



**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:** December 31, 2013

**Institution:** Empire State Bank  
68 North Plank Road  
Newburgh, NY 12550

**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 Empire State Bank (“ESB”) 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 December 31, 2013.

Section 28-b of the New York Banking Law, as amended, requires that when evaluating certain applications, the Superintendent of 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 State Banking Law.

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

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## **OVERVIEW OF INSTITUTION'S PERFORMANCE**

DFS evaluated ESB according to the small bank performance criteria pursuant to Parts 76.7 and 76.12 of the General Regulations of the Superintendent. The assessment period included calendar years 2008 through 2013. ESB is rated "2," indicating a "Satisfactory" record of helping to meet community credit needs.

The rating is based on the following factors:

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

ESB's average LTD ratio was reasonable considering its size, business strategy, financial condition and peer group activity. ESB's average LTD ratio for the 24 quarters ended December 31, 2013 was 83.9%, which exceeded the peer group's average of 79.6%.

- **Assessment Area Concentration:** "Needs to Improve"

During the evaluation period, ESB originated 56.9% by number and 47.3% by dollar value of its loans (both HMDA-reportable and small business) within the assessment area. This percentage of lending is a poor record of lending within the bank's assessment area.

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

The distribution of loans based on borrower characteristics demonstrated a reasonable rate of residential lending among individuals of different income levels and businesses with annual revenues of less than \$1 million.

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

The distribution of loans based on lending in census tracts of varying income levels was less than reasonable.

- **Action Taken in Response to Written Complaints with Respect to CRA:** "Not Rated"

During the evaluation period, neither the bank nor DFS received any written complaints regarding the bank's CRA performance.

- **Community Development:**

ESB extended several credit facilities to different nonprofit organizations that qualified the bank for community development credit, going beyond what is required for a small bank.

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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 Part 76 of the General Regulations of the Superintendent.

## PERFORMANCE CONTEXT

### Institution Profile

ESB was established in June 2004 and was chartered by the Office of the Comptroller of the Currency. ESB converted to New York State charter on March 9, 2009. ESB is a wholly owned subsidiary of ES Bancshares, Inc., a one-bank holding company incorporated under the laws of Maryland on August 14, 2006.

Per the Consolidated Report of Condition (the "Call Report") as of December 31, 2013, filed with the Federal Deposit Insurance Corporation ("FDIC"), ESB reported total assets of \$149 million, of which \$119 million were net loans and lease finance receivables. It also reported total deposits of \$129 million, resulting in a loan-to-deposit ratio of 92.2%. According to the latest available comparative deposit data, as of June 30, 2013, ESB had a market share of 0.64%, or \$126.8 million in a market of \$19.7 billion, ranking it 26th among 42 deposit-taking institutions in its assessment area.

The following is a summary of ESB's loan portfolio, based on Schedule RC-C of ESB's December 31, 2008 through December 31, 2013 Call Reports:

<b>TOTAL GROSS LOANS OUTSTANDING</b>												
Loan Type	2008		2009		2010		2011		2,012		2,013	
	\$000's	%	\$000's	%	\$000's	%	\$000's	%	\$000's	%	\$000's	%
1-4 Family Residential Mortgage Loans	29,674	31.1	35,057	32.6	37,825	30.6	39,285	31.8	31,347	25.1	25,907	21.3
Commercial & Industrial Loans	17,162	18.0	20,107	18.7	35,403	28.6	36,788	29.8	36,930	29.6	32,555	26.8
Commercial Mortgage Loans	36,131	37.8	39,518	36.8	35,715	28.9	37,465	30.3	41,475	33.2	44,130	36.3
Multifamily Mortgages	7,847	8.2	9,417	8.8	11,710	9.5	13,125	10.6	12,079	9.7	16,395	13.5
Consumer Loans	1,211	1.3	542	0.5	411	0.3	330	0.3	288	0.2		0.0
Agricultural Loans		0.0		0.0		0.0		0.0		0.0	228	0.2
Construction Loans	3,459	3.6	2,838	2.6	2,560	2.1	2,249	1.8	2,748	2.2	2,369	1.9
Obligations of States & Municipalities		0.0		0.0		0.0		0.0		0.0		0.0
Other Loans	6	0.0	5	0.0	1	0.0	2	0.0	2	0.0	1	0.0
Lease Financing		0.0		0.0		0.0		0.0		0.0		0.0
<b>Total Gross Loans</b>	<b>95,490</b>		<b>107,484</b>		<b>123,625</b>		<b>129,244</b>		<b>124,869</b>		<b>121,585</b>	

As illustrated in the above table, ESB is mainly a commercial mortgage lender, with 36.3% of its loan portfolio in commercial mortgage loans in 2013. ESB's commercial mortgage lending averaged 33.9% of its total gross loans during the six-year period of the evaluation. Its 1-4 family mortgage loans during the same period were 28.8% of its total gross loans. Commercial and industrial loans made up 25.3% for the same period.

ESB operates three banking offices located in Orange, Richmond and Ulster counties. Supplementing the banking offices is an automated teller machine ("ATM") network consisting of one machine at each office. These ATMs accept deposits. ESB allows its customers to use ATMs operated by others without a fee. (Customers must, however, pay any fees charged by the owner of those ATMs.) ESB's branches are open Monday through Saturday. On Fridays they are open until 6 PM; on Saturdays, the Newburgh and New Paltz offices are open until 12 PM and the Staten Island office until 1 PM.

ESB offers basic checking, 24 hour online or telephone banking, free bill pay, a VISA ATM/Check Card, automatic savings, direct deposit, E-Statements, a 24/7 loan hotline, and investments/insurance services.

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

**Assessment Area**

ESB's assessment area is comprised of parts of Orange and Ulster counties and all of Richmond County.

There are 134 census tracts in the area, of which five are low-income, 12 are moderate-income, 42 are middle-income, 72 are upper-income, and three are tracts with no income indicated.

<b>Assessment Area Census Tracts by Income Level</b>								
County	N/A	Low	Mod	Middle	Upper	Total	LMI %	LMI & Dis-tressed %
Orange*	0	3	3	6	1	13	46.2	46%
Richmond	3	2	9	30	67	111	9.9	10%
Ulster*	0	0	0	6	4	10	0.0	0%
<b>Total</b>	<b>3</b>	<b>5</b>	<b>12</b>	<b>42</b>	<b>72</b>	<b>134</b>	<b>12.7</b>	<b>13%</b>

*\*Partial county*

**Demographic & Economic Data**

The assessment area had a population of 577,283 during the evaluation period. Approximately 12.1% of the population were over the age of 65 and 20.5% were under the age of sixteen.

Of the 148,010 families in the assessment area 17.9% were low-income, 12.9% were moderate-income, 18.2% were middle-income, and 51.0% were upper-income families. There were 201,940 households in the assessment area, of which 10.7% had income below the poverty level and 2.6% were on public assistance.

The weighted average median family income within the assessment area was \$81,818.

There were 217,355 housing units within the assessment area, of which 86.2% were one-to-four family units, and 12.8% were multifamily units. A majority (64.3 %) of the area's housing units were owner-occupied, while 31.2% were rental units. Of the

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139,643 owner-occupied housing units, 5.8% were in low- and moderate-income census tracts and 94.2% were in middle- and upper-income census tracts. The median age of the housing stock was 47 years and the median home value was \$422,829.

There were 38,255 non-farm businesses in the assessment area. Of these, 76.3% were businesses with reported revenues of less than or equal to \$1 million, 3.3% reported revenues of more than \$1 million, and 20.3% did not report their revenues. Of all the businesses in the assessment area, 81.8% were businesses with less than fifty employees while 94.7% operated from a single location. The largest industries in the area were services (46.0 %), retail trade (14.3 %), and construction (9.2 %); approximately 12% of businesses were not classified.

According to the New York State Department of Labor, the average unemployment rate for New York State was above 8% from 2009 through 2012. Richmond County reported a similar rate. Ulster County's unemployment rate was above 8% for three years in a row (2010-2012), while Orange County's rate exceeded 8% in 2010 and 2012. Overall, Orange County reported the lowest unemployment rates while Richmond and Ulster counties reported rates close to the New York State rates.

<b>Assessment Area Unemployment Rates</b>				
	Statewide	Orange	Richmond	Ulster
2008	5.4%	5.4%	5.0%	5.5%
2009	8.3%	7.9%	8.1%	7.8%
2010	8.6%	8.3%	8.8%	8.3%
2011	8.2%	7.9%	8.3%	8.3%
2012	8.5%	8.2%	8.7%	8.7%
2013	7.7%	7.2%	7.8%	7.8%

### **Community Information**

Examiners contacted two local nonprofit organizations that promote public and private investment and encourage responsible and sustainable development in the counties within ESB's assessment area.

According to the industrial business development manager of the organization located on Staten Island, Superstorm Sandy affected the borough's job growth, and the homes affected by the storm are being rebuilt slowly. This business development manager noted that the re-building process for small businesses had been slower than for homes because it had been difficult for small businesses to obtain credit necessary for a faster recovery in the small business sector. There is a great need for financial resources for businesses that are recovering from the storm, such as working capital for struggling and newly emerging businesses. The big banks are not interested in micro lending; but small banks like ESB and Victory State Bank have been very helpful.



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The CEO of the organization which serves Dutchess, Orange and Ulster counties indicated that the economy of the Hudson Valley is diverse in terms of industry, with IBM a significant employer. The area has been experiencing a downturn, which has resulted in low lending activity in the residential real estate market. According to this organization, residents who rent are unable to purchase homes, and the area needs affordable housing, especially for senior citizens. Most banks in the Hudson Valley are very receptive to financing programs, and two banks are working together on a project to turn an old hospital into affordable housing units for senior citizens.

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## **PERFORMANCE STANDARDS AND ASSESSMENT FACTORS**

*DFS evaluated ESB under the small bank performance criteria in accordance with Parts 76.7 and 76.12 of the General Regulations of the Superintendent, which consists of the following lending test factors: (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. DFS also considered the following factors 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, examiners considered other factors delineated in Section 28-b of the Banking Law that reasonably bear upon the extent to which ESB helped to meet the credit needs of its entire community.*

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

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

The assessment period included calendar years 2008 through 2013.

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

DFS used actual originations in conducting an evaluation of ESBs HMDA-reportable loan data. DFS used a sampling procedure to evaluate small business loan data.

ESB converted to a state charter on March 9, 2009. This is the first performance evaluation of the bank conducted by DFS.

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**Current CRA Rating: “Satisfactory”**

**Lending Test: “Satisfactory”**

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

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

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

ESB’s LTD ratio was consistently higher than the peer group ratio from the second quarter of 2010 to the end of 2013.

The table below shows ESB’s LTD ratios in comparison with the peer group’s ratios for the full evaluation period.

Loan-to-Deposit Ratios																									
	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	avg
Bank	80.5	74.8	78.4	75.4	76.5	72.8	76.2	77.3	78.3	79.0	85.6	87.5	86.4	87.6	88.4	91.1	89.2	89.6	88.7	94.9	94.4	88.8	80.7	92.3	83.9
Peer	96.3	98.8	97.2	96.4	84.2	83.7	82.6	81.1	79.3	78.8	77.8	76.7	74.9	75.0	74.4	74.0	71.9	72.9	72.6	72.1	70.9	72.6	72.7	73.1	79.6

**Assessment Area Concentration: “Needs to Improve”**

During the evaluation period, ESB originated 56.9% by number and 47.3% by dollar value of its HMDA-reportable and small business loans within its assessment area. This is a poor record of lending inside the assessment area that needs to improve.

**HMDA-Reportable Loans:**

During the evaluation period, ESB originated 52.5% by number and 47.2% by dollar value of its HMDA-reportable loans inside the assessment area. This poor record of lending inside the assessment area needs improvement.

**Small Business Loans:**

During the evaluation period, ESB originated 58.0% by number and 47.4% by dollar value of its small business loans inside the assessment area. This poor record of lending inside the assessment area needs improvement.

The following table shows the percentages of ESB’s HMDA-reportable and small business loans originated inside and outside of the assessment area.<sup>11</sup>

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										
2008	0	0.0%	5	100.0%	5	0	0.0%	2,396	100.0%	2,396
2009	19	18.8%	12	38.7%	31	3,818	47.3%	4,253	52.7%	8,071
2010	11	10.9%	6	35.3%	17	1,938	51.5%	1,825	48.5%	3,763
2011	11	10.9%	14	56.0%	25	3,160	42.0%	4,370	58.0%	7,530
2012	3	3.0%	7	70.0%	10	1,993	61.6%	1,244	38.4%	3,237
2013	9	8.9%	4	30.8%	13	4,694	58.0%	3,400	42.0%	8,094
Subtotal	53	52.5%	48	47.5%	101	15,603	47.2%	17,488	52.8%	33,091
Small Business										
2008	55	12.5%	15	21.4%	70	8,992	79.4%	2,329	20.6%	11,321
2009	42	9.5%	18	30.0%	60	7,220	62.6%	4,312	37.4%	11,532
2010	46	10.5%	35	43.2%	81	7,255	37.1%	12,313	62.9%	19,568
2011	34	7.7%	36	51.4%	70	6,066	30.3%	13,952	69.7%	20,018
2012	25	5.7%	22	46.8%	47	4,822	36.7%	8,311	63.3%	13,133
2013	53	12.0%	59	52.7%	112	16,169	52.0%	14,902	48.0%	31,071
Subtotal	255	58.0%	185	42.0%	440	50,524	47.4%	56,119	52.6%	106,643
Grand Total	308	56.93%	233	43.1%	541	66,127	47.3%	73,607	52.7%	139,734

### Distribution by Borrower Characteristics: "Satisfactory"

Overall, ESB had a reasonable distribution of loans among individuals of different income levels and businesses of different revenue sizes.

### HMDA-Reportable Loans:

ESB's HMDA-reportable lending demonstrated a reasonable distribution of lending among individuals of different income levels.

The following two tables provide a summary of ESB's HMDA-reportable lending distribution by borrower income.

<b>Distribution of 1-4 Family Loans by Borrower Income</b>									
<b>2008</b>									
<b>Borrower</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Fam.Dem.</b>
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	0	0.0%	0	0.0%	172	2.2%	17,741	0.9%	16.5%
Moderate	0	0.0%	0	0.0%	713	9.3%	110,916	5.5%	13.2%
LMI	0	0.0%	0	0.0%	885	11.6%	128,657	6.4%	29.7%
Middle	0	0.0%	0	0.0%	1,899	24.8%	416,042	20.8%	18.9%
Upper	0	0.0%	0	0.0%	4,689	61.2%	1,400,768	70.0%	51.4%
Unknown	0	0.0%	0	0.0%	189	2.5%	57,060	2.8%	
<b>Total</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>	<b>7,662</b>	<b>0.0%</b>	<b>2,002,527</b>	<b>0.0%</b>	
<b>2009</b>									
<b>Borrower</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Fam.Dem.</b>
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	2	11.8%	75	2.4%	175	2.0%	23,887	1.0%	16.5%
Moderate	2	11.8%	140	4.4%	913	10.7%	156,450	6.9%	13.2%
LMI	4	23.5%	215	6.8%	1,088	12.7%	180,337	7.9%	29.7%
Middle	4	23.5%	833	26.2%	2,309	26.9%	543,393	23.9%	18.9%
Upper	6	35.3%	1,625	51.1%	4,610	53.8%	1,394,615	61.2%	51.4%
Unknown	3	17.6%	507	15.9%	561	6.5%	158,627	7.0%	
<b>Total</b>	<b>17</b>		<b>3,180</b>		<b>8,568</b>		<b>2,276,972</b>		
<b>2010</b>									
<b>Borrower</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Fam.Dem.</b>
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low		0.0%	0	0.0%	153	2.1%	18,377	0.9%	16.5%
Moderate	4	40.0%	537	28.5%	715	9.6%	121,500	6.1%	13.2%
LMI	4	40.0%	537	28.5%	868	11.7%	139,877	7.0%	29.7%
Middle	1	10.0%	187	9.9%	1,905	25.7%	435,232	21.9%	18.9%
Upper	5	50.0%	1,163	61.6%	4,396	59.3%	1,321,827	66.5%	51.4%
Unknown	0	0.0%	0	0.0%	249	3.4%	92,164	4.6%	
<b>Total</b>	<b>10</b>		<b>1,887</b>		<b>7,418</b>		<b>1,989,100</b>		

<b>Distribution of 1-4 Family Loans by Borrower Income</b>									
<b>2011</b>									
<b>Borrower</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Fam.Dem.</b>
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	0	0.0%	0	0.0%	151	2.3%	18,342	1.0%	16.5%
Moderate	1	9.1%	300	9.5%	686	10.4%	108,674	6.2%	13.2%
LMI	1	9.1%	300	9.5%	837	12.6%	127,016	7.2%	29.7%
Middle	2	18.2%	504	15.9%	1,760	26.6%	404,930	23.1%	18.9%
Upper	6	54.5%	1,776	56.2%	3,746	56.6%	1,147,615	65.4%	51.4%
Unknown	2	18.2%	580	18.4%	275	4.2%	74,312	4.2%	
<b>Total</b>	<b>11</b>		<b>3,160</b>		<b>6,618</b>		<b>1,753,873</b>		
<b>2012</b>									
<b>Borrower</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Fam.Dem.</b>
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	0	0.0%	0	0.0%	218	2.8%	29,628	1.4%	17.9%
Moderate	0	0.0%	0	0.0%	794	10.2%	138,763	6.5%	12.9%
LMI	0	0.0%	0	0.0%	1,012	13.0%	168,391	7.9%	30.8%
Middle	0	0.0%	0	0.0%	2,056	26.3%	485,972	22.9%	18.2%
Upper	2	100.0%	653	100.0%	4,408	56.5%	1,368,808	64.5%	51.0%
Unknown	0	0.0%	0	0.0%	331	4.2%	100,547	4.7%	
<b>Total</b>	<b>2</b>		<b>653</b>		<b>7,807</b>		<b>2,123,718</b>		
<b>2013</b>									
<b>Borrower</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Fam.Dem.</b>
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	0	0.0%	0	0.0%	212	2.7%	31,364	1.4%	17.9%
Moderate	0	0.0%	0	0.0%	796	10.2%	140,767	6.5%	12.9%
LMI	0	0.0%	0	0.0%	1,008	12.9%	172,131	7.9%	30.8%
Middle	0	0.0%	0	0.0%	1,901	24.3%	440,194	20.3%	18.2%
Upper	0	0.0%	0	0.0%	4,619	59.0%	1,470,411	67.7%	51.0%
Unknown	3	100.0%	928	100.0%	296	3.8%	90,558	4.2%	
<b>Total</b>	<b>3</b>		<b>928</b>		<b>7,824</b>		<b>2,173,294</b>		
<b>GRAND TOTAL</b>									
<b>Borrower</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Fam.Dem.</b>
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	2	4.7%	75	0.8%	1,081	2.4%	139,339	1.1%	
Moderate	7	16.3%	977	10.0%	4,617	10.1%	777,070	6.3%	
LMI	9	20.9%	1,052	10.7%	5,698	12.4%	916,409	7.4%	
Middle	7	16.3%	1,524	15.5%	11,830	25.8%	2,725,763	22.1%	
Upper	19	44.2%	5,217	53.2%	26,468	57.7%	8,104,044	65.8%	
Unknown	8	18.6%	2,015	20.5%	1,901	4.1%	573,268	4.7%	
<b>Total</b>	<b>43</b>		<b>9,808</b>		<b>45,897</b>		<b>12,319,484</b>		

### Small Business Loans:

Small business lending analysis was performed on a sample of 69 loans. The number and dollar value of loans were then extrapolated to arrive at the distribution of small business lending by the revenue size of businesses as shown in the table below.

The distribution of small business loans by the revenue size of the business demonstrated a reasonable rate of lending to businesses of different sizes.

The following tables provide a summary of the distribution of ESB's business loans, based on the revenue size of the business.

<b>Distribution of Small Business Lending by Revenue Size of Business</b>									
<b>2008</b>									
<b>Rev. Size</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	28	50%	6,089	68%	4,433	22%	99,035	33%	68.5%
Rev. > \$1MM	14	25%	2,781	31%					3.5%
Rev. Unknown	14	25%	122	1%					28.0%
<b>Total</b>	<b>55</b>		<b>8,992</b>		<b>19,809</b>		<b>297,671</b>		
<b>2009</b>									
<b>Rev. Size</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	23	56%	4,753	66%	1,592	19%	45,279	32%	80.8%
Rev. > \$1MM	12	28%	1,925	27%					3.4%
Rev. Unknown	7	17%	542	8%					15.8%
<b>Total</b>	<b>42</b>		<b>7,220</b>		<b>8,214</b>		<b>143,343</b>		
<b>2010</b>									
<b>Rev. Size</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	26	57%	3,577	49%	1,467	20%	48,925	37%	81.7%
Rev. > \$1MM	13	29%	2,831	39%					3.6%
Rev. Unknown	7	14%	848	12%					14.7%
<b>Total</b>	<b>46</b>		<b>7,255</b>		<b>7,519</b>		<b>132,825</b>		
<b>2011</b>									
<b>Rev. Size</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	24	70%	5,322	88%	3,429	39%	58,671	37%	70.4%
Rev. > \$1MM	-	0.0%	-	0.0%					2.4%
Rev. Unknown	10	30%	744	12%					27.2%
<b>Total</b>	<b>34</b>		<b>6,066</b>		<b>8,891</b>		<b>159,534</b>		

<b>Distribution of Small Business Lending by Revenue Size of Business</b>									
<b>2012</b>									
<b>Rev. Size</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	17	67%	4,388	91%	4,054	43%	72,461	37%	75.5%
Rev. > \$1MM	8	33%	434	9%					2.9%
Rev. Unknown	0	0.0%	0	0%					21.6%
<b>Total</b>	<b>25</b>		<b>4,822</b>		<b>9,486</b>		<b>193,440</b>		
<b>2013</b>									
<b>Rev. Size</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	31	58%	5,748	36%	3,914	47%	79,034	38%	76.3%
Rev. > \$1MM	9	17%	6,307	39%					3.1%
Rev. Unknown	13	25%	4,114	25%					20.6%
<b>Total</b>	<b>53</b>		<b>16,169</b>		<b>8,253</b>		<b>205,823</b>		
<b>GRAND TOTAL</b>									
<b>Rev. Size</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	148	58%	29,862	59%	18,889	30%	403,405	36%	
Rev. > \$1MM	56	22%	14,265	28%					
Rev. Unknown	51	20%	<b>6,367</b>	13%					
<b>Total</b>	<b>255</b>		<b>50,494</b>		<b>62,172</b>		<b>1,132,636</b>		

Small business lending analysis was performed on a sample of 69 loans. Number and dollar value of loans were then extrapolated from the resulting percentages and are not actual results.

Geographic Distribution of Loans: "Needs to Improve"

The distribution of ESB's loans by census tract income level demonstrated poor lending performance.



HMDA-Reportable Loans:

ESB's HMDA-reportable loans by the income level of the geography demonstrated a poor distribution of lending.

The following tables provide a summary of ESB's HMDA-reportable lending distribution by the income level of the geography.

<b>Distribution of HMDA-Reportable Lending by Geographic Income of the Census Tract</b>									
<b>2008</b>									
<b>Geographic Income</b>	<b>Bank</b>				<b>Aggregate</b>				<b>OO Hus</b>
	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	0	0.0%	0	0.0%	140	1.8%	27,021	1.3%	1.0%
Moderate	0	0.0%	0	0.0%	501	6.5%	111,192	5.6%	4.9%
LMI	0	0.0%	0	0.0%	641	8.4%	138,213	6.9%	5.9%
Middle	0	0.0%	0	0.0%	2,447	31.9%	562,062	28.1%	27.4%
Upper	0	0.0%	0	0.0%	4,573	59.7%	1,302,017	65.0%	66.7%
Unknown	0	0.0%	0	0.0%	1	0.0%	235	0.0%	
<b>Total</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>	<b>7,662</b>	<b>0.0%</b>	<b>2,002,527</b>	<b>0.0%</b>	
<b>2009</b>									
<b>Geographic Income</b>	<b>Bank</b>				<b>Aggregate</b>				<b>OO Hus</b>
	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	1	5.3%	169	4.4%	63	0.7%	12,037	0.5%	1.0%
Moderate	0	0.0%	0	0.0%	391	4.6%	85,472	3.8%	4.9%
LMI	1	5.3%	169	4.4%	454	5.3%	97,509	4.3%	5.9%
Middle	7	36.8%	1,554	40.7%	2,616	30.5%	588,633	25.9%	27.4%
Upper	11	57.9%	2,095	54.9%	5,498	64.2%	1,590,830	69.9%	66.7%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
<b>Total</b>	<b>19</b>		<b>3,818</b>		<b>8,568</b>		<b>2,276,972</b>		
<b>2010</b>									
<b>Geographic Income</b>	<b>Bank</b>				<b>Aggregate</b>				<b>OO Hus</b>
	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	0	0.0%	0	0.0%	60	0.8%	12,202	0.6%	1.0%
Moderate	0	0.0%	0	0.0%	308	4.2%	73,168	3.7%	4.9%
LMI	0	0.0%	0	0.0%	368	5.0%	85,370	4.3%	5.9%
Middle	1	9.1%	250	12.9%	2,121	28.6%	480,120	24.1%	27.4%
Upper	10	90.9%	1,688	87.1%	4,929	66.4%	1,423,610	71.6%	66.7%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
<b>Total</b>	<b>11</b>		<b>1,938</b>		<b>7,418</b>	<b>0.0%</b>	<b>1,989,100</b>		
<b>2011</b>									
<b>Geographic Income</b>	<b>Bank</b>				<b>Aggregate</b>				<b>OO Hus</b>
	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	0	0.0%	0	0.0%	58	0.9%	9,001	0.5%	1.0%
Moderate	0	0.0%	0	0.0%	257	3.9%	55,391	3.2%	4.9%
LMI	0	0.0%	0	0.0%	315	4.8%	64,392	3.7%	5.9%
Middle	2	18.2%	426	13.5%	1,862	28.1%	392,287	22.4%	27.4%
Upper	9	81.8%	2,734	86.5%	4,441	67.1%	1,297,194	74.0%	66.7%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
<b>Total</b>	<b>11</b>		<b>3,160</b>		<b>6,618</b>		<b>1,753,873</b>		

<b>Distribution of HMDA-Reportable Lending by Geographic Income of the Census Tract</b>									
<b>2012</b>									
<b>Geographic</b>	<b>Bank</b>				<b>Aggregate</b>				<b>OO Hus</b>
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	0	0.0%	0	0.0%	40	0.5%	6,631	0.3%	1.1%
Moderate	0	0.0%	0	0.0%	284	3.6%	56,265	2.6%	4.6%
LMI	0	0.0%	0	0.0%	324	4.2%	62,896	3.0%	5.7%
Middle	1	33.3%	1,340	67.2%	2,264	29.0%	513,061	24.2%	29.2%
Upper	2	66.7%	653	32.8%	5,219	66.9%	1,547,761	72.9%	65.1%
Unknown	0	0.0%	0	0.0%	0	0.0%	200	0.0%	
<b>Total</b>	<b>3</b>		<b>1,993</b>		<b>7,807</b>		<b>2,123,918</b>		
<b>2013</b>									
<b>Geographic</b>	<b>Bank</b>				<b>Aggregate</b>				<b>OO Hus</b>
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	0	0.0%	0	0.0%	65	0.8%	10,726	0.5%	1.1%
Moderate	1	11.1%	343	7.3%	356	4.6%	73,471	3.4%	4.6%
LMI	1	11.1%	343	7.3%	421	5.4%	84,197	3.9%	5.7%
Middle	4	44.4%	1,208	25.7%	2,215	28.3%	508,141	23.4%	29.2%
Upper	4	44.4%	3,143	67.0%	5,188	66.3%	1,580,956	72.7%	65.1%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
<b>Total</b>	<b>9</b>		<b>4,694</b>		<b>7,824</b>		<b>2,173,294</b>		
<b>GRAND TOTAL</b>									
<b>Geographic</b>	<b>Bank</b>				<b>Aggregate</b>				<b>OO Hus</b>
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	1	1.9%	169	1.1%	426	0.9%	77,618	0.6%	
Moderate	1	1.9%	343	2.2%	2,097	4.6%	454,959	3.7%	
LMI	2	3.8%	512	3.3%	2,523	5.5%	532,577	4.3%	
Middle	15	28.3%	4,778	30.6%	13,525	29.5%	3,044,304	24.7%	
Upper	36	67.9%	10,313	66.1%	29,848	65.0%	8,742,368	71.0%	
Unknown	0	0.0%	0	0.0%	1	0.0%	235	0.0%	
<b>Total</b>	<b>53</b>		<b>15,603</b>		<b>45,897</b>		<b>12,319,484</b>		

Small Business Loans:

The distribution of ESB's small business loans by the income level of the geography of the business demonstrated a reasonable rate of lending.

The following table provide a summary of ESB's small business lending distribution based on the income level of the geography.

<b>Distribution of Small Business Lending by Geographic Income of the Census Tract</b>									
<b>2008</b>									
<b>Geographic Income</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	0	0.0%	0	0.0%	316	1.6%	5,766	1.9%	2.8%
Moderate	4	7.3%	994	11.1%	916	4.6%	14,892	5.0%	7.6%
LMI	4	7.3%	994	11.1%	1,232	6.2%	20,658	6.9%	10.4%
Middle	15	27.3%	1,968	21.9%	5,552	28.0%	97,878	32.9%	33.1%
Upper	36	65.5%	6,030	67.1%	13,019	65.7%	179,047	60.1%	56.5%
Unknown	0	0.0%	0	0.0%	6	0.0%	88	0.0%	0.0%
<b>Total</b>	<b>55</b>		<b>8,992</b>		<b>19,809</b>		<b>297,671</b>		
<b>2009</b>									
<b>Geographic Income</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	2	4.8%	469	6.5%	99	1.2%	2,916	2.0%	2.7%
Moderate	2	4.8%	75	1.0%	368	4.5%	8,214	5.7%	7.4%
LMI	4	9.5%	544	7.5%	467	5.7%	11,130	7.8%	10.1%
Middle	16	38.1%	3,380	46.8%	2,251	27.4%	41,694	29.1%	33.1%
Upper	22	52.4%	3,296	45.7%	5,494	66.9%	90,512	63.1%	56.8%
Unknown	0	0.0%	0	0.0%	2	0.0%	7	0.0%	0.0%
<b>Total</b>	<b>42</b>		<b>7,220</b>		<b>8,214</b>		<b>143,343</b>		
<b>2010</b>									
<b>Geographic Income</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	0	0.0%	0	0.0%	87	1.2%	3,097	2.3%	2.6%
Moderate	4	8.7%	281	3.9%	342	4.5%	6,789	5.1%	7.3%
LMI	4	8.7%	281	3.9%	429	5.7%	9,886	7.4%	9.9%
Middle	16	34.8%	2,743	37.8%	2,092	27.8%	45,154	34.0%	32.8%
Upper	26	56.5%	4,231	58.3%	4,997	66.5%	77,781	58.6%	57.2%
Unknown	0	0.0%	0	0.0%	1	0.0%	4	0.0%	0.1%
<b>Total</b>	<b>46</b>		<b>7,255</b>		<b>7,519</b>		<b>132,825</b>		
<b>2011</b>									
<b>Geographic Income</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	0	0.0%	0	0.0%	98	1.1%	2,622	1.6%	2.4%
Moderate	3	8.8%	585	9.6%	437	4.9%	9,648	6.0%	7.1%
LMI	3	8.8%	585	9.6%	535	6.0%	12,270	7.7%	9.5%
Middle	4	11.8%	207	3.4%	2,398	27.0%	49,577	31.1%	31.8%
Upper	27	79.4%	5,274	86.9%	5,955	67.0%	97,663	61.2%	58.6%
Unknown	0	0.0%	0	0.0%	3	0.0%	24	0.0%	0.1%
<b>Total</b>	<b>34</b>		<b>6,066</b>		<b>8,891</b>		<b>159,534</b>		

**Action Taken in Response to Written Complaints with Respect to CRA: "Not Rated"**

As of the evaluation date, neither ESB nor DFS received any written complaints regarding ESB'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

An outside company conducted a CRA review for ESB as of December 2012. Their review which assigned a rating of “good” was discussed by the audit committee at its meeting in November 2013. ESB’s president participated in this meeting. In addition, the board minutes indicated that the president reviews the quarterly CRA reports submitted by the CRA officer.

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

DFS examiners did not find evidence of practices intended to discourage applications for the types of credit offered by ESB.

**Evidence of prohibited discriminatory or other illegal credit practices:**

DFS examiners did not find 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 %
Orange*				1		1	0%
Richmond					1	1	0%
Ulster*				1		1	0%
<b>Total</b>	-	-	-	<b>2</b>	<b>1</b>	<b>3</b>	<b>0%</b>

\*Partial County

**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:

ESB is a small bank and primarily relies on referral sources developed by its sales staff and word of mouth from satisfied customers.

- The extent of the banking institution’s marketing and special credit-related

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programs to make members of the community aware of the credit services offered by the banking institution:

ESB has a limited marketing budget. Its marketing included through Facebook, with flyers that are handed out, and through advertisements placed in community newspapers. ESB also distributes brochures at branch offices.

**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:**

ESB went beyond its small bank designation and extended several credit facilities to different nonprofit organizations for community development. Some loans are highlighted below.

A loan of \$25,000 was extended to a nonprofit corporation for commercial revitalization of the downtown business district and surroundings of St. George, Tompkinsville, Stapleton and Clifton on Staten Island.

A loan of \$350,000 was granted to a not-for-profit agency on Staten Island serving developmentally challenged children, their parents and families. This not-for-profit provided services, including comprehensive client evaluations, occupational therapy, physical therapy, speech therapy, and counseling.

Two \$100,000 loan facilities were extended to New York Business Development Corp. to assist in re-building the Hudson Valley region and New York City after Superstorm Sandy.

In addition, ESB makes financial and service contributions to community organizations serving ESB's assessment area. Employees and executives of ESB volunteer their expertise by serving in various capacities in local community development agencies.

## 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.

<b>Income level of individual or geography</b>	<b>% of the area median income</b>
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 of \$1 million or less.

## **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.