



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, 2005

Institution: First State Bank
3 Main Street
Canisteo, NY 14823

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 First State Bank, Canisteo ("FSB") 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 ("LMI") areas, consistent with safe and sound operations.

Part 76 of the General Regulations of the Banking Board implements Section 28-b and further requires that the Banking Department assess the CRA performance records of regulated financial institutions. Part 76 establishes the framework and criteria by which the Department will evaluate the performance. Section 76.5 further provides that the Banking Department will prepare a written report summarizing the results of such assessment and will assign to each institution a numerical CRA rating based on a 1 to 4 scoring system. The numerical scores represent an assessment of CRA performance as follows:

- (1) outstanding record of meeting community credit needs;
- (2) satisfactory record of meeting community credit needs;
- (3) needs to improve record of meeting community credit needs; and
- (4) substantial noncompliance in meeting community credit needs.

Section 76.5 further requires that the CRA rating and the written summary be made available to the public ("Evaluation"). Evaluations 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. The 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

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

- ***Loan-to-Deposit ("LTD") Ratio and Other Lending-Related Activities:*** FSB's LTD ratio is considered reasonable in light of its size, financial condition and the credit needs of its assessment area. FSB enhanced the availability of credit in its assessment area with \$119 thousand in community development loans as of evaluation date.
- ***Assessment Area Concentration:*** FSB extended a majority of loans in the assessment area. Of the combined HMDA-related, small business and consumer loans originated by FSB, 84.1% by number and 74.0% by dollar volume were extended within the assessment area during the evaluation period.
- ***Geographic Distribution of Loans:*** FSB's geographic distribution of loans reflects a reasonable dispersion among moderate and middle income census tracts. There are no low and upper-income geographies within the assessment area.

During the evaluation period, FSB's level of HMDA-related, small business and consumer lending in moderate-income and middle-income areas is consistent with the demographics of the assessment area.

- ***Distribution by Borrowers Characteristics:*** FSB's lending distribution in the assessment area reflects an excellent penetration among businesses of different sizes and reasonable among individuals of different income levels. FSB's LMI penetration rates for HMDA-related loans are consistent with the percentage of LMI families in LMI census tracts of the assessment area. Over 90% of FSB's small business loans were extended to businesses with revenues of \$1 million or less.
- Neither FSB nor the New York State Banking Department received any complaints with respect to the bank's CRA 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:

Chartered in 1897, FSB is a retail commercial bank headquartered in Canisteo, Steuben County, New York. FSB is a wholly owned subsidiary of Canisteo Valley Corporation ("CVC"), a holding company formed in 1998. In 2005, CVC and its subsidiary were acquired by Citizens and Northern Corporation ("C&N"), a bank holding company domiciled in Wellsboro, PA.

FSB operates two full service banking offices: one at its headquarters and a branch in South Hornell. Supplementing each banking office is an automated teller machine ("ATM") network at each office. FSB has not opened or closed any branch office since the prior evaluation. It competes with larger banks and tax exempt entities in the area.

As per the Federal Deposit Insurance Corporation's ("FDIC") Consolidated Report of Condition ("Call Report") as of December 31, 2005, FSB reported total assets of \$44.5 million, of which \$21.5 million were net loans and lease finance receivables. It also reported total deposits of \$37.1 million, resulting in a loan-to-deposit ratio of 57.9%. According to the latest available comparative deposit data dated June 30, 2005, FSB obtained a market share of 5.1%, or \$38.7 million out of \$754 million inside its market, ranking it 6th among eight deposit-taking institutions in Steuben County.

FSB provides several types of credit products including small business loans, commercial mortgages, agricultural loans, lines of credit and credit cards, home equity loans, personal secured and unsecured loans, and residential loans. The following is a summary of the lending portfolio, based on Schedule RC-C of the bank's 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	10,258	32.9	9,564	34.1	7,909	36.1
Commercial & Industrial Loans	8,583	27.5	6,625	23.6	4,089	18.7
Commercial Mortgage Loans	5,869	18.8	5,666	20.2	5,258	24.0
Consumer Loans	3,237	10.4	2,858	10.2	2,721	12.4
Agricultural Loans	280	0.9	209	0.7	253	1.2
Construction Loans	544	1.7	964	3.4	0	0.0
Other Loans	2,407	7.7	2,187	7.8	1,658	7.6
Total Gross Loans	31,178	100.0	28,073	100.0	21,888	100.0

FSB is primarily a residential real estate lender, with 36.1% of its loan portfolio in 1-4 family residential real estate loans at year-end 2005. The overall portfolio had shrunk by 29.8% between years-ended 2003 and 2005, with residential real estate loans declining 22.9% and commercial and industrial loans declining 52.4%.

FSB's participation in governmentally guaranteed or sponsored loan programs includes the following:

- Small Business Administration Loan Guarantee Program
- New York State Linked Deposit Program
- U.S. Department of Agriculture Rural Development Program

FSB 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 FSB's ability to meet the credit needs of its community.

Assessment Area:

FSB's assessment area comprises a portion of Steuben County including the townships of Dansville, Fremont, Avoca, Hornellsville, Howard, Canisteo, Thurston, Cameron, Rathbone, Hartsville, Greenwood, Jasper, West Union and Troupsburg.

There are nine census tracts in the area consisting of one moderate-income and eight middle-income tracts. There are no low-income and upper-income tracts in the assessment area.

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

Details of Assessment Area:

Population and Income - In 2000, the assessment area had a population of 31.0 thousand of which 4.5 thousand (14.6%) were over 65 years of age and 7.5 thousand (24.3%) were under the age of 16. There were 8.1 thousand families in the assessment area of which 1.8 thousand (21.7%) were low-income, 1.6 thousand (19.9%) moderate-income, 1.9 thousand (23.8%) middle-income and 2.8 thousand (34.7%) upper-income families. Of the 3.4 thousand LMI families in the county, 0.4 thousand (11.6%) lived in LMI tracts. There were 11.8 thousand households in the area of which 1.7 thousand (14.1%) had incomes below poverty level.

Housing Characteristics- There were 14.2 thousand housing units in the assessment area consisting of 13.8 thousand (97.0%) 1-4 family units and 0.5 thousand (3.0%) multifamily units. The 8.7 thousand owner-occupied units or 61.0% of the total housing units consisted of 0.6 thousand units (6.4%) in moderate-income tracts and 8.2 thousand units (93.6%) in middle-income tracts. There were no housing units in low and upper-income tracts. There were 3.6 thousand (25.0%) rental units and 2.4 thousand (17.0%) vacant units. The median housing value was \$54.4 thousand and the median age was 36 years.

The 2000 median family income for the assessment area was \$39.4 thousand and the HUD updated median family income for all rural (non- MSA) was \$48.6 thousand.

Business Demographics- In 2005, there were 1.5 thousand non-farm businesses located in the assessment area of which 57.5% had revenues of \$1 million or less, 4.1% had revenues of more than \$1 million and 38.4% did not report revenues. Businesses with less than 50 employees totaled 1.3 thousand or 75.6% in the area, and 1.4 thousand or 86.1% operated from a single location.

In 2005, the major industries in Steuben County consisted of 517 (30.8%) in services, 283 (16.8%) in non-classified establishments, 267 (15.9%) in retail trade, and 177 (10.5%) in agriculture, forestry and fishing.

The U.S. Department of Labor, Bureau of Labor Statistics annual unemployment rate for Steuben County was 6.4% for 2004 and 5.8% for 2005 compared to New York State's annual rates of 5.8% and 5.0%, respectively.

PERFORMANCE STANDARDS AND ASSESSMENT FACTORS

FSB's performance was 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 evaluation period included calendar years 2004 and 2005. Examiners considered HMDA-related¹, small business and consumer lending in evaluating factors (2), (3) and (4), as noted above. The 226 samples totaling \$6.3 million were selected at random from FSB's 671 loans amounting to \$10.6 million originated during 2004 and 2005. HMDA-related and small business loans received equal weight as they constitute the majority of FSB's loan portfolio.

The demographic data referred to in this report was obtained from the 2000 U.S. Census, with an updated median family income figures provided by HUD.

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

FSB's LTD ratio is reasonable considering its size, financial condition and the credit needs of the assessment area. In the prior evaluation conducted by the New York State Banking Department as of December 31, 2003, FSB received an outstanding rating in this component.

FSB's average LTD ratio for the eight quarters ending December 31, 2005 was 67.06%, which is below the peer group's average of 70.88%. FSB's peer group includes all insured commercial banks having assets less than or equal to \$50 million in a non-metro area with more than one full service office. These ratios were calculated from information shown in the bank's Uniform Bank Performance Report ("UBPR") prepared by the Federal Deposit Insurance Corporation ("FDIC"). As shown in the table below, FSB's LTD ratios went from 75.18% in the first quarter of 2004 to a low 57.87% at the 4th quarter of 2005. Its ratios were slightly higher than the peer group in 2004 but started to lag the peer in the first quarter of 2005.

Loan-to-Deposit Ratios									
	3/31/04	6/30/04	9/30/04	12/31/04	3/31/05	6/30/05	9/30/05	12/31/05	Average LTD
Bank	75.18	71.37	70.27	71.74	67.71	62.14	60.16	57.87	67.06
Peer	67.79	70.08	71.78	69.69	69.67	72.37	73.77	71.91	70.88

¹FSB is exempt from annual HMDA data reporting requirements as it does not have an office within an MSA.

FSB enhanced the availability of credit in its assessment area through the community development loans granted to non profit organizations that promote economic development and affordable housing. As of the evaluation date, FSB's community development loans totaled \$119 thousand.

- **Assessment Area Concentration: "Satisfactory"**

FSB originated a majority of its loans within 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
	#	%	#	%		\$	%	\$	%	
HMDA- Related										
2004	29	87.9	4	12.1	33	1,170	90.1	128	9.9	1,298
2005	22	91.7	2	8.3	24	736	90.8	75	9.2	811
Subtotal	51	89.5	6	10.5	57	1,906	90.4	203	9.6	2,109
Small Business										
2004	11	55.0	9	45.0	20	573	35.8	1,026	64.2	1,599
2005	14	73.7	5	26.3	19	1,275	85.9	210	14.1	1,485
Subtotal	25	64.1	14	35.9	39	1,848	59.9	1,236	40.1	3,084
Consumer										
2004	56	88.9	7	11.1	63	267	87.5	38	12.5	305
2005	58	86.6	9	13.4	67	419	83.0	86	17.0	505
Subtotal	114	87.7	16	12.3	130	686	84.7	124	15.3	810
Total	190	84.1	36	15.9	226	4,440	74.0	1,563	26.0	6,003

HMDA-Related Loans

FSB originated a substantial majority of its HMDA-related loans within the assessment area.

FSB's loan originations in 2005 were approximately 27% less than its origination in 2004. However, HMDA-related loans origination inside the assessment area increased to 91.7% by number and to 90.8% by dollar volume in 2005.

Small Business Loans

Compared to the previous evaluation period, FSB originated a majority of its small business loans during this evaluation. At the previous evaluation, only 17.1% by number and 10.3% by dollar volume of FSB's small business loans were originated within the assessment area.

In 2005, the concentration of small business loans in the assessment area increased to 73.7% from 55.0% in 2004 by number and to 85.9% from 35.8% by dollar volume.

Consumer Loans

FSB originated a substantial majority of its consumer loans inside the assessment area.

While there were more loans extended in 2005 compared to loans extended in 2004, the concentration ratio of loans made inside the assessment area decreased to 86.6% from 88.9% by number and to 83.0% from 87.5% by dollar volume.

- **Geographic Distribution of Loans: “Satisfactory”**

The geographic distribution of loans reflects a reasonable dispersion among census tracts of different income levels.

Since there are no low and upper census tracts in the assessment area, an analysis of the lending distribution across middle-income tract was performed.

HMDA-Related Loans

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

The following chart provides a summary of FSB’s HMDA-related lending distribution during the evaluation period:

Distribution of HMDA-related Loans by Geographic Income Level*						
Geography Income Level	Bank				Owner Occupied Units	
	#	%	\$000	%	#	%
Low	0	0.0%		0.0%	0	0.0
Moderate	1	3.4%	23	2.0%	1,202	6.4
Middle	28	96.6%	1,147	98.0%	13,040	93.6
Upper	0	0.0%		0.0%	0	0.0
Total	29	100.0%	1,170	100.0%	14,242	100.0
Geography Income Level	Bank				Owner Occupied Units	
	#	%	\$000	%	#	%
Low		0.0%		0.0%	0	0.0
Moderate	1	4.5%	40	5.4%	1,202	6.4
Middle	21	95.5%	696	94.6%	13,040	93.6
Upper		0.0%		0.0%	0	0.0
Total	22	100.0%	736	100.0%	14,242	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%.

In 2004, FSB originated 29 HMDA-related loans totaling \$1.2 million in the assessment area with penetration rates in moderate-income areas of 3.4% in number and 2.0% in dollar volume, respectively. In 2005, FSB's HMDA-related loans declined to 22 loans totaling \$736 thousand from 29 loans in 2004. Its performance in moderate-income and middle-income areas for both years was reasonable compared to the percentage of owner-occupied units located in moderate-income and in middle-income areas of the assessment area.

Small Business Loans

FSB's geographic distribution of small business loans reflects a reasonable dispersion among census tracts of different income levels.

The following chart provides a summary of FSB's small business lending distribution during the evaluation period:

Distribution of Small Business Loans by Geographic Income Level						
Geography	Bank				Distribution of Total Non-farm Businesses	
	#	%	\$000	%	#	%
Low	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	217	16.8
Middle	11	100.0	573	100.0	1,072	83.2
Upper	0	0.0	0	0.0	0	0.0
Total	11	100.0	573	100.0	1,289	100.0
2005						
Geography	Bank				Distribution of Total Non-farm Businesses	
	#	%	\$000	%	#	%
Low		0.0		0.0	0	0.0
Moderate		0.0		0.0	197	13.1
Middle	14	100.0	1,275	100.0	1,307	86.9
Upper		0.0		0.0	0	0.0
Total	14	100.0	1,275	100.0	1,504	100.0

During the evaluation period, FSB extended all of its small business loans in middle-income areas, exceeding the percentage of non-farm businesses in middle-income areas for both years. However, FSB did not extend any small business loans in moderate-income areas compared to the 16.8% and 13.1% of small businesses located in moderate-income areas in 2004 and 2005, respectively.

Consumer Loans

FSB's geographic distribution of consumer loans reflects a reasonable dispersion among census tracts of different income levels.

The following chart provides a summary of FSB's consumer lending distribution during the evaluation period:

Distribution of Consumer Loans by Geographic Income Level						
Geography	Bank				Distribution of Household	
Income Level	#	%	\$000	%	#	%
Low	0	0.0	0	0.0	0	0.0
Moderate	2	3.6	8	3.0	1,046	8.9
Middle	54	96.4	259	97.0	10,767	91.1
Upper	0	0.0	0	0.0	0	0.0
Total	56	100.0	267	100.0	11,813	100.0
2005						
Geography	Bank				Distribution of Household	
Income Level	#	%	\$000	%	#	%
Low	0	0.0	0	0.0	0	0.0
Moderate	3	5.2	18	4.3	1,046	8.9
Middle	55	94.8	401	95.7	10,767	91.1
Upper	0	0.0	0	0.0	0	0.0
Total	58	100.0	419	100.0	11,813	100.0

In both years, consumer loan originations in middle-income areas have consistently exceeded the number of households located in middle-income census tracts. However, consumer loans originated in moderate-income area for both years were below the percentage of household located in moderate-income area of 8.9%.

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

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

HMDA-related Loans

FSB's HMDA-related lending distribution based on borrower characteristics reflects an excellent penetration among individuals of different income levels.

The following chart provides a summary of FSB's HMDA-related lending distribution during the evaluation period:

Distribution of HMDA-related Loans by Borrower Income Level*						
Borrower Income Level	Bank				Distribution of Total Family	
	#	%	\$000	%	#	%
Low	5	17.2	257	22.0	1,761	21.7
Moderate	9	31.0	330	28.2	1,613	19.9
Middle	8	27.6	289	24.7	1,934	23.8
Upper	6	20.7	257	22.0	2,816	34.7
N/A	1	3.4	37	3.2	0	0.0
Total	29	100	1,170	100.0	8,124	100.0

Borrower Income Level	Bank				Distribution of Total Family	
	#	%	\$000	%	#	%
Low	6	27.3	207	28.1	1,761	21.7
Moderate	6	27.3	148	20.1	1,613	19.9
Middle	5	22.7	159	21.6	1,934	23.8
Upper	5	22.7	222	30.2	2,816	34.7
Total	22	100.0	736	100.0	8,124	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%.

During the evaluation period, FSB originated 51 HMDA-related loans totaling \$1.9 million. Its LMI penetration rates in number and in dollar volume exceeded the percentage of LMI families in LMI census tracts of 41.6%.

Small Business Loans

FSB's small business lending distribution based on borrower characteristics reflects an excellent penetration among businesses of different sizes.

The following chart provides a summary of FSB's small business lending distribution based on borrower revenues during the evaluation period:

Distribution of Small Business Loans by Business Revenue Size						
Revenue Size	Bank				Distribution of Total Non-farm Businesses	
	#	%	\$000	%	#	%
\$1 million or less	10	90.9	533	93.0	820	63.6
Over \$1 million	1	9.1	40	7.0	61	4.7
Not reported	0	0.0	0	0.0	408	31.7
Total	11	100.0	573	100.0	1,289	100.0

Revenue Size	Bank				Distribution of Total Non-farm Businesses	
	#	%	\$000	%	#	%
\$1 million or less	13	92.9	775	60.8	864	57.4
Over \$1 million	1	7.1	500	39.2	62	4.1
Not reported	0	0.0	0	0.0	578	38.4
Total	14	100.0	1,275	100.0	1,504	100.0

During the evaluation period, FSB's loan originations to small business borrowers with gross annual revenues ("GARs") of \$1 million or less exceeded the ratio of loans of total businesses in the same assessment area. In 2004, FSB extended 10 loans (90.8%) to small business borrowers with GARs of \$1 million or less compared to 63.6% of total non-farm businesses with the same size. In 2005, FSB's lending ratio to small business with GARs of \$1 million or less increased to 92.9% compared to the 57.4% of total nonfarm businesses of the same size in the assessment area.

Consumer Loans

FSB's consumer loans based on borrower characteristics reflects an excellent penetration among individuals of different income levels.

The following chart provides a summary of FSB's consumer lending distribution based on borrower income:

Distribution of Consumer Loans by Borrower Income Level*						
Borrower Income Level	Bank				Distribution of Total Family	
	#	%	\$000	%	#	%
Low	19	33.9	70	26.2	1,761	21.7
Moderate	19	33.9	84	31.5	1,613	19.9
Middle	12	21.4	85	31.8	1,934	23.8
Upper	3	5.4	16	6.0	2,816	34.7
N/A	3	5.4	12	4.5	0	0.0
Total	56	100.0	267	100.0	8,124	100.0

Borrower Income Level	Bank				Distribution of Total Family	
	#	%	\$000	%	#	%
Low	25	43.1	160	38.2	1,761	21.7
Moderate	14	24.1	100	23.9	1,613	19.9
Middle	12	20.7	120	28.6	1,934	23.8
Upper	5	8.6	33	7.9	2,816	34.7
N/A	2	3.4	6	1.4	0	0.0
Total	58	100.0	419	100.0	8,124	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%.

In 2004, of the 56 consumer loans originated by FSB, 38 (67.8%) amounting to \$154 million were extended to LMI borrowers, which exceeded the 41.6% low and moderate-income families within the assessment area.

In 2005, FSB's LMI penetration rate remained at the same level and continued to exceed the percentage of LMI families within the assessment area.

Action Taken In Response to Written Complaints With Respect to CRA

Since the prior CRA evaluation conducted as of December 31, 2003, neither FSB nor the New York State Banking Department has received any written complaints regarding the bank'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 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 regulatory compliance and fair lending examinations were conducted concurrently with this evaluation and these examinations indicated 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.

FSB's directors and officers meet with representatives of local religious, civic, educational, governmental and business organization to identify the credit needs of its community.

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.

FSB's marketing and advertising medium include local radio, newspapers, church bulletins and numerous civic organization publications. Radio advertisements are played throughout the year to promote products applicable to the season.

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.

FSB's president, who serves as CRA officer reports annually to the board of directors of the efforts made to meet community credit needs.

- **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:

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- 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 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.