

FEDERAL RESERVE SYSTEM

NB Bancorp, Inc.
Needham, Massachusetts

Order Approving the Formation of a Bank Holding Company

NB Bancorp, Inc. (“NB Bancorp”), has requested the Board’s approval under section 3 of the Bank Holding Company Act (“BHC Act”)¹ to become a bank holding company by merging with NB Financial, Inc. (“NB Financial”), a bank holding company, both of Needham, Massachusetts.² Following the proposed merger, NB Bancorp would control Needham Bank, Needham, Massachusetts, a state-chartered bank.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (88 Federal Register 40,825 (June 22, 2023)), in accordance with the Board’s Rules of Procedure.³ The time for submitting comments has expired, and the Board has considered the proposal and the comments received in light of the factors set forth in section 3 of the BHC Act.

NB MHC, with consolidated assets of approximately \$4.0 billion, is the 302nd largest insured depository organization in the United States.⁴ NB MHC controls approximately \$3.3 billion in consolidated deposits, which represent less than 1 percent

¹ 12 U.S.C. § 1842(a)(1).

² NB Bancorp is a newly organized Maryland corporation formed for the purpose of acquiring NB Financial in connection with the proposed conversion of NB Financial’s top-tier mutual holding company, NB Financial, MHC (“NB MHC”), Needham, Massachusetts, from mutual to stock form.

³ 12 CFR 262.3(b).

⁴ Consolidated asset and national ranking data are as of June 30, 2023.

of the total amount of deposits of insured depository institutions in the United States.⁵ NB MHC controls Needham Bank, which operates only in Massachusetts.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of an attempt to monopolize the business of banking in any relevant market.⁶ The BHC Act also prohibits the Board from approving a proposal that would substantially lessen competition or tend to create a monopoly in any banking market, unless the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the communities to be served.⁷

NB Bancorp is a newly formed company that does not control any depository institutions. NB Bancorp would control only Needham Bank following NB MHC's conversion from mutual to stock form, and the proposal does not involve a merger or acquisition that would result in a monopoly or elimination of a competitor in any relevant market. The Department of Justice conducted a review of the potential competitive effects of the proposal and has advised the Board that it has not concluded that the proposal would have a significantly adverse effect on competition. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

Based on all the facts of record, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of resources in any relevant banking market. Accordingly, the Board determines that competitive considerations are consistent with approval.

⁵ Consolidated national deposit and market share data are as of June 30, 2023. In this context, insured depository institutions include commercial banks, savings associations, and savings banks.

⁶ 12 U.S.C. § 1842(c)(1)(A).

⁷ 12 U.S.C. § 1842(c)(1)(B).

Financial, Managerial, and Other Supervisory Considerations

In reviewing a proposal under section 3 of the BHC Act, the Board considers the financial and managerial resources and the future prospects of the institutions involved, the effectiveness of the institutions in combatting money laundering, and any public comments on the proposal.⁸ In its evaluation of financial factors, the Board reviews information regarding the financial condition of the organizations involved on both parent-only and consolidated bases, as well as information regarding the financial condition of the subsidiary depository institutions and the organizations' significant nonbanking operations. In this evaluation, the Board considers a variety of public and supervisory information regarding capital adequacy, asset quality, liquidity, and earnings performance, as well as any public comments on the proposal. The Board evaluates the financial condition of the combined organization, including its capital position, asset quality, liquidity, earnings prospects, and the impact of the proposed funding of the transaction. The Board also considers the ability of the organization to absorb the costs of the proposal. In assessing financial factors, the Board considers capital adequacy to be especially important. The Board considers the future prospects of the organizations involved in the proposal in light of their financial and managerial resources and the proposed business plan.

NB MHC, NB Financial, and Needham Bank (together, the "NB Pre-Conversion Entities") are well capitalized, and the resulting organization would remain so upon consummation of the proposal. The proposed transaction is a mutual-to-stock conversion that would be conducted pursuant to Massachusetts law.⁹ The capital, asset

⁸ 12 U.S.C. § 1842(c)(2), (5), and (6).

⁹ See 209 Mass. Code Regs. part 33, subpart D (LexisNexis 2023). To effect the transaction, NB MHC will merge with and into NB Financial, and persons holding liquidation rights in NB MHC will receive liquidation rights in NB Financial. NB Financial will then merge with and into NB Bancorp, and liquidation rights in NB Financial will be exchanged for an interest in a liquidation account established by NB Bancorp. The NB Pre-Conversion Entities and NB Bancorp have the financial resources to effect the proposed transaction.

quality, earnings, and liquidity of the NB Pre-Conversion Entities are consistent with approval, and the NB Pre-Conversion Entities and NB Bancorp appear to have adequate resources to absorb the related costs of the proposal. In addition, the future prospects of the institutions are considered consistent with approval.

The Board also has considered the managerial resources of the organizations involved and the public comments received on the proposal. The Board received five comments objecting to the proposal.¹⁰ The commenters expressed concern that the proposed transaction would not be in the best interest of the depositors and members of NB MHC and alleged wrongdoing by the board of directors and management of NB MHC in connection with the conversion.¹¹

In response to the comments, NB Bancorp contests the relevance of the material identified by the commenters to the factors that the Board is required to consider

¹⁰ Most commenters raised general objections to the conversion of NB MHC from mutual ownership to stock form. The conversion would be conducted under regulations of the Massachusetts Division of Banks (“DOB”), which has considered the comments it has received on the transaction. The DOB has concluded that the conversion would satisfy all applicable requirements under Massachusetts law and approved the transaction on October 11, 2023. An applicant’s determination to pursue a mutual-to-stock conversion that is authorized under and conducted in accordance with state law is outside of the limited factors that the Board is authorized to consider when reviewing an application under the BHC Act. See *Western Bancshares, Inc. v. Board of Governors*, 480 F.2d 749 (10th Cir. 1973).

¹¹ In particular, one commenter alleged that (i) the amount of NB Bancorp’s stock that would be purchased by directors and management of the existing organization was excessive; (ii) language in disclosures relating to the transaction was confusing; (iii) directors and management of the existing organization engaged in efforts to reduce participation in the mutual members’ vote on the conversion; (iv) the transaction would be conducted without necessary member approvals; and (v) the transaction would deprive Needham Bank’s customers of protections under Massachusetts law because NB Bancorp is chartered in Maryland. Many of these allegations are unsubstantiated or do not relate to the limited factors that the Board is authorized to consider when reviewing an application under the BHC Act. See *supra* note 10. However, the Board has considered the comments received insofar as they relate to the managerial resources of NB Bancorp and Needham Bank, including the competence, experience, and integrity of their officers, directors, and principal shareholders. See 12 U.S.C. § 1842(c)(2) and (6).

under the BHC Act and represents that the proposed transaction would fully comply with the requirements governing mutual-to-stock conversions under Massachusetts law. NB Bancorp asserts that many of the aspects of the transaction to which the commenters object, such as the requirement that the transaction be approved by an in-person meeting of Needham Bank's depositors, the subscription priorities accorded to participants in the offering of NB Bancorp's stock in the conversion, and the limitations on participation by insiders in the offering of NB Bancorp's stock, are specifically permitted or required under regulations established by the DOB.¹²

NB Bancorp indicates that it would be subject to regulatory restrictions on former mutual holding companies that have converted to stock form after consummation of the proposed transaction, including limitations on future adoption of stock benefit plans and a requirement that at least 50 percent of the net proceeds of the conversion offering be infused into Needham Bank as capital. Finally, NB Bancorp represents that it would continue to be headquartered in Needham, Massachusetts, following consummation of the proposed transaction and that all consumer protection and banking laws and regulations that are currently applicable to Needham Bank would remain applicable after the consummation of the transaction. NB Bancorp has indicated that the proposed conversion of NB MHC from mutual to stock form was approved by a vote of 890 to 220 at a special meeting of Needham Bank's depositors held on July 26, 2023.

The Board has reviewed the examination records of the NB Pre-Conversion Entities including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by NB Bancorp, the Board's supervisory experiences and those of other relevant bank supervisory agencies with the organizations, and the organizations' records of compliance with applicable banking, consumer protection, and anti-money-laundering laws.

The NB Pre-Conversion Entities are considered to be well managed. The resulting organization's proposed directors and senior executive officers have knowledge

¹² See 209 Mass. Code Regs. part 33, subpart D (LexisNexis 2023).

of and experience in the banking and financial services sectors. NB Bancorp would adopt the risk-management programs of the NB Pre-Conversion Entities, which appear consistent with approval.

Based on all the facts of record, including, as applicable, the NB Pre-Conversion Entities' and NB Bancorp's supervisory records, managerial and operational resources, plans for operating the resulting organization after consummation, and the public comments received on the proposal, the Board determines that considerations relating to the financial and managerial resources and the future prospects of the organizations involved in the proposal, as well as the records of effectiveness of the NB Pre-Conversion Entities in combatting money-laundering activities, are consistent with approval.

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board considers the effects of the proposal on the convenience and needs of the communities to be served.¹³ In evaluating whether the proposal satisfies the convenience and needs statutory factor, the Board considers the impact that the proposal will or is likely to have on the communities served by the resulting organization. The Board reviews a variety of information to determine whether the relevant institutions' records demonstrate a history of helping to meet the needs of their customers and communities. The Board also reviews the resulting institution's post-consummation plans and the expected impact of those plans on the communities served by the resulting institution, including on low- and moderate-income ("LMI") individuals and communities. The Board considers whether the relevant institutions are helping to meet the credit needs of the communities they serve and are providing access to banking products and services that meet the needs of customers and communities, including the potential impact of branch closures, consolidations, and relocations on that access. In addition, the Board reviews the records of the relevant depository institution under the Community Reinvestment Act of 1977

¹³ 12 U.S.C. § 1842(c)(2).

(“CRA”).¹⁴ The Board strongly encourages insured depository institutions to help meet the credit needs of the local communities in which they operate, consistent with the institutions’ safe and sound operation and their obligations under the CRA.¹⁵

In addition, the Board considers the bank’s overall compliance record and recent fair lending examinations. Fair lending laws require all lending institutions to provide applicants with equal access to credit, regardless of their race, ethnicity, gender, or certain other characteristics. The Board also considers assessments of other relevant supervisors, the supervisory views of examiners, other supervisory information, information provided by the applicant, and public comments. The Board also may consider the applicant’s business model and intended marketing and outreach, the resulting organization’s plans after consummation, and any other information the Board deems relevant.

In assessing the convenience and needs factor in this case, the Board has considered all the facts of record, including the report of examination of the CRA performance of Needham Bank, the fair lending and compliance record of the bank, the supervisory views of the Federal Reserve Bank of Boston (“Reserve Bank”), confidential supervisory information, and the information provided by NB Bancorp.¹⁶

Record of Performance under the CRA

In evaluating the CRA performance of the involved institution, the Board generally considers the institution’s most recent CRA evaluation and the supervisory views of the relevant federal supervisor, which in this case is the Reserve Bank.¹⁷

¹⁴ 12 U.S.C. § 2901 *et seq.*

¹⁵ *See* 12 U.S.C. § 2901(b).

¹⁶ As noted, public comments received on this proposal focused on the proposed conversion from mutual to stock form and the managerial resources of NB Bancorp and Needham Bank. *See supra* notes 10–11. The commenters did not make substantive assertions related to consideration of the convenience and needs factor.

¹⁷ *See* Interagency Questions and Answers Regarding Community Reinvestment, 81 *Federal Register* 48,506, 48,548 (July 25, 2016).

The CRA requires that the appropriate federal financial supervisor for a depository institution prepare a written evaluation of the institution's record of helping to meet the credit needs of its entire community, including LMI neighborhoods.¹⁸ An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation by the institution's primary federal supervisor of the institution's overall record of lending in its communities.

In general, federal financial supervisors apply a lending test ("Lending Test"), an investment test ("Investment Test"), and a service test ("Service Test") to evaluate the performance of large banks, such as Needham Bank, in helping to meet the credit needs of the communities they serve. The Lending Test specifically evaluates an institution's lending-related activities to determine whether the institution is helping to meet the credit needs of individuals and geographies of all income levels. As part of the Lending Test, examiners review and analyze an institution's data reported under the Home Mortgage Disclosure Act of 1975 ("HMDA"),¹⁹ in addition to small business, small farm, and community development loan data collected and reported under the CRA regulations, to assess an institution's lending activities with respect to borrowers and geographies of different income levels. The institution's lending performance is evaluated based on a variety of factors, including (1) the number and amounts of home mortgage, small business, small farm, and consumer loans (as applicable) in the institution's CRA assessment areas ("AAs"); (2) the geographic distribution of the institution's lending, including the proportion and dispersion of the institution's lending in its AAs and the number and amounts of loans in low-, moderate-, middle-, and upper-income geographies; (3) the distribution of loans based on borrower characteristics, including, for home mortgage loans, the number and amounts of loans to low-,

¹⁸ 12 U.S.C. § 2906.

¹⁹ 12 U.S.C. § 2801 et seq.

moderate-, middle-, and upper-income individuals;²⁰ (4) the institution's community development lending, including the number and amounts of community development loans and their complexity and innovativeness; and (5) the institution's use of innovative or flexible lending practices to address the credit needs of LMI individuals and geographies.²¹ The Investment Test evaluates the number and amounts of qualified investments that benefit the institution's AAs, and the Service Test evaluates the availability and effectiveness of the institution's systems for delivering retail banking services and the extent and innovativeness of the institution's community development services.²²

The Board is concerned when HMDA data reflect disparities in the rates of loan applications, originations, and denials among members of different racial, ethnic, or gender groups in local areas. These types of disparities may indicate weaknesses in the adequacy of policies and programs at an institution for meeting its obligations to extend credit fairly. However, other information critical to an institution's credit decisions may not be available from public HMDA data.²³ Consequently, the Board requests additional information not available to the public that may be needed from the institution and evaluates disparities in the context of the additional information obtained regarding the lending and compliance record of an institution.

²⁰ Examiners also consider the number and amounts of small business and small farm loans made to businesses and farms with gross annual revenues of \$1 million or less; small business and small farm loans by loan amount at origination; and consumer loans, if applicable, to low-, moderate-, middle-, and upper-income individuals. See, e.g., 12 CFR 228.22(b)(3).

²¹ See 12 CFR 228.22(b).

²² See 12 CFR 228.23 and 228.24.

²³ Importantly, credit scores are not available in the public HMDA data. Accordingly, when conducting fair lending examinations, examiners analyze additional information not available to the public, such as credit scores, before reaching a determination regarding an institution's compliance with fair lending laws.

CRA Performance of Needham Bank

Needham Bank was assigned an overall rating of “Satisfactory” at its most recent CRA performance evaluation by the Reserve Bank, as of November 7, 2022 (“Needham Bank Evaluation”).²⁴ The bank received “High Satisfactory” ratings for the Lending, Investment, and Service Tests.²⁵

With respect to the Lending Test, examiners found that Needham Bank’s lending levels reflected good responsiveness to the credit needs in the bank’s AA, taking into account the number and amount of home mortgage and small business loans in the bank’s AA. Examiners also found that the geographic distribution of loans reflected adequate penetration throughout the bank’s AA and that the distribution of loans to borrowers of different income levels and businesses of different sizes was adequate, given the product lines offered by the bank. Examiners noted that Needham Bank exhibited an adequate record of serving the credit needs of highly economically disadvantaged areas, low-income individuals, and businesses with gross annual revenues of \$1 million or less in its AA, consistent with safe and sound operations. Examiners also noted that Needham Bank made extensive use of innovative or flexible lending practices

²⁴ The Needham Bank Evaluation was conducted using Large Institution CRA Examination Procedures. Examiners reviewed small business and HMDA-reportable loan data from January 1, 2020, through December 31, 2021. Examiners also reviewed community development activities from March 19, 2020, through November 7, 2022.

²⁵ The Needham Bank Evaluation involved a full-scope review of the bank’s activities in its sole AA, consisting of 34 whole, contiguous cities and towns: Arlington, Ashland, Belmont, Cambridge, Everett, Framingham, Holliston, Hopkinton, Malden, Medford, Natick, Newton, Sherborn, Somerville, Waltham, Watertown, Wayland, and Weston in Middlesex County; Brookline, Dedham, Dover, Franklin, Medfield, Medway, Millis, Needham, Norfolk, Norwood, Walpole, Wellesley, and Westwood in Norfolk County; Chelsea and Boston in Suffolk County, all in the Boston-Cambridge-Newton, Massachusetts-New Hampshire Metropolitan Statistical Area (“MSA”); and Milford in Worcester County, in the Worcester, Massachusetts-Connecticut MSA.

in a safe and sound manner to address the credit needs of LMI individuals or geographies and demonstrated leadership in making community development loans.

With respect to the Investment Test, examiners found that Needham Bank made a significant level of qualified community development investments, particularly those not routinely provided by private investors, occasionally in a leadership position. Examiners also found that the bank demonstrated extensive use of innovative or complex qualified investments. Examiners characterized Needham Bank as having exhibited good responsiveness to credit and community development needs.

With respect to the Service Test, examiners determined that Needham Bank's delivery systems were accessible to geographies and individuals of different income levels in the bank's AA. Examiners found that the bank's record of opening and closing branches had improved the accessibility of the bank's delivery systems, particularly to LMI geographies and individuals. Examiners noted that Needham Bank's hours of operation did not vary in a way that inconvenienced the bank's AA, particularly LMI geographies and individuals. Examiners also noted that Needham Bank provided a relatively high level of community development services.

Additional Convenience and Needs Considerations

The Board also considers other potential effects of the proposal on the convenience and needs of the communities to be served. This includes, for example, the resulting organization's business model and intended marketing and outreach and existing and anticipated product and service offerings in the communities to be served by the organization; any additional plans the resulting organization has for meeting the needs of its communities following consummation; and any other information the Board deems relevant. NB Bancorp represents that, following consummation of the proposal, none of Needham Bank's existing products and services would be eliminated. NB Bancorp further represents that, following consummation of the transaction, Needham Bank would be able to expand its lending activity as a result of capital raised in connection with the conversion offering.

Branch Closures

Physical branches remain important to many banking organizations' ability to meet the credit needs of the local communities in which they operate. When banking organizations combine, whether through acquisitions, mergers, or consolidations, the combination has the potential to increase or to reduce consumers' and small businesses' access to available credit and other banking services. Although the Board does not have the authority to prohibit a bank from closing a branch, the Board focuses on the impact of expected branch closures, consolidations, and relocations that occur in connection with a proposal on the convenience and needs of the communities to be served by the resulting institution. In particular, the Board considers the effect of any closures, consolidations, or relocations on LMI communities.

Federal banking law provides a specific mechanism for addressing branch closings, including requiring that a bank provide notice to the public and the appropriate federal supervisory agency before a branch is closed.²⁶ In addition, the federal banking supervisory agencies evaluate a bank's record of opening and closing branches, particularly branches located in LMI geographies or primarily serving LMI individuals, as part of the CRA examination process.²⁷

NB Bancorp represents that it does not anticipate that any existing branches of Needham Bank would be closed, consolidated, or relocated in connection with the proposal.

Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including the record of Needham Bank under the CRA, the institutions' records of compliance with fair lending and other consumer protection laws, supervisory information provided by the Reserve Bank, information provided by NB Bancorp, the public comments on the proposal, and

²⁶ See 12 U.S.C. § 1831r-1. The bank also is required to provide reasons and other supporting data for the closure, consistent with the institution's written policy for branch closings.

²⁷ See, e.g., 12 CFR 228.24(d)(2).

other potential effects of the proposal on the convenience and needs of the communities to be served. Based on that review, the Board determines that the convenience and needs factor is consistent with approval.

Financial Stability Considerations

Section 3 of the BHC Act requires the Board to consider “the extent to which a proposed acquisition, merger, or consolidation would result in greater or more concentrated risks to the stability of the United States banking or financial system.”²⁸

To assess the likely effect of a proposed transaction on the stability of the United States banking or financial system, the Board considers a variety of metrics that capture the systemic “footprint” of the resulting firm and the incremental effect of the transaction on the systemic footprint of the acquiring firm. These metrics include measures of the size of the resulting firm, the availability of substitute providers for any critical products and services offered by the resulting firm, the interconnectedness of the resulting firm with the banking or financial system, the extent to which the resulting firm contributes to the complexity of the financial system, and the extent of the cross-border activities of the resulting firm.²⁹ These categories are not exhaustive, and additional categories could inform the Board’s decision.

In addition to these quantitative measures, the Board considers qualitative factors, such as the opacity and complexity of an institution’s internal organization, that are indicative of the relative degree of difficulty of resolving the resulting firm. A financial institution that can be resolved in an orderly manner is less likely to inflict material damage on the broader economy.³⁰

The Board’s experience has shown that proposals involving an acquisition of less than \$10 billion in total assets, or that result in a firm with less than \$100 billion in

²⁸ 12 U.S.C. § 1842(c)(7).

²⁹ Many of the metrics considered by the Board measure an institution’s activities relative to the United States financial system.

³⁰ For further discussion of the financial stability standard, see Capital One Financial Corporation, FRB Order No. 2012-2 (Feb. 14, 2012).

total assets, generally are not likely to pose systemic risks. Accordingly, the Board presumes that a proposal does not raise material financial stability concerns if the assets involved fall below either of these size thresholds, absent evidence that the transaction would result in a significant increase in interconnectedness, complexity, cross-border activities, or other risk factors.³¹

In this case, the Board has considered information relevant to risks to the stability of the United States banking or financial system. The proposal involves a conversion from mutual to stock form by an organization with less than \$10 billion in total assets and a pro forma organization with less than \$100 billion in total assets. The NB Pre-Conversion Entities are predominantly engaged in retail and commercial banking activities.³² The pro forma organization would not exhibit an organizational structure, complex interrelationships, or unique characteristics that would complicate resolution of the firm in the event of financial distress. In addition, the organization would not be a critical services provider or so interconnected with other firms or the markets that it would pose a significant risk to the financial system in the event of financial distress.

In light of all the facts and circumstances, this transaction would not appear to result in meaningfully greater or more concentrated risks to the stability of the United States banking or financial system. Based on these and all other facts of record, the Board determines that considerations relating to financial stability are consistent with approval.

³¹ See People's United Financial, Inc., FRB Order No. 2017-08 at 25-26 (March 16, 2017). Notwithstanding this presumption, the Board has the authority to review the financial stability implications of any proposal. For example, an acquisition involving a global systemically important bank could warrant a financial stability review by the Board, regardless of the size of the acquisition.

³² The NB Pre-Conversion Entities offer a range of retail and commercial banking products and services. The NB Pre-Conversion Entities have, and as a result of the proposal NB Bancorp would continue to have, a small market share in these products and services on a nationwide basis.

Conclusion

Based on the foregoing and all the facts of record, the Board determines that the application should be, and hereby is, approved. In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act and other applicable statutes. The Board's approval is specifically conditioned on compliance by NB Bancorp with all the conditions imposed in this order and on any commitments made to the Board in connection with the proposal.³³ The Board's approval also is conditioned on receipt by NB Bancorp of all required regulatory approvals. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The proposal may not be consummated before the 15th calendar day after the effective date of this order or later than three months thereafter, unless such period is extended for good cause by the Board or the Reserve Bank, acting under delegated authority.

By order of the Board of Governors,³⁴ effective November 21, 2023.

Michele Taylor Fennell (Signed)

Michele Taylor Fennell
Deputy Associate Secretary of the Board

³³ As is typical in applications under the BHC Act involving conversions from mutual to stock form, NB Bancorp has committed to abide by certain limitations under Subpart E of the Board's Regulation MM. 12 CFR part 239.

³⁴ Voting for this action: Chair Powell, Vice Chair Jefferson, Vice Chair for Supervision Barr, Governors Bowman, Waller, Cook, and Kugler.