



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

June 18, 2012

### 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 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.
- The borrower distribution of loans reflects a reasonable distribution among individuals of different income levels.
- The geographic distribution of loans reflects excellent distribution in low- and moderate-income census tracts.
- The bank demonstrates adequate responsiveness to community development needs within the assessment areas.

## **Scope of Examination**

Middlesex Federal Savings, Federal Association (MFS) 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 assessment area (AA) 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, 2009 through December 31, 2011. The evaluation period for the CD test is from March 9, 2009, the date of the prior Performance Evaluation through June 18, 2012. CD loans, investments, and services submitted by management were verified to ensure they met the regulatory definition for community development.

MFS's primary loan product, based on originations during the evaluation period, is residential mortgages. Residential loans, including home purchase, refinance, and home improvement loans, represent 97% of the bank originations and/or purchases by number and dollar volume during the evaluation period. The bank originated a limited volume of commercial loans within the evaluation period.

The bank reports data under the requirements of 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.

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 \$354 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 and the Medford branch are located in middle-income geographies; the Teele Square office is in a moderate-income geography. Branch hours are typically 8:30AM to 4:00PM from 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 examination.

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 charge.

Total assets have declined by \$38 million or 10% since the last CRA examination. As of March 31, 2012, total deposits totaled \$288 million, and net Tier 1 Capital was \$34 million. The loan portfolio totaled \$202 million, or 57% 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</b>	
<b>March 31, 2012</b>	
<b>Loan Category</b>	<b>% of Gross Loans and Leases</b>
1-4 Family Residential Mortgage – Closed End	59%
Home Equity	5%
Commercial & Industrial	0%
Commercial Real Estate	32%
Construction and Development	4%

*Source: FDIC Call Report*

During a portion of the evaluation period, the bank's ability to make commercial loans was impacted by the terms of an agreement with its regulatory agency and staffing turnover. However, there were no restrictions on residential mortgage lending during the evaluation period. At the last CRA examination, dated March 9, 2009, the bank was rated "Satisfactory", using Intermediate Small Bank Procedures.

## Description of Assessment Area(S)

The Community Reinvestment Act 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.

AA 1 consists of all of the cities and towns in Middlesex County and is part of the Cambridge-Newton-Framingham, MA Metropolitan Division 15764. The AA is comprised of 297 census tracts. There are 15 low-income tracts (5%), 67 moderate-income tracts (23%), 143 middle-income tracts (48%), and 72 upper-income tracts (24%). The 2000 U.S. Census Data indicates that 26% of families in the AA are considered low- or moderate-income. Approximately 7% of the households are below the poverty line.

AA 2 contains a portion of Suffolk County and is part of the Boston-Quincy, MA Metropolitan Division 14484. The AA includes two neighborhoods of Allston and Brighton, MA. The AA is comprised of 15 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 two of the bank's three facilities are located in this market. HMDA data was not analyzed in AA 2 – Boston-Quincy MD as there was not a meaningful volume of activity in the AA to perform an analysis.

Demographic Information for MFS AA 1 – Middlesex County					
Income Level	Total #	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	297	5%	23%	48%	24%
Population by Geography	1,465,396	3%	22%	50%	25%
Owner Occupied Housing by Geography	346,591	1%	15%	54%	30%
Family Distribution by Income Level	363,933	19%	18%	23%	40%
2000 Census Median Family Income (MFI)		\$74,121	2011 Median Housing Value*		\$398,269
			Median Age of Housing		64 Years
HUD Updated MFI: 2011		\$105,000	Families Below the Poverty Level		7%
			Unemployment Rate **		5.9%

Source: 2000 U.S. Census data

\*Data from Zillow.com

\*\*Data from US Bureau of Labor Statistics as of 12/31/11. Rate is for Middlesex County.

MFS operates in a highly competitive market with competition from local commercial and savings banks and large nationwide banks. The Federal Deposit Corporation's Institutions Deposit Market Share Report, as of June 30, 2011, indicates 145 institutions operate branches within MFS's AA 1 – Middlesex County. MFS ranks 53<sup>rd</sup> with deposit market share of less than 1%. Competitors include: Eastern Bank, Middlesex Savings Bank, Boston Private Bank and Trust Company, Century Bank and Trust Company, Cambridge Savings Bank, and People's United Bank. Large nationwide banks that provide further competition and are deposit share leaders include: Bank of America, National Association; RBS Citizens, National Association; Sovereign Bank; and TD Bank, National Association.

Several nationwide entities provide additional competition for mortgage and business loans including: Ally Bank; Mortgage Master, Inc.; GMAC Mortgage LLC; Wells Fargo Bank, National Association; and CitiMortgage, Inc. The Institution Market Share report indicates that MFS competes with 512 lenders within its AA 1 – Middlesex County. The top ten lenders dominate the market with overall market share of approximately 50%. MFS ranks 152<sup>nd</sup> with market share of less than 1%.

According to Moody's Analytics, the Massachusetts economy is expanding. The economy is benefiting from strong demand for technology goods, steady hiring in education/health services, and a turnaround in finance related employment. The greater Boston area is comprised of a highly skilled workforce and a number of universities making it home to well-known hospitals and technology firms. The national and state rate of unemployment in 2012 exhibits a decreasing trend when compared to the prior year. Data from the U.S. Bureau of Labor Statistics indicates that the unemployment rate for the state of Massachusetts as of May 2012 was 6.0% compared to the national rate of 8.2%. As of April 2012, the unemployment rate for the Boston-Cambridge-Quincy MD was 5.3% and was favorable compared to both the state and national levels. The local economy in AA 1 is driven by education, healthcare, and technology firms. Major employers within AA 1 as indicated by Labor and Workforce Development information on mass.gov include: Harvard University, EMC Corp, Massachusetts Institute of Technology, Bentley University, Brandeis University, Boston College, and Boston Scientific Corp.

Despite the effects of a national recession on the state housing market, median housing prices in AA 1 – Middlesex County remain high. The expensive housing market limits the availability of affordable housing for low- and moderate-income families in AA 1 – Middlesex County. Based on data from Zillow.com, as of June 18, 2012, the average median cost of housing for the cities that comprise the Middlesex County AA is \$398 thousand. This is well above the median housing cost in the state of Massachusetts of \$277 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 said that the need for affordable rental

housing has been on the rise. Since the 2008 housing collapse, rents have increased in the area and there is a higher demand for affordable housing. As the demand for rental and affordable housing increased, housing options have become more difficult for low-income individuals. Another organization, a private nonprofit corporation that advocates for family services in the greater Boston area, indicated that along with the continued need for affordable ownership and rental housing, unemployment is an important issue in the area. The level of unemployment has lowered incomes and although there are affordable housing programs in the area, many individuals that are underemployed still cannot afford these options. The contact stated that the real issue is lack of educational and vocational training for positions that can demand a livable wage. Student loan programs and aid for vocational, community, and four year programs as well as additional financial literacy training is needed.

We reviewed a recent community contact with an organization whose mission is to create and promote affordable housing and providing education and leadership development in Waltham MA. The contact indicated that the primary need for Waltham is affordable housing, including affordable rental housing as it is difficult for low- and moderate-income households to afford homes in the area. According to the contact, there are many opportunities for local financial institutions to support affordable housing projects and there are a number of institutions that have provided funding.

## **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 and majority of the loans are originated inside the bank's AA. Overall, the distribution of loans reflects a reasonable distribution among individuals of different income levels. Overall, the geographic distribution of 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, commercial lending restrictions, and AA credit needs. The bank's net loan-to-deposit ratio averaged 83% over the last 13 quarters since the previous CRA examination. During this period the loan-to-deposit ratio ranged from a quarterly low of 68% to a high of 99%. MFS's loan-to-deposit ratio is slightly lower than the national peer bank median quarterly average of 90% over the same period.

#### **Lending in Assessment Area**

A majority of MFS's primary loan products were made within the bank's assessment area and the bank meets the standard for satisfactory performance. MFS originated 74% by number and 72% 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.

<b>Table 1 - Lending in Middlesex AA</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Loans	181	74	63	26	244	54,928	72	21,783	28	76,711
Totals	181	74	63	26	244	54,928	72	21,783	28	76,711

Source: HMDA reported data and a sample of commercial loans from 1/1/2009 to 12/31/2011.

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

The distribution of loans originated in the bank's AAs reflects reasonable distribution among individuals of different income. HMDA data and business loans were not analyzed in AA 2 – Boston-Quincy MD 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 reflects reasonable distribution among borrowers of different income levels. The percent of home purchase loans is significantly lower than percent of low-income families in the AA as well as the aggregate lending data for HMDA reporters to low-income families. Home refinance or home improvement loans were also lower when compared to the low-income families in the AA; however, compared favorably to the aggregate lending data for HMDA reporters to low-income families in the AA.

The percent of home improvement, refinance, and home purchase loans, all exceeded the percent of moderate-income families in the AA. As illustrated in Table 2A the percent of home improvement, refinance, and home purchase loans also compared favorably to the aggregate lending data for HMDA reporters within the bank's AA.

The bank's performance is considered satisfactory given the lack of affordable housing and high competition in the AA. While the national downturn in the economy and real estate is being seen in the area, median housing prices remain high relative to median incomes. Lack of affordable housing limits lending opportunities. As of June 2012, the average median home price in the AA was \$398,300. The HUD updated median family income is \$105,000, which means the maximum income that is considered low-income is \$52,000; therefore, low-income borrowers would have difficulty qualifying for home purchase loans. Additionally, moderate-income families also could encounter difficulty qualifying for home purchase loans with an income range of \$52,000 to a maximum income of \$84,000.

Market competition for home mortgage loans is significant. According to 2010 peer mortgage market share data, mortgage lending in AA 1 is dominated by larger institutions with the top ten institutions holding over 50% of the market share. MFS

ranked 152<sup>nd</sup> out of 512 lenders with a market share less than 1%. The bank's performance is considered satisfactory given the high cost of housing, the strong level of competition, and limited lending opportunities.

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

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Middlesex AA</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	19	4	18	25	23	38	40	33
Home Improvement	19	14	18	29	23	14	40	43
Home Refinance	19	7	18	26	23	27	40	40

Source: HMDA – reported data from 1/1/2009-12/31/2011; 2000 U.S. Census data.

<b>Table 2A – Aggregate Lending Data for Borrower Distribution in Middlesex AA</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	10	4	22	25	28	38	40	33
Home Improvement	9	14	20	29	28	14	43	43
Home Refinance	4	7	15	26	29	27	52	40

Source: HMDA – reported data from 1/1/2009-12/31/2011; 2000 U.S. Census data

### Geographic Distribution of Loans

The geographic distribution of 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 no meaningful volume 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 in AA 1 reflects excellent distribution in the moderate-income census tracts. The percent of MFS's lending for home purchases, improvements, and refinances significantly exceeds the percent of owner occupied housing in the moderate-income tracts. The percent of MFS's lending for all loans in the moderate-income tracts also substantially exceeds the performance of aggregate HMDA reporters within the AA. There was no home purchase, refinance or home improvement loans made in low-income tracts during the assessment period. However, this is reasonable given the lack of affordable housing 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 low percent 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.

Following table's 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.

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	1.00	0.00	15	28	54	56	30	16
Home Improvement	1.00	0.00	15	43	54	43	30	14
Home Mortgage Refinance	1.00	0.00	15	25	54	55	30	19

Source: HMDA – reported data from 1/1/2009-12/31/2011; 2000 U.S. Census data

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	18	28	52	56	28	16
Home Improvement	1	0	13	43	56	43	30	14
Home Mortgage Refinance	1	0	10	25	51	55	38	19

Source: HMDA – reported data from 1/1/2009-12/31/2011; 2000 U.S. 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 investments and services. The bank's ability and capacity to make commercial loans was impacted by the terms of an agreement with its regulatory agency and staffing turnover. The bank did not make any CD loans during the assessment period.

### **Number and Amount of Community Development Loans**

The bank's level of CD lending needs to improve. MFS provided no CD loans during the evaluation period in AA 1. However, it should be noted that during a portion of the evaluation period, the bank's ability to make commercial loans was impacted by the bank's financial position, staffing, and by the terms of an agreement with its regulatory agency.

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

The bank made a satisfactory level of community development investments and donations. The bank had one prior period investment with \$4.9 million outstanding as of March 30, 2012. The prior investment was made with a Community Investment Fund. The fund invests primarily in debt instruments which 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 \$15.4 thousand and benefited ten different community development organizations. All ten organizations benefit AA 1. While the actual level of bank donations made was higher, these were donations that 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 tract and two branches are located in middle-income tracts. 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, four bank officers/employees provided financial expertise and/or services to three 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 Full-Scope 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.
- Two senior officers at the bank assist with a money management program. The program is offered through an organization with a mission to support older and disabled individuals 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 which budgeting, paying bills, and keeping track of financial matters on a monthly basis.

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

CD loans and services have not greatly assisted in meeting the community needs identified by the community contacts; however, CD investments support affordable housing, which is an identified need in the AA. 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**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.