



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

December 26, 2012

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Colonial Federal Savings Bank  
Charter Number 701673

15 Beach Street  
Quincy, MA 02170-2802

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 Outstanding**

The major factors supporting the institution's CRA ratings are:

- The bank's level of lending, as reflected in its quarterly average net loan-to-deposit ratio, is reasonable given the size, assessment area credit needs, and relevant competitive factors.
- The majority of originated and purchased loans are within the bank's assessment area.
- The distribution of loans reflects reasonable distribution among individuals of different income levels.
- The geographic distribution of loans reflects excellent distribution in low- and moderate-income census tracts.
- Colonial Federal Savings Bank (CFSB) demonstrates a strong commitment to its assessment area through community development (CD) activities and qualified investments and services reflect the bank's effort to actively enhance credit availability within its AA.

## **SCOPE OF EXAMINATION**

CFSB was evaluated using Small Bank Community Reinvestment Act (CRA) examination procedures, which includes a lending test. The evaluation period for the lending test covers the bank's performance from October 1, 2009 through December 31, 2011. The lending test evaluates the bank's record of meeting the credit needs of its assessment area (AA) through its lending activities. The bank also provided us with optional CD information to evaluate the bank's efforts to enhance credit availability within its AA through these qualified CD investments and services. The evaluation period for the CD information is from December 15, 2009, the data of the prior Performance Evaluation (PE) through December 26, 2012. CD investments and services submitted by management were verified to ensure they met the regulatory definition for community development.

CFSB's primary loan products, based on loan originations during the evaluation period, are residential mortgage loans including home purchase, home refinance, and home improvement loans. As indicated by the September 30, 2012 Uniform Bank Performance Report (UBPR), residential loans represent approximately 87% of the overall loan portfolio at the bank.

The bank reports data under the requirements of Home Mortgage Disclosure Act (HMDA). As part of our evaluation, we tested 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.

## DESCRIPTION OF INSTITUTION

CFSB is a \$293 million federally chartered mutual thrift institution. The bank is headquartered in Quincy, Massachusetts and operates as a traditional thrift lender by promoting residential mortgage loan products and deposit services to its customers.

The bank has four branches located in Norfolk County, MA, two in Quincy and one each in Holbrook and Weymouth. The bank's Southern Artery branch and the Holbrook branch are both located in a moderate-income geography. The remaining two branches are located in a middle-income geography. Branch hours are typically 9:00 am to 4:00 pm, Monday through Wednesday, with extended hours on Thursdays and Fridays. Weekend branch hours are typically from 9:00 am to noon with extended drive-up hours. The bank's Southern Artery branch is located within a senior housing complex and maintains limited hours of Monday through Friday 9:00 am to 3:00 pm. No branches were opened or closed during the evaluation period.

CFSB 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.colonialfed.com](http://www.colonialfed.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, online banking with bill pay options, and mobile banking. The bank operates walk-up and drive-up automated teller machines (ATMs) at three of its branches and is also a member of the SUM and MoneyPass ATM networks, which allows member customers to access their accounts from participating network ATMs without any surcharge.

As of September 30, 2012, total assets, total deposits, and tier one capital were \$293 million, \$248 million, and \$32 million, respectively. The loan portfolio totaled \$129 million, or 44% of total assets, as of September 30, 2012. Below is a summary of the bank's loan mix.

Loan Portfolio Summary by Loan Product September 30, 2012	
Loan Category	% of Gross Loans and Leases
1-4 Family Residential Mortgage – Closed End	85%
Home Equity	1%
Commercial & Industrial	0%
Other Real Estate	13%
Construction and Development	1%
Consumer	< 1%

Source: FDIC Call Report

The bank has no financial or legal impediments to meeting the credit needs of the community. The bank was rated "Satisfactory" using small bank procedures at the last CRA examination dated December 15, 2009.

**DESCRIPTION OF ASSESSMENT AREA(S)**

The CRA requires a bank to define an AA in which it will be evaluated. CFSB's AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income tracts.

The bank's AA consists of 4 cities and towns located on the eastern portion of Norfolk County, Massachusetts. The AA is part of the Boston-Quincy MA, Metropolitan Division (MD) 14484 and consists of 37 census tracts, including one low-income census tract (3%), two moderate-income tracts (5%), 29 middle-income tracts (78%), and five upper-income tracts (14%). The 2000 U.S. Census Data indicates that 36% of families in the AA are considered low- or moderate-income and approximately 7% of the households are below the poverty level.

Demographic Information for CFSB AA					
Income Level	Total #	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	37	3%	5%	78%	14%
Population by Geography	186,626	2%	6%	81%	11%
Owner Occupied Housing by Geography	46,839	1%	5%	80%	14%
Family Distribution by Income Level	46,525	17%	19%	25%	38%
2000 Census Median Family Income (MFI)		\$62,948	Median Housing Value*		\$336,750
HUD Updated MFI: 2011		\$87,600	Households Below Poverty Level		7%
			Unemployment Rate **		5.5%

Source: 2000 U.S. Census data

\*Data from Source: US Census Bureau Quick Facts (<http://quickfacts.census.gov>) as of 01/03/2012

\*\*Data from US Bureau of Labor Statistics as of 09/30/2012 for the Boston-Quincy MD.

CFSB operates in a highly competitive market with competition from regional commercial banks, and local savings banks and credit unions. The Federal Deposit Institution Corporation's Deposit Share Report for June 30, 2012, indicates that 47 financial institutions operate within Norfolk County. CFSB ranks 19th with a deposit market share of 1.3%. The bank's local competitors include, but are not limited to: Brookline Bank; Dedham Institution for Savings; The Needham Bank; South Shore Savings Bank; The Bank of Canton; and Middlesex Savings Bank. Larger regional banks that provide further competition and dominate the market share include: Bank of America, N.A.; RBS Citizens, N.A.; Sovereign Bank, N.A.; Rockland Trust Company; Eastern Bank; and TD Bank, N.A.

Competition for the bank's primary loan product is more severe and much less concentrated as many nationwide lenders without offices inside the AA are present in the area's lending market. These lenders include: Wells Fargo Bank, N.A.; JPMorgan Chase Bank, N.A.; Ally Bank; and US Bank, N.A. Also competing heavily are the previously mentioned nationwide, regional, and local institutions, as well as large mortgage companies such as GMAC Mortgage LLC, CitiMortgage, Inc., and Mortgage Master, Inc. Peer Mortgage 2011 Market Share data indicates that CFSB competes with 282 lenders within Norfolk County and ranks 36th with a market share of less than 1%. The top ten lenders dominate the market with an overall market share of approximately 50%.

According to the September 2012 Moody's Analytics report, the greater Boston-Quincy MD recovered strongly in the first half of 2012 as many of the region's largest employment sectors recorded year over year job growth, including healthcare services, professional and business services, hospitality, and trade. However, public sector employment continues to weigh on employment figures overall as budget cuts in local, state, and federal governments take effect. The unemployment rate for the Boston-Quincy MD at 5.4% as of September 2012 remains below the overall Massachusetts rate of 6.6%, as well as the national unemployment rate. Major employers in the Boston-Quincy area include Massachusetts General Hospital, Brigham & Women's Hospital, Boston University, Children's Hospital Boston, Beth Israel Deaconess Medical Center, and State Street Bank and Trust Company.

The state housing market continues to remain affected by the national downturn; however, median housing prices in the AA are high compared to the 2011 HUD Adjusted Median Family Income. The relatively strong housing market limits the availability of affordable housing for low- and moderate-income families in the AA. According to the U.S. Census Bureau, the 2011 median value of owner-occupied housing within the AA was \$337 thousand and was marginally below the Massachusetts state average of \$343 thousand.

During our examination, we reached out to two local organizations to identify the area's primary credit needs and the opportunities for financial institutions to assist in the community. Our first contact was with the president of a local housing counseling agency that helps low- and moderate-income individuals find and obtain affordable housing in the bank's AA. The contact identified the area's primary credit need to be continued access to affordable housing, including rental units. While the contact noted that opportunities to provide permanent financing for affordable housing initiatives do exist within the AA, the competition to provide financing for these opportunities is severe given the number of banks in the area. Local banks, including CFSB, were perceived positively for their involvement within the organization and in the community.

The second contact was with the Executive Director of a local non-profit organization that operates affordable, single room rental units for low-income individuals in the Boston-Quincy MD. The contact stressed the importance of affordable rental housing as a primary credit need in the community due to the significant disparity between

income levels and costs for both rental and owner-occupied housing. The contact cited that there are several opportunities for participation by local financial institutions as there is a continued need to provide permanent financing for low-cost housing projects and to provide grants to organizations to assist with development of such projects. The community contact mentioned that the local financial institutions are supportive of the credit needs of the community and are satisfactory at meeting the needs of the community.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

CFSB's performance under the lending test is satisfactory. CFSB'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 net loan-to-deposit ratio is reasonable given the bank's size, AA credit needs, significant market competition and current economic factors. The bank's net loan-to-deposit ratio has averaged 57% over the last 12 quarters. During this period the ratio has ranged from a quarterly high of 64% to a low of 52%. CFSB's loan-to-deposit ratio is lower than the similarly situated financial institutions' quarterly average, which was 75% over the same period.

### Lending in Assessment Area

A majority of CFSB's primary loan products were made within the bank's assessment area and the bank meets the standard for satisfactory performance. CFSB originated 63% by number and 50% by dollar amount of loans in the AA. The following table details the bank's lending within the AA by number and dollar amount of loans.

Table 1 - Lending in CFSB AA (000s)										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	25	52	23	48	48	6,140	48	6,598	52	12,738
Home Refinance	92	65	49	35	141	15,490	49	15,873	51	31,363
Home Improvement	8	80	2	20	10	1,119	95	60	5	1,179
Totals	125	63	74	37	199	22,749	50	22,531	50	45,280

Source: HMDA data reported by the bank from 10/1/2009 to 12/31/2011.

## Lending to Borrowers of Different Incomes

The distribution of home loans reflects reasonable distribution among borrowers of different income levels. The percent of home improvement loans and home refinance loans made to moderate-income borrowers significantly exceeds the percent of aggregate lending data, which is the bank's primary comparator as well as exceeds the percent of moderate-income families in the AA. The percent of home purchase loans moderate-income borrowers is below the percent of aggregate lending data; however, it exceeds the percent of moderate-income families in the AA. The percent of home refinance loans made to low-income borrowers was near the percent of aggregate lending data. The bank did not make any home improvement or home purchase loans to low-income borrowers during the evaluation period.

The bank's performance and lower penetration for low-income borrowers is considered satisfactory given the significant market competition that the bank faces as well as the lack of affordable housing, which limits lending opportunities. The 2011 Peer Mortgage Data for Home Purchase loans made to low and moderate income borrowers indicates significant competition. CFSB competes with several large national and regional banks and the overall market share is concentrated within the top ten lenders. Lending opportunities for home improvement loans within the AA are limited as indicated by the 2011 Peer Mortgage Data, as there were only 23 home improvement loans made to low-income borrowers.

Real estate prices within the AA continue to be impacted by the national economic downturn; however, the median housing prices within the AA remain high relative to median incomes. The data from U.S. Census Bureau indicates that the average median home price in the AA is \$336,750. Based on the 2011 HUD updated median family income, the maximum income that is considered low-income would be \$43,800 making it difficult for low-income borrowers to qualify for home loans.

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 CFSB 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	18	0	19	23	25	27	38	50
Home Improvement	18	0	19	38	25	0	38	62
Home Refinance	18	6	19	23	25	23	38	48

<b>*Table 2A – Aggregate Lending Data for Borrower Distribution in CFBSB 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	9	0	32	23	31	27	28	50
Home Improvement	7	0	26	38	27	0	40	62
Home Refinance	7	6	21	23	32	23	40	48

*\*Source: HMDA reported data from 10/1/2009 to 12/31/2011*

### Geographic Distribution of Loans

The bank's geographic distribution of home loans reflects excellent distribution within the low- and moderate-income census tracts. The percent of CFBSB's lending for home purchase loans exceeds the percent of aggregate lending data as well as the percent of owner-occupied housing located in both low- and moderate-income geographies. The bank did not make any home refinance loans within low-income geographies and the percent of home refinance loans is near the percent of aggregate lending data in moderate-income geographies. CFBSB did not extend any home improvement loans within low- or moderate-income geographies. The bank's performance within low-income tracts is good given that only one percent of the owner-occupied units within the bank's AA are located in low-income tracts. In addition, the aggregate lending data supports the limited lending opportunities within the low-income geographies of the bank's AA. CFBSB's performance for home purchase and home refinance in moderate-income tracts is considered excellent given the significant market competition.

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

<b>*Table 3 - Geographic Distribution of Residential Real Estate Loans in CFBSB AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	1	4	5	9	79	87	15	0
Home Improvement	1	0	5	0	79	100	15	0
Home Mortgage Refinance	1	0	5	3	79	94	15	3

<b>*Table 3A – Aggregate Lending Data for Geographic Distribution in CFSB AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% Aggregate Lending Data	% of Number of Loans	% Aggregate Lending Data	% of Number of Loans	% Aggregate Lending Data	% of Number of Loans	% Aggregate Lending Data	% of Number of Loans
Home Purchase	1	4	5	9	76	87	18	0
Home Improvement	0	0	6	0	75	100	19	0
Home Mortgage Refinance	0	0	4	3	78	94	18	3

*\*Source: HMDA reported data from 10/1/2009 to 12/31/2011*

### **Qualified Investments and CD Services**

CFSB demonstrates a strong commitment to its assessment area through CD activities. The following qualified investments and services reflect the bank's effort to actively enhance the credit availability within its AA.

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

The bank's CD investments and donations within their AA is outstanding considering the bank's capacity and the availability of community development opportunities. CFSB made one investment for \$1.05 million in a mortgage-backed security that provides affordable housing for low- and moderate-income individuals within the AA during the evaluation period. Qualifying community development grants and donations totaled \$6 thousand and benefited six different community development organizations. All six of the organizations benefited the bank's AA. While the actual level of bank donations made within the AA was higher, these donations met the definition of community development.

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

The bank's community development services in the AA are satisfactory and promote the availability of credit within the AA. Accessibility to the bank's delivery systems in the AA is good. CFSB's delivery systems are accessible to geographies and individuals of different income levels throughout the AA. The bank has four full-service branch locations within the AA. Of the four branches, the main office and the Weymouth branches are located in middle-income tracts, while the Southern Artery branch and the Holbrook branch are located in moderate-income tracts. The branches are easily accessible to all residents. CFSB is involved in the Basic Banking for Massachusetts Program, which expands access to bank products and services and encourages those with modest income to establish banking relationships. The bank's free checking account qualifies as a basic checking account and meets the reduced fee guidelines established by the Massachusetts Community and Banking Council.

In addition, CFSB employees and Board members were involved with the following organizations, which promote affordable housing and credit availability within the AA:

- The bank President, Chairman of the Board, and an additional Board member, all serve on the board of a local organization that provides affordable housing for low- and moderate-income seniors.
- The bank President also actively serves on a local affordable housing trust committee, which promotes credit availability for low- and moderate-income families within the bank's assessment area.

### **Responses to Complaints**

There were no CRA complaints received by the bank or the agency during the evaluation period.

### **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.