



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

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COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Newport Federal Savings Bank
Charter Number 705652

100 Bellevue Avenue
Newport, RI 02840-3231

Office of the Comptroller of the Currency

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NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The Lending Test is rated: Satisfactory.

The Community Development Test 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 more than reasonable given the size as well as the assessment area credit needs, and relevant competitive factors.
- A substantial majority of originated and purchased loans are within the bank's assessment area (AA).
- A reasonable distribution of loans among individuals of different income levels.
- A reasonable geographic distribution of loans in low-income census tracts.
- The bank's community development (CD) performance reflects excellent responsiveness to community development needs given the bank's capacity and community development opportunities within the Rhode Island AA.

Scope of Examination

Newport Federal Savings Bank (NFSB) was evaluated using Intermediate Small Bank (ISB) examination procedures, which includes a lending test and a CD test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AA through CD lending, qualified investments, and community development services.

The evaluation period for the lending test covers the bank's performance from July 1, 2009 through December 31, 2011. The CD test evaluation period is October 26, 2009, the date of the last CRA evaluation, through January 22, 2013. CD loans and services submitted by management were verified to ensure they meet the regulatory definition for community development.

NFSB's primary loan products, based on loan originations during the evaluation period, are residential mortgages including home purchase, home refinance, and home improvement loans. As represented in the September 30, 2012 Uniform Bank Performance Report (UBPR), residential loans represent approximately 66% of average gross loans.

The bank reports data under requirements of the 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 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

NFSB is a federally chartered interstate stock thrift headquartered in Newport, Rhode Island (RI), with total assets of \$471 million as of September 30, 2012. NFSB has one operating subsidiary, NewportFed Investments Inc., which was not considered in evaluating the bank's overall CRA performance.

NFSB operates as a community bank promoting residential mortgage loan products and deposit services to its customers through its branch network. NFSB operates six branch offices, five of which are located in RI and one in Connecticut (CT). The bank's main office, Middletown, Wakefield, Westerly, and Stonington branches are located in a middle-income geography; and the Portsmouth branch is located in upper-income geography. The bank operates automated teller machines (ATMs) at all six branches. Branch hours are typically 09:00am to 04:00pm, Monday through Thursday, with extended hours on Fridays. Weekend hours are typically from 09:00am to noon with extended drive-up hours. No branches were opened or closed during the evaluation period.

NFSB is a full service, interstate institution, offering a standard array of traditional loan and deposit products for both personal and business customers. The bank's website, www.newportfederal.com, provides a listing and description of its deposit and loan services. NFSB offers a variety of different account access alternatives including telephone banking, online banking with bill pay options, mobile banking, and e-statements. In addition to the above services for personal account customers, the bank also offers a wide variety of account access alternatives for their business customers, which includes online banking for business customers, Merchant Credit Card Processing, Automated Clearing House (ACH) processing, and mobile banking.

In addition, the bank is also a participant in the Small Business Administration 504 loan program. The 504 program is an economic development loan program that supports business financing, business growth, and job creation. The bank also takes part in the SBA's permanent 7(a) loan programs to support community development.

As of September 30, 2012, total assets, total deposits, and net Tier 1 capital equaled \$471 million, \$279 million, and \$45 million, respectively. The loan portfolio totaled \$371 million, or 79% of total assets. The following table provides a summary of the 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	64%
Commercial Real Estate	25%
Multi Family	5%
Home Equity	3%
Construction and Development	2%
Commercial and Industrial	< 1%
Consumer	< 1%

Source: FFIEC Call Report

The bank has no financial or legal restrictions to meeting the credits needs of the community. The bank was rated "Satisfactory," using the ISB procedures, at the last CRA examination, dated October 26, 2009.

Selection of Areas for Full-Scope Review

NFSB has branches in two states, RI and CT. The CRA requires a bank to define the AA in which it will be evaluated. We selected the bank's entire AA and reviewed it as two AAs, which 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 areas.

The AA in RI was reviewed as one AA. The RI AA includes the majority of towns located in Newport County and portions of Washington County. The RI AA is part of the Providence-New Bedford-Fall River, RI-MA Metropolitan Statistical Area (MSA) 39300. The CT AA was also evaluated as one AA and includes five census tracts located within the towns of Stonington and North Stonington, which are contiguous to the bank's CT branch. The CT AA includes portions of New London County and is part of the Norwich-New London, CT MSA 35980. Additional information about these AAs can be found in the bank's public file.

For each state where the bank had a branch during the evaluation period (RI and CT), a full-scope review was conducted. The analysis of the RI AA was heavily weighted as the majority of the bank's deposits, loans, and branches are within the RI AA. The CT AA was not weighted as heavily as only one of the six branches is located in CT and approximately 15% of deposits and 7% in loans are attributed to the operations in CT.

Ratings

The bank's overall rating is a blend of the state ratings. Performance in the state of RI was most heavily weighted in arriving at overall conclusions as the substantial majority of bank branches, loans, and deposits are located in the five RI branches.

Approximately 85% of deposits and 93% of loans are attributed to the five RI branches. Refer to the "Selection of Areas for Full-Scope Review" above and the "Scope" section under each State Area Rating section for information regarding how each AA was weighted in arriving at the respective ratings for each test.

Conclusions with Respect to Performance Criteria

NFSB's performance under the lending test is Satisfactory. NFSB's loan-to-deposit ratio is more than reasonable and a substantial majority of loans are originated inside the bank's AA. Overall, there was a reasonable distribution of loans among individuals of different income levels. The geographic distribution of loans reflects reasonable distribution in the low- income census tracts.

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and AA credit needs. The bank's net loan-to-deposit ratio averaged 131% over the last thirteen quarters since the previous CRA examination. During this period the loan-to-deposit ratio ranged from a quarterly low of 128% to a high of 136%. NFSB's loan-to-deposit ratio is significantly higher than the national peer bank quarterly average of 87% over the same period.

Lending in Assessment Area

A substantial majority of NFSB's primary loan products were made within the bank's assessment area. NFSB originated 84% by number and 81% 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.

Lending in NFSB AA (000's)										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	59	73%	22	27%	81	18,336	70%	7,767	30%	26,103
Home Refinance	274	86%	43	14%	317	62,530	83%	12,564	17%	75,094
Home Improvement	47	87%	7	13%	54	7,746	89%	949	11%	8,695
Totals	380	84%	72	16%	452	88,612	81%	21,280	21%	109,892

Source: HMDA reported data from July 1, 2009 to December 31, 2011.

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 inconsistent with helping to meet community credit needs.

State Rating

State of Rhode Island

CRA Rating for Rhode Island: Satisfactory.

The Lending test is rated: Satisfactory.

The Community development test is rated: Outstanding.

The major factors that support this rating include:

- A reasonable borrower distribution of loans among individuals of different income levels.
- A reasonable geographic distribution of loans in the low-income census tracts.
- The bank demonstrates excellent responsiveness to community development needs within the AA through its community development loans, investments/grants, and services.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN RHODE ISLAND

The AA in RI was reviewed as one AA. The RI AA received a full-scope review and is part of the Providence-New Bedford-Fall River, RI-MA MSA 39300. NFSB operates five branch offices within the AA. The AA includes portions of Newport and Washington Counties with 34 continuous census tracts located within these counties. The RI AA is comprised of one low-income tract (3%), two moderate-income tracts (6%), 18 middle-income tracts (53%), and 13 upper-income tracts (38%).

NFSB operates in a highly competitive market with competition from regional large commercial banks, and local savings banks and credit unions. The Federal Deposit Insurance Corporation's Deposit Market Share Report for June 30, 2012, indicates that 34 financial institutions operate within the Providence-New Bedford-Fall River, RI-MA MSA. NFSB ranks 20th with deposit market share of approximately 0.4%. The bank's local competitors include, but are not limited to: The Washington Trust Company of Westerly; Bank of Rhode Island; Bristol County Savings Bank; Bank of Newport; BayCoast Bank; Centreville Savings Bank; Admirals Bank; Mechanics Co-Operative Bank; and Coastway Community Bank. Larger regional banks provide further competition and include Bank of America, National Association; RBS Citizens, National Association; MetLife Bank, National Association; Sovereign Bank, National Association; and Webster Bank, National Association.

Most recent economic indicators as of September 2012 indicate that the Providence-Fall River-New Bedford, MSA is a laggard in the New England area and is the nation's weakest performing census division. The public sector is shrinking, and service-providing industries are growing at a slower pace. Job gains in 2012 have been

concentrated in retail, tourism, and other lower paying services; however, income growth has modestly outpaced the national average.

The unemployment rate of 8.2% for the RI AA, as of October 2012, remains below the RI state average of 10.4%; however, remains above the national average of 7.8% for the same time period. It is expected that weak demographics, low income and productivity growth, and high costs will cause employment levels in the RI to trail the national averages.

Tourism in the area is expected to contribute significantly to the overall growth in 2013. Although tourism will remain a consistent source of growth, other economic drivers will remain slow until the housing market in the area recovers. Top employers in the RI AA with more than five thousand employees include: Lifespan, Care New England Health System, CVS Caremark, Citizens Financial Group, Inc., FM Global, and Naval Station Newport.

Despite the continued effects of the national recession on the state housing market, median housing prices in the RI AA remain high relative to the 2011 HUD Adjusted Median Family Income. The expensive housing market limits the availability of affordable housing for low- and moderate-income families in the RI AA. Based on data from Zillow.com, as of January 15, 2013, the average median cost of housing for the towns that comprise the RI AA is \$333 thousand.

Demographic information on NFSB's RI AA is documented in the table below.

Demographic Information for NFSB RI AA					
Income Level	Total #	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	34	3%	6%	53%	38%
Population by Geography	156,745	3%	2%	49%	46%
Owner Occupied Housing by Geography	40,192	2%	0%	47%	51%
Family Distribution by Income Level	39,838	14%	15%	23%	48%
2000 Census Median Family Income (MFI)		\$53,013	2011 Median Housing Value*		\$332,610
HUD Updated MFI: 2011		\$74,500	Households Below Poverty Level		8%
			Unemployment Rate **		8.2%

Source: 2000 U.S. Census data

*Data from Zillow.com as of 1/15/2013

**Data from US Bureau of Labor Statistics as of 10/30/2012. Rate is an average for Newport and Washington Counties.

SCOPE OF EVALUATION IN RHODE ISLAND

Performance in the RI AA was given the most weight in the overall conclusions as the majority of bank branches, loans, and deposits are located there. Five of the six full service branches are located in the RI AA and approximately 93% deposits and 85% of loans are attributed to operations in RI.

In assessing the bank's performance, we contacted two local organizations to determine the primary credit needs within the bank's AA. The first organization provides meal programs, transportation, health clinics, and social services, which are targeted towards low- and moderate-income individuals. During 2012, 60% of the individuals served by the organization were considered low-income. Our contact indicated that the local economy remains depressed and that high unemployment continues to affect the region's housing market. The contact indicated that along with the continued need for affordable housing, the need for social services for low- and moderate-income individuals is an important issue in the area. NFSB was perceived favorably in comparison with other local financial institutions for their involvement with the organization and in the community. The contact also indicated that there are several opportunities for participation by local financial institutions as the need for grants and donations has increased to support the organization's mission.

The second organization provides meal programs for homeless individuals in conjunction with local churches. The organization also operates nine remote residential apartments located in Westerly, RI for homeless individuals. Participating individuals are provided with a range of services designed to help them become fully independent, including vocation counseling; basic skills training, including cooking and food shopping classes; and financial education. Our second contact also indicated that along with affordable housing, the need for social services, and financial education for low- and moderate-income individuals is an important issue in the area. Local banks, including NFSB, were perceived favorably for their involvement with the organization and in the community. The contact indicated that the local financial institutions have improved in meeting the needs of the community. The contact mentioned that through grants and donations, the local financial institutions can assist with the programs promoted by the organization such as: credit counseling, financial education and job training initiatives.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN RHODE ISLAND

LENDING TEST

The bank's performance under the lending test in Rhode Island is rated Satisfactory. The distribution of loans reflects reasonable distribution among individuals of different income levels. The geographic distribution of loans reflects reasonable distribution in the low-income census tracts. We found no conspicuous gaps in the bank's lending patterns.

Lending to Borrowers of Different Incomes

The distribution of home loans reflects reasonable distribution to borrowers of different income levels. The percent of home purchase loans to low-income borrowers is near to the percent of aggregate lending and the percent of home refinance loans to low-income borrowers is lower than the percent of aggregate lending data, the primary comparator for thrift institutions. NFSB did not make any home improvement loans to low-income borrowers during the evaluation period.

The percent of home purchase loans made to moderate-income borrowers is lower than the percent of aggregate lending data. The percent of home improvement loans to moderate-income borrowers equals the percent of aggregate lending data and exceeds the percent of moderate-income families in the AA. The percent of home refinance loans to moderate-income borrowers is near to the percent of aggregate lending data.

The bank's performance is considered satisfactory given the lack of affordable housing and significant market competition in the AA. Effects of the national economy continue to weigh down real estate prices in the area; however, the median housing values in the AA remain high relative to the median incomes. As of January 15, 2013, the median home price in the AA was \$333 thousand. The 2011 HUD updated median family income is \$74,500. The maximum income that is considered low-income would be \$37,250; therefore, low-income borrowers would have difficulty qualifying for home loans. Additionally, moderate-income families also could encounter difficulty qualifying for home loans with an income range of \$37,250 to a maximum of \$59,600.

The distribution of home loans to low-income borrowers is lower in relation to the comparative standards; however, it is considered satisfactory given the limited lending opportunities for low-income borrowers. The bank's borrower distribution to moderate-income borrowers is also considered satisfactory given the significant market competition. According to 2011 peer mortgage market share data, mortgage lending in the AA is dominated by larger institutions with the top ten institutions holding over 50% of the market share.

The tables below illustrates the distribution of home purchase, home improvement, and home refinance loans to borrowers of different income levels as compared to the percentage of families in each income category and aggregate lending data.

Borrower Distribution of Residential Real Estate Loans in RI AA								
Census Tract 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	14%	2%	15%	7%	24%	13%	48%	78%
Home Improvement	14%	0%	15%	19%	24%	21%	48%	60%
Home Refinance	14%	1%	15%	12%	24%	23%	48%	64%

Source: HMDA reported data from July 1, 2009 to December 31, 2011.

Aggregate Lending Data for Borrower Distribution in RI AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of Aggregate Data	% of Number of Loans	% of Aggregate Data	% of Number of Loans	% of Aggregate Data	% of Number of Loans	% of Aggregate Data	% of Number of Loans
Home Purchase	3%	2%	15%	7%	22%	13%	59%	78%
Home Improvement	8%	0%	19%	19%	23%	21%	50%	60%
Home Refinance	4%	1%	13%	12%	23%	23%	60%	64%

Source: HMDA reported data from July 1, 2009 to December 31, 2011.

Geographic Distribution of Loans

The bank's geographic distribution of home loans in the AA reflects reasonable distribution in the low-income census tracts. The percent of home purchase loans exceeds the percent of aggregate lending data and equals the percent of owner-occupied units within low-income geographies. The percent of home improvement loans is equal to the percent of aggregate lending data, as well as the owner-occupied units in low-income geographies. The percent of home refinance loans is equal to the percent of aggregate lending data within low-income geographies and is near the percent of owner-occupied units located within low-income geographies. There were no loans made in the moderate-income geographies as there are no owner-occupied units located within the moderate-income census tracts.

The bank's geographic distribution of loans is considered satisfactory given the significant competition for home refinance loans in low-income geographies. The 2011 peer mortgage data for home refinance loans made in low-income geographies also indicates that the top six financial institutions, which include large nationwide financial institutions, make up for more than 50% of the total market share in the AA.

The following tables 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 for all HMDA reporters within the bank's AA.

Geographic Distribution of Residential Real Estate Loans in RI 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	2%	2%	0%	0%	47%	38%	51%	61%
Home Improvement	2%	2%	0%	0%	47%	49%	51%	49%
Home Refinance	2%	1%	0%	0%	47%	47%	51%	52%

Source: HMDA reported data from July 1, 2009 to December 31, 2011.

Aggregate Lending Data for Geographic Distribution in RI AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of Aggregate Data	% of Number of Loans	% of Aggregate Data	% of Number of Loans	% of Aggregate Data	% of Number of Loans	% of Aggregate Data	% of Number of Loans
Home Purchase	1%	2%	0%	0%	47%	38%	51%	61%
Home Improvement	2%	2%	0%	0%	51%	49%	47%	49%
Home Refinance	1%	1%	0%	0%	46%	47%	53%	52%

Source: HMDA reported data from July 1, 2009 to December 31, 2011.

Responses to Complaints

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

COMMUNITY DEVELOPMENT TEST

The bank's performance under the CD test in Rhode Island is rated Outstanding. NFSB's community development performance demonstrates excellent responsiveness to community development needs in its assessment area through CD loans, donations/grants, and services.

Number and Amount of Community Development Loans

The bank made a high level of CD loans during the assessment period. The bank originated two loans totaling \$1.6 million during the evaluation period that qualified as CD loans. The CD loans made by the bank provided financing for organizations that have services targeted towards low- and moderate-income (LMI) individuals.

- A \$450 thousand loan was made to a local affordable housing organization. The purpose of the loan was to finance construction and rehabilitation costs for three affordable housing units located in Jamestown, RI. The properties would be sold to three pre-approved LMI individuals.
- A \$1.2 million loan was made to a local organization that provides nursing home and social services targeted towards LMI individuals. The purpose of the loan was to fund the startup/soft costs associated with expanding the facility from a 47 bed nursing home to a 95 bed facility.

Number and Amount of Qualified Investments

NFSB made an adequate level of qualified investments/donations during the evaluation period given the bank's capacity, AA needs, availability of community development opportunities, and significant market competition. There were no outstanding prior period investments that were considered during this evaluation period.

NFSB provided no qualified CD investments during the evaluation period. During the evaluation period, the bank made 31 grants/donations totaling \$98 thousand to eight different organizations that provide community development services to low- and moderate-income individuals in the AA. While actual donations were higher, these donations met the definition of community development.

Included in the bank's total qualifying donations are several large donations to local organizations that provide basic human services to low- and moderate-income individuals, an identified need within the AA. Highlights of these donations include:

- Donations totaling \$36 thousand to a local non-profit organization that provides basic human necessities, including food, clothing, educational and financial assistance, to primarily low-and moderate-income individuals in the AA.

- Donations totaling \$25 thousand to a local non-profit organization that provides meal programs, health clinics, and social services targeted primarily towards low- and moderate-income individuals.
- Donations totaling \$13 thousand to a local non-profit organization that provides financial and utility assistance for low- and moderate-income individuals.
- Donations totaling \$7 thousand to a local non-profit organization that offers the area's highest volume food pantry services targeted primarily towards low- and moderate-income individuals.

Extent to Which the Bank Provides Community Development Services

Accessibility to the bank's delivery systems in the AA is good. NFSB's delivery systems are accessible to geographies and individuals of different income levels throughout the AA. The bank has five full-service branch locations within the RI AA. Of the five branches, the main office, Middletown, Westerly, and Wakefield branches are located in a middle-income geography and the Portsmouth branch is located in upper-income geography. Two of the bank's branches located in Newport and Middletown are in close proximity to low- and moderate-income geographies in the AA. All NFSB branches are easily accessible to all residents.

The bank provides an excellent level of CD services in the AA. During the evaluation period, seven bank officers provided financial expertise and/or leadership services to seven different CD organizations serving the AA. The CD services provided helped organizations that promote affordable housing, job training, and basic human needs; all identified needs in the AA.

CD services within the AA include:

- One officer serves as a board member to a housing development committee that supports an affordable housing program in the AA and throughout New England.
- One officer serves on the board of a CD organization that supports access for small businesses to long-term financing in partnership with local financial institutions.
- One officer serves as a board member for a local organization dedicated to helping low- and moderate-income individuals in Newport County to live in safe and decent affordable housing and neighborhoods.
- A bank employee serves on the financial review committee of a local organization that promotes affordable housing and home ownership for low- and moderate-income individuals.

- An employee serves as a board member at a local organization that works to ensure future growth and development within the community that focuses on identifying and supporting affordable housing.
- A bank employee served on the board of a local organization dedicated to supporting low- and moderate-income individuals by providing food, clothing, educational, and financial assistance.
- A bank employee serves as a mentor for an organization that provides educational opportunities in the form of tuition aid for low-income children with a parent with a history of incarceration or substance abuse.

Responsiveness to Community Development Needs

Considering the bank's capacity, the need, and the availability of CD opportunities, NFSB's CD performance, through CD loans, investments and services demonstrates excellent responsiveness to the needs of the RI AA.

State Rating

State of Connecticut

CRA Rating for Connecticut: Needs to Improve

The Lending test is rated: Satisfactory

The Community development test is rated: Needs to Improve

The major factors that support this rating include:

- The borrower distribution of loans reflects reasonable distribution among individuals of different income levels.
- The bank demonstrates poor responsiveness to community development needs within the AA through its community development loans, investments and services.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN CONNECTICUT

The CT AA is part of the Norwich-New London, CT MSA 35980. NFSB operates one full service branch with a deposit taking ATM within the CT AA. The CT AA is comprised of five of 62 census tracts within New London County. The CT AA includes three middle-income tracts (60%) and two upper-income tracts (40%). The CT AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

Market competition within the CT AA is high with the bank facing competition from regional large commercial banks, and local savings banks. The Federal Deposit Insurance Corporation Deposit Market Share Report for June 30, 2012, indicates 16 financial institutions operate branches within the Norwich-New London, CT MSA. NFSB ranks 15th with deposit market share of less than 1%. The bank's local competitors include, but are not limited to: Chelsea Groton Bank; Dime Bank; Liberty Bank; Savings Institute Bank and Trust Company; Jewett City Savings Bank; Eastern Federal Bank; The Washington Trust Company of Westerly; Putnam Bank; and Essex Savings Bank. Larger regional banks provide further competition and include: RBS Citizens, National Association; People's United Bank; Bank of America, National Association; Webster Bank, National Association; and TD Bank, National Association.

Most recent economic indicators as of September 2012 indicate the Norwich-New London, MSA continues to lag the greater New England area, although employment losses have slowed. The high energy and healthcare costs drive up overall operational costs for private businesses and high cost of living have disrupted industry gains in local telecom and software companies. Top employers in the CT AA with more than five thousand employees include: U.S. Naval Submarine Base; Foxwoods Resort Casino; Mohegan Sun Casino; General Dynamics/Electric Boat; and Pfizer Global and Research Development. Income growth is unlikely to exhibit positive trends unless the

main drivers, which include the casinos, Pfizer, and the submarine base, expand operations. As September 2012, the unemployment rate in New London County equaled 9%, slightly higher than the 8.9% unemployment rate for the state of Connecticut. The unemployment rate remains above the 7.8% national average for the same period.

Despite the continued effects of a national recession on the state housing market, median housing prices in the CT AA remain high relative to the 2011 HUD Adjusted Median Family Income. The expensive housing market limits the availability of affordable housing for low- and moderate-income families in the CT AA, particularly low-income households. Based on data from Zillow.com, as of January 15, 2013, the average median cost of housing for the towns that comprise the CT AA is \$284 thousand.

Demographic information of NFSB's CT AA is broken out in the table below.

Demographic Information for NFSB CT AA					
Income Level	Total #	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	5	0%	0%	60%	40%
Population by Geography	22,897	0%	0%	70%	30%
Owner Occupied Housing by Geography	7,042	0%	0%	69%	31%
Family Distribution by Income Level	6,395	16%	16%	27%	41%
2000 Census Median Family Income (MFI)		\$59,846	2011 Median Housing Value*		\$283,500
HUD Updated MFI: 2011		\$83,200	Households Below Poverty Level		6%
			Unemployment Rate **		9%

Source: 2000 U.S. Census data

*Data from Zillow.com as of 1/15/2012

**Data from US Bureau of Labor Statistics as of 10/30/2012. Rate is for New London County, CT.

SCOPE OF EVALUATION IN CONNECTICUT

Performance in the CT AA was not as heavily weighted as performance in the RI AA. Only one of six full service branches is located in CT and approximately 15% of deposits and 7% in loans are attributed to operations in CT. Performance in RI was most heavily weighted in arriving at overall conclusions as the majority of bank branches, loans, and deposits are located in the RI AA.

In assessing the bank's performance, we contacted a local organization to determine the primary credit need within the bank's AA. The organization provides services within

the RI AA as well as the towns that comprise the CT AA. The purpose of the organization is to provide meal programs, transportation, health clinics, and social services, which are targeted towards low- and moderate-income individuals. During 2012, 60% of the individuals served by the organization were considered low-income. Our contact indicated that the local economy still remains depressed and that high unemployment continues to affect the regions housing market. The contact indicated that along with the continued need for affordable housing, the need for social services for low- and moderate-income individuals is an important issue in the area. NFSB was perceived favorably in comparison with other local financial institutions for their involvement with the organization and in the community. The contact also indicated that there are several opportunities for participation by local financial institutions as the need for grants and donations has increased to support the organization's mission.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN CONNECTICUT

LENDING TEST

The bank's performance under the lending test in Connecticut is rated satisfactory. The distribution of loans reflects reasonable distribution among individuals of different income levels.

Lending to Borrowers of Different Incomes

The Bank demonstrated a reasonable distribution of home loans to borrowers of different income levels. The percent of home refinance loans made to low-income borrowers is near to the percent of aggregate lending data. The percent of home refinance loans to moderate-income borrowers exceeds the percent of aggregate lending data within the CT AA. There was no meaningful volume of home purchase and home improvement loans to perform an analysis.

The bank's performance is considered satisfactory given the significant market competition within the AA. The peer mortgage data for home loans indicates that the bank competes with 123 lenders within its AA and the top ten lenders make up for more than 50% market share for home loans. NFSB ranks 25th with a lending market share of approximately 1%.

The following tables shows 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 CT AA.

Table 4 - Borrower Distribution of Residential Real Estate Loans in CT AA								
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	16	0	16	0	27	33	41	67
Home Improvement	16	0	16	0	27	100	41	0
Home Refinance	16	5	16	14	27	32	41	50

Source: HMDA reported data from July 1, 2009 to December 31, 2011.

Table 4A – Aggregate Lending Data for Borrower Distribution in CT 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	7	0	21	0	24	33	48	67
Home Improvement	12	0	18	0	33	100	37	0
Home Refinance	6	5	13	14	27	32	54	50

Source: HMDA reported data from July 1, 2009 to December 31, 2011.

Geographic Distribution of Loans

Analysis of the geographic distribution of loans would not be meaningful as the CT AA does not contain any low- or moderate-income geographies.

Responses to Complaints

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

COMMUNITY DEVELOPMENT TEST

The bank's performance under the CD test in Connecticut is rated needs to improve. NFSB's community development performance demonstrates poor responsiveness to community development needs in its assessment area.

Number and Amount of Community Development Loans

NFSB provided no CD loans during the evaluation period. The bank has a limited presence with only one full-service branch located within the CT AA.

Number and Amount of Qualified Investments

NFSB made no new investments during the evaluation period, which benefited the CT AA. The bank made seven qualifying donations totaling \$11,000 to two organizations that provide community services to low- and moderate-income individuals in the AA. The majority of the bank's donations were directed to organizations within the bank's RI AA. While actual donations were higher, these 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 CT AA is good. NFSB's delivery systems are accessible to geographies and individuals of different income levels throughout the AA. There are no low- or moderate-income tracts within the bank's CT AA. The bank did not provide any community development services during the evaluation period. The bank has a limited presence with only one full-service branch located within the CT AA.

Responsiveness to Community Development Needs

NFSB's CD performance demonstrates poor responsiveness to the needs of the CT AA. The bank did not provide any CD loans within the AA during the evaluation period. There were no new investments or services that benefited the CT AA during the evaluation period.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test: 07/01/2009 to 12/31/2011 Community Development Test: 10/26/2009 to 01/22/2013	
Financial Institution	Products Reviewed	
Newport Federal Savings Bank (NFSB) 100 Bellevue Avenue, Newport, Rhode Island	Residential real estate loans, Community Development loans, investments/grants, and services	
Affiliate(s)	Affiliate Relationship	Products Reviewed
<i>None Reviewed</i>		
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
State of Rhode Island: Portions of Newport and Washington Counties, part of the Providence-New Bedford-Fall River, RI-MA Metropolitan Statistical Area (MSA) 39300 State of Connecticut: Portions of New London County, part of the Norwich-New London, CT MSA 35980	Full Scope Full Scope	Heavily weighted: Majority of the deposits and loans are attributed to the bank's operations in RI.

Appendix B: Summary of Multistate Metropolitan Area and State Ratings

Overall Bank:	Lending Test Rating	Community Development Test Rating	Overall Bank/State/Multistate Rating
Newport Federal Savings Bank	Satisfactory	Outstanding	Satisfactory
Rhode Island	Satisfactory	Outstanding	Satisfactory
Connecticut	Satisfactory	Needs to Improve	Needs to Improve