



PUBLIC DISCLOSURE

December 06, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Colonial Federal Savings Bank
Charter Number 701673

15 Beach St
Quincy, MA 02170-2802

Office of the Comptroller of the Currency

99 Summer St
Suite 1400
Boston, MA 02110

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

INSTITUTION'S CRA RATING: This institution is rated Outstanding

The major factors supporting the institution's CRA rating 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 satisfactory 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 or the Bank) demonstrates a strong commitment to its assessment area through community development (CD) activities. Qualified investments and services reflect the Bank's effort to actively enhance credit availability within the AA.

SCOPE OF EXAMINATION

Colonial Federal Savings Bank was evaluated using Small Bank Community Reinvestment Act procedures, which includes a lending test. The evaluation period for the lending test covers the Bank's performance from January 1, 2014 through September 30, 2016. The lending test evaluates the Bank's record of meeting the credit needs of its assessment area through lending activities. The Bank also provided us with optional CD information to evaluate the Bank's effort to enhance credit availability within its AA through qualified CD investments and services. The evaluation period for CD information is from December 26, 2012, the date of the prior CRA evaluation, through December 5, 2016. 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, refinance, and improvement loans. Residential loans comprise approximately 81 percent of the lending portfolio as indicated by the September 30, 2016 Uniform Bank Performance Report.

The Bank reports data under the 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 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. Our primary comparator was the aggregate performance of peer lenders within the AA subject to HMDA reporting requirements.

DESCRIPTION OF INSTITUTION

CFSB is a \$287 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 is headquartered in Quincy, Massachusetts and has two additional full service branches located in Weymouth and Holbrook, MA. It also operates a limited service branch in a local elderly housing property, Southern Artery, for benefit of the residents. All branch locations are in Norfolk County. The Southern Artery Quincy limited service branch and the Holbrook branch are both located within moderate income geographies, while the remaining two branches are located within middle income geographies. Branch hours for the three full service branches are 9:00 AM to 4:00PM Monday through Wednesday, with extended hours on Thursdays and Fridays. Weekend branch hours are 9:00AM to 12:00PM with extended drive through hours. The Southern Artery branch is located within a senior housing complex and maintains limited hours of 9:00AM through 12:00PM Monday through Friday. 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, 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, 2016, total assets, total deposits, and tier one capital were \$287 million, \$242 million, and \$40 million, respectively. As of September 30, 2016 the loan portfolio totaled \$154 million, or 54 percent of total assets. Below is a summary of the Bank's loan mix.

Loan Portfolio Summary by Loan Product September 30, 2016	
Loan Category	% of Gross Loans and Leases
1-4 Family Residential Mortgage – Closed End	79%
Home Equity	2%
Multifamily	12%
Non-Farm Non-Residential	6%
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. Using small bank procedures the Bank received an “Outstanding” rating at its last Community Reinvestment Act evaluation as of December 26, 2012.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires a bank to define an AA in which it will be evaluated. CFBSB’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 four cities and towns located on the eastern portion of Norfolk County, Massachusetts. The AA is part of the Boston-Cambridge-Newton MA, Metropolitan Division (MD) 14484. The MD consists of 40 census tracts, including two low-income census tracts (5 percent), five moderate-income tracts (12 percent), 26 middle-income tracts (65 percent), and seven upper-income tracts (18 percent). The 2010 U.S. Census Data indicates that 39 percent of families in the AA are considered low- or moderate-income and approximately 9 percent of the households are below the poverty level.

Demographic Information for CFBSB AA					
Income Level	Total #	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	40	5%	12%	65%	18%
Population by Geography	192,549	4%	13%	67%	16%
Owner Occupied Housing by Geography	48,520	2%	11%	67%	20%
Family Distribution by Income Level	46,869	21%	18%	23%	38%
2000 Census Median Family Income (MFI)		\$83,664	Median Housing Value		\$351,741
FFIEC Adjusted MFI: 2016		\$90,000	Households Below Poverty Level		9%
			Unemployment Rate *		3%

Source: 2010 US Census and 2016 FFIEC updated MFI

* Unemployment rate for Norfolk County per The Bureau of Labor Statistics as of September 30, 2016

Colonial Federal Savings Bank operates in a highly competitive market with competition from nationwide and regional commercial banks, local savings banks, and credit unions. The Federal Deposit Institution Corporation’s Deposit Market Share Report for June 30, 2016 indicates that 48 financial institutions operate within Norfolk County. CFBSB ranks 21st in deposit market share with a market share of approximately 1 percent. The Bank’s local competitors include but are not limited to Needham Bank, Brookline Bank, Dedham Institute for Savings, and South Shore Bank. Larger regional Bank’s that provide further competition and control 54.2 percent of the deposit market share

include: Bank of America, N.A., Citizens Bank N.A., Santander Bank, N.A., Rockland Trust Company, Eastern Bank, and TD Bank N.A..

Competition for home mortgages to moderate income borrowers is significant. The Bank ranks 56th with a market share of 0.28 percent based on total dollar amount of loans. Competition is concentrated in broader regional banks and national banks as well as mortgage companies. Some competitors include Wells Fargo Bank NA, Quicken Loans, Bank of Canton, Santander Bank NA, Residential Mortgage Service Incorporated, Hingham Institution for Savings, Citizens Bank NA, and Bank of America NA. The top ten lenders in the area control 32.5 percent of the market share by dollar amount.

According to the September 2016 Moody's Analytics report, the Boston-Cambridge-Newton MD continues to grow jobs, however, growth has slowed since 2015. Hiring in Boston's core sectors such as health care, technology, and finance is projected to continue, but at a lower growth rate. Current levels of housing are insufficient to meet buyer demand. The housing market continues to strengthen in the Boston area, with home prices increasing. The unemployment rate for Norfolk County per The Bureau of Labor Statistics was 3 percent as of September 2016 and remains below the overall Massachusetts rate of 3.6 percent, as well as the national unemployment rate of 5 percent. Major employers in the Boston-Cambridge-Newton area include Massachusetts General Hospital, Brigham & Women's Hospital, Children's Hospital Boston, Beth Israel Deaconess Medical Center, Fidelity Investments, and State Street Bank and Trust Company.

The stronger housing market limits opportunities and access to affordable housing for low to moderate income borrowers within the assessment area. Per the U.S. Census median value of owner-occupied housing units, from 2010 through 2014 is \$329,900 for Massachusetts and \$351,741 for the Bank's assessment area. Housing prices in the greater Boston area are projected to grow at a higher rate than the national average, further decreasing affordability for home ownership by low-to moderate income individuals.

During our examination we reviewed community contact outreach performed within the assessment period. The contacts stressed the increasing costs of the area driven by the housing market growth in the Boston area. One contact noted it is not uncommon for these areas to be marketed as a less expensive alternative to the rapidly rising Boston prices. The contact identified participation with the community preservation act and local community preservation committee as a way to contribute to the area. The contact identified that financial institutions can serve the community's needs by participating in programs providing affordable housing and loans for low to moderate income home buyers. Attributes of programs assisting borrowers would include lower fixed rates, lower down payments, and no private mortgage insurance or points. The contact cited that there is good participation by financial institutions in the area; however, more institutions could contribute to these programs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The Bank's net loan-to-deposit (LTD) ratio is reasonable given the Bank's size, AA credit needs, significant market competition and current economic factors. CFSB's net LTD has averaged 61 percent over the previous 12 quarters. During this period the ratio has ranged from a quarterly high of 65 percent to a low of 58 percent and the average has increased from 57 percent at the previous examination. We compared Colonial Federal Savings Bank's net LTD ratio against a selected group of Bank's within the Boston Area. Similarly sized and similarly located institutions had an average LTD of 71 percent, which is slightly above the Bank's average.

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 59 percent by number and 50 percent 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.

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	50	57	37	43	87	14,492	54	12,181	46	\$26,673
Home Refinance	55	54	46	46	101	13,521	46	15,830	54	\$29,351
Home Improvement	19	83	4	17	23	3,838	69	1,711	31	\$5,549
Totals	124	59	87	41	211	31,851	50	29,722	50	\$61,573

Source: HMDA reported data from 1/1/2014 to 9/30/2016.

Lending to Borrowers of Different Incomes

The distribution of home loans reflects reasonable distribution among borrowers of different income levels. The percent of home purchase loans made to moderate-income borrowers meets the percent of families in the assessment area. The percent of home improvement and home-refinance loans to moderate-income borrowers is below the percent of aggregate lending data and below the percent of moderate-income families in the AA. The percent of home improvement and home refinance loans made to low-income borrowers exceeded aggregate lending data. The Bank did not make any home purchase loans to low-income borrowers during the evaluation.

The Bank's performance and lower penetration for moderate-income borrowers is considered satisfactory given intense market competition that the Bank faces as well as limited lending opportunities due to lack of affordable housing. The 2010 U.S. census

peer mortgage data indicates significant competition for home purchase loans made to moderate income borrowers. CFSB competes with dozens of other lenders in the area and market share is largely dominated by national and regional banks and mortgage lenders. The top 20 lenders in the area accounted for 52 percent of originated or purchased moderate-income mortgages. Home Improvement loans to moderate income borrowers face intense competition and are highly limited in availability given competition among 29 institutions for the 90 home improvement loans made to moderate income borrowers in the assessment area.

Real estate prices within the AA remain relatively high compared to the 2016 FFIE updated MFI of \$90,000. Based on the 2016 FFIEC updated median family income, the maximum income that is considered low-income is \$45,000 and the maximum income for moderate-income families would be \$72,000 making it difficult for low to moderate-income borrowers to qualify for home loans on homes with an average median value of \$351,751.

The following tables show the distribution of home loan products among borrowers of different income levels compared to the aggregate lending data for HMDA reporters, the Bank’s primary comparator and the percent of families in each income category within the Bank’s AA.

*Table 2 - Borrower Distribution of Residential Real Estate Loans in CFSB 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	21	0	18	18	23	30	38	52
Home Improvement	21	11	18	5	23	21	38	63
Home Refinance	21	8	18	14	23	28	38	50
*Table 2A – Aggregate Lending Data for Borrower Distribution in CFSB 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	5	0	26	18	32	30	37	52
Home Improvement	6	11	20	5	30	21	44	63
Home Refinance	7	8	22	14	32	28	39	50

*Source: HMDA reported data from 1/1/2014 to 9/30/2016

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 CFSB’s lending for home purchase loans exceeds or meets the percent of aggregate lending data, the primary comparator, as well as the percent of owner-occupied housing located in both low- and moderate-income geographies. The percent of CFSB’s lending for home mortgage refinance to low-income geographies exceeded both aggregate data and the percent of owner-occupied units in the assessment area. CFSB’s lending for home mortgage refinance in moderate-income geographies was in line with both aggregate lending and the percent of owner occupied units in the area. CFSB did not extend any home improvement loans within low--income geographies. The Bank’s performance for home improvement loans within low-income tracts is considered satisfactory given that only two percent of the owner-occupied units within the Bank’s AA are located in low-income tracts. For home improvement loans within moderate-income geographies, the Bank exceeded both aggregate data and the percent of owner-occupied units in the assessment area and is excellent. CFSB’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 the aggregate lending data for all HMDA reporters within the Bank’s AA

*Table 3 - Geographic Distribution of Residential Real Estate Loans in CFSB 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	9	11	13	67	56	20	22
Home Improvement	2	0	11	16	67	63	20	21
Home Mortgage Refinance	2	4	11	10	67	74	20	12

*Table 3A – Aggregate Lending Data for Geographic Distribution in CFSB AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% Aggregate Lending Data	% of Number of Loans	% Aggregate Lending Data	% of Number of Loans	% Aggregate Lending Data	% of Number of Loans	% Aggregate Lending Data	% of Number of Loans
Home Purchase	2	9	13	13	64	56	21	22
Home Improvement	2	0	8	16	69	63	21	21
Home Mortgage Refinance	2	4	11	10	67	74	20	12

*Source: HMDA reported data from 1/1/2014 to 9/30/2016

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 considered outstanding given the Bank's capacity and the availability of community development opportunities. CFSB has one prior period 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 period the Bank paid \$3 thousand dollars in membership fees to a qualifying institution with a goal to affect positive change in availability of credit across Massachusetts, including the Bank's AA. Qualifying community development grants and donations totaled \$9.6 thousand and benefitted six different community development organizations. All six of these organizations benefitted 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 three full-service branch locations within the AA and one limited purpose branch. The main office and the Weymouth branches are located in middle-income tracts and the Southern Artery limited purpose branch and the Holbrook branch are located in moderate-income tracts. The Southern Artery Branch is located within a retirement community and provides access to senior citizens. 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 that promote affordable housing and credit availability within the AA.

- A member of senior management and two members of the Board serve on the Board of a local organization that provides affordable housing for low- and moderate-income seniors.
- A member of senior management serves on a local affordable housing trust committee that 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 inconsistent with helping to meet community credit needs.