



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

One State Street
New York, NY 10004

PUBLIC SUMMARY

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

Date of Evaluation: September 30, 2017

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

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

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GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (“CRA”) performance of Five Star Bank (“FSB” or “the Bank”) prepared by the New York State Department of Financial Services (“DFS” or the “Department”). This evaluation represents the Department’s current assessment and rating of the institution’s CRA performance based on an evaluation conducted as of September 30, 2017.

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

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

OVERVIEW OF INSTITUTION'S PERFORMANCE

DFS evaluated FSB according to the large banking institution performance criteria pursuant to Sections 76.7, 76.8, 76.9, and 76.10 of the GRS. The evaluation period included calendar years 2013, 2014, 2015, and 2016 for small business/small farm, HMDA-reportable and consumer loans, while community development activities were evaluated from January 1, 2012 through September 30, 2017. FSB is rated "2," indicating a "**Satisfactory**" record of helping to meet community credit needs.

This rating is based on the following factors:

LENDING TEST: "Low Satisfactory"

FSB's small business, HMDA-reportable, and consumer lending activities were adequate considering FSB'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. FSB substantially increased its assessment area during the evaluation period; as a result, the number of census tracts within the assessment area increased significantly from 282 census tracts to 637 census tracts.

Lending Activity: "Low Satisfactory"

FSB's lending levels were adequate 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. FSB's average loan-to-deposit ("LTD") ratio of 73.8% for the evaluation period trailed its peer group's average ratio of 80.7%. However, FSB's LTD ratio was a slight improvement over its average LTD ratio of 69.3% during the prior evaluation period.

Assessment Are Concentration: "Low Satisfactory"

FSB originated 51.7% by number and 63.1% by dollar value of its total HMDA-reportable, small business/small farm, and consumer loans in its assessment area. This majority of lending inside FSB's assessment area reflects an adequate concentration of lending.

Geographic Distribution of Loans: "Needs to Improve"

FSB's origination of loans in census tracts of varying income levels demonstrated a less than adequate distribution of lending. FSB's average rates of lending to LMI geographies across all lending products considered in this evaluation were lower than the aggregate's average rates of lending. Furthermore, FSB's lending rates trailed various assessment area demographics.

Distribution by Borrower Characteristics: "High Satisfactory"

FSB's HMDA-reportable, small business, and consumer lending demonstrated a more than reasonable distribution of loans among individuals of different income levels and businesses of different revenue sizes.

Community Development Lending: “Outstanding”

During the evaluation period, FSB originated \$140.2 million in new community development loans and had \$9.5 million outstanding from prior evaluation periods. This demonstrated an excellent level of community development lending over the course of the evaluation period.

INVESTMENT TEST: “High Satisfactory”

Qualified Investments

During the evaluation period, FSB made \$91.5 million in new community development investments and had \$2.2 million outstanding from prior evaluation periods. In addition, FSB made \$772,000 in community development grants. This demonstrated a more than reasonable level of qualified investments.

Innovativeness of Community Development Investments

FSB did not utilize innovative investments to support community development.

Responsiveness of Qualified Investments to Credit and Community Development Needs:

FSB’s qualified investments exhibited reasonable responsiveness to the assessment area’s credit and community development needs.

SERVICE TEST: “High Satisfactory”

Retail Banking Services: “Low Satisfactory”

FSB has adequate branch network, delivery systems, branch hours and services, and alternative delivery systems.

Community Development Services: “Outstanding”

FSB provided an excellent level of community development services over the course of the evaluation period. Bank personnel participated in more than 260 qualified community development services.

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.

PERFORMANCE CONTEXT

Institution Profile

FSB is a commercial bank headquartered in Warsaw, New York. FSB was formed in December 2005 through mergers and acquisitions which included First Tier Bank & Trust, Bath National Bank, Wyoming County Bank, and National Bank of Geneva. These small banks had a strong presence in the rural areas of Western New York, including the Southern Tier and Finger Lakes regions.

FSB's parent company is Financial Institutions, Inc. ("FII"), a publicly traded company. FII has other subsidiaries providing nonbanking products: Scott Danahy Naylor is a full-service insurance agency located in Amherst, NY; and Courier Capital Corporation provides customized investment management and consulting service to individuals, businesses, institutions, foundations, and retirement plans, and has offices in Buffalo and Jamestown, NY.

FSB offers a broad array of banking and financial products including traditional personal banking products, such as checking, savings, money market, certificates of deposit, individual retirement accounts, health savings accounts, and electronic banking. FSB's loan products include: personal loans, mortgage loans (including first homebuyers' program), home-equity lines-of-credit, home-equity loans, and home improvement loans. FSB's business banking products include business checking and savings accounts, CDs, and online and mobile banking. FSB's business services include deposit and cash management, payable and receivable management, and night deposit box. FSB's commercial loan products include lines-of-credit, commercial term loans, commercial mortgages, and business credit cards.

In 2012, FSB moved its regional and administrative office to the Five Star Bank Plaza in downtown Rochester, NY. FSB also purchased eight branches from two local banks in 2012. FSB currently operates 53 banking offices within its assessment area. The banking offices are supplemented by an automated teller machine ("ATM") network consisting of 75 machines, 15 of which are off-site. All branch ATMs have deposit-taking capabilities except the ATMs located in the Ellicottville branch and the Geneva main branch. Of the 53 banking offices, nine are in upper-income census tracts, 33 are in middle-income census tracts, eight are in moderate-income census tracts, and three are in low-income census tracts.

During the evaluation period, FSB consolidated five branches and closed three branches due to low business volume. FSB opened three branches in Rochester, NY from 2015 to 2017.¹

1. As a term of an Assurance of Discontinuance entered into on January 17, 2015 by FSB and the Attorney General of the State of New York, FSB was required to open at least two full-service branch offices located within neighborhoods in the Rochester area with minority populations of at least 30%.

Per the Consolidated Report of Condition (the “Call Report”) as of December 31, 2016, filed with the Federal Deposit Insurance Corporation (“FDIC”), FSB reported total assets of \$3.7 billion, of which \$2.3 billion were net loans and lease financing receivables. It also reported total deposits of \$3 billion, resulting in a LTD of 76.7%. According to the latest available comparative deposit data, as of June 30, 2016, FSB had a market share of 4.4%, or \$2.9 billion in a market of \$64.8 billion, ranking it 5th among 39 deposit-taking institutions in the assessment area.

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

TOTAL GROSS LOANS OUTSTANDING										
Loan Type	2012		2013		2014		2015		2016	
	\$000's	%	\$000's	%	\$000's	%	\$000's	%	\$000's	%
1-4 Family Residential Mortgage Loans	427,231	25.0	449,968	24.5	494,610	25.9	517,834	24.8	568,690	24.3
1-4 Secured by Farmland	23,450	1.4	20,660	1.1	21,028	1.1	20,404	1.0	17,537	0.7
Commercial & Industrial Loans	192,999	11.3	201,431	11.0	199,872	10.4	237,513	11.4	276,586	11.8
Commercial Mortgage Loans	331,620	19.4	361,940	19.7	372,140	19.5	431,292	20.7	508,181	21.7
Multifamily Mortgages	35,040	2.1	44,031	2.4	56,021	2.9	65,892	3.2	60,788	2.6
Consumer Loans	611,029	35.8	657,531	35.8	681,200	35.6	694,713	33.3	769,455	32.9
Agricultural Production Loans	17,910	1.0	16,753	0.9	16,562	0.9	16,882	0.8	20,388	0.9
Construction Loans	48,599	2.8	60,155	3.3	41,213	2.2	49,276	2.4	69,632	3.0
Obligations of States & Municipalities	8,457	0.5	8,119	0.4	14,621	0.8	38,263	1.8	36,865	1.6
Other Loans	10,909	0.6	16,412	0.9	15,489	0.8	13,123	0.6	13,089	0.6
Loans to depository institutions	0	0.0	0	0.0	1	0.0	0	0.0	0	0.0
Total Gross Loans	1,707,244		1,837,000		1,912,757		2,085,192		2,341,211	

As illustrated in the above table, consumer loans at 32.9% are the largest single component in FSB’s loan portfolio followed by residential mortgage loans (24.3%), commercial mortgage loans (21.7%), and commercial and industrial loans (11.8%). FSB’s gross loan portfolio increased by \$854 million or 57.4% during the evaluation period.

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

Assessment Area

There were two major changes in the Bank’s assessment area since the prior evaluation period ended December 31, 2011.

FSB expanded its assessment area to reflect the acquisitions and opening of new branches during the evaluation period. As a result, the total number of census tracts in FSB’s assessment area increased to 637 census tracts from 282 census tracts. Erie

and Monroe County accounted for 338 or nearly all of the additional census tracts. FSB's prior evaluation period's assessment area had a total of 55 middle-income census tracts designated as distressed or underserved, while its current assessment area has only four census tracts so designated, all of which are in Schuyler County. However, a significant portion of the Bank's assessment area consists of non-MSA rural areas including all or parts of Allegany, Cayuga, Cattaraugus, Chautauqua, Genesee, Schuyler, Seneca, Steuben, and Wyoming counties located in Western New York. Three counties (Allegany, Schuyler, and Wyoming) remained designated as rural or underserved by the Consumer Financial Protection Bureau for the evaluation period 2012-2016.

As of the end of the evaluation period, the Bank's assessment area was comprised of Allegany, Cattaraugus, Chemung, Erie, Genesee, Livingston, Monroe, Ontario, Orleans, Schuyler, Seneca, Steuben, Wyoming, and Yates counties in their entirety and parts of Cayuga County and Chautauqua County.

FSB's assessment area as of the end of the evaluation period was comprised of 75 low-income census tracts, 103 moderate-income tracts, 319 middle-income tracts, 128 upper-income tracts, and 12 census tracts with no income indicated.

Assessment Area Census Tracts by Income Level									
County	N/A	Low	Mod	Middle	Upper	Total	LMI %	Dis-tressed & Under-served	LMI & Dis-tressed %
Allegany	1		1	11		13	7.7		8%
Cattaraugus	1		2	18		21	9.5		10%
Cayuga *		1		6	1	8	12.5		13%
Chautauqua *		1	4	14		19	26.3		26%
Chemung	1	2	6	9	4	22	36.4		36%
Erie	5	30	47	93	61	236	32.6		33%
Genesee			3	9	3	15	20.0		20%
Livingston	1	1	2	10	1	15	20.0		20%
Monroe	3	40	30	71	48	192	36.5		36%
Ontario			3	17	5	25	12.0		12%
Orleans			2	8		10	20.0		20%
Schuyler				4	1	5	0.0	4	80%
Seneca				10		10	0.0		0%
Steuben			3	25	2	30	10.0		10%
Wyoming				9	2	11	0.0		0%
Yates				5		5	0.0		0%
Total	12	75	103	319	128	637	27.9	4	29%

* Partial county

Demographic & Economic Data

The assessment area had a population of 2,484,398 during the evaluation period. About 14.9% of the population were over the age of 65 and 19.3% were under the age of sixteen.

Of the 627,329 families in the assessment area, 20.8% were low-income, 17.3% were moderate-income, 21.6% were middle-income, and 40.3% were upper-income. There were 994,192 households in the assessment area, of which 13.4% had income below the poverty level and 3.4% were on public assistance. The cities of Rochester and Buffalo had a poverty rate of 32.9% and 30.7%, respectively.

The weighted average median family income in the assessment area was \$63,714.

There were 1,120,936 housing units within the assessment area, of which 84.2% were one-to-four family units and 11.5% were multifamily units. A majority (60.7%) of the area's housing units were owner-occupied, while 28% were rental-occupied. Of the 680,789 owner-occupied housing units, 14.9% were in LMI census tracts while 85.1% were in middle- and upper-income census tracts. The median age of the housing stock was 62 years, and the median home value in the assessment area was \$113,390.

There were 130,984 non-farm businesses in the assessment area. Of these, 79.5% were businesses with reported revenues of less than or equal to \$1 million, 7.3% reported revenues of more than \$1 million and 13.2% did not report their revenues. Of all the businesses in the assessment area, 96% were businesses with less than fifty employees while 85.6% operated from a single location. The largest industries in the area were services (48.3%), retail trade (15%), and construction (7%); 4.9% of businesses in the assessment area were not classified.

According to the New York State Department of Labor, the average unemployment rates for New York State and all counties in FSB's assessment area except Allegany County steadily declined during the evaluation period. Orleans County (7.7%) had the highest average unemployment rate for the five-year period while Ontario County had the lowest average rate (5.6%).

Assessment Area Unemployment Rate						
	2012	2013	2014	2015	2016	5 Year Avg
New York State	8.5	7.7	6.3	5.3	4.8	6.5
Allegany	8.4	7.5	6.2	6.5	6.2	7.0
Cattaraugus	9.3	8.5	7.0	6.3	5.9	7.4
Cayuga	8.3	7.4	6.0	5.3	5.0	6.4
Chautauqua	8.5	8.0	6.8	6.0	5.8	7.0
Chemung	8.4	7.9	6.2	5.9	5.7	6.8
Erie	8.3	7.4	6.1	5.3	4.9	6.4
Genesee	7.9	6.8	5.5	5.0	4.6	6.0
Livingston	7.8	7.0	5.8	5.3	4.9	6.2
Monroe	7.9	7.0	5.8	5.1	4.7	6.1
Ontario	7.3	6.3	5.2	4.7	4.3	5.6
Orleans	9.7	9.1	7.6	6.4	5.7	7.7
Schuyler	9.4	8.8	7.0	6.6	6.0	7.6
Seneca	8.0	6.9	5.6	5.1	4.7	6.1
Steuben	9.3	8.4	6.9	6.3	5.8	7.3
Wyoming	8.9	7.9	6.5	5.6	5.3	6.8
Yates	7.8	6.8	5.6	5.0	4.4	5.9

Community Information

DFS examiners interviewed members of management of three nonprofit community organizations. One organization's mission is to provide services to low-income families and economically distressed communities throughout New York. Another organization helps enable African-Americans, Latinos, poor, and other disadvantaged residents secure economic self-reliance, parity and power. The third organization's mission is to protect and strengthen the legal rights of poor and disabled people in New York State.

The interviewees noted the need for more affordable housing for LMI individuals and families, more flexible loan products geared to the LMI population, more funding to renovate foreclosed properties, and more counseling for first-time homebuyers.

All interviewees noted that there are many underbanked and underserved neighborhoods in the City of Rochester, as there are many pockets of poverty in the city. One interviewee noted that the Rochester region was greatly affected by the Kodak plant closures in 2012. It was stated that there was an estimated 45,000 jobs lost because of the closures. The interviewee also mentioned that the demand for housing for first-time homebuyers exceeds the supply of available homes.

PERFORMANCE STANDARDS AND ASSESSMENT FACTORS

DFS evaluated FSB under the large banking institution performance standards 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 FSB helps to meet the credit needs of its entire community.

DFS derived statistics employed in this evaluation from various sources. FSB 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 LTD ratios from information shown in the Bank's Uniform Bank Performance Report compiled by the FFIEC.

DFS sourced 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, and obtained unemployment data from the New York State Department of Labor. Some non-specific bank data are only available on a county-wide basis, and DFS used this information even though FSB's assessment area includes partial counties.

The evaluation period included calendar years 2013, 2014, 2015, and 2016 for the lending test, while community development activities were evaluated from January 1, 2012 through September 30, 2017 for the community development test.

Examiners considered FSB's small business/small farms, HMDA-reportable, and consumer loans in evaluating factors (2), (3), and (4) of the lending test.

DFS included FSB's consumer loans in this evaluation because consumer loans constituted a substantial majority of the Bank's retail lending during the evaluation period. FSB's consumer lending represented 80% by total number of loans, while HMDA-reportable and small business/small farm loans represented 15% and 5%, respectively.

In total dollar value, consumer lending represented 46%, HMDA-reportable 34%, and small business/small farms 20% of FSB's loans.

FSB's consumer loans consisted of indirect automobile loans from at least 190 dealerships across New York State. FSB's consumer loans averaged approximately 15,000 automobile loans for each year of the evaluation period inclusive of auto loans made outside FSB's assessment area. Examiners selected a random sample of 100 consumer loans for each year of the evaluation period for a total sample of 500 loans and the consumer loan analysis was extrapolated from the sample. Aggregate consumer loan data are not available for comparative purposes.

At its **prior** Performance Evaluation as of December 31, 2011, DFS assigned FSB a rating of "1", reflecting an "Outstanding" record of meeting community credit needs.

Current CRA Rating: "Satisfactory"

LENDING TEST: "Low 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.*

FSB's small business, HMDA-reportable, and consumer lending activities were adequate considering FSB'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.

The following highlights some of the significant changes for FSB during the evaluation period:

Financials and Lending

- FSB's asset size increased from \$2.3 billion reported at the end of the prior evaluation period to \$3.7 billion (as of December 31, 2016). FSB's gross loan portfolio increased from \$1.5 billion to \$2.3 billion due to a \$302.3 million (35.4%) increase in commercial loans, a \$257.8 million (30.2%) increase in consumer loans, and \$243.2 million (28.5%) increase in residential loans.

Retail Services

- FSB opened 15 branches and closed 11 during the evaluation period. Of the 15 branches opened, eight were purchased from two local banks. Branch closures were mainly due to consolidations and/or low business volume.

Assessment Area

- In 2013, FSB expanded its assessment area. As a result, the number of census tracts in the assessment area increased from 282 to 637. The majority (338) of the new census tracts were in Monroe and Erie counties. Nevertheless, FSB's deposit market share was low in each of the two counties. According to FDIC's market share report, as of June 30, 2016, FSB ranked 10th out of 16 deposit-taking institutions in Monroe County with a market share of 1.6% (\$210 million) in a deposit market of \$13 billion. In Erie County, FSB ranked 11th out of 16 deposit-taking institutions with a market share of 0.36% (\$134.4 million) in a deposit market of \$39.5 billion.
- FSB's assessment area expansion significantly increased the number of LMI census tracts in the assessment area, from 30 to 178. Although there were 51 middle-income census tracts in the Bank's assessment area at the prior evaluation that were designated as distressed or underserved, these tracts were no longer designated as such for the current evaluation period.
- Despite the expansion, FSB's assessment area remained primarily rural. Of the 16 counties in the assessment area, nine are in non-MSA or rural areas. Alleghany, Schuyler and Wyoming counties were designated as rural or underserved by the Consumer Financial Protection Bureau ("CFPB") for 2012 through 2016.

Lending Activity: "Low Satisfactory"

FSB's small business, HMDA-reportable, and consumer lending activities were adequate considering FSB'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.

FSB's average LTD ratio of 73.8% for the evaluation period was below its peer group's average ratio of 80.7%. However, FSB's current ratio was an improvement over its average LTD ratio of 69.3% for the prior evaluation period, while its peer group's average LTD ratio declined slightly from the 81.1% reported at the prior evaluation period.

FSB's quarterly LTD ratios ranged from a low of 69.8% (1st quarter 2015) to a high of 77.8% (4th quarter 2013), while its peer's ratios ranged from a low of 73.6% to a high of 86.1%.

The table below shows FSB's LTD ratios in comparison with the peer group's ratios for the 16 quarters covered under the lending test.

Loan-to-Deposit Ratios																	
	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	Avg.
Bank	70.2	73.8	72.5	77.8	71.5	75.9	73.9	76.7	69.8	74.2	72.6	75.0	70.2	75.9	73.3	76.7	73.8
Peer	73.6	75.4	75.5	75.9	75.7	78.4	79.0	82.7	82.1	83.7	83.6	84.6	84.5	86.1	85.1	85.8	80.7

Assessment Area Concentration: “Low Satisfactory”

During the evaluation period, FSB originated an average of 51.7% by number and 63.1% by dollar value of its total HMDA-reportable, small business/small farm, and consumer loans (extrapolated sample) in its assessment area. This majority of lending inside its assessment area reflects an adequate concentration of lending.

FSB’s HMDA-reportable and small business/small farm lending inside the assessment area was strong, while consumer lending was adequate.

HMDA-Reportable Loans

During the evaluation period, FSB originated 96.8% by number and 95.4% by dollar value of its HMDA-reportable loans within the assessment area. This substantial majority of lending inside its assessment area reflects an excellent concentration of lending.

Small Business Loans

FSB originated 95.5% by number and 96.4% by dollar value of its small business loans within the assessment area during the evaluation period. This substantial majority of lending inside its assessment area reflects an excellent concentration of lending.

Consumer Loans

FSB’s extrapolated sample of consumer loans reflected that 46.2% by number and 53.8% by dollar value of its consumer loans were within the assessment area during the evaluation period. This rate of lending reflects an adequate concentration of lending.

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

Distribution of Loans Inside and Outside of the Assessment Area										
Loan Type	Number of Loans					Loans in Dollars (in thousands)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
HMDA-Reportable										
2013	1,409	96.8%	46	3.2%	1,455	110,968	96.2%	4,427	3.8%	115,395
2014	1,327	96.7%	45	3.3%	1,372	107,387	96.5%	3,935	3.5%	111,322
2015	1,148	97.1%	34	2.9%	1,182	94,148	92.0%	8,240	8.0%	102,388
2016	1,282	96.7%	44	3.3%	1,326	127,637	96.6%	4,484	3.4%	132,121
Subtotal	5,166	96.8%	169	3.2%	5,335	440,140	95.4%	21,086	4.6%	461,226
Small Business/Small farms										
2013	444	96.1%	18	3.9%	462	78,545	97.1%	2,359	2.9%	80,904
2014	400	95.0%	21	5.0%	421	43,051	94.2%	2,651	5.8%	45,702
2015	502	94.5%	29	5.5%	531	71,576	92.6%	5,689	7.4%	77,265
2016	494	96.3%	19	3.7%	513	70,692	94.3%	4,264	5.7%	74,956
Subtotal	1,840	95.5%	87	4.5%	1,927	263,864	94.6%	14,963	5.4%	278,827
Consumer*										
2013	6,981	46.0%	8,196	54.0%	15,177	139,355	44.0%	177,706	56.0%	317,061
2014	7,449	51.0%	7,156	49.0%	14,605	158,537	50.3%	156,643	49.7%	315,180
2015	6,019	44.0%	7,660	56.0%	13,679	136,406	44.5%	169,883	55.5%	306,289
2016	6,975	44.0%	8,878	56.0%	15,853	155,171	41.9%	215,259	58.1%	370,430
Subtotal	27,424	46.2%	31,890	53.8%	59,314	589,469	45.0%	719,491	55.0%	1,308,960
Grand Total	34,430	51.7%	32,146	48.3%	66,576	1,293,473	63.1%	755,540	36.9%	2,049,013

* DFS based its analysis of HMDA-reportable and small business lending on actual loans. For Consumer Lending, DFS analyzed a total sample of 500 loans, made up of a sample of 100 loans for each year of the evaluation period. DFS then extrapolated the number and dollar volume of loans from the resulting percentages.

Geographic Distribution of Loans: “Needs to Improve”

FSB’s origination of loans in census tracts of varying income levels demonstrated a less than adequate distribution of lending.

FSB’s average rates of lending in LMI geographies across all lending products considered in this evaluation were lower than the average rates of lending for its aggregate. Furthermore, FSB’s lending rates trailed various assessment area demographics. For example, FSB’s HMDA-reportable loans were below the percentage of owner-occupied housing units in LMI census tracts, FSB’s small business loans were below the percentage of small businesses located in LMI census tracts, and FSB’s consumer loans were below the percentage of households located in LMI census tracts.

HMDA-Reportable Loans

The distribution of FSB’s HMDA-reportable loans by the income level of the geography was less than adequate.

FSB’s average lending rates in LMI census tracts for the evaluation period of 8.1% by number and 6.2% by dollar value of loans trailed the aggregate’s rates of 11.4% and

8.1%, respectively. FSB's rates of lending in LMI census tracts trailed the aggregate's rates every year of the evaluation period.

The annual rates of lending in LMI census tracts by FSB and its aggregate trailed the assessment area's percentage of owner-occupied housing units located in LMI census tracts every year of the evaluation period. However, while FSB and the aggregate's annual rate of lending in moderate-income census tracts remained steady during the evaluation period, the annual rate of lending in low-income census tracts for FSB and the aggregate improved during the evaluation period.

The following table provides a summary of the distribution of FSB'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

2013									
Geographic Income	Bank				Aggregate				OO HUs
	#	%	\$000's	%	#	%	\$000's	%	%
Low	2	0.1%	31	0.0%	875	1.8%	87,253	1.5%	3.5%
Moderate	110	7.8%	7,178	6.5%	4,453	9.2%	366,774	6.1%	12.3%
LMI	112	7.9%	7,209	6.5%	5,328	11.1%	454,027	7.6%	15.8%
Middle	1,097	77.9%	76,132	68.6%	26,322	54.6%	2,791,229	46.6%	55.5%
Upper	200	14.2%	27,627	24.9%	16,560	34.3%	2,740,251	45.8%	28.8%
Unknown	0	0.0%	0	0.0%	2	0.0%	175	0.0%	0.0%
Total	1,409		110,968		48,212		5,985,682		
2014									
Geographic Income	Bank				Aggregate				OO HUs
	#	%	\$000's	%	#	%	\$000's	%	%
Low	3	0.2%	200	0.2%	816	2.1%	101,759	2.2%	3.5%
Moderate	91	6.9%	4,660	4.3%	3,817	9.9%	297,363	6.4%	11.5%
LMI	94	7.1%	4,860	4.5%	4,633	12.1%	399,122	8.6%	15.0%
Middle	1,026	77.3%	76,446	71.2%	21,489	56.0%	2,147,467	46.4%	55.3%
Upper	207	15.6%	26,081	24.3%	12,254	31.9%	2,078,625	44.9%	29.7%
Unknown	0	0.0%	0	0.0%	2	0.0%	506	0.0%	0.0%
Total	1,327		107,387		38,378		4,625,720		
2015									
Geographic Income	Bank				Aggregate				OO HUs
	#	%	\$000's	%	#	%	\$000's	%	%
Low	10	0.9%	1,361	1.4%	891	2.1%	106,707	1.9%	3.5%
Moderate	84	7.3%	4,611	4.9%	3,887	9.2%	314,579	5.7%	11.4%
LMI	94	8.2%	5,972	6.3%	4,778	11.4%	421,286	7.7%	14.9%
Middle	867	75.5%	67,190	71.4%	23,422	55.7%	2,509,927	45.8%	55.6%
Upper	186	16.2%	20,836	22.1%	13,837	32.9%	2,550,825	46.5%	29.6%
Unknown	1	0.1%	150	0.2%	4	0.0%	296	0.0%	0.0%
Total	1,148		94,148		42,041		5,482,334		
2016									
Geographic Income	Bank				Aggregate				OO HUs
	#	%	\$000's	%	#	%	\$000's	%	%
Low	12	0.9%	1,438	1.1%	899	0.0	138,996	2.4%	3.5%
Moderate	104	8.1%	7,876	6.2%	4,059	9.3%	369,714	6.3%	11.4%
LMI	116	9.0%	9,314	7.3%	4,958	11.3%	508,710	8.7%	14.9%
Middle	964	75.2%	89,729	70.3%	24,257	55.4%	2,753,168	47.2%	55.6%
Upper	202	15.8%	28,594	22.4%	14,596	33.3%	2,572,026	44.1%	29.6%
Unknown	0	0.0%	0	0.0%	3	0.0%	298	0.0%	0.0%
Total	1,282		127,637		43,814		5,834,202		
GRAND TOTAL									
Geographic Income	Bank				Aggregate				OO HUs
	#	%	\$000's	%	#	%	\$000's	%	%
Low	27	0.5%	3,030	0.7%	3,481	2.0%	434,715	2.0%	
Moderate	389	7.5%	24,325	5.5%	16,216	9.4%	1,348,430	6.1%	
LMI	416	8.1%	27,355	6.2%	19,697	11.4%	1,783,145	8.1%	
Middle	3,954	76.5%	309,497	70.3%	95,490	55.4%	10,201,791	46.5%	
Upper	795	15.4%	103,138	23.4%	57,247	33.2%	9,941,727	45.3%	
Unknown	1	0.0%	150	0.0%	11	0.0%	1,275	0.0%	
Total	5,166		440,140		172,445		21,927,938		

Small Business Loans

The distribution of FSB's small business loans among census tracts of varying income levels was less than adequate.

FSB's average lending rates in LMI census tracts for the evaluation period of 9.6% by number and 16% by dollar value of loans trailed the aggregate's rates of 16.7% and 20.1%, respectively. FSB's rates of lending in LMI census tracts trailed the aggregate's rates every year of the evaluation period. Furthermore, the annual rates of lending LMI census tracts by FSB and the aggregate trailed the assessment area's percentage of small businesses located in LMI census tracts every year of the evaluation period.

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

Distribution of Small Business and Small Farm Lending by Geographic Income of the Census Tract									
2013									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	53	2.8%	12,711	6.6%	2,086	6.6%	112,894	7.6%	8.3%
Moderate	143	7.6%	18,798	9.7%	3,398	10.7%	174,054	11.7%	13.1%
LMI	196	10.4%	31,509	16.3%	5,484	17.3%	286,948	19.3%	21.3%
Middle	1,346	71.1%	115,203	59.7%	16,803	53.1%	797,496	53.5%	50.4%
Upper	350	18.5%	46,204	24.0%	9,342	29.5%	404,187	27.1%	28.0%
Unknown	0	0.0%	0	0.0%	26	0.1%	976	0.1%	0.3%
Total	1,892		192,916		31,655		1,489,607		
2014									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	41	2.2%	7,830	4.6%	2,255	6.4%	144,688	8.6%	8.2%
Moderate	125	6.9%	16,705	9.9%	3,576	10.2%	197,708	11.8%	12.4%
LMI	166	9.1%	24,535	14.5%	5,831	16.6%	342,396	20.4%	20.6%
Middle	1,300	71.3%	105,444	62.4%	18,240	51.9%	875,529	52.2%	50.1%
Upper	358	19.6%	39,065	23.1%	11,064	31.5%	456,904	27.2%	29.1%
Unknown	0	0.0%	0	0.0%	39	0.1%	2,685	0.2%	0.3%
Total	1,824		169,044		35,174		1,677,514		
2015									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	62	3.1%	16,664	7.8%	2,334	6.7%	160,409	8.8%	8.1%
Moderate	125	6.2%	19,149	8.9%	3,477	9.9%	215,830	11.8%	12.3%
LMI	187	9.3%	35,813	16.7%	5,811	16.6%	376,239	20.6%	20.4%
Middle	1,419	70.5%	124,595	58.0%	18,386	52.4%	915,938	50.2%	50.1%
Upper	406	20.2%	54,483	25.4%	10,844	30.9%	529,670	29.0%	29.2%
Unknown	0	0.0%	0	0.0%	33	0.1%	3,291	0.2%	0.3%
Total	2,012		214,891		35,074		1,825,138		
2016									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	54	2.8%	12,521	5.9%	2,275	6.4%	146,816	8.3%	8.3%
Moderate	135	6.9%	21,785	10.3%	3,611	10.1%	207,839	11.7%	12.3%
LMI	189	9.6%	34,306	16.2%	5,886	16.5%	354,655	20.0%	20.6%
Middle	1,368	69.8%	122,554	57.8%	18,688	52.4%	882,775	49.8%	50.0%
Upper	403	20.6%	55,204	26.0%	11,065	31.0%	531,515	30.0%	29.1%
Unknown	0	0.0%	0	0.0%	33	0.1%	1,922	0.1%	0.3%
Total	1,960		212,064		35,672		1,770,867		
GRAND TOTAL									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	210	2.7%	49,726	6.3%	8,950	6.5%	564,807	8.4%	
Moderate	528	6.9%	76,437	9.7%	14,062	10.2%	795,431	11.8%	
LMI	738	9.6%	126,163	16.0%	23,012	16.7%	1,360,238	20.1%	
Middle	5,433	70.7%	467,796	59.3%	72,117	52.4%	3,471,738	51.3%	
Upper	1,517	19.7%	194,956	24.7%	42,315	30.8%	1,922,276	28.4%	
Unknown	0	0.0%	0	0.0%	131	0.1%	8,874	0.1%	
Total	7,688		788,915		137,575		6,763,126		

Consumer Loans

FSB's consumer lending demonstrated a less than adequate distribution of loans among borrowers of different income levels.

Based on the extrapolated sample of consumer loans, FSB's average rates of lending in LMI census tracts were 18.9% by number and 20% by dollar value of loans, which compared unfavorably to the 22.9% (household demographics) of LMI households in the assessment area. Furthermore, FSB's rates of lending in LMI census tracts trailed the household demographics every year of the evaluation period except for FSB's lending in moderate-income census tracts in 2014.

The following table provides a summary of the distribution of FSB's consumer loans by the income level of the geography where the borrower was located.

Distribution of Consumer Lending by Geographic Income of the Census Tract					
2013					
Geographic Income	Bank				HH Dem.
	#	%	\$000's	%	%
Low	455	6.5%	6,041	4.3%	8.0%
Moderate	911	13.0%	23,600	16.9%	16.0%
LMI	1,366	19.6%	29,641	21.3%	23.9%
Middle	4,553	65.2%	88,080	63.2%	52.0%
Upper	1,062	15.2%	21,634	15.5%	24.1%
Unknown	0	0.0%	0	0.0%	
Total	6,981		139,355		
2014					
Geographic Income	Bank				HH Dem.
	#	%	\$000's	%	%
Low	146	2.0%	3,111	2.0%	8.0%
Moderate	1,753	23.5%	39,634	25.0%	15.1%
LMI	1,899	25.5%	42,745	27.0%	23.1%
Middle	3,944	52.9%	80,756	50.9%	51.9%
Upper	1,607	21.6%	35,035	22.1%	25.0%
Unknown	0	0.0%	0	0.0%	
Total	7,449		158,537		
2015					
Geographic Income	Bank				HH Dem.
	#	%	\$000's	%	%
Low	274	4.5%	5,383	3.9%	7.9%
Moderate	547	9.1%	12,866	9.4%	15.0%
LMI	821	13.6%	18,249	13.4%	22.9%
Middle	3,830	63.6%	76,671	56.2%	52.1%
Upper	1,368	22.7%	41,486	30.4%	25.0%
Unknown	0	0.0%	0	0.0%	
Total	6,019		136,406		
2016					
Geographic Income	Bank				HH Dem.
	#	%	\$000's	%	%
Low	317	4.5%	11,506	7.4%	7.9%
Moderate	793	11.4%	15,501	10.0%	15.0%
LMI	1,110	15.9%	27,007	17.4%	22.9%
Middle	4,756	68.2%	99,399	64.1%	52.1%
Upper	1,110	15.9%	28,765	18.5%	25.0%
Unknown	0	0.0%	0	0.0%	
Total	6,975		155,171		
GRAND TOTAL					
Geographic Income	Bank				HH Dem.
	#	%	\$000's	%	%
Low	1,192	4.3%	26,041	4.4%	
Moderate	4,003	14.6%	91,602	15.5%	
LMI	5,195	18.9%	117,642	20.0%	
Middle	17,082	62.3%	344,907	58.5%	
Upper	5,147	18.8%	126,920	21.5%	
Unknown	0	0.0%	0	0.0%	
Total	27,424		589,469		

* For Consumer Lending, DFS analyzed a total sample of 500 loans or 100 sampled loans each year of the evaluation period. DFS then extrapolated the number and dollar volume of loans from the resulting percentages.

Distribution by Borrower Characteristics: “High Satisfactory”

FSB’s HMDA-reportable, small business, and consumer lending demonstrated a more than reasonable distribution of loans among individuals of different income levels and businesses of different revenue sizes.

One-to-Four Family HMDA-Reportable Loans

FSB’s one-to-four family lending demonstrated an adequate distribution of loans among individuals of different income levels.

FSB’s average lending rates to LMI borrowers for the evaluation period of 32.7% by number and 19.9% by dollar value of loans were comparable to the aggregate’s rates of 31.9% and 20.3%, respectively. FSB’s annual lending rates exceeded the aggregate’s rates in 2013 and 2016, while in 2014 and 2015 FSB trailed the aggregate’s rates.

FSB and the aggregate’s annual lending rates to moderate-income borrowers by number of loans exceeded the assessment area’s moderate-income family demographics every year of the evaluation period, while its lending rates to low-income borrowers was well below the area’s family demographics every year.

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

Distribution of 1-4 Family Loans by Borrower Income									
2013									
Borrower	Bank				Aggregate				Fam.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	114	8.4%	3,940	3.9%	3,747	7.9%	211,140	3.9%	20.9%
Moderate	319	23.5%	16,370	16.1%	10,250	21.7%	803,670	14.9%	17.4%
LMI	433	31.8%	20,310	20.0%	13,997	29.6%	1,014,810	18.8%	38.3%
Middle	403	29.6%	27,697	27.3%	12,347	26.1%	1,216,599	22.5%	21.5%
Upper	472	34.7%	45,757	45.1%	18,999	40.2%	2,897,349	53.6%	40.2%
Unknown	52	3.8%	7,696	7.6%	1,945	4.1%	272,906	5.1%	
Total	1,360		101,460		47,288		5,401,664		
2014									
Borrower	Bank				Aggregate				Fam.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	123	9.5%	4,421	4.2%	3,298	8.8%	175,912	4.3%	20.9%
Moderate	276	21.3%	14,218	13.5%	9,022	24.0%	681,488	16.5%	17.3%
LMI	399	30.8%	18,639	17.7%	12,320	32.8%	857,400	20.7%	38.2%
Middle	346	26.7%	26,537	25.2%	9,593	25.5%	926,958	22.4%	21.5%
Upper	492	38.0%	55,434	52.7%	14,278	38.0%	2,167,631	52.4%	40.3%
Unknown	58	4.5%	4,665	4.4%	1,390	3.7%	186,927	4.5%	
Total	1,295		105,275		37,581		4,138,916		
2015									
Borrower	Bank				Aggregate				Fam.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	111	10.1%	4,325	4.8%	4,032	9.8%	229,277	4.8%	20.8%
Moderate	268	24.3%	15,008	16.8%	10,110	24.6%	823,434	17.3%	17.3%
LMI	379	34.3%	19,333	21.6%	14,142	34.4%	1,052,711	22.1%	38.2%
Middle	305	27.6%	23,128	25.9%	10,622	25.9%	1,105,699	23.2%	21.6%
Upper	373	33.8%	41,788	46.8%	14,681	35.7%	2,351,657	49.4%	40.3%
Unknown	47	4.3%	5,086	5.7%	1,633	4.0%	253,957	5.3%	
Total	1,104		89,335		41,078		4,764,024		
2016									
Borrower	Bank				Aggregate				Fam.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	148	11.9%	6,848	5.9%	3,680	8.6%	223,697	4.2%	20.8%
Moderate	276	22.3%	17,147	14.7%	9,752	22.7%	831,565	15.6%	17.3%
LMI	424	34.2%	23,995	20.5%	13,432	31.3%	1,055,262	19.9%	38.2%
Middle	320	25.8%	24,928	21.3%	11,028	25.7%	1,184,350	22.3%	21.6%
Upper	441	35.6%	59,134	50.6%	16,675	38.9%	2,787,901	52.5%	40.3%
Unknown	54	4.4%	8,795	7.5%	1,765	4.1%	286,217	5.4%	
Total	1,239		116,852		42,900		5,313,730		
GRAND TOTAL									
Borrower	Bank				Aggregate				Fam.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	496	9.9%	19,534	4.7%	14,757	8.7%	840,026	4.3%	
Moderate	1,139	22.8%	62,743	15.2%	39,134	23.2%	3,140,157	16.0%	
LMI	1,635	32.7%	82,277	19.9%	53,891	31.9%	3,980,183	20.3%	
Middle	1,374	27.5%	102,290	24.8%	43,590	25.8%	4,433,606	22.6%	
Upper	1,778	35.6%	202,113	48.9%	64,633	38.3%	10,204,538	52.0%	
Unknown	211	4.2%	26,242	6.4%	6,733	4.0%	1,000,007	5.1%	
Total	4,998		412,922		168,847		19,618,334		

Small Business Loans

FSB's small business lending demonstrated a more than reasonable distribution of loans among businesses of different revenue sizes.

FSB's average lending rates to businesses with an annual gross revenue of \$1 million or less for the evaluation period were 68.3% by number and 37.7% by dollar value of loans, exceeding the aggregate's rates of 46.4% and 34.6%, respectively. Furthermore, FSB's annual rates of lending exceeded the aggregate's rates by number and dollar value of loans every year of the evaluation period and its annual rates of lending by number of loans were also comparable to the assessment area's business demographics.

The following table provides a summary of the distribution of FSB's small business loan activity by the revenue size of the business.

Distribution of Small Business and Small Farm Lending by Revenue Size of Business									
2013									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	
Rev. <= \$1MM	272	61.3%	19,961	25.4%	14,034	44.3%	549,413	36.9%	71.5%
Rev. > \$1MM	172	38.7%	58,584	74.6%	17,621	55.7%	940,194	63.1%	5.3%
Rev. Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%	23.2%
Total	444		78,545		31,655		1,489,607		
2014									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	
Rev. <= \$1MM	273	68.3%	15,098	35.1%	15,016	42.7%	542,750	32.4%	71.2%
Rev. > \$1MM	127	31.8%	27,953	64.9%	20,158	57.3%	1,134,764	67.6%	5.9%
Rev. Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%	22.9%
Total	400		43,051		35,174		1,677,514		
2015									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	
Rev. <= \$1MM	362	72.1%	31,831	44.5%	17,179	49.0%	629,614	34.5%	76.3%
Rev. > \$1MM	140	27.9%	39,745	55.5%	17,895	51.0%	1,195,524	65.5%	6.1%
Rev. Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%	17.6%
Total	502		71,576		35,074		1,825,138		
2016									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	
Rev. <= \$1MM	349	70.8%	32,613	46.1%	17,562	49.2%	618,284	34.9%	80.2%
Rev. > \$1MM	144	29.2%	38,078	53.9%	18,110	50.8%	1,152,583	65.1%	7.1%
Rev. Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%	12.8%
Total	493		70,691		35,672		1,770,867		
GRAND TOTAL									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	
Rev. <= \$1MM	1,256	68.3%	99,503	37.7%	63,791	46.4%	2,340,061	34.6%	
Rev. > \$1MM	583	31.7%	164,360	62.3%	73,784	53.6%	4,423,065	65.4%	
Rev. Unknown	0	0.0%	0	0.0%	-	0.0%	0	0.0%	
Total	1,839		263,863		137,575		6,763,126		

Consumer Loans

FSB's consumer lending demonstrated a more than reasonable distribution of loans among borrowers of different income levels.

FSBs average lending rates to LMI borrowers for the evaluation period were 47.4% by number and 44.7% by dollar value of loans comparing favorably with the assessment area's LMI household percentage (HH demographics) of approximately 41%.

FSB's annual lending rates to moderate-income borrowers exceeded the assessment area's moderate-income household percentage of 16% every year of the evaluation period. The Bank's annual lending rates to low-income borrowers for 2014 and 2015 were comparable to the assessment area's low-income household percentage of 24.7%; however, it trailed the percentage in 2013 and 2016.

The following table provides a summary of the distribution of FSB's consumer loans by borrower income level.

Distribution of Consumer Lending by Borrower Income					
2013					
Borrower	Bank				HH Dem.
Income	#	%	\$000's	%	%
Low	759	10.9%	13,486	9.7%	24.8%
Moderate	1,973	28.3%	39,334	28.2%	16.0%
LMI	2,732	39.1%	52,820	37.9%	40.8%
Middle	3,339	47.8%	66,166	47.5%	17.7%
Upper	911	13.0%	20,369	14.6%	41.5%
Unknown	0	0.0%	0	0.0%	
Total	6,981		139,355		
2014					
Borrower	Bank				HH Dem.
Income	#	%	\$000's	%	%
Low	2,045	27.5%	38,687	24.4%	24.7%
Moderate	1,753	23.5%	36,658	23.1%	16.0%
LMI	3,798	51.0%	75,346	47.5%	40.7%
Middle	1,899	25.5%	42,340	26.7%	17.7%
Upper	1,753	23.5%	40,852	25.8%	41.6%
Unknown	0	0.0%	0	0.0%	
Total	7,449		158,537		
2015					
Borrower	Bank				HH Dem.
Income	#	%	\$000's	%	%
Low	1,368	22.7%	27,570	20.2%	24.7%
Moderate	1,778	29.5%	34,528	25.3%	16.0%
LMI	3,146	52.3%	62,098	45.5%	40.7%
Middle	821	13.6%	20,218	14.8%	17.7%
Upper	2,052	34.1%	54,090	39.7%	41.6%
Unknown	0	0.0%	0	0.0%	
Total	6,019		136,406		
2016					
Borrower	Bank				HH Dem.
Income	#	%	\$000's	%	%
Low	1,110	15.9%	16,460	10.6%	24.7%
Moderate	2,219	31.8%	56,891	36.7%	16.0%
LMI	3,329	47.7%	73,351	47.3%	40.7%
Middle	1,902	27.3%	44,266	28.5%	17.7%
Upper	1,744	25.0%	37,554	24.2%	41.6%
Unknown	0	0.0%	0	0.0%	
Total	6,975		155,171		
GRAND TOTAL					
Borrower	Bank				HH Dem.
Income	#	%	\$000's	%	%
Low	5,281	19.3%	96,203	16.3%	
Moderate	7,723	28.2%	167,411	28.4%	
LMI	13,004	47.4%	263,615	44.7%	
Middle	7,961	29.0%	172,989	29.3%	
Upper	6,459	23.6%	152,865	25.9%	
Unknown	-	0.0%	-	0.0%	
Total	27,424		589,469		

* For Consumer Lending, DFS analyzed a total sample of 500 loans or 100 sampled loans each year of the evaluation period. DFS then extrapolated the number and dollar volume of loans from the resulting percentages.

Community Development Lending: “High Satisfactory”

During the evaluation period, FSB originated \$140.2 million in new community development loans and had \$9.5 million outstanding from prior evaluation periods. This demonstrated a more than reasonable level of community development lending.

Although FSB’s total community development loans increased from \$54.7 million in the prior evaluation period to \$149.7 in this evaluation period, FSB’s annualized CD loan to total average assets ratio decreased from 1.4% in the prior period to 0.9% in this period because this evaluation covered a longer period.

FSB’s community development lending included loans to both non-profit and for-profit organizations and industrial development agencies. Loans were made to construct and improve public schools, health care facilities, and affordable housing.

Community Development Loans				
Purpose	This Evaluation Period		Outstandings from Prior Evaluation Periods	
	# of Loans	\$000	# of Loans	\$000
Affordable Housing	15	4,068	3	551
Economic Development	9	9,020	1	6,113
Community Services	55	23,716	1	2,839
Other (Please Specify)	25	103,392	0	0
Total	104	140,196	5	9,503

Below are highlights of FSB’s community development lending.

- In 2015, FSB extended a construction loan and line-of-credit totaling \$9.9 million to a food manufacturer. The construction loan will convert to a commercial mortgage loan upon completion and the line-of-credit will be used for the purchase of equipment and working capital. The business is in a moderate-income census tract in Livingston County and the loan will help to revitalize and stabilize the area.
- In 2014, FSB refinanced a \$4.9 million commercial mortgage to a nonprofit corporation secured by student housing at a community college located in Genesee County. The nonprofit corporation operates the student housing at the community college, where 80% of the students receive financial aid.
- In 2015, FSB extended a construction loan of \$4.5 million that will convert to a permanent mortgage loan upon completion. The funds will be used to convert an old brewery into a mixed-use building with approximately 30 apartments and first floor retail space. The property will help to revitalize and stabilize the moderate-income census tract in Erie County, in which the property is located.

-
- FSB originated a \$2.3 million construction loan to a nonprofit corporation for the rehabilitation of a property into a 14-unit apartment building. The apartments will be only available to low- (9 apartments) and moderate-income (up to 5 apartments) tenants. The property is in a moderate-income census tract in Erie County.
 - FSB provided \$3.3 million to refinance a term loan and financing to purchase equipment and provide funds for ongoing operations for a manufacturing company located in a low-income area in Erie County. The loan will help to create and retain jobs in the area.
 - FSB extended a \$13 million construction loan to convert a commercial building into a building with 75 apartments and 12,000 square feet of commercial space, which helped to revitalize and stabilize a low-income census tract adjacent to the Bank's assessment area.
 - FSB extended a \$15 million construction loan to construct a 186-room hotel in Niagara County. The hotel is in a low-income census tract, provides jobs, and helps to revitalize and stabilize the area.

Innovative or Flexible Lending Practices

FSB made use of flexible lending practices designed to provide and address the needs of small businesses and LMI borrowers through the following special loan programs:

Small Business and Small Farms

- FSB offers Small Business Administration ("SBA") loans. The loan programs offered include the SBA 7(a) loan program with a maximum loan amount of \$5 million with flexible use of funds and the 504 program which offers long-term fixed rate financing for the purchase of major assets, such as land, equipment and building. During the evaluation period, FSB extended 3,605 loans totaling \$253 million in SBA loan programs.
- FSB extended 96 loans in the total amount of \$14.3 million through the Farm Service Agency ("FSA") loan programs. These loan programs provide family-sized farmers with access to credit to improve, expand, transition and market their farming operations. The programs are also available to start-up farmers, racial and ethnic minorities and women farmers.

Residential Mortgage Programs

- State of New York Mortgage Agency ("SONYMA") provides mortgage programs to assist first-time homebuyers with the purchase of a home in New York State. SONYMA has different programs with competitive interest rates, flexible underwriting guidelines, low down-payment requirements and down-payment assistance. FSB originated 49 SONYMA loans for a total of \$2.3 million from 2013

to June 30, 2017.

- Federal Housing Administration (“FHA”) loans are loans insured by the FHA which is part of the United States Department of Housing and Urban Development (“HUD”). FHA loans have low down payments, low closing costs and easy credit qualifying. FSB made a total of 99 FHA loans for a total of \$10.3 million from 2013 to June 30, 2017.
- FSB offers the First Home Club Program to qualified individuals. The program is offered through the Federal Home Loan Bank of New York (“FHLB”) and provides a grant of up to \$7,500 in matching funds to use toward the purchase of a home. The applicant must qualify as a first-time home buyer and have an income of 80% or less of the area median income and be a resident of New York State.

Consumer Loans

- Also launched in 2015, “The Helping Hand Loan Program” a FSB proprietary loan program available only to low- and moderate-income applicants who experience short-term hardship and may need to consolidate debt, make emergency home repair or pay other general expenses. The loans offered have a term from six to 24 months, a maximum loan amount up to \$2,500, no minimum credit score requirement, no fee and no pre-payment penalty. Applicant(s) income cannot be more than 80% of area median income and the applicant(s) must complete a financial literacy course. Since 2015, FSB has made 43 Helping Hand loans totaling \$94,875.

These loan programs show FSB’s responsiveness to the credit needs of small businesses and LMI borrowers within its communities.

INVESTMENT TEST: “High Satisfactory”

DFS evaluated FSB’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.*

FSB’s qualified investments were reasonable considering the assessment area’s credit needs.

Qualified Investments

During the evaluation period, FSB made \$91.5 million in community development investments and had \$2.2 million outstanding from prior evaluation periods. In addition, FSB made \$772,000 in community development grants. This demonstrated a more than

reasonable level of qualified investments for the current evaluation period.

FSB's total qualified investments of \$94.5 million resulted in an annualized CD investment to total average assets ratio of 0.6%, which was in line with its ratio during the prior evaluation period.

FSB's qualified investments consisted largely of municipal bonds issued by local towns, villages, municipalities, and school districts. In addition, FSB also invested in mortgage-backed securities during the evaluation period.

Community Development Investments and Grants				
	This Evaluation Period		Outstandings from Prior Evaluation Periods	
	# of Inv.	\$000	# of Inv.	\$000
CD Investments				
Affordable Housing	23	43,899		
Economic Development				
Community Services	143	9,293	2	30
Revitalize & Stabilize	180	38,269	11	2,210
Total	346	91,461	13	2,240
CD Grants	# of Grants	\$000	Not Applicable	
Affordable Housing	15	55		
Economic Development	32	99		
Community Services	186	618		
Revitalize and Stabilize				
Total	233	772		

All qualified municipal bond investments, such as bond anticipation notes ("BANs"), were for the benefit of LMI areas or communities. Many of the qualified investments involved financing needed for improvements to community infrastructures, including the addition or improvement and renovation of school buildings where 50% or more of the student population receive free or reduced-fee lunch.

Below are highlights of FSB's qualified investments and grants:

Investments

- FSB invested in 22 qualified mortgage-backed securities for a total of \$43.9 million during the evaluation period. These securities provided affordable housing, as the underlying residential mortgages were to LMI borrowers and/or the underlying properties were in LMI census tracts.
- FSB purchased the following municipal bonds:
 - A \$435,000 municipal bond investment in a central school district located in Monroe County. Funds were used to purchase and update school facilities;
 - Two municipal bonds for a total of \$720,000 issued by a city in Chautauqua County. The funds are to be used to construct a public parking facility that

-
- will help in the revitalization/stabilization efforts of the area;
 - A \$1.2 million municipal bond investment in a central school district located in Erie County. Funds were used for the re-construction and improvement of school buildings and facilities; and
 - Two bonds in the total amount of \$675,000 issued by a central school district located in Allegany County. Funds were used for an addition to a school building and for the renovation of other school buildings and facilities.
- FSB made the following investments in BAN's:
 - A \$754,000 investment in a BAN issued by a town in Cattaraugus County for the renovations and improvements to a bridge;
 - A \$1.5 million investment in a BAN issued by a city in Cattaraugus County for the purchase of a fire truck and for improvements to local streets as part of revitalization efforts;
 - A \$1.5 million investment in a BAN issued for the reconstruction of a section of a city located in Chemung County as part of ongoing revitalization efforts;
 - A \$903,000 investment in a BAN issued by a town in Steuben County for needed improvements to the area's water district; and
 - A \$714,000 investment in a BAN issued by a village in Livingston County for the construction of a new pump station and water main at a local dam. This project will mitigate the potential of future flooding in the area.
 - FSB made a \$1.7 million investment in a series of statutory installment bonds issued by a village in Yates County for the construction of a municipal water system storage tank.

Grants

- FSB made a \$64,859 grant to an organization with the mission to provide solutions to critical challenges for the greater Rochester community such as poverty, abuse, failing students, struggling elders and hunger.
- FSB contributed \$20,000 to a Buffalo area school providing programs that prepare deaf students to be self-directed and productive members of society. The majority (70%) of the students receive free or reduced fee school lunches.
- FSB donated \$10,000 to an organization that has the mission of providing technical assistance to underserved small businesses in the Buffalo area. The organization makes loans to small and micro businesses as well as providing technical assistance designed to support their clients' growth.
- FSB contributed \$30,000 to an organization that helps adults and caregivers face life challenges. The organization provides a range of services including monthly assistance with bill paying, budgeting, checkbook balancing, and benefits;

furthermore, it provides free Medicare 101 workshops and assists with employment opportunities in non-profit organizations.

- FSB made a \$7,500 grant to an organization that promotes and provides opportunities for low-income individuals and families to become self-sufficient.
- FSB donated \$5,000 to a HUD approved housing agency. The organization is dedicated to preserving and revitalizing the Buffalo area by providing safe, affordable and sustainable housing opportunities as well as homebuyer education, post-purchase education and foreclosure prevention counseling.

Innovativeness of Community Development Investments

FSB did not utilize innovative investments to support community development.

Responsiveness of Community Development Investments to Credit and Community Development Needs

FSB's community development investments exhibited reasonable responsiveness to the assessment area's credit and community development needs.

As highlighted above, FSB supported various infrastructure projects of local municipalities in the assessment area through its purchase of municipal bonds and BAN's.

SERVICE TEST: "High Satisfactory"

DFS examiners evaluated FSB'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.*

Examiners evaluated FSB'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.*

Retail Banking Services: "Low Satisfactory"

FSB has adequate branch network, delivery systems, branch hours and services, and alternative delivery systems, particularly as they relate to LMI individuals.

Current distribution of the banking institution's branches

FSB has an adequate distribution of branches within its assessment area.

FSB operates 53 branches in its assessment area. Of these, 11 branches or 21% are in LMI census tracts compared to 18% in the prior evaluation period. In the prior evaluation period FSB had 10 branches located in middle-income census tracts designated as distressed or underserved. However, these census tracts lost the designation in 2010 (which is reflected in the 2012 census data report).

Of FSB's 53 branches, 24 are in non-MSA or rural areas of the assessment area and 17 of these branches are in villages with small populations in which FSB is either the only bank or one of only two banks servicing the area.

Distribution of Branches within the Assessment Area							
County	N/A #	Low #	Moderate #	Middle #	Upper #	Total #	LMI %
Allegany**				1		1	0%
Cattaraugus**			2	3		5	40%
Cayuga***		1				1	100%
Chautauqua***				1		1	0%
Chemung		1	1	1		3	67%
Erie				1	3	4	0%
Genesee**				3		3	0%
Livingston			1	4		5	20%
Monroe		1	1	2	4	8	25%
Ontario			2	2	1	5	40%
Orleans			1	1		2	50%
Seneca**				2		2	0%
Steuben**				6	1	7	0%
Wyoming**				4		4	0%
Yates				2		2	0%
Total	0	3	8	33	9	53	21%

*Partial County, ** Non-MSA

Record of opening and closing branches

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

FSB's full-service branches increased by four from the prior evaluation period's 49 to the 53 branches for the current evaluation period. FSB purchased eight branches from two local banks, opened seven branches and closed a total of 11 branches mostly due to consolidation.

As a result of the branch purchases, FSB closed four existing branches as they were within the same census tracts and less than a mile from the four branches purchased. Another purchased branch, in Waterloo, NY, was closed and absorbed by an existing FSB branch in the same area. The other three branches purchased (one in Monroe County and two in Orleans County) were re-opened as FSB branches.

FSB closed two branches in Wyoming County and a branch in Genesee County due to low business volume and customer turnout. These branches were in middle- and upper-income census tracts.

In December 2012, FSB opened a new branch in Painted Post and closed an existing branch located less than a mile from the new branch.

In 2013 and 2015, FSB converted two limited-service branches, located in Ontario and Steuben counties, to full-service branches.

FSB opened a branch in Buffalo, NY in 2017. FSB also opened three branches in Rochester, NY during the evaluation period.² This included the branch located in its regional administrative office, which FSB relocated in 2017 to Five Star Bank Plaza (or 100 Chestnut Street) in downtown Rochester. The administrative office and branch are in a low-income census tract. In 2016, FSB opened a branch in the Brighton area of Rochester in an upper-income census tract and in 2015 it opened a branch in a moderate-income census tract in the CityGate section of Rochester.

Availability and effectiveness of alternative systems for delivering retail services

FSB's delivery systems are reasonably accessible to portions of the Banks' assessment area, particularly LMI geographies and individuals.

FSB has a network of 75 automated-teller machines ("ATMs"), of which 15 are offsite. All of FSB's branches have at least one ATM and only two of the branch ATMs do not accept deposits (Ellicottville and Geneva Branch). Of the 15 offsite ATMs, two are in moderate-income census tracts and one is adjacent to a moderate-income census tract. Four of the offsite ATMs are in local hospitals and/or healthcare centers, while the others are in various stores and local colleges or universities. In addition, FSB customers can access, free of charge, a network of over 600 ATMs located at stores of a nationwide pharmacy chain.

FSB also offers consumers a toll-free number they can call 24-hours a day to access a touch tone banking system to manage their accounts including making balance inquiries, placing stop payments on checks, and activating Debit or ATM cards. FSB also has a public website (www.five-starbank.com) that provides information on the products and services offered by the Bank. The website also offers additional functionality such as the

² As a term of an Assurance of Discontinuance entered into on January 17, 2015 by FSB and the Attorney General of the State of New York, FSB was required to open at least two full-service branch offices located within neighborhoods in the Rochester area with minority populations of at least 30%.

ability to apply for a consumer loan (non-residential) or open a checking account.

The website also provides access to NetTeller, which is an online banking system available to both retail and commercial customers. The system provides access to general account information, bill pay (including person to person and account to account payments), funds transfer, transaction history, online financial management, account aggregation, alert messaging, and electronic statements.

FSB's commercial customers, including small businesses, have access to a night-drop deposit box located at each branch; in addition, one night-drop box is located offsite at the Seneca Falls/Waterloo Outlet Mall. Furthermore, commercial customers can electronically remote capture check deposits and send them to the Bank from their desk through FSB's remote deposit capture system.

Range of services provided

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

Community Development Services: "Outstanding"

FSB provided an excellent level of community development services over the course of the evaluation period. Bank personnel participated in over 200 qualified community development services during the evaluation period.

Below are some of the highlights of FSB's CD services:

- An FSB branch manager is a board member of a nonprofit organization with a mission to promote and expand adequate and affordable housing for the homeless, housing-vulnerable, disabled, and low-income individuals and families in Cayuga County. This individual is also a board member of another nonprofit organization in the assessment area, located in a low-income census tract that provides day care services at an affordable price.
- A senior commercial lender is the treasurer of an economic development organization that promotes job growth through new businesses and expansion of existing businesses as well as job retention within the area. The organization assists businesses via incentives that include tax abatements, bond financing and low interest rate loans, as well as facilitating staff development and educational outreach to the business community.
- A branch manager is a board member of a charitable corporation that solicits, receives, and administers funds for the sole benefit of the local community college. The corporation also administers funds received for scholarships that help

deserving students at the college. Approximately 80% of students at the college receive financial aid, representing more than \$34 million annually.

- Several of FSB's senior officers are involved with schools in the area, providing services including teaching high school student's basic financial concepts and seventh graders about saving, budgeting, and financial planning.
- A community development officer participates in home buyer education classes and discussions hosted by local nonprofit organizations.

Additional Factors

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

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

Annually, the board receives and reviews the CRA Self-Assessment. This assists the board to evaluate the Bank's performance and implement changes to its CRA strategy if necessary or to CRA policies and procedures. Furthermore, the Risk Oversight Committee of the board receives and reviews on a quarterly basis a CRA performance update prepared by the CRA officer, while the chief risk officer provides the full board with an update on the Bank's community development activities quarterly.

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 evidence of practices by FSB intended to discourage applications for the types of credit offered by FSB.

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

On January 17, 2015, the Office of the Attorney General of the State of New York (OAG) and FSB entered into an Assurance of Discontinuance based on an investigation by the OAG that found that FSB implemented policies and practices that made the Bank's mortgage products unavailable in majority-minority neighborhoods in the Rochester metro area. The Assurance of Discontinuance required FSB to implement certain prospective relief, including opening at least two full-service branch offices located within neighborhoods in the Rochester area with minority populations of at least 30%, eliminating its minimum loan amount requirement for mortgage products, establishing special financing and marketing programs, and providing employee training.

Process Factors

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

FSB ascertains the credit needs of its community through its directors', officers', and employees' involvement in various local nonprofit and community organizations, as well as participating in homebuyer seminars hosted by nonprofit organizations. Furthermore, the community development officer reaches out to nonprofit organizations, community organizations and local government agencies, as well as meets with them periodically to assess credit needs and to make them aware of existing and new services and products offered by the Bank.

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

FSB uses traditional marketing channels to advertise its services and products such as television, radio, brochures, billboards, and its website. FSB also uses social media to reach customers.

FSB's efforts to reach LMI individuals and geographies included placing print advertising in local newspapers targeting the Hispanic population in LMI geographies in the cities of Rochester and Buffalo.

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

FSB recently hired two community development loan officers and a community development officer to strengthen the Bank's efforts in meeting the financial and credit needs of LMI individuals and families and communities in the Bank's assessment area. The two community development loan officers work in the Buffalo area and the other officer works in the Rochester area. They are involved in activities and events with local community groups and participate in outreach programs with the goal of generating loan activity. The community development officer covers the Bank's entire assessment area with the primary responsibility of developing relationships and ongoing dialogue with local nonprofit organizations and community groups.

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.