



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

One State Street
New York, NY 10004

PUBLIC SUMMARY

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

Date of Evaluation: December 31, 2010

Institution: Victory State Bank
4142 Hylan Boulevard
Staten Island, NY 10308

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 Banking Department concerning the safety and soundness of this financial institution.

TABLE OF CONTENTS

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

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (“CRA”) performance of Victory State Bank (“VSB”) prepared by the New York State Banking Department. The evaluation represents the Banking Department’s current assessment and rating of the institution’s CRA performance based on an evaluation conducted as of December 31, 2010.

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

Part 76 of the General Regulations of the Banking Board implements Section 28-b and further requires that the Banking 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 Banking Department will prepare a written report summarizing the results of such assessment and will assign to each institution a numerical CRA rating based on a 1 to 4 scoring system. The numerical scores represent an assessment of CRA performance as follows:

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

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

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

OVERVIEW OF INSTITUTION'S PERFORMANCE

VSB is evaluated according to the small bank performance criteria pursuant to Parts 76.7 and 76.12 of the General Regulations of the Banking Board. This assessment period included calendar years 2007, 2008, 2009 and 2010. VSB is rated "1", indicating an "Outstanding" record of helping to meet community credit needs. This rating is an improvement over the prior rating of "2"; a "Satisfactory" record based on the New York State Banking Department Performance Evaluation dated December 31, 2006.

The rating is based on the following factors:

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

VSB's average LTD ratio was less than satisfactory considering its size, business strategy, financial condition, aggregate and peer group activity.

The Bank's loan-to-deposit ratio has historically been below that of its peers. During this evaluation period, VSB's average LTD ratio of 34.3% was significantly below the peer group's average of 82.9%. Additionally, VSB's average LTD ratio declined slightly when compared to the prior evaluation period, while the peer group's average ratio increased slightly.

However, it was noted that VSB had significant community development lending and services activities. VSB made a total of \$5.96 million of community development loans supporting all four objectives of community development, i.e. community services, economic development, affordable housing and neighborhood revitalization.

- **Assessment Area Concentration:** "Outstanding"

During the evaluation period, VSB originated 85.9% by number, and 89.9 % by dollar value of its small business loans within the assessment area. This substantial majority of lending inside of its assessment area is an "Outstanding" record of lending within VSB's assessment area.

- **Distribution by Borrowers Characteristics:** "Outstanding"

The distribution of small business loans based on the revenue size of the business demonstrated an excellent rate of lending among businesses of different revenue sizes.

VSB's overall lending to small businesses in the assessment area, with revenue size equal to or less than \$1 million was impressive when compared to the aggregate data.

- **Geographic Distribution of Loans: “Outstanding”**

The distribution of small business loans based on the income level of the geography of the business demonstrated an excellent penetration rate of lending among varying income levels of census tracts.

Overall distribution of lending in low and moderate-income census tracts of 15.2% by number and 6.7% by dollar value compared favorably to aggregate data in the assessment area of 4.0% by number and 3.8% by dollar value.

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

Since the last CRA evaluation, as of December 31, 2006, neither VSB nor the New York State Banking Department has received any written complaints regarding VSB’s CRA performance.

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

PERFORMANCE CONTEXT

Institution Profile:

Chartered in 1997, Victory State Bank (“VSB”) is a commercial bank located in the Staten Island borough (Richmond County) of New York City. In 2003, VSB Bancorp was established as a bank holding company and became the parent company of VSB. The bank’s main office is at 4142 Hylan Boulevard while four other branches are located in various sections of Staten Island.

VSB offers a variety of traditional financial services to meet the needs of the communities in which it operates. The primary market area is Staten Island, the most residential of the five boroughs of New York City. Home building is a major industry in Staten Island and generates the need for contractors and sub-contractors in the field of electrical, plumbing, water/sewer and HVAC (heating, ventilation, and air conditioning), most of whom are small business owners. The home building industry also promotes the need for attorneys for real estate transactions.

The services industry also played a significant role for business opportunities, with health care in a predominant role followed by finance, insurance and real estate services. In addition, restaurants and food stores generate a great many job opportunities in the retail trade sector.¹

VSB’s principal business is to attract commercial deposits from the general public and to invest those deposits primarily in commercial and construction loans, and investment securities.

As per the Consolidated Report of Condition (the Call Report) as of December 31, 2010, filed with the Federal Deposit Insurance Corporation (“FDIC”), VSB reported total assets of \$236.7 million, of which \$80.4 million were net loans and lease finance receivables. It also reported total deposits of \$210.0 million, resulting in a loan-to-deposit ratio of 38.3%. According to the latest available comparative deposit data as of June 30, 2010, VSB had a market share of 2.4%, or \$228.2 million, in a total market of approximately \$10 billion, ranking it 17th among 17 deposit-taking institutions in Richmond County.

VSB’s most direct competition for deposits comes from commercial and savings banks. The expansion of competitor banks into Staten Island (SI) has negatively impacted the ability of VSB to generate new loans and deposits. VSB is also faced with increasing competition from non-bank institutions such as brokerage firms and insurance companies.

¹ Based on business reports for the years 2007 through 2010, the first three major industries in the assessment area were services industry at an average of 41.9% establishments; followed by retail trade industry at 16% and construction at 10.4%.

The period covered by the evaluation was characterized by a decline in income and real estate values, higher bank losses, bank failures and tightening of credit. With the homebuilding industry one of the primary businesses on Staten Island, the slowdown in the real estate market has negatively impacted VSB. While VSB is not directly affected by the subprime credit crisis, the indirect effects included reduced loan demand from customers and lower deposits from real estate attorneys, builders and contractors. Nevertheless, overall lending showed a healthy growth level of 30.9% over the four-year period covered by the evaluation. Total gross loans increased to \$81.6 million in 2010 from \$62.4 million in 2007. In particular, commercial lending (commercial and industrial, commercial mortgage and construction loans) increased by 26% to \$67.7 million in 2010 from \$53.8 million in 2007.

The following is a summary of VSB's loan portfolio, based on Schedule RC-C of VSB's December 31, 2007, December 31, 2008, December 31, 2009 and December 31, 2010 Call Reports:

TOTAL GROSS LOANS OUTSTANDING								
Loan Type	2007		2008		2009		2010	
	\$000's	%	\$000's	%	\$000's	%	\$000's	%
1-4 Family Residential Mortgage Loans	7,222	11.6	9,851	14.9	10,793	13.7	12,891	15.8
Commercial & Industrial Loans	12,152	19.5	10,736	16.2	12,105	15.3	14,318	17.5
Commercial Mortgage Loans	19,238	30.8	28,398	42.8	36,924	46.8	41,945	51.4
Multifamily Mortgages	-	0.0	0	0.0	0	0.0	0	0.0
Consumer Loans	566	0.9	599	0.9	532	0.7	534	0.7
Agricultural Loans	-	0.0	0	0.0	0	0.0	0	0.0
Construction Loans	22,369	35.9	15,905	24.0	17,025	21.6	11,464	14.0
Obligations of States & Municipalities	-	0.0	0	0.0	0	0.0	0	0.0
Other Loans	840	1.3	806	1.2	1,523	1.9	483	0.6
Lease financing		0.0		0.0		0.0		0.0
Total Gross Loans	62,387	100	66,295	100	78,902	100	81,635	100

As illustrated in the above chart, VSB is primarily a small business lender, with 82.9% of its loan portfolio, as of December 31, 2010, in commercial & industrial, commercial mortgage, and construction loans.

VSB operates five banking offices, located in various sections of Staten Island. Supplementing the banking offices are automated teller machines ("ATM") at every branch where customers can make withdrawals and deposits. Four branches have Saturday banking and are open as late as 6:00 PM once every week. Two branches (St. George and Rosebank) are located in "under banked" communities or Banking Development Districts (BDDs). The branches are adjacent to eight of the fourteen

low to moderate income census tracts, and all branches are also accessible to the fourteen low and moderate income census tracts by public transportation.

There are no known financial or legal impediments that adversely impacted VSB's ability to meet the credit needs of its community.

Assessment Area:

VSB's assessment area is comprised of Richmond County in its entirety.

There are 110 census tracts in the area, of which 3 are low-income, 11 are moderate-income, 29 are middle-income, 65 are upper-income and 2 are 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 %
Richmond	2	3	11	29	65	110	12.7	0	12.7%
Total	2	3	11	29	65	110	12.7	0	12.7%

The assessment area appears reasonable based upon the location of VSB's offices and its lending patterns. There is no evidence that LMI areas have been arbitrarily excluded.

Demographic & Economic Data

The assessment area had a population of 444 thousand based on the 2000 Census Report. Approximately 11.6% of the population was above the age of 65; 22.7% was under the age of 16; and, 65.7% of the population was between the ages of 16 and 65.

Of the 115 thousand families in the assessment area, 15.0% were low-income, 12.1% were moderate-income, 18.0% were middle-income and 54.9% were upper-income families. There were 156 thousand households in the assessment area, of which 10.1% had income below the poverty level, and 3.3% were on public assistance.

The MSA median family income within the assessment area was \$49 thousand. The U.S. Department of Housing and Urban Development ("HUD") estimated median family income for the area was \$66 thousand in 2000.

There were 163.4 thousand housing units within the assessment area, of which 86.0% were one- to four-family units, and 13.8% were multifamily units. A majority (60.8%) of the area's housing units were owner-occupied, while 34.5% were rental units. Of the 99.7 thousand owner-occupied housing units, 3.8% were in moderate-income geographies while 18.4% were in middle-income tracts. The median age of the housing stock was 34 years and the median home value in the assessment area was \$215 thousand.

There were 23 thousand non-farm businesses in the assessment area in 2010. Of these, 82.6% were businesses with reported revenues of less than or equal to \$1 million, 3.5% reported revenues of more than \$1 million and 13.9% did not report their revenues. Of all the businesses in the assessment area, 89.2% had less than fifty employees while 94.3% operated from a single location. The largest industries in the area were services (49.9%), followed by retail trade (16.0%) and construction (10.6%), while 4.8% of businesses in the assessment area were not classified.

Statistics on Pre-foreclosure Filings (PFF), Modifications or Foreclosures

The 2009 Mortgage Foreclosure Law signed by former Governor Paterson on December 15, 2009 requires that a pre-foreclosure notice be sent to all borrowers with home loans, at least 90 days before the lender commences legal action against the borrowers. The latest 90-day pre-foreclosure notice filing report compiled and issued by the New York State Banking Department, covered the period between February 13, 2010 and August 31, 2010. It involved 134,000 borrowers with mortgages on owner-occupied 1-to-4 family residential properties in New York State.

The report indicated that there were 4,620 PFF notices in Richmond County during this period, which represented 3.4% of total PFF notices in the State.

NYS Department of Labor Unemployment Rates

Reports published by the New York State Department of Labor indicated an increasing trend in unemployment rates statewide, as well as for Richmond County. The statewide averages gradually increased to 8.6% in 2010 from 4.5% in 2007; a 91.0% increase over the past four years. The same upward trend was noted in the assessment area where the unemployment rate jumped by 98.0% to 8.7% in 2010 from 4.4% in 2007.

Assessment Area Unemployment Rate		
	Statewide	Richmond
2007	4.5%	4.4%
2008	5.3%	4.9%
2009	8.4%	8.4%
2010	8.6%	8.7%

Community Information

VSB's assessment area for purposes of compliance with the objectives of the Community Reinvestment Act, as well as major market place for its banking operations is Richmond County (Staten Island) in the New York City region. Richmond County consists of 110 census tracts of which 59% are upper income and 13% low to moderate. VSB also meets the objectives of CRA primarily by providing for the credit needs of small businesses to sustain economic development in Staten Island. It also partakes in various forms of community services to low income and under banked individuals residing in Banking Development Districts.

Staten Island is the most residential of the five boroughs of New York City, and 71.1% of its population are homeowners. This has accounted for the growth of the home building industry, including related professional trades or businesses such as contractors and real estate attorneys. While its population is still the lowest among the five boroughs, the rate of population growth at 17.10% from 1990 to 2000, has shifted the economic base from industrial activity to retail and services. Health care has become a significant employer in the services industry while restaurants and food stores generate the most job opportunities in the retail trade sector. In 2010, small businesses still dominate with 86.8% of businesses employing less than 20 individuals.

For the years 2007 through 2010, the three largest industries in the assessment area were the services industry with a four year average of 41.9% of establishments falling in this category; followed by the retail trade industry at 15.9%; and, construction at 10.4%. Major employers include hospitals, the police, fire and sanitation departments, and the public school system.

Community based organizations contacted to assess the community credit needs, particularly in the realm of business and economic development, included an association composed of business owners and two not-for profit organizations that have been providing services to businesses and entrepreneurs in Staten Island such as business referrals, networking opportunities, business-to-business events and personalized technical assistance counseling. The organizations also help in the economic development and revitalization of areas located within the Empire Zones (North Shore and West Shore Empire Zones).The President/CEOs of two associations indicated that VSB management has maintained an active participation in their events and activities thus making it known to new as well as established small businesses of their availability to provide for their credit needs.

PERFORMANCE STANDARDS AND ASSESSMENT FACTORS

VSB was evaluated under the small banking institution's performance standards in accordance with Parts 76.7 and 76.12 of the General Regulations of the Banking Board. VSB's performance was evaluated according to the small bank performance criteria, which consists of the lending test including (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 following factors were also considered in assessing the bank's record of performance: the extent of participation by the board of directors or board of trustees in formulating CRA policies and reviewing CRA performance; any practices intended to discourage credit applications, evidence of prohibited discriminatory or other illegal credit practices; record of opening and closing offices and providing services at offices; and 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 Banking Law that reasonably bear upon the extent to which a banking institution is helping to meet the credit needs of its entire community.

Statistics employed in this evaluation were derived from various sources. Bank-specific information was submitted by the bank both as part of the examination process and on its Call Report submitted to the Federal Deposit Insurance Corporation ("FDIC"). Aggregate lending data were obtained from the Federal Financial Institutions Examination Council ("FFIEC") and deposit data were obtained from the FDIC. Loan-to-deposit ratios were calculated from information shown in the bank's Uniform Bank Performance Report ("UBPR") as submitted to the FDIC.

The demographic data referred to in this report were derived from the 2000 U.S. Census and the U.S. Department of Housing and Urban Development ("HUD"). Business demographic data used in this report provide information on US businesses, enhanced by Dun & Bradstreet reports and updated annually. Unemployment data were obtained from the New York State Department of Labor. Some non-specific bank data are only available on a county-wide basis, and were used even where the institution's assessment area includes partial counties.

The assessment period included calendar years 2007, 2008, 2009 and 2010.

Examiners considered VSB's small business loans in evaluating factors (2), (3) and (4) of the lending test as noted above. Small business lending analyses were performed on a sample of 54 loans in 2007, 67 loans in 2008, 61 loans in 2009 and 69 loans in 2010. Number and dollar volume of loans were then extrapolated from the resulting percentages and are not actual results

Small business loan aggregate data are shown for comparative purposes. VSB is not required to report this data and as such is not included in the aggregate data.

VSB received a rating of “2”, reflecting a “Satisfactory” record of helping to meet community credit needs at its prior Performance Evaluation conducted by the New York State Banking Department as of December 31, 2006.

Current CRA Rating: “Outstanding”

Lending Test: “Outstanding”

VSB’s small business lending activities and other related lending activities are more than reasonable in light of aggregate and peer group activity, economic conditions, and demographics.

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

VSB’s average LTD ratio was less than satisfactory considering its size, business strategy, financial condition, aggregate and peer group activity¹. However, VSB did engage in significant community development lending, thus enhancing this rating.

The Bank’s loan-to-deposit ratio has historically been below that of its peers. During this evaluation period, VSB’s average LTD ratio of 34.3% was significantly below the peer group’s average of 82.9%. Additionally, VSB’s average LTD ratio declined slightly when compared to the prior evaluation period, while the peer group’s average ratio increased slightly. This increased the gap between VSB’s average ratio and that of its peers to 48.6 percentage points during this evaluation period from 46.8 percentage points during the prior period.

The overall volume of small business lending, consisting of commercial & industrial, commercial mortgage, and construction loans, has increased during the last four years to \$67.7 million in 2010 from \$53.8 million in 2007, an increase of 26% or an annual average increase of 6%. Although construction loans declined by 48% during the period, commercial mortgage loans increased by 118%.

VSB is faced with strong competition from commercial and savings banks. The expansion of competitor banks into Staten Island has increased VSB’s difficulty in generating new loans. The continuing economic crisis has resulted in a slowdown in the real estate market and limited the development of new businesses which has negatively affected the bank. Small business lending in the assessment area has declined significantly. During calendar years 2007 through 2009, the number and dollar amount of small business loans generated in the assessment area was down by 67% by number (20,945 in 2007 to 6,863 in 2009) and by 61% in dollar value (\$293,771 in 2007 and \$113,369 in 2009).

The following chart shows VSB’s LTD ratios in comparison with the peer group’s ratios

¹ Peer group represents insured commercial banks having assets between \$100 million and \$300 million, with 3 or more full service banking offices and located in a metropolitan statistical area.

for the 16 quarters since the prior evaluation.

Loan-to-Deposit Ratios																	
	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4	Avg.
Bank	32.8	31.1	31.8	34.5	33.0	32.7	34.5	34.5	34.3	34.1	35.3	36.6	36.0	33.4	36.1	38.4	34.3
Peer	82.1	83.6	84.7	85.5	85.3	86.8	87.3	86.9	84.2	83.7	82.6	81.1	79.4	78.8	77.9	76.8	82.9

Community Development Lending

VSB was evaluated under the small bank performance standards, and was not required to have its community development activities evaluated during CRA examinations. Nevertheless, VSB engaged in significant community development lending and services activities. The lending activities are detailed in this section while community development services are detailed in a later section.

VSB made a total of \$5.96 million of community development loans supporting all four objectives of community development, i.e. community services, economic development, affordable housing and neighborhood revitalization. A description of VSB's community development lending is as follows:

- VSB extended an annual renewable line of credit totaling \$3 million to a not-for-profit organization that operates numerous mental health programs including developmental programs, child day care, child abuse prevention, teen alcoholism programs and school based mental health programs. The proceeds of the line of credit were to provide funds to cover short term cash flow shortages caused by a delay in reimbursement from New York State (Medicaid) for services previously provided and billed for by the borrower.
- VSB extended a term loan and a line of credit for a total of \$2 million to a charitable organization formed to promote the advancement of knowledge and understanding of mental health by providing funds and facilities. Funds from the term loan was used to acquire, renovate and construct a "green" building under the NY Energy Smart Loan Fund Program sponsored by the NYS Energy Research and Development Authority (NYSERDA).
- VSB granted an annual renewable line of credit totaling \$600 thousand to a pre-school facility formed to provide training and instructions for the education and development of handicapped pre-school children including physical, health, nutritional, intellectual, aesthetic, emotional and social preschool development. It is a NYS Department of Education (NYSDOE) approved pre-school contracted to provide services through the New York City Department of Education (NYCDOE) from whom the majority of its revenue is earned.

- VSB participated in loans made by the New York Business Development Corporation (NYBDC) totaling \$200 thousand. NYBDC was created by a special act of the New York State Legislature in 1955. NYBDC acts as a compliment to banks in providing long-term working capital, equipment, and real estate loans to businesses located in New York State, either in participation with, or as an adjunct to, the banking industry. NYBDC loans are generally disbursed in amounts up to \$2 million.
- VSB extended lines of credit totaling \$160 thousand to a local development corporation to acquire and rehabilitate five foreclosed properties located on Staten Island's North Shore.

Assessment Area Concentration: "Outstanding"

During the evaluation period, VSB originated 85.9% by number, and 89.9 % by dollar value of its small business loans within the assessment area. This substantial majority of lending inside of its assessment area is an "Outstanding" record of lending within VSB's assessment area.

The following table shows the percentages of VSB's 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
	#	%	#	%		\$	%	\$	%	
Small Business										
2007	768	83.8%	148	16.2%	916	36,778	89.1%	4,518	10.9%	41,296
2008	706	85.9%	116	14.1%	822	37,127	85.4%	6,343	14.6%	43,470
2009	802	85.0%	141	15.0%	943	37,811	91.8%	3,379	8.2%	41,190
2010	879	88.8%	111	11.2%	990	39,518	93.7%	2,668	6.3%	42,186
Subtotal	3,155	85.9%	516	14.1%	3,671	151,234	89.9%	16,908	10.1%	168,142
Grand Total	3,155	85.9%	516	14.1%	3,671	151,234	89.9%	16,908	10.1%	168,142

Distribution by Borrower Characteristics: "Outstanding"

The distribution of small business loans based on the revenue size of the business demonstrated an excellent rate of lending among businesses of different revenue sizes.

Although VSB is not required to submit small business loan data for CRA reporting, its overall lending to small businesses in the assessment area, with revenue size equal to or less than \$1 million, was impressive when compared to the aggregate data.

The following chart ² provides a summary of VSB's small business lending distribution based on revenue size during the evaluation period:

Distribution of Small Business Lending by Revenue Size of Business									
2007									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	455	59.3%	18,794	51.1%	6,569	31.6%	130,665	44.8%	70.6%
Rev. > \$1MM	270	35.2%	16,685	45.4%					3.6%
Rev. Unknown	43	5.6%	1,299	3.5%					25.8%
Total	768		36,778		20,803		291,982		
2008									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	527	74.6%	24,554	66.1%	3,398	21.1%	73,387	32.6%	68.9%
Rev. > \$1MM	105	14.9%	8,888	23.9%					3.4%
Rev. Unknown	74	10.4%	3,685	9.9%					27.7%
Total	706		37,127		16,137		224,967		
2009									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	565	70.5%	23,927	63.3%	1,214	17.8%	35,229	31.3%	81.7%
Rev. > \$1MM	158	19.7%	8,097	21.4%					3.3%
Rev. Unknown	79	9.8%	5,788	15.3%					15.1%
Total	802		37,811		6,806		112,635		
2010									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	510	58.0%	21,256	53.8%					
Rev. > \$1MM	318	36.2%	12,532	31.7%					
Rev. Unknown	51	5.8%	5,730	14.5%					
Total	879		39,518						
GRAND TOTAL									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	2,057	65.2%	88,531	58.5%		25.6%		38.0%	
Rev. > \$1MM	852	27.0%	46,201	30.5%					
Rev. Unknown	246	7.8%	16,502	10.9%					
Total	3,155		151,234						

² Small business lending analysis based on revenue size of business was performed on a sample of 54 loans in 2007, 67 loans in 2008, 61 loans in 2009 and 69 loans in 2010. Number and dollar volume of loans were then extrapolated from the resulting percentages and are not actual results. Numbers and dollar volume of loans may be slightly off due to rounding.

Geographic Distribution of Loans: "Outstanding"

The distribution of small business loans based on the income level of the geography of the business demonstrated an excellent penetration rate of lending among varying income levels of census tracts.

Overall distribution of lending in low and moderate-income census tracts of 15.2% by number and 6.7% by dollar value compared favorably to aggregate³ data in the assessment area of 4.0% by number and 3.8% by dollar value.

The following chart⁴ provides a summary of VSB's small business lending distribution based on the income level of the geography.

³ Aggregate Grand Total is an average for the years 2007, 2008 and 2009.

⁴ Small business lending analysis among census tracts of different income levels was performed on a sample of 54 loans in 2007, 67 loans in 2008, 61 loans in 2009 and 69 loans in 2010. Number and dollar volume of loans were then extrapolated from the resulting percentages and are not actual results. Number and dollar volume of loans may be slightly off due to rounding.

Distribution of Small Business Lending by Geographic Income of the Census Tract

2007									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	128	16.7%	1,425	3.9%	31	0.5%	1,631	1.2%	0.7%
Moderate	57	7.4%	329	0.9%	241	3.7%	5,006	3.8%	4.5%
LMI	185	24.1%	1,754	4.8%	272	4.1%	6,637	5.1%	5.2%
Middle	71	9.3%	3,956	10.8%	1,392	21.2%	30,624	23.4%	24.2%
Upper	512	66.7%	31,068	84.5%	4,904	74.7%	93,399	71.5%	70.4%
Unknown	0	0.0%	0	0.0%	1	0.0%	5	0.0%	0.1%
Total	768		36,778		6,569		130,665		
2008									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	11	1.5%	245	0.7%	20	0.6%	358	0.5%	0.8%
Moderate	116	16.4%	2,413	6.5%	114	3.4%	1,371	1.9%	4.7%
LMI	126	17.9%	2,658	7.2%	134	3.9%	1,729	2.4%	5.5%
Middle	74	10.4%	5,965	16.1%	731	21.5%	16,682	22.7%	24.3%
Upper	506	71.6%	28,504	76.8%	2,533	74.5%	54,976	74.9%	70.1%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.1%
Total	706		37,127		3,398		73,387		
2009									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	3	0.2%	433	1.2%	0.7%
Moderate	131	16.4%	4,678	12.4%	42	3.5%	358	1.0%	4.8%
LMI	131	16.4%	4,678	12.4%	45	3.7%	791	2.2%	5.5%
Middle	131	16.4%	8,456	22.4%	265	21.8%	7,491	21.3%	23.4%
Upper	539	67.2%	24,677	65.3%	904	74.5%	26,947	76.5%	71.0%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.1%
Total	802		37,811		1,214		35,229		
2010									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	25	2.9%	717	1.8%					
Moderate	13	1.4%	261	0.7%					
LMI	38	4.3%	977	2.5%					
Middle	229	26.1%	8,407	21.3%					
Upper	611	69.6%	30,134	76.3%					
Unknown	0	0.0%	0	0.0%					
Total	879		39,518						
GRAND TOTAL									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	164	5.2%	2,387	1.6%		0.5%		1.0%	
Moderate	317	10.0%	7,680	5.1%		3.6%		2.8%	
LMI	481	15.2%	10,067	6.7%		4.0%		3.8%	
Middle	506	16.0%	26,784	17.7%		21.4%		22.9%	
Upper	2,168	68.7%	114,383	75.6%		74.6%		73.3%	
Unknown	0	0.0%	0	0.0%		0.0%		0.0%	
Total	3,155		151,234						

Data not available.

Action Taken In Response to Written Complaints With Respect to CRA: “Satisfactory”

Since the last CRA evaluation, as of December 31, 2006, neither VSB nor the New York State Banking Department has received any written complaints regarding VSB’s CRA performance.

Additional Factors

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

VSB conducts a self-assessment of its performance with respect to the purposes of the Community Reinvestment Act through the Bank’s annual Strategic Plan. The Plan provides the board with highlights of CRA activities during the year, as well as goals for the coming years for its review and approval.

Any practices intended to discourage applications for types of credit set forth in the banking institution’s CRA Public File.

Examiners noted no practices that were intended to discourage applications for the types of credit offered by VSB.

Evidence of prohibited discriminatory or other illegal credit practices

Examiners noted no evidence of prohibited discriminatory or other illegal practices.

Record of opening and closing offices and providing services at offices

Distribution of Branches within the Assessment Area							
County	N/A #	Low #	Moderate #	Middle #	Upper #	Total #	LMI %
Richmond County	0	0	0	2	3	5	0%
Total	-	-	-	2	3	5	0%

Automated teller machines (“ATM”) are available at every branch where customers can make withdrawals and deposits. Four of VSB’s five branches have Saturday banking and are open as late as 6:00 PM once every week. Two branches (St. George and Rosebank) are located in “under banked” communities or Banking Development Districts (BDDs).

Retail Banking Services

Aside from the usual checking and savings accounts for businesses and individuals,

which are also available in other banks in the area, VSB offers several innovative and distinctive banking services demonstrating flexibility in responding to specific banking needs of “under banked” individuals and small businesses:

- Basic Checking and Savings BDD accounts – created to encourage the “under banked” individuals residing in BDDs to become first time depositors in an affordable manner;
- Basic Checking and Savings New York City Housing Authority (NYCHA) accounts – created to encourage “under banked” individuals residing in city housing projects to become first time depositors and make their rent payments in an affordable manner. These accounts are offered to individuals who make their rental payments through VSB to NYCHA;
- VSB has installed deposit transaction delivery systems (Remote Deposit Capture) that allows VSB to receive digital information from deposit documents captured at customer locations enabling customers to deposit items electronically from remote locations. Twelve business customers such as schools, nursing homes, attorneys, pharmacy, and tutoring and maintenance companies are using the service.

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.*

Members of the board of directors and senior management, consisting of the Bank President, Chief Lending Officer and CRA Officer are members of the board and/or officers of associations and not for profits engaged in assisting small businesses, and addressing the needs of low to moderate income and special needs’ residents in the assessment area. These organizations include the Staten Island Chamber of Commerce, Staten Island Economic Development, West Brighton Local Development Corporation, Northfield Local Development Corporation, Staten Island Mental Health Society and Staten Island Center for Independent Living, to name a few.

Through their active participation in the management of, and events sponsored by, these organizations, Bank officers ascertain the credit needs of the community, as well as communicating the credit services being provided by VSB.

Management has adopted a proactive approach to business lending and services. The President, in an effort to provide assistance to new small businesses, solicits new corporations formed in Staten Island on a weekly basis, by sending them

letters offering reduced fees and terms for an introductory period.

- *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*

VSB promotes its credit products and services during the events and meetings sponsored by the previously cited organizations. Advertisements on printed materials distributed on these events are also used to make the community aware of the credit services offered by the bank.

In addition, VSB launched several marketing campaigns directed mainly to the small business community. The ads focused on VSB's availability to the small business community. One campaign stressed VSB's lending potential in its "Money to Lend" campaign. VSB also sent postcard ads targeting small businesses in the BDDs highlighting the availability of loans and other products and services primarily for small businesses.

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

VSB was evaluated under the small bank performance standards, and was not required to have its community development activities evaluated during CRA examinations. Nevertheless, VSB had significant community development lending and performed community services geared towards small businesses and residents in "under banked" districts or BDDs. Lending activities were discussed in a prior section while service activities include the following:

- Board members and senior management consisting of the President/CEO, Chief Lending Officer and CRA Compliance Officer, demonstrated leadership and responsiveness to community needs through their active participation in the management and events of associations assisting small businesses, low income and residents with special needs.

For example, the President/CEO is a board trustee/cabinet level member of the Staten Island Chamber of Commerce and Staten Island Economic Development Corporation, respectively. These organizations help new and established businesses grow and succeed through cost free programs ranging from real estate help, business referrals, technical assistance counseling, and networking opportunities.

The Senior VP/Chief Loan Officer is a board member of the West Brighton Local Development Corporation, which offers programs to assist new entrepreneurs and existing businesses in Staten Island, including programs designed to bring business to, and stabilize, the West Brighton area.

The President, a VSB board member, and the Compliance Officer are board members of not-for-profit organizations engaged in providing a variety of social services to low income families in Staten Island such as the Seamen's Society for Children and Families, Staten Island Center for Independent Living and Staten Island Mental Health Society.

- VSB appointed a full time Community Development Officer (CDO) who is responsible for identifying and fostering community development opportunities within the bank's community, especially within the Bank's Banking Development Districts, which include some low to moderate income geographies.
As part of the identified need for financial literacy training within its assessment area, the CDO helped to develop a financial literacy program for low to moderate income families, as well as small businesses. For example, the "Babies, Budgets and Banking" financial literacy program was offered at no cost to first time pregnant, low income women and teenagers who meet the enrollment requirements of the Nurse-Family Partnership Program. On various occasions, VSB staff met with families and businesses and discussed banking products and services and distributed financial literacy materials.
- VSB made approximately \$96 thousand in grants to local community organizations promoting community services, and approximately \$10 thousand as its contribution to the Affordable Housing Program of the Federal Home Loan Bank of NY during the four-year evaluation period.

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

The term “community development” is defined to mean:

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.

A “community development loan” is defined as a loan that has as 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.

A “qualified investment” is defined as a lawful investment, deposit, membership share or grant that has as its *primary purpose* community development. 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.

A “community development service” is defined as a service that has as its *primary purpose* community development, 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.

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 of the person, family or household is based on the income of person, family or household. 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

Loans to Small Businesses

Small business loans to businesses with gross annual revenues (“GAR”) of \$1 million or less (“< = \$ 1MM”).

Low or Moderate Income (“LMI”) Geographies

Those census tracts or block numbering areas (“BNAs”), where according to the 2000 US 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 the case 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 depicts 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.

Small Business Loans

Loans to businesses with original amounts of \leq \$1MM.