



PUBLIC DISCLOSURE

July 05, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Winter Hill Bank, FSB
Charter Number 701149

342 Broadway Somerville, MA 02145-2808

Office of the Comptroller of the Currency

99 Summer St. 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 Outstanding.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Outstanding.

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

Scope of Examination

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

The evaluation period for the Lending Test covers the Bank's performance from January 1, 2014, through December 31, 2015. The Bank's performance was compared to the 2010 U.S. Census Data. The evaluation period for the CD test is from July 15, 2013, the date of the prior Performance Evaluation (PE), through July 5, 2016. CD loans, investments, and services submitted by management were verified to ensure they met the regulatory definition for community development.

The Bank's primary loan product, based on originations during the evaluation period, are residential mortgages, including home purchase, home refinance, and home improvement loans. Residential loans represent 66% of the Bank's originations and/or purchases by number and 50% by dollar volume during the evaluation period.

The Bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). We reviewed the Bank's testing results of the 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 the AA, which includes portions of Middlesex, Essex, and Suffolk County. Middlesex County and Essex County are part of the Cambridge-Newton-Framingham, Massachusetts (MA) Metropolitan Division (MD). Suffolk County is part of the Boston, MA MD and the Bank's AA includes only one census tract in Suffolk County, which is not substantially beyond the Cambridge-Newton-Framingham, MA MD. These two MDs will be combined into one AA for the evaluation as a meaningful analysis cannot be performed on the performance in a single tract.

Description of Institution

WHB is a \$312 million federally chartered mutual thrift institution headquartered in Somerville, MA. Winter Hill continues to operate as a traditional thrift lender by promoting residential mortgage loan products and deposit services to its customers. The Bank has two wholly-owned subsidiaries: Winter Hill Service Corporation, which holds two limited real estate partnerships for low income housing, and Winter Hill Securities Corporation which holds Bank investments. The Bank does not have any affiliates.

In addition to the Bank's main office in Somerville, MA, the institution has two full service branches, one located in Davis Square in Somerville, MA and the other located in North Reading, MA. The Bank also has an operations center and loan center located in Somerville, MA. The main office is located in a moderate-income geography. The Davis Square branch, North Reading branch, and operations center are located in middle-income geographies, and the loan office is located in a low-income geography. All locations are situated within Middlesex County. Branch hours are reasonable with each location open from 8:30 am to 4:00 pm Monday through Friday. Extended hours are available until 6:00 pm on Thursdays and Fridays, and on Saturdays from 8:30 am to 1:00 pm. WHB closed the Ball Square Branch located at 691 Broadway Somerville, MA, which was located in a middle census tract, on November 17, 2014. The Loan Center located at 337 Broadway, Somerville, MA was opened on April 21, 2014.

Winter Hill offers a variety of different account access alternatives including online banking with bill pay options, and mobile banking. The Bank operates automated teller machines (ATMs) at each 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. The Bank also offers customers the ability to complete and submit loan applications and open deposit accounts online from the Bank's website, www.winterhillbank.com. More information on the Bank's services and products can be found on the Bank's website.

As of March 31, 2016, the Bank's loan portfolio totaled \$231.8 million, and represented 74% of total assets. The distribution of the Bank's loan portfolio as of March 31, 2016, is reflected in the table below.

Loan Portfolio Summary by Loan Product March 31, 2016	
Loan Category	% of Total Loans and Leases
1-4 Family Residential Mortgage	50%
Home Equity Lines of Credit	2%
Commercial Real Estate	35%
Construction and Development	13%
Consumer	<1%

Source: March 31, 2016 Call Report

The Bank has no financial or legal impediments to meeting the credit needs of the community. The Bank was rated "Outstanding" using small bank procedures at the last CRA review dated July 15, 2013.

Description of Assessment Area

The CRA requires a bank to define an AA in which it will be evaluated. Winter Hill has delineated one AA that includes all branches, as well as the contiguous towns/cities around these offices. The Bank's AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income tracts.

WHB has designated the AA to include portions of Middlesex County, Essex County, and Suffolk County in Massachusetts. The AA has 156 contiguous tracts, 130 located in Middlesex County, 25 in Essex County, and one in Suffolk County. The AA includes the towns/cities of Somerville, Cambridge, Arlington, Medford, Everett, Malden, Melrose, Winchester, Woburn, Stoneham, Wakefield, Burlington, Reading, Lynnfield, Wilmington, North Reading, Andover, North Andover, Middleton and Peabody. The AA is comprised of five low-income tracts (3%), 41 moderate-income tracts (26%), 69 middle-income tracts (44%), and 41 upper-income census tracts (27%).

Middlesex County and Essex County are part of the Cambridge-Newton-Framingham, MA MD. Suffolk County is part of the Boston, MA MD and the AA includes only one census tract in Suffolk County, which is not substantially beyond the Cambridge-Newton-Framingham MD. These two MDs will be combined into one AA for the evaluation as a meaningful analysis cannot be performed the Bank's performance in a single tract.

Demographic information for the AA based on 2010 U.S. Census Data is broken down below:

Demographic Information for WHB AA					
Income Level	Total #	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	156	3%	26%	44%	27%
Population by Geography	736,189	3%	24%	48%	25%
Owner Occupied Housing by Geography	170,636	1%	16%	51%	32%
Family Distribution by Income Level	174,101	22%	16%	22%	40%
Distribution of LMI Families through AA Geographies	65,887	5%	35%	45%	15%
2010 Census Median Family Income (MFI)	\$87,319	Median Housing Value*		\$476,908	
HUD Updated MFI: 2014		\$90,403	Families Below the Poverty Level		9%
			Unemployment Rate **		3.2%

Source: 2010 U.S. Census Data

*Data from Zillow, average home value based on towns in the AA

**Data from US Bureau of Labor Statistics for May 2016. Rate is Middlesex County.

WHB operates in a highly competitive market with significant competition from local commercial banks, savings banks, and credit unions. The Federal Deposit Insurance Corporation’s (FDIC) Institutions Deposit Market Share Report, as of June 30, 2015, indicates that 139 institutions operate branches in the Boston-Cambridge-Newtown MA-NH Metropolitan Statistical Area (MSA), which includes the Bank’s AA. WHB ranks 62nd with a deposit share of less than 1%. State Street Bank and Trust Company, Bank of America, N.A., and Citizens Bank, N.A. are ranked as the top three in deposit market share, holding 63% of deposits. Local competitors include, but are not limited to Eastern Bank, Rockland Trust Company, Middlesex Savings Bank, Century Bank and Trust Company, People’s United Bank, N.A., Salem Five Savings Bank, Leader Bank, and Cambridge Savings Bank. Larger nationwide financial institutions that provide further competition are Santander Bank, N.A., The Bank of New York Mellon, and TD Bank, N.A.

The FDIC Deposit Market Share Report, as of June 30, 2015, indicates 74 institutions operate in Middlesex County, MA and Essex County, MA, which is primarily the Bank’s AA. WHB ranks 47th with less than 1% market share. The competitors are similar in the refined market area.

Competition for mortgage loans, the Bank’s primary product, is also high within the Bank’s AA. According to the 2014 Peer Mortgage Data, 430 lenders compete in the Bank’s AA. WHB ranks 47th with less than 1% of the market share. The top lenders

include JPMorgan Chase Bank, N.A., Wells Fargo Bank, N.A., Leader Bank N.A., Guaranteed Rate Inc., Mortgage Master, Quicken Loans and Bank of America, N.A.

According to the Moody's economic indicators as of May 2016, the Cambridge-Newton-Framingham, MA MD continues to be in an expansionary stage of the business cycle. The key economic drivers for this area include high tech industries, colleges, and medical centers. Hiring is picking up for all industries except manufacturing, and payroll employment is expanding faster than at the national level. The housing market is strong and single-family home building is up to its prerecession rate. The Cambridge area is reliant on the technology sector for job growth and is home to many biotech, pharmaceutical, and software companies. The presence of universities help anchor the economy, which is expected to continue to outperform the Northeast.

The unemployment rate of 3.2% for Middlesex County, as of May 2016, is near the lowest it has been in the past five years. The unemployment rate is similar in Essex County at 3.9%, as of May 2016. The AA unemployment rates compare favorably to the state and national average of 3.8% and 4.7%, respectively, as of May 2016.

The strong housing market within the AA has led to higher home prices. The median housing value in the AA is high when compared to median income levels. The expensive housing market limits the availability of affordable housing for low- and moderate-income families. Based on data from Zillow.com, the average cost of housing for the towns that are part of the AA is approximately \$477 thousand.

During our evaluation, we held discussions with local community organizations to identify the area's primary credit needs and the opportunities for financial institutions to assist in the community. We contacted the executive director of a community development organization that has programs to support affordable housing and community services in Somerville, MA. We also contacted the CEO of a community service organization that focuses on affordable housing in Somerville, MA. Both contacts discussed several opportunities for financial institution participation and the continued need for flexible financing opportunities for affordable housing among low- and moderate-income borrowers. Given the current housing market, affordable housing continues to be a primary credit need for the community. Another need for low- and moderate-income families and individuals in the community is accessibility to financial services given cultural differences and financial limitations. Both community contacts stated local financial institutions adequately meet the credit needs of the community; however, there are additional opportunities for more involvement.

Conclusions with Respect to Performance Tests

LENDING TEST

WHB's performance under the lending test is satisfactory. WHB's loan-to-deposit ratio is more than reasonable. A majority of the Bank's loans were originated in the Bank's AA. Overall, the distribution of home loans reflects reasonable penetration among individuals of different income levels. Overall, the geographic distribution of home loans reflects excellent dispersion in low- and moderate-income geographies.

Loan-to-Deposit Ratio

The Bank's loan-to-deposit (LTD) ratio is more than reasonable given the Bank's size, AA credit needs, and significant market competition. The Bank's quarterly LTD ratio averaged 90% over the last 12 quarters and ranged from a high of 96% at December 31, 2014, to a low of 74% at June 30, 2013. The ratio stands at 92% at March 31, 2016. WHB's LTD ratio is higher than the quarterly average for national peer institutions of 84% over the same period.

Lending in Assessment Area

A majority of WHB's primary loan products were made within the Bank's assessment area during our review period and the Bank meets the standard for satisfactory performance. During the review period, 59% of the Bank's primary loan products were originated within its AA, representing 62% of the total dollar amount.

The following table details the Bank's lending within its AA by number and dollar amount of loans:

Table 1 - Lending in Winter Hill's AAs (000's)										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	71	46%	84	54%	155	\$26,760	49%	\$27,283	51%	\$54,043
Home Refinance	69	65%	38	35%	107	\$23,180	68%	\$11,148	32%	\$34,328
Home Improvement	56	79%	15	21%	71	\$20,884	80%	\$5,079	20%	\$25,963
Totals	196	59%	137	41%	333	\$70,824	62%	\$43,510	38%	\$114,334

Source: HMDA-reported data from 1/1/2014-12/31/2015

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

The distribution of home loans originated in the Bank's AA reflects reasonable penetration among borrowers of different income levels.

The percent of home purchase loans made to low-income borrowers is above the percent of aggregate lending data, which is our primary comparator, and is significantly below the amount of low-income families in the AA. The percent of home purchase loans made to moderate-income borrowers is below the percent of aggregate lending data and the percent of moderate-income families on the AA. The percent of home improvement loans made to low-income borrowers is slightly above the percent of aggregate lending data and is significantly below the percent of low-income families in the AA. The percent of home improvement loans made to moderate-income families exceeds the aggregate lending data and the percent of moderate-income families in the AA. The percent of home refinance loans made to low-income borrowers meets the percent of aggregate lending data and is significantly below the percent of low-income families in the AA. The percent of home refinance loans made to moderate-income borrowers exceeds the percent of aggregate lending data and the percent of moderate-income families in the AA.

Winter Hill's performance for home loans made to borrowers of different income levels is considered satisfactory given the high competition and lack of affordable housing within the AA. The lack of affordable housing limits lending opportunities for low- and moderate-income borrowers. The median housing value in the AA continues to increase and is high relative to the median family income in AA. Based on the data collected from Zillow.com, the average median home price in the AA is \$476,908. The 2014 HUD updated median family income is \$90,403, which means that a low-income borrower would earn less than \$45,201, making it difficult to qualify for a home loan. Additionally, a moderate-income borrower would also encounter difficulty qualifying for a home loan with an income range of at least \$45,201 but less than \$72,322.

Market competition for home mortgage loans is significant. According to 2014 Mortgage Market Share data, 430 lenders compete in the Bank's AA. Mortgage lending in the AA is dominated by larger institutions with the top ten institutions holding approximately 32% of the market share. WHB ranks 47th with less than 1% of the market share. The Bank's performance is considered satisfactory given the high cost of housing and the strong level of competition.

The following table shows the aggregate lending data for HMDA reporters within the Bank’s AA, as well as the Bank’s distribution (% of Number of Loans) of home loan products among borrowers of different income levels compared to the percent of families in each income category.

Table 2 – Aggregate Lending Data for Borrower Distribution in AA								
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	4%	6%	16%	10%	27%	24%	53%	60%
Home Improvement	5%	6%	14%	19%	28%	30%	53%	45%
Home Refinance	5%	5%	16%	19%	28%	32%	51%	44%

Source: HMDA-reported data from 1/1/2014-12/31/2015; 2010 U.S. Census Data

Table 2A - Borrower Distribution of Home Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of Families	% of Number of Loans	% of Families	% of Number of Loans	% of Families	% of Number of Loans	% of Families	% of Number of Loans
Home Purchase	22%	6%	16%	10%	22%	24%	40%	60%
Home Improvement	22%	6%	16%	19%	22%	30%	40%	45%
Home Refinance	22%	5%	16%	19%	22%	32%	40%	44%

Source: HMDA-reported data from 1/1/2014-12/31/2015; 2010 U.S. Census Data

Geographic Distribution of Loans

The geographic distribution of home loans reflects excellent dispersion in the low- and moderate-income census tracts in the AA. We found no conspicuous gaps or areas of low penetration in the Bank’s lending patterns.

The Bank’s geographic distribution of home loans originated during the test period reflects excellent dispersion in the low- and moderate-income census tracts. The percent of home purchase loans exceeds the percent of peer aggregate lending data and the percent of owner-occupied housing within low-income geographies. The percent of home purchase loans significantly exceeds the percent of peer aggregate data and the percent of owner-occupied housing within moderate-income geographies. The percent of home improvement loans significantly exceeds the percent of peer

aggregate lending data and the percent of owner-occupied housing within low-income geographies. The percent of home improvement loans significantly exceeds the percent of peer aggregate data and the percent of owner-occupied housing within moderate-income geographies. The percent of home refinance loans exceeds the percent of peer aggregate data and the percent of owner-occupied housing within low-income geographies. The percent of home refinance loans significantly exceeds the percent of peer aggregate data and the percent of owner-occupied housing within moderate-income geographies. The overall dispersion is considered excellent.

The following tables detail the Bank’s performance (% of Number of Loans) 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.

Table 3 – Aggregate Lending Data for Geographic Distribution in the AA								
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	1%	3%	17%	24%	51%	59%	30%	14%
Home Improvement	1%	6%	13%	28%	55%	50%	31%	16%
Home Mortgage Refinance	1%	5%	17%	30%	51%	52%	31%	13%

Source: HMDA reported data from 1/1/14-12/31/15; 2010 U.S. Census Data

Table 3A - Geographic Distribution of Residential Real Estate Loans in the 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%	3%	16	24%	51%	59%	32%	14%
Home Improvement	1%	6%	16%	28%	51%	50%	32%	16%
Home Mortgage Refinance	1%	5%	16%	30%	51%	52%	32%	13%

Source: HMDA reported data from 1/1/14-12/31/15; 2010 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 outstanding. WHB's community development performance demonstrates excellent responsiveness to community development needs in its assessment area through CD loans, investments, and services.

Number and Amount of Community Development Loans

Community development lending is excellent. During the evaluation period, the Bank originated five qualified CD loans totaling \$4.5 million that benefitted the AA. The CD loans were used to finance affordable housing, the primary identified credit need in the AA. The highlights of the Bank's CD loans are as followed:

- A \$3.6 million loan made to build a 40 unit affordable housing complex located in Cambridge, MA.
- A \$335 thousand loan made to support a 6 unit affordable housing building located in Somerville, MA.
- Three loans (\$240 thousand, \$124 thousand, and \$175 thousand) were made to finance borrowers with income restricted affordable housing units located in Somerville, MA.

Number and Amount of Qualified Investments

The Bank made a satisfactory level of community development donations. The Bank did not make any investments during the assessment period.

During the assessment period, qualifying community development donations totaled \$62 thousand and benefitted 22 different community development organizations. All 22 of the organizations benefit the AA. While the actual level of Bank donations was higher, the aforementioned donations met the definition of community development.

Extent to Which the Bank Provides Community Development Services

Accessibility to the Bank's delivery systems in the AA is good. WHB's delivery systems are accessible to geographies and individuals of different income levels throughout the AA. The Bank has three full service locations, two located in Somerville, MA and the other located in North Reading, MA. The Bank also has a loan center located in Somerville, MA. The main office is located in a moderate-income geography. The Davis Square branch and North Reading branch are located in middle-income geographies, and the loan office is located in a low-income geography. All locations are situated within Middlesex County.

A variety of languages are spoken at the different locations including Spanish, Portuguese, Albanian, Italian, Bengali, Indian, Tibetan, Korean, and French. This addresses a need in the community and was mentioned as a need by one of the community contacts.

The Bank offers special loan programs for income eligible low- and moderate-income first-time homebuyers through Mass Housing's mortgage programs. These programs provide competitive interest rates and relaxed terms and qualification guidelines for income-restricted homebuyers and first-time home buyers. The Bank also offers an in-house lending program for first-time homebuyers and provides free preapproval services to income restricted first-time homebuyer FTHB 40B lottery candidates. The checking and saving accounts provided by Winter Hill Bank meet the *Basic Banking for Massachusetts* guidelines established by the Massachusetts Community and Banking Council.

The Bank provides an outstanding level of community development services. During the evaluation period, 8 Bank officers/employees provided financial expertise and/or services to 12 qualified community development organizations serving the AA.

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

- Two Bank employees work with a local affordable housing organization to provide an accredited first-time homebuyer course to benefit low- and moderate-income borrowers.
- Two Bank employees attend a local fair annually to provide financial advice to elderly low- and moderate-income residents in the AA.
- The Bank hosted several first-time homebuyer seminars throughout the testing period.
- A member of senior management serves on the Board and Finance Committee for a local non-profit that provides housing, financial and medical services to low- and moderate-income people, specifically serving the elderly and special needs.
- A member of senior management serves on the Board of a local non-profit that provides single-occupancy long-term affordable housing to low-income individuals.
- A member of senior management is a Chairman of a committee whose annual fundraising event supports local low- and moderate-income children.

- A member of senior management is the Treasurer for a local organization that provides housing for low- and moderate-income adults who cannot live on their own.
- A member of senior management is an ongoing instructor for a local affordable housing organization's first time homebuyer program.
- A Bank employee is a Board Member for a local affordable housing organization.
- A member of senior management was on a task force organized by the Mayor of Somerville to combat the affordable housing crisis in Somerville, MA. He served on the Resource Committee which focused on the financial aspect of the affordable housing issues.
- A member of senior management and a Director were on a committee for the city of Somerville, MA to review a proposal regarding affordable housing.

Responsiveness to Community Development Needs

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

Fair Lending or Other Illegal Credit Practices Review

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