



**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: September 30, 2016

Institution: Adirondack Bank
185 Genesee Street
Utica, NY 13501

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.

TABLE OF CONTENTS

	Section
General Information	1
Overview of Institution's Performance	2
Performance Context	3
Institution Profile	
Assessment Area	
Demographic & Economic Data	
Community Information	
Performance Standards and Assessment Factors	4
Lending Test	
Loan-to-Deposit Ratio and Other Lending-Related Activities	
Assessment Area Concentration	
Distribution by Borrower Characteristics	
Geographic Distribution of Loans	
Action Taken in Response to Written Complaints with Respect to CRA	
Community Development Test	
Community Development Loans	
Community Development Investments	
Community Development Services	
Additional Factors	
Glossary	5

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (“CRA”) performance of Adirondack Bank (“AB” or the “Bank”) prepared by the New York State Department of Financial Services (“DFS” or the “Department”). This evaluation represents the Department’s current assessment and rating of the institution’s CRA performance based on an evaluation conducted as of September 30, 2016.

Section 28-b of the New York Banking Law, as amended, requires that when evaluating certain applications, the Superintendent of Financial Services 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 in 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 (“Evaluation”) be made available to the public. 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.

OVERVIEW OF INSTITUTION'S PERFORMANCE

DFS evaluated Adirondack Bank ("AB") according to the intermediate small bank performance criteria pursuant to Part 76.7 and Part 76.12 of the General Regulations of the Superintendent ("GRS"). This evaluation period included calendar years 2013, 2014 and 2015 for HMDA and small business lending. Community Development activities were considered through September 30, 2016. AB 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 Ratio and Other Lending-Related Activities: "Satisfactory"

AB's average loan-to-deposit ("LTD") ratio was reasonable considering its size, business strategy, financial condition and peer group activity. AB's average rate of 72.2% was slightly lower than its peer group average of 77.7%. AB has deposits of local municipalities and school districts, which must be collateralized; therefore, providing only limited loan growth and lowering AB's LTD ratio.

Assessment Area Concentration: "Outstanding"

During the evaluation period, AB originated 91.6% by number, and 85.7% by dollar value of its HMDA-reportable and small business loans within the assessment area. This substantial majority of lending inside of its assessment area was an excellent concentration of lending.

Distribution by Borrower Characteristics: "Satisfactory"

AB's 1-4 family HMDA-reportable and small business lending demonstrated a reasonable distribution of loans among individuals of different income levels and businesses of different revenue sizes.

AB's 1-4 family rates of lending to low- and moderate-income ("LMI") borrowers were slightly below its aggregate's rates, while AB's rates of lending to small businesses with gross annual revenues of \$1.0 million or less exceeded its aggregate's rates.

Geographic Distribution of Loans: "Satisfactory"

AB's origination of loans in census tracts of varying income levels demonstrated a reasonable distribution of lending.

AB's average HMDA-reportable rates of lending by number and dollar value of loans in LMI census tracts trailed the aggregate's rates for the evaluation period, but was still reasonable. AB's small business rate of lending by number of loans trailed the

aggregate's rate each year, while its rate of lending by dollar value was comparable to the aggregate's rate.

Action Taken in Response to Written Complaints with Respect to CRA: "Not Rated"

Neither DFS nor AB received any written complaints during the evaluation period regarding AB's CRA performance.

Community Development Test: "Outstanding"

AB's community development performance demonstrated an excellent responsiveness to the community development needs of its assessment area through community development loans, investments and services, considering AB'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, AB originated \$21.5 million in new community development loans, and had no outstanding from prior evaluation periods. This demonstrated a reasonable level of community development lending over the course of the evaluation period.

Community Development Qualified Investments: "Outstanding"

During the evaluation period, AB made \$8.8 million in new community development investments, and no outstanding from prior evaluation periods. In addition, AB made \$551,841 in community development grants. This demonstrated an excellent level of community development investments over the course of the evaluation period.

Community Development Services: "Outstanding"

AB demonstrated an excellent level of community development services over the course of the evaluation period. AB's management is active within the community serving on boards and committees within the community providing financial education to individuals, families and small businesses.

Innovative or Complex Practices:

AB made no use of innovative investments to support community development during the evaluation period.

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 GRS.

PERFORMANCE CONTEXT

Institution Profile

Adirondack Bank, established in 1898 as Saranac Lake Co-operative Savings and Loan Association changed its name to Adirondack Bank (“AB”) in 1995. AB is a commercial bank and a wholly-owned subsidiary of Adirondack Bancorp Inc., a one bank holding company.

AB offers traditional banking and credit products including but not limited to, consumer and business deposit transaction accounts, residential mortgages, commercial mortgages, home equity loans, automobile loans and other consumer loans.

Per the Consolidated Report of Condition (the “Call Report”) as of December 31, 2016, filed with the Federal Deposit Insurance Corporation (“FDIC”), AB reported total assets of \$778.4 million, of which \$465.7 million were net loans and lease finance receivables. It also reported total deposits of \$659.1 million, resulting in a loan-to-deposit ratio of 70.7%. According to the latest available comparative deposit data as of June 30, 2016, AB had a market share of 6.7%, or \$648.4 million in a market of \$9.7 billion, ranking it 8th among 16 deposit-taking institutions in its assessment area.

The following table summarizes AB’s loan portfolio, based on Schedule RC-C of the Bank’s December 31, 2013, 2014 and 2015 Call Reports:

TOTAL GROSS LOANS OUTSTANDING						
Loan Type	2013		2014		2015	
	\$000's	%	\$000's	%	\$000's	%
1-4 Family Residential Mortgage Loans	175,822	42.5	193,489	45.7	205,394	43.9
Commercial & Industrial Loans	93,069	22.5	92,878	22.0	114,086	24.4
Commercial Mortgage Loans	115,336	27.9	111,433	26.3	120,051	25.7
Multifamily Mortgages	11,593	2.8	12,243	2.9	11,313	2.4
Consumer Loans	11,899	2.9	11,783	2.8	10,450	2.2
Construction Loans	6,127	1.5	1,294	0.3	6,596	1.4
Total Gross Loans	413,846	100	423,120	100	467,890	100

As illustrated in the above table, AB is primarily a residential mortgage lender with 43.9% of its loan portfolio in residential mortgages as of December 31, 2015, while commercial mortgage loans and commercial & industrial loans make up 25.7% and 24.4% of its loan portfolio, respectively.

AB has 18 banking offices of which five are in Herkimer County, nine are in Oneida County, two are in Franklin County and one each in Clinton and Essex County. All branches are supplemented by automated teller machines (“ATMs”) except for the branch on Charlotte Street in Utica, which is drive-up only. Furthermore, all ATMs have deposit-

taking capabilities except for the ATM located in the Main Street branch in Saranac, New York.

Examiners did not find evidence of financial or legal impediments that had an adverse impact on AB's ability to meet the credit needs of its community.

Assessment Area

AB's current assessment area is comprised of the entire counties of Herkimer and Oneida, and the partial counties of Clinton, Essex, Franklin, Fulton, Hamilton, Lewis and Madison. AB amended its assessment area in July 2015, because of its Syracuse branch closure and removed all census tracts in Onondaga County from its assessment area. The total number of census tracts in the current assessment area is 145, well below the prior assessment area's total of 277 census tracts. Furthermore, LMI census tracts represent 22.8% of all census tracts in AB's current assessment area, while LMI census tracts represented 30.3% of all census tracts in AB's assessment area prior to July 2015.

There are currently 145 census tracts in the area, of which nine are low-income, 24 are moderate-income, 77 are middle-income, 28 are upper-income and seven are tracts that have no income indicated.

Current Assessment Area Census Tracts by Income Level							
County	N/A	Low	Mod	Middle	Upper	Total	LMI %
Clinton*	1	0	4	5	6	16	25.0
Essex*	0	0	0	3	1	4	0.0
Franklin*	0	0	0	3	1	4	0.0
Fulton*	0	1	2	7	0	10	30.0
Hamilton*	0	0	0	2	1	3	0.0
Herkimer	0	1	1	17	0	19	10.5
Lewis*	0	0	0	3	0	3	0.0
Madison*	0	0	1	7	0	8	12.5
Montgomery*	0	0	2	2	0	4	50.0
Oneida	6	7	14	28	19	74	28.4
Total	7	9	24	77	28	145	22.8

* Partial County

Demographic & Economic Data

The assessment area had a population of 489,817 during the evaluation period. About 15.6% of the population were over the age of 65 and 18.7% were under the age of sixteen. Of the 125,149 families in the assessment area, 20.7% were low-income, 17.8% were

moderate-income, 21.1% were middle-income and 40.4% were upper-income families. There were 193,270 households in the assessment area, of which 13.5% had income below the poverty level and 3.2% were on public assistance.

The weighted average median family income in the assessment area was \$57,944 and the weighted average of FFIEC updated MSA median family income was \$62,393.

There were 234,929 housing units within the assessment area, of which 82.5% were one-to four-family units, and 9.4% were multifamily units. A majority (56.7%) of the area's housing units were owner-occupied, while 25.5% were rental occupied units. Of the 133,306 owner-occupied housing units, 11.8% were in low- and moderate-income census tracts while 88.2% were in middle- and upper-income census tracts. The median age of the housing stock was 59 years and the median home value was \$109,963.

There were 25,371 non-farm businesses in the assessment area. Of these, 75.2% reported revenues of less than or equal to \$1 million, 5.5% reported more than \$1 million, and 19.3% did not report their revenues. Of all businesses in the assessment area, 88.4% had less than fifty employees, and 86.3% operated from a single location. The largest industries in the area were services (46.8%), retail trade (15.9%), and construction (7.9%), while 3.4% of businesses in the assessment area were not classified.

According to the New York State Department of Labor, the average annual unemployment rates for New York State have been steadily decreasing from 2013 to 2015. The same is true for the counties in the assessment area; although, the average annual unemployment rates for most of the counties in the assessment area remained consistently higher than the average annual unemployment rates for New York State.

Assessment Area Unemployment Rate			
	2013	2014	2015
New York State	7.7%	6.3%	5.3%
Clinton*	8.3%	6.6%	5.9%
Essex*	8.3%	6.9%	6.1%
Franklin*	8.8%	7.2%	6.5%
Fulton*	9.5%	7.7%	6.6%
Hamilton*	9.6%	7.4%	6.8%
Herkimer	7.8%	6.8%	6.3%
Lewis*	9.5%	7.8%	7.1%
Madison*	7.6%	6.4%	5.7%
Montgomery*	9.2%	7.5%	6.7%
Oneida	7.4%	6.1%	5.4%
Onondaga*	6.8%	5.6%	5.0%

* *Partial County*

Community Information

As a part of the evaluation and to determine some of the credit needs of the community, examiners interviewed member(s) of management of two nonprofit community organizations. One of the organizations is faith-based and located in a LMI neighborhood in Utica. It provides community services to all those in need. The other organization focuses on creating sustainable neighborhoods through affordable housing.

Both organizations identified the need for affordable housing, financial education services for residents and landlords, a regular presence of financial institutions in LMI neighborhoods (community events, etc.) and financial products more tailored to the LMI population. Both community contacts made positive comments regarding AB's active involvement in the community, but noted that there is more work to be done. While economic conditions, particularly in LMI neighborhoods of Utica such as the CornHill section have improved, issues related to the growth of the refugee population, vacant housing and the aging inventory of homes continue.

PERFORMANCE STANDARDS AND ASSESSMENT FACTORS

DFS evaluated AB 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, which consist 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; and*
- 4. Responsiveness to community development needs*

DFS also considered the following factors 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*

DFS derived statistics employed in this evaluation from various sources. AB submitted bank-specific information both as part of the examination process and on its Call Report submitted to the FDIC. DFS obtained aggregate lending data from the Federal Financial Institutions Examination Council ("FFIEC") and deposit data from the FDIC. DFS calculated loan-to-deposit ratios from information shown in the Bank's Uniform Bank Performance Report, submitted to the FDIC.

DFS derived the demographic data referred to in this evaluation from the 2010 U.S. Census and the FFIEC. DFS based business data on Dun & Bradstreet reports, which Dun & Bradstreet updated annually. Some non-specific bank data are only available on a county-wide basis, and were used even where the institution's assessment area includes partial counties.

The evaluation period included calendar years 2013, 2014 and 2015 for HMDA and small business lending, while community development activities were considered through September 30, 2016.

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

AB is not required to report small business loan data, so AB's small business lending is not included in the aggregate data. The aggregate data are shown only for comparative purposes.

HMDA-reportable loan data evaluated in this performance evaluation represented actual originations, while small business loan data was extrapolated from a random sample of 150 loans (41 loans in 2013, 44 loans in 2014 and 65 loans in 2015).

Examiners gave greater weight to HMDA lending in this evaluation as HMDA-loans were actual originations and represented 70.4% by dollar value and 76.7% by number of loans originated in the assessment area.

At its **prior** Performance Evaluation, as of December 31, 2012, DFS assigned AB a rating of "2", reflecting a "Satisfactory" record of helping to meet community credit needs.

Current CRA Rating: "Satisfactory"

Lending Test: "Satisfactory"

AB's HMDA-reportable and small business activities were reasonable considering AB's size, business strategy, financial condition, as well as, aggregate and peer group activity and the demographic characteristics and credit needs of the assessment area.

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

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

AB's average LTD ratio of 72.2% was below its peer group average of 77.7%. AB's LTD ratio fluctuated from a high of 76.9% to a low of 68.0% for the last quarter of the evaluation period. AB's lower average LTD ratio was mainly due to the municipal deposits held by the bank. These deposits provide for limited loan growth as they must be collateralized. AB's quarterly municipal deposits averaged \$162.1 million from September 2013 to December 2016. Excluding these deposits from the LTD ratio calculation would have resulted in AB's average LTD ratio being significantly higher.

The table below shows AB's quarterly average LTD ratios in comparison with the peer group's ratios for the 15 quarters since the prior evaluation.

Loan-to-Deposit Ratios																
	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	Avg.
Bank	70.6	71.2	74.6	76.9	70.3	74.7	73.2	75.2	70.5	72.2	70.0	75.0	70.6	70.6	68.0	72.2
Peer	73.2	74.8	75.1	75.8	74.8	77.0	77.6	78.3	77.4	79.3	79.8	80.1	80.0	81.3	81.2	77.7

Assessment Area Concentration: “Outstanding”

During the evaluation period, AB originated 91.6% by number and 85.7% by dollar value of its HMDA-reportable and small business loans within the assessment area. This substantial majority of lending inside of its assessment area is an excellent concentration of lending.

HMDA-Reportable Loans:

During the evaluation period, AB originated 95.7% by number and 93.9% by dollar value of its HMDA-reportable loans within the assessment area. This substantial majority of lending inside of AB’s assessment area is an excellent concentration of lending.

Small Business Loans:

During the evaluation period, AB originated 80.5% by number, and 71.0% by dollar value of its small business loans within the assessment area. This majority of lending inside of AB’s assessment area is a reasonable concentration of lending.

The following table shows the percentages of AB’s HMDA-reportable and small business 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											
2013	638	95.4%	31	4.6%	669	65,713	93.7%	4,387	6.3%	70,100	
2014	464	96.5%	17	3.5%	481	43,243	95.2%	2,157	4.8%	45,400	
2015	405	95.3%	20	4.7%	425	39,340	92.7%	3,083	7.3%	42,423	
Subtotal	1,507	95.7%	68	4.3%	1,575	148,296	93.9%	9,627	6.1%	157,923	
*Small Business											
2013	131	85.4%	22	14.6%	153	16,280	59.8%	10,958	40.2%	27,238	
2014	144	77.0%	43	23.0%	187	19,534	72.5%	7,425	27.5%	26,959	
2015	184	80.0%	46	20.0%	230	26,559	79.0%	7,064	21.0%	33,623	
Subtotal	459	80.5%	111	19.5%	570	62,373	71.0%	25,447	29.0%	87,820	
Grand Total	1,966	91.6%	179	8.4%	2,145	210,669	85.7%	35,074	14.3%	245,743	

**For small business lending, analysis was performed on a sample of 41 loans in 2013, 44 loans in 2014 and 65 loans in 2015. Number and dollar volume of loans were then extrapolated from the resulting percentages and are not actual results. HMDA-reportable lending analysis was based on actual loans.*

Distribution by Borrower Characteristics: “Satisfactory”

AB’s 1-4 family HMDA-reportable and small business lending demonstrated a reasonable distribution of loans among individuals of different income levels and businesses of different revenue sizes.

AB’s 1-4 family rate of lending to low- and moderate-income (“LMI”) borrowers were slightly below its aggregate’s rate, while AB’s rate of lending to small businesses with gross annual revenues of \$1.0 million or less exceeded its aggregate’s rate.

HMDA-Reportable Loans:

AB’s 1-4 family HMDA-reportable lending demonstrated a reasonable distribution of loans among borrowers of different income levels.

During the evaluation period, AB’s rate of lending to LMI borrowers of 27.9% by number and 13.0% by dollar value of loans trailed the aggregate’s rates of 30.7% and 19.8%, respectively. AB’s rate of lending to low-income borrowers was comparable to the aggregate’s rate, while its rate of lending to moderate-income borrowers trailed the aggregate’s rate.

AB and the aggregate’s rate of lending also trailed the percentage of LMI families (family demographics) in the assessment area.

The following table provides a summary of the distribution of AB’s 1-4 family loans by borrower income.

Distribution of 1-4 Family Loans by Borrower Income									
2013									
Borrower	Bank				Aggregate				Fam.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	61	9.7%	2,221	3.4%	1,515	8.4%	82,917	4.2%	21.1%
Moderate	104	16.5%	6,202	9.6%	3,802	21.0%	286,148	14.6%	17.0%
LMI	165	26.2%	8,423	13.0%	5,317	29.3%	369,065	18.8%	38.1%
Middle	164	26.1%	13,054	20.2%	4,687	25.8%	439,590	22.4%	21.0%
Upper	282	44.8%	40,657	62.9%	7,505	41.4%	1,070,425	54.6%	41.0%
Unknown	18	2.9%	2,539	3.9%	628	3.5%	80,063	4.1%	
Total	629		64,673		18,137		1,959,143		
2014									
Borrower	Bank				Aggregate				Fam.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	39	8.6%	922	2.3%	1,247	8.9%	65,641	4.5%	21.1%
Moderate	78	17.1%	3,763	9.2%	3,215	22.8%	237,519	16.3%	17.0%
LMI	117	25.7%	4,685	11.4%	4,462	31.7%	303,160	20.8%	38.1%
Middle	111	24.4%	7,478	18.3%	3,717	26.4%	341,842	23.5%	21.0%
Upper	218	47.9%	28,103	68.7%	5,519	39.2%	760,518	52.2%	41.0%
Unknown	9	2.0%	658	1.6%	374	2.7%	51,716	3.5%	
Total	455		40,924		14,072		1,457,236		
2015									
Borrower	Bank				Aggregate				Fam.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	39	9.8%	793	2.1%	733	9.4%	32,174	4.2%	20.7%
Moderate	92	23.2%	4,875	12.6%	1,778	22.8%	121,467	15.9%	17.8%
LMI	131	33.0%	5,668	14.7%	2,511	32.1%	153,641	20.1%	38.5%
Middle	82	20.7%	6,219	16.1%	1,996	25.6%	175,626	23.0%	21.1%
Upper	176	44.3%	25,679	66.4%	3,060	39.2%	400,313	52.4%	40.4%
Unknown	8	2.0%	1,084	2.8%	244	3.1%	33,959	4.4%	
Total	397		38,650		7,811		763,539		
GRAND TOTAL									
Borrower	Bank				Aggregate				Fam.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	139	9.4%	3,936	2.7%	3,495	8.7%	180,732	4.3%	
Moderate	274	18.5%	14,840	10.3%	8,795	22.0%	645,134	15.4%	
LMI	413	27.9%	18,776	13.0%	12,290	30.7%	825,866	19.8%	
Middle	357	24.1%	26,751	18.5%	10,400	26.0%	957,058	22.9%	
Upper	676	45.6%	94,439	65.5%	16,084	40.2%	2,231,256	53.4%	
Unknown	35	2.4%	4,281	3.0%	1,246	3.1%	165,738	4.0%	
Total	1,481		144,247		40,020		4,179,918		

Small Business Loans:

AB's small business lending demonstrated an excellent distribution of loans among businesses of different revenue sizes.

AB's average rates of lending to small businesses with gross revenues of \$1.0 million or less were 79.0% by number and 63.0% by dollar value, which exceeded the aggregate's

average rates of 42.9% and 34.6%, respectively. Furthermore, AB's rate of lending exceeded the aggregate's rate each year of the evaluation period.

The following table provides a summary of AB's small business loans by the revenue size of the business.

Distribution of Small Business Lending by Revenue Size of Business									
2013									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	122	80.0%	15,234	55.9%	4,654	42.1%	169,625	34.4%	71.8%
Rev. > \$1MM	31	20.0%	12,004	44.1%	6,390	57.9%	322,916	65.6%	5.4%
Rev. Unknown		0.0%		0.0%		0.0%		0.0%	22.8%
Total	153		27,238		11,044		492,541		
2014									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	160	85.6%	22,040	81.8%	4,907	40.3%	159,723	31.9%	70.8%
Rev. > \$1MM	27	14.4%	4,919	18.2%	7,280	59.7%	341,717	68.1%	6.0%
Rev. Unknown		0.0%		0.0%					23.2%
Total	187		26,959		12,187		501,440		
2015									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	168	73.1%	18,013	53.6%	2,915	49.6%	90,228	41.5%	75.2%
Rev. > \$1MM	53	23.1%	15,075	44.8%	2,965	50.4%	127,291	58.5%	5.5%
Rev. Unknown	9	3.8%	535	1.6%					19.3%
Total	230		33,623		5,880		217,519		
GRAND TOTAL									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	450	79.0%	55,286	63.0%	12,476	42.9%	419,576	34.6%	
Rev. > \$1MM	111	19.4%	31,999	36.4%					
Rev. Unknown	9	1.6%	535	0.6%					
Total	570		87,820		29,111		1,211,500		

The small business lending, analysis was performed on a sample of 41 loans in 2013, 44 loans in 2014 and 65 loans in 2015. The number and dollar volume of loans were then extrapolated from the resulting percentages and are not actual results.

Geographic Distribution of Loans: "Satisfactory"

AB's origination of loans in census tracts of varying income levels demonstrated a reasonable distribution of lending.

AB's average HMDA-reportable rates of lending by number and dollar value of loans in LMI census tracts trailed the aggregate's rates for the evaluation period, but was still

reasonable. AB's small business rate of lending by number of loans trailed the aggregate's rate each year, while its rate of lending by dollar value was comparable to the aggregate's rate.

HMDA-Reportable Loans:

The distribution of HMDA-reportable loans based on the income level of the geography demonstrated a reasonable rate of lending.

During the evaluation period, AB's average HMDA-reportable rates of lending to LMI census tracts were 8.4% by number and 6.2% by dollar value of loans trailing the aggregate's rates of 12.1% and 8.3%, respectively. AB's rate of lending in LMI census tracts by dollar value of loans in 2013 and 2014 was comparable to the aggregate, while it was well below the aggregate in 2015. AB's rate of lending in LMI census tracts by number of loans consistently trailed the aggregate's rate. Both AB and the aggregate's rates of lending in LMI census tracts trailed the percentage of owner-occupied housing units (housing demographics) located in those census tracts.

The following table provides a summary of the distribution of AB's HMDA-reportable loans by income level of the geography where the property was located.

Distribution of HMDA-Reportable Lending by Geographic Income of the Census Tract									
2013									
Geographic Income	Bank				Aggregate				OO HUs
	#	%	\$000's	%	#	%	\$000's	%	%
Low	15	2.4%	699	1.1%	381	2.1%	34,313	1.6%	3.3%
Moderate	48	7.5%	3,922	6.0%	1,902	10.2%	144,558	6.6%	11.8%
LMI	63	9.9%	4,621	7.0%	2,283	12.3%	178,871	8.2%	15.1%
Middle	391	61.3%	37,568	57.2%	8,898	47.9%	903,055	41.4%	50.9%
Upper	184	28.8%	23,524	35.8%	7,374	39.7%	1,099,540	50.4%	34.1%
Unknown	0	0.0%	0	0.0%	2	0.0%	99	0.0%	
Total	638		65,713		18,557		2,181,565		
2014									
Geographic Income	Bank				Aggregate				OO HUs
	#	%	\$000's	%	#	%	\$000's	%	%
Low	8	1.7%	324	0.7%	349	2.4%	23,242	1.5%	3.3%
Moderate	27	5.8%	3,242	7.5%	1,524	10.6%	120,312	7.7%	11.8%
LMI	35	7.5%	3,566	8.2%	1,873	13.0%	143,554	9.2%	15.1%
Middle	296	63.8%	24,250	56.1%	7,141	49.4%	698,506	44.9%	50.9%
Upper	133	28.7%	15,427	35.7%	5,426	37.6%	715,201	45.9%	34.0%
Unknown	0	0.0%		0.0%	2	0.0%	37	0.0%	
Total	464		43,243		14,442		1,557,298		
2015									
Geographic Income	Bank				Aggregate				OO HUs
	#	%	\$000's	%	#	%	\$000's	%	%
Low	8	2.0%	233	0.6%	144	1.8%	6,564	0.8%	2.1%
Moderate	20	4.9%	801	2.0%	668	8.2%	46,857	5.8%	9.7%
LMI	28	6.9%	1,034	2.6%	812	9.9%	53,421	6.6%	11.8%
Middle	251	62.0%	22,914	58.2%	5,109	62.5%	466,672	58.1%	62.9%
Upper	126	31.1%	15,392	39.1%	2,248	27.5%	283,546	35.3%	25.3%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
Total	405		39,340		8,169		803,639		
GRAND TOTAL									
Geographic Income	Bank				Aggregate				OO HUs
	#	%	\$000's	%	#	%	\$000's	%	%
Low	31	2.1%	1,256	0.8%		2.1%		1.4%	
Moderate	95	6.3%	7,965	5.4%		9.9%		6.9%	
LMI	126	8.4%	9,221	6.2%	4,968	12.1%	375,846	8.3%	
Middle	938	62.2%	84,732	57.1%		51.4%		45.5%	
Upper	443	29.4%	54,343	36.6%		36.6%		46.2%	
Unknown	0	0.0%	0	0.0%		0.0%		0.0%	
Total	1,507		148,296		41,168		4,542,502		

Small Business Loans:

The distribution of AB's small business loans among census tracts of varying income levels was reasonable.

AB's rates of lending in LMI census tracts outperformed its aggregate's rates by dollar value in 2014 and 2015, but trailed in 2013. While by number of loans the aggregate's rate of lending exceeded AB's rate every year of the evaluation period. As a result, AB's average rates of lending in LMI census tracts for the evaluation period was 12.6% by number well below the aggregate's rate of 22.3%; however, by dollar value of loans their average rates both equaled 24.5%.

The following table provides a summary of AB'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									
2013									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	4	2.9%	355	1.3%	1,074	9.7%	62,489	12.7%	10.8%
Moderate	4	2.9%	4,904	18.0%	1,514	13.7%	65,982	13.4%	14.1%
LMI	9	5.7%	5,259	19.3%	2,588	23.4%	128,471	26.1%	24.9%
Middle	79	51.4%	12,880	47.3%	5,073	45.9%	220,523	44.8%	45.5%
Upper	57	37.1%	7,492	27.5%	3,335	30.2%	136,875	27.8%	29.2%
Unknown	9	5.7%	1,607	5.9%	48	0.4%	6,672	1.4%	0.5%
Total	153		27,238		11,044		492,541		
2014									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	11	5.9%	3,529	13.1%	1,152	9.5%	50,512	10.1%	10.9%
Moderate	22	11.8%	4,797	17.8%	1,658	13.6%	76,836	15.3%	14.2%
LMI	33	17.7%	8,326	30.9%	2,810	23.1%	127,348	25.4%	25.1%
Middle	93	49.9%	11,464	42.5%	5,520	45.3%	225,291	44.9%	45.4%
Upper	61	32.4%	7,170	26.6%	3,807	31.2%	145,511	29.0%	29.1%
Unknown	0	0.0%	0	0.0%	50	0.4%	3,290	0.7%	0.5%
Total	187		26,959		12,187		501,440		
2015									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	13	5.8%	4,354	12.9%	209	3.6%	5,276	2.4%	3.3%
Moderate	18	7.7%	3,609	10.7%	873	14.8%	35,834	16.5%	14.7%
LMI	31	13.5%	7,963	23.7%	1,082	18.4%	41,110	18.9%	17.9%
Middle	146	63.5%	19,397	57.7%	3,232	55.0%	114,307	52.6%	56.8%
Upper	53	23.1%	6,263	18.6%	1,499	25.5%	57,176	26.3%	24.1%
Unknown	0	0.0%	0	0.0%	67	1.1%	4,926	2.3%	1.2%
Total	230		33,623		5,880		217,519		
GRAND TOTAL									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	28	4.9%	8,237	9.4%		8.4%		9.8%	
Moderate	44	7.7%	13,310	15.2%		13.9%		14.7%	
LMI	72	12.6%	21,547	24.5%		22.3%		24.5%	
Middle	318	55.7%	43,741	49.8%		47.5%		46.2%	
Upper	171	30.0%	20,925	23.8%		29.7%		28.0%	
Unknown	9	1.5%	1,607	1.8%		0.6%		1.2%	
Total	570		87,820		29,111		1,211,500		

The small business lending, analysis was performed on a sample of 41 loans in 2013, 44 loans in 2014 and 65 loans in 2015. The number and dollar volume of loans were then extrapolated from the resulting percentages and are not actual results.

Action Taken in Response to Written Complaints with Respect to CRA: “Not Rated”

Neither DFS nor AB received any written complaints during the evaluation period regarding AB’s CRA performance.

Community Development (“CD”) Test: “Outstanding”

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

During the evaluation period, AB originated \$21.5 million in new CD loans. Also during the evaluation period, AB made \$8.8 million in new community development investments and made \$551,841 in community development grants.

Community Development Lending: “Satisfactory”

During the evaluation period, AB originated \$21.5 million in new community development loans, and had no outstanding from prior evaluation periods. This demonstrated a reasonable level of community development lending for the evaluation period.

Community Development Loans		
Purpose	# of Loans	\$000
Affordable Housing	6	2,232
Economic Development	16	2,261
Community Services	20	13,365
Revitalization and Stabilization	11	3,606
Total	53	21,464

Below are highlights of AB’s community development lending.

Community Services

- AB extended three commercial loans to a nonprofit organization in the amounts of \$114,983 (2015), \$22,624 (2016) and \$22,374 (2016). This organization provides various health care services for boys and girls as well as residential facilities where services are provided. Most of funding for these programs and services are received from NYS and federal agencies. The proceeds of these loans were utilized to purchase vehicles to transport the children and for general business use.
- In 2013, AB extended two lines-of-credit in the amount of \$2.0 million and \$1.3 million to a nonprofit organization and consequently renewed these lines of credit in 2014 and 2015 for a total of \$9.9 million of qualified CD loans. The organization

is headquartered in a moderate-income census tract in Utica, NY and provides direct-care services and programs for individuals who are physically, developmentally or mentally challenged. Approximately 70% of the organization's revenues are made up of Medicaid reimbursements. The lines-of-credit provide working capital for the organization.

Affordable Housing

- In 2013, AB made a \$1.3 million commercial mortgage loan to a local government housing authority. This entity operates two housing communities with over 150 apartment units and administers the area's Section 8 housing voucher program funded by the U.S. Department of Housing and Urban Development ("HUD"). The housing communities provide affordable housing to low-income families and the voucher program provides assistance to low-income families via the Housing Assistance Payment Program. The entity utilized the funds from the loan to make capital improvements to one of its housing communities located in a moderate-income census tract in the assessment area.

Economic Development

- In 2013, AB extended a \$185,000 SBA construction to permanent loan to a private, for-profit entity for the construction of an animal boarding facility as well as the purchase of all necessary equipment. The facility is expected to create several permanent jobs in Utica, Oneida County, NY.

Community Development Investments: "Outstanding"

During the evaluation period, AB made \$8.8 million in new community development investments, and no outstanding from prior evaluation periods. In addition, AB made \$551,841 in community development grants. This demonstrated an excellent level of community development investments over the course of the evaluation period.

Community Development Investments and Grants		
This Evaluation Period		
CD Investments	# of Inv.	\$000
Affordable Housing		
Economic Development		
Community Services	7	1,426
Revitalization and Stabilization	22	7,329
Total	29	8,755
CD Grants	# of Grants	\$000
Affordable Housing	11	72
Economic Development	31	74
Community Services	79	406
Revitalization and Stabilization		
Total	121	552

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

Investments

- During the evaluation period, AB invested in eight municipal bonds totaling \$1.4 million. The bonds were issued by four central school districts in the assessment area. The majority of students in these school districts qualify for the free or reduced lunch program. The bond proceeds were used to finance the purchase of school buses.
- AB purchased 22 bond anticipation notes totaling \$7.3 million. The bonds were issued by six local municipalities in the assessment area of which three were declared disaster areas, during the evaluation period by the Federal Emergency Management Agency due to severe storm damage. The other three municipalities were in middle-income census tracts classified as underserved/distressed¹. Proceeds from the bonds were used to improve existing infrastructure and to repair storm damage.

Grants

- During the evaluation period, AB made a total donation of \$40,250 via five checks to a public nonprofit organization that was created to address issues like affordable housing and community revitalization. The organization is headquartered in Utica, but services six counties in the region. This nonprofit is a certified Community Development Financial Institution ("CDFI") and HUD certified organization. It provides first time home buyer education, financial coaching, home rehabilitation, foreclosure counseling.
- AB made three donations totaling \$60,000 to a nonprofit organization headquartered in Rome, NY, in a moderate-income census tract. The organization serves 200 meals per day to people in need and provides shelter to the homeless.
- AB made three donations totaling \$19,000 to a nonprofit business membership-based association supporting regional economic development. The organization promotes collaboration, partnerships and getting things done efficiently and effectively to make the region a leader. Its mission is to serve its members the business community in the area through legislative advocacy benefit, networking opportunities and various programs.
- AB made a grant of \$10,000 to a business membership-based association supporting economic development. The association is located in and serves Herkimer County. The grant sponsored the association's business-to-business

¹ Nonmetropolitan Middle-Income Distressed or Underserved geography based on criteria designated by federal banking and thrift regulators. Distressed nonmetropolitan middle-income geographies are those located in counties with: (1) an unemployment rate of at least 1.5 times the national average; (2) a poverty rate of 20 percent or more; or (3) a population loss of 5 percent or more in a five-year period preceding the most recent decennial census.

program, which is an educational and networking series designed to enhance communication, create growth opportunities and partnerships among its members who are mostly small businesses.

Community Development Services: "Outstanding"

AB demonstrated an excellent level of community development services over the course of the evaluation period. AB's management is active within the community serving on boards and committees within the community providing financial education to individuals, families and small businesses.

Below are highlights of AB's community development services.

- AB in 2012 formed a working relationship with a local church in the Cornhill section of Utica City. The relationship has helped AB to identify community development services needed and the following are some of the services provided by AB:
 - AB's senior bank officers, who are members of the church's committee, regularly attend committee meetings to discuss and identify needs of the community.
 - AB's employees provide information guidance on banking, financial and funding products and programs.
 - The church committee is also active in the minority youth club that aims to send local inner-city kids to college, enhance leadership and community service skills.
 - AB hosts the club's financial literacy program, which is attended by students and their parents. The program covers various banking topics, including identity theft, credit card use, opening accounts for debit cards, checking accounts and how to manage money and finances as well as other financial topics.
 - The committee also developed a program encouraging minority students to open a bank account and get involved in banking. The program offers a \$75 incentive for students to open an Adirondack Bank's Junior Student Account. AB has a total of 19 Junior Student accounts as of November 2016.

- An AB loan originator is a board member of an organization which aims to maintain the dignity and improve the quality of life of families and individuals. Another loan originator provides technical assistance to an organization designed to improve and strengthen the community standard of living.

- A member of the executive management of AB is a board member and chairs the fundraising committee of a nonprofit organization whose mission is to revitalize and grow neighborhoods through home ownership.

- A branch manager of AB is a board member of a local housing authority, which

administers housing communities that offer affordable housing through rent subsidized programs benefitting the elderly, disabled and low-income individuals and families.

- AB sponsored the Youth Olympics program. The program is designed to address the need for recreation and necessary discipline and to aspire positive life goals and promote positive change in Cornhill. This event is also sponsored and supported by various federal housing and state housing agencies, and local banks, businesses and nonprofit organizations. The staff and volunteers of the program serve as positive role models and mentors to the children, which are high-risk youth from single parent families whose incomes are below poverty.

Innovativeness of Community Development Investments:

AB made no use of innovative investments to support community development during the evaluation period.

Responsiveness to Community Development Needs:

AB demonstrated adequate level of responsiveness to credit and community development needs of its assessment area.

In July 2013, areas in the Mohawk Valley and Central New York State experienced devastating floods. In response, AB offered a special financing program for those affected and extended branch hours for a designated period to ensure access to banking services and products.

During the evaluation period, AB used targeted marketing where it identified a special need within the community. In 2015, AB marketed a loan program named Community Restoration Program. This loan program was offered to homeowners in the Cornhill area as part of the bank's ongoing relationship with the community. The loan program was a home improvement loan product that offered low interest rates and convenient terms. AB used targeted mailing services to make the community aware of the special program.

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 CRA.

On a quarterly basis, the vice president/risk manager presents the fair lending/CRA report to the fair lending/CRA committee. The report discusses the HMDA lending patterns, various loan programs and CRA activities. This report is also provided to the Audit Committee of the Board for review. The Board also receives an annual fair lending/CRA summary and detail report. These reports ensure that the Board is kept abreast of AB's CRA activities and HMDA lending performance.

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 examiners did not note practices by AB intended to discourage applications for the types of credit offered by the bank.

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

DFS examiners did not note evidence by AB of prohibited discriminatory or other illegal practices.

Record of opening and closing offices and providing services at offices

In 2014, AB opened a branch in a middle-income census tract in New Hartford, Oneida County and in 2015, it closed its Syracuse branch, which is the only branch in Onondaga County, due to low business volume.

AB operates 18 branch offices, of which eight full-service branches and one limited-service branch are in Oneida County, while five branches are in Herkimer, two in Franklin, and one each in Clinton and Essex counties. While 13 and five branches are in middle-income and upper-income census tracts, respectively, no branches are located in LMI census tracts.

Distribution of Branches within the Assessment Area						
County	N/A #	Low #	Moderate #	Middle #	Upper #	Total #
Clinton*					1	1
Essex*					1	1
Franklin*				2		2
Herkimer				5		5
Oneida				6	3	9
Total	-	-	-	13	5	18

* Partial

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.*

AB's senior bank officers and members of the board are active in various nonprofit or for-profit organizations in the assessment area, thus enabling them to ascertain

the credit needs of its community they serve.

- *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*

AB uses traditional media outlets, such as local and regional newspapers and television ads as well as ads in local business and professional publications. AB also participates in local fairs and expos.

AB sponsored a television program on consumer education. It aired on three local television stations in the Utica/Rome MSA. The program was developed in conjunction with a local nonprofit organization which specializes in providing and helping LMI individuals and families to acquire affordable homes. The program provided a variety of educational segments for prospective and current homeowners on purchasing and maintaining a home. This program helped make the community aware of services of the organization and the program featured the bank's logo advertising AB.

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

Small Business Loan

A small business loan is a loan less than or equal to \$1 million.

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.