



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, 2002

Institution: Hudson Valley Bank
21 Scarsdale Road
Yonkers, NY 10707

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.

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GENERAL INFORMATION

This document is an “off-site” evaluation of the Community Reinvestment Act (“CRA”) performance of Hudson Valley Bank (“HVB”) 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, 2002.

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

HVB is rated "2," indicating a satisfactory record of helping to meet community credit needs.

Lending Test - "High Satisfactory"

- HVB's lending activity, based on the number and dollar volume of its small business and HMDA-reportable loans, reflects good responsiveness to the credit needs of the assessment area.
- During the evaluation period, the bank originated a substantial majority of its small business and HMDA-reportable loans within the assessment area.
- The geographic distribution of HVB's small business and HMDA-reportable loans is adequate. This is a downgrade compared to the prior evaluation's assessment.
- The distribution of lending based on borrowers' characteristics reflects good penetration among businesses of different sizes and adequate penetration among retail customers of different income levels.
- The bank made an excellent level of community development loans. HVB had \$9.4 million in community development lending commitments, which represents an increase of 34.3% (\$2.4 million) since the prior evaluation. New commitments represent 71.3%, or \$6.7 million, of total commitments.
- HVB makes limited use of innovative or flexible loan products in serving assessment area credit needs.

Investment Test - "High Satisfactory"

- HVB made a significant level of qualified community development investments. The bank invested \$3.4 million during the evaluation period, all of which is new money.

Service Test - "High Satisfactory"

- Delivery systems are accessible to essentially all portions of the bank's assessment area. Thirteen of HVB's branches and the business center are located in Westchester County; two branches are located in Bronx County and one branch is located New York County. Eight of the branches are located in or adjacent to LMI areas. Additionally, the bank operates ATMs at eight locations of which five are full service and three are cash dispensing only.

- HVB offers telephone banking and Internet banking services.
- The bank's record of opening and closing of branches has improved the accessibility of its delivery systems, particularly to LMI geographies.
- The bank has extended hour service at least one day per week at all of its branches and Saturday hours are available at five branches, including four that are in or adjacent to LMI areas. HVB offers drive-through window service at 10 of its branch locations. Additionally, banking by appointment is available at four branch locations.
- HVB provides an adequate level of community development services.

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:

HVB is an FDIC insured commercial bank founded in 1972 under a national charter, which converted to a New York State charter in 1994. The bank is the largest independent bank headquartered in Westchester County, and a wholly owned subsidiary of Hudson Valley Holding Corp., a one-bank holding company. HVB's primary focus is serving the needs of small- to moderate size businesses and professionals within its assessment area. Hudson Valley National Foundation, Inc., HVB's only affiliate, assists the bank in achieving its CRA objective through the provision of qualified grants.

HVB's branch network includes 16 full-service branch offices and one full-service business center. The main office and the business center are located in Westchester County.

The bank obtains the majority of its deposits in Westchester County where HVB has its largest deposit market share. According to the latest available comparative deposit data as of June 30, 2002, HVB had a 4.10% market share (\$910 million) in Westchester County, ranking it 7th among 34 deposit-taking institutions. In Bronx County, HVB ranked 18th with deposits of \$41.8 million and a market share of 0.46% among 22 deposit-taking financial institutions. In New York County, the bank ranked 85th with deposits of \$12.2 million and a negligible market share among 95 institutions.

Based on its December 31, 2002 Consolidated Report of Condition and Income ("Call Report") the bank reported total assets of \$1.5 billion comprised primarily of \$742.9 million (49.5%) in investments and \$653.9 million (43.5%) in net loans and leases. Total deposits were approximately \$1 billion, resulting in a loan-to-deposit ratio of 65.3%. Total equity capital was \$136.2 million and net income for the period totaled \$21.7 million.

HVB's gross loans increased 7.3% or \$44.6 million between calendar years 2001 and 2002. As of December 31, 2002, commercial mortgage loans and commercial and industrial loans, combined, comprised 71.4% of the loan portfolio. One-to-four family residential and multifamily mortgages accounted for 15.6% and 9.5% of the loan portfolio.

The following table illustrates the composition of the bank's loan portfolio based on Schedule RC-C of the bank's December 31, 2001 and 2002 Call Reports:

Total Gross Loans Outstanding				
Loan Type	12/31/2001		12/31/2002	
	\$ (000's)	%	\$ (000's)	%
1-4 Family Residential Mortgage Loans	115,407	18.9	102,218	15.6
Commercial Mortgage Loans	263,336	43.1	288,102	44.0
Multifamily Mortgages	60,402	9.9	62,069	9.5
Consumer Loans	7,789	1.3	11,442	1.7
Commercial & Industrial Loans	140,581	23.0	179,288	27.4
Other Loans	23,318	3.8	12,292	1.9
Total Gross Loans	610,833	100.0	655,411	100.0

The bank offers a wide variety of loan products including:

- 1-4 family residential mortgages
- Reverse mortgages
- Home improvement loans
- Home equity loans
- Automobile loans
- Consumer loans
- Multifamily mortgage loans
- Letters of credit
- Commercial mortgages
- Business loans (secured and unsecured)
- Small Business Administration (“SBA”) guaranteed loans

There were no financial or legal impediments noted that would adversely impact the bank’s ability to meet the credit needs of its community.

Assessment Area:

The bank’s assessment area includes Westchester, New York and Bronx counties in their entirety. These counties are part of Metropolitan Statistical Area (“MSA”) 5600.

There are 873 census tracts within the assessment area including 220 in Westchester County, 298 in New York County and 355 in Bronx County. The number of census tracts classified as LMI totals 339 and accounts for 38.8% of the census tracts within the assessment area. The majority of the LMI census tracts (191) are located in Bronx County, and these represent 53.8% of the census tracts in that county. LMI census tracts account for 43% and 9.1% of the census tracts in New York and Westchester counties, respectively.

According to the 1990 U.S. census, the population of the assessment area totaled 3.6 million. The 1990 median family income for Westchester County was \$64,133, significantly higher than the \$48,582 reported for New York County, and more than twice the \$27,178 shown for Bronx County. The U.S. Department of Housing and Urban Development’s (“HUD”) estimate of the median family income for MSA 5600 was \$62,800 for 2002.

Details of the Assessment Area

Bronx County had a population of 1.2 million in 1990. Persons over the age of 65 represented 12% of the county’s population and people less than 16 years of age represented 25%.

There were 292 thousand families residing in this county. Low-income families comprised 38.8% and moderate-income families comprised 17.9% of all families living in the county.

Approximately one-fourth of the 423.2 thousand households in the county lived below the poverty level. The average unemployment rate in Bronx County was 9.2% in 2002.¹

Of the 441 thousand housing units in the county, 75.8 thousand were owner-occupied, 348.3 thousand were rental units and 16.8 thousand were vacant or boarded up. Multifamily units comprised 74.7% and 1-4 family units comprised 23.4% of all housing units in the county. Of all housing units in the county, 58% were located in LMI areas. The median housing value was \$130.8 thousand and the median age of housing was 38 years.

Westchester County had a population of 874.9 thousand in 1990. Persons over the age of 65 represented 14% of the county's population and people less than 16 years of age represented 19%.

There were 229.5 thousand families residing in this county. Low-income families comprised 10.7% and moderate-income families comprised 9.7% of all families living in the county. Of the 319.7 thousand households in the county, 6% were living below the poverty level. The average unemployment rate in Westchester County was 4.2% in 2002.

Of the 336.7 thousand housing units in the county, 191 thousand were owner-occupied, 129.1 thousand were rental units and 16.7 thousand were vacant or boarded up. Multifamily units comprised 32.9% and 1-4 family units comprised 65.5% of all housing units in the county. Of all housing units in the county, 8.7% were located in LMI areas. The median housing value was \$264.2 thousand and the median age of housing was 39 years.

New York County had a population of approximately 1.5 million. Persons over the age of 65 represented 13% of the county's population and people less than 16 years of age represented 14.9%.

There were 305.4 thousand families residing in this county. Low-income families comprised 28.8% and moderate-income families comprised 13.8% of all families living in the county. Of the 716.8 thousand households in the county, 16% were living below the poverty level. The average unemployment rate in New York County was 8.3% in 2002.

Of the 785.1 thousand housing units in the county, 127.9 thousand were owner-occupied, 588.4 thousand were rental units and 68.7 thousand were vacant or boarded up. Multifamily units comprised 95.7% and 1-4 family units comprised 2.9% of all housing units in the county. Of all housing units in the county, 33.7% were located in LMI areas. The median housing value was \$212.4 thousand and the median age of housing was 48 years.

¹ Unemployment data was obtained from the U.S. Department of Labor, Bureau of Labor Statistics.

PERFORMANCE TESTS AND ASSESSMENT FACTORS

The bank’s CRA performance is assessed by evaluating its lending, investment and service activities within its assessment area, and applies the lending, investment and service tests as provided for in Parts 76.8, 76.9 and 76.10 of the General Regulations of the Banking Board.

This performance evaluation covers calendar years 2001 and 2002. Statistics utilized in this evaluation were derived from various sources. HMDA-reportable and small business loan information was submitted by the bank. Aggregate data for HMDA-reportable and small business loans was obtained from the Federal Financial Institutions Examination Council (“FFIEC”) and PCI Services, Inc.’s CRA Wiz©, an external vendor. The U.S. Department of Housing and Urban Development’s (“HUD”) estimates of 2001 and 2002 median family incomes were utilized in the analysis of borrowers’ characteristics.

I. Lending Test: “High Satisfactory”

The bank’s lending performance is evaluated pursuant to the following criteria: (1) Lending Activity, (2) Assessment Area Lending, (3) Geographic Distribution of Loans, (4) Borrower Characteristics, (5) Community Development Lending and (6) Innovative or Flexible Lending Practices.

Lending Activity: “High Satisfactory”

HVB’s lending activity reflects good responsiveness to the credit needs of the assessment area.

Small Business Loans

In 2001, the bank originated 429 small business loans totaling \$102.4 million within the assessment area, representing an increase of 41.1% in loan volume and 72.4% in dollar volume over the levels for the year 2000 seen at the prior evaluation. In 2002, HVB originated 313 small business loans totaling \$64.6 million within the assessment area, representing declines of 27% in loan volume and 36.9% in dollar volume compared to 2001. Despite the declines in volume in 2002, HVB’s level of small business loan activity exceeded the volumes shown in either year of the prior evaluation.

The following table illustrates HVB’s small business loan activity by county:

Distribution of Small Business Loans by County								
County	2001				2002			
	#	%	\$(000’s)	%	#	%	\$(000’s)	%
Westchester County	373	86.9	84,916	82.9	264	84.4	48,812	75.6
Bronx County	35	8.2	11,674	11.4	33	10.5	12,433	19.2
New York County	21	4.9	5,822	5.7	16	5.1	3,370	5.2
Total	429	100.0	102,412	100.0	313	100.0	64,615	100.0

In 2001, HVB ranked 21st among 230 lenders with a 0.41% market share based on number of loans, and 9th with a 2.9% market share based on dollar volume. In 2002, HVB's ranking among 246 lenders was 19th, an improvement over 2001, despite decreased loan volume and a decline in market share to 0.27%. The bank's ranking and market share based on dollar volume declined to 13th and 1.81%, respectively.

HMDA-Reportable Loans

In 2001, HVB originated 49 HMDA-reportable loans totaling \$13 million within its assessment area. This is about the same level of lending as in 2000. In 2002, the bank originated 16 HMDA-reportable loans totaling \$4.5 million. Compared with 2001, this represents a decline of approximately two-thirds in such lending activity based on either the number of loans or dollar volume.

The following table shows the bank's HMDA-reportable loan activity by product type:

Distribution of HMDA-Reportable Loans by Product Type								
Loan Type	2001				2002			
	#	%	\$(000's)	%	#	%	\$(000's)	%
Home Purchase	23	46.9	5,784	44.5	6	37.5	1,943	43.0
Refinance	12	24.5	3,633	27.9	10	62.5	2,575	57.0
Multifamily	9	18.4	3,517	27.0	0	0.0	0	0.0
Home Improvement	5	10.2	72	0.6	0	0.0	0	0.0
Total	49	100.0	13,006	100.0	16	100.0	4,518	100.0

HVB had a relatively small market share among approximately 400 HMDA-reporting lenders in the assessment area.

Assessment Area Concentration: "Outstanding"

Overall, HVB extended a substantial majority of its loans within the assessment area. This is an improvement over the prior evaluation's performance, and is attributed to an increased percentage of small business lending within the assessment area.

Small Business Loans

The concentration of small business loans within the assessment area is excellent. During the evaluation period, HVB extended more than 90% of its small business loans within the assessment area. In 2001 and 2002, the concentration of such loans within the assessment area was 90.7% and 89.7%, compared to the 85% and 82.3% shown for 1999 and 2000. The assessment area concentration based on dollar volume was also more than 90% and a significant improvement over the prior evaluation's performance.

HMDA-Reportable Loans

The concentration of HMDA-reportable loans within the assessment area is adequate. In 2001, the bank originated 77.8% of such loans within the assessment area; however, in 2002 the concentration decreased to 64%. Conversely, the concentration based on dollar volume increased to 61.1% in 2002 from 56.2% in 2001.

The following table shows the distribution of HVB's loans inside and outside of the assessment area.

Distribution of Loans Inside and Outside of the Assessment Area										
Loan Type	Number of Loans					Dollar Volume (in thousands)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Small Business										
2001	429	90.7	44	9.3	473	102,412	95.0	5,390	5.0	107,802
2002	313	89.7	36	10.3	349	64,615	90.0	7,181	10.0	71,796
Subtotal	742	90.3	80	9.7	822	167,027	93.0	12,571	7.0	179,598
HMDA-Reportable										
2001	49	77.8	14	22.2	63	13,006	56.2	10,121	43.8	23,127
2002	16	64.0	9	36.0	25	4,518	61.1	2,883	38.9	7,401
Subtotal	65	73.9	23	26.1	88	17,524	57.4	13,004	42.6	30,528
Total	807	88.7	103	11.3	910	184,551	87.8	25,575	12.2	210,126

Geographic Distribution of Loans: "Low Satisfactory"

The geographic distribution of HVB's small business and HMDA-reportable loans reflects adequate penetration throughout the assessment area. This represents a downgrade compared to the prior evaluation's assessment.

Small Business Loans

In 2001, the bank extended 12.2 % of its small business loans in LMI areas. This performance level is substantially lower than the 19.1% LMI penetration ratio achieved by the bank in 2000. In terms of dollar volume, the LMI penetration ratio of 12.1% is also substantially lower than the bank's 19.8% ratio in 2000. Additionally, the bank's rate of lending in LMI areas was significantly lower than the aggregate's. Based on number of loans, the aggregate's LMI penetration ratio was 20.4% and in terms of dollar volume, the aggregate's ratio was 18.7%.

In 2002, the level of the bank's small business loan originations in LMI areas improved to 15.6% based on number of loans and 20.8% in terms of dollar volume. While the bank's LMI penetration ratio based on the number of loans remained lower than the aggregate's, the bank outperformed the aggregate based on dollar volume.

The following table shows the distribution of HVB's small business loans by geography income level:

Distribution of Small Business Loans by Geography Income Level								
2001								
Geography Income Level	Bank				Aggregate			
	#	%	\$(000's)	%	#	%	\$(000's)	%
Low	14	3.3	4,274	4.2	6,912	6.7	182,577	5.2
Moderate	38	8.9	8,088	7.9	14,018	13.7	472,661	13.5
Middle	77	17.9	17,538	17.1	12,505	12.2	370,407	10.6
Upper	299	69.7	71,512	69.8	66,858	65.1	2,351,114	67.1
N/A	1	0.2	1,000	1.0	2,349	2.3	128,571	3.7
Total	429	100.0	102,412	100.0	102,642	100.0	3,505,330	100.0
2002								
Geography Income Level	Bank				Aggregate			
	#	%	\$(000's)	%	#	%	\$(000's)	%
Low	16	5.1	3,626	5.6	7,634	6.7	187,102	5.3
Moderate	33	10.5	9,786	15.1	15,019	13.2	460,540	13.0
Middle	58	18.5	11,540	17.9	14,696	12.9	422,292	11.9
Upper	202	64.5	38,983	60.3	73,591	64.8	2,355,264	66.7
N/A	4	1.3	680	1.1	2,685	2.4	108,329	3.1
Total	313	100.0	64,615	100.0	113,625	100.0	3,533,527	100.0

HMDA-Reportable Loans

In 2001, the bank's LMI penetration ratios for HMDA-reportable loans, 6.1% by number and 4.2% by dollar volume, declined below the levels attained in 2000. Based on number, the LMI penetration ratio decreased slightly from 6.3% in 2000. In terms of dollar volume, the decline was substantial; a drop of 9.5 percentage points from 13.7% in 2000. In terms of either number of loans or dollar volume, HVB substantially underperformed the aggregate.

In 2002, the bank's LMI penetration ratio increased slightly to 6.3% based on number of loans, but declined to 3.3% based on dollar volume. The bank continued to trail the aggregate significantly. However, the bank's ratios for 2002 are based on a relatively small number of loans. The bank's HMDA-reportable originations within the assessment area which totaled 49 in 2001, declined to 16 in 2002 and the number of loans made in moderate-income areas declined from three, to one. The bank did not originate any loans in low-income areas in either year.

The following chart shows the distribution of the bank's HMDA-reportable loans based on geographic location:

Distribution of HMDA-Reportable Loans by Geography Income Level*								
2001								
Geography Income Level	Bank				Aggregate			
	#	%	\$(000's)	%	#	%	\$(000's)	%
Low	0	0.0	0	0.0	2,003	3.6	742,829	4.4
Moderate	3	6.1	543	4.2	3,271	5.9	978,190	5.8
Middle	9	18.4	2,215	17.0	6,989	12.7	1,565,955	9.3
Upper	37	75.5	10,248	78.8	42,632	77.4	13,443,809	80.0
N/A					183	0.3	71,259	0.4
Total	49	100.0	13,006	100.0	55,078	100.0	16,802,042	100.0
2002								
Geography Income Level	Bank				Aggregate			
	#	%	\$(000's)	%	#	%	\$(000's)	%
Low	0	0.0	0	0.0	2,605	3.4	956,238	3.7
Moderate	1	6.3	150	3.3	4,131	5.4	1,516,311	5.9
Middle	1	6.3	190	4.2	9,231	12.2	2,369,316	9.2
Upper	14	87.5	4,178	92.5	59,734	78.8	20,908,881	81.1
N/A					146	0.2	40,497	0.1
Total	16	100.0	4,518	100.0	75,847	100.0	25,791,243	100.0

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

Borrowers' Characteristics: "High Satisfactory"

The distribution of loans based on borrowers' characteristics reflects good penetration among businesses of different sizes and adequate penetration among consumers of different income levels.

Small Business Loans

In 2001, the bank originated 62.7% (269 loans) of its small business loans to businesses with annual revenues of \$1 million or less. The corresponding ratio based on dollar volume of \$65.1 million is 63.6%. The bank's ratios were substantially higher than the aggregate's rates of lending to businesses in this category, which were 46.7% and 35.9%, based on number of loans and dollar volume, respectively.

In 2002, the proportion of small business loans HVB extended to businesses with annual revenues of \$1 million or less declined to 49.5% (155 loans). The corresponding ratio based on dollar volume of \$34.9 million is 54.1%. However, the bank continued to outperform the aggregate since the aggregate's ratios also declined in 2002. The aggregate's ratios were 34.4% and 35%, based on number of loans and dollar volume, respectively.

HMDA-Reportable Loans

The bank's LMI borrower penetration ratio has steadily declined from 15% shown in 2000 to 12.5% in 2001 and 6.3% in 2002. While the bank's ratio was higher than the aggregate's 10.4% in 2001, it was substantially lower than the aggregate's 10.7% in 2002.

In 2001, the bank originated five HMDA-reportable loans to moderate-income borrowers, and in 2002 it originated only one such loan to moderate-income borrowers. HVB had no HMDA-reportable loan originations to low-income borrowers in either year. As mentioned in the analysis of the geographic distribution of loans, the bank's ratios for 2002 are based on a relatively small number of loans.

The following table shows the distribution of the bank's HMDA-reportable loans by borrower income level.

Distribution of HMDA-Reportable Loans by Borrower Income Level*								
Borrower Income Level	2001				2002			
	Bank		Aggregate		Bank		Aggregate	
	#	%	#	%	#	%	#	%
Low	0	0.0	653	1.8	0	0.0	912	1.9
Moderate	5	12.5	3,107	8.6	1	6.3	4,199	8.8
Middle	4	10.0	6,536	18.0	3	18.8	8,690	18.3
Upper	29	72.5	22,741	62.7	12	75.0	29,660	62.4
N/A	2	5.0	3,218	8.9	0	0.0	4,083	8.6
Total	40	100.0	36,255	100.0	16	100.0	47,544	100.0

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

Community Development Loans: "Outstanding"

The bank's level of community development lending activity is excellent. As of the evaluation date, HVB had \$9.4 million in community development lending commitments, which is an increase of \$2.4 million (34.3%) since the prior evaluation. New commitments account for 71.3%, or \$6.7 million, of total commitments. The vast majority of HVB's community development loans supported the provision of community services.

Innovative or Flexible Lending Programs: "Low Satisfactory"

HVB makes limited use of innovative or flexible loan products in serving assessment area credit needs. The bank has been an SBA preferred lender since 1995 and continues to offer SBA 7A, SBA LowDoc and SBA 504 loans. While the bank has generated loans under these programs in the past, HVB's management did not provide documentation regarding SBA loans originated during this evaluation period.

II. Investment Test: “High Satisfactory”

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 these investments are not routinely provided by private investors.

HVB made a significant level of qualified community development investments, which totals \$3.4 million for the current evaluation. The entire amount is considered new money. However, while the level of qualified investments remains relatively high, the current total represents a 56.4%, or \$4.4 million, reduction compared to the prior evaluation’s qualified investment total of \$7.8 million.

The qualified investments consist primarily of two mortgage-backed securities (“MBS”) pools totaling \$3.3 million. These MBS pools are backed by 26 separate mortgages to LMI borrowers. Properties located within the bank’s assessment area secure nine of the mortgages. The 17 remaining mortgaged properties are located outside of the bank’s assessment area, but within one of the other five counties comprising MSA 5600.

Additionally, in 2002 HVB contributed an estimated \$54 thousand to the affordable housing program sponsored by the Federal Home Loan Bank of New York (“FHLBNY”). This amount represented HVB’s prorated share of the 10% of earnings each FHLBNY member bank is required to forego to fund the FHLBNY’s Affordable Housing Program.

III. Service Test: “High Satisfactory”

The service test evaluates a banking institution’s record of helping to meet the credit need of its assessment area(s) analyzing both the availability and effectiveness of a banking institution’s systems of delivering both retail banking and community development services.

Retail Banking Services: “High Satisfactory”

Accessibility of Delivery Systems

The bank’s delivery systems are accessible to essentially all portions of the assessment area. As of December 31, 2002, HVB operated 16 full service branches and one business center. Thirteen branches and the business center are located in Westchester County; two branches are located in Bronx County and one branch is located in New York County.

Of the bank’s 16 full service branches, none are located in low-income census tracts and two (12.5%) are located in moderate-income tracts in Westchester County. The two branches in Bronx County and four of the branches in Westchester County are located in non-LMI census tracts that are adjacent to LMI areas. In all, eight of the bank’s 16 branches, or 50%, are located in or adjacent to LMI areas.

In addition to its branch offices, the bank operates an ATM network. Five of the bank's eight ATMs are full service and three are cash dispensing only. Of the five full service ATMs, two are located at branches in Westchester County, two are located at branches in Bronx County and one is located at the business center. One of the cash dispensing only ATMs is located at the bank's headquarters and two are located off-site: one at Yonkers General Hospital and one at St. Joseph's Medical Center. Five (63%) of the ATMs are located in or adjacent to LMI areas.

The following chart illustrates the location of HVB's branches and ATMs:

County	Branch Office Locations				ATM Locations			
	Total	LMI Area	Adj. to LMI	%	Total	LMI Area	Adj. to LMI	%
Bronx	2	0	2	100	2	0	2	100
Westchester	13	2	4	46	6	2	1	50
New York	1	0	0	0	0	0	0	0
Total	16	2	6	50	8	2	3	63

Alternative Delivery Systems

- The bank's Internet website allows customers to get account information, check transaction history, transfer funds between accounts, make loan payments, pay bills electronically and check current interest rates.
- HVB's telephone banking system "Easy Access" allows a customer to check his/her account balance, verify checks paid, verify deposits credited, transfer funds between accounts, request a stop payment and make inquiries as to branch hours and locations.
- The bank's business center provides convenient service and flexible banking hours to professionals, community service organizations, small businesses and small business owners who maintain significant transaction account balances.

Changes in Branch Locations

During the evaluation period, HVB enhanced the availability of service in the assessment area by opening three full service branches. These branches are located in Westchester, New York and Bronx counties. The new branch office in Bronx County is located in a middle-income census tract which is adjacent an LMI area.

Reasonableness of Business Hours and Services in Meeting Assessment Area Needs

The bank has extended hour service at least one day per week at all of its branches. Saturday hours are available at five branches, including four that are in or adjacent to LMI areas. The bank also offers drive-through window service at 10 of its branch locations. Banking by appointment is available at four of HVB's branches.

Community Development Services: “Low Satisfactory”

The bank provides an adequate level of community development services. The focus of HVB’s services is providing financial expertise to local nonprofit and other community organizations. A number of the bank’s directors and officers serve either as members of the board or treasurers of local community development organizations. Following are examples of the organizations and community development services performed:

- *Greyston Foundation (“Greyston”)*: A director of the bank is a board member of Greyston. Founded in 1982 and located in Westchester County, Greyston is an integrated system of nonprofit and for-profit organizations that offer an array of programs and services to more than 1,200 men, women and children annually. The foundation primarily serves the economically disenfranchised through housing development, jobs and enterprise creation, social services, child care and HIV related healthcare.
- *Community Preservation Corporation (“CPC”)*: A director of the bank is a member of the board of CPC, a nonprofit organization founded in 1974. The corporation is recognized as a leader in the financing of affordable housing, and has financed the rehabilitation or construction of more than 100 thousand units, representing total investment of private and public debt of more than \$3.7 billion.
- *Westhab*: A director of the bank is a board member of Westhab, a not-for-profit organization. Founded in 1981, Westhab has grown to be the largest provider of housing and social services for homeless and low-income families in Westchester County. The organization creates affordable housing by acquiring and renovating vacant apartment buildings, as well as building new rental and home-ownership housing.
- *Saint Cabrini Nursing Home (“Saint Cabrini”)*: An employee of the bank is a board member of *Saint Cabrini*, which is located in Westchester County. The home has 304 beds and provides comprehensive nursing care, social services, pastoral care, physical therapy, occupational therapy and speech therapy.
- *Food P.A.T.C. H.*: An employee of the bank serves as a member of the board of Food P.A.T.C.H., a certified affiliate of Second Harvest, the largest domestic hunger relief charity in the United States. The organization solicits and administers donations from the public and private sectors, distributing food through local agencies and various programs to meet the needs of individuals and families.
- *Head Start*: An employee of the bank serves as the treasurer of the local Head Start program. Head Start is a comprehensive child development program that serves children from birth to age five, pregnant women and their families. The program is child focused and has the overall goal of increasing the school readiness of young children in low-income families.

In 2001, HVB hosted six small business seminars at different locations within its assessment area. Seminar topics included SBA lending, financing for your business, small businesses and micro-society banking programs.

The bank organized Hudson Valley National Foundation, a subsidiary of Hudson Valley Holding Company, to assist in the raising and distribution of funds to local charitable organizations.

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 and fair lending examinations conducted concurrently with this evaluation noted no evidence of prohibited discrimination or other illegal credit practices.

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.

HVB identifies the credit needs of its assessment area through active involvement in community organizations, with particular attention to those dedicated to LMI individuals, LMI areas, small businesses and women/minority ownership. Additionally, the bank maintains contact with government leaders, community groups, and religious and civic 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.

In addition to ongoing contacts with individual customers, community groups and organizations, business owners and government officials, HVB has sought to meet special credit needs within the assessment area as they arise. The bank's special credit-related programs include joint effort and partnership/collaboration with both private and public sector organizations promoting community development. The bank has also established a Business Development Board made up of 97 customers who assist the bank's relationship managers in establishing profitable business relationships.

The bank advertises its services in the *Penny Saver* of Westchester County, on a quarterly basis, to reach out to the general population of Westchester, New York and Bronx counties, with a specific emphasis on LMI areas.

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

The board is kept informed of the bank's CRA activities by the bank's CRA committee, which meets quarterly to review regulatory updates, compliance management functions and training issues. This committee is comprised of 10 individuals including members of senior management, the CRA officer and officers in charge of various departments. The board reviews and approves the bank's CRA statement annually.

VI. Other Factors

Other factors that in the judgement 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.

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.