100.0</b>              |
| <b>Total Home Mortgage Loans</b>  |                                  |              |              |               |              |              |            |              |              |               |              |              |                           |
| Low   | 0                                | 0.0          | 0.0          | 0             | 0.0          | 0.0          | 0          | 0.0          | 0.0          | 0             | 0.0          | 0.0          | 0.0                       |
| Moderate  | 5                                | 4.9          | 1.7          | 5,994         | 10.8         | 1.4          | 15         | 12.3         | 7.5          | 9,738         | 11.2         | 5.7          | 6.6                       |
| Middle  | 76                               | 73.8         | 32.8         | 34,487        | 62.3         | 25.5         | 63         | 51.6         | 21.3         | 42,283        | 48.7         | 16.1         | 23.4                      |
| Upper   | 22                               | 21.4         | 65.5         | 14,842        | 26.8         | 73.1         | 44         | 36.1         | 71.0         | 34,784        | 40.1         | 78.1         | 70.0                      |
| Unknown   | 0                                | 0.0          | 0.0          | 0             | 0.0          | 0.0          | 0          | 0.0          | 0.1          | 0             | 0.0          | 0.1          | 0.0                       |
| <b>Total</b>  | <b>103</b>                       | <b>100.0</b> | <b>100.0</b> | <b>55,323</b> | <b>100.0</b> | <b>100.0</b> | <b>122</b> | <b>100.0</b> | <b>100.0</b> | <b>86,805</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b>              |
| Source: 2022 FFIEC Census Data  |                                  |              |              |               |              |              |            |              |              |               |              |              |                           |
| 2016-2020 U.S. Census Bureau: American Community Survey                                     |                                  |              |              |               |              |              |            |              |              |               |              |              |                           |
| Note: Percentages may not total 100.0 percent due to rounding.                              |                                  |              |              |               |              |              |            |              |              |               |              |              |                           |

Notwithstanding the unknown-income census tract, the bank extended loans within the assessment area across census tracts for all income categories represented. As previously discussed, the bank has no low-income tracts. The bank maintains one branch in a moderate-income tract, located in Waltham. The eight moderate-income census tracts in the bank's assessment area are in Watertown, where the bank maintains five branches, Arlington, where the bank maintains one branch, and Waltham, where the bank maintains two branches. As shown by the demographics, with just 6.6 percent of owner-occupied units located in moderate-income census tracts, there is limited opportunity to lend in these geographies. In 2021, the bank

originated 5 home mortgage loans, or 4.9 percent, in moderate-income census tracts, which was well above the aggregate of 1.7 percent. The bank increased its lending to moderate-income geographies in 2022. Watertown originated 15 home mortgage loans, or 12.3 percent, in moderate-income tracts, which was well above the aggregate of 7.5 percent, and well above the percentage of owner-occupied housing units in these census tracts, at 6.6 percent. Additionally, in 2021, Watertown was ranked 8<sup>th</sup> in lending within moderate-income census tracts in the assessment area; in 2022 the bank improved its ranking to 7<sup>th</sup>.

In 2021, the bank made 5 loans in 2 separate moderate-income census tracts. In 2022, the bank made 15 loans in 5 separate moderate-income census tracts. This origination volume coincides with the increase in the bank's number of originated HMDA loans from 2021 to 2022 and reflects strong geographic dispersion.

In 2021, the bank made 76 loans, or 73.8 percent, in middle-income census tracts, which is where the majority of the bank's branch offices are located. In 2022, 63 loans, or 51.6 percent, were made in these tracts. The bank made 22 loans, or 21.4 percent, in upper-income census tracts in 2021, and 44 loans, or 36.1 percent, in these tracts in 2022.

The bank's performance in this category demonstrates that the bank's lending to moderate-income geographies continues to improve. It is noted that Watertown faces strong competition in these geographies, and the bank's performance does not reflect any conspicuous gaps in lending activity.

### **Response to Complaints**

There have been no complaints regarding the bank's CRA performance since the previous CRA examination.

### **CONCLUSIONS: LENDING TEST**

The bank's performance in meeting the credit needs of the assessment area is demonstrated by its excellent penetration among individuals of different income levels (including low- and moderate-income), and through its excellent dispersion of loans throughout the assessment area (including moderate-income tracts). Specifically, the bank's lending to low-income borrowers and to borrowers in moderate-income census tracts in 2021 and 2022 as compared to the aggregate was particularly noteworthy given the challenges these low-income borrowers face in obtaining loans and the limited opportunities for lending in moderate-income census tracts. The bank has also met the credit needs in its assessment area by making the majority of its loans within its assessment area. The LTD ratio, while still considered reasonable, is trending in a possibly unfavorable trajectory and will continue to be monitored. Given economic, demographic, and competitive conditions in the assessment area, the bank's lending levels reflect an excellent level of responsiveness and is therefore rated "Outstanding".



## COMMUNITY DEVELOPMENT TEST

Watertown's performance under the Community Development Test is rated Satisfactory.

It should be noted that the bank originated no community development loans during the evaluation period. The bank is primarily a home mortgage lender with a limited commercial loan portfolio which can limit these opportunities. Watertown's community development efforts were focused on its investments and services. Nevertheless, this was factored into the overall rating consideration and the bank is encouraged to seek out opportunities going forward.

As of this evaluation, qualified investments total approximately \$28.2 million, which consist of approximately \$25.1 million in Ginnie Mae (GNMA) mortgage-backed securities (MBS), a \$3 million Fannie Mae (FNMA) MBS pool, and \$87,710 in qualified donations.

The bank holds 26 qualified GNMA MBS investments, totaling approximately \$25.1 million. One of these is new since the prior examination period. As summarized on the Housing and Urban Development website, GNMA mortgage-backed securities expand affordable housing in America by linking global markets to the nation's housing market. These MBS investments are secured by mortgage loans guaranteed by the Federal Housing Administration, Veterans Affairs, Rural Housing Service, and Public and Indian Housing mortgage loans.

The bank holds one qualified investment in an FNMA MBS pool, totaling \$3 million. This loan pool is new since the prior examination period. This loan pool supports affordable rental housing in the United States and provides a reliable source of mortgage funding. The investment financed Logo Apartments, a 73-unit, section 8 multifamily housing project in Suffolk County. The property allocated 100 percent of units to individuals and families at or below 80 percent area median income (AMI).

During the evaluation period, the bank made 51 qualified donations, totaling \$87,710, which helped support organizations that focus on community development services and affordable housing. The following is a sample of organizations that received qualified donations from the bank:

**Healthy Waltham** – Healthy Waltham's mission is to promote collaborative approaches to improving the health and wellness of underserved and low-income populations through programs that increase access to healthy foods, provide nutrition education, and create opportunities for physical activity.

**Springwell, Inc.** – Springwell's mission is to provide comprehensive services to older adults, individuals with disabilities, and those who provide care, regardless of financial situation.

**Housing Corporation of Arlington (HCA)** – HCA works to increase affordable housing opportunities for low- and moderate-income families through the purchase and management of apartment units in Arlington. HCA also operates a homelessness prevention program to provide emergency financial support for Arlington residents facing a housing crisis due to unexpected events.

**Waltham Fields Community Farm (WFCF)** – WFCF cultivates sustainable and equitable

relationships between people, their food supply, and the land from which it grows. Contributions to WFCF assist the organization in providing low-income families with access to fresh and organic produce.

**Chesterbrook Community Foundation (CCF)** - CCF empowers the children and teens who live in the Chesterbrook Gardens and Dana Court subsidized-housing communities in Waltham, by providing them with mentoring, academic support, and enrichment in structured after-school and evening programs.

In addition to providing financial support to local organizations, bank employees have lent their financial expertise to organizations in the assessment area. Bank employees engaged in community development services through participation on boards and committees of community organizations and by providing other community development services. The following is a sample of the bank's involvement during the evaluation period:

**Healthy Waltham** – The mission of the organization is to promote collaborative approaches to improving the health and wellness of underserved and low-income populations through programs that increase access to healthy foods, provide nutrition education, and create opportunities for physical activity. A bank vice president is the treasurer of this organization.

**Watertown Housing Partnership** - A bank executive vice president served as a board member of this organization that oversees the development and preservation of affordable housing in Watertown.

**Springwell, Inc.- Money Management** - The Springwell, Inc. Money Management program helps vulnerable, low-income seniors with financial management tasks. A bank vice president is a board member.

**McDevitt Middle School** - Over the review period, four WSB employees taught middle school students at a Title 1 school in Waltham on a variety of financial literacy topics, including the importance of saving money, tips to avoid scams and fraud, responsible credit card use, and digital banking.

Additionally, the bank remitted \$7,230.38 in interest on lawyer trust accounts (IOLTA). IOLTAs are used as a method of raising money for charitable purposes, primarily the provision of civil legal services to persons in need.

## **CONCLUSIONS: COMMUNITY DEVELOPMENT TEST**

The bank's community development performance demonstrates adequate responsiveness to the community development needs of its assessment area through qualified investments and community development services, as appropriate, considering the bank's capacity and the need and availability of such opportunities for community development in the bank's assessment area. While the bank's qualified investments and community development services were sufficient to support the Satisfactory rating for the community development test, future evaluations will continue to assess whether the level of community development lending is appropriate given the demographics and needs of the bank's assessment area.

## **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

Concurrent with this CRA evaluation, a review of the bank's compliance with consumer protection laws and regulations was conducted, and no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs were identified.

## APPENDIX

### 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.

**Assessment area:** One or more of the geographic areas delineated by the bank and used by the regulatory agency to assess an institution's record of CRA performance.

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

**Community contact:** Interviews conducted as part of the CRA examination to gather information that might assist examiners in understanding the bank's community, available opportunities for helping to meet local credit and community development needs, and perceptions on the performance of financial institutions in helping meet local credit needs. Communications and information gathered can help to provide a context to assist in the evaluation of an institution's CRA performance.

**Community development:** All Agencies have adopted the following language. Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency (OCC), and the FDIC have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize:

- (i) Low- or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, the FDIC, and the OCC, based on:
  - a. Rates of poverty, unemployment, and population loss; or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

**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.

**Demographics:** The statistical characteristics of human populations (such as age, race, sex, income, etc.) used especially to identify markets.

**Distressed nonmetropolitan middle-income geography:** A middle-income, nonmetropolitan 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 nonrelatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

**Full-scope review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, 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 who 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 applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn).

**Home mortgage loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes, and refinancing of home improvement and home purchase loans.

**Household:** One or more persons who occupy a housing unit. The occupants may be a single family, one person living alone, two or more families living together, or any other group of related or unrelated persons who share living arrangements.

**Housing affordability ratio:** Is calculated by dividing the median household income by the median housing value. It represents the amount of single family, owner-occupied housing that a

dollar of income can purchase for the median household in the census tract. Values closer to 100 percent indicate greater affordability.

**Limited-scope review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, 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.

**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 family income:** The dollar amount that divides the family income distribution into two equal groups, half having incomes above the median, half having incomes below the median. The median family income is based on all families within the area being analyzed.

**Metropolitan area (MA):** A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. An MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. An MD is a division of an MSA based on specific criteria including commuting patterns. Only an MSA that has a population of at least 2.5 million may be divided into MDs.

**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 percent 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 percent and less than 80 percent in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Nonmetropolitan statistical area (nonMSA):** Not part of a metropolitan area. (See metropolitan area.)

**Other products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**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.

**Performance context:** The performance context is a broad range of economic, demographic, and institution- and community-specific information that an examiner reviews to understand the

context in which an institution's record of performance should be evaluated. The performance context is not a formal or written assessment of community credit needs.

**Performance criteria:** These are the different criteria against which a bank's performance in helping to meet the credit needs of its assessment area(s) is measured. The criteria relate to lending, investment, retail service, and community development activities performed by a bank. The performance criteria have both quantitative and qualitative aspects. There are different sets of criteria for large banks, intermediate small banks, small banks, wholesale/limited purpose banks, and strategic plan banks.

**Performance evaluation (PE):** A written evaluation of a financial institution's record of meeting the credit needs of its community, as prepared by the federal financial supervision agency responsible for supervising the institution.

**Qualified investment:** A qualified investment is defined as any 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.

**Small businesses/small farms:** A small business/farm is considered to be one in which gross annual revenues for the preceding calendar year were \$1 million or less.

**Small loan(s) to business(es):** That is, "small business loans" are included in "loans to small businesses" as defined in the Consolidated Reports of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are secured by either nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

**Small loan(s) to farm(s):** That is, "small farm loans" are included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Reports of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland or are classified as loans to finance agricultural production and other loans to farmers.

**Underserved middle-income geography:** A middle-income, nonmetropolitan geography will be designated as underserved if it meets criteria for population size, density, and dispersion that indicate 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.

For additional information, please see the Definitions section of Regulation BB at 12 C.F.R. 228.12