



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

**PUBLIC SUMMARY
ON-SITE**

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

Date of Evaluation: December 31, 2005

**Institution: Bank of Smithtown
100 Motor Parkway
Hauppauge, NY 11788**

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 evaluation of the Community Reinvestment Act (“CRA”) performance of the Bank of Smithtown (“BoS”) 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, 2005.

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 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

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

Lending Test - "Low Satisfactory"

BoS's was evaluated based on its origination of small business and HMDA-reportable loans during the evaluation period. Small business loans are Bos' primary lending product and as such were given greater emphasis in this evaluation.

- **Lending Activity**

BoS' lending levels reflect good responsiveness to assessment area credit needs.

In 2004, peer small business lending data show that BoS ranked 27th among 146 lenders in the assessment area, compared to 25th among 124 lenders in 2005.

However, the peer mortgage data for 2004 in the assessment area show that BoS ranked 177th among 435 HMDA-reporting lenders in 2004, compared to 188th among 445 lenders in 2005.

- **Assessment Area Concentration**

BoS originated a high percentage of its loans within the assessment area.

In 2004, BoS originated 86.8% of its small business loans inside the assessment area. In 2005, a slightly higher rate of 90.7% of the bank's small business loans were originated in the assessment area.

In 2005, the percentage of HMDA-reportable loans originated by BoS in the assessment area increased significantly to 64.3% from 50.8% in 2004.

- **Geographic Distribution of Loans**

The geographic distribution of loans reflects an adequate dispersion across the assessment area.

In 2004, BoS originated 10.5% of its small business loans in LMI geographies as compared to 16.3% for the aggregate. Its performance improved considerably in 2005 during which, 15.6% of its small business loans were originated in LMI census tracts. This rate is slightly below the LMI penetration rate of 16.8% achieved by the aggregate in 2005.

In 2004, BoS originated only 12.5% of its HMDA-reportable loans in LMI geographies, well below the LMI penetration rate of 25.5% for the aggregate. In 2005, BoS achieved a slightly higher LMI penetration rate of 14.8% for HMDA-reportable loans. However, this rate remained well below the aggregate's 2005 penetration rate of 27.4% in LMI geographies.

- **Borrower Characteristics**

The distribution of small business loans reflects an adequate penetration among businesses of different revenue categories. However, in HMDA-related lending, BoS' performance reflects a poor dispersion of loans among consumers of different income levels.

Over 50% of BoS's small business loans were extended to businesses with annual revenues of less than one million during the evaluation period. This exceeded the aggregate's 38.1% and 48.0% in 2004 and 2005, respectively.

In HMDA-reportable loans, although BoS' LMI penetration rate improved to 7.4% in 2005 from 6.2% in 2004, this is significantly lower than the aggregate's penetration rate of 21.4% in 2005.

- **Community Development Lending Activity**

BoS has an excellent level of community development loans. At this performance evaluation, BoS's community development loans totaled \$9.7 million, of which \$6.7 million (69.1%) represents new money.

- **Innovative or Flexible Lending Practices**

BoS makes limited use of flexible and innovative lending products. These loans include Small Business Administration's Section 504 guaranteed loan program and BoS's "Business Express Line of Credit" facility. The latter is a special credit facility developed by BoS, which requires less underwriting paperwork and less onerous repayment terms than those offered under its standard lines of credit. These innovative products generated approximately \$5 million in loans during the evaluation period.

Investment Test - "High Satisfactory"

- BoS has a significant level of community development investments, with \$2 million in qualified investments originated during the evaluation period. None of these investments was innovative or complex.

Service Test – High Satisfactory

- BoS's delivery systems are accessible to all portions of the assessment area. It has a network of 13 branches, of which one is located in a moderate-income geography and

six are in areas which are adjacent to LMI census tracts. All of BoS' branches have ATM's and offer convenient banking hours which include extended weekday and Saturday hours.

- BoS opened three branches during the evaluation period. One of these branches is located in a moderate-income geography, and one is in a middle-income geography that is adjacent to LMI census tracts.
- BoS provides an adequate level of community development services. Several of its officers are actively involved in community development organizations and regularly provide financial expertise to these organizations.

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:

Chartered in 1910, Bank of Smithtown ("BoS") is a full service commercial bank wholly owned by Smithtown Bancorp, Inc., a one-bank holding company. Products offered by BoS include a complete range of commercial and consumer financial services.

In addition to its head office located in Smithtown, New York, BoS operates 11 branches located in various towns of Suffolk County and a branch in the Town of North Hempstead in Nassau County. All of these offices are equipped with 24-hour, deposit taking automated teller machines (ATM's). BoS does not have any offsite ATM's.

As per the Federal Deposit Insurance Corporation's ("FDIC") Consolidated Report of Condition ("Call Report") as of December 31, 2005, BoS had total assets of \$878 million, of which \$692 million or 78.8%, consisted of net loans and leases and \$116 million or 13.2%, were investments in securities. As of the same date, total deposits were \$698 million, resulting in a LTD ratio of 99.2%. As of June 30, 2005, BoS was ranked 16th among 37 other deposit-taking institutions in its assessment area, obtaining a market share of 0.81% or \$646 million out of \$79.7 billion.

BoS is primarily a commercial loan and commercial real estate lender. The following table is a summary of BoS's lending portfolio, based on Schedule RC-C of the December 31, 2003, December 31, 2004 and December 31, 2005 Call Reports:

TOTAL GROSS LOANS OUTSTANDING						
LOAN TYPE	12/31/2003		12/31/2004		12/31/2005	
	\$000	%	\$000	%	\$000	%
1-4 Residential Mortgage Loans	63,345	13.8	101,146	17.7	90,490	12.9
Commercial & Industrial Loans	39,228	8.5	40,968	7.2	41,854	6.0
Commercial Mortgage Loans	259,126	56.4	280,013	49.1	357,052	51.0
Multifamily Mortgages	21,527	4.7	26,424	4.6	30,587	4.4
Consumer Loans	1,383	0.3	1,894	0.3	1,126	0.2
Construction Loans	74,753	16.3	120,204	21.1	178,510	25.5
Other Loans	315	0.1	190	0.0	512	0.1
Total Gross Loans	459,677	100.0	570,839	100.0	700,131	100.0

BoS received a rating of "2," reflecting a satisfactory record of helping to meet community credit needs at its prior Performance Evaluation conducted by the New York State Banking Department as of December 31, 2003.

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

Description of Assessment Area:

BoS's assessment area includes all of Suffolk County and certain portions of Nassau County. In the previous evaluation conducted as of December 31, 2003, the assessment area included only Suffolk County. In 2005, BoS expanded its assessment area to include the town of North Hempstead in Nassau County. The assessment area consists of 370 census tracts, of which, two, (0.5%) are low income, 65 (17.6%) are moderate-income, 223 (60.3%) are middle-income, 71 (19.2%) are upper-income, and 9 (2.4%) are zero-income tracts.

Distribution of Assessment Area Census Tracts by Income Level - 2005							
County	Zero	Low	Moderate	Middle	Upper	Total	LMI %
Suffolk	8	2	64	197	49	320	20.6
Nassau	1	0	1	26	22	50	2.0
Total	9	2	65	223	71	370	18.1

The assessment area appears reasonable based upon BoS's lending patterns. There is no evidence that LMI areas are arbitrarily excluded.

Suffolk County:

According to the 2005 Business Geodemographic Data report, 35.9% (47.8 thousand) of all firms in the county were service providers, 14.7% (19.6 thousand) were in retail trade, 10.9% (14.4 thousand) in construction, 7.6% (10.1 thousand) in finance, insurance, and real estate, 4.9% (6.5 thousand) in wholesale trade, 4.3% (5.8 thousand) in manufacturing, 3.7% (4.9 thousand) in transportation and communication, and 2.5% (3.4 thousand) in agriculture, forestry and fishing. Public Administration and mining combined accounted for less than 1% of all businesses while non-classifiable establishments comprised 14.9% (19.8 thousand) of all businesses in the county.

According to the Bureau of Labor Statistics, the average unemployment rate (not seasonally adjusted) for Suffolk County was 4.6% in 2004 and 4.2% in 2005, compared with 5.8% in 2004 and 5.0% in 2005 for New York State.

Nassau County:

According to the 2005 Business Geodemographic Data report, 39.1% (12.8 thousand) of all firms in the assessment area portion of the county were service providers, 13.1% (4.3 thousand) were in retail trade, 11.8% (3.9 thousand) in finance, insurance and real estate, 5.6% (1.8 thousand) in construction, 5.0% (1.6 thousand) in wholesale trade, and 3.1% (1.0 thousand) in manufacturing. Non-classifiable establishments made up 18.0% (5.9 thousand) of all firms while the aggregate number of businesses in agriculture, forestry and fishing; mining; transportation and communication; and public administration combined accounted for only 4.4% (1.4 thousand) of all firms in the assessment area portion of the county.

According to the Bureau of Labor Statistics, the average unemployment rate (not seasonally adjusted) for Nassau County was 4.5% in 2004 and 4.1% in 2005, compared with 5.8% in 2004 and 5.0% in 2005 for New York State.

Detailed statistics pertaining to the aforementioned counties are presented in Chart #1, which shows population and income data, Chart #2, which shows housing demographics, and Chart#3, which contains business demographic characteristics.

CHART # 1

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	
		#	%	#	%				#	%		#	%	#	%	#	%	#	%	#	%
Suffolk	1,419,369	167,558	11.8	332,521	23.4	74,455	88,850	469,535	26,498	5.6	362,857	70,052	19.3	72,922	20.1	91,882	25.3	128,001	35.3	44,099	30.8
Nassau	222,611	37,035	16.6	46,656	21.0	102,165	88,850	76,880	3,507	4.6	58,836	8,415	14.3	8,527	14.5	11,272	19.2	30,622	52.0	1,052	6.2
TOTAL A/A*	1,641,980	204,593	12.5	379,177	23.1	78,322	88,850	546,415	30,005	5.5	421,693	78,467	18.6	81,449	19.3	103,154	24.5	158,623	37.6	45,151	28.2

* Assessment Area ** In thousands

CHART # 2

ASSESSMENT AREA HOUSING CHARACTERISTICS BY COUNTY																			
COUNTY	Total	1-4 family		Multifamily		Owner-Occupied		O-O Units in		O-O Units in		O-O Units in		O-O Units in		Rental		Vacant/	
	Housing Units	Units		Units		Units (O-O)		Low-income Tracts		Mod-income Tracts		Mid-income Tracts		Upp-income Tracts		Units		Boarded-up Units	
		#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%
SUFFOLK	522,323	484,343	92.7	37,980	7.3	374,371	71.7	749	0.2	72,628	19.4	238,100	63.6	62,894	16.8	101,107	19.4	53,024	10.2
NASSAU	78,927	67,529	85.6	11,398	14.4	60,270	76.4	0.0	0.0	1,085	1.8	31,220	51.8	27,965	46.4	17,198	21.8	2,107	2.7
TOTAL A/A*	601,250	551,872	91.8	49,378	8.2	434,641	72.3	869	0.2	73,889	17.0	269,043	61.9	90,840	20.9	118,305	19.7	55,131	9.2

* Assessment Area

CHART # 3

<i>BUSINESS DEMOGRAPHICS BY COUNTY</i>											
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	
		#	%	#	%	#	%	#	%	#	%
SUFFOLK	133,142	88,044	66.1	7,722	5.8	37,376	28.1	101,405	76.2	123,228	92.6
NASSAU	32,834	20,994	63.9	2,109	6.4	9,731	29.6	24,267	73.9	30,443	92.7
Total A/A	165,976	109,038	65.7	9,831	5.9	47,107	28.4	125,672	75.7	153,671	92.6

PERFORMANCE TESTS AND ASSESSMENT FACTORS

This evaluation entails a review of BoS's lending, investment and service activities within the bank's assessment area as provided for in Parts 76.8, 76.9 and 76.10 of the General Regulations of the Banking Board. The evaluation covers the years 2002 and 2003.

Statistics employed in this evaluation were derived from various sources. In addition to bank-specific loan information submitted by BoS, aggregate data for small business and HMDA-reportable loans were obtained from the Federal Financial Institutions Examination Council ("FFIEC") and PCi Corporation's CRAWiz[®] software. Demographic information within the evaluation reflects data from the 2000 U.S. Census, supplemented by median family income estimates for 2004 and 2005 from the U.S. Department of Housing and Urban Development ("HUD").

I. Lending Test: "Low Satisfactory"

BoS's lending performance was evaluated pursuant to the following criteria: (1) Lending Activity; (2) Assessment Area Lending; (3) Geographic Distribution; (4) Borrower Characteristics; (5) Community Development Lending and (6) Flexible and/or innovative Lending Practices. The analysis of factors (1) to (4) above focus primarily on BoS's small business and HMDA-reportable loans. In evaluating BoS's performance, small business lending received the most weight because small business lending volume greatly exceeded the HMDA-reportable lending activity.

Lending Activity: "High Satisfactory"

BoS's lending levels reflect good responsiveness to the assessment area's credit needs. Although the volume of small business and HMDA-reportable loans originated by BoS in its assessment area has declined since the previous evaluation, it remains at an acceptable level. Given the size, financial condition, and the highly competitive market in which BoS operates, lending activity is rated highly satisfactory.

Small Business Loans

BoS's small business lending performance during the evaluation period reflects a good responsiveness to the credit needs of the assessment area.

Based on market share data obtained from CRAWiz, BoS was ranked 27th among 146 lenders with a market share of 0.18% based on number of loans in 2004. Although its market share fell slightly to 0.15% in 2005, BoS's ranking improved to 25th among 124 small business lenders in the assessment area.

HMDA-Reportable Loans

BoS' HMDA-reportable lending activity during the evaluation period reflects an adequate responsiveness to assessment area credit needs.

In 2004, BoS achieved a market share of 0.04% for HMDA-reportable lending based on number of loans and ranked 177th among 435 reporting lenders within the assessment area. In 2005, BoS's market share for HMDA-reportable loans was 0.03% and ranked 188th among 445 reporting lenders.

Assessment Area Concentration: “High Satisfactory”

BoS originated a high percentage of its small business loans and a majority of its HMDA-reportable loans within the assessment area.

Small Business Loans

In 2004, BoS originated 86.8% of its small business loans inside the assessment area. Although the total number of small business loans originated by BoS in 2005 decreased by 18%, the percentage of these loans originated in the assessment area improved to 90.7%. Inside the assessment area, the dollar ratio increased to 85.2% in 2005 from 74.8% in 2004.

HMDA-Reportable Loans

In 2004, 50.8% of BoS's total HMDA-reportable loans were originated inside the assessment area. In 2005, the bank's assessment area concentration ratio for HMDA-reportable loans increased to 64.3%.

The following table shows the percentage BoS's small business and HMDA-reportable loans originated inside and outside of the assessment area

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
	#	%	#	%	#	\$	%	\$	%	\$
Small Business Loans										
2004	171	86.8	26	13.2	197	35,673	74.8	12,050	25.2	47,723
2005	147	90.7	15	9.3	162	30,829	85.2	5,347	14.8	36,176
Subtotal	318	88.6	41	11.4	359	66,502	79.3	17,397	20.7	83,899
HMDA-Reportable Loans										
2004	32	50.8	31	49.2	63	12,087	23.0	40,518	77.0	52,605
2005	27	64.3	15	35.7	42	15,538	29.8	36,671	70.2	52,209
Subtotal	59	56.2	46	43.8	105	27,625	26.4	77,189	73.6	104,814
Total	377	81.3	87	18.7	464	94,127	49.9	94,586	50.1	188,713

Geographic Distribution of Loans: “Low Satisfactory”

The geographic distribution of BoS's lending reflects an adequate dispersion throughout the assessment area.

Small Business Loans

The geographic distribution of small business loans reflects an adequate dispersion throughout the assessment area.

In 2004, BoS's LMI penetration rate of 10.5% was well below the aggregate's 16.3% as well as the 16% concentration of businesses located in the LMI areas. However, in 2005, despite the notable decline in small business loan originations, BoS's LMI penetration rate improved to 15.6% but still lower than the 16.8% LMI penetration rate for the aggregate. The concentration of businesses located in the LMI areas was 16% in 2005.

The following table shows the geographic distribution of small business loans for 2004 and 2005:

Distribution of Small Business Loans by Geographic Income Level*								
2004								
Geography Income Level	Bank				Aggregate			
	#	%	\$000	%	#	%	\$000	%
Low	0	0.0		0.0	245	0.4	9,860	0.5
Moderate	18	10.5	3,304	9.3	10,230	15.9	314,655	15.8
Middle	122	71.3	26,397	74.0	40,407	62.7	1,214,490	60.8
Upper	31	18.1	5,972	16.7	13,567	21.1	457,426	22.9
NA					1	0.0	100	
Total	171	100.0	35,673	100.0	64,450	100.0	1,996,531	100.0
2005								
Geography Income Level	Bank				Aggregate			
	#	%	\$000	%	#	%	\$000	%
Low	0	0.0	0	0.0	275	0.4	13,157	0.6
Moderate	23	15.6	7,280	23.6	10,508	16.4	351,525	16.9
Middle	102	69.4	19,116	62.0	39,654	62.0	1,237,425	59.5
Upper	22	15.0	4,433	14.4	13,492	21.1	478,789	23.0
NA					4	0.0	131	0.0
Total	147	100.0	30,829	100.0	63,933	100.0	2,081,027	100.0

* Geography income levels for 2004 data are based upon 2000 Census data on median family income figures for the MSA where the business is located. Geography income levels for 2005 data are based upon 2000 Census data. 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%.

HMDA-Reportable Loans

The geographic distribution of HMDA-reportable loans reflects a poor dispersion among census tracts of different income levels.

While BoS's LMI lending performance in HMDA-related loans improved to 14.8% in 2005 from 12.5% in 2004, it remained well below the aggregate's penetration rate of over 25%. BoS's weak performance in HMDA-related lending was further highlighted by the 17.2% owner-occupied housing units in its assessment area located in LMI census tracts.

The following table shows the geographic distribution of HMDA-reportable loans compared to the aggregate for calendar years 2004 and 2005:

Distribution of HMDA-reportable Loans by Geographic Income Level*								
2004								
Geography Income Level	Bank				Aggregate			
	#	%	\$000	%	#	%	\$000	%
Low	0	0.0	0	0.0	357	0.4	65,860	0.3
Moderate	4	12.5	1,553	12.8	21,389	25.1	4,342,814	20.2
Middle	22	68.8	7,703	63.7	51,923	60.9	12,919,839	60.0
Upper	6	18.8	2,831	23.4	11,647	13.7	4,193,480	19.5
NA	0	0.0	0	0.0	8	0.0	1,501	0.0
Total	32	100.0	12,087	100.0	85,324	100.0	21,523,494	100.0
2005								
Geography Income Level	Bank				Aggregate			
	#	%	\$000	%	#	%	\$000	%
Low	0	0.0	0	0.0	470	0.6	89,053	0.4
Moderate	4	14.8	2,368	15.2	21,959	26.8	4,908,287	21.5
Middle	14	51.9	10,340	66.5	49,171	59.9	13,553,629	59.4
Upper	9	33.3	2,830	18.2	10,460	12.7	4,251,864	18.6
NA					21	0.0	4,325	0.0
Total	27	100.0	15,538	100.0	82,081	100.0	22,807,158	100.0

* Geography income level is based upon 2000 Census data on median family income figure for the MSA of the mortgaged property. Low-income is defined as <50% of the MSA median, moderate-income is 50% to <80% of the MSA median income, middle-income is 80% to <120%, and upper-income is at least 120%.

Borrower Characteristics: “Low Satisfactory”

The distribution of small business loans by borrower income levels reflects an adequate penetration among businesses of different revenue categories. However, BoS’s HMDA-related lending performance reflects a poor dispersion of loans among consumers of different income levels.

Small Business Loans

In 2004, 50.9% of total small business loans originated by BoS in the assessment area were extended to businesses with annual revenues of \$1 million or less compared to the aggregate’s 38.1%. BoS continued to outperform the aggregate in 2005, with 52.5% of its business loans extended to businesses in this category. However, BoS’s performance was well below the percentage of all businesses in the assessment area with revenues at this level.

The following table illustrates the distribution of loans based on business revenue size:

Distribution of Small Business Loans by Business Revenue Size								
2004								
Revenue Size	Bank				Aggregate			
	#	%	\$000	%	#	%	\$000	%
\$1million or less	87	50.9	18,591	52.1	24,560	38.1	735,751	36.9
Over \$1 million	76	44.4	15,540	43.6				
No Revenue Info	8	4.7	1,542	4.3				
Total	171	100.0	35,673	100.0	64,450	100.0	1,996,531	100.0
2005								
Revenue Size	Bank				Aggregate			
	#	%	\$000	%	#	%	\$000	%
\$1million or less	77	52.4	14,588	47.3	30,659	48.0	848,185	40.8
Over \$1 million	56	38.1	13,935	45.2				
No Revenue Info	14	9.5	2,306	7.5				
Total	147	100.0	30,829	100.0	63,933	100.0	2,081,027	100.0

HMDA-Reportable Loans

In 2004, only 6.2% of BoS's HMDA-reportable loans were extended to LMI borrowers as compared to 26.3% for the aggregate. BoS's lending to LMI borrowers improved slightly to 7.4% in 2005; however, this ratio was still well below the aggregate's LMI penetration rate of 21.4%. Additionally, BoS's LMI lending performance ratios do not compare favorably with the demographics of the assessment area, where 37.9% of all families are low-to-moderate income families.

The following table shows the distribution of BoS' HMDA-reportable loans based on borrower income levels:

Distribution of HMDA-reportable Loans by Borrower Income Level*								
2004								
Borrower Income Level	Bank				Aggregate			
	#	%	\$000	%	#	%	\$000	%
Low	1	3.1	60	0.5	4,504	5.3	536,632	2.5
Moderate	1	3.1	188	1.6	17,908	21.0	3,145,165	14.6
Middle	5	15.6	1,265	10.5	27,750	32.5	5,898,390	27.4
Upper	20	62.5	7,747	64.1	29,298	34.3	10,254,193	47.6
Not Available	5	15.6	2,827	23.4	5,864	6.9	1,689,114	7.8
Total	32	100.0	12,087	100.0	85,324	100.0	21,523,494	100.0
2005								
Borrower Income Level	Bank				Aggregate			
	#	%	\$000	%	#	%	\$000	%
Low	1	3.7	40	0.3	3,063	3.7	367,969	1.6
Moderate	1	3.7	130	0.8	14,521	17.7	2,722,925	11.9
Middle	7	25.9	1,733	11.2	27,540	33.6	6,215,896	27.3
Upper	13	48.1	7,755	49.9	32,099	39.1	11,957,414	52.4
Not Available	5	18.5	5,880	37.8	4,858	5.9	1,542,954	6.8
Total	27	100.0	15,538	100.0	82,081	100.0	22,807,158	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"

BoS has an excellent level of community development loans and commitments totaling \$9.7 million, of which \$6.7 million (69.1%) represents new money. Two of the new loans were used to fund businesses located in areas in the assessment area, which are being revitalized and have been designated as economic development zones. One loan was extended to a non-profit organization, which provides services to LMI individuals.

The following is a brief description of Bos's community development loans, which were originated during the evaluation period:

- In 2004, BoS extended a \$1.8 million loan commitment to finance the purchase of a building located at the Calverton Enterprise Park in Calverton, New York, which has been designated as an economic development zone. The use of the building in the business will result in the creation of jobs and will revitalize the community.
- In 2005, BoS extended a \$1.7 million consolidation loan, which was used to convert the borrower's construction bridge loan and real estate acquisition loan into one permanent financing loan. The aforementioned loans were used for the establishment of a day care center in the Town of Brookhaven Empire Development Zone in Suffolk County. The operation of the day care center in this economic development zone helps in the revitalization of the community by providing jobs and services to its residents.

- In 2005, BoS extended to a non-profit organization a \$3.2 million loan that was used for the purchase of real estate property in Yaphank, New York. The property, which is in a moderate-income area, was acquired for the purpose of relocating the organization's Long Island operations to this new location. The organization's funding/revenue is derived from several New York State government agencies, including Medicaid. Its main program is to rehabilitate emotionally troubled youth as well as hearing impaired and learning disabled adolescents, mixing education with vocational training to provide them with a means for self-sufficiency and a crime-free adult life.

In addition to the above loans, two of the community development loans originated in the prior evaluation period remains outstanding with a combined balance of \$3 million as of December 31, 2005. One of these loans was extended to a corporation located in a New York State Empire Zone and the other was to a nursing facility, which provides affordable medical services to LMI individuals.

Innovative or Flexible Lending Practices: "Low Satisfactory"

BoS makes limited use of flexible and innovative lending products. BoS is a participating lender in the Small Business Administration's Section 504 guaranteed loan program. This program allows for a higher loan-to-value ratio and a smaller equity injection than what BoS's policy guidelines usually require. During the evaluation period, BoS originated seven loans totaling \$3.7 million under this program.

BoS also offers an internally developed flexible loan product, "Business Express Line of Credit" to small business owners. This facility requires less underwriting paperwork and allows for the repayment of the line to be spread out over a period of 36 months, which is less onerous than the annual 30 day clean up period required under BoS's regular lines of credit. BoS has issued 22 commitments totaling \$1.3 million under this facility since August 2005.

II. Investment Test – High Satisfactory

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

BoS has a significant level of community development investments. At this evaluation, qualified investments totaled \$2 million, all of which represents new money. While the level of qualified investments is relatively high, these investments were neither innovative nor complex.

BoS's qualified investments consist of the following:

CRA Qualified Investment Fund – In 2004, BoS invested \$1 million in this Fund, which was allocated to a Fannie Mae mortgage pool financing the mortgages of LMI borrowers in Suffolk County.

Senior Housing Crime Prevention Foundation Investment Corp. - In 2005, \$1 million was invested in this corporation, whose primary mission is the prevention of crime in housing facilities for LMI seniors through its support of the Sr. Crimestoppers Program. The investment was channeled into a local senior residence facility in Smithtown, New York.

III. Service Test: “High Satisfactory”

The service test evaluates an institution's record of helping to meet the credit needs of its assessment area by reviewing the availability and effectiveness of the institution's systems for delivering both retail banking and community development services.

Retail Banking Services: “High Satisfactory”

Accessibility of Delivery Systems

BoS's retail service delivery systems are accessible to essentially all portions of the assessment area.

BoS has deposit-taking automated teller machines (“ATM's”) at each of its 13 branches. Additionally, alternative delivery systems such as banking by mail, banking by phone and online internet banking services are available for convenient access to banking services during non-banking hours. Of the total branches, one is located in a moderate-income tract, ten in middle-income tracts and two in upper-income tracts. There are six non-LMI branches but are located in census tracts adjacent to LMI areas.

Changes in Branch Locations

BoS opened three branches during the evaluation period. One of these branches is located in a moderate-income geography and one in a middle-income geography that is adjacent to LMI census tracts. The third branch was opened in an upper-income census tract. BoS did not close any branch during the evaluation period.

Reasonableness of Business Hours and Services in Meeting Assessment Area Needs

BoS's branches offer convenient banking hours which do not vary in a way that inconveniences certain portions of the assessment area. Each branch offers extended weekday hours one day per week. All branches have Saturday business hours with five of these branches staying open until 4:00 PM. Nine branches have drive-in facilities. BoS offers a free checking account service that is as advantageous to consumers as the standard basic banking account.

Community Development Services: “Low Satisfactory”

BoS provides an adequate level of community development services. During the evaluation period, several officers of BoS provided their financial expertise to community development organizations operating in the assessment area. A brief description of their involvement with these organizations is as follows:

- The executive vice president of BoS served as the president and board member of the Nassau-Suffolk Business Development Corporation.
- The aforementioned individual is also a member of the Loan Committee of the Community Development Corporation of Long Island while another officer of BoS serves as a member of the Small Business Lending Advisory Committee of this organization.
- An officer of BoS serves in the Finance Committee of the local chapter of United Way.

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 of BoS conducted in November 2006 indicate satisfactory adherence to anti-discrimination and other applicable laws and regulations. No evidence of prohibited discrimination or other illegal credit practices was noted.

V. Process Factors

Activities conducted by the banking institution to ascertain the credit needs of its community, including the extent of the banking institution’s efforts to communicate with members of its community regarding the credit services being provided by the banking institution.

BoS’s lending officers maintain relationships with several community organizations. Some of these organizations refer small business owners to BoS for loans.

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.

BoS does not use traditional means to market its credit services. One of the methods used by the bank is participation in housing fairs and expos designed to attract potential borrowers.

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.

CRA matters are discussed at quarterly compliance and CRA committee meetings. The audit committee of the board of directors is responsible for overseeing these committees.

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 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 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.