



Office of the
Comptroller of the Currency
Washington, DC 20219

INTERMEDIATE SMALL BANK

PUBLIC DISCLOSURE

March 2, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Eastern Savings Bank, FSB
Charter Number 708183

11350 McCormick Rd., Suite 200 Hunt Valley, MD 21031-1026

Office of the Comptroller of the Currency

400 7th Street S.W. Washington, DC 20291

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 **Needs to Improve**

LENDING TEST: The lending test is rated **Needs to Improve**

COMMUNITY DEVELOPMENT TEST: The community development test is rated **Satisfactory**

Eastern Savings Bank (ESB or Bank) exhibited poor performance in meeting the community's credit needs based on the following:

- The Bank's lending performance needs to improve. During the review period, the Bank originated just two loans within its assessments area, and purchased none;
- This Community Reinvestment Act (CRA) rating was influenced by the Bank's financial position not meeting certain minimum regulatory capital requirements first imposed under a Cease and Desist Order issued by the Office of Thrift Supervision (OTS) in 2009 (2009 Order), which was replaced by a Consent Order issued by the Office of the Comptroller of the Currency (OCC) in 2014 (2014 Order);
- The 2009 and 2014 Orders required the Bank to achieve and maintain certain minimum capital levels. To meet these capital levels, the Bank curtailed its lending activities to shrink its balance sheet and raised additional capital in 2014. The Bank was able to achieve those capital levels for the first two quarters of 2010, but fell below the required capital levels on September 30, 2010. In November 2010, the OTS instructed the Bank to cease lending until it restored its capital levels to the level required by the 2009 Order. In the previous CRA evaluation, the OTS referred to a compliance examination report, which contained allegations of a Fair Lending violation related to the Bank's lending practices outside of its assessment area. The Bank revoked the lending restrictions that had been questioned and no further regulatory action was taken by the OTS or the Department of Justice.
- Although there was not any community development (CD) lending during the review period due to the imposed lending restriction, there were adequate CD investments and services.

Scope of the Examination

The Bank received a "Needs to Improve" rating stemming from the last CRA examination, dated November 15, 2010, which was conducted by the OTS. During the current CRA examination, we evaluated ESB using the Intermediate Small Savings Bank examination procedures, which include a lending test and a CD test, to assess compliance with CRA. The lending test evaluates ESB's record of meeting the credit needs of its assessment area through its lending activities. The CD test evaluates the Bank's responsiveness to CD needs in its assessment area through CD lending, qualified investments, and CD services. We sampled CRA CD activities using full-scope reviews. For the lending test, our review covered the period from January 1, 2010, through September 30, 2014. For CD activities, our review covered the period from the last

CRA Performance Evaluation date of November 15, 2010, through March 2, 2015. Under the lending test, we reviewed loans subject to reporting requirements of the Home Mortgage Disclosure Act (HMDA). The Bank did not have any affiliates engaged in lending in our review period. There were only two HMDA loans originated in the assessment area. A HMDA data integrity review performed in January 2015, indicated that the data was accurate and could be relied upon for our purposes.

Description of the Institution

ESB is a federally chartered thrift savings bank headquartered in Hunt Valley, Maryland that operates four full service branch offices located in the Baltimore, Maryland Metropolitan Statistical Area (MSA). These branches are located in the cities of Pikesville, Nottingham, Lutherville, and Ellicott City. Pikesville is located in a low-income census tract (CT), Nottingham is located in a moderate-income CT and both Lutherville and Ellicott City are located in upper-income CTs.

The Bank's deposit base consists primarily of retail deposits. As of December 31, 2014, the Bank reported total assets of \$406 million, Tier 1 Capital of \$56 million, and net loans and leases of \$218 million. The Bank's loan-to-deposit ratio at September 30, 2014 was 68.75 percent and considered stable when compared to quarterly levels in the 67.65 percent to 73.80 percent range during the prior two years.

As mentioned, the Bank entered into the 2009 Order with the OTS in February 2009. In July 2011, regulatory supervision of ESB changed from the OTS to the OCC, and the 2009 Order was replaced with the 2014 Order in March 2014. The 2009 and 2014 Orders require the Bank to meet and maintain certain minimum capital levels, which reduced the amount of new loans the Bank could originate. During this time, ESB originated a limited number of loans that were extended to facilitate the sale of Other Real Estate Owned (OREO). Total assets declined by \$427 million, or 51.27%. After an extensive project to establish the infrastructure to launch a new lending platform, the Bank began accepting new loan applications on October 26, 2014. The Bank continues to transition from a subprime lender to a lender offering mortgage loan products to prime borrowers in its lending area. The Bank's Strategic Plan calls for lending to focus on residential and commercial loans, secured by real estate in the five contiguous states from Maryland to New York.

Description of Assessment Area

ESB's assessment area includes the entire Baltimore, Maryland MSA and the contiguous counties of Prince George's County and Montgomery County, which are located in the Washington-Arlington-Alexandria, DC-VA-MD-WV MSA. The entire assessment area is within the Washington-Baltimore-Northern Virginia, DC-VA-MD-WV Combined Statistical Area. The assessment area complies with regulatory requirements as it consists of entire counties and does not arbitrarily exclude any low-income or moderate-income geography.

The Bank's assessment area contains multiple economic environments that include cities, suburban communities, and rural towns. The area's unemployment rate of 5.7 percent, as of March 2015, is very close to the U.S. average. However, mid-wage jobs, which account for the bulk of the workforce, continue to lag and tepid job creation in this segment keeps the labor market from accelerating further.

Top employers in the assessment area include Fort George Meade, Johns Hopkins University, University of Maryland, Johns Hopkins Health System, and the Aberdeen Proving Ground. The assessment area is home to established well-funded medical research centers, technology firms and distribution industries. A major source for employment in the assessment area includes the Port of Baltimore. The Port has a good mix of export and import activity and is rated as the top U.S. port for handling autos and light trucks. Sustained trade activity paired with increased cruise traffic is expected to support medium-term hiring and spending in the metro Baltimore area.

Major military bases in the assessment area also employ members of various military branches as well as civilian personnel. In addition, the federal workforce continues to expand based on allocations made to support Defense Department spending on cybersecurity at Fort Meade and operations at the NSA. Outside of defense spending, the latest federal spending bill includes funds for transportation spending focused on expanding rail service that is expected to support construction employment and boost economic development, lending upside potential to the area's economic forecast. Other major industries in the area include government contracting, real estate, major air and ground transportation systems, and financial and retail services.

House price appreciation continues to lag due to a surplus of housing inventory caused by a depressed housing market and a large number of foreclosures that continue to impact the housing market. Maryland's average price growth failed to match the pace of the South Atlantic states and the national growth rate in 2014; however, a tightening labor market is expected to help reduce foreclosure inventory, resulting in house price gains that are expected to accelerate by early 2016, and outpace the nation by 2018.

Based on CD contact feedback from one representative of a local organization, affordable homes are a primary concern for the assessment area. There is also a need for access to traditional banking services as well as financial literacy and educational training programs that would benefit communities in the assessment area.

Demographic Data Based on 2000 Census

The table below, which is based on 2000 U.S. Census Data, sets forth certain demographic characteristics of ESB's assessment area for analysis of 2010, 2011 and 2012 HMDA data:

Table 1: Demographic Information for Full Scope Area: ESB's Assessment Area 2010 - 2012						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	1,246	11.96	25.68	31.86	29.70	0.80
Population by Geography	5,646,041	7.81	23.75	35.30	32.87	0.27
Owner-Occupied Housing by Geography	2,267,812	3.58	17.30	38.26	40.86	0.00
Family Distribution by Income Level	1,397,003	20.96	17.53	21.49	40.01	0.00
Distribution of Low and Moderate Income Families throughout ASSESSMENT AREA Geographies	537,770	14.94	36.11	33.48	15.39	0.00
Median Family Income	\$74,711	Median Housing Value	\$396,055			
HUD Adjusted Median Family Income for 2011	\$100,235	Unemployment Rate (March 2015)	5.70%			
Households Below Poverty Level	8.36%					

Source: 2000 US Census and 2011 HUD updated MFI

The assessment area consists of 1,246 CTs. Low- and moderate-income geographies represent 11.96 percent and 25.68 percent of these tracts, respectively. Middle-income geographies represent 31.86 percent of the tracts, and upper-income represents 29.70 percent. The Bank's assessment area does not arbitrarily exclude any low- and moderate-income areas.

The 2000 U.S. Census Data reported the total population of the assessment area to be approximately 5.6 million. Within the assessment area, there are 1,397,003 families. The 2000 Census median family income was \$74,711 and the 2011 HUD Updated Median Family Income was \$100,235. Approximately 20.96 percent of families are low-income, 17.53 percent are moderate-income, 21.49 percent are middle-income, and 40.01 percent are upper-income. An estimated 8.36 percent of households are below the poverty level.

According to the 2000 U.S. Census Data, approximately 3.58 percent of owner-occupied housing is in low-income geographies, 17.30 percent is in moderate-income geographies, 38.26 percent is in middle-income geographies, and 40.86 percent is in upper-income geographies. The median housing value is \$396,055.

Demographic Data Based on 2010 Census

The table below, which is based on 2010 U.S. Census Data, sets forth certain demographic characteristics of ESB's assessment area for analysis of 2013 HMDA:

Table 1: Demographic Information for Full Scope Area: ESB's Assessment Area 2013 - 2014						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	1,101	12.44	26.98	32.88	26.98	0.72
Population by Geography	4,497,888	9.79	25.85	34.85	29.21	0.31
Owner-Occupied Housing by Geography	1,116,710	4.89	20.54	39.21	35.35	0.00
Family Distribution by Income Level	1,094,542	8.68	23.81	35.60	31.91	0.00
Distribution of Low and Moderate Income Families throughout ASSESSMENT AREA Geographies	439,156	22.01	18.11	21.36	38.52	0.00
Median Family Income	\$90,667	Median Housing Value	\$341,290			
HUD Adjusted Median Family Income for 2011	\$91,412	Unemployment Rate (March 2015)	5.70%			
Households Below Poverty Level	8.12%					

Source: 2010 US Census and 2011 HUD updated MFI

The assessment area consists of 1,101 CTs. Low- and moderate-income geographies represent 12.44 percent and 26.98 percent of these tracts, respectively. Middle-income geographies represent 32.88 percent of the tracts, and upper-income the remaining 26.98 percent. The Bank's assessment area does not arbitrarily exclude any low- and moderate-income areas.

The 2010 U.S. Census Data reported the total population of the assessment area to be approximately 4.5 million. Within the assessment area, there are 1,094,542 families. The 2010 Census median family income was \$90,667 and the HUD Updated Median Family Income was \$91,412. Approximately 8.68 percent of families are low-income, 23.81 percent are moderate-income, 35.60 percent are middle-income, and 31.91 percent are upper-income. An estimated 8.12 percent of households are below the poverty level.

According to the 2010 U.S. Census Data, approximately 4.89 percent of owner-occupied housing is in low-income geographies, 20.54 percent is in moderate-income geographies, 39.21 percent is in middle-income geographies, and 35.35 percent is in upper-income geographies. The median housing value is \$341,290.

Conclusions with Respect to Performance Tests

LENDING TEST

CRA performance under the lending test is rated Needs to Improve. ESB originated only two HMDA loans in the assessment area over the period. The Bank's distribution of lending to low- and moderate-income geographies represents a poor dispersion and the lending performance to low- and moderate-income individuals is a poor penetration. Due to the

assessment area lending activity consisting of just these two loan originations, a more detailed assessment would not provide meaningful analysis.

Loan-to-Deposit Ratio

The Bank's loan-to-deposit ratio at September 30, 2014 was 68.75 percent and considered reasonable when compared to quarterly levels in the 67.65 percent to 73.80 percent range during the prior two years. This performance level is considered reasonable.

Lending in Assessment Area

Our review of HMDA data, and other reports generated by the Bank to analyze the extent of lending inside and outside of the assessment area, disclosed that the Bank had made only 16 loans in the four year and nine month review period. Moreover, there were only two loans originated (both in 2010) in the Bank's assessment area from January 1, 2010, through September 30, 2014, because the Bank was only making loans to facilitate the sale of OREO. Each loan the Bank originated in the assessment area over the review period was in a High Income CT and granted to high income borrowers.

As noted in the prior CRA Public Evaluation, the Bank had been a nationwide lender during that review period; however, due to financial condition of the Bank and the requirements of the 2009 and 2014 Orders, the Bank was unable to originate consumer, commercial or residential mortgages. The only exception was to allow the Bank to originate loans that would facilitate the sale of real estate owned by the Bank, for which the Bank had previously taken possession through the foreclosure process. Most of the loans on the properties owned by the Bank were located outside the assessment area. We tested the accuracy of the Bank's HMDA report by reviewing the real estate owned sale transactions and found the reports accurate.

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

The record of lending to borrowers of different incomes was poor and resulted in a rating of Needs to Improve. Only two HMDA loans were originated during the period, and neither of these loans was to low- or moderate-income borrowers. Regardless of this, the overall number of loan originations was poor.

Geographic Distribution of Loans

The record of lending to borrowers in geographies of different incomes was poor and resulted in a Needs to Improve rating. There were only two HMDA loans originated during the period, and neither was to low- or moderate-income borrowers.

Responses to Complaints

There were no CRA-related complaints received by the Bank or the OCC during the review period. Management has adequate policies and procedures in place to respond to complaints in a reasonable manner.

COMMUNITY DEVELOPMENT TEST

Throughout the review period, ESB and its employees engaged in a number of CD activities within the Bank's assessment area. This section of the performance evaluation summarizes the Bank's CD activities from December 1, 2010, through March 2, 2015.

Community Development Loans

ESB's volume of lending during the review period was limited by the lending, capital and liquidity constraints encompassed in the 2009 and 2014 Orders. During the review period, the Bank mainly focused on 1-4 Family residential lending, and ESB did not originate any CD loans during the review period.

Number and Amount of Qualified Investments

Housing Rehabilitation Projects

In an effort to meet CD needs, ESB has continued to administer its internal housing renovation program. This program qualifies as community development since its purpose is to revitalize low- to moderate-income neighborhoods. Under this program, ESB and its subsidiary First Community Investment, Inc. (FCI), purchase and renovate housing units. This partnership primarily purchases houses that have gone through the foreclosure process in the Bank's assessment area. FCI makes extensive renovations to the acquired homes and then attempts to sell them, mainly to first-time homebuyers. During the review period, FCI purchased, renovated, and then sold twenty-nine houses. ESB and FCI's investment in these projects totaled \$3.8 million. In addition, ESB paid the closing costs and other contributions to the buyers of these properties totaling \$59 thousand.

Certificates of Deposit

ESB maintains certificates of deposit totaling \$3.7 million in sixteen minority-owned financial institutions, one of which is located in Baltimore, Maryland, and the others throughout the United States.

Financial Grants

During the review period, ESB made financial donations totaling \$144,495 to numerous non-profit organizations. The donations were sampled and tested for meeting the criteria for community development. Organizations that qualified for inclusion in this evaluation were involved in various affordable housing, neighborhood revitalization efforts, and financial literacy education to low- and moderate-income individuals. These organizations included, but were not limited to, nonprofit private corporations that provided education services to lower income people, government agencies that assisted in affordable housing for low and moderate-income families, and a CD organization that specialized in revitalization programs for low and moderate-income areas.

Affiliate Investment

ESB's affiliate, made financial contributions totaling \$451,530 toward scholarship and grant programs benefiting lower income schools in the City of Baltimore and surrounding counties.

Community Development Services

- ESB personnel provided over 862 hours of service to several community organizations involved in affordable housing and neighborhood revitalization.
- ESB personnel established partnerships with several local elementary schools, located in moderate-income CTs, in connection with a local university program that teaches strategies to middle school students for earning, preserving, and investing.
- An executive with ESB is a director of a local non-profit revitalization organization.
- Another Senior ESB employee provides leadership as a board member for a local housing partnership that provides pre-purchase homebuyer workshops, credit, and budget counseling.
- One ESB manager provides leadership as a board member for a CD corporation that is involved in neighborhood revitalization efforts in Southeast Baltimore.
- During the period, ESB leased one of its properties to a local CD organization at a below market rate.

ESB's CD performance demonstrates responsiveness to CD needs in its assessment area. **Based upon ESB's overall record within the assessment area, a rating of "Satisfactory" was assigned for the Community Development Test.** The rating was supported primarily by ESB's level of CD investments and services. The Bank had received an "Outstanding" rating under the CD test at the prior CRA Public Evaluation

Responsiveness to Community Development Needs

ESB's CD performance demonstrates an adequate responsiveness to CD needs in its assessment area. ESB's record of investing and providing CD services within the assessment area has occurred throughout the entire review period. The Satisfactory rating was supported primarily by ESB's level of CD investments and services.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), or 12 CFR 195.28(c), in determining the CRA rating of a National Bank (NB) or Federal Savings Association (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the NB or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the NB's or FSA's lending performance.

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