

PUBLIC DISCLOSURE

OCTOBER 14, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

ECONOMY CO-OPERATIVE BANK

26583

**6 WEST MAIN STREET
MERRIMAC, MA 01860**

**Division of Banks
One South Station
Boston, MA 02110**

**Federal Deposit Insurance Corporation
15 Braintree Hill Office Park
Braintree, MA 02184**

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 or the Federal Deposit Insurance Corporation 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") and the Federal Deposit Insurance Corporation ("FDIC") to use their authority when examining financial institutions subject to their 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 agencies 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 **ECONOMY CO-OPERATIVE BANK (or the "Bank")** prepared by the Division and the FDIC, the institution's supervisory agencies.

INSTITUTION'S CRA RATING:

This institution is rated "Satisfactory" by the Division and the FDIC.

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

The above rating is based on the following findings:

- The average net loan-to-deposit ratio (76.7 percent) is reasonable considering the institution's size and assessment area credit needs.
- A majority of the Bank's loans (57.4 percent) were originated within the assessment area.
- The distribution of home mortgage loans by borrower income reflects a reasonable penetration given the demographics of the assessment area. In 2006, the Bank's lending to low-income borrowers (7.7 percent) and moderate-income borrowers (15.4 percent) exceeded the aggregate.
- The Bank's geographic distribution of loans within the assessment area's one middle-income census tract is reasonable.
- The Bank's fair lending policies and procedures are considered satisfactory and the Bank has received no CRA related complaints.

SCOPE OF EXAMINATION

This CRA evaluation was performed utilizing the “small bank” performance criteria.

The Bank is primarily a residential lender, with residential 1-4 family residential real estate loans representing 92.9 percent of the Bank’s loan portfolio. Commercial real estate, commercial & industrial, and consumer loans represent, collectively, a small percentage of the Bank’s lending activity, and as a result, are not included in the evaluation. In addition, the Bank made no small farm loans during the evaluation period.

The evaluation considered home mortgage loans for 2006, 2007, and the first half of 2008. Please note, the year-to-date (YTD) 2008 data (through June 30, 2008) is not reflected in any of the tables. Because it has not reached the asset size threshold to report, the Bank is not a Home Mortgage Disclosure Act (“HMDA”) reporter. Therefore, loan information was obtained through Bank generated reports. Although the Bank is not a HMDA reporter, 2006 aggregate HMDA lending data is presented for comparison purposes. Please note that the 2006 aggregate data is the most recent year available. Unless otherwise noted, this evaluation references the number, rather than the total dollar amount, of loans, as one or two large loans could distort the overall performance. Additionally, unless otherwise noted, demographic data referenced was obtained from the 2000 U.S. Census.

PERFORMANCE CONTEXT

Description of Institution

Economy Co-operative Bank is a state-chartered bank. The Bank's sole office is located at 6 West Main Street in Merrimac, Massachusetts.

As of June 30, 2008, the Bank had total assets of \$23.2 million and total loans of \$17.8 million, or 76.6 percent of total assets. The Bank offers residential, consumer, and commercial loan products, with residential real estate lending, at 92.9 percent, representing the Bank's primary lending focus. Refer to Table 1 for further information regarding the Bank's loan portfolio.

Table 1 Loan Portfolio as of June 30, 2008		
Loan Type	Dollar Volume \$(000)	Percentage of Total Loans
Construction and Land Development	279	1.6
Closed-end 1-4 Family Residential First Lien	15,988	90.3
Closed-end 1-4 Family Residential Junior Lien	456	2.6
Commercial Real Estate	579	3.2
Commercial and Industrial Loans	34	0.2
Consumer Loans	498	2.8
Less: unearned income	(133)	(.7)
Total	17,701	100.0

SOURCE: June 30, 2008 Call Report

The Bank was last examined for CRA by the FDIC on August 19, 2003 and by the Division on February 8, 2005. Both examinations were conducted under the small bank procedures and assigned overall CRA ratings of "Satisfactory".

There appear to be no legal or significant financial impediments that limit or interfere with the Bank's ability to meet the credit needs of its assessment area (AA). It is noted that the Bank operates in a highly competitive environment. According to aggregate lending data, there were 110 lenders who originated or purchased home mortgage loans in the Bank's AA in 2006.

Description of Assessment Area

The CRA requires each financial institution to define an AA within which its CRA performance will be evaluated. An AA should consist of Metropolitan Statistical Areas (MSAs), Primary Metropolitan Statistical Areas (PMSAs), Metropolitan Divisions (MDs), or contiguous political subdivisions such as counties, cities, or towns. Further, an AA should not arbitrarily exclude any low- or moderate-income area(s) taking into account the institution's size and financial condition. The CRA requires a bank to designate one or more AAs within which its record of helping to meet the needs of its community will be evaluated.

The Bank identified its AA as the town of Merrimac. The town of Merrimac is located in the Peabody, MA (MD), formerly the Essex County MA (MD). The area contains only one middle-income census tract. The AA, as currently defined, meets the technical requirements of the regulation, as it includes whole geographies and does not arbitrarily exclude low- or moderate-income areas or expand beyond state boundaries.

The AA contains a total population of 6,138 individuals and 1,702 families. Based on 2000 U.S. Census data and updated figures from the U.S. Department of Housing and Urban Development (HUD) the median family income in the AA in 2007 was \$77,200. Of the total families in the AA, 14 percent are low-income, 20 percent are moderate-income, 22.5 percent are middle-income and 43.5 percent are upper-income. Additionally, 3.8 percent of families have incomes below the poverty level. The percentage of families with incomes below the poverty level can be an indicator of a reduced capacity to borrow, which can limit a financial institution's ability to lend.

The AA contains 2,295 housing units, of which 80.6 percent are owner-occupied, 16.7 percent are rental-occupied, and 2.7 percent are vacant. According to the 2000 U.S. Census data the median housing value in the AA was \$201,000. More recent data obtained from The Warren Group, publisher of *Banker & Tradesman*, indicated the median sales price in the AA has been declining after several years of increases. According to The Warren Group data, the median sales price in 2006 was \$335,000, but fell to \$316,000 in 2007 and \$310,000 in 2008.

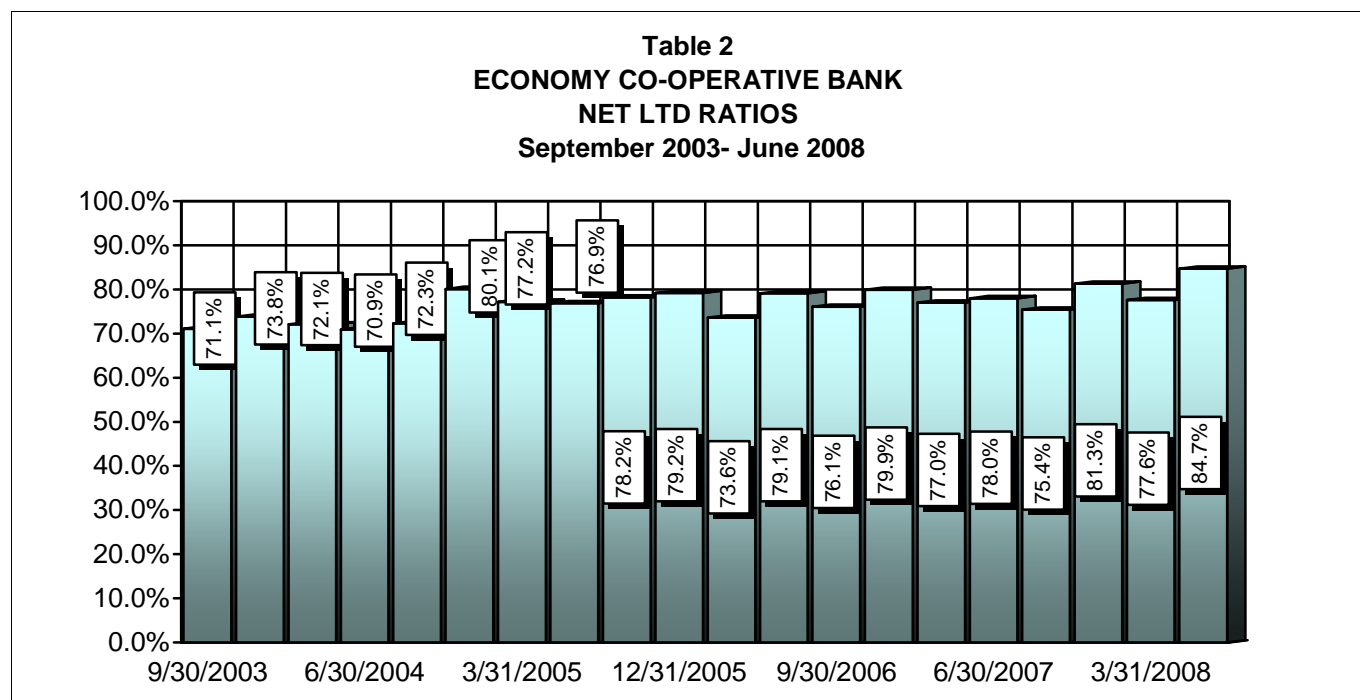
As previously mentioned the Bank operates in a competitive environment. Some of the top lenders in the area include Citimortgage, Inc.; Countrywide Home Loans; Washington Mutual; and Wells Fargo. These four financial institutions collectively account for 24 percent of the AA market share. In addition to these large, nationally based mortgage lenders, the Bank also faces local competition from Merrimac Savings Bank, Merrimac, Massachusetts and Institution for Savings, Newburyport, Massachusetts. Based on the Bank's small asset size and limited AA, there are no similarly situated banks in which to compare the Bank's overall performance.

PERFORMANCE CRITERIA

LOAN TO DEPOSIT ANALYSIS

This performance criterion determines what percentage of the Bank's deposits are reinvested in the form of loans.

The average loan to deposit (LTD) ratio since the previous FDIC evaluation on August 19, 2003, was calculated at 76.7 percent. The Bank's LTD ratio as of June 30, 2008, was calculated at 84.7 percent which was the highest ratio for the period. The lowest LTD ratio for this period was 70.9 percent, as of June 30, 2004. Table 2 depicts the net LTD ratios for each quarter under review.



As displayed, the Bank's LTD ratio fluctuated only slightly during the time period. Overall, the Bank's ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA

This performance criterion determines what percentage of the Bank's lending occurs within the assessment area. Table 3 contains specific information concerning the distribution of home mortgage loans inside and outside the assessment area.

Table 3										
Distribution of Home Mortgage Loans Inside and Outside of the Assessment Area										
Year	Number of Loans					Dollars in Loans \$(000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$(000)	%	\$(000)	%	
2006	13	61.9	8	38.1	21	1,043	49.2	1,078	50.8	\$2,121
2007	14	53.8	12	46.2	26	1,751	51.7	1,638	48.3	\$3,389
Total	27	57.4	20	42.6	47	2,794	50.7	2,716	49.3	\$5,510

Source: Bank generated reports

As displayed in Table 3, the Bank originated a majority of its loans, by number and dollar amount, within its AA, at 57.4 percent and 50.7 percent, respectively. Further analysis revealed that 61.9 percent of the Bank's home mortgage loans were originated inside the AA in 2006. While the percentage of loans inside the AA decreased to 53.8 percent in 2007, the total number of loans actually increased slightly. The decline in percentage is not a concern and is attributed to limited lending opportunities within the Bank's one-tract AA. Analysis by dollar amount noted a generally consistent performance, with a slight improvement from 2006 to 2007.

Although not reflected in Table 3, YTD lending data revealed that the Bank originated more loans during the first half of 2008 (29) than it had in either 2006 or 2007. Analysis of the data revealed that approximately 59 percent of the loans and 50 percent of the dollar amount were originated inside the AA.

Additional analysis of the Bank's home mortgage lending was also conducted by loan purpose. Of the 21 home mortgage loans originated in 2006, 12 were for the purpose of refinance, 7 were home improvement loans, and 2 were home purchase loans. Each of these categories had 50 percent or more within the AA, with home improvement loans achieving 85.7 percent inside the area.

In 2007, the Bank originated 7 home purchase loans, 11 refinance loans, and 8 home improvement loans. While 75 percent of the home improvement loans were originated inside the AA, both home purchase and refinance loans were less than 50 percent, at 43 percent and 46 percent, respectively. The YTD data revealed improved performance, with both home purchase loans and home improvement loans achieving percentages of 50 percent or greater inside the AA.

Given the competitive nature of the AA, combined with certain demographic constraints, including the cost of housing and the percentage of low- and moderate-income families, the Bank's ability to originate a majority of its loans inside the AA is reasonable.

DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS

The distribution of loans by borrower income was reviewed to determine the extent to which the Bank is addressing the credit needs of the area's residents, particularly low- and moderate-income individuals.

The borrowers' reported incomes for 2006, 2007 and YTD 2008 were compared to the median family incomes for the Peabody MA (MD). The income figures are based on median family income derived from data collected during the 2000 U.S. Census. The median income figures are adjusted annually by HUD to allow for factors such as inflation and other economic events.

Low-income is defined as income that is less than 50 percent of the area median income; moderate-income is defined as income that is at least 50 percent, but less than 80 percent of the area median income; middle-income is defined as income that is at least 80 percent, but less than 120 percent of the area median income; and upper-income is defined as income that is 120 percent or more of the area median income.

Table 4 breaks out the loans the Bank originated inside the assessment area in 2006 and 2007 categorized by the applicants' reported income in relation to the HUD-adjusted median family income for the Peabody, MA (MD) for the respective year. The table also presents the distribution of families by income level and the aggregate market data for 2006.

Table 4									
<i>Distribution of Home Mortgage Loans by Borrower Income</i>									
Median Family Income Level	% Families	Aggregate Lending Data 2006		2006		2007		Total	
		#	%	#	%	#	%	#	%
Low	14.0	12	2.7	1	7.7	1	7.1	2	7.4
Moderate	20.0	61	13.7	2	15.4	1	7.1	3	11.1
Middle	22.5	111	24.9	3	23.1	4	28.6	7	25.9
Upper	43.5	161	36.2	7	53.8	8	57.2	15	55.6
NA	--	100	22.5	--	--	--	--	--	--
Total	100.0	445	100.0	13	100.0	14	100.0	27	100.0

Source: Bank generated reports, 2006 aggregate lending data, 2000 U.S. Census data

As displayed above, the Bank's percentage of lending to low-income borrowers in 2006, at 7.7 percent, exceeded the aggregate percentage. As noted, the aggregate only originated 12 loans to low-income borrowers. Given the competition in the AA, the Bank's performance (7.7 percent) is quite good. The Bank's 2007 performance, to low-income borrowers, remained relatively consistent, both in terms of the number of loans originated and the percentage. In addition, YTD data revealed some improvement, with 2 loans and an increased percentage (11.8 percent).

The Bank's 2006 percentage to moderate-income borrowers again exceeded the aggregate percentage. However, the Bank's performance declined in 2007 and YTD data revealed no loans to moderate-income borrowers.

Analysis of the Bank's home mortgage lending, by loan purpose, revealed no home purchase loans to low- or moderate-income borrowers; however, the Bank's refinance and home improvement portfolios revealed consistent percentages to the Bank's overall performance.

Given the demographics of the area, including the cost of housing , the Bank's distribution of home mortgage loans by borrower income reflects a reasonable penetration.

GEOGRAPHIC DISTRIBUTION

The institution's assessment area contains no low- and moderate-income census tracts and is comprised exclusively of one middle-income tract.

An analysis of the Bank's performance within this tract revealed no concerns and an overall performance that was commensurate with the Bank's Satisfactory rating.

COMPLIANCE WITH ANTI-DISCRIMINATION LAWS AND REGULATIONS

A review was conducted for compliance with fair lending regulations, and no evidence of disparate treatment or impact was revealed.

APENDIX A
Fair Lending Policies and Procedures

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 Policy addresses the Bank's efforts to eliminate discrimination in all aspects of lending. All loan requests must be approved or denied by the Bank's Security Committee; in addition the Bank maintains a second review process for denied applications. The Bank provides annual fair lending training to the Board.

Based on the above, the institution meets the standards for satisfactory performance.

APPENDIX B 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 has 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 a 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 a 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 a 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 a 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 non-farm 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, and Part 345 of the Federal Deposit Insurance Corporation's Rules and Regulations, 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 and the Federal Deposit Insurance Corporation, at 6 West Main Street, Merrimac, MA 01860."

- 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.