



PUBLIC SUMMARY

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION OF WATERTOWN SAVINGS BANK

AS OF JUNE 30, 2022

New York State Department of Financial Services
Consumer Protection and Financial Enforcement Division
One State Street, New York NY 10004

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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I. - GENERAL INFORMATION

This document is an evaluation (the “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 (“DFS” or the “Department”). This Evaluation represents the Department’s current assessment and rating of the Bank’s CRA performance based on an evaluation conducted as of June 30, 2022.

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 (“GRS”) 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 institutions’ 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 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 Evaluation.

II. - OVERVIEW OF INSTITUTION’S PERFORMANCE

The Department evaluated WSB according to the large banking institutions performance criteria pursuant to Sections 76.7, 76.8, 76.9 and 76.10 of the GRS. Although WSB is an intermediate small bank based on its asset size, the Bank elected to be evaluated under the large banking institution’s performance criteria and as required under the criteria collected and reported its small business loan data. The evaluation period included calendar years 2019, 2020, and 2021 for lending activities and the period from April 1, 2019 to June 30, 2022 for the community development activities. The Department assigned WSB a rating of “2,” indicating a “Satisfactory” record of helping to meet community credit needs.

This rating is based on the following factors:

A. Lending Test: High Satisfactory

WSB’s small business and HMDA-reportable lending activities were highly satisfactory in light of WSB’s size, business strategy, and financial condition, as well as aggregate and peer group activity and the demographic characteristics and credit needs of its assessment area.

1. Lending Activity: High Satisfactory

WSB’s lending levels were highly satisfactory considering its size, business strategy and financial condition, as well as the activity of its peer group and the demographic characteristics of its assessment area.

WSB’s average LTD ratio of 70% was below its peer group’s average LTD ratio of 84.9%, due in part to the Bank’s strategy of selling residential mortgage loans in the secondary market. However, the Bank’s commitment of originating loans is shown by WSB ranking 1st among more than 40 lenders in the peer small business market share report and 4th or better among approximately 100 lenders in the peer mortgage market share report, by number of loans originated for each year of the evaluation period within the Bank’s assessment area.

2. Assessment Area Concentration: Outstanding

During the evaluation period, WSB originated 93.7% by number and 90.7% by dollar value, of its total HMDA-reportable and small business loans within the assessment area, demonstrating an outstanding concentration of lending.

3. Geographic Distribution of Loans: High Satisfactory

WSB’s origination of loans in census tracts of varying income levels demonstrated a highly satisfactory distribution of lending.

WSB’s average small business lending rates in moderate-income census tracts for the evaluation period were just above the aggregate’s rates, while the Bank’s HMDA-reportable lending rates in moderate-income census tracts trailed the aggregate’s rates.

WATERTOWN SAVINGS BANK – CRA PERFORMANCE EVALUATION

4. Distribution by Borrower Characteristics: Low Satisfactory

WSB's one-to-four family HMDA-reportable and small business lending demonstrated a just satisfactory distribution of loans among individuals of different income levels and businesses of different revenue sizes.

In 2019, WSB's rates of lending to small businesses with gross annual revenue of \$1 million or less exceeded the aggregate's rates, while WSB's average rates of HMDA-reportable lending to low- and moderate-income borrowers for the evaluation period were below the aggregate's rates.

WSB's small business lending was evaluated based on its 2019 small business lending, as the Bank's small business lending in 2020 and 2021 was negatively skewed by a large number of small business loans originated with revenue unknown, which primarily were PPP loans that did not require collecting and reporting of revenue.

5. Community Development Lending: High Satisfactory

During the evaluation period, WSB originated \$15 million in new community development loans and had \$2.9 million outstanding from prior evaluation periods. This demonstrated a highly satisfactory level of community development lending over the course of the evaluation period

B. Investment Test: Low Satisfactory

1. Qualified Investments

During the evaluation period, WSB made \$1.6 million in new qualified investments and had no investments outstanding from prior evaluation periods. WSB also made \$460,000 in qualified grants. This demonstrated a just satisfactory level of qualified investments and grants over the course of the evaluation period.

2. Innovativeness of Qualified Investments:

WSB made no use of innovative investments to support community development.

3. Responsiveness of Qualified Investments to Credit and Community Development Needs:

WSB's qualified investments exhibited just satisfactory responsiveness to the assessment area's credit and community development needs.

C. Service Test: Outstanding

1. Retail Banking Services: Outstanding

WSB has an outstanding branch network, delivery systems, branch hours and services, and alternative delivery systems, including as it relates to LMI individuals.

WATERTOWN SAVINGS BANK – CRA PERFORMANCE EVALUATION

WSB's delivery systems are readily accessible to significant portions of the Bank's assessment area, including LMI geographies and individuals.

2. Community Development Services: Outstanding

WSB provided an excellent level of community development services. Bank officers and employees provided 87 instances of qualified community development services during the evaluation period, by serving on the boards and committees of several community development organizations, providing financial literacy education and participating in small business seminars.

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 GRS Part 76.

WATERTOWN SAVINGS BANK – CRA PERFORMANCE EVALUATION

III. - PERFORMANCE CONTEXT

A. Institution Profile

Chartered in 1893, WSB is a mutual savings bank headquartered in the city of Watertown, the county seat of Jefferson County, New York. The Bank has a wholly owned subsidiary, WSB Municipal Bank, a special purpose bank that only accepts municipal deposits.

WSB operates eight banking offices in Jefferson County, of which three are within the city of Watertown. The Bank also has a stand-alone, drive-thru location directly across from its headquarters in Watertown. Supplementing the banking offices is an automated teller machine (“ATM”) network consisting of 14 machines. All banking offices, except the Sackets Harbor branch, have an ATM, and the remaining ATMs are located in various communities within Jefferson County.

WSB offers a range of deposits and loan products that include personal and business checking, savings, individual retirement accounts, certificate of deposit, residential and commercial mortgage loans, home equity loans and home equity lines of credit, personal and commercial loans, and commercial lines of credit. Services include direct deposits, wire transfers, safe deposit boxes, online banking, mobile banking, mobile deposit, and sweep services.

In its Consolidated Report of Condition (the Call Report) as of December 31, 2021, filed with the Federal Deposit Insurance Corporation (“FDIC”), WSB reported total assets of \$995.6 million, of which \$4753.7 million were net loans and lease financing receivables. It also reported total deposits of \$864 million, resulting in an LTD ratio of 55.1%. According to the latest available comparative deposit data as of June 30, 2021, WSB had a market share of 36.6% or \$821 million in a market of \$2.2 billion ranking it first among ten deposit-taking institutions in Jefferson County.

The following is a summary of the Bank’s loan portfolio, based on Schedule RC-C of the Bank’s December 31, 2019, 2020, and December 31, 2021 Call Reports:

TOTAL GROSS LOANS OUTSTANDING						
Loan Type	12/31/2019		12/31/2020		12/31/2021	
	\$000's	%	\$000's	%	\$000's	%
1-4 Family Residential Mortgage Loans	159,032	35.1	152,602	31.0	160,559	33.3
Commercial & Industrial Loans	49,257	10.9	86,754	17.6	57,436	11.9
Commercial Mortgage Loans	193,756	42.7	198,514	40.3	201,025	41.7
Multifamily Mortgages	14,513	3.2	18,556	3.8	24,740	5.1
Consumer Loans	9,839	2.2	10,866	2.2	11,192	2.3
Agricultural Loans	229	0.1	241	0.0	187	0.0
Construction Loans	26,242	5.8	24,273	4.9	25,835	5.4
Other Loans	816	0.2	405	0.1	1,096	0.2
Total Gross Loans	453,684		492,211		482,070	

WATERTOWN SAVINGS BANK – CRA PERFORMANCE EVALUATION

As illustrated in the above table, commercial and industrial loans and commercial mortgage loans represented 53.6%, while 1-4 family residential mortgage and multifamily loans represented 38.4% of the Bank’s loan portfolio.

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.

B. Assessment Area

The Bank’s assessment area is comprised of Jefferson County in its entirety.

There are 26 census tracts in the Bank’s assessment area, of which five are moderate-income, 17 are middle-income, two are upper-income, and two are tracts with no income indicated. There are no low-income census tracts in the Bank’s assessment area.

Assessment Area Census Tracts by Income Level							
County	N/A	Low	Mod	Middle	Upper	Total	LMI %
Jefferson	2	0	5	17	2	26	19.2
Total	2	0	5	17	2	26	19.2

C. Demographic & Economic Data

The assessment area had a population of 118,947 during the evaluation period. Approximately 11.8% of the population were over the age of 65 and 22.6% were under the age of 16.

Of the 30,116 families in the assessment area 19.8% were low-income, 18.5% were moderate-income, 22.4% were middle-income and 39.5% were upper-income. There were 44,306 households in the assessment area, of which 13.9% had income below the poverty level and 2.7% were on public assistance.

The weighted average median family income in the assessment area was \$58,535.

There were 58,536 housing units within the assessment area, of which 76.7% were one-to-four family units and 10.7% were multifamily units and 12.6% were mobile homes or trailers. A majority (42%) of the housing units were owner-occupied, while 33.7% were renter-occupied units and 24.3% were vacant units.

Of the 24,610 owner-occupied housing units, 7.9% were in moderate-income census tracts while 92.1% were in middle- and upper-income census tracts. The median age of the housing stock was 56 years, and the median home value in the assessment area was \$139,278.

There were 6,596 non-farm businesses in the assessment area. Of these, 79.3% were businesses with reported revenues of less than or equal to \$1 million, 5.1% reported revenues of more than \$1 million and 15.6% did not report their revenues. Of all the businesses in the assessment area, 95.9% were businesses with less than fifty employees while 85% operated from a single location.

WATERTOWN SAVINGS BANK – CRA PERFORMANCE EVALUATION

The largest industries in the area were services (35.6%), retail trade (14.4%) and construction (7.1%); 14.9% 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 and Jefferson County increased significantly from 2019 to 2020, due to the onset of the COVID-19 pandemic in early 2020. While Jefferson County’s average annual unemployment rate was higher than the statewide in 2019, in 2020 and 2021 it was below the statewide rates.

Assessment Area Unemployment Rate		
	Statewide	Jefferson
2019	3.8	5.4
2020	9.9	8.4
2021	6.9	5.0
Average of Years above	6.9	6.3

D. Community Information

DFS examiners, as a part of the evaluation, conducted community contact interviews with CEOs of a community development and a nonprofit organization that operate within Jefferson County. The community development organization serves the housing needs of LMI residents within the Bank’s assessment area and provides services that include first-time homebuyer programs, homebuyer education, owner-occupied housing and rental housing rehabilitation programs. The nonprofit organization offers programs and services to assist victims of domestic violence. Such programs and services include access to its food pantry, housing, pro bono legal services and emergency utilities for LMI individuals and families.

The CEO of the community development organization stated that there is a need for lending programs with better lending terms for LMI borrowers and LMI borrowers with lower credit scores. The interviewee mentioned pockets of poverty in the north and east side of Watertown in need of programs to help repair and replace older and deteriorating mobile homes, as well as more support from financial institutions of programs offered by local organizations that benefit residents of the community.

The CEO of the nonprofit organization stated that the population is aging, and there is not enough incentive for the younger generation to stay in the area. Considering that the aging population is more susceptible to scams, local financial institutions should provide more financial literacy education for seniors in the community on scams and financial abuse. Another challenge that faces the community is a lack of public transportation from the Southern part of Lewis County to help residents from that area have easier access to available financial services.

Overall, WSB received favorable comments from both community contacts.

IV. - PERFORMANCE STANDARDS AND ASSESSMENT FACTORS

The Department evaluated WSB under the large banking institutions performance criteria in accordance with Sections 76.7, 76.8, 76.9 and 76.10 of the GRS, which consist of the lending, investment, and service tests. 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.

Finally, the Evaluation considered other factors as delineated in Section 28-b of the New York Banking Law that reasonably bear upon the extent to which WSB helps to meet the credit needs of its entire community.

DFS derived statistics employed in this Evaluation from various sources. WSB submitted bank-specific information both as part of the Evaluation process and in 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 obtained LTD ratios from information shown in the Bank’s Uniform Bank Performance Report, compiled by the FFIEC from Call Report data.

DFS derived the 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 updates annually. DFS obtained unemployment data from the New York State Department of Labor.

The evaluation period included calendar years 2019, 2020 and 2021 for lending activities and the period from April 1, 2019 to June 30, 2022 for community development activities.

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

HMDA-reportable and small business loan data evaluated in this Evaluation represented actual originations.

In its prior Community Reinvestment Act Performance Evaluation as of March 31, 2019, DFS assigned WSB a rating of “2” reflecting a “Satisfactory” compliance with regulatory standards.

Current CRA Rating: Satisfactory

WATERTOWN SAVINGS BANK – CRA PERFORMANCE EVALUATION

A. Lending Test: High Satisfactory

The Bank’s lending performance was evaluated pursuant to the following criteria: (1) Lending Activity;

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

WSB’s small business and HMDA-reportable lending activities were highly satisfactory in light of WSB’s size, business strategy, and financial condition, as well as aggregate and peer group activity and the demographic characteristics and credit needs of its assessment area. WSB’s highly satisfactory level of community development lending for economic development and community services demonstrates the Bank’s commitment to meet community credit needs.

1. Lending Activity: High Satisfactory

WSB’s lending levels were highly satisfactory considering its size, business strategy and financial condition, as well as the activity of its peer group and the demographic characteristics of its assessment area.

WSB’s average LTD ratio of 70% for the current evaluation period was below its peer group’s average LTD ratio of 84.9%. However, the Bank’s lower LTD ratio is in part due to the Bank’s strategy of selling residential loans in the secondary market. Nevertheless, WSB ranked 1st among more than 40 lenders in the peer small business market share report for each year of the evaluation period, by number of small business loans originated within the Bank’s assessment area. In addition, WSB was ranked 4th or better among approximately 100 lenders in the peer mortgage market share report, for each year of the evaluation period, by number of mortgage loans originated within the Bank’s assessment area, demonstrating the Bank’s commitment of originating loans.

The table below shows WSB’s LTD ratios in comparison with the peer group’s ratios for the 12 quarters of this evaluation period.

Loan-To-Deposit-Ratio													
	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	Avg.
Bank	77.0	79.0	77.5	80.1	76.0	74.4	71.0	69.7	63.0	60.6	57.0	55.1	70.0
Peer	91.2	90.5	90.7	90.7	90.7	87.9	85.5	82.5	79.3	77.3	76.6	76.0	84.9

2. Assessment Area Concentration: Outstanding

During the evaluation period, WSB originated 93.7% by number and 90.7% by dollar value of its total HMDA-reportable and small business loans within the assessment area, demonstrating an outstanding concentration of lending.

WATERTOWN SAVINGS BANK – CRA PERFORMANCE EVALUATION

a. HMDA-Reportable Loans:

During the evaluation period, WSB originated 92.2% by number and 90.2% by dollar value of its HMDA-reportable loans within the assessment area. This substantial majority of lending inside of its assessment area reflects an outstanding concentration of lending.

b. Small Business Loans:

WSB originated 94.5% by number and 91.2% by dollar value of its small business loans within the assessment area during the evaluation period.

This substantial majority of lending inside of its assessment area reflects an outstanding concentration of lending.

The following table shows the percentages of WSB’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										
2019	206	92.8%	16	7.2%	222	31,777	92.5%	2,560	7.5%	34,337
2020	417	94.1%	26	5.9%	443	75,815	94.6%	4,296	5.4%	80,111
2021	350	89.7%	40	10.3%	390	64,551	84.6%	11,750	15.4%	76,301
Subtotal	973	92.2%	82	7.8%	1,055	172,143	90.2%	18,606	9.8%	190,749
Small Business										
2019	353	93.9%	23	6.1%	376	37,752	89.7%	4,328	10.3%	42,080
2020	826	93.7%	56	6.3%	882	74,268	89.7%	8,557	10.3%	82,825
2021	821	95.6%	38	4.4%	859	65,285	93.9%	4,248	6.1%	69,533
Subtotal	2,000	94.5%	117	5.5%	2,117	177,305	91.2%	17,133	8.8%	194,438
Grand Total	2,973	93.7%	199	6.3%	3,172	349,448	90.7%	35,739	9.3%	385,187

3. Geographic Distribution of Loans: High Satisfactory

WSB’s origination of loans in census tracts of varying income levels demonstrated a highly satisfactory distribution of lending.

The Department evaluated this criterion based on WSB’s distribution of HMDA-reportable and small business lending. The Banks’s assessment area did not contain low-income census tracts.

a. HMDA-Reportable Loans:

The distribution of WSB’s HMDA-reportable loans by the income level of the geography was just satisfactory.

WATERTOWN SAVINGS BANK – CRA PERFORMANCE EVALUATION

While WSB’s average rate of lending in moderate-income census tracts for the evaluation period of 5.3% by number of loans trailed the aggregate’s rate of 7.6%, WSB’s rate of 5.4% by dollar value of loans was the same as the aggregate’s rate of 5.4%.

Both the Bank’s and the aggregate’s average rates of lending in moderate-income census tracts trailed the assessment area’s housing demographics for owner-occupied housing units in moderate-income census tracts during the evaluation period.

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									
2019									
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	12	5.8%	727	2.3%	159	7.1%	13,035	4.3%	7.9%
LMI	12	5.8%	727	2.3%	159	7.1%	13,035	4.3%	7.9%
Middle	175	85.0%	28,103	88.4%	1,873	83.6%	264,875	86.5%	83.2%
Upper	19	9.2%	2,947	9.3%	208	9.3%	28,010	9.2%	9.0%
Unknown	0	0.0%	0	0.0%	1	0.0%	155	0.1%	0.0%
Total	206		31,777		2,241		306,075		
2020									
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	22	5.3%	6,550	8.6%	188	6.4%	25,100	5.2%	7.9%
LMI	22	5.3%	6,550	8.6%	188	6.4%	25,100	5.2%	7.9%
Middle	361	86.6%	63,133	83.3%	2,496	84.5%	416,980	85.6%	83.2%
Upper	34	8.2%	6,132	8.1%	269	9.1%	44,775	9.2%	9.0%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Total	417		75,815		2,953		486,855		
2021									
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	18	5.1%	2,006	3.1%	305	9.0%	36,895	6.1%	7.9%
LMI	18	5.1%	2,006	3.1%	305	9.0%	36,895	6.1%	7.9%
Middle	309	88.3%	58,166	90.1%	2,798	82.9%	521,220	85.8%	83.2%
Upper	23	6.6%	4,379	6.8%	272	8.1%	48,780	8.0%	9.0%
Unknown	0	0.0%	0	0.0%	2	0.1%	370	0.1%	0.0%
Total	350		64,551		3,377		607,265		
GRAND TOTAL									
Geographic	Bank				Aggregate				OO HUs
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%		0.0%		0.0%	
Moderate	52	5.3%	9,283	5.4%		7.6%		5.4%	
LMI	52	5.3%	9,283	5.4%	652	7.6%	75,030	5.4%	
Middle	845	86.8%	149,402	86.8%		83.6%		85.9%	
Upper	76	7.8%	13,458	7.8%		8.7%		8.7%	
Unknown	-	0.0%	-	0.0%		0.0%		0.0%	
Total	973		172,143		8,571		1,400,195		

WATERTOWN SAVINGS BANK – CRA PERFORMANCE EVALUATION

b. Small Business Loans:

The distribution of WSB’s small business loans among census tracts of varying income levels was highly satisfactory.

WSB’s average rates of lending in moderate-income census tracts of 14.6% by number and 16.6% by dollar value of loans for the evaluation period was just above the aggregate’s rates of 13.9% and 15.1%, respectively.

Both the Bank’s and the aggregate’s rates just trailed the moderate-income census tracts business demographics of businesses located in moderate-income census tracts within the assessment area.

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									
2019									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Moderate	54	15.3%	7,106	18.8%	224	14.1%	14,246	17.4%	18.0%
LMI	54	15.3%	7,106	18.8%	224	14.1%	14,246	17.4%	18.0%
Middle	279	79.0%	26,032	69.0%	1,268	79.7%	61,318	75.0%	75.4%
Upper	20	5.7%	4,614	12.2%	99	6.2%	6,166	7.5%	6.5%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.1%
Total	353		37,752		1,591		81,730		
2020									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Moderate	126	15.3%	11,619	15.6%	305	14.5%	20,888	14.5%	17.6%
LMI	126	15.3%	11,619	15.6%	305	14.5%	20,888	14.5%	17.6%
Middle	665	80.5%	59,386	80.0%	1,685	80.1%	117,860	81.8%	75.8%
Upper	35	4.2%	3,263	4.4%	114	5.4%	5,284	3.7%	6.6%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.1%
Total	826		74,268		2,104		144,032		
2021									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Moderate	112	13.6%	10,738	16.4%	278	13.1%	16,061	14.3%	17.6%
LMI	112	13.6%	10,738	16.4%	278	13.1%	16,061	14.3%	17.6%
Middle	664	80.9%	52,009	79.7%	1,717	80.6%	92,303	82.0%	75.6%
Upper	45	5.5%	2,538	3.9%	135	6.3%	4,163	3.7%	6.8%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Total	821		65,285		2,130		112,527		
GRAND TOTAL									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%		0.0%		0.0%	
Moderate	292	14.6%	29,463	16.6%		13.9%		15.1%	
LMI	292	14.6%	29,463	16.6%	807	13.9%	51,195	15.1%	
Middle	1,608	80.4%	137,427	77.5%		80.2%		80.3%	
Upper	100	5.0%	10,415	5.9%		6.0%		4.6%	
Unknown	-	0.0%	-	0.0%		0.0%		0.0%	
Total	2,000		177,305		5,825		338,289		

WATERTOWN SAVINGS BANK – CRA PERFORMANCE EVALUATION

4. Distribution by Borrower Characteristics: Low Satisfactory

WSB’s one-to-four HMDA-reportable and small business lending demonstrated a just satisfactory distribution of loans among individuals of different income levels and businesses of different revenue sizes.

a. One-to-four Family HMDA-Reportable Loans:

WSB’s one-to-four family HMDA-reportable lending demonstrated a less than satisfactory distribution of loans among individuals of different income levels.

WSB’s average rates of lending to low- and moderate-income borrowers of 13.1% by number and 6.8% by dollar value of loans for the evaluation period were below the aggregate’s rates of 17.3% and 10.7%, respectively. WSB’s annual rates of lending to low- and moderate-income borrowers were also below the aggregate’s rates for each year of the evaluation period.

The following table provides a summary of the distribution of WSB’s one-to-four family loans by borrower income.

Distribution of One-to-Four Family Loans by Borrower Income									
2019									
Borrower Income	Bank				Aggregate				Fam.Dem.
	#	%	\$000's	%	#	%	\$000's	%	
Low	11	5.4%	624	2.3%	92	4.1%	5,770	1.9%	19.8%
Moderate	21	10.3%	1,312	4.9%	296	13.2%	25,780	8.6%	18.3%
LMI	32	15.7%	1,936	7.2%	388	17.3%	31,550	10.5%	38.1%
Middle	50	24.5%	4,742	17.7%	590	26.4%	68,560	22.8%	22.4%
Upper	109	53.4%	17,410	64.8%	1,170	52.3%	184,910	61.5%	39.5%
Unknown	13	6.4%	2,761	10.3%	90	4.0%	15,750	5.2%	
Total	204		26,849		2,238		300,770		
2020									
Borrower Income	Bank				Aggregate				Fam.Dem.
	#	%	\$000's	%	#	%	\$000's	%	
Low	9	2.2%	657	0.9%	72	2.5%	5,110	1.1%	19.8%
Moderate	32	7.7%	2,991	4.2%	353	12.0%	35,065	7.4%	18.3%
LMI	41	9.9%	3,648	5.2%	425	14.5%	40,175	8.4%	38.1%
Middle	81	19.6%	10,130	14.3%	652	22.2%	85,400	17.9%	22.4%
Upper	280	67.8%	55,029	77.8%	1,636	55.7%	307,470	64.5%	39.5%
Unknown	11	2.7%	1,881	2.7%	225	7.7%	43,995	9.2%	
Total	413		70,688		2,938		477,040		
2021									
Borrower Income	Bank				Aggregate				Fam.Dem.
	#	%	\$000's	%	#	%	\$000's	%	
Low	12	3.5%	986	1.7%	151	4.5%	12,805	2.2%	19.8%
Moderate	41	11.9%	4,005	6.9%	511	15.2%	60,675	10.4%	18.3%
LMI	53	15.4%	4,991	8.6%	662	19.7%	73,480	12.6%	38.1%
Middle	68	19.7%	7,626	13.1%	848	25.2%	131,640	22.6%	22.4%
Upper	203	58.8%	41,411	71.2%	1,569	46.7%	324,785	55.7%	39.5%
Unknown	21	6.1%	4,130	7.1%	281	8.4%	53,055	9.1%	
Total	345		58,158		3,360		582,960		
GRAND TOTAL									
Borrower Income	Bank				Aggregate				Fam.Dem.
	#	%	\$000's	%	#	%	\$000's	%	
Low	32	3.3%	2,267	1.5%		3.7%		1.7%	
Moderate	94	9.8%	8,308	5.3%		13.6%		8.9%	
LMI	126	13.1%	10,575	6.8%	1,475	17.3%	145,205	10.7%	
Middle	199	20.7%	22,498	14.5%		24.5%		21.0%	
Upper	592	61.5%	113,850	73.1%		51.3%		60.1%	
Unknown	45	4.7%	8,772	5.6%		7.0%		8.3%	
Total	962		155,695		8,536		1,360,770		

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b. Small Business Loans:

WSB’s small business lending demonstrated a highly satisfactory distribution of loans among businesses of different revenue sizes.

WSB’s small business lending was evaluated based on its 2019 lending, as the Bank’s small business lending in 2020 and 2021 was negatively skewed by a large number of small business loans originated with revenue unknown of 512 (62.1%) and 370 (45.1%), respectively, which primarily were PPP loans that did not require collecting and reporting of revenue.

In 2019, WSB’s rates of lending to small businesses with gross annual revenue of \$1 million or less were 53.8% by number and 40.3% by dollar value of loans exceeded the aggregate’s rates of 46.6% and 38.6%, respectively.

Both the Bank’s and the aggregate’s rates of lending to small businesses with gross annual revenue of \$1 million or less, trailed the business demographics of these type of small businesses in 2019.

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

Distribution of Small Business Lending by Revenue Size of Business									
2019									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	190	53.8%	15,211	40.3%	742	46.6%	31,534	38.6%	76.0%
Rev. > \$1MM	152	43.1%	22,034	58.4%					6.5%
Rev. Unknown	11	3.1%	507	1.3%					17.5%
Total	353		37,752		1,591		81,730		
2020									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	178	21.6%	14,708	19.9%	721	34.3%	35,922	24.9%	78.2%
Rev. > \$1MM	135	16.4%	25,984	35.1%					5.7%
Rev. Unknown	512	62.1%	33,376	45.1%					16.1%
Total	825		74,068		2,104		144,032		
2021									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	333	40.6%	25,728	39.4%	911	42.8%	36,636	32.6%	79.3%
Rev. > \$1MM	118	14.4%	19,935	30.5%					5.1%
Rev. Unknown	370	45.1%	19,622	30.1%					15.6%
Total	821		65,285		2,130		112,527		

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5. Community Development Lending: High Satisfactory

During the evaluation period, WSB originated \$15 million in new community development loans and had \$2.9 million outstanding from prior evaluation periods. This demonstrated a highly satisfactory level of community development lending over the course of the evaluation period.¹

WSB’s new community development loans for this evaluation period was an increase from the \$9.2 million reported at the prior evaluation. The Bank’s community development loans supported economic development and community services within the assessment area.

Community Development Loans				
Purpose	This Evaluation Period		Outstanding from Prior Evaluation Periods	
	# of Loans	\$000	# of Loans	\$000
Affordable Housing	0		1	1,159
Economic Development	20	8,516	0	0
Community Services	27	6,499	2	1,759
Other (Please Specify)	0		0	0
Total	47	15,015	3	2,918

Below are highlights of WSB’s community development lending.

- WSB originated a loan and extended lines of credit totaling \$5.1 million to a nonprofit organization that offers various programs for at-risk youths and their families. Programs include after school programs, foster care, health, youth and family support services.
- The Bank extended a line of credit totaling \$1.5 million to a nonprofit organization that provides health care and support for the terminally ill, regardless of the patient’s ability to pay.
- WSB originated a \$1.1 million loan to an organization, located in a moderate-income census tract within the assessment area, that provides services and treatment to individuals, groups, families and children whose lives have been impacted by substance abuse.
- WSB extended lines of credit totaling \$1 million to a nonprofit organization located within the assessment area that provides transitional housing assistance designed to help children, adolescents, and adults live independently.

a. Flexible and/or Innovative Lending Practices:

WSB’s made significant use of flexible or innovative lending practices.

¹ For analysis purposes, renewals of lines of credit that occur during the evaluation period are considered new extensions of credit. However, the level of lending is reviewed across the time period of the exam.

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WSB participated in the Small Business Administration (SBA) 7(a) and Express programs to help start-up and existing new businesses obtain financing. In addition, the Bank participated in the SBA PPP loan programs in 2020 and 2021 to help businesses through the Covid-19 pandemic. The Bank also had a loan program to help first time homebuyers obtain financing.

B. Investment Test: Low Satisfactory

WSB’s investment performance pursuant to the following criteria:

- (1) The dollar amount of qualified investments;*
- (2) The innovativeness or complexity of qualified investments; and*
- (3) The responsiveness of qualified investments to the credit and community development needs of the assessment area.*

1. Qualified Investments

During the evaluation period, WSB made \$1.6 million in new qualified investments. There were no investments outstanding from prior evaluation periods. In addition, WSB made \$460,000 in qualified grants. This demonstrated a just satisfactory level of qualified investments and grants over the course of the evaluation period.

WSB’s qualified investments consisted of municipal bonds to finance various community services projects benefiting central school districts, where the majority of the students qualify for the free or reduced lunch program.

Qualified Investments and Grants				
	This Evaluation Period		Outstanding from Prior Evaluation Periods	
CD Investments	# of Inv.	\$000	# of Inv.	\$000
Affordable Housing				
Economic Development				
Community Services	4	\$ 1,624		
Other (Please Specify)				
Total	4	\$ 1,624	0	0
CD Grants	# of Grants	\$000	Not Applicable	
Affordable Housing	3	\$ 5		
Economic Development	3	\$ 16		
Community Services	140	\$ 439		
Other (Please Specify)				
Total	146	\$ 460		

Below are highlights of WSB’s qualified investments.

- WSB invested in a \$1 million anticipation bond issued by a central school district where 58% of students are eligible for free or reduced-price lunch. Bonds proceeds were used to finance the acquisition, construction, and renovation of school district buildings and facilities.
- The Bank made a \$118,723 investment in a bond issued by a central school district where

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59% of students are eligible for free or reduced-price lunch. Bond proceeds were used to finance the purchase of a new school bus, equipment, machinery and to cover other necessary costs.

Below are highlights of WSB's community development grants.

- WSB made donations totaling \$50,000 to a not-for-profit organization that provides childcare, health, and wellness programs in low-income areas of Jefferson County. Services are provided at a discounted price for those in need.
- The Bank made a grant of \$12,600 to an organization that offers various programs and services for at-risk youths within the Bank's assessment area. Such programs and services include after-school programs, foster care, youth and family support services, youth health and wellness.
- WSB donated a total of \$10,000 to an organization that addresses substance abuse and mental health needs by providing services such as treatment and counseling to help clients achieve their recovery goals.

2. Innovativeness of Qualified Investments:

WSB made no use of innovative investments to support community development.

Responsiveness of Qualified Investments to Credit and Community Development Needs:

WSB's qualified investments exhibited just satisfactory responsiveness to the assessment area's credit and community development needs.

C. Service Test: Outstanding

The Department evaluated WSB's retail service performance pursuant to the following criteria:

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

The Department evaluated WSB's community development service performance pursuant to the following criteria:

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

1. Retail Banking Services: Outstanding

WSB has an outstanding branch network, delivery systems, branch hours and services, and alternative delivery systems, including as it relates to LMI individuals.

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a. Current distribution of the banking institution's branches:

WSB has a just satisfactory distribution of branches within its assessment area.

As of the evaluation date, WSB operated eight full-service branches all located in middle-income census tracts. The Bank's assessment area (Jefferson County) has five moderate-income tracts, of which four are within the city of Watertown where the Bank is headquartered. Three of the WSB's eight branches are located in the city of Watertown and adjacent to moderate-income census tracts and the Bank's stand-alone drive thru is located within a moderate-income census tract.

Distribution of Branches within the Assessment Area							
	N/A #	Low #	Moderate #	Middle #	Upper #	Total #	LMI %
Jefferson	0	0	0	8	0	8	0%
Total	0	0	0	8	0	8	0%

b. Record of opening and closing branches:

WSB did not open or close any branches during the evaluation period.

c. Availability and effectiveness of alternative systems for delivering retail services:

WSB's delivery systems are readily accessible to significant portions of the Bank's assessment area, including LMI geographies and individuals. Alternative delivery systems offered by the Bank include the following:

- Internet Banking – This service allows customers to access their accounts and view account balances, transfer funds, access transaction history information, initiate stop payments on checks, and pay bills.
- Mobile Banking – This service allows customers to view account information wherever they are and perform a variety of transactions such as transferring funds, placing stop payments on checks, and paying bills.
- Remote Deposit Capture – Commercial clients can securely deposit checks using a scanner without having to leave the privacy of their office. The scanner is provided by the Bank free of charge.

d. Range of services provided:

WSB's services meet the convenience and accessibility needs of its assessment area, including LMI geographies and individuals.

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Branches hours are generally Monday through Friday from 8:00 a.m. to 4:30 or 5:00 p.m.. In addition, six of the eight branches are open on Saturday from 9:00 a.m. to 12:00 p.m.. The Bank offers the following products that benefit LMI individuals and small businesses:

- WSB’s First-Time Homebuyer Program offers a competitive rate for first-time homebuyers with a less than perfect credit score, a discount on closing costs and the waiver of application and loan administration fees.
- The SBA 7(a) and Express programs provide financing to help start-up and existing small businesses owners, who might not otherwise qualify through traditional financing.
- The Bank also participated in the PPP program to assist small businesses during the COVID pandemic.

2. Community Development Services: Outstanding

WSB provided an outstanding level of community development services. Bank officers and employees served on the boards and committees of several community development organizations, participated in small business seminars and financial literacy education for a total of 87 qualified community development service activities during the evaluation period.

Community Development Services	
Activity Type	Number of Activities
On-Going Board & Committee Memberships	11
Technical Assistance	69
Seminars	3
Credit Counseling	0
Other Services (Financial Literacy)	4
Total Community Development Services	87

Below are highlights of WSB’s community development services.

- The president and chief executive officer of WSB serves on the board of an organization that supports economic development by providing small businesses, including start-ups, minority- and women-owned businesses access to funds when they do not meet the requirements for traditional financing.
- The executive vice president and chief operating officer of the Bank serves on the board of an organization that supports job creation and retention, as well as providing small business owners with the necessary tools to help them succeed.
- A vice president of WSB serves on the board of an organization that provides employment opportunities and business development in the Town and Village of Clayton. The organization seeks to improve the economic welfare and prosperity of all residents.

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- A vice president of the Bank is a board member of an organization that exists to address poverty, promote self-sufficiency, and advance community prosperity. This is done through various services that provide assistance for housing, employment, utilities and the homeless.
- An assistant vice president of WSB is a board member of an organization that provides support for victims of domestic violence. The organization offers a variety of services that include counseling for victims of domestic violence, child abuse and mental health, as well as safe housing, clothing and food.

D. Additional Factors

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

1. 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.

WSB's CRA/Compliance/Fair Lending committee meets quarterly to review and discuss the Bank's CRA performance and community development activities within its assessment area. WSB performs an annual CRA self-assessment that includes analysis of its lending activities, such as LTD, distribution of loans in LMI geographies and to LMI borrowers, as well as community development activities. The board of trustees reviews and approves the CRA/Compliance/Fair Lending committee minutes.

2. 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 of prohibited discriminatory or other illegal practices.

3. 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 ascertains community credit needs through its involvement with various community organizations within its assessment area. Directors and senior officers serve on boards of various

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community development organizations and participated in financial literacy and small business workshops.

- *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 advertises its products and services through television commercials, in-branch display monitors, newsletters, social media, direct mailings and its website.

- *Action Taken in Response to Written Complaints with Respect to CRA*

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

4. Other factors that in the judgment of the Superintendent bear upon the extent to which WSB is helping to meet the credit needs of its entire community

DFS examiners noted no other factors.

V - GLOSSARY

Aggregate Lending

“Aggregate lending” means 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.

Banking Development District (“BDD”) Program

The BDD Program is a program designed to encourage the establishment of bank branches in areas across New York State where there is a demonstrated need for banking services, in recognition of the fact that banks can play an important role in promoting individual wealth, community development, and revitalization. Among others, the BDD Program seeks to reduce the number of unbanked and underbanked New Yorkers and enhance access to credit for consumers and small businesses. More information about the program, may be found at <https://www.dfs.ny.gov> and search for the BDD Program.

Community Development

“Community development” means:

- Affordable housing (including multifamily housing) for LMI individuals;
- Community services targeted to LMI individuals;
- 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;
- Activities that revitalize or stabilize LMI geographies, designated disaster areas, or distressed or underserved metropolitan middle-income geographies designated by the Board of Governors of the federal Reserve System, FDIC and the Office of Comptroller of the Currency; and
- Activities that seek to prevent defaults and/or foreclosures in loans included in the first and third bullet points above.

Community Development Loan

“Community development loan” means 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 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;

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- 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

“Community development service” means a 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.

Community Development Financial Institution (“CDFI”)

A CDFI is a financial institution that provides credit and financial services to underserved markets and populations and has a primary mission of community development, serves a target market, is a financing entity, provides development services, remains accountable to its community, and is a non-governmental entity. CDFIs are certified as such by United States Treasury Department’s CDFI Fund.

Fair Market Rents (“FMRs”)

Fair Market Rents are published and developed annually by the US Department of Housing and Urban Development (“HUD”) and used to determine rent payments for affordable housing projects such as Section 8 contracts in defined metropolitan statistical areas (“MSAs”) nationwide. For easy reference of annual FMRs in New York MSAs or counties, go to www.huduser.gov/portal/datasets/fmr.html

Geography

“Geography” means 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 Metropolitan Statistical Area (“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

LMI Geographies

“LMI geographies” means those census tracts or block numbering areas where, according to the most current 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 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 Block Numbering Areas (“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

“LMI borrowers” means 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 Federal Financial Institutions Examination Council (“FFIEC”).

LMI Individuals/Persons

“LMI individuals” or “LMI persons” means 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 the FFIEC.

LMI Penetration Rate

“LMI penetration rate” means the percentage of a bank’s total loans (for a particular product) that was extended to LMI geographies or borrowers. For example, if a bank made 20 out of a total of 100 loans in LMI geographies or to LMI borrowers, the penetration rate would be 20%.

Low-Income Housing Tax Credit (“LIHTC”)

LIHTC were 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. The tax credits 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.

Minority Depository Institutions (“MDIs”)

An MDI is defined as a federal insured depository institution for which (1) 51 percent or more of the voting stock is owned by minority individuals; or (2) a majority of the board of directors is minority and the community that the institution serves is predominantly minority. For more of MDIs, go to FDIC.gov (Minority Depository Institutions Program) including list of MDIs.

New Markets Tax Credit (“NMTC”)

The NMTC Program was established by Congress in December 2000 to stimulate economic and community development and job creation in low-income communities. It permits 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 CDFI Fund, an agency of the United States Department of the Treasury.

Paycheck Protection Program (“PPP”) Loans

The Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) temporarily permits the U.S. Small Business Administration (“SBA”) to guarantee 100% of 7(a) loans under a new program titled the “Paycheck Protection Program”. The intent of the PPP is to help small business cover payroll costs providing for forgiveness of up to the full principal of qualifying loans guaranteed under the PPP subject to certain rules including how much or percentage of the loan proceeds a borrower spends on payroll costs. A small business owner can apply through any existing SBA 7(a) lender or through any federally insured depository institution, federally insured credit union, and Farm Credit System institution that is participating. Any amount of the PPP loan that is not forgiven shall be repaid over a 5-year term at a fixed interest rate of 1%. The program officially ended May 31, 2021.

Qualified Investment

“Qualified investment” means 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;

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- 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.

Small Business Loan

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