NEW YORK STATE BANKING DEPARTMENT

CONSUMER SERVICES DIVISION

One State Street
New York, NY 10004

PUBLIC SUMMARY

Off-site Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Date of Evaluation: December 31, 2001

Institution: State Bank of Long Island
Two Jericho Plaza
Jericho, NY 11753

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

GENERAL INFORMATION

This document is an off-site evaluation of the Community Reinvestment Act ("CRA") performance of State Bank of Long Island ("SBLI") 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, 2001.

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

Overall Rating

SBLI is rated "2", indicating a satisfactory record of helping to meet community credit needs. This rating is based on the following factors:

Lending Test – "High Satisfactory"

- For the evaluation period, the bank's lending activity demonstrated excellent responsiveness to the credit needs of its assessment area.
  - In 2000 and 2001, the bank originated a total of 1,338 small business loans and 45 HMDA-reportable loans within its assessment area.
  - According to the 2000 "Lender Market Share Report", the bank ranked 17th among 145 lenders, achieving a 1.01% market share in terms of the number of loans, and a 7.05% market share based on the corresponding dollar volume.
- The bank made a high percentage of small business and Home Mortgage Disclosure Act ("HMDA")-reportable loans in its assessment area. Overall, in 2000, the bank made 86.1% of its total number of loans and 81.0% of its total dollar volume in the assessment area. In 2001, the bank achieved similar percentages both in number and dollar volume.
- The bank's geographic distribution of loans is considered good, overall, reflecting excellent low- to moderate-income ("LMI") penetration for small business loans but poor LMI penetration for HMDA-reportable loans.
  - In 2000 the bank achieved a 14.4% LMI penetration rate for the number of small business loans, exceeding the aggregate's 10.1% rate. In 2001, however, the bank's LMI rate declined to 10.2%. The 2001 aggregate's rate was not available for purposes of this evaluation.
  - In 2000, the bank attained a 5.9% LMI penetration rate for the number of HMDA-reportable loans, significantly below the aggregate's 13.6% LMI rate. The bank's LMI rate for the corresponding dollar volume was 1.4%, way below the aggregate's 10.1% penetration. The bank did not make any HMDA loans in LMI areas during 2001.
- Overall, the bank's distribution of loans based on borrower characteristics reflects adequate penetration among individuals of different income levels and businesses of different sizes.
  - *With respect to loan size of small business loans*: in 2000, the bank made 46.2% of its total number of loans in amounts equal to or less than $100 thousand, significantly trailing the aggregate's rate of nearly 95%. In 2001, the bank's rate increased slightly

to 49.4%.

- o *With respect to small business loans to small businesses with gross annual revenues of $1 million or less:* in 2000, the bank extended 32.3% and 22.6%, respectively, of its loans to small businesses, trailing the aggregate's rates of 41.5% and 33.6%, respectively.

- o In 2000, the bank made no HMDA loans to LMI borrowers, while the aggregate achieved a 27.3% LMI penetration rate. The bank's lending penetration with LMI borrowers significantly improved in 2001 to 25%.

- For the evaluation period, the bank had an excellent level of community development loans, given its size and financial condition. On the evaluation date, community development loan commitments totaled $69.2 million, all of which were deemed "new money."

- The bank's use of flexible lending practices to serve the credit needs of its assessment area is highly satisfactory. Most of SBLI's special programs and products are used in the area of community development lending, particularly with loans to the New York State Office of Mental Retardation and Developmental Disabilities.

<u>Investment Test</u> – "Outstanding"

- For the evaluation period, the bank had an excellent overall level of qualified investments. Qualified investments totaled $4.5 million, of which $2.1 million, or 46.7%, were considered new money.

- While grants were minimal and investments were neither innovative nor complex, the bank's activities are considered responsive to the needs of its community.

<u>Services Test</u> – "High Satisfactory"

- The bank's delivery systems are considered accessible to all portions of its assessment area. On the evaluation date, the bank had 11 full service branches located in its assessment area, of which two, or about 18.0% were located either in or adjacent to LMI geographies.

- Between evaluations, the bank's opening and closing of branches improved the accessibility of its delivery systems, particularly to LMI geographies. The bank opened four full service branches, including two branches located in areas adjacent to LMI census tracts in Queens County. These two are not part of the current assessment area but will be part of the delineated area at the next CRA performance evaluation. The bank did not close any branches during the evaluation period.

- The bank's branch network offers business hours and services that do not vary in a way that inconveniences certain portions of the assessment area. Of the 11 branches in the assessment area, six, or 54.5%, offer Saturday lobby hours, and eight branches, or almost

73.0%, maintain drive-up windows.

- The bank provides a relatively high level of community development services. Bank management and other staff work actively with local not-for-profit organizations that provide community-based services, promote services for physically or developmentally disabled persons, or promote economic development opportunities for small businesses within the assessment area.

This *off-site 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's Profile:

SBLI, a New York State chartered commercial bank founded in 1966, is a wholly owned subsidiary of State Bancorp, Inc., a one-bank holding company, established in 1986. SBLI has five wholly owned subsidiaries: SB Portfolio Management Corp. ("SB Portfolio"), SB Financial Services Corp. ("SB Financial"), New Hyde Park Leasing Corporation, SB ORE Corp and Studebaker-Worthington Leasing Corporation (acquired between evaluations). SB Portfolio provides investment management services to the bank and the holding company, and SB Financial provides asset/liability and interest rate management services to the bank.

At December 31, 2001, the bank's assets totaled $985.6 million. Loans, totaling $542.4 million, represented approximately half of total assets, while securities of $273.2 million comprised almost 28%. The bank derived its funding primarily from deposits totaling $885.3 million, 43% of which were derived from states and political subdivisions.

According to the June 30, 2001 "Market Share Report" of deposits of all FDIC-insured institutions on Long Island, the bank ranked 14th among 34 banking institutions.

The following table illustrates a breakdown of the bank's loan portfolio at December 31, 2001 and December 31, 2000, according to the FDIC Call Reports data:

Loan Type	December 31, 2001		December 31, 2000	
	$'000	%	$'000	%
Real Estate Loans – Commercial	192,432	34.9	175,307	35.2
Real Estate Loans – Residential	60,536	11.0	58,282	11.7
Construction Loans	16,258	2.9	17,642	3.5
Commercial and Industrial Loans	246,245	44.6	227,634	45.8
Consumer Loans	7,514	1.4	5,730	1.2
Other Loans	28,695	5.2	12,810	2.6
Gross Loans	**551,680**	**100.0**	**497,405**	**100.0**

SBLI is primarily a small- and middle-market business lender. The bank offers a variety of credit and deposit products as well as other financial services. Available loan products include residential real estate mortgages, commercial real estate mortgages, commercial loans, revolving lines of credit and personal loans.

SBLI has one lending center in Nassau County and another that opened in Queens in June 2001. Additionally, at the evaluation date the bank had a network of 13 full-service branches, including four that opened during the assessment period. Supporting this network are ten Automated Teller Machines (ATMs) throughout Long Island and Queens County.
Subsequent to the evaluation date, the bank opened two new branches.

Management reports that the bank is located in a highly competitive market where competitors have substantially greater resources and wider branch office networks. According to management, investment opportunities in this assessment area are few.

The bank received a rating of "1" at its last Performance Evaluation by the New York State Banking Department on September 30, 1999, reflecting "Outstanding" performance in helping to meet the credit needs of its assessment area.

There were neither legal nor financial impediments noted that would adversely impact the bank's ability to meet the credit needs of its community.

Assessment Area:

The CRA assessment area, unchanged from the last evaluation, is comprised of Nassau County and the western portion of Suffolk County, up to and including the Town of Brookhaven. The assessment area has 554 census tracts, of which three (0.5%) are considered low-income, 64 (11.6%) moderate-income, and nine (1.6%) zero-income. Middle-income tracts totaled 373, or 67% of the total, comprising the majority of the census tracts. The remaining 105 tracts, or 19%, are upper-income geographies.

The following chart provides a census tract summary for each county (or partial county) in the assessment area:

Tract Characteristics in Assessment Area				
Geography Income Level	**Nassau County**	**Suffolk County (partial)**	**Total**	
Zero-	3	6	9	1.6%
Low-	1	2	3	0.5%
Moderate-	20	44	64	11.6%
Middle-	180	193	373	67.3%
Upper-	66	39	105	19.0%
Total	**270**	**284**	**554**	**100.0%**

The assessment area appears reasonable based upon the location of branches and the bank's lending pattern. There is no evidence that LMI areas are arbitrarily excluded.

Demographics

According to the 1990 U.S. Census data, the assessment area had a population of 2.5 million persons, and the median family income for MSA 5380 was $56.7 thousand, which according to the 2002 HUD-estimate increased to $83 thousand. There were approximately 851 thousand housing units, of which nearly 90% were 1-4 family structures, almost nine percent were multifamily, and less than one percent were mobile homes. Nearly 77% of the total housing units were owner-occupied, almost 19% were renter-occupied, and about four percent were vacant. The weighted-average median housing value was $207 thousand.

According to the 2000 business demographic data, there were 129,630 business firms, with about 66% of the firms employing four or fewer employees. In addition, approximately 85% of the firms reported revenues of $1 million or less and about 12% reported revenues of over $1million. The remainder of the firms did not report any revenues.

MSA 5380 (Nassau-Suffolk)

Nassau County is the smaller of the two counties within MSA 5380. According to the 1990 U.S. Census data, Nassau County had a population of almost 1.3 million. The median family income for the county was $60.6 thousand, and the 2000 updated MSA median family income estimated by HUD was $76.5 thousand. There were 270 census tracts, of which 21 (7.8%) were considered low- and moderate-income (LMI) tracts and three are zero-income tracts. There were 446,292 housing units, 88% of which were 1-4 family units, almost 11% multifamily units, and about 0.1% mobile homes. There were approximately 347 thousand owner-occupied units, of which five percent were located in moderate-income tracts, compared with about 84 thousand renter-occupied units, of which almost 23% were located in LMI geographies. The median housing value was $237,048, the second highest county in the State.

Suffolk County had a population of approximately 1.3 million according to the 1990 U.S. Census. The median family income for the county was about $53.2 thousand, and the 2000 updated MSA median family income estimated by HUD was $76.5 thousand. There were 312 census tracts in the county, of which 61 (19.6%) were considered LMI tracts, and seven were zero-income tracts. There were 481,317 housing units, of which 91% were 1-4 family units, almost 7% were multifamily units, and 1% were mobile-home units. There were approximately 340 thousand owner-occupied units, of which almost 19% were located in LMI census tracts, and about 84 thousand renter-occupied units, of which approximately 31% were located in LMI geographies. The median housing value was $178,364.

PERFORMANCE TESTS AND ASSESSMENT FACTORS

This performance evaluation was based on a review of SBLI's lending, investment, and service activities within its assessment area for calendar years 2000 and 2001.

Statistics utilized in this evaluation were derived from various sources. In addition to bank-specific loan information that was submitted by the bank, aggregate data for HMDA-reportable loans and small business loans were obtained from the Federal Financial Institutions Examination Council ("FFIEC") and PCI Services, Inc. CRA Wiz©, an external vendor. Demographic data are from the 1990 U.S. Census, supplemented by the 2000 HUD-estimated median family income.

I. Lending Test: "High Satisfactory"

The bank's lending performance is evaluated pursuant to the following criteria: (1) Lending Activity; (2) Geographic Distribution; (3) Borrower Characteristics; (4) Community Development Lending; and (5) Innovative or Flexible Lending Practices.

In the analysis of factors (1), (2), and (3) above, examiners focused primarily on the bank's small business lending, and to a lesser extent, its HMDA-reportable loans.

Overall, the bank's lending performance is deemed to be "Highly Satisfactory." This is a downgrade from the "Outstanding" rating awarded at the last evaluation.

Lending Activity: "Outstanding"

For the evaluation period, the bank's volume of small business loans indicated excellent responsiveness to the credit needs of its assessment area.

Small Business Lending:

In 2000, the bank originated 708 small business loans totaling \$148.9 million in its assessment area. In 2001, the number and the dollar volume of loans decreased to 630 small business loans totaling \$129.3 million.

Based on the 2000 "Lender Market Share Report" for its assessment area, SBLI ranked 17th among 145 lenders, obtaining a 1.01% market share based on the number of loans, and a 7.05% market share based on the dollar volume of loans. The average loan size was \$213 thousand.

HMDA-Reportable Lending:

In 2000, the bank originated 17 HMDA-reportable loans totaling approximately \$6.4 million in its assessment area. In 2001, the number of loans increased to 28, while the corresponding dollar volume significantly decreased to $4.3 million, or nearly 33%. The 2001 figures reflect a large increase in refinances. Refer to the chart below for an illustration of the bank's origination activity.

HMDA-REPORTABLE LOANS SUMMARY								
Loan Type	**12/31/2000**				**12/31/2001**			
	APPLICATIONS		**ORIGINATIONS**		**APPLICATIONS**		**ORIGINATIONS**	
	#	**$000's**	**#**	**$000's**	**#**	**$000's**	**#**	**$000's**
Home Purchase	15	4,925	12	4,325	15	2,704	11	1,559
Refinance	6	2,314	5	2,114	23	4,707	17	2,734
Total	**21**	**7,239**	**17**	**6,439**	**38**	**7,411**	**28**	**4,293**

Assessment Area Lending: "High Satisfactory"

The bank made a high percentage of its small business and HMDA-reportable loans in its assessment area. As indicated in Table 1, SBLI's loans within the assessment area for the two-year period averaged 86% in number and 82% in dollar amount. Assessment area percentages for each of the two years and for both products were comparable.

Table 1

Assessment Area (A/A) Distribution of HMDA and Small Business Loans - 2000						
Geography	Home Mortgage		Small Business		Total	
	#	$000's	#	$000's	#	$000's
Assessment Area	17	6,439	708	148,915	725	155,354
All Areas of NY	18	6,564	824	185,301	842	191,865
% in A/A	**94.4%**	**98.1%**	**85.9%**	**80.4%**	**86.1%**	**81.0%**
Assessment Area Distribution of HMDA and Small Business Loans – 2001						
Assessment Area	28	4,293	630	129,279	658	133,572
All Areas of NY	33	5,897	729	154,704	762	160,601
% in A/A	**84.9%**	**72.8%**	**86.4%**	**83.6%**	**86.4%**	**83.2%**

Geographic Distribution: "High Satisfactory"

Overall, the bank's geographic distribution of loans reflects good dispersion throughout the assessment area. The overall rating reflects excellent LMI penetration for small business loans, both in number and dollar volume, but poor LMI penetration for HMDA-reportable loans. This analysis is based on comparisons to the aggregate's performance and the demographic profile of the bank's assessment area.

<u>Small Business Lending</u>:

In 2000, the bank's LMI penetration rate based on the number of small business loans was 14.4%, a rate proportionally 43% above the aggregate's 10.1% rate. In 2001, the bank's LMI penetration rate decreased to 10.2%. The bank's LMI penetration rates for dollar amount were comparable for both years. The 2001 aggregate were not available for purposes of this evaluation. Refer below to Table 2 and Table 3 for details.

Table 2

Geographic Distribution of Small Business Loans by Number for 2000 and 2001					
Geo Income Level	2000			2001	
	Bank		Aggregate	Bank	
	#	%	%	#	%
Low	1	0.14	0.08	2	0.32
Moderate	101	14.27	10.01	62	9.84
Middle	476	67.23	66.31	421	66.82
Upper	130	18.36	23.60	145	23.02
Total	708	100.00	100.00	630	100.00

Table 3

Geographic Distribution of Small Business Loans by Dollar Volume (in thousands)					
Geo Income Level	2000			2001	
	Bank		Aggregate	Bank	
	$	%	%	$	%
Low	140	0.09	0.09	941	0.73
Moderate	22,604	15.18	11.22	12,792	9.89
Middle	100,544	67.52	64.04	83,504	64.59
Upper	25,627	17.21	24.65	32,042	24.79
Total	148,915	100.00	100.00	129,279	100.00

<u>HMDA Lending</u>:

Based on both the number of loans and the corresponding dollar volume, the bank's LMI penetration rates were significantly below that of the aggregate.

In 2000, the bank's LMI penetration rate of 5.9%, based on the number of loans, was significantly below the aggregate's 13.6% rate. For corresponding dollar volume, the bank's 1.4% LMI penetration rate was way below the aggregate's 10.1% rate. The bank provided no HMDA-reportable loans in LMI geographies in 2001. The 2001 aggregate were not available for this evaluation. Refer to the exhibits on pages 5-1 and 5-2.

Borrower Characteristics: "Low Satisfactory"

The bank's overall distribution of loans (small business and HMDA) based on borrower characteristics reflects adequate penetration among individuals of different income levels and businesses of different sizes.

<u>Small Business Lending</u>:

For purposes of evaluating loan size, the LS1 category is defined as loans in amounts equal to or less than $100 thousand, LS2 is defined as loans in amounts of more than $100 thousand but less than or equal to $250 thousand and LS3 is defined as loans in amounts of more than $250 thousand.

In 2000, the bank made 46.19% of the total number of small business loans in the LS1 category, significantly trailing the aggregate's 94.86%. As a result, the bank's proportions of lending in the LS2 and LS3 categories were way above those of the aggregate.

Table 4

Borrower Distribution of Small Business Loans by Loan Size					
Loan Size ($ in thousands)	2000			2001	
	Bank		Aggregate	Bank	
	#	%	%	#	%
LS1: ≤ $100	327	46.19	94.86	311	49.37
LS2: > $100 ≤ $250	209	29.52	2.75	150	23.80
LS3: > $250	172	24.29	2.39	169	26.83
Total	708	100.00	100.00	630	100.00

Measured by small business loans to small businesses with gross annual revenues of $1 million or less, the bank trailed the aggregate both in the number of loans and the corresponding dollar volume. In 2000, the bank achieved a rate of 32.3% by number and 22.6% by dollar volume, significantly below the aggregate's 41.5% by number and 33.6% by dollar volume. While the corresponding aggregate was not available, it is noted that the bank's rate based on number of loans declined slightly in 2001 to 30.0%, while its rate based on the corresponding dollar volume slightly increased to 22.9%.

Table 5

Borrower Distribution of Small Business Loans by Business Size (Revenues)					
Business Size ($ in thousands)	2000			2001	
	Bank		Aggregate	Bank	
	#*	%	%	#	%
Revenues ≤ $1,000	229	32.34	41.46	189	30.00
Revenues > $1,000	418	59.04	NA	348	55.24
Revenue Unknown	61	8.62	NA	93	14.76
Total	708	100.00	100.00	630	100.00
Borrower Distribution of Small Business Loans by Business Size (Revenues)					
	$**	%	%	$	%
Revenues ≤ $1,000	33,644	22.59	33.56	29,621	22.91
Revenues > $1,000	109,664	73.64	NA	89,559	69.28
Revenue Unknown	5,607	3.77	NA	10,099	7.81
Total	148,915	100.00	100.00	129,279	100.00

*** Number of Loans; ** Corresponding dollar volume**

<u>HMDA Lending</u>:

The bank's distribution of HMDA-reportable loans among borrowers of different income levels is considered adequate. In 2000, the bank made no HMDA-reportable loans to LMI borrowers, while the aggregate achieved a 27.3% LMI penetration rate. In 2001, however, the bank's performance significantly improved, resulting in a 25% LMI penetration rate by number of loans. The 2001 aggregate were not available for this evaluation. Refer to exhibits on pages 5-1 and 5-2.

Community Development Lending: "Outstanding"

For the evaluation period, the bank had an excellent level of community development loans, given its size and financial condition. Community development loan commitments totaled $69.2 million, all of which was deemed new money.

The following chart summarizes the bank's community development lending activity according to county and community development categories:

Community Development Lending Summary ($ in thousands)						
County	Affordable Housing	Community Services	Economic Development	Total Commitment	Funded Amount	New Money
Multi-county			6,568	6,568	2,274	6,568
Suffolk	5,375	11,620		16,995	16,495	16,995
Nassau		22,988		22,988	15,687	22,988
Queens			1,500	1,500	1,500	1,500
Kings	2,240	18,900		21,140	18,227	21,140
Total	**7,615**	**53,508**	**8,068**	**69,191**	**54,183**	**69,191**

The following are brief descriptions of major community development financing provided by the bank:

- The bank provided two lines of credit for $3.1 million, annually renewed, to the New York Business Development Corporation (NYBDC), a privately owned and managed corporation created by New York State statute. This entity is funded by 156 commercial and savings banks that provide lines of credit utilized to provide a broad range of financing to small- and mid-sized businesses located in New York State. This corporation works in conjunction with other state agencies such as the Urban Development Corporation, Job Development Authority, and the Department of Economic Development. Proceeds go to support multi-county economic development.

- Bridge loans – For this evaluation, the bank provided $6.7 million in bridge loans to six nonprofit entities within the assessment area. The proceeds are used to purchase group homes, and the loans require monthly payments of interest-only. The principal is repaid from long-term financing or proceeds of Industrial Development Authority (IDA) bonds.

- Working capital lines – a program designed to meet the credit needs of non-profit organizations that are funded by the Office of Mental Retardation and Developmental

Disabilities (OMRDD) during budget negotiations. The nonprofit organizations can apply for working capital lines secured by receivables from New York State. These entities provide a variety of programs with a primary mission of providing community services.

- The bank provided a $1.9 million construction loan to build a 22,000 square foot education facility in Suffolk County, which will provide services to the mentally retarded and those with other developmental disabilities.

- The bank refinanced a $3.5 million commercial mortgage loan to a nonprofit organization, which provides mental health and chemical dependency services to adults and children on an outpatient basis and in residential treatment programs. In addition, the bank provided a $4.9 million, 10-year mortgage to a limited partnership for a 130-unit apartment building located in a low- to moderate-income area for low- and moderate-income persons.

- The bank participated with $1.5 million of a $4.5 million, five-year, standby letter of credit to provide credit enhancement for a $4.5 million variable rate bond issued by the New York City Industrial Development Authority. The Bond proceeds will be used to purchase and improve two parking lots and a parking garage in downtown Jamaica.

Innovative or Flexible Lending Practices: "High Satisfactory"

The bank makes good use of flexible lending practices to serve the credit needs of its assessment area. With varying credit and underwriting terms and conditions, these initiatives are intended to benefit low- and moderate-income individuals, as well as the credit needs of small businesses. Most of the bank's special programs and products are found in the area of community development lending. The working capital program with OMRDD (described above) is one such example.

The bank participates in the following government insured, guaranteed or subsidized loan programs for small businesses:

- *New York State Linked Deposit Program* (in 2001, the bank made one loan for $500 thousand);
- *New York Business Development Center* (during the evaluation period, the bank made two loans totaling about $1.0 million);
- *SBA – 7(a) Loan Guaranty Program and 504 Loan Program* (during the evaluation period, the bank made three loans totaling about $1.1 million).

The bank also offers the *Community Home Ownership Program* for first-time homebuyers, which includes expanded debt-to-income ratios (up to 33% for total housing expenses-to-income ratio and 44% for total debt-to-income ratio), reduced down payments (as low as 3%) and personal one-on-one service to assist in completing the application. During the evaluation period, the bank made ten of these loans totaling about $1.6 million.

II. **Investment Test**: "Outstanding"

The Investment Test evaluates the bank's record of helping to meet the needs of its assessment area through qualified investments. *Qualified investments are evaluated based on their dollar volume, their innovation or complexity, their responsiveness to community development needs, and the degree to which the investments are not routinely provided by private investors.*

For the evaluation period, the bank had an excellent level of qualified investments. Qualified investments, including grants, totaled $4.5 million, of which $2.1 million, or 46.7%, was considered "new money." Grants represent only a nominal amount (3.9%) of the bank's total qualified investments. The following is a brief description of the new qualified investments for the evaluation period:

- *Mortgage-Backed Security (MBS)* – In 2001, the bank invested about $1.9 million in a Federal National Mortgage Association (Fannie Mae) mortgage-backed security supported by 12 residential units that house low- or moderate-income individuals.

- *Grants* – For the evaluation period, the bank provided qualified grants/donations totaling $179 thousand to a variety of organizations involved in developing affordable housing, enhancing economic development, and delivering community development services. Total grants include $54 thousand representing the bank's own "World Trade Center Victims Fund" designed to help those in need as a result of the September 11, 2001 terrorist attacks.

- *Federal Home Loan Bank of New York (FHLBNY)* - The grant total also includes the bank's $84 thousand contribution toward the FHLBNY's Affordable Housing Program (AHP). This amount reflects a pro-rata share (based on the SBLI's percentage of ownership of the FHLBNY) of the FHLBNY's annual net income that is set aside (10%) to fund its AHP. The bank's contribution was about $24 thousand in 1999, $36 thousand in 2000, and $24 thousand in 2001.

The following chart summarizes the types and amounts of qualified investment activity:

Summary of Qualified Investments ($ in thousands)		
Type	**Amount**	**New Money**
Mortgage-Backed Securities	3,964	1,947
Equity Investment	400	0
Qualified Grants/Donations	179	179
Total Qualified Investments	**4,543**	**2,126**

While grants were minimal and the investments were neither innovative nor complex, SBLI's activities are considered responsive to the needs of its community.

III. <u>Service Test</u>: "High Satisfactory"

The Service Test evaluates a banking institution's record of helping to meet the credit needs of its assessment area *by analyzing both the availability and effectiveness of a banking institution's systems for delivering retail banking services and the extent and innovativeness of its community development services.*

Overall, the bank's record of providing services to its assessment area is deemed "Highly Satisfactory." This is a downgrade from the "Outstanding" rating awarded at the last evaluation.

Retail Banking Services: "High Satisfactory"

Accessibility of Delivery Systems – The bank's delivery systems are considered accessible to all portions of its assessment area. On the evaluation date, the bank had a total of 13 full service branches, with 11 branches located in its assessment area and two others outside its assessment area (Queens County). The Queens County branches are new branches and will be incorporated into the assessment area for the next evaluation.

Of the total number of branches in the assessment area, two branches, or about 18.0%, are located either in or adjacent to LMI geographies. Supplementing these branches are the nine on-site ATMs, of which one, or about 11.0%, are adjacent to LMI areas.

Changes in Branch Locations - Between evaluation dates, the bank opened four full service branches, improving the accessibility of its delivery systems, particularly to LMI areas. One branch was opened in an upper-income tract in Mineola, Nassau County, another in an upper-income tract in East Setauket, Suffolk County and two branches in census tracts adjacent to LMI tracts in Jackson Heights and Maspeth, Queens County. SBLI did not close any branches during the evaluation period.

Reasonableness of Business Hours and Services in Meeting Assessment Area's Needs - The bank's branch network offers business hours and services that do not vary in a way that inconveniences certain portions of its assessment area. Of the 11 branches in the assessment area, six, or about 55%, offer Saturday lobby hours, and eight branches, or almost 73%, maintain drive-up windows. The bank's delivery of retail services is enhanced by the "Touch 24," a 24-hour telephone service that allows the customer to access the latest interest rate information, account balances, and execute transfers.

Community Development Services: "High Satisfactory"

The bank provides a relatively high level of community development services. Bank management and other staff work with local not-for-profit organizations that provide community-based services, promote residential housing for physically or developmentally disabled persons, or promote economic development opportunities for small businesses within the assessment area. These efforts are summarized below:

- Senior managers and officers of the bank were involved as board members and in various other capacities with about 40 entities. These individuals provided technical assistance or financial advice to numerous organizations with community development missions, including: Children's Hope Inc., Community Development Corporation of Long Island, Developmental Disabilities Institute, local Rotary Clubs, Gateway Youth Outreach Inc., Hispanic Counseling Center Inc., Independent Group Home Living Program, Inc., St. Mary's Children & Family Services and local Chamber of Commerce.

- In addition, the bank began an "Adopt-a-Center" partnership with *Harbor Day Care Center, Inc.* in order to support its operation. The bank's staff has been involved in raising funds and in reviewing various financial proposals to fund this entity's new child care center. Four bank staff and a member of the Board of Directors have researched potential new sites for the new childcare center. They have also introduced this entity's management to the complexity and advantages of tax-exempt financing for their new center.

  This entity has four locations, including one in Hemsptead, Nassau County, where in addition to child-care services, it offers parent education classes such as financial management and "job coaching" preparation for single mothers. Reportedly, over half of the children come from low social-economic backgrounds.

IV. Discrimination or Other Illegal Practices

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

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

Evidence of prohibited discriminatory or other illegal credit practices.

The most recent regulatory compliance report concurrent with this assessment indicates a satisfactory performance in terms of adherence to anti-discrimination or other applicable laws and regulations. No evidence of prohibited discrimination or other illegal credit practices was noted.

V. 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.

The bank ascertains the credit needs of its community through involvement of its directors, officers and employees in community organizations such as chambers of commerce, community boards, merchant's associations, affordable housing organizations, and business development organizations.

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.

The bank's marketing involves placing advertisements with local TV/radio, newspapers and sponsorships of community events. The advertisements are general in nature and do not specify particular loan or deposit products. Specific advertisements are used only to introduce a new branch opening or new products, such as home equity lines and small business lines of credit. The bank has also developed a website, which includes descriptions of all types of consumer loans and mortgages.

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

A management level CRA/compliance management committee, composed of the CRA officer, compliance manager, auditor, and business head from each department, meets on a quarterly basis. The committee is responsible for monitoring, updating, and communicating all CRA-related and compliance issues to bank personnel.

Members of the above management level committee, such as the CRA officer and the auditor, together with the chief financial officer, report to the director level CRA/compliance committee. This subcommittee, composed of board members, is responsible for advising the full board on all CRA and compliance matters. The committee also meets quarterly.

VI. <u>Other Factors</u>

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.

None noted.

CHARTS FOR REPORTING OF HMDA STATISTICS

Residential Real Estate Loans - Year 2000 - by Borrower Income Level*										
Borrower	**Total Lending**				**Assessment Area Lending**				**Aggregate****	
Income	**Applics.**		**Originations**		**Applics.**		**Originations**		**Originations**	
Level	#	%	#	%	#	%	#	%	#	%
Low	-	0.0	-	0.0	-	0.0	-	0.0	3,803	6.0
Moderate	-	0.0	-	0.0	-	0.0	-	0.0	13,431	21.3
Middle	6	26.1	4	22.2	5	23.8	4	23.5	18,972	30.1
Upper	17	73.9	14	77.8	16	76.2	13	76.5	20,959	33.3
N/A	-	0.0	-	0.0	-	0.0	-	0.0	5,842	9.3
Total	**23**	**100.0**	**18**	**100.0**	**21**	**100.0**	**17**	**100.0**	**63,007**	**100.0**

* Borrower income level is based upon the Department of Housing and Urban Development's annual estimate of median family income figure for the MSA of the mortgaged property. Low income is defined as <50% of the MSA median, moderate income is 50% to <80%, middle income is 80% to <120%, and upper income is at least 120%.

** The term "Aggregate" refers to loans originated in the bank's assessment area by all HMDA reporting lenders.

Residential Real Estate Loans - Year 2000 - by Geography Income Level*										
Geo	**Total Lending**				**Assessment Area Lending**				**Aggregate**	
Income	**Applics.**		**Originations**		**Applics.**		**Originations**		**Originations**	
Level	#	%	#	%	#	%	#	%	#	%
Low	-	0.0	-	0.0	-	0.0	-	0.0	55	0.1
Moderate	1	4.3	1	5.6	1	4.8	1	5.9	8,495	13.5
Middle	11	47.8	8	44.4	10	47.6	8	47.1	43,576	69.2
Upper	11	47.8	9	50.0	10	47.6	8	47.1	10,843	17.2
N/A	-	0.0	-	0.0	-	0.0	-	0.0	38	0.1
Total	**23**	**100.0**	**18**	**100.0**	**21**	**100.0**	**17**	**100.0**	**63,007**	**100.0**

* Geography income level is based upon 1990 Census data on median family income figure for the MSA of the mortgaged property. Low income is defined as <50% of the MSA median, moderate income is 50% to <80%, middle income is 80% to <120%, and upper income is at least 120%.

Residential Real Estate Loans - Year 2001 - by Borrower Income Level*								
Borrower	Total Lending				Assessment Area Lending			
Income	Applics.		Originations		Applics.		Originations	
Level	#	%	#	%	#	%	#	%
Low	2	4.4	1	3.0	2	5.3	1	3.6
Moderate	7	15.6	7	21.2	6	15.8	6	21.4
Middle	13	28.9	12	36.4	12	31.6	11	39.3
Upper	23	51.1	13	39.4	18	47.4	10	35.7
N/A	-	0.0	-	0.0	-	0.0	-	0.0
Total	**45**	**100.0**	**33**	**100.0**	**38**	**100.0**	**28**	**100.0**

* Borrower income level is based upon the Department of Housing and Urban Development's annual estimate of median family income figure for the MSA of the mortgaged property. Low income is defined as <50% of the MSA median, moderate income is 50% to <80%, middle income is 80% to <120%, and upper income is at least 120%.

Residential Real Estate Loans - Year 2001 - by Geography Income Level*								
Geo	Total Lending				Assessment Area Lending			
Income	Applics.		Originations		Applics.		Originations	
Level	#	%	#	%	#	%	#	%
Low	-	0.0	-	0.0	-	0.0	-	0.0
Moderate	2	4.4	2	6.1	-	0.0	-	0.0
Middle	31	68.9	25	75.8	28	73.7	23	82.1
Upper	12	26.7	6	18.2	10	26.3	5	17.9
N/A	-	0.0	-	0.0	-	0.0	-	0.0
Total	**45**	**100.0**	**33**	**100.0**	**38**	**100.0**	**28**	**100.0**

* Geography income level is based upon 1990 Census data on median family income figure for the MSA of the mortgaged property. Low income is defined as <50% of the MSA median, moderate income is 50% to <80%, middle income is 80% to <120%, and upper income is at least 120%.

GLOSSARY

Aggregate

The cumulative lending by all HMDA-reporting lenders in the same geographic area under evaluation.

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.

Demand-Adjusted Penetration Rate

The number of owner-occupied loans made by the institution (or aggregate as appropriate) in a geographic area per thousand owner-occupied housing units in that area. Mathematically, it is arrived at by dividing the number of owner-occupied housing units into the number of loans made and then multiplying by 1,000.

Demand-Adjusted Penetration Ratio

A ratio that depicts geographic penetration of loans by comparing demand-adjusted lending in LMI areas with non-LMI areas. Mathematically, it is arrived at by dividing the demand-adjusted penetration rate in non-LMI areas into the demand-adjusted penetration rate in LMI areas and then expressed as a percentage.

A ratio of 100% means that the institution (or aggregate as appropriate) made an equal number of loans proportionally in LMI and non-LMI areas. Less than 100 percent would indicate less lending in LMI areas on the same basis compared to non-LMI areas, whereas over 100 percent would indicate a greater level of lending in LMI areas versus non-LMI areas.

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.

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 ("BNAs"), where according to the 1990 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 nonmetropolitan 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 nonmetropolitan 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

Those individuals, 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 nonmetropolitan median family income. In all instances, the area median family incomes used to measure individual income levels are updated annually by HUD.

Small Business Loans

Loans to businesses with original amounts of $1 million or less.