



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**January 3, 2005**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Leader Bank, National Association  
Charter Number 24131**

**141 Massachusetts Avenue  
Arlington, MA 02474**

**Comptroller of the Currency  
New England Field Office  
20 Winthrop Square, Suite 200  
Boston, MA 02110**

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

## **INSTITUTION'S CRA RATING**

**This institution is rated Satisfactory.**

The primary factors supporting this rating are:

- The bank's average loan-to-deposit ratio, 72%, is reasonable given the bank's size, condition and competition.
- Lending inside the assessment area meets standards. A majority of the number and dollar of loans benefits customers inside the assessment area.
- Lending to borrowers of different incomes is adequate.
- The geographic distribution of loans reflects adequate dispersion throughout the assessment area. No conspicuous gaps in lending are noted.

## **DESCRIPTION OF INSTITUTION**

Leader Bank, N.A., is a nationally chartered bank established in May 2002. The bank is headquartered in Arlington and has one branch located in Arlington Heights, Massachusetts. Both offices are located in Middlesex County. The main office and branch are full service with automated teller machines (ATM). The bank is in process of opening a branch in Central Square in Cambridge, Massachusetts. The bank offers a variety of loan products including residential mortgages, commercial loans, consumer loans, and home equity lines of credit. Though not an affiliate, the bank has ties to Leader Mortgage Company, which is owned by the bank president.

The primary business focus of the institution is to serve the deposit and credit needs of its local community. Leader Bank's strategic focus is residential mortgage lending. Given that focus, consumer and commercial lending activity has been limited to date. Detailed information on products and services can be found at the bank's Internet website located at [www.leaderbank.com](http://www.leaderbank.com)

As of December 31, 2004, the bank reported total assets of \$134.4 million and total deposits of \$103.7 million. Of the bank's total assets, 75.2% is centered in loans. Residential real estate lending is the bank's primary focus. Of its \$101 million loan portfolio, residential real estate loans represent 80%. The bank originates and purchases loans for its own portfolio, as well as sells loans in the secondary market. The following table provides a snapshot of the loan mix as of December 31, 2004:

<b>Loan Type</b>	<b>\$ Outstanding</b>	<b>% Of Total</b>
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1-4 Residential Real Estate	\$81,345	80%
Multifamily Residential	\$6,665	7%
Commercial Real Estate & Commercial	\$13,002	13%
Consumer loans	\$168	0%
Total	\$101,180	100%

Source: Call Report as of 12/31/04

Management has identified home mortgage loans (purchase, refinance, and home improvement) as credit need in the assessment area. Management uses a variety of outreach efforts to determine community credit needs including contacts with builders, realtors, and housing organizations. Leader Bank has applied for funds from the Federal Home Loan Bank (FHLB) of Boston to assist low to moderate-income homebuyers with down payment and closing costs. Additionally, the bank offers a flexible mortgage program for city workers, earning less than 100% of the area median income, through Fannie Mae. No loans have closed to date under these programs. In addition, management plans to meet with local housing contacts in Cambridge, where the new branch will be located, in an effort to better serve community credit needs.

Leader Bank does not appear to be under any legal or financial restrictions that would impede its performance and its ability to meet the credit needs of its assessment area. This Performance Evaluation is an assessment of the bank's CRA performance from May 2002 through December 2004. This is the bank's first CRA evaluation.

## **DESCRIPTION OF LEADER BANK ASSESSMENT AREA**

The CRA requires financial institutions to define an assessment area (AA) within which its CRA performance will be evaluated. The bank has defined its AA as the 44 towns and cities in Middlesex County included in the Boston-Quincy-Cambridge Metropolitan Statistical Area (MSA). The bank's AA meets the definition of the regulation and does not arbitrarily exclude any low or moderate-income tracts.

As of the 2000 Census Data, updated for boundary changes in 2004, the total of 234 census tracts in the AA are designated as follows: 5 low-income tracts, 52 moderate-income tracts, 112 middle-income tracts, and 65 upper-income tracts. In Leader Bank's AA, the majority of low and moderate-income tracts are located in the towns of Everett, Cambridge, and Somerville.

### **Community Profile**

Arlington is located less than ten miles from downtown Boston. Arlington is a suburban town, with good schools and recreational facilities as well as many historical buildings. These factors coupled with its diverse population have made Arlington an attractive place for both young and established families. Commercial development is along Massachusetts Avenue. Arlington is bordered by Cambridge, home to Harvard University, MIT, and several local colleges. Median housing prices in the town of Arlington increased 10% between 2003 and 2004 to \$469,000.

According to a housing study performed by the Town of Arlington, the town lacks affordable housing for elderly, families, and individuals. The town has a scarcity of land available for any

new developments, especially affordable housing. The town has a significant number of elderly renters and homeowners that pay more than 30% of income for housing. Opportunities for affordable homeownership are limited. The town has implemented inclusionary zoning laws that mandate that any new developments with more than 6 units should have at least 15% dedicated to affordable housing. In addition, the renters' market tightened as more rental units were converted to condominiums for sale. According to this study, 52% of renter households are considered low or moderate income with a majority paying more than 30% of income in rental costs. Purchasing a first home appears to be out of reach for a substantial majority of current renters considering the median price of housing in the local area.

Middlesex County is made up of a diverse population and industry base. Middlesex County is the largest county by population in the state. In 2002, the per capita personal income in Middlesex County was \$46,499. The 2002 figure was 150% of the national per capita income, which was \$30,906. The county experienced a 2.9% job decrease between 2002 and 2003. The cities and towns in close proximity to the main branch are desirable places to live and therefore have higher costs of housing. Unemployment in the Boston-Quincy-Cambridge MSA was 4.6% as of March 2005, according to the U.S. Department of Labor statistics, and 4.9% for the state.

<b>Demographic Data: Leader Bank Assessment Area</b>	<b>1990 U.S. Census</b>	<b>2000 U.S. Census</b>	<b>2000 U.S. Census – Updated *</b>
<b>Population</b>			
<b>Total Persons</b>	1,124,571	1,171,779	
<b>Total Families</b>	279,149	288,563	
<b>Number of Households</b>	425,446	457,716	
<b>%of low-income families</b>	15.37	16.42	18.55
<b>%of moderate-income families</b>	16.79	15.88	17.58
<b>Percentage of Households below Poverty Level</b>	6	7	
<b>Census Tracts</b>			
<b>Total number of census tracts (CT)</b>	229	234	234
<b>Percentage of low-income tracts</b>	1	3	5
<b>Percentage of moderate-income tracts</b>	38	38	52
<b>Percentage of middle-income tracts</b>	109	104	112
<b>Percentage of upper-income tracts</b>	80	89	65
<b>Economic Indicators</b>			
<b>Median Family Income (MFI) **</b>	74,200	80,800	88,600
<b>Median Housing Value</b>	213,259	282,901	
<b>Number of Housing Units</b>	444,900	470,304	
<b>Number of Owner Occupied Units</b>	247,631	274,593	
<b>Number of Rental Units</b>	187,507	183,039	
<b>Average monthly gross rent</b>	684	896	

Source: U.S. Census Data

\* The Office of Management and Budget updated MSA and boundaries. Compared to 2004 loan data.

\*\* Updated HUD-adjusted figures for 2002, 2003, and 2004.

Leader's AA consists of 425,446 households and 279,149 families per 1990 Census Data. Within this population, six percent of individuals were living under the poverty level and five percent were on public assistance. By the 2000 Census, the number of households increased

7.6% and the number of families increased 3.4%. Notably, seven percent of individuals live under the poverty level now. The range of low-income families in the AA is between 15% and 19% during this evaluation period. Of the total families, approximately 49% live in middle-income tracts and 30% live in upper-income tracts per 2000 Census.

The Office of Management and Budget (OMB) revised its standards for MSAs in 2000 and provided revised MSA boundaries and definitions in 2004. These boundaries are used to determine the Median Family Income (MFI). While the number of census tracts stayed constant between 2003 and 2004, the distribution of those census tracts by income levels changed as shown in the Demographic Data Table on the previous page. We use this information as well as the distribution of owner-occupied units in the AA to assess the bank's geographic distribution of home mortgage loans.

The MFI figure is used to determine the income level for each census tract. Based on estimates from the Department of Housing and Urban Development (HUD), the adjusted MFI figure for 2002 is \$74,200, for 2003 is \$80,800, and for 2004 is \$88,600. The bank's performance in lending to low and moderate-income residents is evaluated by comparing the median income of bank borrowers with the HUD-adjusted MFI figures. Though incomes have risen, housing prices have increased more significantly. According to a recent news report in the Boston Globe, middle-income families are priced out of the current market in the Boston metropolitan area, which remains one of the least affordable places to live. The lack of housing inventory remains a critical factor regarding the significant rise in housing prices.

Per the 1990 Census, the total housing units in Leader's AA was 444,900 and predominantly located in the middle and upper-income tracts. The number of housing units increased 5.7% by the time of the 2000 Census. The proportion of rental units in the low and moderate-income tracts is significant. Of the total housing units located in low-income tracts, 81% and 83% are rental units for 2003 and 2004, respectively. Of the total housing units located in moderate-income tracts, 64% and 61% are rental units for 2003 and 2004, respectively. Given the low level of home ownership in these tracts, the lending opportunities for home mortgage loans are limited. More opportunities for bank lending may be in investment properties. Meanwhile, a significant majority of housing units in middle and upper-income tracts are owner-occupied housing.

Between Census dates, the price of housing increased 32.7%. The largest proportion of low-income families are located in middle-income tracts where the median housing value was \$188,779 per 1990 Census and \$247,907 per 2000 Census. Additionally, since 14% of all households pay greater than 30% of income toward rent, the availability of income for other needs is limited.

### **Competition**

The bank operates in a highly competitive market. Leader Bank entered a market with 55 banks operating 403 offices in its AA, according to the FDIC's Summary of Deposits. Leader Bank had a market share of .29% as of June 30, 2004. The following banks are some of Leader Bank's larger competitors for deposits: Citizens Bank, Bank of America, Middlesex Savings, and

Cambridge Savings. Other competitive entities include mortgage companies, credit unions and brokerage firms. Several of the large banks aggressively offer flexible-lending programs geared towards low and moderate-income borrowers for home purchase, home equity, and consumer loans. In addition, Leader Bank is competing with several local financial institutions that have a long history in the communities, in which they are headquartered, making it harder for this bank to attract new customers.

**Community Contact**

We made contact with an individual representing the Town of Arlington in order to identify community credit needs. Our contact stated that affordable housing is a credit need for the families in this area.

**CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

Leader Bank’s performance under the CRA was assessed based on a sample of mortgage loans, as this is the bank’s primary product. We were required to assess the bank’s 2002 performance under 1990 Census Data and 2003-2004 performance under 2000 Census Data. Our conclusions were drawn from sample of bank loans tested. To determine the level of lending activity within the AA, we sampled residential mortgage loans originated from the bank opening through December 31, 2004.

**Loan-to-Deposit Ratio**

The loan-to-deposit ratio is reasonable. The bank's lending activity reflects a good level of responsiveness to the credit needs of its assessment area based on the size of the bank, its financial condition, and local competition. The average quarterly loan-to-deposit ratio over the ten quarters since opening is 72%. This is reasonable given its size and condition as a newly formed bank. The bank's loan-to-deposit ratio resembles the average for a group of similarly situated banks, which was 72%. For the most recent four quarters, the bank’s average loan-to-deposit ratio is 96%. As expected for a new bank, lending activity increased as it grew.

**Lending in Assessment Area**

The proportion of loans made inside the assessment area is satisfactory. Our sample of bank loans, both originated and purchased, for the evaluation period totaled 150. As shown in Table 1 on the following page, 65% of the number of loans and 70% of the dollar amount was made to borrowers inside the assessment area. This represents a majority of loans.

<b>Table 1 - Lending in Leader Bank AA: 2002-2004</b>										
<b>Loan Type</b>	<b>Number of Loans</b>					<b>Dollars of Loans</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>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	
Home Mortgage	97	65	53	35	150	25,568	70	11,043	30	36,611

## Lending to Borrowers of Different Incomes

The bank's lending to borrowers of different incomes is adequate.

Table 2 - Borrower Distribution of Residential Real Estate Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
Origination Year	% Of AA Families	% Of Number of Loans	% Of AA Families	% Of Number of Loans	% Of AA Families	% Of Number of Loans	% Of AA Families	% Of Number of Loans
2002	15.4	0	16.8	5.9	23.7	17.7	44.1	76.5
2003	16.4	2.0	15.9	10.2	21.4	26.5	46.3	61.3
2004	18.6	5.3	17.6	18.4	22.3	36.8	41.5	39.5

Source: Bank loan sample

Leader's home mortgage lending is compared to the distribution of AA families by income level. As shown in Table 2 above, the bank had no loans to low-income borrowers and a slight penetration, 5.9%, to moderate-income borrowers in 2002. This compares unfavorably to the AA demographics that show that 15.4% and 16.8% of all families were designated low-income and moderate-income, respectively.

In 2003, the bank's lending activity shows that 2% of loans were made to low-income borrowers and 10.2% to moderate-income borrowers. In comparison, out of all AA families, 16.4% are considered low-income and 15.9% are considered moderate-income. Again, this represents performance below that of AA demographics.

Considering the bank was operational for only eight months in 2002 and had only one branch until third quarter 2004, some explanation is provided for the less than favorable performance. While the bank's lending to low-income and moderate-income families is lower than area demographics for 2002 and 2003, this performance is reasonable due to the lack of affordable housing units, poverty rates, and the significant costs of home ownership in the AA. The lack of affordable housing inventory limited home ownership opportunities and also factored in the significant increase in home prices. Given the high median house value in the AA, low-income and moderate-income families generally meet barriers to home ownership. A low-income borrower would have earned less than \$37,100 in 2002 and less than \$40,400 in 2003, which makes qualifying for a conventional mortgage difficult.

In addition, the bank operates in a highly competitive market that includes 55 banks. A majority of the banks are significantly larger in size and offer competitive mortgage rates. Mortgage companies also provide considerable competition. Per a local contact, Arlington has a scarcity of affordable housing.

In 2004, the bank's distribution of loans more closely resembles the demographic makeup of the community. Leader Bank made 5.3% of its loans to low-income borrowers. While the distribution of loans to these borrowers is modest, bank performance is considered reasonable due to the high housing costs and the inability of a low-income borrower to qualify for a

conventional mortgage. The bank did originate loans to moderate-income families at a rate higher than demographic data. Leader originated 18.4% of loans to moderate-income families as compared to 17.6% of all AA families. In September 2004, the bank opened its second office in Arlington Heights and had become visible in the other communities through contacts with local organizations.

Leader Bank has also helped to meet community credit needs by originating two loans, which meet the community development purpose, in 2004. One loan for \$431 thousand was to finance a boarding house, which provides below market monthly rents to low-income individuals. The second loan was for \$750 thousand to finance the purchase and renovation of multifamily apartment buildings, which offered a majority of units with below market rents. The property is located in a mixed used neighborhood in Lawrence and assisted in the rehabilitation of the area. These loans either assisted low-income families or revitalized the neighborhoods in which the property is located.

### Geographic Distribution of Loans

The geographic distribution of bank loans is adequate.

<b>Census Tract Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
	<b>% Of AA Owner Occupied Housing</b>	<b>% Of Number of Loans</b>						
<b>Origination Year</b>								
<b>2002</b>	.03	0	8.13	0	48.76	26.5	43.08	73.5
<b>2003</b>	.26	0	9.33	4.1	44.15	34.7	46.27	61.2
<b>2004</b>	.36	0	14.04	10.8	51.42	35.1	34.18	54.1

Source: Bank sample

Leader’s distribution of home mortgage loans is compared to the distribution of owner-occupied units among the different income tracts – low, moderate, middle, and upper. As shown in Table 3 above, the bank made no loans in low-income census tracts between 2002 and 2004. In addition, the bank made no loans in moderate-income tracts in 2002. However, Leader’s AA consisted of only 1 low-income tract in 2002, 3 tracts in 2003, and 5 tracts in 2004. Since less than 1% of all owner-occupied units in 2002 –2004 were located in low-income tracts, the bank’s distribution of mortgage loans in this time period is not surprising. The bank’s performance is understandable considering the significantly high proportion of rental units in the low and moderate-income tracts, which remains a barrier to lending in these geographies. The overwhelming majority of owner-occupied units are located in middle and upper-income geographies.

Additionally, the bank had only one office opened until September 2004. Both of the bank’s branches are located in middle-income tracts in Arlington. This limited branch network, coupled with strong competition, inhibited the bank’s ability to attract customers from towns further away in the AA. Customers were largely drawn from the market area immediately surrounding

the branches, though the bank defines a wider AA. Leader Bank also faces stiff competition from larger banks in the low and moderate-income tracts. These banks have had a longer history in the market.

In 2003 and 2004 bank data, the bank's distribution of loans in moderate-income census tracts improved. Leader made 4.1% of its loans in moderate-income tracts in 2003 as compared to 9.3% of all owner-occupied units located there. In 2004, the bank made 10.8% as compared to 14.0%, per demographic data. While bank trends are lower than AA demographics, performance is considered reasonable given competition, its short time in the market, the limited branch network, and the high volume of rental properties in the low and moderate-income areas within the AA.

Leader Bank advertises in various media outlets, but its limited branch network as well as the significant competition from banks with a long time history in these towns inhibited Leader's ability to attract new customers. While advertising is performed throughout the AA, a majority of the original lending activity was drawn from Arlington and immediately surrounding towns.

### **Responses to Complaints**

Neither the bank nor the OCC have received CRA complaints on the bank.

### **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of illegal discrimination or other illegal credit practices.