



NEW YORK STATE BANKING DEPARTMENT
CONSUMER SERVICES DIVISION
One State Street
New York, NY 10004

PUBLIC SUMMARY

COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION
Off-site Evaluation

Date of Evaluation: December 31, 2003

Institution: Walden Savings Bank
15 Scott's Corners Drive
Montgomery, NY 12549

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 Walden Savings Bank ("WSB") 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 examination conducted as of December 31, 2003.

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 an institution's 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 ("Evaluation") be made available to the public. Evaluations of small banking institutions are primarily based on a review of performance tests and standards described in Section 76.7 and detailed in Section 76.12. These tests and standards incorporate the 12 assessment factors contained in Section 28-b of the New York State Banking Law.

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

OVERVIEW OF INSTITUTION'S PERFORMANCE

Walden Savings Bank is rated "2," indicating a satisfactory record of helping to meet community credit needs, as summarized below:

- ***Loan-to-Deposit Ratio and Other Lending-Related Activities:*** The bank's loan-to-deposit ("LTD") ratio is marginally acceptable in light of the bank's size, financial condition and the credit needs of its assessment area.

WSB's average LTD ratio for the eight consecutive quarters ending December 31, 2003, was 56.6%, which is approximately 20 percentage points lower than the national peer group's average LTD of 77.1%.

The bank's low LTD ratio is somewhat mitigated by its efforts to enhance the availability of credit within its assessment area by originating three community development loans totaling \$595.7 thousand.

- ***Assessment Area Concentration:*** A substantial majority of WSB's loans were originated inside the assessment area.

During the evaluation period, the bank originated 93.0% of its total number of HMDA-reportable loans inside the assessment area. Based on dollar volume, WSB originated 94.1% of its HMDA-reportable loans inside the assessment area.

- ***Geographic Distribution of Loans:*** The geographic distribution of WSB's loans reflects poor dispersion among census tracts of different income levels.

In 2002, the bank's loan penetration rate for LMI areas was only 1.0% by number and 0.6% by dollar volume of loans. This level of performance is significantly lower than the market aggregate's LMI penetration rates of 7.7% and 4.8%, respectively.

In 2003, WSB's overall volume of HMDA-reportable originations remained unchanged based on number of loans; however, its penetration rate for LMI areas declined to 0.8% by number of loans and 0.4% by dollar volume. Aggregate data from 2003 were not yet available for comparison at the time this evaluation was conducted.

- ***Distribution by Borrowers Characteristics:*** The bank's HMDA-reportable lending reflects reasonable dispersion among individuals of different income levels.

In 2002, WSB originated 22 loans totaling \$2.3 million to LMI borrowers. These loans accounted for 11.5% and 7.8%, respectively, of the bank's total number and dollar volume of loans. By comparison, the market aggregate achieved an LMI penetration rate 13.6% based on number of loans and 7.6% based on dollar volume.

In 2003, the bank extended 41 loans totaling \$4.9 million to LMI borrowers. These loans represent an LMI penetration rate of 16.7% based on number of loans and 12.7% based on dollar volume.

Neither WSB nor the New York State Banking Department received any complaints with respect to the bank's CRA performance during the evaluation period.

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.

PERFORMANCE CONTEXT

Institution's Profile:

Walden Savings Bank is a community-oriented financial institution that was chartered in 1872 as a mutual savings bank. The bank is headquartered in Orange County, New York in the town of Montgomery. WSB's competition includes other commercial banks as well as a broad range of non-bank financial institutions, such as specialized mortgage lenders, finance companies, credit unions, insurance companies and brokerage firms.

WSB has its corporate offices in Montgomery and operates a network of nine branch offices across two counties. Two branches are located in Ulster County, and the remaining seven branches are located in Orange County. The hours of service at WSB's branches have been tailored to meet customers' needs. All branches open for business at 8:30AM Monday through Friday, and close daily at 4:30PM except on Thursdays (7:00PM) and Fridays (6:00PM). Each branch office has an ATM and seven branches have drive-thru facilities. WSB does not operate any offsite ATMs. The Walden branch, which is located in a moderate-income census tract, is WSB's only LMI-area branch.

There were two significant changes to WSB's office network during the evaluation. In August 2002, the bank opened its new corporate headquarters in the Crossroads Corporate Park in Montgomery and consolidated all administrative functions there. Then, in December 2002, WSB opened a new branch at the recently dedicated corporate headquarters. The bank did not close any branches during the evaluation period.

WSB's primary lending territory covers a contiguous area that includes all of Orange County, the southern portion of Ulster County and the eastern section of Sullivan County. Although WSB is primarily a residential mortgage lender, it also provides commercial and industrial loans (10%), construction loans (9.3%), commercial mortgage loans (5.8%) and various other types of credit.

WSB is a member of the Federal Home Loan Bank system.

On its year-end Call Report for 2003, the bank reported total assets of \$213.5 million, including \$99.2 million in loans and lease finance receivables. The bank also reported total deposits of \$192.7 million, resulting in a loan-to-deposit ("LTD") ratio of 51.5%.

According to the FDIC's comparative deposit market data for 2003, WSB holds a market share of 3.7% in Orange County, ranking it 11th among 24 deposit-taking institutions. In Orange and Ulster Counties combined, WSB holds a market share of 2.68% and ranks 13th among 29 deposit-taking institutions.

The following summary of WSB's loan portfolio is based on Schedule RC-C of the bank's year-end Call Reports for 2001, 2002 and 2003:

Gross Loans Outstanding (\$ Shown in Thousands)						
Loan Type	12/31/2001		12/31/2002		12/31/2003	
	\$	%	\$	%	\$	%
1-4 Residential Mortgage Loans	82,691	81.7	76,943	77.9	71,068	70.9
Commercial & Industrial Loans	2,138	2.1	2,146	2.2	9,983	10.0
Commercial Mortgage Loans	5,239	5.2	4,889	4.9	5,815	5.8
Multifamily Mortgages	586	0.6	501	0.5	881	0.8
Consumer Loans	4,043	4.0	3,745	3.8	3,095	3.1
Construction Loans	6,548	6.4	10,572	10.7	9,320	9.3
Other Loans	7	0.0	23	0.0	28	0.1
Gross Loans	101,252	100.0	98,819	100.0	100,190	100.0

As illustrated in the table above, residential mortgages declined steadily as a percentage of WSB's overall loan portfolio between 2001 and 2003. Management states that the decline is attributable to a steady rate of loans being paid off. One way this would happen is if customers from WSB refinanced their loans at other institutions while pursuing historically low mortgage interest rates.

During 2002, WSB's HMDA-reportable lending achieved a market share of 1.03% based on number of loans and 1.01% based on dollar volume. With this level of activity, WSB ranked 26th out of 316 home mortgage lenders in its assessment area. The bank's average loan size was \$153 thousand.

WSB's previous Performance Evaluation was conducted by the New York State Banking Department as of December 31, 2001, and resulted in a rating of "2." This rating reflected WSB's "Satisfactory" record of helping to meet the credit needs of its assessment area.

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

Assessment Area:

Walden Savings Bank's assessment area is located within the Hudson Valley region of New York State and contains the southern portion of Ulster County (i.e., south of Kingston) plus Orange County in its entirety.¹ The assessment area is comprised of 85 census tracts, including five low-income, 11 moderate-income, 39 middle-income and 30 upper-income tracts.

¹ Please note that the bank's CRA assessment area is different from its primary lending area. In this case, WSB has chosen not include the eastern portion of Sullivan County in its CRA assessment area. This difference is acceptable because the bank does not have any branches in Sullivan County and its lending presence there is limited.

WSB does not have a physical presence in the towns of Newburgh and Middletown, where most of the LMI census tracts within the assessment area are located. This fact, combined with the reality that competing financial institutions operate a combined total of 15 branches in Newburgh and Middletown, has made it difficult for WSB to establish a presence there with its loans and services.

Distribution of Assessment Area Census Tracts by Income Level						
County	Low	Moderate	Middle	Upper	Total	LMI %
Orange	5	11	33	18	67	23.9
Ulster	0	0	6	12	18	0
Total	5	11	39	30	85	18.8

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

Please note that census tract income designations were updated in 2003 based on the results of the 2000 Census. As a consequence of these updates, Orange County gained three low-income tracts and lost one moderate-income tract in 2003. Since loan data from 2002 were reported using tract coding from the 1990 Census and data from 2003 were reported using tract coding from the 2000 Census, it is not possible to make direct comparisons in banks' lending performance between the two years.

Details of Assessment Area:

Chart #1: Shows population and income data.

Chart #2: Shows housing demographics.

Orange County

The county's estimated population in 2003 was 363,153 residents.

According to the New York State Department of Labor, Orange County's average unemployment rate was 4.3% in 2002 and 4.7% in 2003, which is well below the statewide average unemployment rates of 6.1% in 2002 and 6.3% in 2003.

Ulster County

In 2003, the entire county had an estimated population of 181,111 residents; however, only 80 thousand of those residents lived within the section of Ulster County that is included in the bank's assessment area.

According to the New York State Department of Labor, Ulster County's average unemployment rate was 4.2% in 2002 and 4.3% in 2003, which is well below the statewide average unemployment rates of 6.1% in 2002 and 6.3% in 2003.

CHART # 1

Walden Savings Bank - 2003

ASSESSMENT AREA POPULATION AND INCOME CHARACTERISTICS BY COUNTY																					
COUNTY	Total Population**	Age 65 and over		Age 16 and less		Median Family Income(MFI)	HUD MSA MFI	# of Households	# of HH below poverty level		Total Families	Low income		Moderate income		Middle income		Upper income		LMI families in LMI tracts	
		#	%	#	%				#	%		#	%	#	%	#	%	#	%	#	%
Orange	341,367	35,185	10.3	88,699	25.98	61,313	63,500	114,809	10,461	9.00	85,028	16,150	18.99	14,389	16.92	19,549	22.99	34,940	41.09	10,004	11.76
Ulster***	80,191	9,082	11.33	16,879	21.04	55,844	47,300	29,256	2,856	10.00	19,409	2,198	11.32	2,571	13.24	3,822	19.69	10,818	55.74	0	0
TOTAL A/A*	421,558	44,267	10.5	105,578	25.04	60,296	60,069	144,065	13,317	9.00	104,437	18,348	17.57	16,960	16.24	23,371	22.37	45,758	43.81	10,004	9.58

* Assessment Area; ** In thousands; *** Partial County

CHART # 2

Walden Savings Bank - 2003

ASSESSMENT AREA HOUSING CHARACTERISTICS BY COUNTY																			
COUNTY	Total Housing Units	1-4 family Units		Multifamily Units		Owner-Occupied Units (O-O)		O-O Units in Low-income Tracts		O-O Units in Mod-income Tracts		O-O Units in Midd-income Tracts		O-O Units in Upp-income Tracts		Rental Units		Vacant/ Boarded-up Units	
		#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%
Orange	122,754	104,229	85.00	14,868	12.00	76,948	63.00	1,918	2.49	5,731	7.45	43,772	56.89	25,523	33.17	37,840	31.00		
Uldster	31,927	27,036	85.00	2,219	7.00	20,415	64.00	0	0	0	0	5,782	28.32	14,633	71.68	8,851	28.00	2,661	8.00
Total	154,681	131,265	85.00	17,087	11.00	97,363	100.00	1,918	1.975	5,731	5.89	49,553	50.9	40,157	41.24	46,691	30.00	N/A	N/A

* Assessment Area

PERFORMANCE STANDARDS AND ASSESSMENT FACTORS

The bank's performance is evaluated according to the small bank performance criteria, which include the following: (1) Loan-to-Deposit Ratio and Other Lending-Related Activities; (2) Assessment Area Concentration; (3) Geographic Distribution of Loans; (4) Distribution by Borrower Characteristics; and (5) Action Taken in Response to Written Complaints Regarding CRA.

The assessment period included calendar years 2002 and 2003. WSB is subject to the reporting requirements of the federal Home Mortgage Disclosure Act ("HMDA"). Examiners considered WSB's HMDA-reportable 1- to 4-family residential mortgages in evaluating factors (2), (3) and (4) noted above.

In addition to loan information submitted by the bank, aggregate data for HMDA-reportable loans were obtained from the Federal Financial Institution Examination Council ("FFIEC") and PCi Corporation's CRA Wiz® software. When this evaluation was prepared, aggregate loan data for calendar year 2003 were not yet available.

The demographic data referenced in this report were obtained from the 1990 and 2000 U.S. Censuses. Updated median family income levels were obtained from the U.S. Department of Housing and Urban Development ("HUD").

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

The bank's loan-to-deposit ("LTD") ratio is marginally acceptable considering the bank's size, financial condition and the credit needs of the assessment area.

Loan-to-Deposit Ratios									
	3/31/2002	6/30/2002	9/30/2002	12/31/2002	3/31/2003	6/30/2003	9/30/2003	12/31/2003	Avg.* LTD
Bank	65.62	62.85	62.21	57.16	54.42	50.61	48.62	51.49	56.62
Peer	80.16	79.58	78.20	76.77	75.32	74.56	75.56	76.55	77.08

* Average

The bank's average LTD ratio for the eight consecutive quarters ending December 31, 2003, was 56.6%, which is roughly 20 percentage points below the peer group's average LTD ratio¹ of 77.1%. Management explained that WSB's LTD ratio decreased during the review period because of the combined effects of steady deposit growth and a relatively high rate of loans being paid off. The bank's performance in this area is mitigated, in part, by its efforts to originate community development loans, as described below.

¹ WSB's peer group includes all insured savings banks with total assets between \$100 million and \$300 million. Peer group ratios were taken from the bank's Uniform Bank Performance Report, as prepared by the Federal Deposit Insurance Corporation ("FDIC").

Other Lending-Related Activities

During the evaluation period, the bank increased the availability of credit in its assessment area by providing three community development loan commitments totaling \$595.7 thousand. This total includes \$85 thousand in new money. In addition, WSB made \$273.3 thousand in qualified community development contributions to charitable organizations.

The following paragraphs describe WSB's community development loans and donations:

St. John Bosco Child & Family Services: WSB originated an \$85 thousand line of credit to this organization during 2003. The borrower not only provides counseling services for families dealing with domestic abuse issues, but also provides housing for abused children. In 2003, WSB donated a two-story residence in the Village of Walden to this organization. The appraised value of the property was \$240 thousand.

Community Preservation Corporation (CPC): CPC is a lending consortium that makes construction and permanent loans for the rehabilitation and preservation of affordable housing throughout New York State. The banks that sponsor CPC's work provide secured revolving lines of credit to support the organization's construction and rehabilitation projects. CPC also provides permanent financing by selling collateral trust notes backed by CPC mortgages. Since 1995, Walden Savings Bank has provided a \$450 thousand line of credit to CPC. That credit line, which matures in 2009, had an outstanding balance of \$264 thousand as of the evaluation date.

New York Business Development Corporation (NYBDC): NYBDC is a privately-owned entity created under New York State law. NYBDC is funded by participating commercial and savings banks through lines of credit that provide a broad range of financing for small and midsize businesses within the state. WSB has a 5-year \$60.7 thousand line of credit to NYBDC that matures in 2004. This line had an outstanding balance of \$5.6 thousand as of the evaluation date.

WSB committed another \$100 thousand for other charitable causes. During 2003, the bank funded the initial \$33.3 thousand payment on this commitment.

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

During the evaluation period, WSB originated a substantial majority of its loans within the assessment area.

In 2002, originations within the assessment area accounted for 92.3% of WSB's HMDA-reportable lending based on number of loans and 94.3% based on dollar volume.

In 2003, WSB increased its volume of originations within the assessment area by 54 loans. On a percentage basis, WSB's lending within the assessment area accounted for 93.5% of its total number of loans and 94.0% of its total dollar volume during 2003.

Distribution of HMDA-reportable Loans Inside and Outside of the Assessment Area										
Year	Number of Loans					Loans in Thousands of Dollars				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
2002	192	92.3	16	6.7	208	29,418	94.3	1,775	5.7	31,193
2003	246	93.5	17	6.5	263	38,882	94.0	2,478	6.0	41,360
Total	438	93.0	33	7.0	471	68,300	94.1	4,253	5.9	72,553

- **Geographic Distribution of Loans:** “Needs to Improve”

Even though WSB’s assessment area experienced a net gain of two LMI census tracts as a result of the 2000 Census, the geographic distribution of WSB’s loans continues to reflect poor dispersion among census tracts of different income levels. A contributing factor to the bank’s performance has been its lack of a physical presence in Newburgh and Middletown, where many of the LMI census tracts within the assessment area are located.

The following table summarizes WSB’s HMDA-reportable lending during the review period:

Distribution of HMDA-reportable Loans by Geographic Income Level (\$ in 000's)									
2002									
Geography Income Level	Bank				Aggregate				
	#	% by #	\$	% by \$	#	% by #	\$	% by \$	
Low	1	0.5	85	0.3	332	1.8	42,712	1.5	
Moderate	1	0.5	83	0.3	1,098	5.9	96,445	3.3	
Middle	98	51.1	14,472	49.2	8,864	47.5	1,238,676	42.5	
Upper	92	47.9	14,778	50.2	8,385	44.9	1,536,379	52.7	
Total	192	100.0	29,418	100.0	18,679	100.0	2,914,212	100.0	
2003									
Geography Income Level	Bank				Aggregate				
	#	% by #	\$	% by \$	#	% by #	\$	% by \$	
Low	0	0.0	0	0.0					
Moderate	2	0.8	173	0.4					
Middle	131	53.3	19,526	50.2					
Upper	113	45.9	19,183	49.4					
Total	246	100.0	38,882	100.0					

During 2001, WSB only originated one loan in an LMI area. In 2002, the bank originated two loans (1.0%) totaling \$168 thousand (0.6%) in LMI-areas; however, its LMI penetration rate remained well below that of the aggregate. During 2002, the market aggregate achieved LMI penetration rates of 7.7% by number of loans and 4.8% by dollar volume.

In 2003, WSB originated two (0.8%) LMI-area loans totaling \$173 thousand (0.4%). Both loans were originated in moderate-income tracts. The bank did not originate any loans in the low-income tracts during 2003.

As mentioned previously, aggregate loan data for 2003 was not yet available for comparison when this evaluation was conducted. In addition, a similarly situated bank could not be identified within the assessment area to facilitate peer-based performance comparisons.

- **Distribution by Borrower Characteristics: “Satisfactory”**

The distribution of WSB’s HMDA-reportable loans reflects reasonable penetration among borrowers of different income levels.

The following chart depicts the distribution of WSB’s HMDA-reportable loans by borrower income level:

Distribution of HMDA-reportable Loans by Borrower Income Level*								
2002								
Borrower Income Level	Bank				Aggregate			
	#	% by #	\$	% by \$	#	% by #	\$	% by \$
Low	4	2.1	555	1.90	463	2.5	31,577	1.1
Moderate	18	9.4	1,740	5.90	2,068	11.1	188,864	6.5
Middle	49	25.5	6,286	21.37	4,670	25.0	556,147	19.1
Upper	121	63.0	20,837	70.83	10,131	54.2	1,930,004	66.2
N/A					1,347	7.2	207,620	7.1
Total	192	100.0	29,418	100.00	18,679	100.0	2,914,212	100.0
2003								
Borrower Income Level	Bank				Aggregate			
	#	% by #	\$	% by \$	#	% by #	\$	% by \$
Low	3	1.2	297	0.8				
Moderate	38	15.4	4,617	11.9				
Middle	85	34.6	11,201	28.8				
Upper	119	48.4	22,599	58.1				
N/A	1	0.4	168	0.4				
Total	246	100.0	38,882	100.0				

* Dollar amounts shown in thousands.

In 2002, the bank originated 22 loans totaling \$2.3 million to LMI borrowers. The bank’s LMI penetration rates of 11.5% by number of loans and 7.85% by dollar volume are slightly lower than the aggregate’s penetration rates of 13.6% and 7.6%, respectively.

In 2003, WSB’s LMI penetration rates increased to 16.6% based on number of loans (41 loans) and 12.7% based on dollar volume (\$4.9 million). Aggregate lending data for 2003 were not available for comparison when this evaluation was conducted.

- **Action Taken In Response to Written Complaints With Respect to CRA**

Neither WSB nor the New York State Banking Department received any written complaints regarding the bank's CRA performance during the evaluation period.

- **Discrimination and other Illegal Practices**

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

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

Evidence of prohibited discriminatory or other illegal credit practices.

The most recent regulatory compliance and fair lending examinations indicate satisfactory adherence to anti-discrimination and other applicable laws and regulations. No evidence of prohibited discriminatory or other illegal credit practices was noted.

- **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.

WSB ascertains the credit needs of its assessment area through contacts by the bank's officers and employees with local businesses, community leaders, local non-profit organizations government officials and religious leaders.

The bank's president is a board member of the Orange County Chamber of Commerce, the Community Foundation of Orange County, the Town of Montgomery Industrial Development Agency and the Walden Local Development Corporation. In addition, he has discussed innovative homeownership loan programs with representatives of Mount St. Mary's College and St. Luke's Cornwall Hospital.

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.

WSB advertises its credit products and banking services through local newspapers, publications and business journals. In addition, the bank’s trustees, officers and employees continue to support the local community through active participation in community appreciation days, Chamber of Commerce expositions and other community activities.

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.

WSB’s Board of Trustees monitors and reviews the bank’s CRA activities on an ongoing basis. Presentations to the board are recorded in the minutes of the Trustees’ meetings.

- **Other Factors**

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.

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;

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- ❖ Developing secondary market vehicles or programs;
 - ❖ Assisting in marketing financial services, including the development of advertising and promotions, publications, workshops and conferences;
 - ❖ Furnishing financial services training for staff and management;
 - ❖ Contributing accounting/bookkeeping services; and
 - ❖ Assisting in fund raising, including soliciting or arranging investments.

Home Mortgage Disclosure Act (“HMDA”)

The Home Mortgage Disclosure Act, enacted by Congress in 1975, and subsequently amended, requires institutions to annually report data about applications for residential (including multifamily) financing.

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 non-metropolitan median family income.

LMI Borrowers

Borrowers whose income, as reported on the loan application which the lender relied upon in making the credit decision, is less than 80% of the area median family income. In the case where the residential property is located in a MSA or PMSA, this would relate to the median family income for that MSA or PMSA. Otherwise, the area median family income would be the statewide non-metropolitan median family income. In all instances, the area median family incomes used to measure borrower income levels are updated annually by the U.S. Department of Housing and Urban Development (“HUD”).

LMI Individuals/Persons

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 non-metropolitan median family income. In all instances, the area median family incomes used to measure individual income levels are updated annually by HUD.

LMI Penetration Rate

A number that depicts the percentage of a bank's total loans (for a particular product) that was extended to LMI geographies or borrowers. For example, an LMI penetration rate of 20% would indicate that the bank made 20 out of a total of 100 loans to LMI geographies or borrowers.

Small Business Loans

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