



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**May 29, 2012**

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

First Commons Bank, National Association  
Charter Number 24904

718 Beacon Street  
Newton, MA 02459

Office of the Comptroller of the Currency

Boston Field Office  
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 Satisfactory.**

The major factors supporting the institution's rating are:

- The bank's level of lending, as reflected by the loan-to-deposit ratio, is reasonable.
- The distribution of loans reflects reasonable penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects excellent dispersion in the moderate-income census tracts.

**SCOPE OF EXAMINATION**

First Commons Bank, N.A. (FCB) was evaluated using Small Bank Community Reinvestment (CRA) examination procedures. Our review covered the bank's lending performance from January 1, 2010 through December 31, 2011, as this was representative of the bank's lending strategy since its inception in July 2009.

FCB's primary loan products, based on originations during the evaluation period, are residential mortgages and commercial loans. Commercial loans represent 50% of loan originations by number. Residential loans, including home purchase, refinance, and home improvement loans, represent 36% of the bank's originations by number during the evaluation period. When evaluating residential loans, emphasis was placed on home refinance lending, as 72% of home loan originations in the bank's assessment areas (AAs) were refinance loans. The declining interest rate environment during the evaluation period resulted in a strong refinance market.

The bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). Reliability of this data was tested as part of our evaluation and found to be accurate. As a result, all HMDA data from January 1, 2010 through December 31, 2011 was used to evaluate the bank's home loan activity. We also used bank data to select a random sample of 60 commercial loans originated in the AAs during the evaluation period to evaluate the bank's lending to businesses.

A full scope review was performed on AA 1 – Middlesex County as the majority of deposits, lending activity, and longer-term physical presence is in this market. There was not a meaningful volume of HMDA data and business loan activity during the evaluation period in AA 2 – Norfolk County to perform an analysis.

**DESCRIPTION OF INSTITUTION**

FCB is a \$183 million financial institution headquartered in Newton, Massachusetts. FCB is a de novo bank that began operations in July 2009. The bank does not have a holding company structure or any operating subsidiaries.

The bank's main office is located in Newton. A second branch was opened in August 2011 in Wellesley, MA. Both branches are located in upper-income tracts. Branch hours are typically from 8:30AM to 5:00PM with extended hours on Thursdays and Fridays. Both branches also offer Saturday hours. No branches were closed during the evaluation period.

FCB 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.firstcommonsbank.com](http://www.firstcommonsbank.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. Both branch locations also offer coin counter machines for use by bank customers free of charge. The bank operates automated teller machines (ATMs) at both of its branches and is a member of the SUM ATM network that allows member customers to access their accounts from participating SUM network ATMs without charge.

Affordable housing is an identified credit need in the AA. To educate consumers on homeownership, bank employees conduct homebuyer seminars in Waltham, MA, which contains all moderate-income tracts within the bank's AAs.

As of March 31, 2012, total deposits totaled \$162 million, and net tier one capital was \$19 million. The loan portfolio totaled \$150 million, or 82% of total assets as of the same date. As a de novo bank, FCB has been growing the loan portfolio with a focus on small business lending and residential mortgages. The following table provides a summary of the loan mix.

<b>Loan Portfolio Summary by Loan Product March 31, 2012</b>	
<b>Loan Category</b>	<b>% of Gross Loans and Leases</b>
1-4 Family Residential Mortgage – Closed End	59%
Home Equity	2%
Consumer	< 1%
Commercial & Industrial	10%
Commercial Real Estate	25%
Construction and Development	4%

*Source: FDIC Call Report*

The bank has no financial or legal impediments to meeting the credit needs of the community. This is the first CRA examination since the bank opened in 2009.

## **DESCRIPTION OF ASSESSMENT AREAS**

The CRA requires a bank to define an AA in which it will be evaluated. FCB has two AAs that meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income tracts.

AA 1 contains a portion of Middlesex County and is part of the Cambridge-Newton-Framingham, MA Metropolitan Division (MD) 15764. The AA includes the cities of

Newton and Waltham. The AA is comprised of 31 census tracts. There are no low-income tracts, five moderate-income tracts (16%), 13 middle-income tracts (42%), and 13 upper-income tracts (42%). The 2000 U.S. Census Data indicates that 31% of families in the AA are considered low- or moderate-income. Approximately 6% of the households are below the poverty line.

AA 2 contains a portion of Norfolk County and is part of the Boston-Quincy, MA MD 14484. The AA includes the town of Wellesley. The AA is comprised of six census tracts. There are no low- or moderate-income tracts as the AA contains all upper-income tracts. Based on 2000 U.S. Census Data, approximately 13% of families in the AA are considered low- or moderate-income and only 4% of households are below the poverty line.

Our analysis was based on AA1 – Middlesex County when arriving at the overall conclusion given 94% of total deposits are located there and the bank's longer physical presence in this market as the first facility was opened there. HMDA data and business loans were not analyzed in AA 2 – Norfolk County as there was not a meaningful volume of activity in the AA to perform an analysis.

<b>Demographic Information for FCB AA 1 – Middlesex County</b>					
Income Level	Total #	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	31	0%	16%	42%	42%
Population by Geography	143,055	0%	13%	44%	43%
Owner Occupied Housing by Geography	32,373	0%	6%	43%	51%
Family Distribution by Income Level	33,187	15%	16%	20%	49%
2000 Census Median Family Income (MFI)		\$74,121	2011 Median Housing Value*		\$517,350
			Median Age of Housing		64 Years
HUD Updated MFI: 2011		\$105,000	Families Below the Poverty Level		5.72%
			Unemployment Rate **		5.9%

Source: 2000 U.S. Census data

\*Data from Zillow.com

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

FCB operates in a highly competitive market with competition from local commercial banks and savings banks. The Federal Deposit Corporation's Institutions Deposit Market Share Report, as of June 30, 2011, indicates 54 institutions operate branches within FCB's AA 1 – Middlesex County. FCB ranks 44<sup>th</sup> with deposit market share of less than 1%. Competitors include: Cambridge Savings Bank, Eastern Bank, Century Bank and Trust Company, Cambridge Trust Company, and The Village Bank. Large nationwide banks that provide further competition and are deposit share leaders include: Bank of America, National Association; RBS Citizens, National Association; Sovereign Bank; and TD Bank, National Association.

Several nationwide entities provide additional competition for mortgage and business loans including: Ally Bank; Mortgage Masters, Inc.; GMAC Mortgage LLC; American Express Bank; and Citibank, N.A.

Moody's Economy.com indicates that the Massachusetts' economy is expanding with hiring in education and healthcare industries. The greater Boston area is comprised of a highly skilled workforce and a number of universities making it home to well-known hospitals and technology firms. The national and state rate of unemployment has declined in 2011. Data from the U.S. Bureau of Labor Statistics indicates the 2011 annual unemployment rate for the state of Massachusetts was 7.4% compared to the annual national rate of 8.9%. The 2011 annual unemployment rate in Middlesex County of 5.9% was favorable to both the state and national levels. The local economy in AA 1 is driven by education, healthcare, and technology firms. Major employers in the cities that comprise AA 1 include: Bentley University, Brandeis University, National Grid, Newton-Wellesley Hospital, Adobe Systems, and Boston College.

Despite the effects of the national recession on the state housing market, median housing prices in AA 1 – Middlesex County remain high. The expensive housing market limits the availability of affordable housing for low- and moderate-income families in AA 1 – Middlesex County. Based on data from Zillow.com, as of December 31, 2011, the average median cost of housing for the cities that comprise the Middlesex County AA is \$517 thousand. This is well above the median housing cost in the state of Massachusetts of \$273 thousand.

We reviewed a community contact of a local organization focused on promoting affordable housing in the city of Waltham (included in AA 1 – Middlesex County). The primary need of the area is affordable housing. According to the contact, there are numerous opportunities for financial institutions to participate in affordable housing projects. The contact stated local banks have been actively involved in assisting the organizations efforts in creating and promoting affordable housing.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

FCB's performance under the lending test is satisfactory. The loan-to-deposit ratio is reasonable. Lending within the AAs needs improvement as less than a majority of the bank's primary loan products are within its AAs. The distribution of loans reflects reasonable penetration among borrowers of different incomes and businesses of different sizes. The geographic distribution of loans reflects excellent dispersion in the moderate-income census tracts.

### **Loan-to-Deposit Ratio**

FCB's loan-to-deposit ratio is reasonable given the bank's size and financial condition as a newly formed bank. The net loan-to-deposit ratio averaged 58% over the last 11 quarters since the bank's inception in July 2009. During the period since the bank opened, the loan-to-deposit ratio ranged from a quarterly low of 0.73% to a high of 92%. The bank's average loan-to-deposit ratio is lower than national peer banks' average of 72% over the same time period. For the most recent four quarters, the bank's average loan-to-deposit ratio is 85%, higher than the national peer average of 76% over the same four quarters. As expected for a new bank, lending activity increased as the bank grew.

**Lending in Assessment Area**

FCB's lending inside its assessment areas needs to improve. It does not meet the standard for satisfactory performance as the majority of the bank's primary loan products were originated outside its AAs. FCB originated 42% of the number and 44% of the dollar amount of loans in the AAs. The bank opened for business in July 2009 requiring management to brand a new bank in an already competitive market. To grow the residential loan portfolio within the AAs, the bank offers a wider selection of residential mortgage products and more competitive pricing for borrowers within the AAs. It has been a challenge for the bank to extend a majority of its small business loans to commercial customers within the AAs due to significant competition coupled with the challenging economic environment.

The following table details the bank's lending within the AA by number and dollar amount of loans.

<b>Table 1 - Lending in FCB's AAs (000's)</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Loans	88	46%	105	54%	193	45,423	51%	43,345	49%	88,768
Commercial Loans	18	30%	42	70%	60	2,968	14%	18,310	86%	21,278
Totals	106	42%	147	58%	253	48,391	44%	61,655	56%	110,046

*Source: HMDA reported data and a sample of commercial loans from 1/1/2010 to 12/31/2011.*

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

The distribution of loans originated in the bank's AAs reflects reasonable penetration among individuals of different income levels and businesses of different sizes. HMDA data and business loans were not analyzed in AA 2 – Norfolk County as there was not a meaningful volume of activity in the AA to perform an analysis.

Conclusion for full-scope AA 1 – Middlesex County

*Home Loans*

The distribution of home loans reflects reasonable penetration among borrowers of different income levels. The percent of home purchase loans is significantly lower than percent of low-income families in the AA. No home refinance or home improvement loans were made to low-income families in the AA.

The percent of home improvement loans exceeds the percent of moderate-income families in the AA. The percent of home refinance and home purchase loans is lower than the percent of moderate-income families in the AA.

The bank's home mortgage lending opportunities are limited due to the lack of affordable housing. As of December 31, 2011, the average median housing price for the AA was \$517 thousand. The HUD updated median family income for 2011 is \$105

thousand, which indicates a low-income borrower earns less than \$52 thousand. The moderate-income borrower earns an income of at least \$52 thousand to a maximum income of \$84 thousand. Both low- and moderate-income borrowers may experience difficulty qualifying for home purchase loans.

Market competition for home mortgage loans is significant. As a de novo bank, FCB has little name recognition in an already highly competitive market. The majority of mortgage lending was dominated by large national and regional banks. The 2010 peer mortgage data for Middlesex County indicates that the top 10 lenders dominated the market with 55% of the market share for mortgage loans. FCB ranked 47<sup>th</sup> out of 274 lenders with a market share less than 1%. The bank's performance is considered satisfactory given the high cost of housing, the strong level of competition, and limited lending opportunities.

The following table shows the distribution of home loan products among borrowers of different income levels compared to the percent of families in each income category.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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	15%	6%	16%	11%	20%	11%	49%	72%
Home Refinance	15%	0%	16%	6%	20%	8%	49%	86%
Home Improvement	15%	0%	16%	33%	20%	0%	49%	67%

*Source: HMDA – reported data from 1/1/2010-12/31/2011; 2000 U.S. Census data.*

### **Business Loans**

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. The bank originated 50% of its business loans to businesses with gross annual revenues of \$1 million or less. The penetration of loans is considered satisfactory given significant competition in the AA from large financial institutions. The 2010 peer small business market share data indicates the top two lenders in Middlesex County dominated with approximately 50% of the market share for small business loans. Furthermore, the top ten lenders comprised 80% of the market share and were primarily large, nationwide institutions. As a de novo bank, FCB's lending opportunities have been limited due to the bank's lack of name recognition in a competitive market coupled with a weak economic environment in the past few years. According to bank management, small businesses within the local market continue to struggle.

The following table shows the distribution of commercial loans among businesses of different sizes in the AA.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	64%	5%	31%	100%
% of Bank Loans in AA by #	50%	15%	35%	100%
% of Bank Loans in AA by \$	76%	23%	1%	100%

*Source: Sample of commercial loans from 1/1/2010-12/31/2011; 2000 U.S. Census.*

**Geographic Distribution of Loans**

The geographic distribution of loans reflects excellent dispersion in the moderate-income tracts in AA 1. An analysis of the distribution of loans by the income level of the geography is not meaningful for AA 2 as this AA contains no low- or moderate-income geographies. We found no conspicuous gaps or areas of low penetration in the bank's lending patterns.

Conclusion for full-scope AA 1 – Middlesex County

*Home Loans*

There are no low-income tracts in AA 1 – Middlesex County. The bank's geographic distribution of home loans in the AA reflects excellent dispersion in moderate-income tracts. The percent of refinance loans exceeds the percent of owner-occupied housing in the tract. No home purchase or home improvements loans were made in moderate-income tracts, however, the percent of owner-occupied housing in the moderate-income geography is low at 6%, limiting homeownership opportunities.

Following is a table that details the bank's performance compared to the percentage of owner-occupied housing units in each census tract income level.

Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of Number of Loans						
Home Purchase	NA	NA	6%	0%	43%	16%	51%	84%
Home Refinance	NA	NA	6%	7%	43%	16%	51%	77%
Home Improvement	NA	NA	6%	0%	43%	0%	51%	100%

*Source: HMDA-reported data from 1/1/2010-12/31/2011; 2000 U.S. Census Data.*

*Business Loans*

The bank's geographic distribution of business loans reflects excellent dispersion in moderate-income census tracts. FCB's lending to businesses in the moderate-income geography meets the level of total businesses with revenues less than \$1 million located there.

Following is a table that details the bank's performance as compared to the percentage of businesses in each census tract income level.

<b>Table 3A - Geographic Distribution of Loans to Businesses in AA 1 – Middlesex County</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
	NA	NA	10%	10%	43%	15%	47%	75%

*Source: Sample of commercial loans from 1/1/2010-12/31/2011; 2000 U.S. Census Data.*

**Responses to Complaints**

FCB did not receive any CRA related complaints during this evaluation period.

**Fair Lending or Other Illegal Credit Practices Review**

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