



**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: June 30, 2016

Institution: Watertown Savings Bank
111 Clinton Street
Watertown, NY 13601

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 Watertown Savings Bank (“WSB” or the “Bank”) prepared by the New York State Department of Financial Services (the “Department” or “DFS”). This evaluation represents the Department’s current assessment and rating of the institution’s CRA performance based on an evaluation conducted as of June 30, 2016.

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 Banking Board 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 (“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 State Banking Law.

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

OVERVIEW OF INSTITUTION'S PERFORMANCE

DFS evaluated WSB 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 2011, 2012, 2013, 2014 and 2015 for HMDA and small business lending. Community development activities were evaluated through June 30, 2016. WSB 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"

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

WSB's average LTD ratio was 68.2% for the evaluation period, was well below its peer group's average LTD ratio of 83.9%. Still, it was an improvement over WSB's prior evaluation period's average LTD ratio of 61.7%. Also, WSB's business strategy of selling loans into the secondary market reduces its LTD ratio.

Assessment Area Concentration: "Outstanding"

During the evaluation period, WSB originated 94.0% by number, and 89.8% 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 record of lending.

Distribution by Borrowers Characteristics: "Satisfactory"

WSB'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.

WSB's HMDA-reportable rate of lending to low- and moderate-income individuals for the evaluation period was comparable with its aggregate's rate, while WSB's small business rate of lending to businesses with annual revenue of less than \$1 million exceeded the aggregate's rate.

Geographic Distribution of Loans: "Satisfactory"

WSB's origination of loans in census tracts of varying income levels demonstrated a reasonable distribution of lending. DFS examiners evaluated this criterion based on lending in moderate-income census tracts as WSB's assessment area did not contain any low-income census tracts.

During the evaluation period, WSB's rate of lending in moderate-income census tracts for HMDA-reportable loans were 7.0% by number and 4.7% by dollar value, which was comparable with the aggregate's rates of 8.1% and 5.7% by number and dollar value, respectively. WSB's small business rate of lending of 22.0% by number and 22.6% by dollar value of loans compared favorably with the aggregate's rate of 17.3% and 20.7% by number and dollar value respectively.

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

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

Community Development Test: "Satisfactory"

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

Community Development Loans: "Outstanding"

During the evaluation period, WSB originated \$37.0 million in new community development loans and had \$2.2 million outstanding from prior periods. This demonstrated an excellent level of community development lending over the course of the evaluation period.

WSB's community development lending during the current period (5.5 years) of \$37.0 million reflected a significant increase from the \$4.5 million originated during the prior evaluation period (3.0 years).

Community Development Qualified Investments: "Satisfactory"

During the evaluation period WSB did not purchase any new community development investments nor did it have any outstanding investments from prior evaluation periods; however, WSB made \$717,288 in community development grants. This demonstrated a reasonable level of community development investments/grants over the course of the evaluation period.

WSB's annualized grants for the current evaluation period totaled \$130,416 comparable to the annualized grants of \$134,821 for the prior evaluation period.

Community Development Services: “Satisfactory”

WSB demonstrated an adequate level of community development services over the course of the evaluation period.

Responsiveness to Credit and Community Development Needs: “Satisfactory”

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

During the evaluation period, WSB participated in small business lender programs intended to assist start-up and existing small businesses with financing not available in traditional lending programs. WSB offers the First-Time Homeowner Program, which has a fixed rate, no application or administration fees and a 5% down payment to qualified applicants.

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

PERFORMANCE CONTEXT

Institution Profile

Watertown Savings Bank (“WSB”) is a New York State chartered (1893) mutual savings bank headquartered in Watertown, NY. WSB has a wholly owned subsidiary WSB Municipal Bank, which accepts municipal deposits and offers cash management services and municipal financing to local cities, towns, villages and school districts.

WSB offers a wide selection of personal and business services and products. Services offered include direct deposits, wire transfers, safe deposit boxes as well as e-statements, online banking, online bill pay, mobile banking and check deposits and remote deposit capture. Products offered include personal and business checking and savings accounts, IRA and certificate of deposits and commercial sweep services. WSB offers residential mortgage loans, home equity loans, consumer loans, small business loans, commercial mortgage loans as well as other personal and commercial loan products.

Per the Consolidated Report of Condition (the Call Report) as of June 30, 2016, filed with the Federal Deposit Insurance Corporation (“FDIC”), WSB reported total assets of \$614.9 million, of which \$380.6 million were net loans and lease finance receivables. It also reported total deposits of \$523.1 million, resulting in a loan-to-deposit ratio of 72.8%. According to the latest available comparative deposit data as of June 30, 2015, WSB obtained a market share of 33.7% or \$492.4 million in a market of \$1.5 billion inside its market, ranking it first among the 11 deposit-taking institutions in the assessment area.

The following is a summary of WSB’s loan portfolio, based on Schedule RC-C of the bank’s December 31, 2011, 2012, 2013, 2014, 2015, and the second quarter of 2016 Call Reports:

TOTAL GROSS LOANS OUTSTANDING												
Loan Type	2011		2012		2013		2014		2015		6/30/2016	
	\$000's	%	000's	%	000's	%	000's	%	000's	%	000's	%
1-4 Family Residential Mortgage	86,903	33.8	95,799	34.1	113,874	35.6	123,487	35.4	133,658	35.8	135,767	35.3
Commercial & Industrial	27,225	10.6	26,941	9.6	30,999	9.7	33,117	9.5	33,568	9.0	34,974	9.1
Commercial Mortgage	120,264	46.8	132,486	47.2	140,389	43.9	160,357	46.0	165,325	44.3	165,607	43.1
Multifamily Mortgages	4,763	1.9	5,175	1.8	4,129	1.3	8,755	2.5	13,727	3.7	13,835	3.6
Consumer	7,091	2.8	7,881	2.8	7,663	2.4	7,953	2.3	7,156	1.9	7,142	1.9
Construction	10,483	4.1	12,268	4.4	22,538	7.0	14,682	4.2	19,789	5.3	27,143	7.1
Farm & agricultural	15	0.0	7	0.0	-	0.0	25	0.0	59	0.0	55	0.0
Other	86	0.0	105	0.0	185	0.1	97	0.0	76	0.0	99	0.0
Total Gross Loans	256,830		280,662		319,777		348,473		373,358		384,622	

As illustrated in the above table, WSB is primarily a commercial lender, with 52.2% of its loan portfolio in commercial mortgage loans (43.1%) and commercial and industrial loans (9.1%). Still, 1-4 family residential mortgage loans represent 35.3% of WSB's loan portfolio.

WSB operates eight banking offices and one drive-thru only banking office, all of which are in Jefferson County. Supplementing the banking offices is an automated teller machine ("ATM") network of 13 ATMs, of which one ATM is located at each banking office including the drive-thru office and the remaining four ATMs are located off-site.

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

Assessment Area

WSB's assessment area is comprised of all of Jefferson County. There are 26 census tracts in the area, of which six are moderate-income, 14 are middle-income, four are upper-income and two tracts with no income indicated.

Assessment Area Census Tracts by Income Level								
County	N/A	Low	Mod	Middle	Upper	Total	LMI %	LMI & Dis-tressed %
Jefferson	2	0	6	14	4	26	23.1	23.1%

Demographic & Economic Data

The assessment area had a population of 116,229 during the examination period. About 11.1% of the population were over the age of 65 and 22.8% were under the age of sixteen.

Of the 30,650 families in the assessment area, 20.8% were low-income, 18.0% were moderate-income, 22.0% were middle-income and 39.2% were upper-income families. There were 44,109 households in the assessment area, of which 14.3% had income below the poverty level and 1.9% were on public assistance.

The weighted average of median family income in the assessment area was \$52,262. The weighted average of Federal Financial Institutions Examination Council ("FFIEC") updated MSA median family income was \$57,200 in 2015.

There were 57,168 housing units within the assessment area, of which 75.6% were one- to four-family units, and 11.5% were multifamily units. Owner-occupied housing units totaled 44.1% of the area's housing units, while 33.0% were rental units. Of the 25,234 owner-occupied housing units, 9.2% were in low and moderate-income census tracts while 90.8% were in middle- and upper-income census tracts. The median age

of the housing stock was 55 years and the median home value in the assessment area was \$119,601.

There were 5,397 non-farm businesses in the assessment area. Of these, 72.0 were businesses with reported revenues of less than or equal to \$1 million, 6.0% reported revenues of more than \$1 million and 22.0% did not report their revenues. Of all the businesses in the assessment area, 88.2% were businesses with less than fifty employees while 83.7% operated from a single location. The largest industries in the assessment area were services (42.7%), followed by retail trade (15.9%) and construction (8.6%), while 3.0% of businesses were not classified.

According to the New York State Department of Labor, the average unemployment rate for New York State and Jefferson County steadily declined during the evaluation period. While this is indicative of an improving economy, Jefferson County's economy is weaker and recovering more slowly as the annual average unemployment rates for the county were higher than New York State's rates for each year of the evaluation period.

Assessment Area Unemployment Rate		
Year	New York State	Jefferson County
2011	8.3	9.8
2012	8.5	9.9
2013	7.7	9.2
2014	6.3	7.6
2015	5.3	6.7
Average	7.2	8.6

Community Information

As a part of the evaluation examiners met and interviewed the chief executive officer of a nonprofit organization that is based in Watertown and serves Jefferson, Lewis, and Saint Lawrence counties. The organization raises and distributes money to support other nonprofit organizations that offer programs to improve the lives of the residents.

The interviewee noted the high poverty level throughout the three counties. The corresponding level of poverty and increase in the working poor is mainly related to the significant loss of jobs primarily manufacturing jobs. There is a need to attract and retain businesses and provide funding to these businesses.

WSB received favorable comments from the interviewee together with other financial institutions. The interviewee noted that the local banks and credit unions are doing a good job of meeting the credit needs of the community. The interviewee also noted that the local banks and credit unions are needed even more now as some of the larger banks have left the area as businesses and jobs have exited.

PERFORMANCE STANDARDS AND ASSESSMENT FACTORS

DFS evaluated WSB 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 consists of the lending test and the community development test.

The lending test includes:

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

The community development test includes:

- Community development lending;*
- Community development investments;*
- Community development services;*
- Innovative or complex practices; and*
- Responsiveness to community development needs*

DFS also considered the following factors in assessing the bank's record of performance:

- 1. 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. WSB 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, as submitted to the FDIC.

DFS derived demographic data referred to in this report from the 2010 U.S. Census and the FFIEC. DFS based business data on Dun & Bradstreet reports, which Dun & Bradstreet updated annually. DFS obtained unemployment data from the New York State Department of Labor.

The evaluation period included calendar years 2011, 2012, 2013, 2014 and 2015 for HMDA and small business. However, community development activities were evaluated through June 30, 2016.

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

At its **prior** Performance Evaluation as of December 31, 2010, DFS assigned WSB a rating of “2,” reflecting a “Satisfactory” record of helping to meet community credit needs.

Current CRA Rating: “Satisfactory”

Lending Test: “Satisfactory”

WSB’s small business and HMDA-reportable lending activities were reasonable considering its size, business strategy, and financial condition, as well as aggregate and peer group activity and the demographics and credit needs of the assessment area.

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

WSB’S average loan-to-deposit (“LTD”) ratio was reasonable considering its size, business strategy, financial condition and peer group activity.

WSB’s average LTD ratio for the evaluation period was 68.2%. While this was well below its peer group’s ratio of 83.9%, it was an improvement from WSB’s average LTD ratio of 61.7% for the prior evaluation period. Also, WSB’s LTD ratio is impacted by the bank’s business strategy to sell loans into the secondary market, which lowers its LTD ratios.

The table below shows WSB’s LTD ratios in comparison with the peer group’s ratios for the 22 quarters since the prior evaluation.

Loan-to-Deposit Ratios												
	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4
WSB	62.9	63.3	63.3	65.3	64.4	61.6	60.8	62.6	63.5	66.6	69.1	72.5
Peer	81.6	80.9	80.0	80.4	80.7	81.2	81.7	81.9	80.8	82.0	82.4	83.5

Loan-to-Deposit Ratios											
	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	Avg.
WSB	72.3	71.2	71.5	74.4	73.6	72.3	71.6	73.8	71.8	71.8	68.2
Peer	83.4	84.8	85.6	87.5	87.0	87.4	87.8	88.0	88.2	88.1	83.9

Assessment Area Concentration: “Outstanding”

During the evaluation period, WSB originated 94.0% by number and 89.8% by dollar value of its HMDA-reportable and small business loans within the assessment area. This

substantial majority of lending inside its assessment area was an excellent concentration of lending.

HMDA-Reportable Loans:

During the evaluation period, for HMDA-reportable lending, WSB originated or purchased 94.3% by number, and 93.1% by dollar value of its loans within the assessment area. This substantial majority of lending inside of its assessment area was an excellent concentration of lending.

Small Business Loans:

WSB originated 93.6% by number, and 85.9% by dollar value of its loans within the assessment area during the evaluation period. This substantial majority of lending inside of its assessment area was an excellent record of lending.

The following table shows the percentages of the WSB's small business 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
	#	%	#	%		\$	%	\$	%	
HMDA-Reportable										
2011	245	90.7%	25	9.3%	270	30,069	90.3%	3,224	9.7%	33,293
2012	331	94.6%	19	5.4%	350	40,016	91.3%	3,831	8.7%	43,847
2013	286	96.0%	12	4.0%	298	36,761	95.8%	1,602	4.2%	38,363
2014	206	96.3%	8	3.7%	214	26,487	96.8%	863	3.2%	27,350
2015	222	94.1%	14	5.9%	236	28,254	92.0%	2,461	8.0%	30,715
Subtotal	1,290	94.3%	78	5.7%	1,368	161,587	93.1%	11,981	6.9%	173,568
Small Business*										
2011	190	93.6%	13	6.4%	203	21,564	83.4%	4,298	16.6%	25,862
2012	229	95.4%	11	4.6%	240	29,967	91.3%	2,860	8.7%	32,827
2013	213	91.8%	19	8.2%	232	21,919	78.3%	6,089	21.7%	28,008
2014	230	93.9%	15	6.1%	245	21,637	89.9%	2,419	10.1%	24,056
2015	212	93.4%	15	6.6%	227	29,444	86.1%	4,758	13.9%	34,202
Subtotal	1,074	93.6%	73	6.4%	1,147	124,531	85.9%	20,424	14.1%	144,955
Grand Total	2,364	94.0%	151	6.0%	2,515	286,118	89.8%	32,405	10.2%	318,523

Distribution by Borrower Characteristics: "Satisfactory"

WSB'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.

HMDA-Reportable Loans:

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

During the evaluation period, WSB's average rate of lending to low- and moderate-income ("LMI") borrowers was 18.1% by number and 8.1% by dollar value, which was comparable to its aggregate's rates of 16.4% and 9.0%, respectively. Also, WSB's annual rates of lending to LMI borrowers remained stable during the evaluation period.

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

Distribution of HMDA-Reportable Lending by Borrower Income									
2011									
Borrower	Bank				Aggregate				Fam.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	8	3.4%	202	0.7%	55	3.4%	2,747	1.3%	20.7%
Moderate	36	15.2%	2,532	8.6%	184	11.3%	15,194	7.1%	21.1%
LMI	44	18.6%	2,734	9.3%	239	14.7%	17,941	8.4%	41.8%
Middle	57	24.1%	5,291	17.9%	424	26.0%	48,990	23.0%	24.0%
Upper	136	57.4%	21,483	72.8%	885	54.3%	134,251	62.9%	35.2%
Unknown	0	0.0%	0	0.0%	81	5.0%	12,136	5.7%	0.0%
Total	237		29,508		1,629		213,318		
2012									
Borrower	Bank				Aggregate				Fam.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	19	6.0%	501	1.3%	69	3.4%	4,134	1.4%	22.1%
Moderate	40	12.6%	2,669	6.7%	272	13.3%	22,624	7.8%	18.9%
LMI	59	18.6%	3,170	8.0%	341	16.7%	26,758	9.2%	41.0%
Middle	76	23.9%	6,936	17.5%	575	28.1%	65,262	22.5%	22.2%
Upper	182	57.2%	29,154	73.5%	985	48.2%	147,369	50.8%	36.8%
Unknown	1	0.3%	417	1.1%	144	7.0%	50,741	17.5%	0.0%
Total	318		39,677		2,045		290,130		
2013									
Borrower	Bank				Aggregate				Fam.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	9	3.3%	186	0.5%	52	2.9%	2,335	1.0%	22.1%
Moderate	35	12.7%	2,691	7.4%	253	14.2%	20,988	9.2%	18.9%
LMI	44	16.0%	2,877	7.9%	305	17.1%	23,323	10.2%	41.0%
Middle	47	17.1%	4,401	12.1%	468	26.2%	49,230	21.5%	22.2%
Upper	183	66.5%	29,030	79.9%	862	48.3%	126,911	55.5%	36.8%
Unknown	1	0.4%	20	0.1%	148	8.3%	29,176	12.8%	0.0%
Total	275		36,328		1,783		228,640		
2014									
Borrower	Bank				Aggregate				Fam.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	9	4.7%	155	0.7%	72	3.8%	3,180	1.4%	20.8%
Moderate	29	15.3%	1,308	5.6%	231	12.3%	14,877	6.7%	18.0%
LMI	38	20.0%	1,463	6.3%	303	16.1%	18,057	8.1%	38.8%
Middle	31	16.3%	2,627	11.3%	444	23.7%	44,758	20.1%	21.9%
Upper	115	60.5%	18,507	79.9%	1,052	56.0%	148,242	66.7%	39.2%
Unknown	6	3.2%	575	2.5%	78	4.2%	11,128	5.0%	0.0%
Total	190		23,172		1,877		222,185		
2015									
Borrower	Bank				Aggregate				Fam.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	6	2.9%	226	0.9%	76	4.1%	3,459	1.5%	20.8%
Moderate	31	15.0%	1,998	7.8%	239	12.9%	17,082	7.6%	18.0%
LMI	37	17.9%	2,224	8.7%	315	17.0%	20,541	9.2%	38.8%
Middle	34	16.4%	2,785	10.9%	499	26.9%	49,909	22.2%	21.9%
Upper	128	61.8%	19,021	74.1%	939	50.7%	138,805	61.8%	39.2%
Unknown	8	3.9%	1,635	6.4%	99	5.3%	15,203	6.8%	0.0%
Total	207		25,665		1,852		224,458		
GRAND TOTAL									
Borrower	Bank				Aggregate				Fam.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	51	4.2%	1,270	0.8%		3.5%		1.3%	
Moderate	171	13.9%	11,198	7.3%		12.8%		7.7%	
LMI	222	18.1%	12,468	8.1%		16.4%		9.0%	
Middle	245	20.0%	22,040	14.3%		26.2%		21.9%	
Upper	744	60.6%	117,195	75.9%		51.4%		59.0%	
Unknown	16	1.3%	2,647	1.7%		6.0%		10.0%	
Total	1,227		154,350						

Small Business Loans:

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

During the evaluation period, WSB's average rate of lending to businesses with gross annual revenues of \$1.0 million or less was 63.3% by number and 53.9% by dollar value. This was well above its aggregate's rate of 43.7% by number and 37.1% by dollar value. Moreover, WSB's rate of lending to businesses with revenue of \$1 million or less exceeded the aggregate's rate every year of the evaluation period.

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

Distribution of Small Business Lending by Revenue Size of Business									
2011									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	115	60.5%	10,067	46.7%	605	45.0%	30,359	38.0%	65.6%
Rev. > \$1MM	75	39.5%	11,497	53.3%					3.2%
Rev. Unknown		0.0%		0.0%					31.0%
Total	190		21,564		1,344		79,791		
2012									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	143	62.4%	15,229	50.8%	552	39.3%	25,380	34.7%	69.3%
Rev. > \$1MM	86	37.6%	14,738	49.2%					4.4%
Rev. Unknown		0.0%		0.0%					26.2%
Total	229		29,967		1,403		73,145		
2013									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	140	65.7%	13,585	62.0%	600	43.5%	29,538	41.0%	70.2%
Rev. > \$1MM	73	34.3%	8,334	38.0%					4.9%
Rev. Unknown		0.0%		0.0%					24.8%
Total	213		21,919		1,379		72,123		
2014									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	157	68.3%	12,603	58.2%	578	42.9%	26,401	36.9%	68.8%
Rev. > \$1MM	73	31.7%	9,034	41.8%					5.6%
Rev. Unknown		0.0%		0.0%					25.5%
Total	230		21,637		1,347		71,592		
2015									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	125	59.0%	15,605	53.0%	693	47.8%	31,525	35.3%	71.9%
Rev. > \$1MM	87	41.0%	13,839	47.0%					6.0%
Rev. Unknown		0.0%		0.0%					22.0%
Total	212		29,444		1,449		89,283		
GRAND TOTAL									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	680	63.3%	67,089	53.9%		43.7%		37.1%	
Rev. > \$1MM	394	36.7%	57,442	46.1%					
Rev. Unknown		0.0%		0.0%					
Total	1,074		124,531		6,922		385,934		

Geographic Distribution of Loans: "Satisfactory"

WSB's origination of loans in census tracts of varying income levels demonstrated a reasonable distribution of lending. DFS evaluated this criterion based on lending in moderate-income census tracts as WSB's assessment area did not contain any low-income census tracts.

HMDA-Reportable Loans:

The distribution of HMDA-reportable loans among census tracts of different income levels was reasonable.

During the evaluation period, WSB's average rate of lending in moderate-income census tracts was 7.0% by number and 4.7% by dollar value of loans and were slightly lower than its aggregate's rate of 8.1% and 5.7%, respectively. While WSB's annual rate of lending in moderate-income census tracts trailed the aggregate's rate by number and dollar value of loans for the first three years (2011, 2012 and 2013) of the evaluation period, its rate exceeded the aggregate's rate by number of loans in 2014 and by dollar value in 2015.

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

Distribution of HMDA-Reportable Lending by Geographic Income of the Census Tract									
2011									
Geographic	Bank				Aggregate				OO HUs
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Moderate	20	8.2%	1,459	4.9%	163	9.4%	14,700	6.3%	11.6%
LMI	20	8.2%	1,459	4.9%	163	9.4%	14,700	6.3%	11.6%
Middle	211	86.1%	26,549	88.3%	1,506	86.6%	209,642	89.7%	84.5%
Upper	14	5.7%	2,061	6.9%	71	4.1%	9,288	4.0%	3.8%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Total	245		30,069		1,740		233,630		
2012									
Geographic	Bank				Aggregate				OO HUs
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Moderate	19	5.7%	989	2.5%	164	8.0%	16,318	5.6%	9.1%
LMI	19	5.7%	989	2.5%	164	8.0%	16,318	5.6%	9.1%
Middle	206	62.2%	25,107	62.7%	1,455	71.2%	189,570	65.3%	69.5%
Upper	106	32.0%	13,920	34.8%	425	20.8%	84,197	29.0%	21.2%
Unknown	0	0.0%	0	0.0%	1	0.0%	45	0.0%	0.0%
Total	331		40,016		2,045		290,130		
2013									
Geographic	Bank				Aggregate				OO HUs
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Moderate	16	5.6%	1,082	2.9%	154	8.1%	14,384	5.7%	9.1%
LMI	16	5.6%	1,082	2.9%	154	8.1%	14,384	5.7%	9.1%
Middle	192	67.1%	23,963	65.2%	1,367	71.5%	186,233	74.4%	69.5%
Upper	78	27.3%	11,716	31.9%	389	20.4%	49,433	19.8%	21.2%
Unknown	0	0.0%	0	0.0%	2	0.1%	127	0.1%	0.0%
Total	286		36,761		1,912		250,177		
2014									
Geographic	Bank				Aggregate				OO HUs
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Moderate	19	9.2%	1,315	5.0%	155	7.7%	12,975	5.6%	9.1%
LMI	19	9.2%	1,315	5.0%	155	7.7%	12,975	5.6%	9.1%
Middle	129	62.6%	17,127	64.7%	1,444	71.5%	168,976	72.3%	69.5%
Upper	58	28.2%	8,045	30.4%	420	20.8%	51,614	22.1%	21.2%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Total	206		26,487		2,019		233,565		
2015									
Geographic	Bank				Aggregate				OO HUs
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Moderate	16	7.2%	2,791	9.9%	157	7.6%	13,684	5.6%	9.1%
LMI	16	7.2%	2,791	9.9%	157	7.6%	13,684	5.6%	9.1%
Middle	141	63.5%	17,145	60.7%	1,479	72.0%	178,159	72.4%	69.5%
Upper	65	29.3%	8,318	29.4%	417	20.3%	54,121	22.0%	21.2%
Unknown	0	0.0%	0	0.0%	1	0.0%	13	0.0%	0.0%
Total	222		28,254		2,054		245,977		
GRAND TOTAL									
Geographic	Bank				Aggregate				OO HUs
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Moderate	90	7.0%	7,636	4.7%	723	8.1%	72,065	5.7%	9.1%
LMI	90	7.0%	7,636	4.7%	723	8.1%	72,065	5.7%	9.1%
Middle	879	68.1%	109,891	68.0%	5,733	74.2%	742,065	74.4%	69.5%
Upper	321	24.9%	44,060	27.3%	1,843	17.6%	233,565	19.8%	21.2%
Unknown	-	0.0%	-	0.0%	3	0.0%	13	0.0%	0.0%
Total	1,290		161,587		9,770		1,253,479		

Small Business Loans:

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

WSB's average rate of lending in moderate-income census tracts, for the evaluation period, was 22.0% by number and 22.6% by dollar value of loans and was above the aggregate's rate of 17.5% and 21.0%, respectively. Moreover, WSB's rate of lending in moderate-income census tracts also exceeded the business demographics for these geographies except for its lending rate by dollar value of loans in 2013 and 2014.

The following table provides a summary of the distribution of WSB's small business loans by the income level of the geography where the business was located.

Distribution of Small Business Lending by Geographic Income of the Census Tract									
2011									
Geographic	Bank				Aggregate				Bus.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Moderate	60	31.6%	6,866	31.8%	323	24.0%	20,941	26.2%	19.6%
LMI	60	31.6%	6,866	31.8%	323	24.0%	20,941	26.2%	19.6%
Middle	123	64.7%	14,246	66.1%	973	72.4%	56,754	71.1%	76.3%
Upper	7	3.7%	452	2.1%	48	3.6%	2,096	2.6%	4.0%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Total	190		21,564		1,344		79,791		
2012									
Geographic	Bank				Aggregate				Bus.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Moderate	46	20.1%	6,296	21.0%	226	16.1%	15,009	20.5%	15.2%
LMI	46	20.1%	6,296	21.0%	226	16.1%	15,009	20.5%	15.2%
Middle	138	60.3%	15,379	51.3%	871	62.1%	41,766	57.1%	61.3%
Upper	45	19.7%	8,292	27.7%	306	21.8%	16,370	22.4%	23.4%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Total	229		29,967		1,403		73,145		
2013									
Geographic	Bank				Aggregate				Bus.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Moderate	34	16.0%	3,120	14.2%	194	14.1%	11,639	16.1%	16.2%
LMI	34	16.0%	3,120	14.2%	194	14.1%	11,639	16.1%	16.2%
Middle	133	62.4%	13,094	59.7%	899	65.2%	44,716	62.0%	60.8%
Upper	45	21.1%	5,205	23.7%	286	20.7%	15,767	21.9%	22.8%
Unknown	1	0.5%	500	2.3%	0	0.0%	0	0.0%	0.0%
Total	213		21,919		1,379		72,122		
2014									
Geographic	Bank				Aggregate				Bus.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Moderate	36	15.7%	3,185	14.7%	206	15.3%	13,831	19.3%	15.7%
LMI	36	15.7%	3,185	14.7%	206	15.3%	13,831	19.3%	15.7%
Middle	140	60.9%	13,714	63.4%	842	62.5%	40,782	57.0%	61.2%
Upper	54	23.5%	4,738	21.9%	299	22.2%	16,979	23.7%	23.0%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Total	230		21,637		1,347		71,592		
2015									
Geographic	Bank				Aggregate				Bus.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Moderate	60	28.3%	8,603	29.2%	265	18.3%	19,768	22.1%	15.3%
LMI	60	28.3%	8,603	29.2%	265	18.3%	19,768	22.1%	15.3%
Middle	114	53.8%	15,853	53.8%	887	61.2%	47,874	53.6%	61.2%
Upper	38	17.9%	4,988	16.9%	297	20.5%	21,641	24.2%	22.7%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.6%
Total	212		29,444		1,449		89,283		
GRAND TOTAL									
Geographic	Bank				Aggregate				Bus.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%		0.0%		0.0%	
Moderate	236	22.0%	28,070	22.5%		17.5%		21.0%	
LMI	236	22.0%	28,070	22.5%	1,214	17.5%	81,188	21.0%	
Middle	648	60.3%	72,286	58.0%		64.6%		60.1%	
Upper	189	17.6%	23,675	19.0%		17.9%		18.9%	
Unknown	1	0.1%	500	0.4%		0.0%		0.0%	
Total	1,074		124,531		6,922		385,933		

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

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

Community Development Test: “Satisfactory”

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

During the evaluation period, WSB originated \$37.0 million in new community development loans, and had \$2.2 million outstanding from the prior evaluation period. WSB did not make any community development investments during the evaluation period and did not have any outstanding from the prior evaluation period. However, WSB made \$717,288 in community development grants.

Community Development Lending: “Outstanding”

During the evaluation period, WSB originated \$37.0 million in new community development loans, and had \$2.2 million outstanding from the prior evaluation period for a total of \$39.2 million in community development loans. This demonstrated an excellent level of community development lending over the course of the evaluation period.

WSB’s level of community development loans originated during the current evaluation period (5.5 years) increased by \$32.5 million from the \$4.5 million originated during the prior evaluation period (3.0 years). WSB’s annualized ratio of CD loans to average total assets totaled 1.4% for the evaluation period.

Community Development Loans				
Purpose	This Evaluation Period		Outstandings from Prior Evaluation Periods	
	# of Loans	\$000	# of Loans	\$000
Affordable Housing	11	13,006	-	-
Economic Development	10	19,445	3	2,192
Community Services	38	4,592	-	-
Other (Please Specify)	-	-	-	-
Total in Assessment Area	59	37,043	3	2,192

Below are highlights of WSB’s community development lending:

Affordable Housing

WSB originated a \$2.6 million commercial mortgage loan to a nonprofit organization whose mission is to develop, own and manage affordable housing for LMI individuals and families. In addition, the organization offers first-time home owner programs to LMI individuals.

Economic Development

WSB extended a \$2.7 million commercial construction loan for the renovation of a marina, that includes a restaurant, pool and self-storage units. Once renovated the marina will provide permanent full-time employment to ten LMI individuals.

Community Service

WSB made a \$200,000 loan to a nonprofit organization that provides housing to the homeless, as well as treatment for addiction and mental health care services, primarily to Medicaid recipients.

Community Development Investments: “Satisfactory”

During the evaluation period, WSB did not make any new community development investment, and did not have any outstanding from prior evaluation periods. However, WSB did make \$717,288 in community development grants. This demonstrated a reasonable level of community development investments/grants over the course of the evaluation period.

While the level of grants made by WSB during the current evaluation period (5.5 years) of \$717,288 was an increase from the \$404,462 of grants made during the prior evaluation period (3.0 years), on an annualized basis the level of grants declined to \$130,416 from \$134,821, respectively.

Community Development Investments and Grants				
	This Evaluation Period		Outstandings from Prior Evaluation Periods	
CD Investments	# of Inv.	\$000	# of Inv.	\$000
Affordable Housing				
Economic Development				
Revitalizs/Stabilize				
Other (Please Specify)				
Total		\$ -		\$ -
CD Grants	# of Grants	\$000	Not Applicable	
Affordable Housing	1	16,400		
Community Services	28	580,363		
Economic Development	2	107,025		
Other (Please Specify)	3	13,500		
Total	34	717,288		

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

During the evaluation period, WSB made 34 grants, in the sum of \$717,288, to various nonprofit organizations that support small businesses, child advocacies, provide affordable child care, educational programs and operate food banks in the assessment area.

Community Development Services: "Satisfactory"

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

Below is a description of WSB's qualified community development services.

Economic Development

WSB's commercial lenders presented the Banking Finance for the Entrepreneur Program to prospective and small business owners. The program describes the entire loan application process as well as the importance of an appropriate business plan and financial statements. The program focus is bank financing for entrepreneurs to start businesses and create employment and economic growth. The program was presented at the Small Business Development Center and at various times during the evaluation period.

Affordable Housing

A branch manager and a business development officer taught students at two different schools about the importance of savings and credit. More than 50% of students at each school qualified for free and reduced lunches.

Community Service

A credit analyst provided training on reading and understanding financial statements and fiduciary responsibilities to the Board of a nonprofit multi-service agency, which provides programs and services to LMI families to alleviate poverty, promote self-sufficiency and advance community prosperity.

Innovativeness of Community Development Activity:

WSB demonstrated occasional use of innovative lending programs. WSB offers the First-Time Homeowner Program, which offers qualified applicants a fixed rate, no application or administration fees and a low 5% down payment. WSB also participates in the New York State Linked Deposit Program providing low-interest loans to small businesses.

Responsiveness to Community Development Needs:

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

During the evaluation period, WSB participated in the U.S. Small Business Administration (SBA) lender programs such as the SBA 7(a) and express programs which are intended to provide financing to start-up and existing small businesses, not available in traditional lending programs. WSB also works closely with various local economic agencies to serve the needs of the small business community by providing needed financing to small businesses with the goal of job creation and stabilizing the community.

Additional Factors

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

WSB's board of trustees reviews the CRA compliance policy and self-assessment annually. The compliance officer presides over quarterly CRA/Compliance/Fair Lending committee meetings. In addition, WSB's CRA process is audited every two years and an internal audit report is issued to the audit committee for review. The most recent report as of August 2015, noted no exceptions.

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 WSB intended to discourage applications for the types of credit offered by WSB.

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

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

Record of opening and closing offices and providing services at offices

WSB has eight full service branches, one drive-thru only location, and one commercial loan office. The branch hours are 8:30AM to 4:00PM Monday to Wednesday and 8:30AM to 5:00PM Thursday and Friday. All the branches, except for the main office offer Saturday drive-thru hours of 9:00AM to 12:00PM and two of the branches also offer these Saturday hours as their lobby hours from May 1, to September 30.

While WSB's assessment area (all of Jefferson County) has no low-income census tracts, two (25%) of its branches are in moderate-income census tracts as well as the drive thru-only facility (not included in the table below).

Distribution of Branches within the Assessment Area							
County	N/A	Low	Moderate	Middle	Upper	Total	LMI
	#	#	#	#	#	#	%
Jefferson			2	5	1	8	25%
Total	-	-	2	5	1	8	25%

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.

WSB's trustees of the board, senior management and employees are active members of committees or boards of various community groups. These organizations include local economic development corporations, banker associations, local rotaries, hospital foundations, local chambers of commerce and various community-based nonprofit organizations. WSB also works with Neighbors of Watertown and other LMI housing agencies.

- 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

WSB markets its products and services via television, internet, newspapers, magazines, billboards and signage in its branch offices. The city of Watertown is comprised of approximately 70% LMI individuals so no special program is required to reach this demographic group.

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

WSB is actively involved in local chambers of commerce, economic development corporations and community-based organization to meet the credit needs of its community.

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.