



PUBLIC DISCLOSURE

June 08, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Federal Savings Bank
Charter Number 703997

633 Central Ave
Dover, NH 03820-3401

Office of the Comptroller of the Currency

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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 Community Reinvestment Act (CRA) ratings are:

- Federal Savings Bank's ("FSB" or the "Bank") level of lending, as reflected in its loan-to-deposit ratio, is more than reasonable.
- A substantial majority of originated loans were made within the Bank's assessment area (AA).
- The distribution of loans reflects excellent distribution to borrowers of different income levels.
- The geographic distribution of loans reflects reasonable distribution in low- and moderate-income census tracts.

SCOPE OF EXAMINATION

FSB was evaluated using Small Bank CRA examination procedures, which primarily includes a lending test. The lending test evaluates the Bank's record of meeting the credit needs of its AA through its lending activities. The evaluation period for the lending test covers performance from January 1, 2013 through December 31, 2014 and compares results to the 2010 U.S. Census data.

FSB's primary loan products, based on originations during the evaluation period, are home loans. For purposes of this evaluation, home loans include home purchase, home refinance, and home improvement loans. As indicated by the March 31, 2015 Uniform Bank Performance Report (UBPR), residential loans represent approximately 64% of the Bank's total loan portfolio.

The Bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). We conducted a data integrity exam of the Bank's HMDA data for residential real estate loans originated/purchased and found that the data was reliable. All residential real estate loans originated and purchased during the assessment period were included in our evaluation of the Bank's lending.

DESCRIPTION OF INSTITUTION

FSB is a federally chartered mutual thrift institution headquartered in Dover, New Hampshire. In addition to its main office, the institution has branch offices located in Barrington, Durham, Portsmouth, and Rochester. Operating hours are reasonable, as all locations are open 9:00am to 5:00pm Monday through Friday, and Saturday from 8:30am to 12:30pm. Drive-up access is available beginning at 8:00am Monday through Friday at the Dover and Rochester offices and at 8:30am at the Barrington and Portsmouth branches, with extended hours on Friday to 6:00 pm at all locations. All

branch locations feature an automated teller machine (ATM) for 24-hour banking access, and the Bank operates an additional stand-alone ATM in Portsmouth. No branches were opened or closed during the evaluation period.

FSB is primarily a residential mortgage lender, offering fixed and variable rate loans for the purchase, refinance, and construction of one-to-four family and multi-family homes. The Bank also offers home equity loans and lines of credit, commercial loans, and consumer loans. The Bank's website, www.fsbdoover.com, provides a complete listing and description of its deposit and lending services. Available deposit products include passbook savings, statement savings, club accounts, checking and money market accounts, and certificates of deposit. The Bank offers alternative account access through its online banking system, which includes a bill pay function, Visa debit/ATM cards, and telephone banking services.

FSB's balance sheet has grown since the last CRA evaluation as the Bank has worked to expand operations. Total assets as of March 31, 2015, were \$299 million compared to \$249 million at March 31, 2009. Common equity tier one capital increased to \$29.3 million during the same period. Aggregate loans of \$249 million and deposits of \$192 million represent 83% and 64% of total assets, respectively. The following table provides a summary of the loan portfolio mix:

Loan Portfolio Summary by Loan Product March 31, 2015	
Loan Category	% of Total Loans and Leases
1-4 Family Residential	64%
Commercial Real Estate	25%
Commercial & Industrial	6%
Construction & Development	5%

Source: Federal Deposit Insurance Corporation (FDIC) Call Report as of 3/31/15

FSB has no financial or legal impediments to meeting the credit needs of the community. The Bank was rated “Outstanding” at the previous CRA evaluation dated June 8, 2009.

DESCRIPTION OF ASSESSMENT AREA(S)

The CRA requires a bank to define the AA in which it will be evaluated. FSB's AA consists of continuous portions of the Rockingham-Strafford County, NH Metropolitan Division (MD #40484) and neighboring towns in York County, ME, which is located in the Portland-South Portland-Biddeford, ME Metropolitan Statistical Area (MSA # 38860). The majority of the Bank's deposits, lending activity, and physical presence are within this market. The AA contains 59 census tracts (“geographies”), including one low-income, twelve moderate-income, 32 middle-income, and 14 upper-income tracts. The Bank's AA meets the requirements of the regulation and does not arbitrarily exclude any low or moderate-income (LMI) tracts.

The 2010 U.S. Census data reflects a total population of 272,573 living within the AA, including 77,326 households and 70,126 families. LMI families represent approximately 39% of total families within the AA. Nine percent of households in the New Hampshire tracts and 6% of households in the Maine tracts live below the poverty level. The unemployment rate based on 2010 Census data is 3% in both New Hampshire and Maine. The following table reflects the AA's demographic and economic characteristics based on 2010 U.S. Census data and 2014 data from the U.S. Department of Housing and Urban Development (HUD) and Bureau of Labor Statistics (BLS).

Demographic Information for FSB AA (2014)					
Demographic Characteristics	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts/BNAs)	59	2	20	54	24
Population by Geography	272,573	1	22	56	21
Owner-Occupied Housing by Geography	77,326	1	20	58	21
Business by Geography	23,144	1	19	60	21
Farms by Geography	726	1	14	57	29
Family Distribution by Income Level	70,126	19	20	24	37
Distribution of Low and Moderate Income Families throughout AA Geographies	27,089	0.02	0.33	0.54	0.12
				NH MD #40484	ME MSA #38860
Median Family Income (\$)				85,547	67,971
HUD Adjusted Median Family Income for 2014 (\$)				85,547	67,971
Households Below Poverty Level				9%	6%
Median Housing Value, 2009-2013 (\$)				264,294	232,537
2014 Unemployment Rate (Moody's)				4.6%	4.7%

Source: 2010 U.S. Census QuickFacts and 2014 HUD updated MFI

The Federal Deposit Institution Corporation's (FDIC) Deposit Share Report for June 30, 2014 indicates that 26 financial institutions operate within the Bank's AA. FSB ranks 11th with total deposits of \$189.3 million representing a 2.6% market share. The Bank's local competitors include, but are not limited to, Bank of New England, Salem Co-operative Bank, Profile Bank, and Piscataqua Savings Bank. Larger regional banks that provide further competition include TD Bank, Citizens Bank, People's United Bank, and Santander Bank.

Competition for the Bank's primary loan product is high. There are 289 active lenders within the AA, with the top ten lenders controlling over 47% of new originations by count and almost 43% by dollar amount. According to the 2013 peer mortgage market share data, FSB ranks 14th with a market share of 1.58%. In addition to local and regional competition, many nationwide lenders are present in the area's lending market, including Wells Fargo; JPMorgan Chase; Bank of America; Citibank; and US Bank. The large number of active mortgage companies such as Quicken Loans; Regency Mortgage; Merrimack Mortgage; and Mortgage Master, further adds to market saturation.

According to January 2015 Moody's Analytics data, Rockingham-Strafford County's growth is primarily attributed to gains in the public sector and strong growth in the rest of the broader Boston metro area. The unemployment rate fell to 4.2% even with a rapidly growing labor force. Healthcare and technology industry growth in the Boston area is expected to spill over into the counties given the comparatively low living and business costs. Job growth in private services will slightly outpace overall employment as lower energy costs leave larger amounts of disposable income to spend on retail services. The single-family housing market is expected to accelerate in the short-term as developers begin new projects due to increased demand from growth in high-wage employment. Housing creation is expected to lag the national average in the longer term and the large foreclosure inventory will negatively affect existing-home prices, which are not expected to return to pre-recession levels until 2018.

The January 2015 Moody's report for Portland-South Portland-Biddeford ME shows that the economy has weakened, with service industries unable to hold on to employment gains from early 2014. Payroll gains from healthcare providers and financial services were offset by declines in retail and government. The 4.6% unemployment rate remains below the state and national averages but its return to prerecession levels is slowing. The tourism industry is expected to grow from rising disposable incomes, growing consumer confidence, and low energy costs. The MSA's healthcare industry will be a key growth driver; recent payroll growth outpaced both state and national averages and is supported by a rising number of enrollees in the Affordable Care Act and fast growing share of residents over the age of 65. The area's long-term growth potential will be limited by the lack of workforce retention from its institutions of higher education.

In assessing the Bank's performance, we contacted a local organization whose purpose is to provide affordable housing to the low and moderate-income families and individuals, and finance the development of affordable rental housing in New Hampshire. The community contact indicated that affordable housing is a key issue due to the high cost of housing in the area and stressed that long-term affordable housing is a need. The community contact mentioned that the local financial institutions are supportive of the credit and community development activities and do an excellent job at meeting the needs of the community. Other opportunities for participation identified include lending to development/maintain local youth programs and community facilities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The Bank's performance under the lending test is outstanding. FSB's loan-to-deposit ratio is more than reasonable given the Bank's size, AA credit needs, and local market competition. The Bank originated a substantial majority of its primary loan products within its assessment area. The distribution of loans reflects excellent distribution among individuals of different income levels. The geographic distribution of home loans reflects reasonable distribution in the low- and moderate-income census tracts.

Loan-to-Deposit Ratio

FSB's loan-to-deposit (LTD) ratio is more than reasonable and exceeds the standard for satisfactory performance. The ratio averaged 126% over the last 24 quarters and ranged from a low of 118% to a high of 134%. This places FSB in the 98th percentile compared to all thrifts with total assets between \$100 million and \$300 million. FSB's average LTD ratio was the highest among all national banks, thrifts, and FDIC-insured institutions within the State of New Hampshire. These 18 institutions range in asset size from \$183 million to \$1.5 billion and had an average LTD ratio of 88% during the review period.

Lending in Assessment Area

A substantial majority of FSB's primary loan products were originated within the AA, exceeding the standard for satisfactory performance. FSB originated 84% by number and 82% by dollar amount of loans in the AA. The following table details the Bank's lending within the AA by number and dollar amount of loans.

Table 1 - Lending within the Assessment Area (AA)										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	108	80	27	20	135	25,171	78	6,948	22	32,119
Home Refinancing	133	86	21	14	154	25,926	84	4,840	16	30,766
Home Improvement	25	89	3	11	28	3,102	93	229	7	3,331
Total Home Loans	266	84	51	16	317	54,199	82	12,017	18	66,216

Source: HMDA reported data from 1/1/2013 through 12/31/2014

Lending to Borrowers of Different Incomes

The distribution of home loans originated and purchased in the Bank's AA reflects excellent distribution among borrowers of different income levels. Given that home purchase and refinance loans represented the most significant portion of originations during the evaluation period, these categories were given the most consideration in the lending test. The percent of home purchase and refinance loans made to low-income borrowers exceeds the percent of peer aggregate lending data, which is the Bank's primary comparator. The percent of home purchase loans made to moderate-income borrowers is reasonable compared to the percent of peer aggregate lending data. The percent of home refinance loans made to moderate-income borrowers exceeds the percent of peer aggregate lending data.

The percent of home improvement loans made to low-income borrowers exceeds peer aggregate lending data. While the distribution of home improvement loans made to moderate-income families is lower than the percent of peer aggregate lending data, the

Bank has a relatively small volume of home improvement lending that represented only 9% of all AA originations during the evaluation period.

The Bank's overall performance for home loans to borrowers of different income levels is excellent given the significant market competition in the AA. There are 289 active lenders within the AA, with the top ten lenders controlling over 47% of new originations by count and almost 43% by dollar amount. According to the 2013 peer mortgage market share data, the Bank ranks 14th with a market share of 1.58%. In addition to local and regional competition, many nationwide lenders are present in the area's lending market, including Wells Fargo; JPMorgan Chase; Bank of America; Citibank; US Bank; and TD Bank. The large number of active mortgage companies such as Quicken Loans; Regency Mortgage; Merrimack Mortgage; and Mortgage Master further adds to market saturation.

The following table shows the percent of home loan originations made by the Bank compared to the percent of peer aggregate lending data, at each borrower income level.

Table 2 – Aggregate Lending Data for Borrower Distribution in the AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% Aggregate Data	% of # of Loans	% Aggregate Data	% of # of Loans	% Aggregate Data	% of # of Loans	% Aggregate Data	% of # of Loans
Home Purchase	8	9	25	18	26	18	41	55
Home Improvement	10	13	21	9	29	39	40	39
Home Refinance	8	11	19	22	27	25	46	42

Source: HMDA reported data from 1/1/2013-12/31/2014.

Geographic Distribution of Loans

The Bank's geographic distribution of home loans within the AA reflects reasonable distribution in the low- and moderate-income census tracts. The AA includes one low-income census tract and twelve moderate-income census tracts. We found no conspicuous gaps or areas of low penetration in the Bank's lending patterns.

The percent of home purchase, refinance, and home improvement loans is reasonable compared to the percent of peer aggregate lending data in the low-income census tract. There was only one non-originated application received from a low-income census tract during the review period and only 1% of owner-occupied housing in the AA is located in low-income geographies.

The percent of home purchase, refinance, and home improvement loans is lower than the percent of peer aggregate lending data in the moderate-income census tracts. FSB meets the standards for satisfactory performance given its size, the strong competition for loans, and AA credit needs.

The following table details the Bank's performance compared to the percentage of aggregate lending data for all HMDA reporters within the Bank's AA.

Table 3 – Aggregate Lending Data for Geographic Distribution in the 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	0	22	16	56	64	20	20
Home Improvement	1	0	27	21	54	62	18	17
Home Mortgage Refinance	1	0	21	17	57	64	21	19

Source: HMDA reported data from 1/1/2013-12/31/2014.

Responses to Complaints

There were no CRA-related complaints received by the Bank or the OCC 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.