

**PUBLIC DISCLOSURE**

**JUNE 4, 2012**

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**WATERTOWN SAVINGS BANK**

**CERT #23298**

**60 MAIN STREET  
WATERTOWN, MASSACHUSETTS 02472**

**Division of Banks  
1000 Washington Street  
Boston, MA 02118**

**NOTE:** 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 Division of Banks concerning the safety and soundness of this financial institution.

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## GENERAL INFORMATION

The Community Reinvestment Act (“CRA”) requires the Massachusetts Division of Banks (“Division”) to use its authority when examining financial institutions subject to its supervision, to assess the institution’s record of meeting the needs of its entire assessment area, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution’s record of meeting the credit needs of its assessment area.

This document is an evaluation of the CRA performance of **Watertown Savings Bank (or the “Bank”)**, prepared by the Division, the institution’s supervisory agency as of June 4, 2012. The Division rates the CRA performance of an institution consistent with the provisions set forth in Massachusetts regulation 209 CMR 46.00.

**INSTITUTION’S CRA RATING: This institution is rated “Outstanding.”**

**The Lending Test is rated: Outstanding.**

**The Community Development Test is rated: High Satisfactory.**

An institution in this group has an excellent record of meeting the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

The evaluation assessed the Bank’s performance utilizing the Federal Financial Institutions Examination Council (“FFIEC”) Intermediate Small Bank (“ISB”) procedures. The assigned rating is based on the result of two performance tests; the Lending Test and the Community Development Test. A summary of the Bank’s performance is provided below:

### Lending Test

- The Bank’s loan-to-deposit ratio for the previous 13 quarters was 61.7 percent and is considered reasonable.
- A majority of the Bank’s home mortgage and small business lending was inside the assessment area. Overall, the Bank originated 74.9 percent of its loans inside the assessment area.
- Overall, the institution’s geographic distribution reflects excellent dispersion throughout the assessment area. During the evaluation period, the Bank originated 16.1 percent of its home mortgage loans in moderate-income census tracts. In 2010, the Bank’s origination percentage exceeded both the aggregate and percentage of owner-occupied housing in moderate-income tracts. For the same year, the Bank’s originated 16.2 percent of its small business loans in moderate-income tracts, while only 8.2 percent of small businesses were located in moderate tracts.
- Overall, the institution’s borrowers reflects, given the demographics of the assessment area, excellent penetration of home mortgage loans among individuals of different income levels (including low- and moderate-income). In 2010, Bank originations to low- and moderate-income borrowers greatly exceeded the aggregate. During the evaluation period, home mortgage loan originations were in line with the percentage of low- and moderate-income

families in the assessment area. Small business lending was significantly less than the geodemographic data, although approximately 68 percent of all small business loans were less than \$250,000.

- There were no CRA-related complaints received during the evaluation period.

### Community Development Test

Watertown Savings Bank's community development performance demonstrates good responsiveness to the community development needs of its assessment area through its community development loans, qualified donations and community development services. The following conclusions support the assigned rating.

- During the evaluation period, the Bank originated approximately \$1,625,000 in qualified community development loans.
- Qualified investments during the time period totaled \$464,214 and consisted of charitable donations and grants. This total represents a significant increase in total donations when compared to the previous evaluation.
- The Bank was involved in community development organizations within its designated assessment area. Officers and employees, as well as the Chairman, participated in community development organizations which provide services primarily to low- and moderate-income individuals and families. The Bank also participated in a number of financial education initiatives targeted to first time homebuyers and youths.

## **SCOPE OF EXAMINATION**

Watertown Savings Bank was evaluated utilizing ISB CRA Examination Procedures, which apply to an institution with assets of at least \$290 million as of December 31 of both of the prior two calendar years, and less than \$1.16 billion as of December 31 of either of the prior two calendar years.

This evaluation considered the Bank's lending and community development activities for the period January 1, 2010 through June 4, 2012. The data and applicable timeframes used for the Lending Test and Community Development Test are discussed below.

The evaluation considered the Bank's home mortgage loans originated in 2010 and 2011 reported pursuant to the Home Mortgage Disclosure Act ("HMDA"). Under HMDA, a home mortgage loan is considered to be a home purchase, home improvement, or refinancing of a dwelling-secured loan. Data was obtained from the HMDA Loan Application Register ("LAR"). Home mortgage aggregate lending data for 2010 was utilized for comparative purposes as this was the most recent year for which aggregate lending data is available. Aggregate lending data includes all home mortgage loan originations in the Bank's assessment area by financial institutions subject to HMDA. Based on the Bank's loan portfolio composition as of March 31, 2012, the Bank's primary lending activity is residential real estate lending, accounting for 89.3 percent of the Bank's loan portfolio.

The evaluation also considered small business lending. As an ISB, the Bank is not subject to formal CRA data reporting for small business lending. Small business lending data was derived from the CRA small business loan register maintained by the Bank. The registers contain information on originated commercial real estate and commercial and industrial loans with balances of \$1 million or less. The Bank's small business performance is based primarily on 2010 data, as this is the most recent year for which geodemographic small business lending data is available. Small business loan data for 2011 is presented to show trends. Small business loans accounted for 9.1 percent of the loan portfolio as of March 31, 2012.

The Lending Test did not include analysis of small farm loans or consumer loans. Small farm loans were not analyzed for the purposes of this evaluation since the Bank did not make any of these types of loans during the evaluation period. Additionally, consumer loans represent less than 1 percent of the Bank's total loan portfolio and, as such, were not considered in the evaluation.

## **PERFORMANCE CONTEXT**

### **Description of Institution**

Watertown Savings Bank is a mutual savings bank headquartered in Watertown, Massachusetts. The Bank operates nine full-service branches throughout the Cambridge-Newton-Framingham MA Metropolitan Division (“MD”); five in Watertown; one in Arlington; one in Waltham; one in Lexington; and one in Belmont. Six offices are located in moderate-income census tracts, one is in a middle-income tract, and two are in upper-income tracts. Since the last evaluation, the Bank opened two branches and closed one: the Arlington and Lexington branches were opened in 2006 and 2008, respectively, and a Watertown branch was closed in 2010.

As of March 31, 2012, the Bank had total assets of \$1.067 billion, a decrease of 7 percent since the prior evaluation. The Bank’s loan portfolio increased 5.3 percent over the same period, with net loans totaling \$547.1 million as of March 31, 2012. The loan portfolio accounts for 51.3 percent of the Bank’s assets. Refer to Table 1 below for detailed information regarding the Bank’s loan portfolio.

<b>Table 1 - Loan Portfolio as of March 31, 2012</b>		
<b>Loan Type</b>	<b>Dollar Amount \$(000s)</b>	<b>Percent of Total Loans (%)</b>
Construction and Land Development	5,502	1.0
1-4 Family Residential	475,493	86.9
Multi-family Residential	13,269	2.4
Commercial Real Estate	46,018	8.4
<b>Total Real Estate Loans</b>	<b>540,282</b>	<b>98.7</b>
Commercial and Industrial	3,995	0.7
Consumer	3,113	0.6
Other	83	0.0
Less: Unearned Income	(350)	<b>(0.1)</b>
<b>Total Loans</b>	<b>547,123</b>	<b>100.0</b>

*Source: Report of Condition and Income (Call Report) as of March 31, 2012.*

The Bank’s product offerings include consumer and business checking and savings accounts, IRAs, investment services, home mortgage loans, commercial loan, personal loans, safe deposit boxes and online banking services.

The Division last examined Watertown Savings Bank for CRA as of August 7, 2006. Large Bank examination procedures were utilized and a rating of “Outstanding” was assigned. The Federal Deposit Insurance Corporation examined the Bank for CRA as of December 3, 2008. Using Large Bank CRA procedures, Watertown Savings Bank received a “High Satisfactory” rating under the Lending, Investment and Service Test and an overall rating of “Satisfactory” as that examination. The federal agencies do not have an overall rating of “High Satisfactory.”

## Description of Assessment Area

The CRA requires financial institutions to define an assessment area within which its CRA performance will be evaluated. The assessment area as currently defined meets the technical requirements of the CRA regulation since it: (1) consists of one or more political subdivisions, (2) includes the geographies where the bank has its main office, branches, and deposit-taking ATMs, as well as the surrounding geographies in which the institution originated a substantial portion of its loans, (3) consists of whole census tracts, (4) does not extend substantially beyond state boundaries, unless otherwise permitted, (5) does not reflect illegal discrimination, and (6) does not arbitrarily exclude low- and moderate-income areas.

Watertown Savings Bank's assessment area consists of 6 cities and towns in Massachusetts: Arlington, Belmont, Lexington, Newton, Waltham, and Watertown. All of these towns are part of the Cambridge-Newton-Framingham, MA MD #15764.

Table 2 - Assessment Area Demographic Information					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	52		11.5	51.9	36.6
Population by Geography	242,624		10.4	54.1	35.4
Owner-Occupied Housing by Geography	56,379		6.4	52.2	41.4
Business by Geography	20,122		8.1	54.0	37.9
Farms by Geography	271		11.8	63.5	24.7
Family Distribution by Income Level	58,026	15.9	16.4	21.0	46.7
Distribution of Low and Moderate Income Families throughout AA Geographies	18,757		15.8	59.9	24.3
HUD Adjusted Median Family Income for 2010		\$98,700	Median Housing Value		\$360,293
Households Below Poverty Level		5.6%	Unemployment Rate (April 2012)		3.9

*SOURCE: 2000 US Census; 2010 HUD updated Median Family Income; and 2012 Office of Labor and Workforce Development*

As Table 2 shows, the assessment area is comprised of 52 census tracts, of which none are low-income, 6 are moderate-income, 27 are middle-income and 19 are upper-income. The assessment area has a total population of 242,624 residing in 58,026 family households. Of all family households in the area, 15.9 percent are low-income, 16.4 percent are moderate-income, 21.0 percent are middle-income, and 46.7 percent are upper-income.

Low-income is defined as individual income less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of geography. Moderate-income is individual income at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of geography. Middle-Income is individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of geography. Upper-Income is defined as individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of geography.

The median housing value in the assessment area was \$360,293 as of the 2000 US Census. However, more recent housing data obtained from *The Warren Group* reflects higher home values during. The 2010, median home prices for assessment area municipalities ranged from a low of \$359,000 in Waltham to a high of \$610,000 in Newton. In 2011, median home prices ranged from a low of \$358,500 in Waltham to a high of \$640,000 in Newton.

Watertown Savings Bank operates in a highly competitive lending environment. The Bank faces competition from large national and regional banks, mortgage companies, community banks, and credit unions. For 2010, the home mortgage lending market share report indicated that 312 lenders reported 18,301 originations or purchases totaling approximately \$6.45 billion in the assessment area. The top ten home mortgage loan originators consist of large mortgage companies and national or regional banks. These institutions account for 53.2 percent of the market share for the total assessment area. Watertown Savings Bank ranked 22<sup>nd</sup> overall in its assessment area with a market share of 1.06 percent.

Numerous businesses operate throughout assessment area, with the highest concentration being in the middle-income census tracts. According to 2010 Business Geodemographic Data, the area has 20,122 non-farm businesses in operation, 75.9 percent of which are known to have gross annual revenues under \$1 million. The highest proportion of these businesses is engaged in the service industry and retail trade. Approximately 69.2 percent of the area's businesses employ four or fewer people.

### ***Community Contact***

As part of the evaluation process, third parties that are active in community affairs are contacted to assess the housing and business needs in the Bank's assessment area. Relevant information from this contacts assists in determining whether local financial institutions are responsive to the credit needs of the community, and whether additional opportunities are available. An interview was conducted with an individual representing an organization within the Bank's assessment area. The organization assists low- and moderate-income individuals with First Time Homebuyers (FTHBs) programs, affordable housing, and financial education classes. The contact indicated that local financial institutions actively sponsor FTHB seminars; however, more support is needed in sponsoring financial education classes.

## **PERFORMANCE CRITERIA**

### **LENDING TEST**

The Lending Test considers the institution's performance pursuant to the following criteria: loan-to-deposit ratio, assessment area concentration, geographic distribution of loans, lending to borrowers of different incomes and businesses of different sizes (borrower profile), and record of taking action in response to CRA complaints.

Overall, the Bank's performance under the Lending Test is considered "Outstanding." This rating indicates that Watertown Savings Bank's lending performance demonstrates excellent responsiveness to the credit needs of the assessment area.

#### **1. LOAN-TO-DEPOSIT (LTD) ANALYSIS**

This performance criterion determines what percentage of the Bank's deposit base is reinvested in the form of loans and evaluates its appropriateness. The Bank's LTD ratio is adequate given the institution's size, financial condition, and assessment area credit needs.

The Bank's LTD ratio as of March 31, 2012 was 57.4 percent. The Bank's average quarterly net LTD ratio was 61.7 percent and was calculated by averaging the previous 13 quarterly net LTD ratios between December 31, 2009 and March 31, 2012. During the review period, the LTD ratio reached a high of 64.8 percent in June 2010 and a low of 57.4 percent in March 2012.

Changes in loan and deposit amounts were analyzed to assess the fluctuations in the net LTD ratios. From January to December 2009, the Bank experienced a decrease in deposits of 8.6 percent. During the same period, loans also slightly decreased, but not as dramatically, which resulted in a small increase in the LTD ratio. From June 2010 to March 2012, the Bank's loan portfolio decreased by 12.2 percent, while the deposits remained relatively constant since 2010. As a result, the LTD ratio went from its highest to its lowest level beginning in June 2010 to March 2012.

Bank management explained the decrease in deposits during 2009 was part of its strategic business plan of increasing its capital position. The Bank focused on increasing earnings by de-emphasizing higher priced Certificates of Deposit (CDs) for customers who only held CDs with the Bank. Also as part of its business strategy, the Bank has steadily decreased its loan portfolio by concentrating its efforts on promoting 10-15 year and adjustable-rate mortgages as opposed to competitive rate 30 year fixed-rate mortgages. This strategy was influenced by the effect of the low interest rate environment on the Bank's loan portfolio.

For evaluation purposes, the Bank's LTD ratio was compared to a group of three similarly situated financial institutions by asset size and location.

<b>Institution</b>	<b>LTD Ratio (%)</b>	<b>Asset Size \$(000s)</b>
Belmont Savings Bank	97.9	718,181
Leader Bank	95.5	529,437
East Cambridge Savings Bank	73.7	812,390
<i>Watertown Savings Bank</i>	57.4	1,067,000

*Source: Reports of Condition and Income as of 3/31/2012*

As illustrated in the table above, Watertown Savings Bank has a lower LTD ratio compared to similarly situated institutions. The Bank's LTD ratio is considered adequate due to the affluent nature of the assessment area, the high percentage of rental units, high median home prices and its business strategy.

## 2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S)

This performance criterion determines what percentage of the Bank's lending occurs inside the assessment area. As shown in Table 4, the Bank originated the majority of home mortgage loans inside the assessment area.

<b>Table 4 - Distribution of Loans Inside and Outside of Assessment Area</b>											
Loan Category or Type	Number of Loans					Dollar Volume \$(000s)					
	Inside		Outside		Total	Inside		Outside		Total	
	#	%	#	%		\$	%	\$	%		
<b>2010</b>											
Home Purchase	65	66.3	33	33.7	98	26,237	59.7	17,680	40.3	43,917	
Refinance	107	77.5	31	22.5	138	31,946	79.8	8,089	20.2	40,035	
Home Improvement	27	84.4	5	15.6	32	7,528	83.9	1,447	16.1	8,975	
<b>Total</b>	<b>199</b>	<b>74.3</b>	<b>69</b>	<b>25.7</b>	<b>268</b>	<b>65,711</b>	<b>70.7</b>	<b>27,216</b>	<b>29.3</b>	<b>92,927</b>	
<b>2011</b>											
Home Purchase	45	62.5	27	37.5	72	17,768	64.9	9,611	35.1	27,379	
Refinance	112	78.9	30	21.1	142	31,280	77.8	8,929	22.2	40,209	
Home Improvement	25	83.3	5	16.7	30	5,062	73.0	1,876	27.0	6,938	
<b>Total</b>	<b>182</b>	<b>74.6</b>	<b>62</b>	<b>25.4</b>	<b>244</b>	<b>54,110</b>	<b>71.1</b>	<b>20,416</b>	<b>28.9</b>	<b>74,526</b>	
<b>Total Home Loan</b>	<b>381</b>	<b>74.4</b>	<b>131</b>	<b>25.6</b>	<b>512</b>	<b>119,821</b>	<b>71.6</b>	<b>47,632</b>	<b>28.4</b>	<b>167,453</b>	
Small Business 2010	37	80.4	9	19.6	46	9,368	82.5	1,986	17.5	11,354	
Small Business 2011	35	70.0	15	30.0	50	7,460	72.0	2,907	28.0	10,367	
<b>Total Small Business</b>	<b>72</b>	<b>75.0</b>	<b>24</b>	<b>25.0</b>	<b>96</b>	<b>16,828</b>	<b>77.4</b>	<b>4,893</b>	<b>22.6</b>	<b>21,721</b>	

Source: HMDA LAR for 2010 and 2011, Bank Records – Small Business Data (2010 and 2011)

The Bank's assessment area concentration is reasonable as it originated a majority of loans inside the assessment area. For mortgage lending for both years reviewed, the majority of each product type, as well as total lending, was originated within the Bank's assessment area. Small business lending also reflected a high concentration within the assessment area.

## 3. GEOGRAPHIC DISTRIBUTION

The geographic distribution of loans was reviewed to assess how well the Bank is addressing the credit needs throughout the assessment area by census tract income level. The Bank achieved an excellent dispersion of home mortgage and small business loans throughout its assessment area based a comparison with assessment area demographic data and/or aggregate lending data. The Bank's performance reflects the Bank's willingness to lend in all census tracts in its assessment area, including the moderate-income tracts in which it excels. Refer to Table 5 and Table 6, respectively, for the distribution of home mortgage and small business loans among the census tract income categories.

### Home Mortgage Lending

The table below shows the comparison of home mortgage loans by census tract with aggregate lending and the percentage of owner-occupied housing units in the assessment area.

Table 5 - Distribution of HMDA Loans by Census Tract Income Level								
Census Tract Income Level	% of Total Owner-Occupied Housing Units	2010 Aggregate Lending Percentage	2010 Bank Lending Data		2011 Bank Lending Data		Total Bank Lending Data	
			#	%	#	%	#	%
Moderate	6.4	5.4	29	14.9	31	17.3	60	16.1
Middle	52.2	43.4	141	72.7	133	74.3	274	73.4
Upper	41.4	51.2	24	12.4	15	8.4	39	10.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>194</b>	<b>100.0</b>	<b>179</b>	<b>100.0</b>	<b>373</b>	<b>100.0</b>

Source: HMDA LAR for 2010 and 2011, 2010 aggregate data, and 2000 U.S. Census.

As shown in the table above, the Bank outperformed the 2010 aggregate data within both moderate- and middle-income tracts. The Bank originated 14.9 percent of home mortgage loans in moderate-income tracts, significantly outperforming the aggregate. The Bank also originated a higher percentage of home mortgage loans in moderate- and middle-income tracts in comparison to the demographic data for each tract. In 2011, the Bank originated 17.3 percent of home mortgage loans within moderate-income tracts, maintaining its excellent performance in this criterion.

The Bank was ranked 10<sup>th</sup> out of 132 mortgage originators in the assessment area for 2010 in lending to moderate-income census tracts. The Bank's market share was 2.5 percent, trailing only large national and regional mortgage originators such as Bank of America, JPMorgan Chase, and Wells Fargo.

### Small Business Lending

Table 6 illustrates the distribution of small business loans by income category of the census tract.

Table 6 - Distribution of Small Business Loans by Census Tract Income Level			
Census Tract Income Level	2010 Bank Lending Data	2011 Bank Lending Data	Percent of Business
Moderate	16.2	28.5	8.1
Middle	67.6	65.7	51.0
Upper	16.2	5.8	40.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Bank Records – Small Business Data (2010 and 2011); D&B 2010 Business Geodemographic Data

The Bank's small business lending in moderate-income tracts exceeded the percentage of businesses in moderate-income tracts according to the geodemographic data. The Bank also exceeded the demographic data in small business lending in 2011 by an even great margin.

#### 4. DISTRIBUTION OF CREDIT AMONG BORROWERS OF DIFFERENT INCOME LEVELS AND BUSINESSES OF DIFFERENT SIZES

The distribution of loans by borrower income levels and businesses' gross annual revenues (GAR) was reviewed to determine the extent to which the Bank is addressing the credit needs of the area residents and small businesses. The Bank achieved an excellent penetration of loans among borrowers of different income levels and businesses of different revenues based on comparison with the area's demographic data or aggregate lending data.

##### *Home Mortgage Lending*

Home mortgage lending data was reviewed to assess how well the Bank is addressing the credit needs of its assessment area residents. Emphasis was placed on the Bank's record of lending to low- and moderate-income borrowers. As depicted in Table 7, the Bank's performance reflects excellent penetration among individuals of different income levels (including low- and moderate-income) given the product lines offered by the Bank.

Table 7 - Distribution of HMDA Loans by Borrower Income								
Borrower Income Level	Family Distribution by Income Level	2010 Aggregate Lending Percentage	2010 Bank Lending Data		2011 Bank Lending Data		Total Bank Lending Data	
			#	%	#	%	#	%
<b>Low</b>	15.9	2.2	18	9.8	27	15.6	45	12.6
<b>Moderate</b>	16.4	11.6	48	26.1	33	19.1	81	22.7
<b>Middle</b>	21.0	25.1	39	21.2	38	22.0	77	21.6
<b>Upper</b>	46.7	61.1	79	42.9	75	43.3	154	43.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>184</b>	<b>100.0</b>	<b>173</b>	<b>100.0</b>	<b>357</b>	<b>100.0</b>

*Source: HMDA LAR for 2010 and 2011, 2010 aggregate data, and 2000 U.S. Census.*

The distribution of borrowers reflects, given the demographics of the assessment area, excellent penetration among individuals of different income levels. In 2010, the Bank's lending to low- and moderate-income borrowers far exceeded the performance of the aggregate. In 2011, the Bank's home mortgage originations to low- and moderate-income borrowers continued to reflect excellent performance in this criterion. For both years, the Bank's lending was also representative of the area's demographics, with the exception of low-income families. As a subset of this group, is families below the poverty level, and with the relative high price of housing in the assessment area, parity with demographics in this designation is not expected.

The Bank was ranked 9<sup>th</sup> out of 167 mortgage originators in the assessment area in 2010 in lending to low-and moderate income borrowers. The Bank's market share was 2.7 percent, trailing only large national and regional mortgage originators such as Bank of America, Sovereign Bank, and RBS Citizens.

In the previous evaluation, it was explained that the Borrower Profile data was likely influenced by the Bank’s propensity to record only rental income as the source of income on the HMDA-LAR. Although acceptable from a regulatory standpoint, this practice can skew the data in the Bank’s favor as it could give the appearance of making home mortgage loans to low- and moderate-income borrowers when in reality the borrowers may have other sources of income such as a regular salary not related to an investment property. Despite operating in an affluent assessment area, this practice could still have an influence on the data since 41 percent of the households in the assessment area are rental units. When discussed with Bank management during the current evaluation, this practice was acknowledged, but it was reported that even through rental cash flow is still part of the underwriting decision, there has been an earnest attempt to record the entire income relied upon in making the credit decision in the HMDA-LAR.

*Small Business Lending*

Table 8 illustrates the Bank’s small business lending to businesses with less than \$1 million in GAR.

<b>Table 8- Distribution of Small Business Loans by Gross Annual Revenue</b>			
<b># of Bank Loans</b>		<b>Business with Revenues of \$1 million of less</b>	
		<b>Percent of Bank Loans</b>	<b>Percent of Businesses in AA</b>
2010	12	32.4	75.9
2011	11	31.4	

*Source: Bank Records – 2010 and 2011 Small Business Data, D&B 2010 Business Geodemographic Data*

According to 2010 business demographic data, 75.9 percent of businesses within the assessment area had gross annual revenues of \$1 million of less. In 2010, the Bank originated 12 loans, or 32.4 percent of its loans to businesses with revenues \$1 million or less in the assessment area. Although this percentage is lower than the percentage of businesses of this category, this is expected. Smaller businesses frequently use business credit cards issued by large national banks to meet their credit needs. Although comparison to aggregate information is not utilized for non-reporting lenders, the Bank’s performance would compare favorably to the aggregate’s performance with regard to distribution. Bank management indicated that during this time period, approximately half of the small business loans were for larger companies primarily for new vehicles. The remaining loans were renewals for lines of credit by businesses with long standing relationships with the Bank. The 2011 performance was consistent with 2010.

**5. RESPONSE TO CRA COMPLAINTS AND COMPLIANCE WITH FAIR LENDING LAWS**

The Bank has not received any CRA-related complaints during the evaluation period. As a result, this performance criterion is not applicable.

The Division provides comments regarding the institution’s fair lending policies and procedures pursuant to Regulatory Bulletin 2.3-101.

Based upon the review of the Bank’s public comment file and its performance relative to fair lending policies and practices, no violations of the anti-discrimination laws and regulations were identified.

The Bank's fair lending data was reviewed to determine how this information relates to the guidelines established by Regulatory Bulletin 2.3-101, the Division's Community Reinvestment and Fair Lending Policy. The Bank incorporates reference to Fair Lending as part of its loan policies. Fair lending training is administered.

A review of residential loan applications was conducted in order to determine the number of HMDA-reportable credit applications the Bank received from minority applicants. For the period reviewed, Watertown Savings Bank received 31 HMDA-reportable mortgage applications from racial minority groups within its assessment area, of which 24 or 77.4 percent were originated.

The Bank's minority application flow for this period was compared with the racial and ethnic composition of the assessment area, and the 2010 aggregate data for all other HMDA reporters within the assessment area. According to the 2000 U.S. Census Data, the Bank's assessment area contained a total population of 242,624 individuals of which 14.2 percent are minorities. The assessment areas minority and ethnic population is 2.3 percent Black/African American; 6.4 percent Asian; 0.1 percent American Indian; 0.0 percent Hawaiian/Pacific Islander; 3.8 percent Hispanic or Latino and 1.6 percent other.

Refer to the following table for further details.

Minority Application Flow								
RACE	2010		2010 Aggregate		2011		Bank Total	
	#	%	#	%	#	%	#	%
American Indian/ Alaska Native	0	0.0	24	0.1	0	0.0	0	0.0
Asian	7	2.3	2,026	9.1	4	1.5	11	1.9
Black/ African American	2	0.6	133	0.6	1	0.4	3	0.5
Hawaiian/Pacific Islander	0	0.0	13	0.1	0	0.0	0	0.0
2 or More Minority Races	0	0.0	5	0.0	0	0.0	0	0.0
Joint Race (White/Minority)	7	2.3	458	2.1	3	1.1	10	1.7
<b>Total Minority</b>	<b>16</b>	<b>5.1</b>	<b>2,659</b>	<b>11.9</b>	<b>8</b>	<b>3.0</b>	<b>24</b>	<b>4.2</b>
White	276	88.8	14,673	65.6	239	90.9	515	89.7
Race Not Available	19	6.1	5,041	22.5	16	6.1	35	6.1
<b>Total</b>	<b>311</b>	<b>100.0</b>	<b>22,373</b>	<b>100.0</b>	<b>263</b>	<b>100.0</b>	<b>574</b>	<b>100.0</b>
<b>ETHNICITY</b>								
Hispanic or Latino	1	0.3	247	1.1	2	0.8	3	0.5
Not Hispanic or Latino	285	91.6	16,835	75.2	241	91.6	526	91.6
Joint (Hisp/Lat / Not Hisp/Lat)	2	0.6	219	1.0	2	0.8	4	0.7
Ethnicity Not Available	23	7.4	5,072	22.7	18	6.8	41	7.1
<b>Total</b>	<b>311</b>	<b>100.0</b>	<b>22,373</b>	<b>100.0</b>	<b>263</b>	<b>100.0</b>	<b>574</b>	<b>100.0</b>

The Bank's application flow is not comparable to the demographics of the assessment area of the performance of the aggregate.

## COMMUNITY DEVELOPMENT TEST

The Community Development Test considers the number and amount of community development loans, qualified investments, and community development services.

Community development activities considered for the Community Development Test include:

- (1) Affordable housing (including multifamily rental housing) for low- or moderate-income individuals;
- (2) Community services targeted to low-or moderate-income individuals;
- (3) Activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company Programs (13 CRF 121.301) or have gross annual revenues of \$1 million or less; or
- (4) Activities that revitalize or stabilize low-or moderate-income geographies.
- (5) Loans, investments, and services that support, enable, or facilitate Neighborhood Stabilization Program (NSP) eligible activities in designated target areas.

The Bank's community development performance demonstrates good responsiveness to the community development needs of its assessment area. The Bank has met these community development needs through the provision of loans, qualified grants and community development services.

### *Community Development Loans*

The Bank's community development lending activities are evaluated pursuant to the following criteria: (1) the extent to which community development lending opportunities have been made available to the bank; (2) the responsiveness of the Bank's community development lending; and (3) the extent of leadership the Bank has demonstrated in community development lending.

As defined by CRA regulation, a community development loan is defined as a loan that (1) has community development as its primary purpose; (2) has not already been reported by the Bank for consideration under small business or home mortgage lending (unless it is a multifamily dwelling loan); and (3) benefits the Bank's assessment area or a broader statewide or regional area that includes the Bank's assessment area.

The Bank made three community development loans during the review period totaling \$1,625,000, one with the purpose of affordable housing and two for physical improvements to an organization that provides community development services.

- On March 17, 2011, the Bank closed a new \$1,100,000 Commercial Real Estate Mortgage that provides permanent financing of an 18-unit affordable apartment project in Watertown.
- On March 22, 2010 the Bank closed a \$300,000 loan to a local non-profit organization whose mission is to inspire youth and especially those in need. The purpose of the loan was for a new roof and resurfacing of their pool.
- On September 27, 2010 the Bank closed an additional loan of \$225,000 to the organization mentioned above for improvements including gym and pool renovations, and purchasing a new van.

## Community Development Investments

A qualified community development investment for the purpose of this CRA evaluation is a lawful investment, deposit, membership share, or grant that has community development as its primary purpose. Between January 1, 2010 and June 4, 2012, Bank donations totaled \$692,282, of which \$464,214 or 67 percent were CRA qualified.

Table 9 - Community Development Investment by Category						
Category	2010		2011		2012	
Affordable Housing	8	\$5,410	12	\$13,425	4	\$5,560
Services	63	\$72,843	56	\$224,291	31	\$41,085
Revitalization or Stabilization	3	\$1,100	2	\$100,500	-	-
<b>Total</b>	<b>74</b>	<b>\$79,353</b>	<b>70</b>	<b>\$338,216</b>	<b>35</b>	<b>\$46,645</b>

Source: Bank donation data

Donations in 2010 totaled \$79,353, which represent 17.6 percent of the Bank's net operating income. In 2011, donations totaled \$338,216, which represents 4 percent of net operating income. Donations as a percentage of net operating income for 2012 was not calculated as the total donations above only represent partial year community development investments.

The following is a sample of organizations that received donations from the Bank:

**Arlington Housing Authority-** The Authority operates several housing assistance programs which provide direct housing in government-owned developments or subsidized housing in privately-owned dwellings for persons of low or very low income.

**Caritas Communities** –The leading provider of Single Room Occupancy (SRO) housing, Caritas owns and manages 28 houses, providing permanent affordable housing for over 750 men and women in Greater Boston. Residents are typically employed in service related jobs, earning at or near minimum wage, and are unable to afford market rate apartments in the Boston Area.

**Watertown Boys & Girls Club-** Their mission is to enable all young people, especially those from disadvantaged circumstances, to realize their full potential as productive, responsible and caring citizens.

**Friends of Project Literacy-** This program is aimed at new immigrants in the community to enable them to learn the language. They provide free evening classes taught by professional teachers and offer one-on-one or small group tutoring by volunteers. Project Literacy offers six ESL classes, weekly conversation groups, a citizenship class and a computer class.

**Waltham Alliance to Create Housing (WATCH)** – WATCH seeks to create a community in which all residents, including low and middle income people, immigrants and others who are traditionally disadvantaged or removed from existing power structures, have a voice and can influence decisions.

## *Community Development Services*

A community development service has community development as its primary purpose and is generally related to the provision of technical service. Bank officers and employees donate their time to many community organizations that meet the definition of community development by providing technical and financial expertise. The following represent some of the organizations in which Bank personnel are involved:

**Watertown Belmont Chamber of Commerce-** The mission of the Chamber is to develop, encourage, promote and advance Watertown and Belmont businesses, to promote civic interest and general welfare of the community, to procure laws and regulations desirable for the benefit of businesses and the community, and to provide a forum for the sentiments of business regarding matters affecting its interest and those of the community. The Vice President of Business Development is an Officer on the Executive Board.

**Watertown Community Foundation-** Its mission is to promote a strong, close-knit community by fostering connections, mutual respect, and support of those in need among Watertown's diverse residents. To achieve these goals, the Foundation expands opportunities for local charitable giving and supports non-profit activities that meet local needs, now and for future generations. The Bank's President is the Director.

**Watertown Housing Partnership-** Its mission is to promote and protect the housing needs of low and moderate income individuals. The Vice President of Lending has been a member of the Board since 2009.

**Central Congregational Church Legacy Trust-** The Trust provides support grants to various non-profit community development and support organizations within the Newton Community and surrounding areas with particular emphasis on youth and people in need. The Vice President of Security & Compliance is the Trustee.

## Educational Seminars and Programs

The Bank participates in community development services by offering financial literacy programs:

- In March 2012, the Vice President of Marketing gave a presentation to a group of teens who are transitioning out of the foster care system and adapting to life on their own. The presentation was about how to take control of your finances and included topics such as budgeting, understanding credit, the long-term financial benefits of educational attainment, debt management, and other major life costs such as car payments and housing expenses.
- The Bank runs a school banking program modeled after the Massachusetts State Treasurer's program "Savings Makes Cents." The Bank has established relationships at four local elementary schools. Each week, a Bank representative goes to the school to "set up the bank" so that students may make deposits into their account and ask any questions. The program encourages savings at a young age, teaches the children the importance of saving, and the responsibility of having their own bank account.

- In February 2011 and January 2012, two Bank employees conducted first-time homeownership classes in conjunction with Watertown Community Housing.
- In March 2012, the Bank's Senior Vice President & Chief Financial Officer gave a presentation to a local elementary school to teach students how a bank operates and the importance of math.

### Other Services

**IOLTA Accounts-** The Bank participates in the Interest on Lawyer's Trust Accounts (IOLTA). Interest earned on the account is utilized to help fund improvements in the delivery of legal services to low-income clients. The Bank contributed \$4,710 in 2010 and \$4,446 in 2011.

**Non-Profit Checking-** The Bank offers a totally free checking account for local, non-profit organizations based in Watertown, Waltham, Belmont, Newton, Arlington and Lexington. The account has no monthly service fee, no fee for deposits or deposited items and provided unlimited checks paid and checks deposited each month.

### Recognition

The Bank was awarded the 2012 Unity Award by World in Watertown. This is a civic organization founded to protect and promote non-discriminatory practices in Watertown. The Bank received this award due to its community investment through small business and home mortgage loans, support given to non-profit organizations, and for serving as a leader in the community who inspires other donors to support local organizations.

### **Retail Banking Services**

Watertown Savings Bank is headquartered at 60 Main Street in Watertown and currently operates 9 full-service banking offices in Massachusetts. The offices are located in Arlington, Belmont, Lexington, Waltham and Watertown (4 offices and the main office). Since the last evaluation, the Bank opened the Arlington branch in 2006 and the Lexington branch in 2008.

Refer to Table 10 for information concerning the geographic distribution of branches and ATMs by census tract income level in comparison with demographic data.

<b>Table 10</b>						
<b>Distribution of Branches and ATMs</b>						
<b>Census Tract Income</b>	<b>Percent of Tracts</b>	<b>Percent of Population</b>	<b>Branches</b>		<b>ATMs</b>	
			<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Moderate	11.5	10.4	6	66.7	6	50.0
Middle	51.9	51.2	1	11.1	3	25.0
Upper	36.6	35.4	2	22.2	3	25.0
Total	100.0	100.0	9	100.0	12	100.0

As illustrated in Table 10, the Bank's full service offices are located primarily in moderate-income census tracts. The geographic distribution of ATMs is similar to that of the branch offices, since all locations maintain an ATM. The Bank has three stand alone ATMs in Watertown, Waltham, and Belmont.

## APPENDIX *General Definitions*

### **GEOGRAPHY TERMS**

**Census Tract:** Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Metropolitan Area (MA):** One or more large population centers and adjacent communities that have a high degree of economic and social integration. Each MA must contain either a place with a minimum population of 50,000 of Census Bureau-defined urbanized area and a total MA population of at least 100,000 (75,000 in New England). An MA comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county. In New England, MAs are composed of cities and towns rather than whole counties.

**Metropolitan Statistical Area (MSA):** One or more metropolitan areas that have economic and social ties.

**Primary Metropolitan Statistical Area (PMSA):** A large urbanized county or cluster of counties that demonstrate very strong internal economic and social links, in addition to close ties to other portions of the larger area. If an area qualifies as an MA and has more than one million persons, PMSAs may be defined within it.

**Consolidated Metropolitan Statistical Area (CMSA):** The larger area of which PMSAs are component parts.

**Non-Metropolitan Area:** All areas outside of metropolitan areas. The definition of non-metropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan areas.

**Urban Area:** All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in: places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin) but excluding the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.

### **HOUSING TERMS**

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family which is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Housing Unit:** Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

## **INCOME TERMS**

**Median Income:** The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

**Area Median Income:** The median family income for the MSA, if a person or geography is located in an MSA; or the statewide non-metropolitan median family income, if a person or geography is located outside an MSA.

**Family Income:** Includes the income of all members of a family that are age 15 and older.

**Household Income:** Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household income is usually less than median family income.

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of geography.

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of geography.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of geography.

**Upper-Income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of geography.

**HUD Adjusted Income Data:** The U.S. Department of Housing and Urban Development (HUD) issues annual estimates which update median family income from the metropolitan and non-metropolitan areas. HUD starts with the most recent U.S. Census data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

## **OTHER TERMS**

**Home Mortgage Disclosure Loan Application Register (HMDA LAR):** The HMDA LARs record all applications received for residential purchase, refinance, home improvement and temporary-to-permanent construction loans.

**Small Business Loan:** A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

**Small Farm Loan:** A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

## **PERFORMANCE EVALUATION DISCLOSURE GUIDE**

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations, require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks at 60 Main Street, Watertown, MA 02172."

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agencies, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.