



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 29, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Putnam Bank
Charter Number 717984

40 Main Street
Putnam, CT 06260

Office of the Comptroller of the Currency

New York
Jersey City Harborside Financial Center, Plaza Five
Jersey City, NJ 07311

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 Lending Test is rated: Satisfactory

The Community Development Test is rated: Satisfactory

The primary factors supporting the overall rating are:

- PB's loan-to-deposit ratio is reasonable given the size, financial condition, the assessment area (AA) credit needs, and relevant competitive factors;
- The bank originated a substantial majority of its loans inside the AA;
- The distribution of loans reflects poor penetration among borrowers of different incomes;
- The geographic distribution of loans reflects reasonable dispersion among geographies of different incomes; and
- The bank's level of community development (CD) activities demonstrates adequate responsiveness to the community development needs in the AA given the bank's capacity and CD opportunities within the AA.

Scope of Examination

This Performance Evaluation is an assessment of the record of Putnam Bank (PB) in meeting the credit needs of the communities in which it operates. PB was evaluated under the Intermediate Small Bank performance criteria, which includes a lending test and a community development test. The lending test evaluates a bank's record of helping to meet the credit needs of its assessment area through its lending activities. The community development test evaluates a bank's responsiveness to community development needs in its assessment area through community development lending, qualified investment, and community development service activities.

Our scope included the period from October 13, 2009 through October 22, 2012. For the lending evaluation, we were unable to evaluate the period from January 1, 2012 to October 22, 2012 as management had yet to compile data from 2012. We evaluated residential real estate lending subject to HMDA reporting, the bank's primary loan product, as well as community development loans.

We also evaluated community development investments and services. All qualified investments were originated within the evaluation period of October 13, 2009 through October 22, 2012. We based our conclusions related to community development loans and qualified investments on the number and dollar amounts made during the evaluation period. In addition, we considered the level of innovation, complexity,

responsiveness to community credit needs, and the degree to which these instruments are not routinely provided by private investors.

The bank includes both Windham County and New London County as part of its Assessment Area (AA). We performed a full-scope review of only Windham County as the bank originated 83.86 percent of loans in this area. Additionally, as the loan portfolio is primarily made up of residential mortgage loans, we did not evaluate the bank on Small Loans to Businesses.

Description of Institution

Putnam Bank (PB) is an intrastate bank headquartered in Putnam, Connecticut. As of September 30, 2012, PB had total assets of \$451 million and tier one capital of \$37 million. In addition to the main office in Putnam, the bank operates seven full-service branches, five of which have 24-hour ATMs. Since the last CRA examination, the bank has neither opened nor closed any branch offices. There have not been any major changes in the bank's corporate structure, including merger or acquisition activities, since the last CRA examination.

PB is wholly-owned by PSB Holdings, Inc., a federal stock holding company. PSB Holdings, Inc. is a wholly-owned subsidiary of Putnam Bancorp, MHC, a mutual holding company. PSB Holdings, Inc. and Putnam Bancorp, MHC are federally chartered.

The bank's mission is to meet the financial needs of businesses and individuals residing in their local communities. Members of the community benefit from their donations for not-for-profit community groups. PB serves 11 municipalities throughout Windham County and six municipalities within New London County.

The bank offers a full-range of loan and deposit services throughout its assessment area (AA). Lending products include residential mortgage loans, commercial loans, and consumer loans. Deposit services provided by the bank include checking, savings, and money market accounts. As of June 30, 2012, the bank reported \$249 million in outstanding loans and had a net loans and leases to total assets ratio of 55 percent. PB's loan portfolio is predominantly centered in residential mortgage loans at 80 percent. Deposits total \$345 million and account for 77 percent of bank assets.

There are no impediments, legal or otherwise, which would hinder the bank's ability to help meet the credit needs of its assessment area. The last CRA exam was rated "Outstanding" by the Office of Thrift Supervision (OTS) on October 13, 2009.

Description of Assessment Area(S)

Putnam Bank has 17 municipalities as its Assessment Area (AA) within the state of Connecticut. The AA includes the following townships within New London and Windham Counties: Brooklyn, Canterbury, Eastford, Hampton, Killingly, Plainfield, Pomfret, Putnam, Sterling, Thompson, and Woodstock. There are six moderate income census tracts located in Windham County and three located in New London County. The AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies.

Windham and New London Counties are located in Northeastern Connecticut. Major employers within the AA are: Day Kimball Healthcare, Frito-Lay Inc., Wal-Mart, Stop & Shop, and Foxwoods and Mohegan Sun casinos.

Putnam Bank Non-MSA

| Demographic Characteristics | # | Low % of # | Moderate % of # | Middle % of # | Upper % of # | NA* | % of # |
|--|---------|---------------|----------------------|------------------|-----------------|---------|--------|
| Geographies (Census Tracts/BNAs) | 25 | 4.00 | 36.00 | 60.00 | 0.00 | 0.00 | |
| Population by Geography | 109,091 | 3.58 | 40.37 | 56.05 | 0.00 | 0.00 | |
| Owner-Occupied Housing by Geography | 27,738 | 0.74 | 34.58 | 64.67 | 0.00 | 0.00 | |
| Business by Geography | 10,415 | 3.59 | 35.32 | 61.08 | 0.00 | 0.00 | |
| Farms by Geography | 415 | 0.48 | 15.66 | 83.86 | 0.00 | 0.00 | |
| Family Distribution by Income Level | 28,367 | 23.54 | 22.37 | 26.07 | 28.02 | 0.00 | |
| Distribution of Low and Moderate Income Families throughout AA Geographies | 13,024 | 5.03 | 45.47 | 49.50 | 0.00 | 0.00 | |
| Median Family Income | | 61,239 | Median Housing Value | | | 116,372 | |
| HUD Adjusted Median Family Income for 2011 | | 82,000 | Unemployment Rate | | | 3.1% | |
| Households Below Poverty Level | | 9% | | | | | |

(*)The NA category consists of geographies that have not been assigned an income classification.

Source; 2000 US Census and 2011 HUD updated MFI

The 2000 US Census reported the total population of the AA at 109,091. The 2000 median family income was \$61,239 and the 2011 HUD adjusted median family income was \$82,000. Within the AA, there are 28,367 families. Of that, 23.54 percent of families are low-income, 22.37 percent are moderate-income, 26.07 percent are middle-income, and 28.02 percent are upper-income. Approximately 9 percent of the

households are below the poverty level. The median cost of housing in the AA is \$116,372.

Conclusions with Respect to Performance Tests

The bank’s performance under the lending test in the AA is rated “Satisfactory.” PB’s quarterly average net loan-to-deposit ratio is reasonable given the size, financial condition, the assessment area (AA) credit needs, and relevant competitive factors. The bank originated a substantial majority of its loans within the AA. The distribution of loans reflects poor penetration among borrowers of different incomes. The geographic distribution of loans reflects reasonable dispersion among geographies of different incomes.

LENDING TEST

The bank’s performance under the lending test in the AA is rated “Satisfactory.” PB’s quarterly average net loan-to-deposit ratio is reasonable and the bank originated a substantial majority of its loans within the bank’s AA. The distribution of loans reflects poor penetration among borrowers of different incomes. The geographic distribution of loans reflects reasonable dispersion among geographies of different incomes.

Loan-to-Deposit Ratio

PB’s average loan-to-deposit ratio (LTD) is reasonable given the size, financial condition, and assessment area credit needs of the institution. The bank’s net loan-to-deposit ratio averaged 76.01 percent over the 12 quarters since the last CRA examination, with a quarterly low of 72.28 percent and a quarterly high of 80.53 percent.

Lending in Assessment Area

PB originated a substantial majority of its loans inside the AA, based on our sample, and meets the standard for outstanding performance. CNB originated 92 percent by number and 91 percent by dollar inside the AA during the evaluation period.

The table below shows the number of loans and dollar of loans for a mix of home purchase, improvement and refinance loans for 1-4 family and multifamily properties loans originated inside and outside the bank’s AA.

| Lending in the AA | | | | | | | | | | |
|--------------------------|-----------------|----|---------|----|-----------|----------------------|----|---------|----|--------------|
| Year | Number of Loans | | | | | Dollar Amount (000s) | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| 2009 | 8 | 80 | 2 | 20 | 10 | 1,676 | 78 | 477 | 22 | 2,153 |
| 2010 | 23 | 92 | 2 | 8 | 25 | 3,861 | 93 | 300 | 7 | 4,161 |

| | | | | | | | | | | |
|--------------|-----------|-----------|----------|----------|-----------|--------------|-----------|------------|----------|--------------|
| 2011 | 24 | 96 | 1 | 4 | 25 | 3,430 | 97 | 120 | 3 | 3,550 |
| Total | 55 | 92 | 5 | 8 | 60 | 8,967 | 91 | 897 | 9 | 9,864 |

Lending to Borrowers of Different Incomes

The distribution of lending to borrowers of different income levels in the assessment area reflects poor penetration.

Home Loans

The distribution of home loans to low-and moderate-income families reflects poor penetration. The percentage of home loans made to low income borrowers is substantially lower than the percentage of low-income families in the AA. However, it is difficult for low-income borrowers to afford housing in the AA. Based on the 2000 U.S. Census data, the median cost of housing in the AA is \$116,372. The updated 2011 HUD median family income is \$82,000, which means that low-income borrowers earn less than \$41,000. Additionally, approximately 9 percent of households are below the poverty level. Based on these statistics it would be difficult for low-income borrowers to purchase housing in the AA. Therefore, we placed more emphasis on the bank’s moderate-income performance. The percentage of home loans made to moderate-income borrowers is less than the percentage of moderate-income families in the AA by 51 percent.

The table below shows the distribution of home loans among borrowers of different income levels as compared to the percent of families in each income category:

| Borrower Income Distribution in AA | | | | | | | | |
|---|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| 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 |
| | 23.54 | 1.82 | 22.37 | 10.90 | 26.07 | 20.00 | 28.02 | 67.27 |

Geographic Distribution of Loans

Overall, PB geographic distribution of loans reflects reasonable dispersion throughout census tracts of different income levels. There are no low or upper income geographies in the assessment area.

Home Loans

PB’s geographic distribution of home loans reflects reasonable dispersion among census tracts of different income levels. The percentage of home purchase, home improvement, and home refinance loans made in moderate-income geographies closely resembles the percentage of moderate-income housing in these geographies.

The table below details the bank’s performance as compared to the percentage of owner-occupied housing units in each census tract income level.

| Geographic Distribution of Home Loans in Windham County AA | | | | | | | | |
|---|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| | % 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 |
| | 0.74 | 0.0 | 34.58 | 25.45 | 64.67 | 69.09 | 0.0 | 0.0 |

Responses to Complaints

PB did not receive any complaints about its performance in helping to meet the credit needs in the bank’s AA during this evaluation period.

COMMUNITY DEVELOPMENT TEST

PB’s level of responsiveness to community development (CD) needs through CD loans, services, and qualified investments originated and offered in the AA meet the standard of adequate responsiveness.

Number and Amount of Community Development Loans

The amount of CD loans originated is satisfactory. The bank originated a total of seven CD loans equaling \$3.22 million during the assessment period. All CD loans considered meet the criteria outlined in interagency guidance.

Proceeds of one loan, totaling \$1 million, were used to construct a healthcare facility that provides services to low- and moderate-income (LMI) individuals. Proceeds of the remaining six loans totaling \$2.22 million were used by businesses located in a moderate-income geography.

Number and Amount of Qualified Investments

The level of qualified investments (QI) is satisfactory. The bank's QI for the evaluation period was 43 investments totaling \$29 thousand. QI considered meet the criteria outlined in interagency guidance.

Investments support community services targeted to low- and moderate-income individuals. Services include healthcare for LMI individuals, food pantries, scholarships, and organizations that create affordable housing. QI originated in the AA meet the needs to create affordable housing and provide services to LMI individuals.

Extent to Which the Bank Provides Community Development Services

The level of CD services offered in the AA is satisfactory. The total number of CD services offered is nine. CD services considered meet the definitions outlined in interagency guidance. Several senior management members serve on a board or committee for a community development organization. Other services include offering free credit workshops.

Responsiveness to Community Development Needs

PB demonstrates adequate responsiveness to the community development needs of its AA. This is appropriate considering the needs, opportunities, and the performance context surrounding its bank.

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.