

**PUBLIC DISCLOSURE**

**MAY 12, 2014**

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**HOMETOWN BANK**

**CERT #26523**

**31 SUTTON AVENUE**

**OXFORD, MA 01540**

**Division Of Banks**

**1000 Washington Street**

**Boston, MA 02118**

**Federal Deposit Insurance Corporation**

**350 Fifth Avenue, Suite 1200**

**New York, NY 10118**

**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 operations 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 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 **Hometown Bank (or the Bank)**, prepared by the Division and the FDIC, the institution's supervisory agencies as of May 12, 2014. The agencies evaluate performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. The Division rates the CRA performance of an institution consistent with the provisions set forth in Massachusetts Regulation 209 CMR 46.00. The FDIC rates the CRA performance institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345 of the FDIC's Rules and Regulations.

**INSTITUTION'S CRA RATING: This institution is rated Satisfactory.**

A CRA rating of "**Satisfactory**" is assigned. 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 Lending Test is rated: Satisfactory.**

- The loan-to-deposit (LTD) ratio is more than reasonable given the Bank's size, financial condition, and assessment area credit needs.
- Hometown Bank originated a majority of its loans within the assessment area.
- Considering demographics, aggregate data, and performance context factors, the geographic distribution of loans reflects excellent dispersion of home loans and a reasonable dispersion of small business loans throughout the assessment area.
- The distribution of borrowers reflects reasonable penetration of loans among retail customers of different income levels and businesses of different sizes.
- The Bank did not receive any complaints related to its CRA performance during the review period. Therefore, this performance factor did not affect the overall conclusions under the Lending Test.

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

- Hometown Bank demonstrated adequate responsiveness to the community development needs of its assessment area. The Bank met these community development needs through community development loans, qualified donations, and community development services.

## SCOPE OF EVALUATION

This evaluation assesses Hometown Bank's CRA performance using Intermediate Small Bank (ISB) Examination Procedures, as established by the Federal Financial Institutions Examination Council (FFIEC). These procedures include the Lending Test and the Community Development Test. The Lending Test analyzes the Bank's residential mortgage, small business, small farm, and consumer loans, as applicable, originated since the prior CRA Evaluation. The Community Development Test is an analysis of community development activities since the previous evaluation.

This evaluation focused on residential real estate and small business lending for the Lending Test because these types of loans represent the primary loan product lines offered by the Bank. The Bank's most recent Report of Condition and Income (Call Report), as of March 31, 2014, shows that residential real estate lending represents 65.5 percent and commercial lending represents 28.3 percent of the loan portfolio, respectively. Furthermore, residential real estate lending, followed by commercial lending, represented the majority of loan volume during the review period; therefore, the Bank's residential lending performance is weighed more heavily in arriving at overall conclusions and the Lending Test rating. Consumer loans and small farm loans are not presented in this evaluation, because consumer loans represent only 0.4 percent of the loan portfolio, and Hometown Bank did not originate any small farm loans during the evaluation period.

Residential mortgage lending data was derived from the bank's Loan Application Registers (LARs) reported pursuant to the Home Mortgage Disclosure Act (HMDA). The LARs contain information about home purchases, refinances, and home improvement loans of one-to-four family, and multi-family (five or more units) properties. While the tables within this evaluation display 2012 and 2013 residential real estate data, the primary focus of this evaluation is lending performance in 2012, which is the most recent year that aggregate lending data is available. The aggregate lending data is used for comparison purposes, and includes lending information from financial institutions that reported the origination or purchase of at least one loan within the bank's assessment area in 2012. Residential lending activity from 2013 was also analyzed to identify any significant trends or anomalies. The geographic distribution and the borrower profile criteria only consider loans made within the bank's assessment area.

As an ISB, Hometown is not required to collect and report its small business loan data and the bank has elected not to do so. Therefore, examiners used a sample of the bank's small business loans reported in 2012 and 2013. Small business loans include commercial real estate and commercial and industrial loans in origination amounts of \$1 million or less. The bank's small business lending activity was compared to pertinent Dun & Bradstreet (D&B) business demographic information. Small business lending aggregate data was not used, as the bank is not a reporter.

The Community Development (CD) Test considers the bank's activities of qualified community development loans originated, investments made, and services provided, since the prior evaluation dated March 16, 2009. The CD lending evaluation period covered activities between January 1, 2012 and May 12, 2014.

## PERFORMANCE CONTEXT

### Description of the Institution

Hometown Bank is a full-service thrift institution with its main office located at 31 Sutton Avenue, Oxford, Massachusetts. The Sutton Avenue location includes a banking office, the Bank's executive offices and its operations area. In addition to this office, the Bank also operates full-service branches in Athol, Auburn, Webster (2), Lancaster, and Sturbridge, Massachusetts. The branches in Athol and Lancaster were added in 2011 with the acquisition of Athol-Clinton Co-operative Bank. All branches have drive-up facilities and offer Saturday hours and 24-hour automated teller machine (ATM) access.

The Bank's Oxford office is located in a middle-income census tract as are the Auburn, Sturbridge, and the Webster (Gore Street) offices. The Athol and the Webster (Main Street) offices are located in moderate-income tracts, and the Lancaster office is in an upper-income tract.

As of March 31, 2014, the Bank reported total assets of \$372,131,000, total deposits of \$318,903,000, and total loans of \$314,079,000. Total assets increased approximately 83.2 percent since the last evaluation in March 2009. Total loans increased 80.2 percent during the same period and total deposits rose by 80.9 percent. According to management, the main reason for the increase was the acquisition of Athol-Clinton Co-operative Bank. Additional factors cited for the increase include the opening of a new branch office, which added significantly to the total deposits; participation in the *QwickRate* program of non-brokered certificates of deposit; the Bank's participation in the Commonwealth of Massachusetts' Small Business Banking Partnership program, under which the Bank received \$10 million in state deposits to increase small business lending; and additional staffing in the commercial lending area.

Table 1 details the distribution of the Bank's loans by loan type.

<b>Table 1 – Loan Portfolio Distribution as of March 31, 2014</b>		
<b>Loan Type</b>	<b>Dollar Amount \$(‘000s)</b>	<b>Percent of Total Loans</b>
Revolving, Open-end Loans Secured by 1-4 Family Residential Properties and Extended Under Lines of Credit	14,779	4.7
Closed-end Loans Secured by 1-4 Fam. Res. Properties: Secured by 1st Liens	162,125	51.6
Closed-end Loans Secured by 1-4 Fam. Res. Properties: Secured by Jr. Liens	16,590	5.3
Secured by Multi-Family (5 or more) Residential Properties	12,151	3.9
<b>Total Residential Real Estate Loans</b>	<b>205,645</b>	<b>65.5</b>
Construction, Land Development, and Other Land Loans	18,326	5.8
Secured by Farmland (Including Farm Residential and Other Improvements)	0	0.0
Secured by Nonfarm Nonresidential Properties	76,687	24.4
<b>Total Real Estate Loans</b>	<b>300,658</b>	<b>95.7</b>
Loans to Finance Agricultural Production and Other Loans to Farmers	0	0.0
Commercial and Industrial	12,277	3.9
Consumer Loans	1,144	0.4
Loans to nondepository financial institutions and other loans	0	0.0
<b>Total Loans</b>	<b>314,079</b>	<b>100.0</b>

Source: March 31, 2014 Call Report.

As Table 1 demonstrates, the Bank is primarily a residential lender with 65.5 percent of total loans secured by residential real estate. Approximately four percent of this is secured by multi-family properties. Non-farm, non-residential real estate secured loans account for another 24.4 percent. Commercial and industrial loans and consumer loans represent only 3.9 percent and 0.4 percent, respectively. The Bank has not made any agricultural loans.

Hometown Bank offers a complete array of lending and deposit products. Loan products include residential mortgages, home equity loans and lines of credit, and consumer loans, commercial real estate loans, lines of credit, and Small Business Administration (SBA) loans. Deposit products include a range of personal and business checking and savings accounts. In addition, the Bank offers online and mobile banking for individuals and businesses.

In April 2011, Hometown Bank completed a merger with Athol-Clinton Co-operative Bank, an \$81.1 million institution located in Athol, Massachusetts. Athol-Clinton Co-operative Bank was primarily a residential lender and maintained offices in Athol and Lancaster, Massachusetts.

The FDIC last evaluated the Bank's CRA performance on March 16, 2009 and assigned a rating of "Satisfactory." There are no financial or legal impediments that would prevent Hometown Bank from fulfilling its CRA responsibilities.

### **Description of the Assessment Area**

The CRA requires financial institutions to define an assessment area or areas within which the bank will concentrate its CRA activity and lending efforts. The FDIC and Division evaluate the institution's CRA performance based on these assessment areas. Based upon the locations of the branch offices, the Bank has designated a single assessment area, which includes three non-contiguous areas composed of towns in Worcester and Franklin Counties. The designated towns in Worcester County include Oxford, Auburn, Athol, Charlton, Dudley, Southbridge, Sturbridge, Webster, Clinton and Lancaster. The town of Orange is designated in Franklin County. The Bank's assessment area was established in accordance with the technical requirements of the CRA regulation.

The assessment area contains 31 census tracts (1 low-income tract, 13 moderate-income tracts, 14 middle-income tracts, and 3 upper-income tracts). The low-income tract is located in Southbridge; the moderate-income tracts are located in Southbridge (3), Webster (3), Athol (3), Clinton (2), Auburn (1), and Orange (1); and the three upper-income tracts are located in Clinton, Sturbridge, and Lancaster. Although the low- and moderate-income tracts account for 45.2 percent of the total tracts in the assessment area, they contain only 27.9 percent of the owner-occupied housing units. In April 2014, management added the Towns of Charlton and Southbridge to the assessment area. The towns, which are contiguous to Sturbridge, Dudley, and Oxford, accounted for 7.9 percent of total home mortgage originations in 2013. The only low-income census tract in the assessment area is located in Southbridge as are three of the 13 moderate-income tracts.

Demographic information from the 2010 U.S. Census data regarding the assessment area is provided in Table 2.

<b>Table 2– Assessment Area Demographic Information</b>					
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low</b>	<b>Moderate</b>	<b>Middle</b>	<b>Upper</b>
		<b>% of #</b>	<b>% of #</b>	<b>% of #</b>	<b>% of #</b>
Geographies (Census Tracts)	31	3.2	41.9	45.2	9.7
Population by Geography	138,106	1.7	31.9	49.6	16.8
Owner-Occupied Housing by Geography	37,819	0.5	27.4	55.3	16.8
Businesses by Geography (2012)	11,184	1.3	30.8	52.1	15.8
Businesses by Geography (2013)	10,208	1.4	30.1	52.5	16.0
Distribution of Families by Income Level	36,147	22.3	19.3	24.1	34.3
<b>Median Family Income</b>		\$74,212	<b>Median Housing Value</b>	264,668	
<b>FFIEC Adjusted Median Family Income for 2013</b>		\$74,047	<b>Unemployment Rate</b>	7.5%	
<b>Households Below Poverty Level</b>		9.7%	<b>(Worcester County 4thQ 2013 Bureau of Labor Statistics)</b>		

Source: 2010 U.S. Census, FFIEC updated MFI, 2012 and 2013 D&B business data.

## Population and Families

The 2010 U.S. Census data indicates that the assessment area has a population of 138,106. There are 36,147 families, of which 41.6 percent are low- or moderate- income, and 9.7 percent are below the poverty level. The median family income for the assessment area is \$74,212 based on 2010 Census data; this is below the median family income of \$82,190 for the Worcester, MA Metropolitan Statistical Area (MSA).

## Housing

According to the 2010 U.S. Census data, there are 58,766 housing units in the assessment area, of which 64.4 percent are owner-occupied, 27.1 percent are occupied rental units, and 8.5 percent are vacant. Single-family and multi-family housing permits have increased in 2012 and 2013, but showed a slight drop in the first quarter of 2014. Owner-occupied housing units in the assessment area's sole low-income tract represent less than one percent of total owner-occupied units in the assessment area.

## Small Businesses

The Dun & Bradstreet business demographic data indicates that the number of businesses in the assessment area decreased from 2012 to 2013, with a drop of 11,184 to 10,208. The distribution of the businesses located in low- and moderate-income census tracts has remained relatively steady. Demographic data also shows that only 1.3 percent of small businesses were located in the assessment area's only low-income tract. This would effectively limit lending to businesses in such tracts. By contrast, 30.8 percent are located in moderate-income tracts providing a much higher level of opportunity for lending.

The 2012 data showed that 72.2 percent of businesses had gross annual revenues (GARs) of \$1 million or less. This changed only slightly in 2013 to 72.7 percent. The highest percentages of businesses for both years (approximately 43 percent) were engaged in service related industries followed by retail and construction related industries. Approximately 79 percent of businesses have fewer than 20 employees.



## **Competition**

Hometown Bank faces a high level of competition for residential and commercial loans from numerous other banks, mortgage and finance companies, savings and loan associations, and credit unions operating within the assessment area. In 2012, out of the 246 financial institutions that reported originating one or more residential loans in the assessment area, Hometown Bank ranked third with a market share of 3.9 percent. The two banks ranked higher were Wells Fargo Bank, N.A. with a market share of 5.8 percent and Savers Co-operative Bank with a market share of 4.0 percent.

## **Community Contact**

As part of the evaluation process, third parties active in the assessment area are contacted to assist in assessing the credit and community development needs of the community. The information obtained helps to determine whether local financial institutions are responsive to the credit and community development needs of the communities, and what credit and community development opportunities, if any, are available.

A community contact was conducted with an organization that provides economic development services, promotes local healthcare, and supports low- and moderate-income youth and families in the North Quabbin region. The contact stated that the community needs to invest more in attracting businesses to the region. Furthermore, the area had been hit hard by the foreclosure crisis, and many families have been pushed into the rental market.

Overall, the contact was pleased with local financial institutions' involvement with the community. The contact did suggest that there was a need for more financial literacy courses for low and moderate-income individuals to promote financial independence.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

### LENDING TEST

#### Loan to Deposit (LTD) Ratio

This performance criterion determines what percentage of the bank's deposit base is reinvested in the form of loans. Hometown Bank's average net LTD ratio over the evaluation period is more than reasonable at 97.2 percent, given the Bank's size, financial condition, and assessment area credit needs. The average net LTD ratio was calculated using Call Report data from the previous 20 quarters from March 31, 2009, to December 31, 2013.

Hometown Bank's net LTD ratio as of December 31, 2013 is 97.5 percent. During the evaluation period, the quarterly ratio ranged from a low of 90.1 percent on June 30, 2009 to a high of 101.8 percent on September 30, 2012.

The Bank's average net LTD ratio was compared to two other banks of similar asset size and loan portfolio composition, and which operate within a similar geographic area. As shown in Table 3, Hometown's average net LTD ratio was situated in the middle of the range between the ratios of the other two institutions.

Table 3 – Peer Group Loan-to-Deposit Comparison		
Bank Name	Total Assets \$(‘000s) as of 12/31/13	Average Net LTD Ratio
		3/31/09 – 12/31/13
Savers Cooperative Bank	426,512	94.7
<b>Hometown Bank</b>	<b>364,798</b>	<b>97.2</b>
Southbridge Savings Bank	439,771	104.6

Source: March 31, 2009 – December 31, 2013, Call Reports.

Hometown's LTD ratio does not reflect the volume of loans the Bank has sold on the secondary market. Since January 1, 2010, the Bank has sold 277 loans totaling \$48.0 million. For the years 2012 and 2013, loan sales represented approximately 22.7 percent by number, and 22.0 percent by dollar of the total originations.

#### Assessment Area Concentration

This performance criterion determines what percentage of the Bank's lending occurred within the assessment area. The Bank originated a majority of its home mortgages and small business loans, by number and dollar volume, inside its assessment area in 2012 and 2013.

Hometown originated 59.9 percent of its home mortgage and small business loans by number, and 55.6 percent by dollar amount within the assessment area during the evaluation period.

Table 4 illustrates the distribution of home mortgage and small business loans originated inside and outside the assessment area in 2012 and 2013.

<b>Table 4 - Distribution of Loans Inside and Outside of Assessment Area</b>										
<b>Loan Category or Type</b>	<b>Number of Loans</b>					<b>Dollar Volume</b>				
	<b>Inside</b>		<b>Outside</b>		<b>Total</b>	<b>Inside</b>		<b>Outside</b>		<b>Total</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$(‘000s)</b>	<b>%</b>	<b>\$(‘000s)</b>	<b>%</b>	
<b>Home Loans</b>										
<b>2012</b>										
Home Purchase	56	57.7	41	42.3	97	9,203	52.2	8,426	47.8	17,629
Refinance	95	62.9	56	37.1	151	16,537	61.6	10,296	38.4	26,833
Home Improvement	35	60.3	23	39.7	58	3,625	55.0	2,968	45.0	6,593
<b>Subtotal</b>	<b>186</b>	<b>60.8</b>	<b>120</b>	<b>39.2</b>	<b>306</b>	<b>29,365</b>	<b>57.5</b>	<b>21,690</b>	<b>42.5</b>	<b>51,055</b>
<b>2013</b>										
Home Purchase	62	51.7	58	48.3	120	10,906	53.3	9,574	46.7	20,480
Refinance	84	66.7	42	33.3	126	13,475	61.0	8,627	39.0	22,102
Home Improvement	23	52.3	21	47.7	44	2,115	33.8	4,142	66.2	6,257
<b>Subtotal</b>	<b>169</b>	<b>58.3</b>	<b>121</b>	<b>41.7</b>	<b>290</b>	<b>26,496</b>	<b>54.3</b>	<b>22,343</b>	<b>45.7</b>	<b>48,839</b>
<b>Total Home Loan</b>	<b>355</b>	<b>59.6</b>	<b>241</b>	<b>40.4</b>	<b>596</b>	<b>55,861</b>	<b>55.9</b>	<b>44,033</b>	<b>44.1</b>	<b>99,894</b>
<b>Small Business Loans</b>										
2012	14	56.0	11	44.0	25	1,536	43.9	1,961	56.1	3,497
2013	17	73.9	6	26.1	23	1,866	59.5	1,269	40.5	3,135
<b>Total Small Business</b>	<b>31</b>	<b>64.6</b>	<b>17</b>	<b>35.4</b>	<b>48</b>	<b>3,402</b>	<b>51.3</b>	<b>3,230</b>	<b>48.7</b>	<b>6,632</b>
<b>Grand Total</b>	<b>386</b>	<b>59.9</b>	<b>258</b>	<b>40.1</b>	<b>644</b>	<b>59,263</b>	<b>55.6</b>	<b>47,263</b>	<b>44.4</b>	<b>106,526</b>

Source: HMDA LARs for 2012 and 2013; bank records of small business loans.

In 2012, Hometown Bank originated 60.8 percent of its home loans inside the assessment area. Although the percentage of loans was similar for each type of loan reported, the actual number of refinances was significantly higher than either home purchase or home improvement loans. The larger number of refinance loans is generally attributed to the low interest rate environment. In 2013, both the number and percentage of loans inside the assessment area decreased as overall loan volume dropped. According to management, this was in line with national lending trends.

Small business lending in the assessment area was similar in 2012 based on sampling. However, the percent of lending inside the assessment area increased from 56.0 percent in 2012 to 73.9 percent in 2013.

### Geographic Distribution

The geographic distribution of loans was reviewed to determine how well Hometown Bank has addressed credit needs throughout the assessment area, particularly in low- and moderate-income geographies. Considering demographics, aggregate data, and performance context factors, the geographic distribution of loans reflects excellent dispersion of home loans and a reasonable dispersion of small business loans throughout the assessment area. The following sections discuss the Bank’s performance under this criterion by loan type.

## Residential Lending

Hometown demonstrated an excellent distribution of residential loans throughout the assessment area in 2012 and 2013. Table 5 depicts the geographic distribution of home mortgages by tract income level, and compares the Bank's lending to applicable demographic and aggregate data.

<b>Table 5 - Distribution of Home Mortgage Loans by Census Tract Income Level</b>						
<b>Census Tract Income Level</b>	<b>% of Total Owner-Occupied Housing Units (2010 Census)</b>	<b>2012 Aggregate Lending Data (% of #)</b>	<b>Bank 2012</b>		<b>Bank 2013</b>	
			<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	0.5	0.3	0	0.0	1	0.6
<b>Moderate</b>	27.4	20.3	55	29.6	62	36.7
<b>Middle</b>	55.3	55.4	110	59.1	95	56.2
<b>Upper</b>	16.8	24.0	21	11.3	11	6.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>186</b>	<b>100.0</b>	<b>169</b>	<b>100.0</b>

*Source: 2012 and 2013 HMDA Data; 2010 US Census Data; 2012 Aggregate Data*

In 2012, Hometown Bank made no loans in low-income tracts. While this was slightly below aggregate lending data, it must be noted that the assessment area contains only one low-income tract and that tract contains less than 1.0 percent of the total owner occupied housing units in the assessment area. Opportunities for lending are very limited, and are corroborated by the low level of demand demonstrated by the aggregate data.

The Bank originated 29.6 percent of its total home loans in moderate-income tracts in 2012. This exceeded demographic data and significantly exceeded aggregate performance. According to aggregate data, in 2012, Hometown Bank ranked second in lending in moderate-income tracts with 55 originated home loans. The Bank was slightly behind Wells Fargo Bank, N.A., which originated 58 loans and tied with Workers Credit Union, both of which are significantly larger than Hometown Bank.

In 2013, Hometown Bank originated one loan, which represented 0.6 percent of total lending in the assessment area. This was consistent with demographics. In addition, the Bank originated 36.7 percent of home loans in moderate-income tracts, which significantly exceeded demographics. This increase in distribution occurred even though the total number of home loan originations dropped by 9.1 percent.

## Small Business Lending

Table 6 compares the distribution of small business loans by census tract income level to the distribution of businesses by census tract income level. Considering demographics and other performance context factors, Hometown Bank demonstrated a reasonable dispersion of small business loans throughout the assessment area.

<b>Table 6 - Distribution of Small Business Loans by Census Tract Income Level</b>						
<b>Census Tract Income Level</b>	<b>% of Total Businesses 2012</b>	<b>% of Total Businesses 2013</b>	<b>Bank Loans 2012</b>		<b>Bank Loans 2013</b>	
			<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	1.3	1.4	0	0.0	0	0.0
<b>Moderate</b>	30.8	30.1	4	28.6	4	23.5
<b>Middle</b>	52.0	52.5	9	64.3	12	70.6
<b>Upper</b>	15.9	16.0	1	7.1	1	5.9
<b>Total</b>	100.0	100.0	14	100.0	17	100.0

*Source: Bank Records; D&B 2012 and 2013 Business demographic Data.*

In 2012, out of a sample of 25 loans, 14 loans were originated inside the assessment area. Of these, none were in low-income tracts, and four were in moderate-income tracts. However, only 1.4 percent of businesses are located in the low-income tract, which suggests very limited opportunity for small business lending in this tract. Lending performance in moderate-income tracts, while significantly higher, was still somewhat below the percent of total business in such tracts.

The distribution of small business loans was consistent from 2012 to 2013. The Bank originated 17 of the 23 loans sampled within the assessment area; of these, no loans were originated in low-income tracts. However, the Bank originated four loans in moderate-income tracts. Again, Hometown's lending was below the percent of businesses in the moderate-income tracts. The bulk of small business lending by the bank was focused in middle-income tracts, which is reflective of the location of the majority of businesses both years.

### **Borrower Profile**

The distribution of loans by borrower income level and business revenues was reviewed to determine Hometown Bank's level of addressing area credit needs, with the largest emphasis on low- and moderate-income borrowers and businesses with GARs of \$1 million or less. The distribution of borrowers, given the demographics of the assessment area, reflects reasonable penetration of loans among retail customers of different income levels and businesses of different sizes. The following sections discuss the Bank's performance under this criterion by loan type.

#### *Residential Lending*

The distribution of home mortgage loans by borrower income level reflects reasonable penetration of loans to borrowers of different income levels, particularly those of low- and moderate-income. Table 7 shows the distribution of residential mortgages by borrower income level within the assessment area, and includes 2012 aggregate data and the distribution of families by income level for comparison purposes.

Table 7 – Distribution of Home Mortgage Loans by Borrower Income Level						
Income Level	% of Total Families - 2010 Census	2012 Aggregate Lending Data (% of #)	Bank 2012		Bank 2013	
			#	%	#	%
Low	22.3	10.3	26	14.0	14	8.3
Moderate	19.3	21.8	53	28.5	30	17.7
Middle	24.1	27.2	40	21.5	48	28.4
Upper	34.3	34.6	49	26.3	50	29.6
N/A		6.1	18	9.7	27	16.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>186</b>	<b>100.0</b>	<b>169</b>	<b>100.0</b>

Source: 2012 and 2013 HMDA Data, 2010 U.S. Census Data; 2012 Aggregate Data

In 2012, Hometown Bank originated 14.0 percent of its home mortgage loans to low-income borrowers. While Hometown’s lending was below demographic data, it was above aggregate lending levels. The Bank ranked second in market share in the assessment area to borrowers in this income category, slightly behind a much larger federal credit union, which had originated only one more loan.

In lending to moderate-income borrowers, the Bank significantly exceeded both demographic and aggregate data with 28.5 percent of its loans. Hometown Bank ranked second behind Wells Fargo Bank, N.A., a much larger national lender, with a market share of 5.1 percent, slightly below Wells Fargo’s market share of 5.8 percent.

In 2013, the Bank’s lending to low-income borrowers represented 8.3 percent of total lending. This was a significant drop from 2012, and a similar drop was also noted in lending to moderate-income borrowers, which fell to 17.7 percent. Lending to middle- and upper-income borrowers either remained steady or increased, although the overall volume of home loan originations dropped 9.1 percent from the prior year’s level.

#### Small Business Lending

The distribution of small business loans reflects reasonable penetration among businesses of different sizes, particularly those with GARs of \$1 million or less. Table 8 provides information regarding the distribution of small business loans by GAR level as compared to business demographic data.

Table 8 - Distribution of Small Business Loans by Revenues						
GARs \$(000s)	% of Total Businesses (2012)	Bank 2012		% of Total Businesses (2013)	Bank 2013	
		#	%		#	%
≤ \$1,000	72.2	9	64.3	72.7	13	76.5
> \$1,000	4.4	4	28.6	4.7	4	23.5
Not Reported	23.4	1	7.1	22.6	0	0.0
<b>Total</b>	<b>100.0</b>	<b>14</b>	<b>100.0</b>	<b>100.0</b>	<b>17</b>	<b>100.0</b>

Source: Bank Records; D&B 2012 and 2013 Business Geodemographic Data.

In 2012, based on the sample of loans selected, the Bank's performance was below the percent of businesses reporting GARs of \$1 million or less. However, in 2013, the lending in this category increased significantly to 76.5 percent, above the 72.7 percent of businesses reporting such revenues.

### **Response to Complaints**

Hometown Bank did not receive any CRA-related complaints during the evaluation period.

### **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

Hometown Bank's compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit opportunity Act. No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

### **COMMUNITY DEVELOPMENT TEST**

Hometown Bank's community development performance demonstrates adequate responsiveness to community development needs in its assessment area through community development loans, qualified investments, and community development services, as appropriate, considering Hometown Bank's capacity and the need and availability of such opportunities for community development in the assessment area. Through discussions with Bank management and the community contact, it was determined that a relatively high level of community development opportunities exist within the Bank's assessment area or broader regional area.

#### ***Community Development Loans***

For purposes of this evaluation, 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.

During the evaluation period, the Bank originated five community development loans totaling \$2,434,500. This equates to 0.8 percent of net loans as of March 31, 2014. Each community development loan was made just outside the assessment area in the City of Worcester. However, since the Bank was responsive to community development needs within the assessment area through community development investments and services, these loans received credit. Worcester is within the broader regional area and has significant community development needs and opportunities. Summarized in Table 9 are the community development loans by community development category and year originated.

<b>Table 9 - Community Development Loans</b>						
Community Development Category	2012		2013		2014	
	#	\$	#	\$	#	\$
Affordable Housing for LMI	1	637,500	2	1,279,500	2	517,500
Community Services Targeted to LMI	0	0	0	0	0	0
Promote Economic Development	0	0	0	0	0	0
Revitalize LMI geographies	0	0	0	0	0	0
<b>Total</b>	<b>1</b>	<b>637,500</b>	<b>2</b>	<b>1,279,500</b>	<b>2</b>	<b>517,500</b>

Source: Internal bank records

A representative summary of community development loans made since the previous FDIC CRA evaluation within broader regional area including the assessment area is detailed below. Fair Market Rents are set by the Office of Management and Budget and HUD, and the information is updated annually.

- In 2012, the Bank originated a \$637,500 loan secured by two 9-unit rental properties located on Boyden and Joyce Streets in Worcester. When the loan closed, all 18 of the rental units were below fair market value rents, and three of the units are rented as Section 8 housing.
- In 2013, the Bank originated a \$708,000 loan secured by three six unit rental properties located on Charlton Street in Worcester. When the loan closed, all 18 of the rental units were below fair market value rents.
- In 2014, the Bank originated a \$222,500 loan secured by a 6-unit rental property located on Lincoln Street in Worcester. When the loan closed, all six of the rental units were below fair market value rents, and two of the units are rented as Section 8 housing.
- In 2014, the Bank originated a \$295,000 loan secured by two 6-unit rental properties located on Poplar and Lincoln Streets in Worcester. When the loan closed, all 12 of the rental units were below fair market value rents and one of the units is rented as Section 8 housing.

### ***Community Development Investments***

A qualified investment for purposes of this CRA evaluation is a lawful investment, deposit, donation, or grant that has community development as its primary purpose. During the evaluation period, the Bank made \$66,296 in qualified donations.

From March 16, 2009 to December 31, 2009, the Bank made \$7,769 in qualified donations. In 2010, the Bank made \$9,803 in qualified donations, 0.25 percent of pre-tax net operating income that year. In 2011, the Bank made \$13,907 in qualified donations, representing 0.27 percent of pre-tax net operating income. In 2012, Hometown Bank made \$17,297 in qualified donations, representing 0.39 percent of pre-tax net operating income that year. In 2013, the Bank made \$15,362 in qualified donations, representing 0.28 percent of pre-tax net operating income that year. From January 1, 2014 to May 12, 2014, the Bank made \$2,158 in qualified donations. Table 10 illustrates the Bank's community development donations by year and by purpose.



<b>Table 10 - Community Development Grants and Donations</b>						
<b>Activity Year</b>	<b>Qualifying Category</b>				<b>Totals</b>	
	<b>Affordable Housing</b>		<b>Community Services*</b>			
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
<b>3/16/09-12/31/09</b>	1	100	16	7,669	17	7,769
<b>2010</b>	0	0	13	9,803	13	9,803
<b>2011</b>	1	100	8	13,807	9	13,907
<b>2012</b>	1	100	24	17,197	25	17,297
<b>2013</b>	1	100	22	15,262	23	15,362
<b>1/1/14-5/12/14</b>	0	0	4	2,158	4	2,158
<b>Total</b>	<b>4</b>	<b>400</b>	<b>87</b>	<b>65,896</b>	<b>91</b>	<b>66,296</b>

Source: Bank Records

\*Targeted to Low- or Moderate-Income Individuals

Below is a representative example of the organizations to which the Bank made community development donations during the evaluation period:

**Neighbors Helping Neighbors** – This bank-run program helps raise funds for local food pantries. Individuals and businesses are asked to donate to the program, and the Bank matches dollar-for-dollar the donations received. All proceeds go to the following pantries: Auburn Youth & Family Services, Athol Salvation Army Emergency Food Pantry, Wheat Community Services of Clinton, Oxford Ecumenical Food Shelf, Southbridge Food Share and the St. Vincent de Paul Food Pantry of Webster.

**REAS (Residential Energy Assistance for Seniors) Foundation** – This organization provides financial assistance to low- and moderate-income elderly homeowners who cannot afford to heat or cool their homes. The organization helps seniors who reside in the Town of Charlton.

**Dudley Housing Authority** – The Housing Authority develops and operates Section 8 subsidized housing in the Town of Dudley. The organization operates 80 single-bedroom apartments for elderly and disabled individuals and 8 single-bedroom special needs housing units, all of which are designated as affordable for low- and moderate-income individuals and families.

**Center of Hope** – This organization provides people with disabilities the necessary skills to be economically self-sufficient and achieve a sustainable standard of living. All adults served by this program have Social Security Disability Insurance (SSDI) or Supplemental Security Income (SSI) as their primary income sources.

**American Red Cross** – This organization provides shelter, food, and health services to individuals in the wake of natural or man-made disasters. The Bank’s donations helped the victims of Hurricane Sandy in 2012.

## *Community Development Services*

A community development service has community development as its primary purpose and is related to the provision of financial or technical services and assistance. Table 11 shows the number of community development services provided by the Bank during the evaluation period.

<b>Table 11 - Community Development Organizations</b>	
<b><i>Community Development Category</i></b>	
Affordable Housing for Low- and Moderate-Income	1
Community Services Targeted to Low- and Moderate-Income	5
<b>Total</b>	<b>6</b>

Bank officers and employees were involved in local community development and non-profit organizations in various capacities. Bank personnel provided these organizations with financial and management expertise while serving as Directors, officers, Loan Committee members, and volunteers. Below is a representative example of employee involvement:

**RCAP Solutions** – This organization’s Client Resource Division provides Massachusetts residents with affordable housing, homelessness prevention, workforce development, family unification and self-sufficiency services. The Bank’s President provides financial expertise on the Board of Directors, and serves on the organization’s Loan Committee.

**Salvation Army of Webster Dudley** – This organization runs a food pantry for individuals residing in the Towns of Webster and Dudley. The Vice President of Branch Administration and a Branch Manager of the Bank have served as treasurer for the organization.

**Worcester Housing Resources Inc.** – This organization’s mission is to create and preserve affordable housing opportunities for low- to moderate-income households and to initiate and support neighborhood revitalization in the greater Worcester area. The Bank’s Vice President of Retail Lending serves on the Board and as a member of the organization’s Loan Committee.

**Boys and Girls Club of Webster Dudley** – The purpose of the organization is to give direction and guidance to young people, particularly those who are economically disadvantaged, by providing them with a safe haven from the streets and opportunities for educational, physical, social, and moral development. The Boys and Girls Club provides after school programs and camps for these low- and moderate-income children that they otherwise may not be able to afford. The Bank’s Vice President of Commercial Development provides financial expertise on the organization’s Board of Directors.

**United Way of Webster Dudley** – United Way partners with local organizations in order to improve education, help people achieve financial stability, and promote healthy lives in the community that they serve. Given the large proportion of low- and moderate- income tracts in the assessment area, along with a review of the recipients of funds from United Way, low- and moderate-income families are directly impacted by the work of United Way. The Vice President of Commercial Development provides financial expertise on the organization’s Board.

**Growing Places-** This organization's mission is to improve the food security and nutrition education of people with limited economic means. Growing Places provides gardens and nutrition education so that people can grow food on their own and become more conscientious about their nutrition. A Branch Manager of the Bank provides her financial expertise on the organization's Board of Directors.

### ***Educational Services***

The Bank also conducted or sponsored educational workshops or programs during the evaluation period. Those seminars are noted below:

**First Time Homebuyers Seminars** – The Bank offered an in-house first time homebuyers seminar in April 2012. This seminar was geared toward low- and moderate-income individuals.

**Small Business Seminars** – The Bank organized two events, one in March 2010 and the second in March 2011, for small business owners and individuals interested in starting up their own businesses. The Bank, along with the Clark University Small Business Development Center, the Small Business Administration, the Martin Luther King Center, and the SCORE Association, provided financial counseling and business advice to those in attendance.

**Tri-Valley Elder Services** – The Vice President of Branch Administration participates in this organization's Money Management Program. The mission of this program is to promote and maintain a level of independence for elders and individuals with disabilities. The Bank's Vice President helps on a monthly basis with one-on-one bill paying and overall assistance with financial decisions.

**Money Matters** – This is a financial literacy class for teenagers that are a part of the Boys and Girls Club of Webster Dudley. The goal of the class is to promote financial responsibility and independence. The Bank's Vice President of Commercial Development has taught this class.

### ***Other Community Services***

- *Interest on Lawyers Trust Accounts (IOLTA)* - The Bank maintains Interest on Lawyers Trust Accounts (IOLTA), a funded program of Massachusetts, which provides legal assistance to over 100,000 individuals across the state. IOLTA continues to be the primary source for consumer, family, education, disability, and elder law services for low-income clients. The goal of the program is to use the interest received for the improvement of the administration of justice and for civil and legal services for low-income clients.
- The Bank's deposit products meet the Basic Banking in Massachusetts guidelines set forth by the Massachusetts Community and Banking Council's (MCBC). This statewide program is designed to offer low-cost checking and savings accounts to low- and moderate-income individuals.

**APPENDIX A**  
***Fair Lending Policies and Procedures***

The Bank’s fair lending performance was reviewed to determine how it relates to the guidelines established by Regulatory Bulletin 1.3-106, the Division’s Community Reinvestment and Fair Lending Policy. Based upon the review of the Bank’s public comment file and its performance relative to fair lending policies and practices, no violations of anti-discrimination laws and regulations were identified.

**MINORITY APPLICATION FLOW**

According to the 2010 U.S. Census Data, the Bank’s assessment area contained a total population of 138,106 individuals of which 12.3 percent are minorities. The assessment area’s minority and ethnic population is 1.7 percent Black/African American, 1.3 percent Asian, 0.2 percent American Indian, 0.0 percent Hawaiian/Pacific Islander, 7.7 percent Hispanic or Latino and 1.5 percent other.

For 2012 and 2013, the Bank received 610 HMDA-reportable loan applications from within its assessment area. Of these applications, nine or 1.5 percent were received from minority applicants. For the same time period, the Bank also received 16 applications or 2.6 percent from ethnic groups of Hispanic origin within its assessment area.

The Bank’s level of lending was compared with that of the aggregate’s lending performance levels for the most recent year that data was available, the year 2012. The comparison of this data assists in deriving reasonable expectations for the rate of applications the Bank received from minority residential loan applicants. Refer to the table below for information on the Bank’s minority application flow as well as the aggregate lenders (excluding Hometown Bank) in the Bank’s assessment area.

<b>Table A-1 – MINORITY APPLICATION FLOW</b>					
<b>RACE</b>	<b>2012 Bank</b>		<b>2012 Aggregate Data</b>	<b>2013 Bank</b>	
	#	%	%	#	%
American Indian/ Alaska Native	2	0.6	0.2	0	0.0
Asian	1	0.3	1.1	1	0.3
Black/ African American	0	0.0	0.7	0	0.0
Hawaiian/Pac Isl.	0	0.0	0.1	0	0.0
2 or more Minority	0	0.0	0.0	0	0.0
Joint Race (White/Minority)	2	0.6	0.9	3	1.0
<b>Total Minority</b>	<b>5</b>	<b>1.5</b>	<b>3.0</b>	<b>4</b>	<b>1.3</b>
White	257	80.3	77.8	217	74.9
Race Not Available	58	18.2	19.2	69	23.8
<b>Total</b>	<b>320</b>	<b>100.0</b>	<b>100.0</b>	<b>290</b>	<b>100.0</b>
<b>ETHNICITY</b>					
Hispanic or Latino	1	0.3	2.2	4	1.4
Not Hispanic or Latino	246	76.9	78.2	203	70.0
Joint (Hisp/Lat /Not Hisp/Lat)	7	2.2	1.0	4	1.4
Ethnicity Not Available	66	20.6	18.6	79	27.2
<b>Total</b>	<b>320</b>	<b>100.0</b>	<b>100.0</b>	<b>290</b>	<b>100.0</b>

*Source: 2012 and 2013 HMDA LAR, 2012 HMDA Aggregate Data*

The Bank's performance was lower than the aggregate's performance level for minority applicants. The Bank received 1.5 percent of applications from racial minorities in 2012, compared to the aggregate level of 3.0 percent. The Bank received 2.5 percent of applications from Hispanic applicants, compared to 3.2 percent for the aggregate. In 2013, the Bank's performance decreased for minority applicants (1.3 percent) and increased for Hispanic applicants (2.8 percent).

## 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 31 Sutton Avenue, Oxford, MA 01540."

[Please Note: If the institution has more than one assessment area, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that assessment area.]

- 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.