



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

One State Street
New York, NY 10004

PUBLIC SUMMARY

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

Date of Evaluation: Lending: 1/1/2013-12/31/2015
CD Activities : 1/1/2013-6/30/2016

Institution: Ulster Savings Bank
180 Schwenk Drive
Kingston, NY 12401

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 Ulster Savings Bank (“USB”) 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 June 30, 2016.

Section 28-b of the New York Banking Law, as amended, requires that when evaluating certain applications, the Superintendent of Financial Services shall assess a banking institution’s record of helping to meet the credit needs of its entire community, including low- and moderate-income (“LMI”) areas, consistent with safe and sound operations.

Part 76 of the General Regulations of the Superintendent Implements Section 28-b and further requires that the Department assess the CRA performance records of regulated financial institutions. Part 76 establishes the framework and criteria by which the Department will evaluate the performance. Section 76.5 further provides that the Department will prepare a written report summarizing the results of such assessment and will assign to each institution a numerical CRA rating based on a 1 to 4 scoring system. The numerical scores represent an assessment of CRA performance as follows:

- (1) Outstanding record of meeting community credit needs;
- (2) Satisfactory record of meeting community credit needs;
- (3) Needs to improve in meeting community credit needs; and
- (4) Substantial noncompliance in meeting community credit needs.

Section 76.5 further requires that the CRA rating and the written summary (“Evaluation”) be made available to the public. Evaluations of banking institutions are primarily based on a review of performance tests and standards described in Section 76.7 and detailed in Sections 76.8 through 76.13. The tests and standards incorporate the 12 assessment factors contained in Section 28-b of the New York Banking Law.

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

OVERVIEW OF INSTITUTION'S PERFORMANCE

DFS evaluated Ulster Savings Bank according to the intermediate small bank performance criteria pursuant to Part 76.7 and Part 76.12 of the General Regulations of the Superintendent ("GRS"). The assessment period included calendar years 2013, 2014, 2015 and the first six months ending June 30, 2016. USB is rated "2," indicating a "**Satisfactory**" record of helping to meet community credit needs.

The rating is based on the following factors:

Lending Test: "Satisfactory"

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

USB's average loan-to-deposit ("LTD") ratio was reasonable considering its size, business strategy, financial condition and the lending activity of its peer group. USB's average LTD ratio for the evaluation period was 83.7% compared to its peer group's ratio of 85.4%.

- **Assessment Area Concentration:** "Satisfactory"

USB originated 76.1% by number and 71.7% by dollar value of its total HMDA-reportable and small business loans within its assessment area. This majority of lending inside its assessment area was a reasonable record of lending.

- **Distribution by Borrower Characteristics:** "Satisfactory"

The distribution of loans based on borrower characteristics demonstrated reasonable rates of lending among individuals of different income levels and businesses of different revenue sizes. USB's lending rate to businesses with revenues of \$1 million or less significantly exceeded the aggregate's lending rate for each year of the evaluation period, while its HMDA-reportable lending rate to low- and moderate-income ("LMI") borrowers underperformed the aggregate for each year except for 2015.

- **Geographic Distribution of Loans:** "Needs to improve"

The distribution of loans based on lending in census tracts of varying income levels demonstrated a less than reasonable rate of lending. USB's average lending rate for HMDA-reportable and small business loans in moderate-income census tracts compared favorably to the aggregate's lending rate but USB's average lending rate for HMDA-reportable and small business loans in low-income geographies significantly underperformed the aggregate's rate of lending in low-income areas, as well as the demographic characteristics of the assessment area.

- **Action Taken in Response to Written Complaints With Respect to CRA:**

DFS did not receive any CRA-related complaints against USB during the evaluation period.

- **Community Development Test (Loans, Investments, Services): “Satisfactory”**

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

- **Community Development Loans:** “Satisfactory”

During the evaluation period, USB had qualified community development loans totaling approximately \$21.8 million, of which \$15.2 million were new loans, and \$6.6 million were outstanding from the prior evaluation period.

- **Community Development Qualified Investments:** “Satisfactory”

During the evaluation period, USB made \$310,694 in community development investments in the form of grants, and had \$900,000 outstanding from prior evaluation periods.

- **Community Development Services:** “Satisfactory”

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

- **Innovative or Complex Practices:**

During the evaluation period, USB did not use innovative or complex community development lending or investment practices.

- **Responsiveness to Credit and Community Development Needs:**

USB demonstrated a reasonable level of responsiveness to credit and community development needs. USB offers special residential loan programs to address the housing needs of the assessment area and it originated more than 500 residential loans totaling \$83.5 million through these programs from 2013 through September 2016. In addition, USB participates in the First Home Club program by the Federal Home Loan Bank of New York. The program limits a borrower’s income to 80.0% or less of the median household income of the county. In collaboration with various nonprofit organizations, USB originated 99 loans through this program within the assessment area from 2013 to September 2016.

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:

USB is a New York State-chartered mutual saving bank headquartered in Kingston, New York. The bank chartered in 1851 as Ulster County Savings Bank and changed its name to Ulster Savings Bank in 1972.

USB has four wholly-owned subsidiaries: USB Agency, Inc., which offers various types of personal and commercial insurance products and annuities; Ulster Financial Group, Inc., which offers financial and investments products and tax and payroll services; Ulster Home Mortgage, a banking mortgage subsidiary which operates solely in the State of Connecticut; and Ulster Savings Charitable Foundation, a nonprofit entity providing grants to community and civic non-for-profit organizations in the assessment area.

Per the Consolidated Report of Condition (the "Call Report") as of June 30, 2016, filed with the Federal Deposit Insurance Corporation ("FDIC"), USB reported total assets of \$790.4 million, of which \$566.0 million were net loans and lease financing receivables. It also reported total deposits of \$680.0 million, resulting in a loan-to-deposit ratio of 83.2%. According to the latest available comparative deposit data as of June 30, 2016, USB had a market share of 4.3%, or \$680.0 million in a market of \$15.7 billion, ranking it 7th among 32 deposit-taking institutions in the assessment area.

The following is a summary of USB's gross loan portfolio, based on Schedule RC-C of USB's December 31, 2013, 2014, 2015 and June 30, 2016 Call Reports:

TOTAL GROSS LOANS OUTSTANDING								
Loan Type	2013		2014		2015		6/30/2016	
	\$000's	%	\$000's	%	\$000's	%	\$000's	%
1-4 Family Residential Mtge	365,958	70.9	385,279	71.2	383,826	68.5	403,724	69.9
Commercial & Industrial	9,800	1.9	10,742	2.0	15,932	2.8	15,962	2.8
Commercial Mortgage	85,012	16.5	90,712	16.8	91,377	16.3	93,149	16.1
Multifamily Mortgages	25,208	4.9	25,880	4.8	34,272	6.1	34,410	6.0
Consumer Loans	964	0.2	848	0.2	666	0.1	601	0.1
Agricultural Loans	0	0.0	0	0.0	2,088	0.4	0	0.0
Construction Loans	27,680	5.4	27,135	5.0	31,962	5.7	29,174	5.1
Other Loans	1,224	0.2	853	0.2	465	0.1	427	0.1
Total Gross Loans	515,846		541,449		560,588		577,447	

As illustrated in the above table, USB is primarily a residential real estate lender with 75.9% of its loan portfolio in residential loans, of which 69.9% are 1-4 family and 6.0% are multifamily loans. Commercial loans made up 18.9% of the gross loan portfolio. USB's loan portfolio grew by 11.9% or \$61.6 million during the evaluation period due primarily to the growth in the residential loan portfolio.

USB operates 14 full-service branches in the mid-Hudson Valley region. In addition, USB has three loan production offices located in Goshen (Orange County), White Plains (Westchester County) and Riverhead (Suffolk County).

USB offers traditional deposit products, as well as some special deposit accounts such as Health Savings and First Home Club Savings accounts. It also offers traditional business accounts, as well as some special business accounts such as School Banking, Nonprofit, Interest on Lawyers, and Landlord/Tenant accounts. USB offers traditional lending products, which include residential and multifamily mortgages, personal loans, automobile loans, energy smart loans, bridge loans, construction and commercial mortgage loans and business installment loans and lines of credit. USB also offers nontraditional banking services primarily through its subsidiaries. These services include insurance products and services, payroll services for small businesses, tax preparation, small business bookkeeping and title insurance.

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

Assessment Area:

USB's assessment area is comprised of Dutchess, Orange and Ulster counties located in the Mid-Hudson Valley region of New York.

There are 205 census tracts in the assessment area, of which 10 are low-income, 29 are moderate-income, 99 are middle-income, 65 are upper-income, and two are tracts with no income indicated.

Assessment Area Census Tracts by Income Level							
County	N/A	Low	Mod	Middle	Upper	Total	LMI %
Orange		5	10	17	47	79	19.0
Dutchess	2	5	12	49	11	79	21.5
Ulster			7	33	7	47	14.9
Total	2	10	29	99	65	205	19.0

Demographic & Economic Data

The assessment area had a population of 852,794 during the examination period. About 12.2% of the population were over the age of 65 and 20.9% were under the age of sixteen.

Of the 209,201 families in the assessment area 18.7% were low-income, 16.4% were moderate-income, 21.4% were middle-income and 43.5% were upper-income families. There were 302,022 households in the assessment area, of which 8.7% had income below the poverty level and 1.7% were on public assistance.

The weighted average median family income within the assessment area was \$80,927. Of the three counties, Dutchess had the highest median income at \$84,036 and Ulster had the lowest at \$72,100.

There were 335,515 housing units within the assessment area, of which 83.0% were one to four family units, and 13.0% were multifamily units. A majority (63.6%) of the area's housing units were owner-occupied, while 26.4% were rental units. Of the 213,314 owner-occupied housing units, 11.4% were in LMI census tracts and 88.6% were in middle- and upper-income census tracts. The median age of the housing stock was 50 years, and the median home value was \$293,011.

There were 54,143 non-farm businesses in the assessment area. Of these, 79.3% were businesses with reported revenues of less than or equal to \$1 million, 4.3% reported revenues of more than \$1 million and 16.4% did not report their revenues. Of all the businesses in the assessment area, 88.5% were businesses with less than fifty employees and 90.4% operated from a single location. The largest industries were services (48.8%), retail trade (15.0%), and construction (9.7%); approximately 4.2% of businesses were not classified.

According to the New York State Department of Labor, the average unemployment rates during the evaluation period for New York State and the three counties in USB's assessment area improved from year to year, reflecting a steady recovery in the region's economy. In addition, the unemployment rate for all three counties was consistently below the average unemployment rate for New York State.

Assessment Area Unemployment Rate				
	Statewide	Dutchess	Orange	Ulster
2013	7.7	6.7	6.8	7.1
2014	6.3	5.3	5.5	5.7
2015	5.3	4.6	4.7	4.9
June 2016 (average for the 6 months)	4.9	4.2	4.2	4.4

Community Information

As part of the evaluation, we met with three nonprofit community development organizations and interviewed key personnel to gain more insight into the banking and financial needs in the assessment area and other regions that USB services.

The primary focus of the three organizations is affordable housing, as well as the revitalization and stabilization of neighborhoods and communities. They noted affordable housing as the primary community need of the region and noted the need for financial literacy for LMI individuals and families. The organizations offer programs that include down payment, closing cost assistance, counseling for first-time homebuyers and foreclosure prevention. One of the organizations noted that USB is an active lender, particularly in Ulster County, in this organization's first time homebuyers' program. In addition, USB's personnel provide financial expertise through their participation on various boards and serving as committee members in various community groups and organizations in the assessment area.

PERFORMANCE STANDARDS AND ASSESSMENT FACTORS

DFS evaluated USB under the intermediate small bank performance standards in accordance with GRS Parts 76.7 and 76.12, which consist of the lending test and the community development test.

The lending test includes:

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

The community development test includes:

- 1. Community development lending;*
- 2. Community development investments;*
- 3. Community development services; and*
- 4. Responsiveness to community development needs*

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

- 1. The extent of participation by the board of directors or board of trustees in formulating CRA policies and reviewing CRA performance;*
- 2. Any practices intended to discourage credit applications;*
- 3. Evidence of prohibited discriminatory or other illegal credit practices;*
- 4. Record of opening and closing offices and providing services at offices; and*
- 5. Process factors, such as activities to ascertain credit needs and the extent of marketing and special credit related programs*

DFS used statistics in this evaluation derived from various sources. USB provided bank-specific information both as part of the examination process and on its Call Report submitted to the FDIC. DFS sourced aggregate lending data from the Federal Financial Institutions Examination Council and deposit data from the FDIC. Examiners calculated loan-to-deposit ratios from information shown in the Bank's Uniform Bank Performance Report submitted to the FDIC.

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

The assessment period included calendar years 2013, 2014, and 2015 and the first six months of 2016.

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

Since USB did not make any small farm loans, DFS based all lending analyses on HMDA-reportable and small business loans. USB is not required to report small business loan data, and these data are not included in the aggregate data. DFS presents small business loan aggregate data only for comparative purposes.

USB’s HMDA-reportable loans accounted for 87.8% by number and 86.3% by dollar value of all loans considered by the examiners. Therefore, examiners gave HMDA-reportable loans greater weight in the lending test for this evaluation.

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

Current CRA Rating: “Satisfactory”

LENDING TEST: “Satisfactory”

USB’s HMDA-reportable and small business lending activities were reasonable in light of aggregate and peer group activities and the demographics of the assessment area.

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

USB’s average LTD ratio was reasonable considering its size, business strategy, financial condition and peer group activity.

USB’s average LTD ratio of 83.7% was slightly below its peer group’s average of 85.6%. USB’s quarterly LTD ratios ranged from a low of 79.5% to a high of 87.6% during the evaluation period. This is similar to its peer group’s ratios, which ranged from a low of 80.8% to a high of 89.4%.

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

Loan-to-Deposit Ratios															
	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	Avg.
Bank	86.4	81.2	80.8	81.9	82.9	79.5	80.8	84.8	86.2	85.4	87.6	84.9	85.2	83.8	83.7
Peer	80.8	82.0	82.4	83.5	83.4	84.8	85.6	87.5	87.0	87.4	87.8	88.0	88.2	89.4	85.6

Assessment Area Concentration: “Satisfactory”

During the evaluation period, USB originated 76.1% by number, and 71.7% by dollar value of its total HMDA-reportable and small business loans within its assessment area.

USB originated 73.2% by number and 68.9% by dollar value of its HMDA-reportable loans and 76.1% by number and 71.7% by dollar value of its small business loans within the assessment area. These data represented a reasonable record of lending by USB inside the assessment area.

The following table shows the percentage of USB’s HMDA-reportable and small business loans originated inside and outside of the assessment area.

Distribution of Loans Inside and Outside of the Assessment Area										
Loan Type	Number of Loans					Loans in Dollars (in thousands)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
HMDA-Reportable										
2013	563	73.2%	206	26.8%	769	103,506	67.8%	49,224	32.2%	152,730
2014	475	73.8%	169	26.2%	644	96,690	70.1%	41,154	29.9%	137,844
2015	560	72.6%	211	27.4%	771	109,312	68.9%	49,394	31.1%	158,706
Subtotal	1,598	73.2%	586	26.8%	2,184	309,508	68.9%	139,772	31.1%	449,280
Small Business										
2013	107	98.2%	2	1.8%	109	18,558	98.4%	311	1.6%	18,869
2014	84	97.7%	2	2.3%	86	14,805	97.6%	371	2.4%	15,176
2015	105	95.5%	5	4.5%	110	15,597	93.0%	1,172	7.0%	16,769
Subtotal	296	97.0%	9	3.0%	305	48,960	96.4%	1,854	3.6%	50,814
Grand Total	1,894	76.1%	595	23.9%	2,489	358,468	71.7%	141,626	28.3%	500,094

Distribution by Borrower Characteristics: “Satisfactory”

USB’s HMDA-reportable and business lending demonstrated a reasonable distribution of loans among individuals of different income levels and businesses of different revenue sizes.

HMDA-Reportable Loans:

USB’s HMDA-reportable lending demonstrated an adequate distribution of loans among individuals of different income levels.

USB’s average lending rates to LMI borrowers totaled 21.5% by number of loans and 13.7% by dollar value, comparing unfavorably to its aggregate’s rates of 24.1% and 16.2%, respectively. USB trailed its aggregate in lending to LMI borrowers for two of the three years of the evaluation period; however, in the last year of the evaluation period (2015) USB’s lending rate to LMI borrowers improved significantly.

Lending to LMI borrowers by USB as well as the aggregate also compared unfavorably to the population in the assessment area overall. The demographic characteristics of the population of the assessment area show that more than 35% of families living in the area during the evaluation period were LMI families.

The following table provides a summary of the distribution of USB's HMDA-reportable loans based on borrower income.

Distribution of 1-4 Family Loans by Borrower Income									
2013									
Borrower Income	Bank				Aggregate				Fam.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	31	5.6%	2,693	2.7%	866	6.4%	99,961	3.7%	20.3%
Moderate	76	13.7%	9,508	9.4%	2,549	18.8%	374,344	13.7%	17.8%
LMI	107	19.3%	12,201	12.1%	3,415	25.2%	474,305	17.4%	38.1%
Middle	145	26.2%	23,243	23.1%	3,842	28.4%	711,906	26.1%	22.6%
Upper	293	52.9%	64,247	63.8%	5,710	42.1%	1,398,490	51.4%	39.3%
Unknown	9	1.6%	1,003	1.0%	582	4.3%	138,214	5.1%	
Total	554		100,694		13,549		2,722,915		
2014									
Borrower Income	Bank				Aggregate				Fam.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	17	3.6%	1,406	1.5%	448	4.8%	45,486	2.4%	18.7%
Moderate	68	14.5%	8,455	8.9%	1,709	18.4%	243,979	13.0%	16.4%
LMI	85	18.2%	9,861	10.4%	2,157	23.3%	289,465	15.5%	35.1%
Middle	106	22.6%	16,906	17.8%	2,454	26.5%	447,994	23.9%	21.4%
Upper	260	55.6%	65,251	68.6%	4,385	47.3%	1,074,991	57.4%	43.5%
Unknown	17	3.6%	3,081	3.2%	275	3.0%	60,730	3.2%	
Total	468		95,099		9,271		1,873,180		
2015									
Borrower Income	Bank				Aggregate				Fam.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	38	6.9%	3,260	3.1%	591	5.4%	59,783	2.6%	18.7%
Moderate	109	19.7%	15,884	15.0%	1,980	18.1%	290,007	12.7%	16.4%
LMI	147	26.6%	19,144	18.1%	2,571	23.4%	349,790	15.3%	35.1%
Middle	146	26.4%	23,079	21.8%	2,857	26.1%	530,088	23.2%	21.4%
Upper	238	43.1%	60,266	57.0%	4,849	44.2%	1,245,159	54.5%	43.5%
Unknown	21	3.8%	3,174	3.0%	688	6.3%	159,165	7.0%	
Total	552		105,663		10,965		2,284,202		
Borrower Income	Bank				Aggregate				Fam.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	86	5.5%	7,359	2.4%		5.6%		3.0%	
Moderate	253	16.1%	33,847	11.2%		18.5%		13.2%	
LMI	339	21.5%	41,206	13.7%		24.1%		16.2%	
Middle	397	25.2%	63,228	21.0%		27.1%		24.6%	
Upper	791	50.3%	189,764	62.9%		44.2%		54.0%	
Unknown	47	3.0%	7,258	2.4%		4.6%		5.2%	
Total	1,574		301,456						

Small Business Loans:

USB's business lending demonstrated an excellent distribution of loans among businesses of different revenue sizes. During the evaluation, USB's lending to businesses with revenues of \$1 million or less averaged 81.4% by number of loans and 73.5% by dollar value.

USB's lending rate exceeded its aggregate's rate for all years of the evaluation period most significantly in 2013 when USB's rate of lending totaled 87.9% by number of loans and 86.0% by dollar value, compared to its aggregate's 46.9% and 37.6%, respectively. Additionally, USB's lending rate by number of loans exceeded the assessment area's business demographics for every year except 2015.

The following table provides a summary of USB's small business loan distribution based on the revenue size of the business borrowers during the evaluation period.

Distribution of Small Business Loans by Revenue Size of Business									
2013									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	
Rev. < = \$1MM	94	87.9%	15,945	86.0%	5,612	46.9%	130,308	37.6%	73.7%
Rev. > \$1MM	13	12.1%	2,604	14.0%					3.6%
Rev. Unknown	-	0.0%	0	0.0%					22.7%
Total	107		18,549		11,968		346,243		
2014									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	
Rev. < = \$1MM	69	82.1%	10,658	72.0%	6,116	44.3%	148,053	36.1%	74.1%
Rev. > \$1MM	15	17.9%	4,147	28.0%					4.2%
Rev. Unknown	-	0.0%		0.0%					21.7%
Total	84		14,805		13,807		409,835		
2015									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	
Rev. < = \$1MM	78	74.3%	9,362	60.0%	7,802	51.6%	171,019	37.3%	79.3%
Rev. > \$1MM	27	25.7%	6,235	40.0%					4.3%
Rev. Unknown		0.0%		0.0%					16.4%
Total	105		15,597		15,124		459,025		
GRAND TOTAL									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	
Rev. < = \$1MM	241	81.4%	35,965	73.5%		47.8%		37.0%	
Rev. > \$1MM	55	18.6%	12,986	26.5%					
Rev. Unknown	-	0.0%	-	0.0%					
Total	296		48,951						

Geographic Distribution of Loans: “Needs to improve”

USB’s HMDA-reportable and small business loans originated in census tracts of varying income levels demonstrated a less than reasonable distribution of lending.

HMDA-Reportable Loans:

The distribution of USB’s HMDA-reportable loans by the income level of the geography demonstrated less than reasonable rates of lending in LMI areas.

USB’s rate of lending in moderate-income geographies exceeded the aggregate’s rate during the evaluation period, except by dollar value in 2015. However, USB performed below the aggregate in low-income geographies for each year of the evaluation period.

USB originated 11.3% by number of its total HMDA-reportable loans in moderate-income geographies which exceeded the aggregate rate of 9.1%, but USB’s lending rate in low-income geographies by number of loans was below one percent for all years of the evaluation period. USB made four loans (0.7% of HMDA-reportable loans) in low-income geographies in 2015, which was USB’s highest lending rate during the evaluation period. This was well below the aggregate’s lowest lending rate of 2.5% for the evaluation period. In addition, USB’s lending rates in low-income geographies during the evaluation period were consistently below the percent of owner-occupied housing units in low-income areas. By contrast, the aggregate’s lending rates in low-income geographies exceeded the percent of owner-occupied housing units in each year of the evaluation period.

The following table provides a summary of USB’s HMDA-reportable lending distribution based on the income level of the geography.

Distribution of HMDA-Reportable Lending by Geographic Income of the Census Tract									
2013									
Geographic Income	Bank				Aggregate				OO HUs
	#	%	\$000's	%	#	%	\$000's	%	%
Low	2	0.4%	242	0.2%	443	3.2%	95,038	3.3%	1.9%
Moderate	66	11.7%	10,521	10.2%	1,301	9.5%	226,661	7.9%	11.3%
LMI	68	12.1%	10,763	10.4%	1,744	12.7%	321,699	11.2%	13.2%
Middle	362	64.3%	64,184	62.0%	8,176	59.7%	1,657,076	57.9%	61.4%
Upper	133	23.6%	28,559	27.6%	3,767	27.5%	883,219	30.9%	25.4%
Unknown		0.0%		0.0%		0.0%		0.0%	
Total	563		103,506		13,687		2,861,994		
2014									
Geographic Income	Bank				Aggregate				OO HUs
	#	%	\$000's	%	#	%	\$000's	%	%
Low	1	0.2%	250	0.3%	289	3.1%	64,429	3.2%	1.6%
Moderate	54	11.4%	8,312	8.6%	824	8.8%	150,664	7.5%	9.9%
LMI	55	11.6%	8,562	8.9%	1,113	11.9%	215,093	10.8%	11.4%
Middle	292	61.5%	57,602	59.6%	4,375	46.6%	872,344	43.6%	48.1%
Upper	128	26.9%	30,526	31.6%	3,901	41.5%	911,718	45.6%	40.5%
Unknown		0.0%		0.0%		0.0%		0.0%	
Total	475		96,690		9,389		1,999,155		
2015									
Geographic Income	Bank				Aggregate				OO HUs
	#	%	\$000's	%	#	%	\$000's	%	%
Low	4	0.7%	1,087	1.0%	282	2.5%	64,065	2.6%	1.6%
Moderate	60	10.7%	7,098	6.5%	977	8.8%	234,154	9.6%	9.9%
LMI	64	11.4%	8,185	7.5%	1,259	11.3%	298,219	12.2%	11.4%
Middle	361	64.5%	70,902	64.9%	5,323	47.9%	1,106,863	45.2%	48.1%
Upper	135	24.1%	30,225	27.7%	4,524	40.7%	1,043,493	42.6%	40.5%
Unknown		0.0%		0.0%		0.0%		0.0%	
Total	560		109,312		11,106		2,448,575		
Geographic Income	Bank				Aggregate				OO HUs
	#	%	\$000's	%	#	%	\$000's	%	%
Low	7	0.4%	1,579	0.5%		3.0%		3.1%	
Moderate	180	11.3%	25,931	8.4%		9.1%		8.4%	
LMI	187	11.7%	27,510	8.9%		12.0%		11.4%	
Middle	1,015	63.5%	192,688	62.3%		52.3%		49.7%	
Upper	396	24.8%	89,310	28.9%		35.7%		38.8%	
Unknown	-	0.0%	-	0.0%		0.0%		0.0%	
Total	1,598		309,508						

Small Business Loans:

The distribution of USB's business loans by the income level of the geography demonstrated a poor distribution of lending in LMI geographies.

USB originated 13.2% by number and 18.1% by dollar value of its business loans in LMI geographies during the evaluation period, while the aggregate originated 24.2% and 22.3% respectively. USB's lower lending rate in LMI geographies was primarily due to its

low lending rates in low-income geographies during the evaluation period. In 2014, USB made only one business loan or 1.2% of loans in low-income geographies, far less than the aggregate's 12.2%. Its highest rate of lending in low-income geographies of 3.8% by number and 4.5% by dollar value was in 2015, but those rates were well below the aggregate's lending rates of 16.1% and 11.8%, respectively. USB's lending rates in moderate-income geographies exceeded the rate of lending by the aggregate for 2013 and 2014, but fell below the aggregate's lending rate in 2015. USB's lending to businesses in LMI geographies overall was below the demographic characteristics of the census tracts where businesses were located during the evaluation period.

The following table provides a summary of the distribution of USB's business loans based on the income level of the geography where the business was located.

Distribution of Business Lending by Geographic Income of the Census Tract									
2013									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	2	1.9%	410	2.2%	1,218	10.2%	24,295	7.0%	5.9%
Moderate	14	13.1%	3,227	17.4%	1,357	11.3%	40,587	11.7%	14.4%
LMI	16	15.0%	3,637	19.6%	2,575	21.5%	64,882	18.7%	20.2%
Middle	67	62.6%	11,206	60.4%	6,597	55.1%	204,068	58.9%	57.7%
Upper	24	22.4%	3,715	20.0%	2,796	23.4%	77,293	22.3%	22.1%
Unknown		0.0%		0.0%		0.0%		0.0%	
Total	107		18,558		11,968		346,243		
2014									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	1	1.2%	175	1.2%	1,687	12.2%	42,240	10.3%	5.2%
Moderate	12	14.3%	3,383	22.9%	1,522	11.0%	48,898	11.9%	13.6%
LMI	13	15.5%	3,558	24.0%	3,209	23.2%	91,138	22.2%	18.8%
Middle	50	59.5%	6,056	40.9%	5,627	40.8%	181,304	44.2%	43.4%
Upper	21	25.0%	5,191	35.1%	4,971	36.0%	137,393	33.5%	37.8%
Unknown		0.0%		0.0%		0.0%		0.0%	
Total	84		14,805		13,807		409,835		
2015									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	4	3.8%	708	4.5%	2,438	16.1%	53,995	11.8%	5.3%
Moderate	6	5.7%	943	6.0%	1,660	11.0%	61,115	13.3%	13.8%
LMI	10	9.5%	1,651	10.6%	4,098	27.1%	115,110	25.1%	19.1%
Middle	62	59.0%	8,375	53.7%	5,829	38.5%	191,713	41.8%	43.3%
Upper	33	31.4%	5,571	35.7%	5,197	34.4%	152,242	33.2%	37.6%
Unknown		0.0%		0.0%		0.0%		0.0%	
Total	105		15,597		15,124		459,065		
GRAND TOTAL									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	7	2.4%	1,293	2.6%		13.1%		9.9%	
Moderate	32	10.8%	7,553	15.4%		11.1%		12.4%	
LMI	39	13.2%	8,846	18.1%		24.2%		22.3%	
Middle	179	60.5%	25,637	52.4%		44.1%		47.5%	
Upper	78	26.4%	14,477	29.6%		31.7%		30.2%	
Unknown	-	0.0%	-	0.0%		0.0%		0.0%	
Total	296		48,960						

Action Taken In Response to Written Complaints With Respect to CRA:

DFS did not receive any CRA-related complaints against USB during the evaluation period.

Community Development Test: “Satisfactory”

USB’s community development performance demonstrated adequate responsiveness to the community development needs of its assessment area through its community development (“CD”) loans, investments and services, considering USB’s capacity and the need for and availability of such opportunities for community development in its assessment area.

During the evaluation period, USB originated \$15.6 million in new CD loans and had \$6.6 million outstanding from prior evaluation periods. USB made no new CD investments but had \$900,000 outstanding from prior evaluation periods. USB also made a total of \$310,694 in qualified CD grants during the evaluation period.

Community Development Lending: “Satisfactory”

USB’s CD lending for the evaluation period totaled \$22.2 million, an increase of 65.7% over the prior period’s lending of \$13.4 million. The current lending represented 0.9% of annualized average assets and demonstrated an adequate level of CD lending.

Community Development Loans				
Purpose	This Evaluation Period		Outstandings from Prior Evaluation Periods	
	# of Loans	\$000	# of Loans	\$000
Affordable Housing	26	8,812	5	2,605
Community Services	7	3,914	3	975
Revitalize/Stabilize	2	2,832	2	3,043
Total	35	15,558	10	6,623

Below are highlights of USB’s CD lending.

Affordable Housing

- USB extended two mortgage loans totaling \$1.2 million to a nonprofit organization which provides support and housing to the homeless, at-risk youth and adults. The organization also provides affordable rental housing to individuals, families and senior citizens throughout the Mid-Hudson Valley region. The organization used the funds to purchase and renovate properties in a low-income census tract.
- USB made four loans totaling \$970,000 to a not-for-profit organization with a

mission of providing residents of the Hudson Valley with affordable housing and other services. The funds were used for the purchase and renovation of properties located in moderate-income census tracts.

- USB extended three loans totaling \$600,000 to a nonprofit organization supporting affordable housing. The organization builds affordable homes in partnerships with those in need. The funds were used for the construction and renovation of properties located in a moderate-income census tract.

Community Services

- USB made two loans for a total of \$615,000 to a not-for-profit organization that serves low-income residents of Dutchess County. The organization provides services that increase and enhance the skills of individuals, thereby encouraging self-sufficiency. The funds were used for debt consolidation, working capital and refinancing of three properties.
- USB originated a loan totaling \$156,000 to a not-for-profit organization that provides health and physical education to residents of Ulster County. The organization also offers programs that include school-age child care, summer camps, physical rehabilitation, youth employment, and scholarships for low income youths and families.

Revitalize/Stabilize

- USB extended a \$500,000, 10-year promissory note to enable a newly-founded nonprofit organization to purchase and renovate a community center that was in decline and had mounting debt. The center was located in a moderate-income tract. The organization is planning to renovate and modernize the facility and provide social, recreational and educational services, thereby helping to stabilize the community.

USB originated a \$1.2 million loan to refinance a commercial property, which was encumbered by loans from the New York Business Development Corporation and the New York State Empire Zone. The property is located in Dutchess County it's a moderate-income tract and its primary tenant is an auto parts store.

Community Development Investments: "Satisfactory"

USB's made no new CD investments but had \$900,000 in CD investments outstanding from prior evaluation periods. In addition, USB made CD grants totaling \$310,694. This demonstrated an adequate level of CD investments and grants over the course of the evaluation period.

	This Evaluation Period		Outstandings from Prior Evaluation Periods	
	# of Inv.	\$000	# of Inv.	\$000
CD Investments				
Affordable Housing				
Economic Development			1	900
Community Services				
Other (Please Specify)				
Total			1	900
CD Grants	# of Grants		Not Applicable	
Affordable Housing	23	83		
Community Services	45	227		
Revitalize/Stabilize	1	1		
Other (Please Specify)				
Total	69	311		

Below are highlights of USB's CD investments and grants.

Economic Development

USB had outstanding CD investments of \$900,000 in a fund that invests in CD loans guaranteed by the U.S. Small Business Administration. The fund invests in loans to small businesses located in LMI geographies or businesses that employ LMI employees.

Affordable Housing

USB made several grants to nine organizations and agencies that support affordable housing in the assessment area. These grants included:

- Grants totaling \$33,800 to a nonprofit organization whose mission is to create affordable homes and improve communities. The organization works with USB to promote first time home purchases within the assessment area.
- A donation of \$10,000 to an organization in Dutchess County that helps to improve the lives of low-income homeowners by improving the health and safety of their homes.
- A grant of \$5,000 to a private nonprofit regional community development and human service organization. The organization provides services to farmworkers, low-income families and economically depressed communities throughout the region. The funds were provided to a housing agency of this organization.

Community Development Services: “Satisfactory”

USB demonstrated an adequate level of CD services over the course of the evaluation period. Bank personnel participated in 50 approved CD services activities. USB had 23 different employees provide these services.

Below are some of the highlights of USB’s CD services.

- A USB senior vice president is the board president of a multi-program nonprofit organization. The organization provides emergency shelters for runaway and homeless youth, women and children. It also offers a program that distributes food donated by local farmers to food pantries and feeding programs. This individual is also a board member of other nonprofit organizations in the assessment area, including a regional housing development fund which helps low-income residents with housing needs.
- A vice president is member of a county-level small business development corporation that promotes products and services available to assist startup businesses, struggling businesses and businesses looking to expand. This individual is also a board member of a statewide rural housing coalition that promotes affordable housing throughout New York State. In addition, he is active in youth programs targeting children from LMI families in Ulster County.
- A loan originator is a board member of an advisory council that promotes affordable home mortgage products offered by New York State. She is also an active board member in a regional nonprofit organization that promotes affordable housing in the assessment area.
- A branch supervisor and eight branch managers are board members or members of various community groups and nonprofit entities that operate food pantries, provide healthcare, assist low-income families with childcare, assist small businesses, and help find affordable housing for senior citizens and LMI individuals and families.

Innovativeness of Community Development Investments:

USB did not use innovative investments to support community development during the evaluation period.

Responsiveness to Community Development Needs:

USB demonstrated a reasonable level of responsiveness to credit and community development needs. USB offers various special loan programs to address the housing needs of its assessment area.

USB, for example, participates in the First Home Club (“FHC”) program by the Federal Home Loan Bank of New York. One of the eligibility requirements of the program restricts household income to 80.0% or less of the median income of the county. USB in conjunction with a number of nonprofit organizations in the assessment area originated 99 loans under the FHC program from 2013 through September 2016.

During the evaluation period, USB originated more than 500 loans totaling \$83.5 million through the following flexible or special lending programs.

Special Loan Programs

- USB offers the Federal Housing Administration (“FHA”) mortgage program which is a government-insured loan program that features a low down payment. FHA loans are available to all borrowers, including first-time homebuyers. USB also offers Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, loans.
- USB is an approved State of New York Mortgage Agency (“SONYMA”) lender. SONYMA has five lending programs to assist first-time homebuyers with the purchase of a home in New York State. These programs feature competitive interest rates, low down payment requirements, down payment assistance, flexible underwriting guidelines and no prepayment penalties. Each of these features is designed to make home purchase more affordable.
- USB is an approved lender for the United States Department of Agriculture loan program that provides LMI households with the opportunity to own homes in eligible rural areas. The program provides a 90% loan guarantee in order to reduce the risk to the lender.

Additional Factors

The extent of participation by the banking institution’s Board of Directors or Board of Trustees in formulating the banking institution’s policies and reviewing its performance with respect to the purposes of the CRA.

The Enterprise Compliance Risk Management Committee meets on a monthly basis. As a part of the meeting the committee reviews loan and lending data. On a quarterly basis, the committee submits a summary report to the Risk Committee of the Board of Trustees for review. The board reaffirmed and approved the bank’s CRA Policy, most recently in May 2016.

Discrimination and other illegal practices

DFS examiners did not note evidence that USB engaged in practices intended to

discourage applications for the types of credit offered by USB.

DFS examiners did not note evidence that USB engaged in prohibited discriminatory or other illegal credit practices.

Record of opening and closing offices and providing services at offices

In 2015, USB opened one branch in Lake Katrine, NY, a hamlet in the Town of Ulster (a middle-income census tract). In 2014, USB closed one branch in Windham, NY, Greene County and one branch in Saugerties, NY, Ulster County. Both branches closed were located in middle-income tracts. USB noted the reason for the closures to be low levels of business. In addition, the branch in Newburgh, Orange County and the branch in Wappinger Falls, Dutchess County were relocated within a half mile of their original locations.

USB's 14 branches are open during normal business hours and offer extended hours on Fridays. Eleven of the branches are open on Saturday and offer limited services. Also, twelve of the branches offer drive-up service. USB also operates three loan production offices, one in Orange County and two that are outside of its assessment area: one in Riverhead (Suffolk County) in a moderate-income census tract and the other in an upper-income tract in White Plains (Westchester County).

In addition to traditional banking services, USB offers alternative banking services including 24-hour telephone banking, online banking, mobile banking, banking by mail, business cash management, bill payment, Automated Clearing House, stop payments, remote deposit capture and night depository.

Distribution of Branches within the Assessment Area							
County	N/A #	Low #	Moderate #	Middle #	Upper #	Total #	LMI %
Dutchess		0	1	2	1	4	25%
Orange		0	0	0	1	1	0%
Ulster			1	5	3	9	11%
Total	-	-	2	7	5	14	14%

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.

USB assesses the credit and banking needs of its community through the active participation of 23 bank and senior bank personnel. They are members of the boards, committees and/or have memberships in various nonprofit, grass roots, community and civic organizations in the assessment area. These organizations include:

- A statewide coalition of 200 member organizations formed in 1979 as a nonprofit corporation to help provide safe, affordable housing for LMI individuals and families in New York State.
 - A grass roots organization targeting, assisting and helping at-risk youth in the assessment area.
 - A New York State public authority created to provide affordable homeownership for LMI individuals offering fixed-rate mortgages.
 - A nonprofit organization whose mission is to help create and develop affordable homeownership and rental opportunities in the assessment area.
 - A local hospital and a health alliance of local and regional hospitals.
 - A nonprofit offering after-school programs for at risk youth in the assessment area.
 - A private college in Newburgh, NY.
- *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*

USB uses various media outlets to market its banking, financial and credit services. USB buys radio and television ads, print ads in local and regional newspapers and magazines. USB also buys billboard space in various locations of the assessment area, and markets its products via targeted branch promotions or through the use of mailings and handouts.

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

USB has a wholly-owned nonprofit subsidiary to further its commitment in helping and serving the communities in its assessment area.

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.