



**NEW YORK STATE
DEPARTMENT OF FINANCIAL SERVICES
FINANCIAL FRAUDS AND CONSUMER PROTECTION DIVISION**

One State Street
New York, NY 10004

PUBLIC SUMMARY

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

Date of Evaluation: December 31, 2012

Institution: Elmira Savings Bank
333 East Water Street
Elmira, New York 14901

Note: This evaluation is not an assessment of the financial condition of this institution. The rating assigned does not represent an analysis, conclusion or opinion of the New York State Department of Financial Services concerning the safety and soundness of this financial institution.

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GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (“CRA”) performance of Elmira Savings Bank prepared by the New York State Department of Financial Services (“Department” or “DFS”). The evaluation represents the Department’s current assessment and rating of the institution’s CRA performance based on an evaluation conducted as of December 31, 2012.

Section 28-b of the New York State Banking Law, as amended, requires that when evaluating certain applications, the Superintendent of Banks shall assess a banking institution’s record of helping to meet the credit needs of its entire community, including low- and moderate-income (“LMI”) areas, consistent with safe and sound operations.

Part 76 of the General Regulations of the Superintendent implements Section 28-b and further requires that the Department assess the CRA performance records of regulated financial institutions. Part 76 establishes the framework and criteria by which the Department will evaluate the performance. Section 76.5 further provides that the Department will prepare a written report summarizing the results of such assessment and will assign to each institution a numerical CRA rating based on a 1 to 4 scoring system. The numerical scores represent an assessment of CRA performance as follows:

- (1) Outstanding record of meeting community credit needs;
- (2) Satisfactory record of meeting community credit needs;
- (3) Needs to improve record of meeting community credit needs; and
- (4) Substantial noncompliance in meeting community credit needs.

Section 76.5 further requires that the CRA rating and the written summary be made available to the public (“Evaluation”). Evaluations of banking institutions are primarily based on a review of performance tests and standards described in Section 76.7 and detailed in Sections 76.8 through 76.13. The tests and standards incorporate the 12 assessment factors contained in Section 28-b of the New York State Banking Law.

For an explanation of technical terms used in this report, please consult the **GLOSSARY** at the back of this document.

OVERVIEW OF INSTITUTION'S PERFORMANCE

ESB is evaluated according to the intermediate small bank performance criteria pursuant to Part 76.7 and Part 76.12 of the General Regulations of the Superintendent . This assessment period included calendar years 2010 and 2011. ESB is rated "2," indicating a "Satisfactory" record of helping to meet community credit needs.

The rating is based on the following factors:

Lending Test: "Satisfactory"

- **Loan-to-Deposit ("LTD") Ratio and Other Lending-Related Activities:** "Outstanding"

ESB's average loan to deposit ("LTD") ratio was reasonable considering its size, business strategy, financial condition and peer group activity.

ESB's average LTD ratio was 90%, compared favorably to its peer group's level of 75.7%¹. Lending trends indicated a steady increase in the loan portfolio, particularly in residential real estate, which represented 85.1% of total loans as of the year ended December 31, 2012.

- **Assessment Area Concentration:** "Outstanding"

During the evaluation period, ESB originated 90.1% by number, and 88.8% by dollar value of its loans, consisting of HMDA-reportable, small business and consumer loans within the assessment area. This substantial majority inside of its assessment area is an excellent record of lending within ESB's assessment area.

HMDA-reportable loans represented 87.4% of total loans made inside the assessment area while small business and consumer loans were both at 6.3%. In all instances, ESB made substantial majority of loans inside the assessment area.

Distribution by Borrowers Characteristics: "Satisfactory"

The distribution of loans based on borrower characteristics demonstrated an adequate rate of lending among individuals of different income levels and businesses of different revenue sizes.

¹ Insured commercial banks having assets between \$300 million and \$1 billion

- **Geographic Distribution of Loans: “Satisfactory”**

The distribution of loans based on lending in census tracts of varying income levels demonstrated a reasonable rate of lending for the combined HMDA-reportable, small business and consumer loans.

The distribution of HMDA-reportable loans demonstrated a reasonable penetration rate of lending based on geographical income levels. In 2011, ESB did not make any loan in a low income census tract; and 0.8% by number and 0.2% by dollar value in 2012. There are only three low income census tracts in the assessment area, limiting opportunities to make HMDA reportable loans.

The distribution of small business loans based on the income level of the geography of the business demonstrated an excellent penetration rate of lending

The distribution of consumer loans based on the income levels of the geography reflected a reasonable penetration rate of lending among geographies of different income levels; however, needs to improve its lending to low income census tracts.

Action Taken in Response to Written Complaints With Respect to CRA:

Since the latest CRA evaluation as of December 31, 2009, neither ESB nor DFS has received any written complaints regarding ESB’s CRA performance.

Community Development Test (Loans, Investments, Services): “Satisfactory”

ESB’s community development performance demonstrated adequate responsiveness to the community development needs of its assessment area through community development loans, investments and services, considering the bank’s capacity and the need and availability of such opportunities for community development in its assessment area.

- **Community Development Loans: “Satisfactory”**

During the evaluation period, ESB originated \$1.2 million in new community development loans.

- **Community Development Qualified Investments: “Outstanding”**

ESB made \$5.3 million in community development investments ESB made \$151 thousand community development grants.

- **Community Development Services:** “Satisfactory”

ESB demonstrated a reasonable level of community development services over the course of the evaluation period.

- **Innovative or Complex Practices:**

ESB did not make use of innovative or complex community development practices.

- **Responsiveness to Credit and Community Development Needs:**

ESB demonstrated a reasonable level of responsiveness to credit and community development needs.

This evaluation was conducted based on a review of the 12 assessment factors set forth in Section 28-b of the New York State Banking Law and Part 76 of the General Regulations of the Superintendent.

PERFORMANCE CONTEXT

Institution Profile:

Elmira Savings Bank (ESB) was organized in 1869 as a New York chartered mutual savings bank under the name of Southern Tier Savings Bank, and changed to its current name in 1890. In 1983, ESB converted from a state charter to a federally chartered mutual savings bank. As of January 1, 2012, ESB converted from a federally chartered savings bank to a New York State chartered savings bank. The main headquarter is located at 333 East Water Street, Elmira, New York. ESB has two wholly owned subsidiaries, ESB Realty Corporation, a real estate investment trust (REIT) formed in April 2000, and ESB Advisory Services, Inc., formed in 2006 as a service corporation engaged in the sale of non-deposit investment products.

ESB offers traditional savings bank products and services including deposit products, residential mortgage loans, consumer loans, commercial real estate loans and commercial loans.

As per the Consolidated Report of Condition (the Call Report) as of December 31, 2012, filed with the Federal Deposit Insurance Corporation ("FDIC"), ESB reported total assets of \$537 million, of which \$374 million were net loans and lease finance receivables. It also reported total deposits of \$410 million, resulting in a loan-to-deposit ratio of 91.2%. According to the latest available comparative deposit data as of June 30, 2012, ESB obtained a market share of 8.41%, or \$400.2 million in a deposit market of \$4.8 billion, ranking it 3rd among 21 deposit-taking institutions in the assessment area. In Chemung County, ESB ranked 2nd among 8 institutions with \$266 million deposits and 15.1% market share. Chemung County is also the major source of deposits representing 66.5% of the total deposits of \$400.2 million inside ESB's market area.

The following is a summary of ESB's loan portfolio, based on Schedule RC-C¹ of the bank's December 31, 2011 and December 31, 2012 Call Reports:

¹ Total Gross Loans outstanding should be the amount as indicated on Lines 1 through 10.

TOTAL GROSS LOANS OUTSTANDING				
Loan Type	2011		2012	
	\$000's	%	\$000's	%
1-4 Family Residential Mortgage Loans	208,859	59.9	246,501	64.6
Commercial & Industrial Loans	37,422	10.7	29,114	7.6
Commercial Mortgage Loans	57,922	16.6	65,165	17.1
Multifamily Mortgages	3,171	0.9	3,036	0.8
Consumer Loans	32,319	9.3	27,763	7.3
Agricultural Loans	0	0.0	0	0.0
Construction Loans	9,131	2.6	9,695	2.5
Obligations of States & Municipalities	0	0.0	0	0.0
Other Loans	39	0.0	68	0.0
Lease financing		0.0		0.0
Total Gross Loans	348,863	100.0	381,342	100.0

As illustrated in the above chart, ESB is primarily a residential real estate lender, with 64.6% of its loan portfolio in 1-4 family residential mortgage loans as of 12/31/2012. ESB also engages in commercial loans (Commercial & Industrial loans and commercial mortgages) at 24.7% of its loan portfolio.

ESB conducts its operations through 12 full service branch locations in Chemung (6), Tompkins (3), Steuben (2) and Cayuga (1) counties and a limited service branch in a middle income underserved census tract location in Schuyler County. It also has two loan production offices in Tompkins and Cortland counties. Of the 12 full service branches, one (the main office) is located in a low income census tract and three in moderate income geographies. All branches have ATMs for deposit and withdrawal transactions.

There are no known financial or legal impediments that adversely impacted the ESB's ability to meet the credit needs of its community.

Assessment Area:

ESB's assessment area is comprised of 87 census tracts, of which 3 are low-income, 13 are moderate-income, 54 are middle-income, 15 are upper-income and 2 are tracts with no income indicated. Of the 54 middle-income census tracts, 4 are located in underserved geographies.

Assessment Area Census Tracts by Income Level										
County	N/A	Low	Mod	Middle	Upper	Total	LMI %	Dis- tressed & Under- served	LMI & Dis- tressed %	
Cayuga *	0	0	0	2	2	4	0.0		0%	
Chemung	1	2	6	9	4	22	36.4		36%	
Schuyler	0	0	0	4	1	5	0.0	4	80%	
Seneca *	0	0	0	3	0	3	0.0		0%	
Steuben	0	0	3	25	2	30	10.0		10%	
Tompkins	1	1	4	11	6	23	21.7		22%	
Total	2	3	13	54	15	87	18.4	4	23%	

*Partial county

The assessment area appears reasonable based upon the location of ESB's offices and its lending patterns. There is no evidence that LMI areas have been arbitrarily excluded.

Demographic & Economic Data

The assessment area had a population of 338,336 as reported in the 2010 US Census. About 13.7% of the population were over the age of 65 and 18.0% were under the age of 16.

Of the 81,923 families in the assessment area, 19.6% were low-income, 18.2% were moderate-income, 21.8% were middle-income and 40.4% were upper-income families. There were 132,027 households in the assessment area, of which 13.9% had income below the poverty level and 2.6% were on public assistance.

The weighted average of median family income within the assessment area was \$60,485. The U.S. Department of Housing and Urban Development ("HUD") estimated median family income, for the area, was \$61,368 in 2012. Tompkins County showed the highest median family income at \$75,849, followed by Chemung County at \$56,752.

There were 150,744 housing units within the assessment area, of which 90.0% were one- to four-family units, and 10.0% were multifamily units. A majority (59.2%) of the area's housing units were owner-occupied, while 28.4% were rental occupied units. Of the 89,268 owner-occupied housing units, 13.1% were in low- and moderate-income census tracts while 86.9% were in middle- and upper-income census tracts. The median age of the housing stock was 54 years and the median home value in the assessment area was \$114,855.

There were 24,135 non-farm businesses in the assessment area. Of these, 71.4% were businesses with reported revenues of less than or equal to \$1 million, 3.9% reported revenues of more than \$1 million and 24.6% did not report their revenues.

Of all the businesses in the assessment area, 81.8% were businesses with less than fifty employees while 89.8% operated

from a single location. The largest industries in the area were in services (46.8%), followed by retail trade (12.6%) and agriculture, forestry and fishing (6.1%), while 11.8% of businesses in the assessment area were not classified.

According to the New York State Department of Labor, the average unemployment rate for New York State from 2009 to 2012 was 8.5%, a significant increase from 5.4% registered in 2008, which can be attributed to the meltdown of the financial and real estate markets. The average unemployment rate in the same four-year period in Chemung, Schuyler, Cayuga and Seneca were almost at par with statewide rate. Steuben County had the highest unemployment rate among the six counties in the assessment area while Tompkins County had the lowest.

Assessment Area Unemployment Rate							
	Statewide	Chemung	Steuben	Tompkins	Seneca	Schuyler	Cayuga
2012	8.5	8.7	9.8	6	7.9	8.4	8.1
2011	8.3	7.9	9.4	5.8	7.7	7.8	7.7
2010	8.6	8.5	10	5.9	8.1	8.2	8.4
2009	8.4	9.0	9.8	5.9	7.7	8.4	8.4
Average	8.5	8.5	9.8	5.9	7.9	8.2	8.2

Community Information

Community information was provided by officers from the following three nonprofit organizations in ESB's assessment area: (1) a community action agency providing an opportunity for individuals and families to earn decent living wage and offering social services such as educational assistances for youths ages 13 to 21, academic tutoring, and job training programs; (2) an organization committed to creating housing options to low income residents by developing, rehabilitating and managing low cost housing for renters and homebuyers; and (3) an economic development agency that serves as a broker of local, regional and state economic development incentives and programs offered in Chemung County to attract and retain businesses.

The community contacts indicated the need for more job opportunities, as manifested by high unemployment rates and loss of jobs caused by companies closing or leaving the area. Community needs mentioned also include the need for affordable multi-family housing units due to the natural gas development in Pennsylvania driving up the cost of rental housing in nearby Chemung County. While the contacts indicated that regional community banks respond more to community credit needs than national banks, nevertheless, local banks should be more responsive in providing affordable financial services to low income residents and funding needs of non-profits; and conducting more outreach efforts to ascertain

community credit needs.

PERFORMANCE STANDARDS AND ASSESSMENT FACTORS

ESB was evaluated under the intermediate small banking institution's performance standards in accordance with Parts 76.7 and 76.12 of the General Regulations of the Superintendent . ESB's performance was evaluated according to the intermediate small bank performance criteria, which consists of the lending test and the community development test.

The lending test includes:

- 1. Loan-to-deposit ratio and other lending-related activities;*
- 2. Assessment area concentration;*
- 3. Distribution by borrower characteristics;*
- 4. Geographic distribution of loans; and*
- 5. Action taken in response to written complaints regarding CRA.*

The community development test includes:

- 1. Community development lending;*
- 2. Community development investments;*
- 3. Community development services;*
- 4. Innovative or complex practices; and*
- 5. Responsiveness to community development needs.*

The following factors were also considered in assessing ESB's record of performance:

- 1. The extent of participation by the board of directors or board of trustees in formulating CRA policies and reviewing CRA performance;*
- 2. Any practices intended to discourage credit applications,*
- 3. Evidence of prohibited discriminatory or other illegal credit practices;*
- 4. Record of opening and closing offices and providing services at offices; and*
- 5. Process factors, such as activities to ascertain credit needs and the extent of marketing and special credit related programs.*

Finally, the evaluation considered other factors as delineated in Section 28-b of the Banking Law that reasonably bear upon the extent to which a banking institution is helping to meet the credit needs of its entire community.

Statistics employed in this evaluation were derived from various sources. Bank-specific information was submitted by the bank both as part of the examination process and on its Call Report submitted to the Federal Deposit Insurance Corporation ("FDIC"). Aggregate lending data were obtained from the Federal Financial Institutions Examination Council ("FFIEC") and deposit data were obtained from the FDIC. Loan-to-deposit ratios were calculated from information shown in the bank's Uniform Bank Performance Report ("UBPR") as submitted to the FDIC.

The demographic data referred to in this report was derived from the 2000 U.S. Census and the U.S. Department of Housing and Urban Development ("HUD"). Business

demographic data is based on Dun & Bradstreet reports which are updated annually. Unemployment data was obtained from the New York State Department of Labor. Some non-specific bank data is only available on a county-wide basis, and were used even where the institution's assessment area includes partial counties.

The assessment period included calendar years 2011 and 2012.

Examiners considered ESB's HMDA-reportable, small business, and consumer loans in evaluating factors (2), (3) and (4) of the lending test as noted above.

Small business loan aggregate data are shown for comparative purposes. ESB is not required to report this data. As such, ESB is not included in the aggregate data. As ESB did not make any small farm loans, all analyses were based on small business lending only.

At ESB's request, consumer data were evaluated. Aggregate consumer data are not available for comparative purposes.

HMDA-reportable and small business loan data evaluated in this performance evaluation represented actual originations. Consumer loan results were extrapolated from a random sample of 164 loans.

HMDA-reportable lending was given greater weight in this evaluation, as it represented 87% of total loans submitted for the lending test.

This is the first CRA evaluation conducted by DFS since ESB converted from a federally chartered savings bank to a New York State ("NYS") chartered savings bank. ESB received a "Satisfactory" rating at its prior Performance Evaluation conducted by the Office of Thrift Supervision as of February 7, 2011.

Current CRA Rating: "Satisfactory"

Lending Test: "Satisfactory"

ESB's HMDA-reportable, small business and consumer lending activities were adequate in light of aggregate and peer group activity and demographics.

Loan-to-Deposit Ratio and other Lending-Related Activities: "Outstanding"

ESB's average LTD ratio was more than reasonable considering its size, business strategy, financial condition, aggregate and peer group activity.

ESB's average LTD ratio was 90%, compared favorably to its peer group level of 75.7%¹. Lending trends indicated a steady increase in the loan portfolio, particularly in

¹ Insured commercial banks having assets between \$300 million and \$1 billion

residential real estate, which represented 85.1% of total loans as of the year ended December 31, 2012.

Management has attributed the increase in mortgage lending to the expansion of ESB's market area, origination of more affordable mortgage products, historically low interest rates culminating in a high volume of refinances, and less competition from mortgage bankers and brokers who have left ESB's market area.

ESB ranked second among 170 lenders, in terms of originated mortgage loans based on the 2011 peer mortgage data in its assessment area for a market share by number of loans of 12.4% and 12.2% by dollar amount.

The chart below shows ESB's LTD ratios in comparison with the peer group's ratios for the eight quarters covered by the current evaluation period.

Loan-to-Deposit Ratios									
	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	Avg.
Bank	87.2	86.5	91.1	90.5	90.5	90.6	91.6	92.0	90.0
Peer	76.5	76.6	75.9	80.4	73.3	74.3	74.4	74.0	75.7

Assessment Area Concentration: "Outstanding"

During the evaluation period, ESB originated 90.1% by number, and 88.8% by dollar value of its loans, consisting of HMDA-reportable, small business and consumer loans within the assessment area. This substantial majority inside of its assessment area is an excellent record of lending.

HMDA-reportable loans represented 87.4% of total loans made inside the assessment area while small business and consumer loans were both at 6.3%. In all instances, ESB made substantial majority of loans inside the assessment area.

HMDA-Reportable Loans:

During the evaluation period, ESB originated 89.1% by number, and 88.8% by dollar value of its loans within the assessment area. The substantial majority of lending inside of its assessment area is an "Outstanding" record of lending.

During the evaluation period, ESB originated a large number of new purchases, as well as refinances as a result of expansion of market area and new affordable mortgage products. In 2011, ESB originated 59.6% in new purchases and 36.1% in refinances while in 2012, 52.5% were new purchases and 42.6% were refinances.

Small Business Loans:

During the evaluation period, ESB originated 91.1% by number, and 88.7% by dollar value of small business loans within the assessment area. This substantial majority of lending inside the assessment area is an “Outstanding” record of lending.

Consumer Loans:

During the evaluation period, ESB originated 91.5% by number, and 89.3% by dollar value of its consumer loans within the assessment area. This substantial majority of lending inside of its assessment area is an “Outstanding” record of lending.

The following table shows the percentages of ESB’s HMDA-reportable, small business and consumer loans originated inside and outside of the assessment area.

Distribution of Loans Inside and Outside of the Assessment Area										
Loan Type	Number of Loans					Loans in Dollars (in thousands)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
HMDA-Reportable										
2011	802	88.5%	104	11.5%	906	84,827	87.4%	12,177	12.6%	97,004
2012	1,169	89.6%	136	10.4%	1,305	136,548	89.6%	15,829	10.4%	152,377
Subtotal	1,971	89.1%	240	10.9%	2,211	221,375	88.8%	28,006	11.2%	249,381
Small Business										
2011	67	95.7%	3	4.3%	70	9,225	97.7%	216	2.3%	9,441
2012	56	86.2%	9	13.8%	65	6,855	79.0%	1,824	21.0%	8,679
Subtotal	123	91.1%	12	8.9%	135	16,080	88.7%	2,040	11.3%	18,120
Consumer										
2011	615	88.9%	77	11.1%	692	7,350	85.5%	1,244	14.5%	8,594
2012	691	94.0%	44	6.0%	735	8,529	92.8%	657	7.2%	9,184
Subtotal	1,306	91.5%	121	8.5%	1,427	15,879	89.3%	1,900	10.7%	17,778
Grand Total	3,400	90.1%	373	9.9%	3,773	253,334	88.8%	31,946	11.2%	285,279

For consumer lending, analysis was performed on a sample of 164 loans. Number and dollar value of loans were then extrapolated from the resulting percentages and are not actual results. HMDA-reportable and small business lending analyses were based on actual lending.

Distribution by Borrower Characteristics: “Satisfactory”

The distribution of loans based on borrower characteristics demonstrated an adequate level of lending among individuals of different income levels and businesses of different revenue sizes.

HMDA-Reportable Loans:

ESB’s HMDA-reportable lending demonstrated a reasonable penetration level among individuals of different income levels (including low- and moderate-income).

During the 2-year evaluation period, ESB made 7.5% by number of loans and 3.6% by dollar value of HMDA-reportable loans to low-income borrowers, slightly outperforming aggregate market levels. In 2011, ESB made 8.1% by number of loans and 3.6% by dollar value, slightly better than the aggregate market levels of 7.4% and 3.2%, respectively.

In 2012, ESB made 7.1% by number and 3.6% by dollar value to low-income borrowers, again slightly better than the aggregate market levels of 7.1% and 3.1%, respectively.

The following chart provides a summary of the HMDA-reportable lending distribution based on borrower income.

Distribution of 1-4 Family Loans by Borrower Income									
2011									
Borrower Income	Bank				Aggregate				Fam.Dem.
	#	%	\$000's	%	#	%	\$000's	%	
Low	63	8.1%	3,019	3.6%	451	7.4%	20,537	3.2%	18.4%
Moderate	136	17.4%	9,398	11.3%	1,151	18.8%	78,714	12.3%	18.4%
LMI	199	25.4%	12,417	14.9%	1,602	26.2%	99,251	15.5%	36.8%
Middle	204	26.1%	18,040	21.7%	1,564	25.6%	134,177	21.0%	23.4%
Upper	360	46.0%	51,542	61.9%	2,798	45.7%	390,107	61.0%	39.9%
Unknown	19	2.4%	1,244	1.5%	152	2.5%	16,131	2.5%	
Total	782		83,243		6,116		639,666		
2012									
Borrower Income	Bank				Aggregate				Fam.Dem.
	#	%	\$000's	%	#	%	\$000's	%	
Low	81	7.1%	4,670	3.6%	484	6.9%	23,397	3.1%	19.6%
Moderate	229	20.1%	18,406	14.1%	1,364	19.5%	98,716	13.0%	18.2%
LMI	310	27.3%	23,076	17.6%	1,848	26.4%	122,113	16.1%	37.8%
Middle	312	27.4%	31,221	23.9%	1,838	26.2%	167,180	22.0%	21.8%
Upper	497	43.7%	75,005	57.3%	3,135	44.7%	450,153	59.2%	40.4%
Unknown	18	1.6%	1,527	1.2%	188	2.7%	21,343	2.8%	
Total	1,137		130,829		7,009		760,789		
GRAND TOTAL									
Borrower Income	Bank				Aggregate				Fam.Dem.
	#	%	\$000's	%	#	%	\$000's	%	
Low	144	7.5%	7,689	3.6%		7.1%		3.1%	
Moderate	365	19.0%	27,804	13.0%		19.2%		12.7%	
LMI	509	26.5%	35,493	16.6%	3,450	26.3%	221,364	15.8%	
Middle	516	26.9%	49,261	23.0%		25.9%		21.5%	
Upper	857	44.7%	126,547	59.1%		45.2%		60.0%	
Unknown	37	1.9%	2,771	1.3%		2.6%		2.7%	
Total	1,919		214,072						

Small Business Loans:

The distribution of small business loans based on the revenue size demonstrated an excellent rate of lending among businesses of different revenue sizes.

In 2011, ESB originated 70.1% by number and 56.5% by dollar value to small businesses with gross annual revenues of \$1 million or less, outperforming aggregate market levels by significant margins of 26.2% and 14.5%, respectively. In 2012, ESB also made a significant level of small business loans with gross annual revenues of \$1 million or less at 71.4% by number and 69.3% by dollar value, again outperforming the aggregate level in 2012.

The following chart provides a summary of ESB's small business lending distribution based on revenue size during the evaluation period:

Distribution of Small Business Lending by Revenue Size of Business									
2011									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	47	70.1%	5,216	56.5%	1,641	43.9%	51,380	42.0%	68.0%
Rev. > \$1MM	15	22.4%	3,747	40.6%					3.0%
Rev. Unknown	5	7.5%	262	2.8%					29.0%
Total	67		9,225		3,734		122,280		
2012									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	40	71.4%	4,749	69.3%	1,801	36.5%	63,827	37.0%	71.5%
Rev. > \$1MM	12	21.4%	2,041	29.8%					3.9%
Rev. Unknown	4	7.1%	65	0.9%					24.6%
Total	56		6,855		4,935		172,724		
GRAND TOTAL									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	87	70.7%	9,965	62.0%		39.7%		39.1%	
Rev. > \$1MM	27	22.0%	5,788	36.0%					
Rev. Unknown	9	7.3%	327	2.0%					
Total	123		16,080		8,669		295,004		

Consumer Loans:

The distribution of consumer loans based on the income of the borrowers demonstrated an adequate penetration rate of lending among borrowers of different income levels.

The rate of lending for both 2011 and 2012 in low and moderate-income borrowers were comparable to the household demographics in the assessment area.

In 2011, ESB made 19.8% by number and 9.7% by dollar value to low-income borrowers. Combined rate of lending to low to moderate-income borrowers was 45.7% by number and 35.3% by dollar value. In 2012, lending to low-income borrowers improved to 24.1% by number and 16.5% by dollar value. Combined rate of lending to

LMI borrowers improved to 55.4% and 41.7%, respectively.

The following chart provides a summary of ESB's consumer lending distribution based on borrowers of different income levels during the evaluation period:

Distribution of Consumer Lending by Borrower Income					
2011					
Borrower	Bank				HH Dem.
Income	#	%	\$000's	%	%
Low	121	19.8%	710	9.7%	22.9%
Moderate	159	25.9%	1,887	25.7%	16.2%
LMI	281	45.7%	2,597	35.3%	39.1%
Middle	220	35.8%	2,840	38.6%	19.4%
Upper	114	18.5%	1,913	26.0%	41.5%
Unknown	0	0.0%	0	0.0%	0.0%
Total	615		7,350		
2012					
Borrower	Bank				HH Dem.
Income	#	%	\$000's	%	%
Low	167	24.1%	1,408	16.5%	23.9%
Moderate	216	31.3%	2,153	25.2%	16.3%
LMI	383	55.4%	3,561	41.7%	39.1%
Middle	200	28.9%	2,988	35.0%	18.1%
Upper	108	15.7%	1,980	23.2%	41.7%
Unknown	0	0.0%	0	0.0%	0.0%
Total	691		8,529		
GRAND TOTAL					
Borrower	Bank				HH Dem.
Income	#	%	\$000's	%	%
Low	288	22.1%	2,118	13.3%	
Moderate	376	28.8%	4,040	25.4%	
LMI	664	50.8%	6,158	38.8%	
Middle	420	32.2%	5,828	36.7%	
Upper	222	17.0%	3,893	24.5%	
Unknown	0	0.0%	0	0.0%	
Total	1,306		15,879		

Geographic Distribution of Loans: "Satisfactory"

The distribution of loans based on lending in census tracts of varying income levels demonstrated a reasonable rate of lending for the combined HMDA-reportable, small business and consumer loans.

HMDA-Reportable Loans:

The distribution of HMDA-reportable loans demonstrated a reasonable penetration rate of lending based on geographical income levels.

In 2011, ESB did not make any loan in a low-income census tract; and 0.8% by number

and 0.2% by dollar value in 2012. There are only 3 low-income census tracts in the assessment area. One of the low-income census tracts is in downtown Elmira which is mostly a commercial district. ESB and another community regional bank, county and city government offices and several NPOs are located in this area. Another low-income area is the site of a correctional facility known as the "Hill", thus limiting the opportunities to make loans in low-income census tracts. Overall, ESB's rate of lending in low-income geographies (by number of loans) was comparable with aggregate market levels and demographic data for owner occupied housing units. Aggregate market levels in 2011 were also deemed to be at a low level of 0.1% by number and 1.0% by dollar value; but at par with the demographics of owner-occupied housing units.

ESB originated 7.6% by number and 4.8% by dollar value in moderate-income census tracts in 2011. In 2012, the volume of lending to moderate-income geographies rose substantially to 16.4% in terms of number of loans and to 11.6% by dollar value. ESB's performance in both years outperformed the aggregate levels.

In addition, ESB has four underserved middle-income geographies in their assessment located in Schuyler County. During the evaluation period, ESB made 5.8% by number and 6.2% by dollar value in underserved middle-income communities.

The following chart provides a summary of ESB's HMDA-reportable lending distribution based on the income level of the geography.

Distribution of HMDA-Reportable Lending by Geographic Income of the Census Tract									
2011									
Geographic Income	Bank				Aggregate				OO HUs
	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	8	0.1%	7,063	1.0%	0.1%
Moderate	61	7.6%	4,107	4.8%	371	5.7%	42,315	6.1%	5.9%
LMI	61	7.6%	4,107	4.8%	379	5.9%	49,378	7.1%	6.0%
Middle	543	67.7%	56,201	66.3%	4,662	72.0%	457,791	66.0%	77.4%
Upper	198	24.7%	24,519	28.9%	1,432	22.1%	186,577	26.9%	16.6%
Unknown		0.0%		0.0%		0.0%		0.0%	0.0%
Total	802		84,827		6,473		693,746		
2012									
Geographic Income	Bank				Aggregate				OO HUs
	#	%	\$000's	%	#	%	\$000's	%	%
Low	9	0.8%	275	0.2%	31	0.4%	1,247	0.2%	0.8%
Moderate	192	16.4%	15,903	11.6%	747	10.7%	55,954	7.4%	12.3%
LMI	201	17.2%	16,178	11.8%	778	11.1%	57,201	7.5%	13.1%
Middle	626	53.6%	71,704	52.5%	4,250	60.6%	431,202	56.7%	65.8%
Upper	341	29.2%	48,526	35.5%	1,980	28.3%	272,246	35.8%	21.0%
Unknown	1	0.1%	140	0.1%		0.0%	140	0.0%	0.0%
Total	1,169		136,548		7,008		760,789		
GRAND TOTAL									
Geographic Income	Bank				Aggregate				OO HUs
	#	%	\$000's	%	#	%	\$000's	%	%
Low	9	0.5%	275	0.1%		0.3%		0.6%	
Moderate	253	12.8%	20,010	9.0%		8.3%		6.8%	
LMI	262	13.3%	20,285	9.2%	1,157	8.6%	106,579	7.3%	
Middle	1,169	59.3%	127,905	57.8%		66.1%		61.1%	
Upper	539	27.3%	73,045	33.0%		25.3%		31.5%	
Unknown	1	0.1%	140	0.1%		0.0%		0.0%	
Total	1,971		221,375						

Small Business Loans:

The distribution of small business loans based on the income level of the geography of the business demonstrated an excellent penetration rate of lending

In 2011, ESB originated 10.4% by number and 3.5% by dollar value in low-income geographies, outperforming aggregate market levels of 1.7% both by loan number and dollar value. Similarly, ESB originated 29.9% by number and 24.3% by dollar value in moderate-income census tracts, outperforming aggregate levels of 15.3% by loan number and 20.0% by dollar value.

In 2012, ESB also demonstrated a high level of lending in low and moderate-income census tracts. Combined LMI lending was 32.1% by number and 23.7% by dollar value, in comparison to aggregate levels of 18.3% by number and 24.4% by dollar value.

The following chart provides a summary of ESB's small business lending distribution based on the income level of the geography.

Distribution of Small Business Lending by Geographic Income of the Census Tract									
2011									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	7	10.4%	319	3.5%	65	1.7%	2,089	1.7%	2.5%
Moderate	20	29.9%	2,242	24.3%	573	15.3%	24,422	20.0%	12.5%
LMI	27	40.3%	2,561	27.8%	638	17.1%	26,511	21.7%	14.9%
Middle	27	40.3%	5,097	55.3%	2,543	68.1%	77,953	63.7%	68.3%
Upper	13	19.4%	1,567	17.0%	553	14.8%	17,816	14.6%	16.8%
Unknown		0.0%		0.0%	0	0.0%	0	0.0%	0.0%
Total	67		9,225		3,734		122,280		
2012									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	4	7.1%	313	4.6%	168	3.4%	10,733	6.2%	3.8%
Moderate	14	25.0%	1,309	19.1%	778	15.8%	35,464	20.5%	16.0%
LMI	18	32.1%	1,622	23.7%	946	19.2%	46,197	26.7%	19.8%
Middle	17	30.4%	2,174	31.7%	2,972	60.2%	88,492	51.2%	58.3%
Upper	21	37.5%	3,059	44.6%	1,017	20.6%	38,035	22.0%	21.8%
Unknown		0.0%		0.0%		0.0%		0.0%	0.1%
Total	56		6,855		4,935		172,724		
GRAND TOTAL									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	11	8.9%	632	3.9%		2.7%		4.3%	
Moderate	34	27.6%	3,551	22.1%		15.6%		20.3%	
LMI	45	36.6%	4,183	26.0%		18.3%		24.6%	
Middle	44	35.8%	7,271	45.2%		63.6%		56.4%	
Upper	34	27.6%	4,626	28.8%		18.1%		18.9%	
Unknown	-	0.0%	-	0.0%		0.0%		0.0%	
Total	123		16,080						

Consumer Loans:

The distribution of consumer loans based on the income levels of the geography reflected a reasonable penetration rate of lending among geographies of different income levels; however, needs to improve lending, to low-income census tracts.

In 2011, ESB did not make any consumer loan in a low-income census tract; and 2.4% by number and 1.0% by dollar value in 2012. This level of lending is low compared to the household demographics in the assessment area of 22.9% in 2011 and 23.9% in 2012, respectively.

In 2012, the rate of lending in moderate-income geographies increased from 9.9% by loan number in 2011 to 21.7% in 2012 and from 7.9% by dollar value to 18.2% for the same period.

The following chart provides a summary of ESB's consumer lending distribution based on geographies of different income levels during the evaluation period:

Distribution of Consumer Lending by Geographic Income of the Census Tract					
2011					
Geographic	Bank				HH Dem.
Income	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	22.9%
Moderate	61	9.9%	579	7.9%	16.2%
LMI	61	9.9%	579	7.9%	39.1%
Middle	448	72.8%	5,724	77.9%	19.4%
Upper	106	17.3%	1,046	14.2%	41.5%
Unknown	0	0.0%	0	0.0%	0.0%
Total	615		7,350		
2012					
Geographic	Bank				HH Dem.
Income	#	%	\$000's	%	%
Low	17	2.4%	82	1.0%	23.9%
Moderate	150	21.7%	1,557	18.2%	16.3%
LMI	167	24.1%	1,638	19.2%	39.1%
Middle	258	37.3%	2,831	33.2%	18.1%
Upper	266	38.6%	4,060	47.6%	41.7%
Unknown	0	0.0%	0	0.0%	0.0%
Total	691		8,529		
GRAND TOTAL					
Geographic	Bank				HH Dem.
Income	#	%	\$000's	%	%
Low	17	1.3%	82	0.5%	
Moderate	211	16.1%	2,136	13.5%	
LMI	227	17.4%	2,218	14.0%	
Middle	706	54.1%	8,555	53.9%	
Upper	373	28.5%	5,106	32.2%	
Unknown	0	0.0%	0	0.0%	
Total	1,306		15,879		

Action Taken In Response to Written Complaints With Respect to CRA: "Satisfactory"

Neither ESB nor DFS has received any written complaints regarding ESB's CRA performance, since it converted into a state chartered bank in 2011.

Community Development Test: "Satisfactory"

ESB's community development performance demonstrated adequate responsiveness to the community development needs of its assessment area through community development loans, investments and services, considering ESB's capacity and the need and availability of such opportunities for community development in its assessment area.

During the evaluation period, ESB originated \$1.2 million in new community development loans. ESB also made \$2.8 million in new community development

investments and had \$2.5 million outstanding from prior evaluation periods. ESB made \$151,000 in community development grants.

A more detailed description of ESB's community development activity follows:

Community Development Lending: "Satisfactory"

During the evaluation period, ESB originated \$1.2 million in new community development loans. This level of lending demonstrated a reasonable level of community development lending over the course of the evaluation period².

Community Development Loans				
Purpose	This Evaluation Period		Outstanding from Prior Evaluation Period	
	# of Loans	\$000	# of Loans	\$000
Affordable Housing	2	412		
Community Services	3	707		
Economic Development	1	100		
Total	6	1,219	0	0

Below are examples of ESB's community development lending:

- ESB originated a loan for \$392,000 to a non-profit organization, providing community based housing and residential services with a priority toward the poor including youth aging out of the Foster Care System. Operating since 1982, the NPO is located in a low-income census tract in Elmira (Chemung County).
- ESB extended a \$20,000 line of credit to a neighborhood association that has developed a variety of loan and grant programs to provide rehabilitation services to single family homeowners in distressed neighborhoods. The association is located in a moderate-income census tract in Elmira.
- ESB extended a \$100,000 line of credit to a non-profit agency created to promote economic development in the Southern Tier of New York State by providing financial aid and assistance to new and existing businesses and implementation of economic development programs.

² For analysis purposes, renewals of lines of credit that occur during the evaluation period are considered new extensions of credit. However, the level of lending is reviewed across the time period of the exam.

Community Development Investments: "Outstanding"

ESB had \$5.3 million outstanding in community development investments as of 12/31/2012. In addition, ESB made \$151,000 in community development grants. This level of investment demonstrated an excellent level of community development investments over the course of the evaluation period.

Community Development Investments and Grants				
	This Evaluation Period		Outstanding from Prior Evaluation Periods	
	# of Inv.	\$000	# of Inv.	\$000
CD Investments				
Affordable Housing	3	\$ 1,821		
Community Services	1	\$ 2,489		
Economic Development	4	\$ 214		
Revitalize and Stabilize	1	\$ 813		
Total	9	\$ 5,337	0	-
CD Grants	# of Grants	\$000	<i>Not Applicable</i>	
Affordable Housing	4	\$ 30		
Community Services	45	\$ 91		
Economic Development	0	\$ -		
Revitalize and Stabilize	6	\$ 30		
Total	55	\$ 151		

Some of ESB's community development investments and grants are as follows:

- ESB invested in collateral trust notes issued by a private CDFI providing statewide community development by financing affordable housing rehabilitation and construction in New York State. The outstanding amount as of 12/31/2012 was \$409,470.
- ESB invested in a \$900,000 tax-exempt industrial development revenue bond issued by a County "Industrial Development Agency" to finance the construction of an arts center aimed at revitalizing a low-income census tract in Elmira. The outstanding amount as of 12/31/2012 was \$813,320.
- ESB, as a member of New York State program promoting economic development invested \$190,000 to provide New York small businesses with a number of diverse loan products to help make financing options available for a wide variety of business needs. The investment is part of the original \$236,000 line of credit committed to the program.
- ESB contributed \$28,766 toward the Affordable Housing Program of the Federal

Home Loan Bank of New York.

- In 2011 and 2012, ESB contributed \$59,500 to local branches of an international nonprofit organization providing education, income and health assistance to the less fortunate in the communities they served.

Community Development Services: “Satisfactory”

ESB demonstrated a reasonable level of community development services over the course of the evaluation period.

Nine senior officers and staff, including the Bank President, branch managers and loan officers provided leadership and rendered their financial expertise through board and committee membership of non-profits, state and county economic development agencies and local Chamber of Commerce.

- The bank President is a board member of economic development agencies in Chemung County that provides a variety of tax incentives, financing and other related benefits to projects with positive economic impact within the county;
- A manager and a retail project specialist are board and committee members of a not-for-profit organization that provides technical and financial assistance for the improvement and revitalization of the downtown Elmira business district;
- A commercial lending officer is a board member of a regional economic development corporation serving Chemung, Tompkins, Schuyler and Steuben counties that provides a low cost loan program for businesses requiring additional capital financing.

Innovative or Complex Practices:

ESB did not make use of innovative or complex community development practices.

Responsiveness to Community Development Needs:

ESB demonstrated a reasonable level of responsiveness to credit and community development needs.

Additional Factors

The extent of participation by the banking institution’s board of directors or board of trustees in formulating the banking institution’s policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act

The Board of Directors reviews and approves the CRA policy at least once a year. Ongoing CRA matters are being reported to the Board by the CEO and the COO who are both members of the Board of Directors. In 2012, a third party provider was commissioned to conduct an analysis of ESB's lending activity in the assessment area and perform a community reinvestment geo-analysis report to review ESB's compliance with the objectives of the Community Reinvestment Act.

Discrimination and other illegal practices

- *Any practices intended to discourage applications for types of credit set forth in the banking institution's CRA Public File.*

DFS noted no practices that were intended to discourage applications for the types of credit offered by ESB.

- *Evidence of prohibited discriminatory or other illegal credit practices.*

DFS noted no evidence of prohibited discriminatory or other illegal practices.

Record of opening and closing offices and providing services at offices

Distribution of Branches within the Assessment Area									
County	N/A	Low	Moderate	Middle	Upper	Total	Distressed or Underserved	LMI %	LMI and Distressed or Underserved
	#	#	#	#	#	#			
Chemung	0	1	2	1	2	6		50%	50%
Tompkins	0	0	1	1	1	3		33%	33%
Steuben	0	0	0	1	1	2		0%	0%
Cayuga *	0	0	0	0	1	1		0%	0%
Seneca *	0	0	0	0	0	-		0%	0%
Schuyler	0	0	0	1	0	1	1	0%	100%
Total	-	1	3	4	5	13	1	31%	38%
*Partial County									

ESB has 12 full service branches located in Chemung, Tompkins, Steuben and Cayuga Counties and a limited service branch in an underserved middle-income location in Schuyler County. All 12 full service branches have ATMs that can be used for deposits and withdrawals. There are no off-site ATMs. Seven branches are open on Saturdays, of which one is in a moderate-income census tract.

Three branches were opened, one of which is in a moderate-income census tract while a branch in an upper income area was closed during the evaluation period.

Process Factors

- Activities conducted by the banking institution to ascertain the credit needs of its community, including the extent of the banking institution's efforts to communicate with members of its community regarding the credit services being provided by the banking institution.

ESB conducts limited outreach activities to ascertain the credit needs of its community. However, the products and services being offered are in response to the demands of the customer/borrower base.

- The extent of the banking institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the banking institution

ESB's marketing efforts related to credit services include in-branch advertisements, bill boards in the local communities and statement messages.

Other factors that in the judgment of the Superintendent bear upon the extent to which a banking institution is helping to meet the credit needs of its entire community

DFS noted no other factors.

GLOSSARY

Aggregate Penetration Rate

The number of loans originated and purchased by all reporting lenders in specified categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the assessment area.

Community Development

“Community development”:

1. Affordable housing (including multifamily housing) for low- or moderate-income (“LMI”) individuals;
2. Community services targeted to LMI individuals;
3. Activities that promote economic development by financing business or farms that meet the size eligibility standards of the United States Small Business Administration (“SBA”) Development Company or Small Business Investment Company programs, or have gross annual incomes of \$1 million or less;
4. Activities that revitalize or stabilize LMI geographies; and
5. Activities that seek to prevent defaults and/or foreclosures in loans included in (1) and (3) above.

Community Development Loan

A loan that has its *primary purpose* community development. This includes but is not limited to loans to:

- Borrowers for affordable housing rehabilitation and construction, including construction and permanent financing for multifamily rental property serving low or moderate income (“LMI”) persons;
- Nonprofit organizations serving primarily LMI or other community development needs;
- Borrowers to construct or rehabilitate community facilities that are located in LMI areas or that primarily serve LMI individuals;
- Financial intermediaries including community development financial institutions, community development corporations, minority- and women-owned financial institutions, community loan funds or pools, micro-finance institutions, and low-income or community development credit unions that primarily lend or facilitate lending to promote community development;
- Local, state and tribal governments for community development activities; and
- Borrowers to finance environmental clean up or redevelopment of an industrial site as part of an effort to revitalize the LMI community in which the property is located.

Community Development Service

Service that has community development as its *primary purpose*, is related to the provision of financial services, and has not been considered in the evaluation of the banking institution's retail banking services. This includes but is not limited to:

- Providing technical assistance on financial matters to nonprofit, tribal or government organizations serving LMI housing or economic revitalization and development needs;
- Providing technical assistance on financial matters to small businesses or community development organizations;
- Lending employees to provide financial services for organizations facilitating affordable housing construction and rehabilitation or development of affordable housing;
- Providing credit counseling, home buyers and home maintenance counseling, financial planning or other financial services education to promote community development and affordable housing;
- Establishing school savings programs for LMI individuals;
- Providing seminars for LMI persons on banking and bank account record-keeping;
- Making ATM “Training Machines” available for extended periods at LMI community sites or at community facilities that serve LMI individuals; and
- Technical assistance activities to community development organizations such as:
 - ❖ Serving on a loan review committee;
 - ❖ Developing loan application and underwriting standards;
 - ❖ Developing loan processing systems;
 - ❖ Developing secondary market vehicles or programs;
 - ❖ Assisting in marketing financial services, including the development of advertising and promotions, publications, workshops and conferences;
 - ❖ Furnishing financial services training for staff and management;
 - ❖ Contributing accounting/bookkeeping services; and
 - ❖ Assisting in fund raising, including soliciting or arranging investments.

Geography

A census tract delineated by the United States Bureau of the Census in the most recent decennial census

Home Mortgage Disclosure Act (“HMDA”)

The Home Mortgage Disclosure Act, enacted by Congress in 1975, and subsequently amended, requires institutions to annually report data about applications for residential (including multifamily) financing.

Income Level

The income level for borrowers is based on household or family income. A geography's income is categorized by median family income for the geography. In both cases, the income is compared to the MSA or statewide nonmetropolitan median income.

Income level of individual or geography	% of the area median income
Low-income	Less than 50
Moderate-income	At least 50 and less than 80
Middle-income	At least 80 and less than 120
Upper-income	120 or more

Loans to Small Businesses

Small business loans to businesses with gross annual revenues of \$1 million or less.

Low or Moderate Income ("LMI") Geographies

Those census tracts or block numbering areas where, according to the 2000 U.S. Census, the median family income is less than 80% of the area median family income. In the case of tracted areas that are part of a Metropolitan Statistical Area ("MSA") or Primary Metropolitan Statistical Area ("PMSA"), this would relate to the median family income for the MSA or PMSA in which the tracts are located. In the case of BNAs and tracted areas that are not part of a MSA or PMSA, the area median family income would be the statewide non-metropolitan median family income.

LMI Borrowers

Borrowers whose income, as reported on the loan application which the lender relied upon in making the credit decision, is less than 80% of the area median family income. In cases where the residential property is located in a MSA or PMSA, this would relate to the median family income for that MSA or PMSA. Otherwise, the area median family income would be the statewide non-metropolitan median family income. In all instances, the area median family incomes used to measure borrower income levels are updated annually by the U.S. Department of Housing and Urban Development ("HUD").

LMI Individuals/Persons

Individuals or persons whose income is less than 80% of the area median family income. In the case where the individual resides in a MSA or PMSA, this would relate to the median family income for that MSA or PMSA. Otherwise, the area median family income would be the statewide non-metropolitan median family income. In all instances, the area median family incomes used to measure individual income levels are updated annually by HUD.

LMI Penetration Rate

A number that represents the percentage of a bank's total loans (for a particular product) that was extended to LMI geographies or borrowers. For example, an LMI penetration rate of 20% would indicate that the bank made 20 out of a total of 100 loans in LMI geographies or to LMI borrowers.

Low-Income Housing Tax Credit (LIHTC)

A dollar for dollar tax credit for affordable housing, created under the Tax Reform Act of 1986, that provides incentives to invest in projects for the utilization of private equity in the development of affordable housing aimed at low income Americans. It is also more commonly called Section 42 credits in reference to the applicable section of the IRC. The tax credits are more attractive than tax deductions as they provide a dollar for dollar reduction in a taxpayer's federal income tax. It is more commonly attractive to corporations since the passive loss rules and similar tax changes greatly reduced the value of tax credits and deductions to individual taxpayers.

New Markets Tax Credit (NMTC)

The New Markets Tax Credits (NMTC) Program was established by Congress in December 2000 to stimulate economic and community development and job creation in low-income communities. It permits individual and corporate taxpayers to receive a credit against federal income taxes for making qualified equity investments in Community Development Entities (CDEs). The credit provided to the investor totals 39% of the cost of the investment and is claimed over a 7-year period. CDEs must use substantially all of the taxpayer's investments to make qualified investments in low-income communities. The Fund is administered by the US Treasury Department's Community Development Financial Institutions Fund (CDFI).

Qualified Investment

A lawful investment, deposit, membership share or grant that has community development as its *primary purpose*. This includes but is not limited to investments, deposits, membership shares or grants in or to:

- Financial intermediaries (including community development financial institutions, community development corporations, minority- and women-owned financial institutions, community loan funds, micro-finance institutions and low-income or community development credit unions) that primarily lend or facilitate lending in LMI areas or to LMI individuals in order to promote community development;
- Organizations engaged in affordable housing rehabilitation and construction;
- Organizations, including, for example, small business investment corporations that promote economic development by financing small businesses;

- Facilities that promote community development in LMI areas or LMI individuals, such as youth programs, homeless centers, soup kitchens, health care facilities, battered women's centers, and alcohol and drug recovery centers;
- Projects eligible for low-income housing tax credits;
- State and municipal obligations, such as revenue bonds that specifically support affordable housing or other community development needs;
- Organizations serving LMI housing or other community development needs, such as counseling for credit, home ownership, home maintenance, and other financial services education; and
- Organizations supporting activities essential to the capacity of LMI individuals or geographies to utilize credit to sustain economic development, such as day care operations and job training programs that facilitate access to permanent jobs.