NEW YORK STATE BANKING DEPARTMENT

CONSUMER SERVICES DIVISION

One State Street
New York, NY 10004

PUBLIC SUMMARY

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Date of Evaluation: December 31, 2004

Institution: Lake Shore Savings and Loan Association
128 East 4th Street
Dunkirk, NY 14048

Note: This evaluation is not an assessment of the financial condition of this institution. The rating assigned does not represent an analysis, conclusion or opinion of the New York State Banking Department concerning the safety and soundness of this financial institution.

TABLE OF CONTENTS

Section

General Information 1

Overview of Institution's Performance..... 2

Performance Context 3

Institution Profile

Assessment Area

Performance Standards and Assessment Factors 4

Loan-to-Deposit Analysis and Other Lending-Related Activities

Assessment Area Concentration

Geographic Distribution of Loans

Distribution by Borrowers Characteristics

Action Taken in Response to CRA-related Written Complaints

Services (Optional)

Discrimination or Other Illegal Practices

Process Factors

Other Factors

Glossary 5

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act ("CRA") performance of Lake Shore Savings and Loan Association ("LSSL") 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, 2004.

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 the Banking Department to 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 rates 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

Lake Shore Savings and Loan Association is rated "2," indicating a satisfactory record of meeting the credit needs of its assessment area. The rating is based on the following factors:

- ***Loan-to-Deposit ("LTD") Ratio:*** "Satisfactory"

  LSSL's average LTD ratio of 78.6% for the 11 consecutive calendar quarters ending December 31, 2004, is reasonable considering the institution's size, financial condition and the credit needs of its assessment area. For the previous evaluation period, LSSL's average LTD ratio was 74.9%.

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

  LSSL extended a substantial majority of its HMDA-reportable, small business, and home equity loans inside the assessment area.

- ***Geographic Distribution of Loans:*** "Satisfactory"

  The geographic distribution of HMDA-reportable and home equity loans reflects a reasonable dispersion among census tracts of different income levels; however, the geographic dispersion of small business loans was only marginally reasonable.

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

  The distribution of loans based on borrower characteristics reflects a reasonable penetration among individuals of different income levels and businesses of different revenue sizes.

- ***CRA-related Complaints:***

  Neither the LSSL nor the New York State Banking Department has received any CRA-related complaints regarding the institution's performance during the evaluation period.

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

PERFORMANCE CONTEXT

Institution's Profile:

LSSL was chartered by the New York State Banking Department in 1891 as a mutual savings association. LSSL, also referred to as ("the Association"), is headquartered in the City of Dunkirk in Chautauqua County. As of December 31, 2004, the Association's total assets were $329.9 million.

LSSL operates seven full-service banking offices, including five branches in Chautauqua County and two branches in Erie County. Two of the five branches in Chautauqua County are located in Jamestown, with the remaining branches located in Dunkirk, Fredonia and Westfield. In 2003, LSSL opened two branches in Erie County. These offices are located in Orchard Park and East Amherst. No branches were closed during the evaluation period. The Association's retail service delivery systems include automated teller machines ("ATMs") at six branch offices and five off-site locations.

The Federal Deposit Insurance Corporation's ("FDIC") 2004 Deposit Market Share Report ranked LSSL 13th among 20 deposit-taking institutions in the assessment area based on the Association's market share of 1.0%.[1] Even though Cattaraugus County is included in LSSL's assessment area, the FDIC's report shows that the Association did not acquire any deposits from consumers in that county.

LSSL faces strong competition from a variety of banking institutions that operate within the Association's assessment area. These competitors include some of the largest financial institutions in New York State, such as: Citibank, JPMorgan Chase, HSBC, M&T Bank, Keybank, Fleet National Bank. Other competitors in the market include Charter One Bank, First Niagara Bank, Community Bank, Jamestown Savings Bank, Greater Buffalo Savings, First Tier Bank, Evans National Bank and Alden State Bank.

LSSL is primarily a residential real estate lender, as indicated by the fact that one- to four-family residential mortgage loans comprise more than 80% of the institution's loan portfolio.

The following table depicts LSSL's gross loans outstanding as of the dates indicated:

TOTAL LOANS OUTSTANDING						
LOAN TYPE	3/31/2002		12/31/2003		12/31/2004	
	$000	%	$000	%	$000	%
1-4 Residential Mortgage Loans	122,375	82.6	162,022	86.0	172,405	85.9
Commercial Mortgage Loans	11,410	7.7	14,754	7.8	14,872	7.4
Commercial Loans & Industrial Loans	7,002	4.7	6,008	3.2	8,470	4.2
Consumer Loans	3,662	2.5	3,363	1.8	2,603	1.3
Construction Loans	3,674	2.5	2,337	1.2	2,463	1.2
Total Loans	**148,123**	**100.0**	**188,484**	**100.0**	**200,813**	**100.0**

LSSL offers loans through programs of the U.S. Small Business Administration ("SBA") and State of New York Mortgage Association ("SONYMA") loans; however, LSSL did not originate any loans through either of these agencies during the evaluation period.

At the prior evaluation, conducted as of March 31, 2002, LSSL received a rating of "2," indicating a satisfactory record of helping to meet community credit needs.

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

Assessment Area:

LSSL's assessment area includes Cattaraugus, Chautauqua and Erie Counties in their entirety. At the previous evaluation, the assessment area was limited to Chautauqua County. According to data from the 2000 U.S. Census, there are 298 census tracts within the assessment area. The distribution of these census tracts by median family income level is presented in the table below:

Distribution of Assessment Area Census Tracts by Geographic Income Level (Based on Date from the 2000 U.S. Census)													
County	Low		Moderate		Middle		Upper		N/A		Total	LMI	
	#	%	#	%	#	%	#	%	#	%	#	#	%
Cattaraugus	1	3.6	3	14.3	16	76.2	1	4.762	0	0.0	21	4	19.0
Chautauqua	2	7.1	5	14.7	24	70.6	3	8.824	0	0.0	34	7	20.6
Erie	25	89.3	51	21.0	106	43.6	51	20.99	10	4.1	243	76	31.3
Total	**28**	**9.4**	**59**	**19.8**	**146**	**49.0**	**55**	**18.46**	**10**	**3.4**	**298**	**87**	**29.2**

The demographic data cited in this report are based on the 2000 U.S. Census, except for updated median family income figures, which were obtained from annual estimates published by the U.S. Department of Housing and Urban Development ("HUD").

Details of the Assessment Area:

Unemployment Data

The following table depicts the average unemployment rates in New York State and each county within the assessment area during 2003 and 2004:

Average Unemployment Rates				
	New York State	Cattaraugus County	Chautauqua County	Erie County
2004	5.8	6.0	5.5	5.7
2003	6.4	5.9	5.8	5.8

[1] The FDIC's Deposit Market Share Report is compiled annually based on deposit totals as of June 30th.

The following table depicts the distribution of businesses by industry type inside the assessment area during the evaluation period:

Distribution of Businesses within Assessessment Area												
Business Type	Cattaraugus County				Chautauqua County				Erie County			
	2004		2003		2004		2003		2004		2003	
	Count	% of Total	Count	% of Total	Count	% of Total	Count	% of Total	Count	% of Total	Count	% of Total
Agriculture, Forestry & Fishing	275	5 8	270	5.7	521	6.4	523	6.5	1,176	2.2	1,176	2.2
Mining	29	0.6	28	0.6	24	0.3	26	0.3	47	0.1	45	0.1
Construction	359	7.6	347	7.3	608	7.5	591	7.4	4,174	7.7	4,143	7.6
Manufacturing	195	4.1	192	4.0	404	5.0	392	4 9	2,416	4.5	2,426	4.4
Communication	176	3.7	176	3.7	358	4.4	349	4.3	1,910	3.5	1,868	3.4
Wholesale Trade	170	3.6	172	3.6	265	3.3	266	3.3	2,683	5.0	2,677	4.9
Retail Trade	1,000	21.1	1,003	21.1	1,577	19.4	1,551	19.3	9,537	17.6	9,583	17.6
Finance, Insurance & Real Estate	230	4 8	226	4.7	524	6.5	510	6.4	3,688	6.8	3,583	6.6
Services	1,751	36.9	1,724	36 2	3089	38.1	2,979	37.1	22,568	41.6	22,256	40.8
Public Administra ion	166	3 5	164	3.4	179	2.2	176	2.19	883	1.6	861	1 58
Non-Classified Establishements	392	8.3	456	9.6	568	7.0	662	8.2	5,115	9.4	5,983	11.0
Total	**4,743**	**100.0**	**4,758**	**100.0**	**8,117**	**100.0**	**8,025**	**100.0**	**54,197**	**100.0**	**54,601**	**100.0**

Additional demographic information is presented in the following charts:

- Chart # 1: Population and Income Characteristics (page 3 - 4);
- Chart # 2: Housing Data (page 3 - 5);
- Chart # 3: Business Demographics (page 3 - 6).

CHART # 1

*ASSESSMENT AREA POPULATION AND INCOME CHARACTERISTICS BY COUNTY**

COUNTY	Total Population**	Age 65 and over		Age 16 and less		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	
	#	#	%	#	%	$	$	#	#	%	#	#	%	#	%	#	%	#	%	#	%
ERIE	950,265	151,258	15 9	204,451	21.5	51,024	56,300	380,890	47,032	12.3	244,376	49,864	20.4	43,516	17.8	53,537	21 9	97,459	39.9	39,230	42.0
CATTAURAGUS	83,955	12,277	14 6	19,216	22.9	39,577	47,900	32,055	3,954	12.3	21,791	4,350	20.0	4,484	20.6	5,212	23 9	7,745	35.5	1,484	16.8
CHAUTAUQUA	139,750	22,372	16 0	29,805	21.3	41,129	47,900	54,488	6,952	12.8	36,146	6,965	19.3	7,031	19.5	8,573	23.7	13,577	37 56	2,812	20.1
TOTAL A/A**	1,173,970	185,907	15 8	253,472	21.6	49,016	54,750	467,433	57,938	12.4	302,313	61,179	20.2	55,031	18.2	67,322	22 3	118,781	39.3	43,526	37.5

*** Based on 2000 U.S. Census Data**
**** Assessment Area**
***** (MFI) Median Family Income**

CHART # 2

*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	
		#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%
ERIE	415,868	363,227	87.3	46,605	11.2	248,780	59 8	11,220	4.5	32,491	13.1	122,076	49.1	82,968	33.4	148,340	35.7	34,995	8.4
CATTARAUGUS	39,839	31,387	78.8	2,017	5.1	23,831	59 8	0	0.0	2,426	10 2	20,619	86.5	786	3 3	9,564	24.0	7,816	19.6
CHAUTAUQUA	64,900	55,069	84.9	4,719	7.3	37,757	58 2	310	0.8	3,455	9 2	31,418	83.21	2,575	6 8	19,029	29.3	10,385	16.0
TOTAL A/A**	520,607	449,683	86.4	53,341	10.2	310,368	59 6	11,546	3.7	38,361	12.4	174,116	56.10	86,344	27 8	176,933	34.0	53,196	10.2

*** Based on 2000 U.S. Census Data**
**** Assessment Area**

CHART # 3

*BUSINESS DEMOGRAPHICS BY COUNTY**

COUNTY AND ASSESSMENT AREA(A/A)	Number of Businesses	Businesses with Rev. of $1 million or less		Businesses with Rev. of more than $1 million		Bussinesses with no revenues reported		Businesses with less than 50 employees		Operating from a single location	
	#	#	%	#	%	#	%	#	%	#	%
ERIE	54,197	34,635	63.9	3,834	7.1	15,728	29.0	42,796	78.96	45,793	84.5
CATTARAUGUS	4,743	3,141	66.2	222	4.7	1,380	29.1	3,806	80.2	4,002	84.4
CHAUTAUQUA	8,117	5,464	67.32	460	5.67	2,193	27.0	6,657	82.0	6,897	85.0
Total A/A**	67,057	43,240	64.5	4,516	6.73	19,301	28.8	53,259	79.4	56,692	84.5

*** Based on 2000 U.S. Census Data**
**** Assessment Area**

PERFORMANCE STANDARDS AND ASSESSMENT FACTORS

LSSL's performance was evaluated according to the small bank performance criteria, which include the following: (1) Loan-to-Deposit ("LTD") Ratio Analysis; (2) Assessment Area Concentration of Lending; (3) Geographic Distribution of Loans; (4) Distribution of Loans by Borrower Characteristics; and (5) Action Taken in Response to Written CRA-related Complaints.

The assessment period includes calendar years 2003 and 2004. Examiners considered HMDA-reportable, small business and home equity loans in evaluating factors 2, 3, and 4 as noted above. LSSL is primarily a home mortgage lender; accordingly, HMDA-reportable loans received greater emphasis in evaluating the association's performance.

Aggregate data for HMDA-reportable and small business loans were obtained from Federal Financial institutions Examination Council ("FFIEC") and PCi Corporation's CRA Wiz® software. Since LSSL is classified as a small banking institution, the Association does not report its annual small business lending for regulatory purposes and is not part of the market aggregate for small business loans. Therefore, aggregate small business loan data included in this report are used solely for reference purposes and not as benchmarks.

- **Loan-to-Deposit Ratio Analysis:** "Satisfactory"

The Association's LTD ratio is reasonable considering LSSL's size, financial condition and the credit needs of the assessment area.

LSSL's average LTD ratio was 78.6% during the 11 consecutive quarters ending December 31, 2004. This ratio is slightly above LSSL's average of 74.9% from the prior evaluation period. Both ratios are based on data from Schedule SC of the Association's quarterly Thrift Financial Reports, as filed with the federal government.

The following table illustrates LSSL's quarterly LTD ratios since the prior evaluation:

Loan-to-Deposit Ratios												
	2002			2003				2004				Average LTD
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Bank	76.7	76.1	80.7	76.9	74.6	73.1	81.4	81.1	80.9	81.2	82.1	78.6
Peer*	-	-	-	-	-	-	-	-	-	-	-	-

* Not Available

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

LSSL extended a substantial majority (95.2%) of its HMDA-reportable, small business, and home equity loans inside the assessment area. The table below illustrates the distribution of LSSL's HMDA-reportable, home equity and small business loans within and beyond the assessment area during the evaluation period:

Distribution of Loans Inside and Outside of the Assessment Area										
Loan Type	Number of Loans					Loans in Dollars (in thousands)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		$	%	$	%	
HMDA -2003	735	93.0	55	7.0	790	62,543	91.2	6,051	8.8	68,594
HMDA -2004	280	97.2	8	2.8	288	24,741	96.4	923	3.6	25,664
Subtotal	**1,015**	**94.2**	**63**	**5.8**	**1,078**	**87,284**	**92.6**	**6,974**	**7.4**	**94,258**
SBL*- 2003	62	95.4	3	4.6	65	5,691	98.0	115	2.0	5,806
SBL *- 2004	75	98.7	1	1.3	76	7,324	96.8	245	3.2	7,569
Subtotal	**137**	**97.2**	**4**	**2.8**	**141**	**13,015**	**97.3**	**360**	**2.7**	**13,375**
HEL** - 2003	280	97.2	8	2.8	288	10,304	96.1	413	3.9	10,717
HEL** - 2004	197	96.1	8	3.9	205	7,742	95.6	359	4.4	8,101
Subtotal	**477**	**96.8**	**16**	**3.2**	**493**	**18,046**	**95.9**	**772**	**4.1**	**18,818**
Total	**1,629**	**95.2**	**83**	**4.8**	**1,712**	**118,345**	**93.6**	**8,106**	**6.4**	**126,451**

*Small Business Loans
**Home Equity Loans

- **Geographic Distribution of Loans:** "Satisfactory"

The geographic distribution of LSSL's HMDA-reportable and home equity loans reflects a reasonable dispersion among census tracts of different income levels; however, the Association's distribution of small business loans was only marginally reasonable. The following analyses are based solely on loans made by LSSL within its assessment area.

HMDA-Reportable Loans

In 2003, the Association originated 5.0% of its HMDA-reportable loans in LMI geographies, which was lower than the aggregate's LMI penetration rate of 9.3%.

In 2004, the Association's LMI penetration rate increased to 7.5%; however, its LMI penetration rate remained weak compared to the aggregate's penetration rate of 12.6%.

The two branches that LSSL opened in 2003 had a negative impact on the Association's performance during the evaluation period. However, as lending in the expanded assessment area increases, the Association's lending in LMI areas should improve. The significant decrease in the number of HMDA-reportable loans originated by LSSL also adversely affected its LMI penetration rate.

The table at the top of the next page summarizes the geographic distribution of LSSL's HMDA-reportable loans during the evaluation period.

Distribution of HMDA-reportable Loans by Geographic Income Level								
	2003							
Geographic	Bank				Aggregate			
Income Level	#	%	$000	%	#	%	$000	%
Low	1	0.1	121	0.2	582	1.4	29,634	0.8
Moderate	36	4.9	1,499	2.4	3,253	7.9	170,734	4.5
Middle	555	75.5	45,484	72.7	22,197	53.9	1,722,893	45.5
Upper	142	19.4	15,349	24.6	15,176	36.7	1,859,899	49.2
Not Available	1	0.1	90	0.1	10	0.1	835	0.0
Total	**735**	**100.0**	**62,543**	**100.0**	**41,218**	**100.0**	**3,783,995**	**100.0**
	2004							
Geographic	Bank				Aggregate			
Income Level	#	%	$000	%	#	%	$000	%
Low	2	0.7	84	0.3	552	1.9	25,585	0.9
Moderate	19	6.8	719	2.9	3,125	10.7	168,713	6.2
Middle	187	66.8	15,145	61.2	16,175	55.5	1,309,842	48.5
Upper	72	25.7	8,793	35.6	9,230	31.7	1,192,439	44.2
Not Available	0	0.0	0	0.0	37	0.2	2,845	0.2
Total	**280**	**100.0**	**24,741**	**100.0**	**29,119**	**100.0**	**2,699,424**	**100.0**

Small Business Loans

The geographic distribution of the Association's small business loans reflects a marginally reasonable dispersion among census tracts of different income levels.

As previously stated, the Association is a small institution and thus is not included in aggregate data for the assessment area. Therefore, aggregate data have been included in this report solely as a reference and not for benchmarking purposes.

In 2003, the Association extended 4.8% of its small business loans to LMI borrowers within the assessment area. While the Association's LMI penetration rate increased to 10.6% in 2004, it was still weak. Given the demographics of the assessment area, the Association exhibited poor performance in this product category during the evaluation period.

The following chart summarizes the geographic distribution of LSSL's small business loans during the evaluation period.

Distribution of Small Business Loans by Geography Income Level								
	2003							
Geography	Bank				Aggregate			
Income Level	#	%	$000	%	#	%	$000	%
Low	2	3.2	169	3.0	1,409	6.4	81,417	8.9
Moderate	1	1.6	5	0.1	2,753	12.5	122,910	13.4
Middle	51	82.3	4,658	81.8	10,818	49.1	436,353	47.5
Upper	8	12.9	859	15.1	6,538	29.7	252,358	27.5
Not Available	0	0.0	0	0.0	506	2.3	25,081	2.7
Total	**62**	**100.0**	**5,691**	**100.00**	**22,024**	**100.0**	**918,119**	**100.0**
	2004							
Geography	Bank				Aggregate			
Income Level	#	%	$000	%	#	%	$000	%
Low	4	5.3	376	5.1	1,554	6.6	92,845	9.3
Moderate	4	5.3	390	5.3	2,726	11.7	125,544	12.6
Middle	47	62.7	2,721	37.2	11,688	50.0	497,266	50.0
Upper	20	26.7	3,837	52.4	6,921	29.6	256,075	25.7
Not Available	0	0.0	0	0.0	501	2.1	23,407	2.4
Total	**75**	**100.0**	**7,324**	**100.0**	**23,390**	**100.0**	**995,137**	**100.0**

Home Equity Loans

The geographic distribution of the Association's home equity loans reflects an adequate dispersion among census tracts of different income level.

In 2003, the Association extended 7.5% of its home equity loans in moderate-income and 78.9% in middle-income geographies of the assessment area. The assessment area's housing demographics for 2003 showed that 3.7% of the owner-occupied units were in low-income census tracts, 12.4% in moderate-income tracts and 56.1% in middle-income areas.

In 2004, the percentage of LSSL's home equity loans that were extended in moderate-income tracts increased to 9.1%. This LMI penetration rate reflects slight improvement the Association's performance in 2003 and remains reasonable based on the assessment area's housing demographics.

The table at the top of the next page summarizes the Association's home equity loan distribution by geographic income level:

Distribution of Home Equity Loans by Geography Income Level						
	2003					
Geography	Bank				Owner-Occupied, 1- to 4-Family Units	
Income Level	#	%	$000	%	#	%
Low	0	0.0	0	0.0	11,484	3.7
Moderate	21	7.5	597	5.8	38,486	12.4
Middle	221	78.9	8,014	77.8	174,116	56.1
Upper	38	13.6	1,693	16.4	86,282	27.8
Total	**280**	**100.0**	**10,304**	**100.0**	**310,368**	**100.0**
	2004					
Geography	Bank				Owner-Occupied, (1- to 4-Family Units)	
Income Level	#	%	$000	%	#	%
Low	0	0.0	0	0.0	11,484	3.7
Moderate	18	9.1	505	6.5	38,486	12.4
Middle	140	71.1	5,581	72.1	174,116	56.1
Upper	39	19.8	1,656	21.4	86,282	27.8
Total	**197**	**100.0**	**7,742**	**100.0**	**310,368**	**100.0**

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

The distribution of the Association's HMDA-reportable, small business and home equity loans reflects a reasonable dispersion among individuals of different income levels and businesses of different revenue sizes. The following analyses are based solely on loans made by LSSL within its assessment area.

HMDA-reportable Loans

The borrower distribution of the Association's HMDA-reportable loans reflects a reasonable penetration among individuals of different income levels.

In 2003, LSSL granted 14.7% of its HMDA-reportable loans to LMI borrowers, which was well below the market aggregate's LMI penetration rate of 24.5%.

In 2004, the Association's distribution of HMDA-reportable loans to LMI borrowers increased significantly to 24.6%, but remained lower than the aggregate's LMI penetration rate of 33.7%.

While the Association's LMI penetration rates were lower than the market aggregate, they are reasonable given the number of owner-occupied housing units located in LMI geographies within the assessment area. As noted in the Performance Context section of this report, approximately 16.1% of owner-occupied units in the Association's assessment area were in LMI geographies.

The following table summarizes the distribution of the Association's HMDA-reportable loans during the evaluation period:

Distribution of HMDA-Reportable Loans by Borrower Income Level*								
	2003							
Borrower	**Bank**				**Aggregate**			
Income Level	#	%	$**	%	#	%	$**	%
Low	26	3.5	958	1.5	2,675	6.5	125,569	3.3
Moderate	82	11.2	3,799	6.1	7,399	18.0	465,876	12.3
Middle	162	22.0	11,067	17.7	10,941	26.5	855,038	22.6
Upper	464	63.1	46,699	74.7	17,437	42.3	2,007,396	53.1
N/A***	1	0.1	20	0.0	2,766	6.7	330,116	8.8
Total	**735**	**100.0**	**62,543**	**100.0**	**41,218**	**100.0**	**3,783,995**	**100.0**
	2004							
Borrower	**Bank**				**Aggregate**			
Income Level	#	%	$**	%	#	%	$**	%
Low	18	6.4	779	3.1	2,832	9.7	137,109	5.1
Moderate	51	18.2	2,544	10.3	6,995	24.0	461,222	17.1
Middle	71	25.4	4,661	18.8	7,695	26.4	617,082	22.9
Upper	140	50.0	16,757	67.8	10,010	34.4	1,200,534	44.4
N/A***	0	0.0	0	0.0	1,587	5.5	283,477	10.5
Total	**280**	**100.0**	**24,741**	**100.0**	**29,119**	**100.0**	**2,699,424**	**100.0**

Small Business Loans

The distribution of LSSL's small business loans reflects a reasonable penetration among businesses of different sizes.

During the evaluation period, the Association extended a significant percentage of its small business loans to businesses with annual revenues of $1 million or less. In 2003, roughly two-thirds (67.7%) of the Association's small business loans were extended to businesses with annual revenues of $1 million or less. In 2004, the Association's performance improved, with 82.7% of its small business loans being originated for businesses with annual revenues of $1 million or less.

The table below illustrates the distribution of LSSL's small business loans inside the assessment area during the evaluation period:

Distribution of Small Business Loans by Business Revenue Size								
	2003							
Revenue	Bank				Aggregate			
Size	#	%	$000	%	#	%	$000	%
$1million or less	42	67.7	3,025	53.2	7,690	34.9	305,409	33.3
Over $1 million	17	27.4	2,623	46.1	N/A	N/A	N/A	N/A
No Revenue Info	3	4.9	43	0.7	N/A	N/A	N/A	N/A
Total	**62**	**100.0**	**5,691**	**100.0**	**22,024**	**100.0**	**918,119**	**100.0**
	2004							
Revenue	Bank				Aggregate			
Size	#	%	$000	%	#	%	$000	%
$1million or less	62	82.7	3,265	44.6	7,184	30.7	296,868	29.8
Over $1 million	8	10.7	3,446	47.1	N/A	N/A	N/A	N/A
No Revenue Info	5	6.6	613	8.3	N/A	N/A	N/A	N/A
Total	**75**	**100.0**	**7,324**	**100.0**	**23,390**	**100.0**	**995,137**	**100.0**

Home Equity Loans

The borrower distribution of the association's home equity loans reflects a reasonable dispersion among households of different income levels.

In 2003, the Association originated 28.2% of its home equity loans to LMI borrowers. In 2004, the Association's LMI penetration rate for home equity loans increased significantly, to 48.7%, and exceeded the percentage of assessment area households living in LMI areas (i.e. 40.6%).

Distribution of Home Equity Loans by Borrower Income Level						
	2003					
Borrower	Bank				Households	
Income Level	#	%	$000	%	#	%
Low	23	8.2	607	5.9	114,478	24.5
Moderate	56	20.0	1,768	17.2	75,254	16.1
Middle	90	32.1	3,159	30.7	83,971	18.0
Upper	93	33.2	4,075	39.5	193,723	41.4
Not Available	18	6.4	695	6.7	7	0.0
Total	**280**	**100.0**	**10,304**	**100.0**	**467,433**	**100.0**
	2004					
Borrower	Bank				Households	
Income Level	#	%	$000	%	#	%
Low	25	12.7	848	11.0	114,478	24.5
Moderate	71	36.0	2,334	30.1	75,254	16.1
Middle	54	27.4	2,365	30.5	83,971	18.0
Upper	39	19.8	1,874	24.2	193,723	41.4
Not Available	8	4.1	321	4.1	7	0.0
Total	**197**	**100.0**	**7,742**	**100.0**	**467,433**	**100.0**

The table above shows the distribution of LSSL's consumer loans among households of different income levels

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

Since the previous CRA evaluation, conducted as of March 31, 2002, neither the Association nor the New York State Banking Department has received any written complaints regarding the LSSL's CRA performance.

- **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 did not note any practices that would tend to discourage applications for the types of credit offered by the institution.

- **Evidence of Prohibited Discriminatory or Other Illegal Credit Practices**.

The compliance and fair lending examinations conducted concurrently with this CRA evaluation 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.

LSSL ascertains the credit needs of the assessment area mainly through active involvement in local community events and periodic contact with community groups. To serve the credit needs of its community, the Association's officers and senior management are encouraged to work with non-profit organizations such as: Chautauqua Opportunities, Chautauqua Home Rehabilitation and Improvement Corporations (CHRIC), and Core Area Preservation Company. These organizations primarily deal with LMI individuals and families whose financial needs are not being met.

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.

LSSL advertises regularly its credit services and products in newspapers and radio covering its assessment area. The Association participates with local realtors in home-buyer seminars and home shows.

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.

Board members are involved in the formulation of LSSL's CRA policies and programs. Proposed CRA programs are presented to the Board for their input and guidance. The Board established a CRA Committee which reviews the association's lending programs. CRA-related items discussed at the meetings are recorded in the Board's minutes.

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 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.

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 2000 US Census, the median family income is less than 80% of the area median family income. In the case of tracted areas that are part of a Metropolitan Statistical Area ("MSA") or Primary Metropolitan Statistical Area ("PMSA"), this would relate to the median family income for the MSA or PMSA in which the tracts are located. In the case of BNAs and tracted areas that are not part of a MSA or PMSA, the area median family income would be the statewide non-metropolitan median family income.

LMI Borrowers

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

LMI Individuals/Persons

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.