



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

**PUBLIC SUMMARY**

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

**Date of Evaluation:** December 31, 2005

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

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

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## **GENERAL INFORMATION**

This document is an evaluation of the Community Reinvestment Act (“CRA”) performance of Hudson Valley Bank (“HVB”) prepared by the New York State Banking Department. The evaluation represents the Banking Department’s current assessment and rating of the institution’s CRA performance based on an evaluation conducted as of December 31, 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**

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

### **Lending Test** – “Low Satisfactory”

- HVB's level of lending during the evaluation period reflects a good responsiveness to the credit needs of the assessment area.
- During the evaluation period, HVB originated a substantial majority of its loans within its assessment area.
- The geographic distribution of HVB's loans reflects an adequate penetration within its assessment area. For its small business loans, HVB's performance in LMI geographies was comparable to the aggregate. However, HVB's HMDA-reportable lending in LMI areas was weak compared to the aggregate.
- The distribution of HVB's loans based on borrower characteristics reflects a marginally adequate penetration among businesses of different revenue categories and customers of different income levels. During the evaluation period, HVB consistently underperformed the aggregate in lending to businesses with revenues of \$1 million or less. However, in HMDA-reportable lending, HVB's performance was similar to that of the aggregate.
- HVB's community development lending is outstanding. During the evaluation period, HVB originated \$25.0 million in community development loans and commitments, of which \$18.3 million (73.2%) represents new money.
- HVB makes limited use of innovative or flexible loan products in serving assessment area credit needs.

### **Investment Test** - “High Satisfactory”

- HVB has a significant level of community development investments. At this evaluation, qualified investments totaled \$3.0 million, of which \$2.5 million represents new money.

### **Services Test** - “High Satisfactory”

- HVB's network of branches and automated teller machines (“ATMs”) is accessible to all portions of its assessment area, including LMI geographies. Branch hours are tailored to

the convenience of the community, with extended hours on weekdays and Saturdays. Banking by mail and by phone and internet banking services are available and provide convenient access to banking services.

- HVB provides a relatively high level of community development services. A considerable number of its personnel are actively involved in various community development organizations and regularly provide financial expertise to these organizations.

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

## PERFORMANCE CONTEXT

### **Institution's Profile:**

HVB is an FDIC insured commercial bank founded in 1972 under a national charter, which converted to a New York State charter in 1994. It is the largest independent bank headquartered in Westchester County, which is wholly owned by Hudson Valley Holding Corp., a one-bank holding company. HVB's primary focus is serving the needs of small- to moderate size businesses, individuals, municipalities and not-for-profit organizations within its assessment area. Its affiliate, Hudson Valley National Foundation, Inc., assists HVB in achieving its CRA objective through the provision of qualified grants.

HVB operates a network of 21 full-service branches, of which 15 are located in Westchester County, three in New York County, two in Bronx County and one in Queens County. It has a full service automated teller machine ("ATM") each in eight of its branches. In addition, HVB has two ATMs that only dispense cash, one is located in its head office and one in an offsite location in Yonkers.

Based on its December 31, 2005 Consolidated Report of Condition ("Call Report"), HVB reported total assets of \$2.0 billion, comprised primarily of \$1.0 billion (49.7%) in net loans and leases and \$882.7 million (43.4%) in investments. Total deposits were approximately \$1.4 billion and total equity was \$169.2 million.

HVB is primarily a small business/commercial real estate lender. The following is a summary of its lending portfolio, based on Schedule RC-C of the December 31, 2002, December 31, 2003, December 31, 2004 and December 31, 2005 Call Reports:

<b>TOTAL GROSS LOANS OUTSTANDING</b>								
LOAN TYPE	12/31/2002		12/31/2003		12/31/2004		12/31/2005	
	\$000	%	\$000	%	\$000	%	\$000	%
1-4 Residential Mortgage Loans	102,218	15.6	117,073	16.3	155,468	17.7	199,947	19.5
Commercial & Industrial Loans	179,288	27.4	218,129	30.3	277,013	31.6	316,907	30.9
Commercial Mortgage Loans	231,411	35.3	241,566	33.5	233,452	26.6	220,384	21.5
Multifamily Mortgages	62,069	9.5	61,445	8.5	66,924	7.6	76,437	7.4
Consumer Loans	11,442	1.7	12,400	1.7	19,315	2.2	23,981	2.3
Construction Loans	56,691	8.6	60,892	8.5	116,064	13.2	178,731	17.4
Other Loans/Leases	12,292	1.9	8,857	1.2	8,748	1.0	9,999	1.0
Total Gross Loans	655,411	100.0	720,362	100.0	876,984	100.0	1,026,386	100.0

HVB 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, 2002.

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

## **Assessment Area:**

### **Details of Assessment Area:**

HVB's assessment area is comprised of the entire counties of Westchester, New York, Bronx and Queens. Queens County was added to the assessment area during the evaluation period, with the opening of the Rego Park branch in July 2005. There are 1,545 census tracts in the area, of which 208 are low-income, 326 are moderate-income, 438 are middle-income, 528 are upper-income and 45 are zero-income tracts.

<b>Distribution of Assessment Area Census Tracts by Income Level - 2004 – 2005</b>							
<b>County</b>	<b>Zero</b>	<b>Low</b>	<b>Moderate</b>	<b>Middle</b>	<b>Upper</b>	<b>Total</b>	<b>LMI %</b>
Westchester	4	4	21	39	153	221	11.3
New York	9	60	59	24	144	296	40.2
Queens	18	12	148	310	185	673	23.8
Bronx	14	132	98	65	46	355	64.8
<b>Total</b>	<b>45</b>	<b>208</b>	<b>326</b>	<b>438</b>	<b>528</b>	<b>1,545</b>	<b>34.6</b>

In 2004, the Office of Management and Budget ("OMB") made some changes in the census tract distribution of HVB's assessment area. Prior to the OMB revision in 2004, the census tract distribution was as shown in the following table:

<b>Distribution of Assessment Area Census Tracts by Income Level - 2003</b>							
<b>County</b>	<b>Zero</b>	<b>Low</b>	<b>Moderate</b>	<b>Middle</b>	<b>Upper</b>	<b>Total</b>	<b>LMI %</b>
Westchester	4	2	17	37	161	221	8.6
New York	9	47	68	26	146	296	38.9
Queens	18	12	107	298	238	673	17.7
Bronx	14	117	99	72	53	355	60.8
<b>Total</b>	<b>45</b>	<b>178</b>	<b>291</b>	<b>433</b>	<b>598</b>	<b>1,545</b>	<b>30.4</b>

## **Demographic & Economic Data**

The following charts show demographic and economic data for each county of HVB's assessment area.

The demographic data is obtained from the 2000 U.S. Census.

*Chart #1: Shows population and income.*

*Chart #2: Shows housing demographics.*

*Chart #3: Shows business demographics*

Provided below, are the annual unemployment rates for the counties of HVB's assessment area.

	State-wide and County Unemployment Rate				
	New York State	New York County	Weschester County	Queens County	Bronx County
2003	6.4	7.4	4.5	7.3	10.5
2004	5.8	6.2	4.4	6.3	9.2
2005	5.0	5.0	4.1	5.2	7.5

The assessment area appears reasonable based upon the location of HVB's branches and lending patterns. There is no evidence that LMI areas are arbitrarily excluded.

CHART # 1

<b>ASSESSMENT AREA POPULATION AND INCOME CHARACTERISTICS BY COUNTY</b>																					
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	
		#	%	#	%				#	%		#	%	#	%	#	%	#	%	#	%
WESCHESTER	923,459	128,964	14.0	207,207	22.4	\$89,228	\$57,560	337,486	28,554	8.0	237,010	30,205	12.7	24,729	10.4	33,274	14.1	148,802	62.8	14,189	25.8
NEW YORK	1,537,195	186,776	12.2	229,772	14.9	\$71,629	\$57,650	739,167	123,037	16.6	306,220	89,281	29.2	40,700	13.3	38,804	12.7	137,435	44.9	100,358	77.2
BRONX	1,332,650	133,948	10.1	356,895	26.8	\$33,099	\$57,650	463,242	134,404	29.0	317,248	133,175	42.0	58,715	18.5	51,854	16.3	73,504	23.2	163,697	85.3
QUEENS	2,229,379	283,042	12.7	453,930	20.4	\$49,815	\$57,650	782,646	110,462	14.1	542,804	123,580	22.8	94,780	17.5	108,206	19.9	216,238	39.8	84,937	38.9
<b>TOTAL A/A*</b>	<b>6,022,683</b>	<b>732,730</b>	<b>12.2</b>	<b>1,247,804</b>	<b>20.7</b>	<b>\$57,453</b>	<b>\$57,650</b>	<b>2,322,541</b>	<b>396,457</b>	<b>17.1</b>	<b>1,403,282</b>	<b>376,241</b>	<b>26.8</b>	<b>218,924</b>	<b>15.6</b>	<b>232,138</b>	<b>16.5</b>	<b>575,979</b>	<b>41.0</b>	<b>363,181</b>	<b>61.0</b>

\* Assessment Area

**CHART # 2**

<b>ASSESSMENT AREA HOUSING CHARACTERISTICS BY COUNTY</b>																			
<b>COUNTY</b>	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 Mid-income Tracts		O-O Units in Upp-income Tracts		Rental Units		Vacant/ Boarded-up Units	
		#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%
<b>WESTCHESTER</b>	349,445	237,328	68.0	112,117	32.0	202,765	58.0	608	0.3	4,866	2.4	20,885	10.3	176,406	87.0	140,169	40.0	12,303	4.0
<b>NEW YORK</b>	798,144	28,752	3.6	769,392	96.4	148,695	18.6	3,866	2.6	12,788	8.6	7,137	4.8	124,904	84.0	616,053	77.2	59,500	7.5
<b>BRONX</b>	490,659	133,164	27.0	357,495	73.0	90,522	18.0	11,315	12.5	20,820	23.0	33,312	36.8	25,075	27.7	391,918	80.0	27,447	6.0
<b>QUEENS</b>	817,250	495,075	60.6	322,175	39.4	334,894	41.0	1,005	0.3	43,201	12.9	162,089	48.4	128,599	38.4	462,179	56.6	34,586	4.2
<b>TOTAL A/A*</b>	2,455,498	894,319	36.4	1,561,179	63.6	776,876	31.6	16,781	2.2	81,572	10.5	223,352	28.8	455,172	58.6	1,610,319	65.6	133,836	5.5

\* Assessment Area

**CHART # 3**

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	
		#	%	#	%	#	%	#	%	#	%
WESTCHESTER	82,886	54,914	66.2	4,871	5.9	23,101	27.9	63,562	76.7	75,801	91.5
NEW YORK	229,609	136,018	59.2	23,007	10.0	70,584	30.7	169,569	73.9	200,693	87.4
BRONX	42,180	27,461	65.1	1,886	4.5	12,833	30.4	31,167	73.9	39,036	92.5
QUEENS	108,530	70,286	64.8	5,478	5.1	32,766	30.2	79,604	73.3	101,508	93.5
<b>Total A/A</b>	<b>463,205</b>	<b>288,679</b>	<b>62.3</b>	<b>35,242</b>	<b>7.6</b>	<b>139,284</b>	<b>30.1</b>	<b>343,902</b>	<b>74.2</b>	<b>417,038</b>	<b>90</b>

## **PERFORMANCE TESTS AND ASSESSMENT FACTORS**

*The Banking Department assesses a large bank's CRA performance by evaluating its lending, investment and service activities using the lending, investment and service tests provided for in Parts 76.8, 76.9 and 76.10 of the General Regulations of the Banking Board. This Performance Evaluation is based on a review of HVB's lending, investment and service activities during calendar years 2003, 2004 and 2005.*

Statistics employed in this evaluation were derived from various sources. In addition to bank-specific loan information submitted by HVB, aggregate data for small business and HMDA-reportable loans were obtained from the Federal Financial Institutions Examination Council ("FFIEC") and PCi Corporation's CRAWiz<sup>®</sup> software. Demographic information within the evaluation reflects data from the 2000 U.S. Census, supplemented by median family income estimates for 2003, 2004 and 2005 from the U.S. Department of Housing and Urban Development ("HUD").

### **I. Lending Test: "Low Satisfactory"**

*HVB'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), (2), (3) and (4) above focused primarily on HVB's small business and HMDA-reportable loans. In evaluating HVB's performance, small business lending received more weight because of their volume, which exceeded the volume for HMDA-reportable loans.*

#### **Lending Activity: "High Satisfactory"**

HVB's lending levels reflect a good responsiveness to assessment area credit needs.

#### **Small Business Loans**

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

Based on market share data in 2003, HVB ranked 22nd among 266 lenders with a market share of 0.19% based on number of loans. In 2004, HVB's market share increased to 0.22% but its ranking declined to 23<sup>rd</sup> among 252 small business lenders in the assessment area. In 2005, HVB's market share decreased significantly to 0.14% due to the substantial decrease in its small business loan volume. However, the impact on its ranking was not significant as it decreased slightly to 25<sup>th</sup> among 202 lenders in the assessment area.

### HMDA-Reportable Loans

HVB's HMDA-reportable lending activity during the evaluation period reflects a good responsiveness to assessment area credit needs.

In 2003, HVB achieved a market share of 0.01% based on number of loans and ranked 233rd among 543 reporting lenders within its assessment area. In 2004, its market share for HMDA-reportable loans increased to 0.04% and its ranking improved to 190<sup>th</sup> among 533 reporting lenders. As a result of the substantial decline in HMDA-related lending in 2005, HVB's market share decreased to 0.02% and its ranking fell to 230<sup>th</sup> among 540 reporting lenders in its assessment area.

### **Assessment Area Concentration: "Outstanding"**

HVB originated a substantial majority of its loans within its assessment area. Overall, it originated 88.6% by number and 81.8% by dollar volume of its total loans within its assessment area during the evaluation period.

### Small Business Loans

The concentration of small business loans within its assessment area is excellent. In 2003, HVB originated 93.7% of its small business loans inside its assessment area. HVB's assessment area concentration ratio declined slightly to 93.0% and 91.4% in 2004 and 2005, respectively. Overall, HVB originated 92.8% of the total number of small business loans within its assessment area during the evaluation period.

### HMDA-Reportable Loans

In 2003, HVB originated 70.7% of the total HMDA-reportable loans inside its assessment area. HVB's assessment area concentration ratio for HMDA-reportable loans fell slightly to 69.8% in 2004 and declined significantly to 59.1% in 2005. Overall, an adequate percentage of 67.7% of HVB's HMDA-reportable loans were originated in its assessment area during the evaluation period.

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

<b>Distribution of Loans Inside and Outside of the Assessment Area</b>										
Loan Type	Number of Loans					Loans in Dollars (in thousands)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$000	%	\$000	%	\$000
<b>Small Business Loans</b>										
2003	295	93.7	20	6.3	315	66,894	92.9	5,133	7.1	72,027
2004	361	93.0	27	7.0	388	91,319	90.7	9,344	9.3	100,663
2005	222	91.4	21	8.6	243	77,016	89.1	9,462	10.9	86,478
<b>Subtotal</b>	<b>878</b>	<b>92.8</b>	<b>68</b>	<b>7.2</b>	<b>946</b>	<b>235,229</b>	<b>90.8</b>	<b>23,939</b>	<b>9.2</b>	<b>259,168</b>
<b>HMDA-Reportable Loans</b>										
2003	58	70.7	24	29.3	82	21,182	66.7	10,593	33.3	31,775
2004	44	69.8	19	30.2	63	19,832	53.6	17,188	46.4	37,020
2005	26	59.1	18	40.9	44	11,066	47.9	12,051	52.1	23,117
<b>Subtotal</b>	<b>128</b>	<b>67.7</b>	<b>61</b>	<b>32.3</b>	<b>189</b>	<b>52,080</b>	<b>56.7</b>	<b>39,832</b>	<b>43.3</b>	<b>91,912</b>
<b>Total</b>	<b>1,006</b>	<b>88.6</b>	<b>129</b>	<b>11.4</b>	<b>1,135</b>	<b>287,309</b>	<b>81.8</b>	<b>63,771</b>	<b>18.2</b>	<b>351,080</b>

### Geographic Distribution of Loans: “Low Satisfactory”

The geographic distribution of HVB’s small business loans reflects an adequate penetration throughout the assessment area. However, its performance in HMDA-related reflects a poor dispersion of loans among census tracts of different income levels.

#### Small Business Loans

In 2003, HVB originated 8.9% by number of its small business loans in LMI areas as compared to the aggregate’s LMI penetration ratio of 15.2%. In 2004, HVB’s LMI penetration ratio improved to 15.8% but remained below the aggregate’s LMI penetration rate of 17.7%. In 2005, HVB’s LMI penetration rate further decreased to 11.7%, which was significantly below the aggregate’s LMI penetration ratio of 18.4%.

While HVB’s LMI penetration rates based on number of loans were consistently below the aggregate’s during the evaluation period, it should be noted that HVB’s LMI penetration rates based on dollar amount were comparable to the aggregate’s.

The following table shows the geographic distribution of HVB’s small business loans during the evaluation period.

Distribution of Small Business Loans by Geographic Income Level*								
2003								
Geography Income Level	Bank				Aggregate			
	#	%	\$000	%	#	%	\$000	%
Low	4	1.4	1,777	2.7	6,516	4.0	173,426	3.6
Moderate	22	7.5	6,506	9.7	18,388	11.2	461,796	9.5
Middle	64	21.7	13,496	20.2	32,322	19.7	830,040	17.0
Upper	203	68.8	44,678	66.8	104,463	63.7	3,288,164	67.4
NA	2	0.7	437	0.7	2,224	1.4	122,348	2.5
<b>Total</b>	<b>295</b>	<b>100.0</b>	<b>66,894</b>	<b>100.0</b>	<b>163,913</b>	<b>100.0</b>	<b>4,875,774</b>	<b>100.0</b>
2004								
Geography Income Level	Bank				Aggregate			
	#	%	\$000	%	#	%	\$000	%
Low	7	1.9	2,167	2.4	7,982	4.8	247,870	4.4
Moderate	50	13.9	13,135	14.4	21,207	12.9	697,745	12.4
Middle	65	18.0	15,409	16.9	32,711	19.8	992,576	17.6
Upper	236	65.4	60,258	66.0	101,088	61.3	3,577,289	63.5
NA	3	0.8	350	0.4	1,947	1.2	120,823	2.1
<b>Total</b>	<b>361</b>	<b>100.0</b>	<b>91,319</b>	<b>100.0</b>	<b>164,935</b>	<b>100.0</b>	<b>5,636,303</b>	<b>100.0</b>
2005								
Geography Income Level	Bank				Aggregate			
	#	%	\$000	%	#	%	\$000	%
Low	7	3.2	2,350	3.1	7,362	4.7	241,014	4.3
Moderate	18	8.1	7,207	9.4	21,341	13.7	647,187	11.6
Middle	47	21.2	17,752	23.0	32,692	21.0	1,100,999	19.7
Upper	149	67.1	48,857	63.4	92,550	59.5	3,477,480	62.4
NA	1	0.5	850	1.1	1,511	1.0	109,444	2.0
<b>Total</b>	<b>222</b>	<b>100.0</b>	<b>77,016</b>	<b>100.0</b>	<b>155,456</b>	<b>100.0</b>	<b>5,576,124</b>	<b>100.0</b>

\* Geography income levels for 2002 data are based upon 2000 Census data on median family income figures for the MSA where the business is located. Geography income levels for 2003 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.

In 2003, HVB extended 3.4% of its HMDA-related loans in LMI areas, which is well below the LMI penetration rate of 9.9% for the aggregate. In 2004, although HVB's LMI penetration rate increased slightly to 4.5%, it remained well below the aggregate's 17.1% LMI penetration rate. HVB did not originate any HMDA-related loans in LMI areas in 2005, while the aggregate extended 18.7% of its HMDA-related loans in LMI geographies in the same year.

The following table shows the geographic distribution of HVB's HMDA-reportable loans compared to the aggregate during the evaluation period.

Distribution of HMDA-reportable Loans by Geographic Income Level*								
2003								
Geography Income Level	Bank				Aggregate			
	#	%	\$000	%	#	%	\$000	%
Low	0	0.0	0	0.0	2,941	1.7	1,002,114	2.1
Moderate	2	3.4	1,500	7.1	13,861	8.2	4,028,000	8.3
Middle	6	10.3	1,586	7.5	40,626	24.1	9,292,458	19.1
Upper	50	86.2	18,096	85.4	110,203	65.5	33,932,698	69.8
NA	0	0.0	0	0.0	627	0.4	378,405	0.8
<b>Total</b>	<b>58</b>	<b>100.0</b>	<b>21,182</b>	<b>100.0</b>	<b>168,258</b>	<b>100.0</b>	<b>48,633,675</b>	<b>100.0</b>
2004								
Geography Income Level	Bank				Aggregate			
	#	%	\$000	%	#	%	\$000	%
Low	0	0.0	0	0.0	4,271	3.5	1,746,961	4.2
Moderate	2	4.5	985	5.0	16,689	13.6	5,233,169	12.6
Middle	11	25.0	5,605	28.3	37,786	30.8	9,985,920	24.0
Upper	31	70.5	13,242	66.8	63,795	52.0	24,448,858	58.9
NA		0.0		0.0	220	0.2	116,823	0.3
<b>Total</b>	<b>44</b>	<b>100.0</b>	<b>19,832</b>	<b>100.0</b>	<b>122,761</b>	<b>100.0</b>	<b>41,531,731</b>	<b>100.0</b>
2005								
Geography Income Level	Bank				Aggregate			
	#	%	\$000	%	#	%	\$000	%
Low	0	0.0	0	0.0	4,626	3.8	1,881,060	4.1
Moderate	0	0.0	0	0.0	18,354	14.9	6,257,414	13.7
Middle	1	3.8	132	1.2	40,686	33.1	11,452,680	25.1
Upper	25	96.2	10,934	98.8	59,166	48.1	25,967,149	56.9
NA	0	0.0	0	0.0	144	0.1	66,863	0.1
<b>Total</b>	<b>26</b>	<b>100.0</b>	<b>11,066</b>	<b>100.0</b>	<b>122,976</b>	<b>100.0</b>	<b>45,625,166</b>	<b>100.0</b>

\* 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 a marginally adequate penetration among businesses of different revenue categories. HVB's performance in HMDA-related lending reflects an adequate dispersion of loans among borrowers of different income levels.

### Small Business Loans

In 2003, HVB extended 35.3% of its small business loans to businesses with annual revenues of \$1 million or less. In the same year, 40.0% of the small business loans originated by the aggregate in the assessment area were extended to businesses with this income level. Although the volume of small business loans originated by HVB increased significantly in 2004, the proportion of these loans extended to businesses with annual

revenues of \$1 million or less declined to 33.5% and remained below the corresponding ratio of 39.3% for the aggregate. HVB's performance continued its downward trend in 2005, during which only 27.0% of its small business loans were extended to businesses in the \$1 million or under revenue category. In contrast, the aggregate's rate of lending to similar-sized businesses increased to 49.5%.

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

Distribution of Small Business Loans by Business Revenue Size								
2003								
Revenue Size	Bank				Aggregate			
	#	%	\$000	%	#	%	\$000	%
\$1million or less	104	35.3	22,698	33.9	65,557	40.0	1,901,742	39.0
Over \$1 million	191	64.7	44,196	66.1				
No Revenue Info				0.0				
<b>Total</b>	295	100.0	66,894	100.0	163,913	100.0	4,875,774	100.0
2004								
Revenue Size	Bank				Aggregate			
	#	%	\$000	%	#	%	\$000	%
\$1million or less	121	33.5	19,038	20.8	64,869	39.3	2,158,976	38.3
Over \$1 million	238	65.9	72,231	79.1				
No Revenue Info	2	0.6	50	0.1				
<b>Total</b>	361	100.0	91,319	100.0	164,935	100.0	5,636,303	100.0
2005								
Revenue Size	Bank				Aggregate			
	#	%	\$000	%	#	%	\$000	%
\$1million or less	60	27.0	15,565	20.2	76,878	49.5	2,260,351	40.5
Over \$1 million	162	73.0	61,451	79.8				
No Revenue Info								
<b>Total</b>	222	100.0	77,016	100.0	155,456	100.0	5,576,124	100.0

### HMDA-Reportable Loans

In 2003, HVB extended 12.0% of its HMDA-reportable loans to LMI borrowers, which is significantly higher than the LMI borrower penetration rate of 5.5% achieved by the aggregate. Partly due to the significant decline in loan volume in 2004 and 2005, HVB's LMI penetration rates fell to 6.8% and 7.7% in 2004 and 2005, respectively. Nevertheless, these ratios are comparable to the aggregate's 7.5% and 5.8% in 2004 and 2005, respectively.

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

Distribution of HMDA-reportable Loans by Borrower Income Level*								
2003								
Borrower Income Level	Bank				Aggregate			
	#	%	\$000	%	#	%	\$000	%
Low	1	1.7	215	1.0	1,340	0.8	153,162	0.3
Moderate	6	10.3	864	4.1	7,916	4.7	958,641	2.0
Middle	2	3.4	327	1.5	24,845	14.8	4,016,773	8.3
Upper	34	58.6	12,877	60.8	116,132	69.0	34,772,876	71.5
Not Available	15	25.9	6,899	32.6	18,025	10.7	8,732,223	18.0
<b>Total</b>	<b>58</b>	<b>100.0</b>	<b>21,182</b>	<b>100.0</b>	<b>168,258</b>	<b>100.0</b>	<b>48,633,675</b>	<b>100.0</b>
2004								
Borrower Income Level	Bank				Aggregate			
	#	%	\$000	%	#	%	\$000	%
Low	3	6.8	976	4.9	1,363	1.1	147,058	0.4
Moderate	0	0.0	0	0.0	7,813	6.4	1,026,399	2.5
Middle	2	4.5	242	1.2	21,660	17.6	4,102,388	9.9
Upper	20	45.5	6,270	31.6	80,793	65.8	28,571,186	68.8
Not Available	19	43.2	12,344	62.2	11,132	9.1	7,684,700	18.5
<b>Total</b>	<b>44</b>	<b>100.0</b>	<b>19,832</b>	<b>100.0</b>	<b>122,761</b>	<b>100.0</b>	<b>41,531,731</b>	<b>100.0</b>
2005								
Borrower Income Level	Bank				Aggregate			
	#	%	\$000	%	#	%	\$000	%
Low	0	0.0	0	0.0	892	0.7	101,285	0.2
Moderate	2	7.7	160	1.4	6,224	5.1	819,933	1.8
Middle	4	15.4	952	8.6	17,342	14.1	3,418,578	7.5
Upper	17	65.4	7,346	66.4	89,159	72.5	33,722,437	73.9
Not Available	3	11.5	2,608	23.6	9,359	7.6	7,562,933	16.6
<b>Total</b>	<b>26</b>	<b>100.0</b>	<b>11,066</b>	<b>100.0</b>	<b>122,976</b>	<b>100.0</b>	<b>45,625,166</b>	<b>100.0</b>

\* 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"

HVB has an excellent level of community development loans and commitments totaling \$25.0 million, of which \$18.3 million (73.2%) represents new money. These loans were used to fund the operations of various non-profit organizations and corporations, which provide healthcare and other essential community services benefiting LMI individuals in HVB's assessment area.

### Innovative or Flexible Lending Practices: "Low Satisfactory"

HVB makes limited use of flexible and innovative lending products. Through its leasing subsidiary, HVB Leasing Corporation, HVB participates in the New York State Energy Smart Loan Fund Program. Loans which qualify under this program, provide borrowers with low cost financing at rates that are considerably lower than the regular interest rates offered

by lenders. During the evaluation period, HVB's affiliate originated 12 loans totaling \$2.1 million under this program.

## **II. Investment Test: "High Satisfactory"**

*The investment test evaluates HVB'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.*

HVB has a significant level of community development investments. At this evaluation, qualified investments totaled \$3.0 million, of which \$2.5 million represents new money. While the level of qualified investments is relatively high, the investments were neither innovative nor complex.

HVB's qualified investments consist of the following:

**Access Capital Strategies Community Investment Fund, Inc.** – In 2005, HVB invested \$2.5 million in this Fund, which was allocated to a Fannie Mae mortgage pool financing the mortgages of LMI borrowers in Bronx, New York, and Westchester counties. A portion of the money also was allocated to several small businesses operating in these counties.

**Statewide Zone Capital Corporation of New York (SZCC)** – HVB has an outstanding equity investment of \$500 thousand in this corporation. The SZCC is a community development organization, which was formed to promote the development of new businesses, the expansion of existing businesses, and the development of human resources within the 51 participating economic development zones created under the New York State Economic Development Zones Act. These zones include the assessment area.

## **III. Service Test: "High Satisfactory"**

*The service test evaluates HVB'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

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

HVB operates a network of 21 full service branches, of which three are located in moderate-income tracts and seven are located in middle or upper income tracts that are

adjacent to LMI areas. HVB has an automated teller machine (“ATM”) at each of the nine branches and one offsite, which is for cash dispensing only. 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.

### Changes in Branch Locations

HVB opened six branches during the evaluation period. Four of these branches are in upper-income tracts, one in a middle-income and one in a moderate-income geography. It did not close any branch during the evaluation period.

### Reasonableness of Business Hours and Services in Meeting Assessment Area Needs

HVB’s branches offer convenient banking hours, which do not vary in a way that inconveniences certain portions of the assessment area. Fourteen branches offer extended weekday hours up to 6 pm, one day per week. Of these branches, two are located in moderate-income areas and seven are located in middle- and upper-income areas that are adjacent to LMI areas. Four branches are open on Saturdays from 10 am to 1 pm., one of which is located in moderate-income area and three are located in middle-income areas that are adjacent to LMI areas. Additionally, ten branches have drive-in facilities.

### **Community Development Services: “High Satisfactory”**

HVB provides a good level of community development services. During the evaluation period, a number of HVB’s directors and officers provided their financial expertise to community development organizations operating in its assessment area. Following are examples of the organizations and community development services performed:

- *Westchester Consumer Empowerment Center:* An officer of HVB serves as the treasurer and board member of this non-profit organization, which is primarily involved in providing support services to persons in the community in recovery of mental health.
- *African American Men of Westchester:* An officer of HVB is a vice president of this organization, which was founded by Westchester County residents of African American descent to capitalize on the vast talents of the community. The organization’s mission includes the following: to develop strategies for the advancement of African Americans and to focus attention on social issues, which have a disproportionately negative impact on the African American community, such as underemployment, inadequate and unaffordable housing, crime, inadequate health care, poor quality education and substance abuse.
- *Pius XII Youth and Family Services:* An officer of HVB serves as a board member of this organization, which is an agency of the Archdiocese of New York that administers aid programs for minorities and underprivileged children in the Bronx.

- *New Bronx Chamber of Commerce*: An employee of HVB is a director of this organization, which provides support to small businesses in the Bronx.
- *Msgr. Robert Fox Memorial House*: A director of HVB serves as board member of this organization, which provides shelter for homeless women and their children. The shelter is located in New York County.
- *Westhab*: A director of HVB is a director of this not-for-profit organization, which is the largest provider of housing and social services for homeless and low-income families in Westchester County.

In 2003 and 2004, two employees of HVB volunteered their time assisting LMI individuals in Yonkers with their income tax preparation. In addition, several employees of HVB participated as speakers in seminars sponsored by community development organizations, during which they discussed topics such as personal finance, overview of bank products, and employment opportunities.

#### **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 report conducted as of June 30, 2006 indicates a satisfactory performance in terms of adherence to anti-discrimination or 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.**

HVB identifies the credit needs of its assessment area through active involvement in community organizations with particular attention to those dedicated to LMI individuals, LMI areas, small enterprises and businesses with women/minority ownership. Additionally, HVB maintains contact with government leaders, community groups, and religious and civic organizations. An employee of HVB is a director of New Bronx Chamber of Commerce, which provides support to small businesses in the Bronx.

**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.**

HVB does not advertise any of its products.

**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.**

HVB's CRA and Compliance Committee hold quarterly meetings to discuss CRA related-issues. The committee's membership includes certain directors of HVB.

**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.

## **GLOSSARY**

### **Aggregate**

The cumulative lending by all HMDA-reporting lenders in the same geographic area under evaluation.

### **Community Development**

The term “community development” is defined to mean:

1. Affordable housing (including multifamily housing) for low- or moderate-income (“LMI”) individuals;
2. Community services targeted to LMI individuals;
3. Activities that promote economic development by financing business or farms that meet the size eligibility standards of the United States Small Business Administration (“SBA”) Development Company or Small Business Investment Company programs, or have gross annual incomes of \$1 million or less;
4. Activities that revitalize or stabilize LMI geographies; and
5. Activities that seek to prevent defaults and/or foreclosures in loans included in (1) and (3), above.

A “community development loan” is defined as a loan that has as its *primary purpose* community development. This includes but is not limited to loans to:

- Borrowers for affordable housing rehabilitation and construction, including construction and permanent financing for multifamily rental property serving low or moderate income (“LMI”) persons;
- Nonprofit organizations serving primarily LMI or other community development needs;
- Borrowers to construct or rehabilitate community facilities that are located in LMI areas or that primarily serve LMI individuals;
- Financial intermediaries including community development financial institutions, community development corporations, minority- and women-owned financial institutions, community loan funds or pools, micro-finance institutions, and low-income or community development credit unions that primarily lend or facilitate lending to promote community development;
- Local, state and tribal governments for community development activities; and
- Borrowers to finance environmental clean-up or redevelopment of an industrial site as part of an effort to revitalize the LMI community in which the property is located.

A “qualified investment” is defined as a lawful investment, deposit, membership share or grant that has as its *primary purpose* community development. This includes but is not limited to investments, deposits, membership shares or grants in or to:

- Financial intermediaries (including community development financial institutions, community development corporations, minority- and women-owned financial institutions, community loan funds, micro-finance institutions and low-income or community development credit unions) that primarily lend or facilitate lending in LMI areas or to LMI individuals in order to promote community development;
- Organizations engaged in affordable housing rehabilitation and construction;
- Organizations, including, for example, small business investment corporations that promote economic development by financing small businesses;
- Facilities that promote community development in LMI areas or LMI individuals, such as youth programs, homeless centers, soup kitchens, health care facilities, battered women’s centers, and alcohol and drug recovery centers;
- Projects eligible for low-income housing tax credits;
- State and municipal obligations, such as revenue bonds that specifically support affordable housing or other community development needs;
- Organizations serving LMI housing or other community development needs, such as counseling for credit, home ownership, home maintenance, and other financial services education; and
- Organizations supporting activities essential to the capacity of LMI individuals or geographies to utilize credit to sustain economic development, such as day care operations and job training programs that facilitate access to permanent jobs.

A “community development service” is defined as a service that has as its *primary purpose* community development, is related to the provision of financial services, and has not been considered in the evaluation of the banking institution's retail banking services. This includes but is not limited to:

- Providing technical assistance on financial matters to nonprofit, tribal or government organizations serving LMI housing or economic revitalization and development needs;
- Providing technical assistance on financial matters to small businesses or community development organizations;
- Lending employees to provide financial services for organizations facilitating affordable housing construction and rehabilitation or development of affordable housing;
- Providing credit counseling, home buyers and home maintenance counseling, financial planning or other financial services education to promote community development and affordable housing;
- Establishing school savings programs for LMI individuals;
- Providing seminars for LMI persons on banking and bank account record-keeping;
- Making ATM “Training Machines” available for extended periods at LMI community sites or at community facilities that serve LMI individuals; and
- Technical assistance activities to community development organizations such as:
  - ❖ Serving on a loan review committee;
  - ❖ Developing loan application and underwriting standards;

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

### **Demand-Adjusted Penetration Rate**

The number of owner-occupied loans made by the institution (or aggregate as appropriate) in a geographic area per thousand owner-occupied housing units in that area. Mathematically, it is arrived at by dividing the number of owner-occupied housing units into the number of loans made and then multiplying by 1,000.

### **Demand-Adjusted Penetration Ratio**

A ratio that depicts geographic penetration of loans by comparing demand-adjusted lending in LMI areas with non-LMI areas. Mathematically, it is arrived at by dividing the demand-adjusted penetration rate in non-LMI areas into the demand-adjusted penetration rate in LMI areas and then expressed as a percentage.

A ratio of 100% means that the institution (or aggregate as appropriate) made an equal number of loans proportionally in LMI and non-LMI areas. Less than 100 percent would indicate less lending in LMI areas on the same basis compared to non-LMI areas, whereas over 100 percent would indicate a greater level of lending in LMI areas versus non-LMI areas.

### **Home Mortgage Disclosure Act (“HMDA”)**

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

### **Loans to Small Businesses**

Small business loans to businesses with gross annual revenues of \$1 million or less.

### **Low or Moderate Income (“LMI”) Geographies**

Those census tracts or block numbering areas (“BNAs”), where according to the 1990 US Census, the median family income is less than 80% of the area median family income. In the case of tracted areas that are part of a Metropolitan Statistical Area (“MSA”) or Primary Metropolitan Statistical Area (“PMSA”), this would relate to the median family income for the MSA or PMSA in which the tracts are located. In the case of BNAs and tracted areas that are not part of a MSA or PMSA, the area median family

income would be the statewide nonmetropolitan median family income.

### **LMI Borrowers**

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

### **LMI Individuals/Persons**

Those individuals, whose income is less than 80% of the area median family income. In the case where the individual resides in a MSA or PMSA, this would relate to the median family income for that MSA or PMSA. Otherwise, the area median family income would be the statewide nonmetropolitan median family income. In all instances, the area median family incomes used to measure individual income levels are updated annually by HUD.

### **Small Business Loans**

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