



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

One State Street  
New York, NY 10004

**PUBLIC SUMMARY**

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

**Date of Evaluation:** December 31, 2011

**Institution:** Five Star Bank  
55 North Main Street  
Warsaw, NY 14569

**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 Five Star Bank (“FSB”) prepared by the New York State Department of Financial Services (“DFS” or the “Department”). 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, 2011.

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 Banking Law.

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

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## **OVERVIEW OF INSTITUTION'S PERFORMANCE**

FSB's performance was evaluated according to the large bank performance criteria pursuant to Part 76.12 of the General Regulations of the Superintendent. This assessment period included calendar years 2009, 2010 and 2011. FSB is rated "1" indicating an "**Outstanding**" record of helping to meet community credit needs.

This rating is based on the following factors:

### **Lending Test: "Outstanding"**

FSB's small business and small farms and HMDA-reportable lending activities were more than reasonable in light of size, business strategy and financial condition, as well as peer group activity, demographics, and its assessment area's credit needs. FSB made a total of \$637 million of small business, small farm and HMDA-reportable loans in its assessment area during the evaluation period. Its lending levels were excellent, the assessment area concentration was excellent, the geographic distribution of loans demonstrated a good penetration rate of lending among census tracts of varying income levels, the distribution of loans by borrower characteristics demonstrated an excellent penetration of lending among individuals of different income levels and businesses of different revenue sizes, and community development lending was excellent. During this three year evaluation period, FSB originated \$75.3 million in new community development loans, and had approximately \$19.7 million outstanding from prior evaluation periods for a total of \$95.0 million.

### **Investment Test: "High Satisfactory"**

FSB's community development investments were reasonable in light of the assessment area's investment needs.

During the evaluation period, FSB made \$40.9 million in new community development investments, and had \$8.4 million outstanding from prior evaluation periods. In addition, FSB made \$280,367 in community development grants. This activity demonstrated an adequate level of community development investments and grants over the course of the evaluation period.

### **Service Test: "Outstanding"**

FSB continued to have excellent delivery systems, branch network, branch hours and services, and alternative delivery systems.

FSB's branches continue to represent a good distribution of branches within its assessment area. FSB closed two branches (one in an upper-income tract and one in a middle-income tract) and opened one branch (in an upper-income tract). FSB's record of opening and closing branches has not adversely affected the accessibility of its delivery systems, particularly to LMI geographies and or LMI individuals. FSB's delivery systems were and continue to be readily accessible to significant portions of the banks'

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assessment area, particularly LMI geographies and individuals. FSB's services continued to meet the convenience and needs of its assessment area. FSB was a leader in providing community development services. A majority of its officers participate in at least one community organization.

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

## PERFORMANCE CONTEXT

### Institution Profile:

FSB, headquartered in Warsaw, Wyoming County, New York was formed in December 2005 through the merger of Wyoming County Bank, National Bank of Geneva and Bath National Bank into First Tier Bank & Trust, which was the surviving entity and then changed its name to FSB. Financial Institutions, Inc. ("FII"), which owned all four banks, remains FSB's holding company.

As per the Consolidated Report of Condition ("Call Report") as of December 31, 2011, filed with the Federal Deposit Insurance Corporation ("FDIC"), FSB reported total assets of \$2.3 billion, of which \$1.5 billion were net loans and lease finance receivables. It also reported total deposits of \$1.9 billion, resulting in a loan-to-deposit ratio of 75.4%. According to the latest available comparative deposit data as of June 30, 2011, FSB obtained a market share of 4.2% or \$1.9 billion in a market of \$45.4 billion inside its market, ranking it 6<sup>th</sup> among 39 deposit-taking institutions in the assessment area ("AA").

The following is a summary of the loan portfolio, based on Schedule RC-C of FSB's December 31, 2009, December 31, 2010, and December 31, 2011 Call Reports:

<b>TOTAL GROSS LOANS OUTSTANDING</b>						
Loan Type	2009		2010		2011	
	\$000's	%	\$000's	%	\$000's	%
1-4 Family Residential Mortgage Loans	354,749	28.1	346,968	25.7	353,039	23.7
Commercial & Industrial Loans	149,467	11.8	154,547	11.5	171,642	11.5
Commercial Mortgage Loans	272,590	21.6	284,808	21.1	310,779	20.9
Multifamily Mortgages	16,256	1.3	31,786	2.4	33,273	2.2
Consumer Loans	381,264	30.2	443,893	32.9	511,611	34.4
Agricultural Loans	40,394	3.2	36,233	2.7	34,116	2.3
Construction Loans	38,991	3.1	37,625	2.8	51,459	3.5
Obligations of States & Municipalities	162	0.0	19	0.0	8,853	0.6
Other Loans	10,554	0.8	13,249	1.0	12,414	0.8
Lease financing		0.0		0.0		0.0
<b>Total Gross Loans</b>	<b>1,264,427</b>		<b>1,349,128</b>		<b>1,487,186</b>	

As illustrated in the above chart, FSB is primarily a real estate lender, with 46.8% of its loan portfolio in real estate mortgages, including: 1-4 family residential mortgages (23.7%), commercial mortgage loans (20.9%) and multifamily mortgages (2.2%). Consumer loans represented 34.4% of FSB's loan portfolio. FSB's total gross loan portfolio increased by 32.6% from the total recorded at the prior December 31, 2008 CRA evaluation, and trended upward during the current three-year evaluation period. Management indicated that this upward trend and the growth in the loan

portfolio resulted from management's strategic decision to organically grow its indirect automobile line of business, taking advantage of the experience of its key personnel that have well established relationships with various automobile dealerships in the AA.

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

**Assessment Area:**

FSB's AA is comprised of fifteen counties: nine counties in their entirety and portions of six counties.

There are 282 census tracts in the area, of which 5 are low-income, 25 are moderate-income, 177 are middle-income (55 of which are designated as distressed or underserved), 67 are upper-income, and 8 are tracts with no income indicated.

Assessment Area Census Tracts by Income Level									
County	N/A	Low	Mod	Middle	Upper	Total	LMI %	Distressed & Underserved	LMI & Distressed %
Allegany	1			11	1	13	0.0	11	85%
Cattaraugus*		1	2	15	1	19	15.8	15	95%
Cayuga*	1		6	1	1	9	66.7		67%
Chautauqua*		1	3	12	1	17	23.5		24%
Chemung*	1	2	4	10	3	20	30.0		30%
Erie*	3		1	28	30	62	1.6		2%
Genesee			1	8	6	15	6.7		7%
Livingston	2		3	9	1	15	20.0		20%
Monroe*				12	16	28	0.0		0%
Ontario		1	3	17	2	23	17.4		17%
Schuyer				5		5	0.0	5	100%
Seneca				9	1	10	0.0		0%
Steuben			2	24	4	30	6.7	24	87%
Wyoming				11		11	0.0		0%
Yates				5		5	0.0		0%

*\*Partial Counties*

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

**Demographic & Economic Data**

The AA had a population of 1.2 million during the examination period. About 14.5% of the population was over the age of 65 and 21.9% was under the age of 16.

Of the 322,767 families in the AA, 14.8% were low-income, 17.2% were moderate-income, 23.3% were middle-income and 44.7% were upper-income families. There

were 462,642 households in the assessment area, of which 8.5% had income below the poverty level and 2.4% were on public assistance.

The MSA median family income within the AA was \$46,365. The U.S. Department of Housing and Urban Development (“HUD”) estimated median family income for the area was \$60,868 in 2011.

There were 516,992 housing units within the AA, of which 91.9% were one- to four-family units, and 8.1% were multifamily units. A majority (67.0%) of the area’s housing units were owner-occupied, while 22.4% were rental units. Of the 346,463 owner-occupied housing units, 4.4% were in low- and moderate-income census tracts while 95.6% were in middle- and upper-income census tracts. The median age of the housing stock was 52 years and the median home value in the AA was \$87,981.

There were 105,374 non-farm businesses in the AA. Of these, 67.2% were businesses with reported revenues of less than or equal to \$1 million, 3.5% reported revenues of more than \$1 million and 29.4% did not report their revenues. Of all the businesses in the AA, 76.8% were businesses with less than fifty employees while 91.1% operated from a single location. The largest industries in the area were Services (43.5 %) followed by Retail Trade (11.7%) and Construction (6.5%), while 17.6% of businesses in the AA were not classified.

According to the New York State Department of Labor, the average unemployment rate for New York State declined to 8.2% in 2011 from a high of 8.6% in 2010. During 2009, six of the 15 counties in the AA had unemployment rates lower than the state-wide rate. This number increased to ten counties in 2010 and then to eleven counties in 2011. Most of the counties’ unemployment rates reflected the economic downturn during the evaluation period. Steuben County had the highest unemployment rates in all years, reaching 10.0% in 2010 before declining to 9.4% in 2011. Yates County had the lowest unemployment rates, averaging 6.8% during the evaluation period.

<b>Assessment Area Unemployment Rate</b>								
	NYS	Allegany	Cattaraugus	Cayuga	Chautauqua	Chemung	Erie	Genesee
2009	8.3	8.8	8.7	8.4	8.4	9.0	8.2	7.7
2010	8.6	9.1	9.1	8.4	8.8	8.5	8.3	7.8
2011	8.2	8.7	8.7	7.7	7.9	7.9	7.9	7.5

<b>Assessment Area Unemployment Rate</b>								
	Livingston	Monroe	Ontario	Schuyler	Seneca	Steuben	Wyoming	Yates
2009	8.5	7.9	7.3	8.4	7.7	9.8	9.1	6.8
2010	8.5	8.0	7.6	8.2	8.1	10.0	9.3	6.8
2011	7.8	7.6	7.2	7.8	7.7	9.4	8.4	6.9



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## **Community Information**

Two community contacts were interviewed for this evaluation. A vice president at a nonprofit organization that specializes in helping local businesses in the region by providing information, advocacy, human resource services and networking to help them grow; and the Executive Director of a public benefit corporation dedicated to attracting new businesses and helping existing businesses grow in one of the counties of FSB's AA.

Neither contact made any negative comments about FSB or any other local bank. Both community contacts noted an increase in construction and business activities in downtown Rochester but noted the need for permanent job creation and additional economic development. Also, one community contact indicated that although the Rochester area had lost many manufacturing jobs, jobs were added in the construction sector.

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## **PERFORMANCE STANDARDS AND ASSESSMENT FACTORS**

*FSB was evaluated under the large bank's performance standards in accordance with Parts 76.8, 76.9 and 76.10 of the General Regulations of the Superintendent which consist of the lending, investment and service tests. The following factors were also considered in assessing the bank'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 FDIC. Aggregate lending data was obtained from the Federal Financial Institutions Examination Council ("FFIEC") and deposit data was 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 ("Census") and the U.S. Department of Housing and Urban Development ("HUD"). Business demographic data used in this report 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 was used even where the institution's assessment area includes partial counties.

The assessment period included calendar years 2009, 2010 and 2011.

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

In reviewing lending performance, greater weight was placed on FSB's small business and small farm loans, which represented 62.5% by number and 68.3% by dollar value of the total 7,921 loans that were analyzed.

FSB received a rating of "1", reflecting an "Outstanding" record of helping to meet community credit needs at its **prior** Performance Evaluation conducted by the New York State Banking Department as of December 31, 2008.

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**Current CRA Rating: “Outstanding”**

**LENDING TEST:** “Outstanding”

*The bank’s lending performance was evaluated pursuant to the following criteria:*

1. *Lending Activity;*
2. *Assessment Area Concentration;*
3. *Geographic Distribution of Loans;*
4. *Borrower Characteristics;*
5. *Community Development Lending; and*
6. *Flexible and/or Innovative Lending Practices.*

FSB’s small business and small farms and HMDA-reportable lending activities were more than reasonable in light of size, business strategy and financial condition, as well as peer group activity, demographics, and its assessment area’s credit needs.

**Lending Activity:** “Outstanding”

FSB’s lending levels reflected excellent responsiveness to the assessment area’s credit needs given FSB’s size and financial condition and the weak economy and mortgage crisis that existed during this period.

During the three year evaluation period, FSB’s small business, small farm and HMDA-reportable loans totaled approximately \$637 million within the assessment area. This was consistent with the \$401.8 million total recorded during the prior two year evaluation period.

FSB’s small business and small farm lending performance during the evaluation period reflected an excellent responsiveness to the credit needs of the assessment area. In 2010, FSB was ranked 6<sup>th</sup> among 75 lenders in the assessment area, with a market share of 5.2% based on the number of small business/small farm loans. This was an improvement from its 2007 performance level when it had a 2.0% market share and was ranked 10<sup>th</sup> among 99 lenders. Market share data for 2011 was not available.

FSB’s HMDA-reportable lending activity during the evaluation period reflected an excellent responsiveness to assessment area credit needs. In 2010, FSB achieved a market share of 3.7% for HMDA-reportable lending (based on number of loans) and ranked 7<sup>th</sup> among 266 reporting lenders within the assessment area. In 2007, FSB had a market share of 4.0% and ranked 5<sup>th</sup> among 343 lenders. Market share data for 2011 was not available.

During the evaluation period FSB’s average LTD ratio of 69.3% trailed the peer group average of 81.1%. However, FSB’s ratio had trended up during the evaluation period, while its peer group’s ratio trended downward, with FSB’s ratio slightly surpassing the peer LTD ratio during the fourth quarter of 2011.

Loan-to-Deposit Ratios													
	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	Avg.
Bank	64.8	70.3	68.7	71.1	67.0	69.1	66.5	69.7	66.7	71.6	70.9	75.4	69.3
Peer	90.7	89.4	86.6	83.6	81.2	80.3	79.4	78.1	76.3	76.4	75.7	75.2	81.1

### Assessment Area Concentration: “Outstanding”

During the evaluation period, FSB originated 90.7% by number and 82.7% by dollar value of HMDA-reportable, small business, and small farm loans within the assessment area. This substantial majority of lending inside of its assessment area is an excellent record of lending by FSB.

#### HMDA-Reportable Loans:

During the evaluation period, for HMDA-reportable lending, FSB originated 93.9% by number, and 90.8% by dollar value of its loans within the assessment area.

This substantial majority of lending inside of its assessment area is an excellent record of lending by FSB.

#### Small Business and Small Farm Loans:

During the evaluation period, for small business and small farm lending, FSB originated 88.8% by number, and 79.4% by dollar value of its loans within the assessment area.

This substantial majority of lending inside of its assessment area is an excellent record of lending by FSB.

The following table shows the percentages of FSB’s small business/small farm and HMDA-reportable 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	
	#	%	#	%		\$	%	\$	%		
<b>HMDA-Reportable</b>											
2009	1,027	93.3%	74	6.7%	1,101	76,213	91.3%	7,290	8.7%	83,503	
2010	903	93.7%	61	6.3%	964	57,338	87.6%	8,117	12.4%	65,455	
2011	1,044	94.7%	58	5.3%	1,102	68,265	93.0%	5,141	7.0%	73,406	
Subtotal	2,974	93.9%	193	6.1%	3,167	201,816	90.8%	20,548	9.2%	222,364	
<b>Small Business/Small Farms</b>											
2009	1,649	88.6%	212	11.4%	1,861	137,436	79.0%	36,429	21.0%	173,865	
2010	1,542	89.8%	175	10.2%	1,717	141,253	81.6%	31,858	18.4%	173,111	
2011	1,756	88.2%	234	11.8%	1,990	156,171	77.9%	44,242	22.1%	200,413	
Subtotal	4,947	88.8%	621	11.2%	5,568	434,860	79.4%	112,529	20.6%	547,389	
Grand Total	7,921	90.7%	814	9.3%	8,735	636,676	82.7%	133,077	17.3%	769,753	

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## **Geographic Distribution of Loans: “High Satisfactory”**

The distribution of loans based on lending in census tracts of varying income levels demonstrated a good penetration rate of lending.

### *Small Business Loans:*

The distribution of small business loans based on the income level of the geography of the business demonstrated a good penetration rate of lending.

In 2009 FSB’s penetration rate of lending in low income census tracts of 1.0% by number of loans and 0.4% by dollar value was in line with the aggregate rates of 1.1% and 0.9% respectively, but trailed the business demographic rate of 2.1%. In 2010, FSB’s penetration rate of lending in low-income census tracts improved to 1.2% by number of loans and 1.5% by dollar value, outperforming the demographic rates of 1.1% and 0.9%, respectively, but again trailed the business demographic of 2.0%.

In both 2009 and 2010 penetration rates of lending in moderate income census tracts outperformed the aggregate as well as the business demographic resulting in LMI penetration rates greater than the aggregate rates for both years.

In 2009, FSB’s penetration rate of lending in LMI census tracts of 8.9% by number of loans and 7.9% by dollar value outperformed the aggregate rates of 6.1%, as well as the business demographic of 8.0%. In 2010, FSB’s penetration rate of lending in LMI census tracts of 8.6% by number of loans and 8.9% by dollar value outperformed the aggregate rates of 6.5% and 6.8%, respectively, as well as exceeding the business demographic of 7.7%.

In 2011, FSB’s penetration rate in low-income census tracts was consistent with the prior years at 1.1% by number of loans and 0.9% by dollar values. The penetration rates in LMI census tracts was 8.9% by number of loans and 9.8% by dollar value, exceeding the business demographic of 6.9%. Aggregate data was not available for 2011.

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

<b>Distribution of Small Business and Small Farm Lending by Geographic Income of the Census Tract</b>									
<b>2009</b>									
<b>Geographic Income</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	17	1.0%	563	0.4%	192	1.1%	6,348	0.9%	2.0%
Moderate	129	7.8%	10,300	7.5%	894	5.1%	38,000	5.2%	6.0%
LMI	146	8.9%	10,863	7.9%	1,086	6.1%	44,348	6.1%	8.0%
Middle	1,178	71.4%	93,717	68.2%	9,988	56.4%	421,116	58.0%	58.9%
Upper	324	19.6%	32,851	23.9%	6,617	37.4%	260,036	35.8%	33.1%
Unknown	1	0.1%	5	0.0%	7	0.0%	28	0.0%	0.1%
<b>Total</b>	<b>1,649</b>		<b>137,436</b>		<b>17,698</b>		<b>725,528</b>		
<b>2010</b>									
<b>Geographic Income</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	18	1.2%	2,067	1.5%	180	1.1%	7,100	0.9%	1.9%
Moderate	115	7.5%	10,558	7.5%	915	5.4%	44,480	5.8%	5.9%
LMI	133	8.6%	12,625	8.9%	1,095	6.5%	51,580	6.8%	7.7%
Middle	1,134	73.5%	97,415	69.0%	9,637	57.0%	433,496	57.0%	59.2%
Upper	275	17.8%	31,213	22.1%	6,179	36.5%	275,828	36.2%	33.0%
Unknown	0	0.0%	0	0.0%	6	0.0%	32	0.0%	0.1%
<b>Total</b>	<b>1,542</b>		<b>141,253</b>		<b>16,917</b>		<b>760,936</b>		
<b>2011</b>									
<b>Geographic Income</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	20	1.1%	1,450	0.9%	Data Not Available				1.5%
Moderate	136	7.7%	13,843	8.9%					5.5%
LMI	156	8.9%	15,293	9.8%					6.9%
Middle	1,259	71.7%	104,900	67.2%					59.0%
Upper	341	19.4%	35,978	23.0%					34.0%
Unknown	0	0.0%	0	0.0%					0.1%
<b>Total</b>	<b>1,756</b>		<b>156,171</b>						
<b>GRAND TOTAL</b>									
<b>Geographic Income</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	55	1.1%	4,080	0.9%		1.1%		0.9%	
Moderate	380	7.7%	34,701	8.0%		5.2%		5.5%	
LMI	435	8.8%	38,781	8.9%	2,181	6.3%	95,925	6.5%	
Middle	3,571	72.2%	296,032	68.1%		56.7%		57.5%	
Upper	940	19.0%	100,042	23.0%		37.0%		36.0%	
Unknown	1	0.0%	5	0.0%		0.0%		0.0%	
<b>Total</b>	<b>4,947</b>		<b>434,860</b>						

HMDA-Reportable Loans:

The distribution of HMDA-reportable loans based on the income level of the geography demonstrated an adequate penetration rate of lending.

The low rate of lending in low-income geographies, during this evaluation period, is a

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reflection of the demographics for owner occupied homes in low-income census tracts of only 0.2%.

In 2009, FSB did not originate any loans in low-income census tracts. The aggregate rate was only 0.2% by number of loans and 0.1% by dollar value. In 2010, FSB originated 0.1% by number of loans and 0.1% by dollar value, exactly matching the aggregate rates.

FSB's lending in moderate-income census tracts outperformed both its peer group and its market demographic ratios in both 2009 and 2010, resulting in LMI originations exceeding the peer and demographic rates in both years.

In 2009, FSB originated 7.5% by number and 5.2% by dollar value of its HMDA-reportable loans in LMI areas, which compared favorably to the aggregate rates of 3.0% and 1.5%, respectively, and the demographics for owner occupied homes of 4.4%. In 2010, FSB originated 7.4% by number and 5.0% by dollar value of its HMDA-reportable loans in LMI geographies, exceeding the aggregate rates of 2.7% and 1.3%, respectively, and the demographics for owner occupied homes of 4.4%.

In 2011, LMI originations of 7.4% by number, and 5.7% by dollar value remained consistent with prior years' results, and again exceeded the demographics for owner occupied homes. Aggregate data was not available for 2011.

The following chart provides a summary of FSB'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									
2009									
Geographic Income	Bank				Aggregate				OO HUs
	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	52	0.2%	3,793	0.1%	0.2%
Moderate	77	7.5%	3,952	5.2%	758	2.8%	45,857	1.4%	4.1%
LMI	77	7.5%	3,952	5.2%	810	3.0%	49,650	1.5%	4.4%
Middle	778	75.8%	52,332	68.7%	15,475	56.5%	1,548,555	46.1%	63.6%
Upper	171	16.7%	19,890	26.1%	11,077	40.5%	1,758,560	52.4%	32.0%
Unknown	1	0.1%	39	0.1%	6	0.0%	370	0.0%	0.0%
<b>Total</b>	<b>1,027</b>		<b>76,213</b>		<b>27,368</b>		<b>3,357,135</b>		
2010									
Geographic Income	Bank				Aggregate				OO HUs
	#	%	\$000's	%	#	%	\$000's	%	%
Low	1	0.1%	56	0.1%	27	0.1%	1,502	0.1%	0.2%
Moderate	66	7.3%	2,818	4.9%	638	2.6%	36,604	1.2%	4.1%
LMI	67	7.4%	2,874	5.0%	665	2.7%	38,106	1.3%	4.4%
Middle	717	79.4%	43,093	75.2%	13,947	57.4%	1,401,153	47.4%	63.6%
Upper	119	13.2%	11,371	19.8%	9,669	39.8%	1,515,447	51.3%	32.0%
Unknown	0	0.0%	0	0.0%	1	0.0%	120	0.0%	0.0%
<b>Total</b>	<b>903</b>		<b>57,338</b>		<b>24,282</b>		<b>2,954,826</b>		
2011									
Geographic Income	Bank				Aggregate				OO HUs
	#	%	\$000's	%	#	%	\$000's	%	%
Low	2	0.2%	15	0.0%	Data Not Available				0.2%
Moderate	75	7.2%	3,866	5.7%					4.1%
LMI	77	7.4%	3,881	5.7%					4.4%
Middle	836	80.1%	51,656	75.7%					63.6%
Upper	131	12.5%	12,728	18.6%					32.0%
Unknown	0	0.0%	0	0.0%					0.0%
<b>Total</b>	<b>1,044</b>		<b>68,265</b>						
GRAND TOTAL									
Geographic Income	Bank				Aggregate				OO HUs
	#	%	\$000's	%	#	%	\$000's	%	%
Low	3	0.1%	71	0.0%		0.2%		0.1%	0.2%
Moderate	218	7.3%	10,636	5.3%		2.7%		1.3%	4.1%
LMI	221	7.4%	10,707	5.3%	1,475	2.9%	87,750	1.4%	4.4%
Middle	2,331	78.4%	147,081	72.9%		57.0%		46.7%	63.6%
Upper	421	14.2%	43,989	21.8%		40.2%		51.9%	32.0%
Unknown	1	0.0%	39	0.0%		0.0%		0.0%	0.0%
<b>Total</b>	<b>2,974</b>		<b>201,816</b>						

### Distribution by Borrower Characteristics: "Outstanding"

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



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Small Business/Small Farm Loans:

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

In 2009, FSB's lending to small businesses/small farms, in the assessment area, with gross revenue sizes less than or equal to \$1 million was 75.1% by number of loans and 42.3% by dollar value, outperforming the corresponding aggregate ratios of 34.3% and 33.8%, respectively. In 2010, FSB's lending to these small businesses/small farms was 74.1 by number of loans and 39.5% by dollar value, again surpassing the aggregate ratios of 34.3% and 34.4%, respectively.

In 2011, FSB's lending to small businesses/small farms with gross revenue sizes less than or equal to \$1 million remained consistent with the prior two years, at 74.3% by number of loans and 40.3% by dollar value. Aggregate data for 2011 was not available.

In all three years, FSB's lending to small businesses/small farms with gross revenue sizes less than or equal to \$1 million was in line with the assessment area's business demographics; slightly trailing it in 2009 and 2010, and outperforming it in 2011.

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

<b>Distribution of Small Business and Small Farms Lending by Revenue Size of Business</b>									
<b>2009</b>									
<b>Rev. Size</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	
Rev. <= \$1MM	1,239	75.1%	58,083	42.3%	6,067	34.3%	245,207	33.8%	76.3%
Rev. > \$1MM	410	24.9%	79,353	57.7%					4.7%
Rev. Unknown		0.0%		0.0%					19.0%
<b>Total</b>	<b>1,649</b>		<b>137,436</b>		<b>17,698</b>		<b>725,528</b>		
<b>2010</b>									
<b>Rev. Size</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	
Rev. <= \$1MM	1,142	74.1%	55,809	39.5%	5,799	34.3%	261,690	34.4%	76.7%
Rev. > \$1MM	400	25.9%	85,444	60.5%					4.5%
Rev. Unknown		0.0%		0.0%					18.8%
<b>Total</b>	<b>1,542</b>		<b>141,253</b>		<b>16,917</b>		<b>760,936</b>		
<b>2011</b>									
<b>Rev. Size</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	
Rev. <= \$1MM	1,305	74.3%	63,006	40.3%	Data Not Available				68.5%
Rev. > \$1MM	451	25.7%	93,165	59.7%					3.4%
Rev. Unknown		0.0%		0.0%					28.1%
<b>Total</b>	<b>1,756</b>		<b>156,171</b>						
<b>GRAND TOTAL</b>									
<b>Rev. Size</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	
Rev. <= \$1MM	3,686	74.5%	176,898	40.7%		34.3%		34.1%	
Rev. > \$1MM	1,261	25.5%	257,962	59.3%					
Rev. Unknown	-	0.0%	-	0.0%					
<b>Total</b>	<b>4,947</b>		<b>434,860</b>						

HMDA-Reportable Loans:

FSB's 1-4 family HMDA-reportable loans demonstrated an excellent penetration rate of lending among individuals of different income levels.

In 2009, FSB's penetration rate of lending to low-income borrowers of 10.5% by number of loans and 4.6% by dollar value exceeded the aggregate rates of 6.6% and 2.9%, respectively. FSB's lending to moderate-income borrowers also exceeded the aggregate ratio in 2009, resulting in a penetration rate of lending to LMI borrowers of 34.1% by number of loans and 19.2% by dollar value, exceeding the LMI aggregate rates of 27.1% and 16.4%, respectively.

In 2010, FSB's penetration rate of lending to low-income borrowers of 11.3% by number of loans and 5.1% by dollar value, again significantly exceeded the aggregate rates of 6.6% and 2.8%, respectively. FSB's lending to moderate-income borrowers again also

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exceeded the 2010 aggregate ratio, resulting in a penetration rate of lending to LMI borrowers in 2010 of 36.6% by number of loans and 23.2% by dollar value, exceeding the LMI aggregate rates of 26.7% and 15.5%, respectively.

While 2011 aggregate data was not available for comparison purposes, FSB continued to maintain a high LMI penetration rate, comparable to 2009 and 2010, at 38.0% by number of loans and 25.0% by dollar value.

The following chart provides a summary of the 1-4 family HMDA-reportable lending distribution based on household income.

Distribution of 1-4 Family Loans by Borrower Income									
2009									
Borrower Income	Bank				Aggregate				Fam.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	104	10.5%	3,373	4.6%	1,764	6.6%	95,979	2.9%	14.8%
Moderate	234	23.6%	10,734	14.6%	5,486	20.5%	440,666	13.5%	17.2%
LMI	338	34.1%	14,107	19.2%	7,250	27.1%	536,645	16.4%	32.1%
Middle	260	26.2%	17,761	24.1%	6,816	25.5%	697,147	21.3%	23.3%
Upper	358	36.1%	38,896	52.9%	11,688	43.7%	1,906,451	58.3%	44.7%
Unknown	35	3.5%	2,798	3.8%	1,008	3.8%	132,028	4.0%	
<b>Total</b>	<b>991</b>		<b>73,562</b>		<b>26,762</b>		<b>3,272,271</b>		
2010									
Borrower Income	Bank				Aggregate				Fam.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	98	11.3%	2,781	5.1%	1,564	6.6%	79,606	2.8%	14.8%
Moderate	220	25.3%	9,921	18.1%	4,766	20.1%	360,359	12.7%	17.2%
LMI	318	36.6%	12,702	23.2%	6,330	26.7%	439,965	15.5%	32.1%
Middle	219	25.2%	11,622	21.2%	5,852	24.6%	580,674	20.5%	23.3%
Upper	303	34.9%	28,399	51.8%	10,874	45.8%	1,718,094	60.7%	44.7%
Unknown	29	3.3%	2,128	3.9%	686	2.9%	92,676	3.3%	
<b>Total</b>	<b>869</b>		<b>54,851</b>		<b>23,742</b>		<b>2,831,409</b>		
2011									
Borrower Income	Bank				Aggregate				Fam.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	112	11.1%	3,626	5.5%	Data Not Available				14.8%
Moderate	270	26.8%	12,882	19.5%					17.2%
LMI	382	38.0%	16,508	25.0%					32.1%
Middle	279	27.7%	16,665	25.3%					23.3%
Upper	311	30.9%	30,545	46.3%					44.7%
Unknown	34	3.4%	2,282	3.5%					
<b>Total</b>	<b>1,006</b>		<b>66,000</b>						
GRAND TOTAL									
Borrower Income	Bank				Aggregate				Fam.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	314	11.0%	9,780	5.0%		6.6%		2.9%	
Moderate	724	25.3%	33,537	17.3%		20.3%		13.1%	
LMI	1,038	36.2%	43,317	22.3%	13,580	26.9%	976,611	16.0%	
Middle	758	26.4%	46,048	23.7%		25.1%		20.9%	
Upper	972	33.9%	97,840	50.3%		44.7%		59.4%	
Unknown	98	3.4%	7,208	3.7%		3.4%		3.7%	
<b>Total</b>	<b>2,866</b>		<b>194,413</b>						

### Community Development Lending: "Outstanding"

During the evaluation period, FSB originated \$75.3 million in new community development loans, and still had \$19.7 million outstanding from prior evaluation periods. This demonstrated an excellent level of community development lending over the course of the evaluation period.

FSB's community development lending included commitments to both non-profit and for-profit organizations, such as healthcare facilities, public schools, industrial development agencies located in middle-income distressed areas, and construction companies offering affordable housing.

<b>Community Development Loans</b>				
Purpose	This Evaluation Period		Outstandings from Prior Evaluation Periods	
	# of Loans	\$000	# of Loans	\$000
Affordable Housing	9	12,587	10	3,492
Community Services	14	14,391	17	8,804
Revitalize/Stabilize	30	48,304	2	315
Economic Development			8	7,083
<b>Total</b>	<b>53</b>	<b>75,282</b>	<b>37</b>	<b>19,694</b>

Below are highlights of FSB's community development lending.

#### Community Services:

- In 2010, FSB approved a \$1.3 million commercial mortgage loan conversion, from a commercial line of credit ("LOC") of the same amount, to a local real estate holding company. The real estate holding company used the funds to help finance the building of a community college campus in the assessment area, of which 87.0% of its full-time students receive financial aid.
- FSB extended a \$150,000 commercial revolving credit facility to a not-for-profit medical group that was established in 1973. This medical group focuses on providing services to rural localities in the assessment area, with an emphasis on low-income patients and those receiving Medicaid services. This group has a policy of providing charity care to patients who are unable to pay.

#### Affordable Housing:

- In 2010, FSB extended a \$4.0 million construction line of credit to a local nonprofit organization, whose goal is to improve the quality of life for area residents by meeting the needs of low-income and disadvantaged population. These funds were used to help in the construction of a subsidized affordable housing apartment complex in FSB's assessment area.

#### Economic Development:

- In 2011, FSB extended a \$15.0 million commercial mortgage to an industrial development agency to be used to refinance two existing facilities as well as to finance the renovation and expansion of a local helicopter manufacturing plant. The original facilities were used to finance the construction of this plant. This

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expansion will include a future flight museum that is expected to generate over 100 jobs and increase tourism in the assessment area.

**Neighborhood Revitalization:**

- In 2010, FSB participated in the financing of the rehabilitation and renovation of a local railroad station in a low-income census tract in the City of Jamestown, NY that has been out of use for 30 years. The station will be converted into a multi-modal train station and commercial space. FSB extended a total of \$2.7 million to an entity formed for the specific purpose of acting as the pass through entity for the sale of Federal and New York State Historic Tax Credits associated with this project including a \$1.6 million construction line of credit, a \$851 thousand commercial term loan and a \$200 thousand bridge term loan. The project was also funded by federal, state and local governments, and one local foundation.
- In 2009, FSB extended a \$4.8 million construction loan that converted to a permanent mortgage to a local real estate development company for a multi tenant office/commercial building. This project/property, located in a low-income census tract, received Greater Jamestown Empire Zone approval to stimulate new businesses and employment in the economically challenged downtown area of Jamestown, New York.

**Flexible and/or Innovative Lending Practices:**

Although FSB did not engage in any innovative lending practices, it did make use of flexible lending practices by utilizing government sponsored lending programs to help meet the credit needs of LMI borrowers in its assessment area, including those of the Federal Housing Authority (“FHA”), State of New York Mortgage Agency (“SONYMA”) and Small Business Administration (“SBA”). FSB’s lending through these programs during this three-year evaluation period increased significantly to \$76.2 million from \$24.2 million during the prior two-year period.

In January 2011, FSB launched a purchase Home Equity Loan product and a purchase Home Equity Line of Credit product for real estate purchases of \$75,000 or less. These products were created out of a need identified in the bank’s dealings with customers and members of the community. These purchase products were designed to provide a competitive alternative for borrowers in FSB’s market, where the medium home price is low. The product offers closing costs that are deferred and waived if the loan remains open for three years. FSB also indicates that with no delivery fees or points, the product also offers APRs similar to what is available in the first mortgage market.

**INVESTMENT TEST: “High Satisfactory”**

*FSB’s investment performance is evaluated pursuant to the following criteria:*

1. *The dollar amount of qualified investments;*
2. *The innovativeness or complexity of qualified investments; and*
3. *The responsiveness of qualified investments to credit and community*

*development needs.*

FSB's community development investments were reasonable in light of the assessment area's investment needs.

**Amount of Community Development Investments:**

During the evaluation period, FSB made \$40.9 million in new community development investments, and had \$8.4 million outstanding from prior evaluation periods. In addition, FSB made \$280,367 in community development grants. This level of activity demonstrated an adequate level of community development investments and grants over the course of the evaluation period.

FSB's qualified community development investments consisted primarily of municipal bonds issued by local towns, villages, municipalities and school districts located in LMI or middle-income distressed areas. Although still adequately meeting the investment needs of its assessment area, FSB's current level of investments declined from the \$77.2 million level recorded at the previous evaluation. FSB management indicated that this decline in investment activity was due to economic conditions and financial stress in the repayment ability of the municipal markets.

<b>Community Development Investments and Grants</b>				
	<b>This Evaluation Period</b>		<b>Outstandings from Prior Evaluation Periods</b>	
	<b># of Inv.</b>	<b>\$000</b>	<b># of Inv.</b>	<b>\$000</b>
CD Investments				
Community Services	94	15,471	5	1,180
Revitalization	157	25,422	89	7,208
<b>Total</b>	<b>251</b>	<b>40,893</b>	<b>94</b>	<b>8,388</b>
CD Grants	<b># of Grants</b>	<b>\$000</b>	Not Applicable	
Affordable Housing				
Economic Development	54	33		
Community Services	385	247		
Other (Please Specify)				
<b>Total</b>	<b>439</b>	<b>280</b>		

Below are highlights of FSB's community development investments and grants.

- \$1.7 million investment in a Bond anticipation Note ("BAN") issued by a city in Cattaraugus County. Funds were used to purchase land for commercial and recreational development that will create jobs, increase tourism and stimulate the economy in the area. Twenty of Cattaraugus County's 21 census tracts are LMI

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or middle-income distressed.

- \$700 thousand investment in a Revenue Anticipation Note (“RAN”) issued by a village in the County of Steuben, which is located in a middle-income, distressed area. The investment was used to fund construction by the village’s gas utility department.
- \$2.0 million investment in a BAN issued by a school district in Cattaraugus County that was used for school building construction. The school is located in a middle-income distressed census tract.

### **Innovativeness of Community Development Investments:**

During the evaluation period, FSB did not use innovative community development investments.

### **Responsiveness of Community Development Investments to Credit and Community Development Needs:**

FSB’s community development investments exhibited excellent responsiveness to credit and community development needs.

FSB’s investments were locally focused and were responsive to the investment needs of its assessment area.

### **SERVICE TEST: “Outstanding”**

*FSB’s retail service performance is evaluated pursuant to the following criteria:*

1. *The current distribution of the banking institution’s branches;*
2. *The institutions record of opening and closing branches;*
3. *The availability and effectiveness of alternative systems for delivering retail services; and*
4. *The range of services provided.*

*FSB’s community development service performance is evaluated pursuant to the following criteria:*

1. *The extent to which the banking institution provides community development services; and*
2. *The innovativeness and responsiveness of community development services.*

### **Retail Banking Services: “Outstanding”**

FSB had and continues to have excellent delivery systems, branch network, branch hours and services, and alternative delivery systems.



Current distribution of the banking institutions branches:

FSB's branches represented and continue to represent an excellent distribution of branches within its assessment area.

As of December 31, 2011, FSB operated 49 branches within its assessment area, of which 19 branches or 39% were located in LMI or middle-income distressed or underserved census tracts (10 were in distressed census tracts, 2 in low-income and 7 in moderate-income census tracts). While 39% of FSB's branches are in LMI or distressed census tracts, only 30% of the 262 census tracts in FSB's assessment area are LMI or distressed/underserved, thus reflecting an excellent level of branch distribution.

Distribution of Branches within the Assessment Area									
County	N/A #	Low #	Moderate #	Middle #	Upper #	Total #	LMI %	Distressed or Underserved	LMI and Distressed or Underserved
Allegany				1		1	0%	1	100%
Cattaraugus*			2	3		5	40%	3	100%
Cayuga*			1			1	100%		100%
Chautauqua*					1	1	0%		0%
Chemung*		1	1	1		3	67%		67%
Erie*					3	3	0%		0%
Genesee				2	2	4	0%		0%
Livingston			2	3		5	40%		40%
Monroe*				2	2	4	0%		0%
Ontario		1	1	1	2	5	40%		40%
Seneca				2		2	0%		0%
Steuben				6	1	7	0%	6	86%
Wyoming				6		6	0%		0%
Yates*				2		2	0%		0%
<b>Total</b>	-	2	7	29	11	49	18%	10	39%
*Partial County									

Record of opening and closing branches:

FSB's record of opening and closing branches has not adversely affected the accessibility of its delivery systems, particularly to LMI geographies and or LMI individuals.

During the evaluation period, FSB closed two branches and opened one branch. In June 2009, FSB closed a branch in Williamsville, NY (upper-income census tract), and consolidated that branch's operations into its nearby Amherst branch, located in an upper-income census tract. In July 2011, FSB's North Chili branch (middle-income census tract) was closed and then relocated to a new location in Chili Center, Rochester, NY (upper-income census tract), approximately two miles from the original site. These changes did not impact LMI geographies or LMI individuals.

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Availability and effectiveness of alternative systems for delivering retail services:

FSB's delivery systems were and continue to be readily accessible to significant portions of its assessment area, particularly LMI geographies and individuals. FSB offers the following alternative delivery retail services:

FSB has free access to ATMs at 87 locations, including 65 FSB ATMs and 22 Summit Federal Credit Union ATMs, and has a total of 46 drive-up facilities, which includes facilities at 45 of FSB's 49 branches, plus one off-site facility that is located in a low-income census tract. FSB also offers night drop facilities at all except two branches; internet banking with bill payment option; 24-hour touch tone banking; telephone transfers; and, bank by mail services.

Range of services provided:

FSB's services met and continue to meet the convenience and needs of its assessment area, particularly LMI geographies and individuals.

FSB offers Saturday banking hours at a majority of its branches, and all of its branches remain open until 5 PM on Fridays, with 34 branches remaining open past 5 PM on Thursdays and/or Fridays.

FSB offers an assortment of products and services such as: free checking (retail and business); commercial and personal mortgages including FHA and SONYMA mortgage loans; a portfolio modification program to distressed Mortgage and Home Equity borrowers; travelers' checks; certificates of deposit; and safe deposit boxes.

**Community Development Services: "Outstanding"**

FSB was a leader in providing community development services.

During the evaluation period FSB staff provided many community development related services, such as affordable housing seminars, small business seminars and training programs. In addition, many officers served on boards, advisory councils, committees, or as treasurer in various local community organizations. As board members, FSB's personnel offered financial and banking expertise to these organizations. A few examples are as follows:

- Many of FSB's senior officers and branch staff provided financial literacy, mentoring and networking programs to various local schools. For instance, the ABA Education Foundation's Teach Children to Save Program was offered to nearly 800 children.
- A senior vice president was on the financial advisory committee of a food bank located in Buffalo, which distributes food to approximately 350 member agencies

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that feed the less fortunate in Cattaraugus, Chautauqua, Erie and Niagara Counties. These are child care centers, food pantries, group homes, senior programs, shelters, soup kitchens and summer camps. The food bank provides more than 11 million pounds of food annually across the four counties it serves.

- A vice president and assistant vice president were board members of a nonprofit organization that helps provide affordable housing by building homes and revitalizing neighborhoods in the City of Rochester, NY. The nonprofit organization targets the city's most desperate neighborhoods. Another assistant vice president was a board member of the same nonprofit organization, located in Wyoming County.
- A senior vice president was a board member of an economic development corporation that provides financial and technical assistance to start-up and expanding businesses located in Chemung, Schuyler and Steuben counties. The organization is an important contributor to the economic health of the region through its participation in projects that have a positive impact on employment and its communities' tax base.

### **Additional Factors**

The following factors were also considered in assessing FSB's record of performance.

#### **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 is involved with, and kept informed of, CRA matters through its designated board members that serve on the Risk Oversight Committee as well as through the Executive Management Team. These individuals report any significant CRA activities to, and seek input from, the full board as applicable. Also, a periodic CRA self-assessment is usually conducted between CRA examination periods. The latest self-assessment was presented to the Risk Management Committee in March 2011 and then to the Risk Oversight Committee in April 2011.

#### **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 the institution.

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

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

### **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.

FSB ascertains the credit needs of its community through various outreach efforts including FSB's officers' involvement in community organizations. As part of FSB's community involvement initiative, a majority of its officers participate in at least one community organization. This initiative is designed to identify the credit needs of its community. In addition, FSB periodically holds branch events such as "Centers of Influence" dinners, attended by board members, bank officers, community leaders and customers, which provide excellent local contact opportunities and serve as a sounding board in identifying credit and product needs.

- 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

FSB's general year-round marketing efforts included brochures, posters and website advertising. Special credit-related programs, such as FSB's Spring Loan Campaigns, were promoted through on-hold announcements, newspaper advertising, posters, pamphlets and flyers.

### **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**

Since the latest CRA evaluation as of December 31, 2008, neither FSB nor the New York State Department of Financial Services has received any written complaints regarding FSB's CRA performance.

In addition, during the evaluation period, FSB received several awards from the Small Business Administration. These included the SBA Buffalo District Galaxy Star Award given to lenders who approve more than 150 loans, and the Gold Award, given to lenders who approve more than \$10 million in loans in a given year. FSB also received the SBA Patriot Award for providing the most loans to veteran-owned businesses.

## 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.

<b>Income level of individual or geography</b>	<b>% of the area median income</b>
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.