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, 2007

Institution: Watertown Savings Bank
111 Clinton Street
Watertown, NY 13601

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 Watertown Savings Bank ("WSB") prepared by the New York State Banking Department. The evaluation represents the Banking Department's current assessment and rating of the institution's CRA performance based on an evaluation conducted as of December 31, 2007.

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 institutions are primarily based on a review of performance tests and standards described in Section 76.7 and detailed in Section 76.8 through 76.13 of the regulations. These tests and standards incorporate the 12 assessment factors contained in Section 28-b of the New York State Banking Law.

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

OVERVIEW OF INSTITUTION'S PERFORMANCE

WSB 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:*** WSB's LTD ratio is reasonable considering the bank's size, financial condition and the credit needs of the assessment area. The bank's average LTD ratio for the prior twelve quarters since the previous evaluation ended December 31, 2004 is 56.1%. Although this ratio is significantly below the peer group's average of 86.0%, factors contributed to it include that the bank's peer group consists primarily of national banks, and that the bank sells a portion of its residential loans on the secondary market were also considered.

- ***Assessment Area Concentration:*** A substantial majority of WSB loans are within the bank's assessment area. During the evaluation period, the bank originated 95.6% of its small business, HMDA-type and consumer lending inside its assessment area.

- ***Geographic Distribution of Loans:*** WSB geographic distribution of loans reflects reasonable dispersion among census tracts of various income levels throughout the assessment area.

- ***Distribution by Borrowers Characteristics:*** WSB's small business loans and consumer loans reflect an excellent penetration and HMDA-type loans reflect a marginally reasonable penetration among individuals of different income (including LMI) levels and businesses of different revenue sizes.

- ***Community Development Performance:*** WSB's community development performance demonstrates an adequate responsiveness to the community development needs of its assessment area. WSB had $7.5 million in qualified community development loans; $165 thousand in qualified investments and provided community development services which benefited its assessment area.

- Neither WSB nor the New York State Banking Department received any complaints with respect to its 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 1893, WSB is a mutual savings bank located in the City of Watertown, New York, within Jefferson County. WSB was the sole owner of Compass Mortgage Inc, a residential mortgage company that provided loans to many low- and moderate-income individuals. In 2006, Compass Mortgage Inc. was dissolved as a result of the declining housing market. In 2007, WSB began the acquisition of Redwood Bank, a state-chartered commercial institution. The acquisition was made final on June 13, 2008.

WSB operates six full-service branches, including its main office. The bank also operates a drive-thru accommodation office which is located in the proximity of its main office, a moderate-income geography. WSB supplements each of its branch offices with a network of 24-hour automated teller machines ("ATMs"). This ATM network also includes an ATM on the campus of Jefferson Community College. Each of these ATMs accepts deposits. The bank also offers 24-hour telephone banking and online banking. Since the prior evaluation, WSB opened one branch (Chaumont) on August 1, 2007, but did not close any.

WSB faces competition from larger national financial institutions within its assessment area, such as Key Bank and M&T. WSB is a community-oriented bank, which offers a diverse array of competitive deposit and lending products tailored to the needs of the community it serves. These products include small business loans, construction loans, residential mortgage loans, and secured and unsecured personal loans.

WSB participates in governmentally insured, guaranteed or subsidized programs for small businesses through the Small Business Administration ("SBA"). Such programs include the SBA 7(A) loan guarantee program, SBA Express and the Patriot Express. During the evaluation period, WSB originated 23 SBA loans for a total of $2.1 million.

The bank's loan portfolio is comprised of 53.8% commercial (real estate and industrial), 34.4% residential and 4.9% consumer loans. Since the previous evaluation, the bank's lending has declined for both residential and consumer lending and shifted more toward commercial lending.

The following is a summary of the bank's lending portfolio, based on Schedule RC-C of the bank's December 31, 2005, December 31, 2006 and December 31, 2007 Call Reports:

TOTAL GROSS LOANS OUTSTANDING						
	12/31/2005		12/31/2006		12/31/2007	
LOAN TYPE	$*	%	$*	%	$*	%
1-4 Residential Mortgage Loans	52,430	39.8	48,544	34.8	51,577	34.4
Commercial & Industrial Loans	15,316	11.6	15,800	11.3	18,212	12.1
Commercial Mortgage Loans	49,743	37.7	55,649	39.8	62,488	41.7
Mutifamily Mortgages	2,265	1.7	2,327	1.7	3,766	2.5
Consumer Loans	8,172	6.2	8,249	5.9	7,293	4.9
Agricultural Loans	0	0.0	0	0.0	0	0.0
Construction Loans	3,774	2.9	8,993	6.4	6,549	4.4
Obligations of states & municipalities	0	0.0	0	0.0	0	0.0
Other Loans	71	0.1	70	0.1	84	0.1
Lease financing	0	0.0	0	0.0	0	0.0
Total Gross Loans	131,771	100.0	139,664	100.0	149,969	100.0

* In thousands.

As per the Federal Deposit Insurance Corporation's ("FDIC") Consolidated Report of Condition (the Call Report) at December 31, 2007, WSB reported total assets of $293.8 million, of which $148.5 million were loans and lease finance receivables. It also reported total deposits of $245.0 million, resulting in a loan-to-deposit ratio of 60.6%.

Market Share

According to the latest available comparative deposit data dated June 30, 2007, the bank achieved a market share of 20.2% and ranked 2nd out of nine deposit-taking institutions in Jefferson County.

Prior Performance Evaluation

The bank 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, 2004.

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

Assessment Area:

WSB's assessment area comprises Jefferson County in its entirety. Jefferson County, which is not part of a metropolitan statistical area ("MSA"), is located in northern New York State along the eastern end of Lake Ontario. The county area includes an Empire Zone and has been designated as distressed or under-served by the Federal Financial Institutions Examination Council ("FFIEC").

Based on the 2000 U.S. Census, there are twenty census tracts in the county, including six (26.1%) moderate-income tracts; sixteen (69.6%) distressed and underserved middle-income tracts; and one (4.4%) upper-income tract. The assessment area appears

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

Details of Assessment Area:

Population: The assessment area has a population of 111.7 thousand people, including 12.6 thousand (11.3%) people above 65 and 26.3 thousand people (23.5%) below 16 years of age. The area's population is comprised of 40.1 thousand households, including 5.3 thousand households (13.3%) living below the poverty level.

Families: There are 28.2 thousand families in the assessment area, economically distributed as follows: 5.8 thousand (20.7%) are low-income families; 5.7 thousand (20.1%) are moderate-income families; 6.8 thousand (24.0%) are middle-income families; and 9.9 thousand (35.1%) are upper income families. As of the 2000 U.S. Census, the median family income of the assessment area was $39,855. According to estimates from the U.S. Department of Housing and Urban Development ("HUD"), the area's median family income increased to $50,900 in 2007.

Housing: The assessment area consists of 54.1 thousand housing units, of which 44.3% are owner-occupied, 29.8% are rental-occupied and 25.9% are vacant. When categorized by housing type, 90.88% of the area's units are one-to-four family residences, 14.2% are mobile homes or trailers, and 9.1% are multi-family structures containing five or more units. Since the assessment area does not contain any low-income tracts, none of the area's housing is located in low-income tracts. Housing in moderate-income areas account for 11.2 thousand (20.8%) of the assessment area's total housing units, The housing in moderate-income tracts also represents 11.6% of all owner- occupied units and 45.3% of all rental units in the assessment area.

Business Demographics: There are 6.8 thousand businesses in the bank's assessment area and 57.4% of these companies reported revenues of less then $1 million. The assessment area consists mainly of small businesses, with 71.5% of local companies employing fewer than 50 employees. The area's largest sources of employment are: the service sector (29.3%), retail trades (16.6%), construction (7.2%), finance, insurance and real estate (6.4%), and agriculture, forestry and fishing (4.9%).

Unemployment Rates: According to the New York State Department of Labor, Jefferson County's average unemployment rate was 5.5% in 2006 and 5.3% in 2007. These rates were slightly above the New York State averages of 4.6% in 2006 and 4.5% in 2007.

PERFORMANCE STANDARDS AND ASSESSMENT FACTORS

WSB's performance was evaluated according to the intermediate 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; (5) Action Taken in Response to Written Complaints Regarding CRA and (6) Community Development Activities.

The assessment period included calendar years 2005, 2006 and 2007. Examiners only considered 2006 and 2007 small business, HMDA-type and consumer lending in evaluating factors (2), (3) and (4). However, examiners considered calendar years 2005-2007 in evaluating factor (6).

Small business loans received more emphasis in the evaluation than consumer and HMDA-type loans, because although small business loans by number only constituted 22.3% of the banks lending, the dollar volume for these loans constituted 58.7% of the bank's total loans. In addition, although the number of consumer loans made represented 48.5% of the bank's total loans, the dollar volume for these loans constituted a nominal 7.2% of the bank's total loans. There were 294 (16.0%) HMDA-type loans, by number, which represented $26.9 million (25.9%) in these types of loans during the same period.

WSB is not a HMDA reporter because the bank did not have a home office or branch office in a MSA in the year preceding this evaluation.

Statistics utilized in this evaluation were derived from various sources[1]. In the evaluation, number volumes are the primary factors used to weigh WSB's performance, evaluate trends and draw comparisons.

I. Lending Test – "Satisfactory"

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

WSB's LTD ratio is reasonable considering its size, financial condition and the credit needs of the assessment area.

The bank's average LTD ratio for the twelve quarters since the previous evaluation ended December 31, 2004, is 56.1%, which is significantly below the peer group's average of 86.0%. It should be noted however, that there are no similar banks situated in the assessment area. For comparative purposes, the peer group includes all FDIC insured savings banks having assets between $100 million and $300 million.

While the bank's average LTD ratio was approximately 30 percentage points lower than

[1] Information submitted by the institution, from the Federal Financial Examination Council ("FFIEC") and from PCI Services, Inc.'s CRA Wiz, an external vendor.

its peer group, the LTD ratios have shown a steady improvement during the evaluation period from a low of 51.3% as of December 31, 2005, to a high of 60.6% as of December 31, 2007. Additionally, WSB's peer group consists primarily of national banks, and WSB sells a portion of its residential loans on the secondary market, thus reducing its LTD ratios. Considering all these factors, WSB's LTD ratio is deemed reasonable.

The following table shows the loan-to-deposit ratios for the twelve quarters since the previous evaluation. These ratios were calculated from information shown in the bank's Uniform Bank Performance Report ("UBPR") prepared by the Federal Deposit Insurance Corporation ("FDIC").

Loan-to-Deposit Ratio Analysis													
	2005 (Q1)	2005 (Q2)	2005 (Q3)	2005 (Q4)	2006 (Q1)	2006 (Q2)	2006 (Q3)	2006 (Q4)	2007 (Q1)	2007 (Q2)	2007 (Q3)	2007 (Q4)	Aver.* LTD
Bank	51.3	51.6	52.6	54.4	54.8	55.2	57.3	58.4	57.7	59.8	59.1	60.6	56.1
Peer	80.2	81.3	82.1	84.3	84.9	86.3	87.7	87.4	87.3	88.2	90.2	91.6	86.0

* Average

- **<u>Assessment Area Concentration</u>: "Outstanding"**

A substantial majority of WSB's loans were made within the bank's assessment area. During the evaluation period, the bank originated 95.6% of its small business, HMDA-type and consumer lending within its assessment area.

The following table depicts the distribution of loans inside and outside the assessment area during the evaluation period:

Distribution of Loans Inside and Outside of the Assessment Area										
Loan Type	**Number of Loans**					**Loans in Dollars (in thousands)**				
	Inside		**Outside**		**Total**	**Inside**		**Outside**		**Total**
	#	**%**	**#**	**%**		**$**	**%**	**$**	**%**	
Small Business										
2006	166	97.1	5	2.9	171	24,061	94.0	1,540	6.0	25,601
2007	225	93.8	15	6.3	240	31,584	87.8	4,403	12.2	35,987
Sub-Total	**391**	**95.1**	**20**	**4.9**	**411**	**55,645**	**90.4**	**5,943**	**9.6**	**61,588**
HMDA-Type										
2006	63	95.5	3	4.5	66	7,008	95.6	326	4.4	7,334
2007	81	97.6	2	2.4	83	11,740	98.5	179	1.5	11,919
Sub-Total	**144**	**96.6**	**5**	**3.4**	**149**	**18,748**	**97.4**	**505**	**2.6**	**19,253**
Consumer										
2006	656	97.2	19	2.8	675	10,736	98.7	140	1.3	10,876
2007	599	93.9	39	6.1	638	8,698	90.8	884	9.2	9,582
Sub-Total	**1,255**	**95.6**	**58**	**4.4**	**1,313**	**19,434**	**95.0**	**1,024**	**5.0**	**20,458**
Total	**1,790**	**95.6**	**83**	**4.4**	**1,873**	**93,827**	**92.6**	**7,472**	**7.4**	**101,299**

- **<u>Geographic Distribution of Loans</u>: "Satisfactory"**

WSB's geographic distribution of loans reflects a reasonable dispersion among census tracts of various income levels throughout the assessment area. There are no low-income tracts in the assessment area, and all the middle-income tracts have been designated "distressed or underserved". Therefore, the lending analysis focused on moderate-income and middle-income census tracks.

<u>Small Business</u>

The geographic distribution of small business loans reflects a reasonable dispersion among census tracts of different income levels. During the evaluation period, the bank extended 145 loans (37.1%) in moderate-income areas and 222 loans (56.8%) in distressed middle-income areas.

In 2006, WSB originated 57 loans in moderate-income areas and 99 loans in distressed middle-income areas. WSB's 2007 small business loan originations increased to 88 loans in moderate-income areas and to 123 loans in middle-income areas.

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

Distribution of Small Business Loans by Geography Income Level*						
2006						
Geography	**Bank**				**Distribution of Businesses**	
Income Level	#	%	$000's	%	#	%
Low	0	0.0	0	0.0	0	0.0
Moderate	57	34.3	9,347	38.8	1,668	25.0
Middle	99	59.6	14,161	58.9	4,733	71.0
Upper	10	6.0	553	2.3	269	4.0
NA	0	0.0	0	0.0	0	0.0
Total	**166**	**100.0**	**24,061**	**100.0**	**6,670**	**100.0**
2007						
Geography	**Bank**				**Distribution of Businesses**	
Income Level	#	%	$000's	%	#	%
Low	0	0.0	0	0.0	0	0.0
Moderate	88	39.1	12,798	40.5	1,631	23.9
Middle	123	54.7	17,719	56.1	4,927	72.1
Upper	14	6.2	1,067	3.4	272	4.0
NA	0	0.0	0	0.0	0	0.0
Total	**225**	**100.0**	**31,584**	**100.0**	**6,830**	**100.0**

* Geography income level is based upon 2000 Census data on median family income figure for the MSA. 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-type Loans

The geographic distribution of WSB HMDA-type loans reflects a reasonable dispersion throughout its assessment area.

WSB originated 7.9% and 84.1% of its HMDA-type loans in moderate- and distressed middle-income geographies, respectively. This distribution is below the market aggregate of 11.3% and 84.6% to moderate- and distressed middle-income geographies, respectively in 2006.

In 2007, WSB's residential loan dispersion in moderate-income geographies increased to 17.3% while its loan dispersion in distressed middle-income geographies decreased to 72.8%. However, when compared with the percentage of owner-occupied housing units - 11.6% in the moderate-income and 84.5% in the middle-income geographies, WSB's lending dispersion was reasonable.

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

Distribution of HMDA-Type Loans by Geographic Income Level*								
2006								
Geography	**Bank**				**Aggregate**			
Income Level	#	%	$(000)	%	#	%	$(000)	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	5	7.9	412	5.9	422	16.3	31,318	11.3
Middle	53	84.1	5,880	83.9	2,061	79.7	234,715	84.6
Upper	5	7.9	716	10.2	103	4.0	11,503	4.1
N/A	0	0.0	0	0.0	0	0.0	0	0.0
Total	**63**	**100.0**	**7,008**	**100.0**	**2,586**	**100.0**	**277,536**	**100.0**
2007								
Geography	**Bank**				**Owner Occupied units**			
Income Level	#	%	$(000)	%	#	%		
Low	0	0.0	0	0.0	0	0.0		
Moderate	14	17.3	1,238	10.5	2,781	11.6		
Middle	59	72.8	9,264	78.9	20,245	84.5		
Upper	8	9.9	1,238	10.5	924	3.9		
N/A	0	0.0	0	0.0	0	0.0		
Total	**81**	**100.0**	**11,740**	**100.0**	**23,950**	**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 least 120%.

Consumer Loans

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

In 2006, 18.4% (121) of the consumer loans originated were in moderate-income geographies, which is below the 25.2% of moderate-income households in these areas.

Lending in middle-income areas, however constituted 496 or 75.6% of WSB's total consumer loans, which compared favorably with the 71.1% of middle-income households located in the assessment area.

In 2007, WSB originated 19.0% of its consumer loans in moderate-income areas, still below the 25.2% of households in moderate-income areas.

The distribution of loans originated in middle-income areas in 2007 increased to 76.6%, a slight increase attributed to the overall decline in originations during this period. Nevertheless, the ratios are reasonable considering that 71.1% of households are located in middle-income areas.

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

Distribution of Consumer Loans by Geography Income Level*						
2006						
Geography	**Bank**				**Distribution of Households**	
Income Level	#	%	$000's	%	#	%
Low	0	0.0	0	0.0	0	0.0
Moderate	121	18.4	1,422	13.2	10,105	25.2
Middle	496	75.6	7,853	73.1	28,512	71.1
Upper	39	5.9	1,461	13.6	1,491	3.7
NA	0	0.0	0	0.0	0	0.0
Total	**656**	**100.0**	**10,736**	**100.0**	**40,108**	**100.0**
2007						
Geography	**Bank**				**Distribution of Households**	
Income Level	#	%	$000's	%	#	%
Low	0	0.0	0	0.0	0	0.0
Moderate	114	19.0	1,122	12.9	10,105	25.2
Middle	459	76.6	7,040	80.9	28,512	71.1
Upper	26	4.3	536	6.2	1,491	3.7
NA	0	0.0	0	0.0	0	0.0
Total	**599**	**100.0**	**8,698**	**100.0**	**40,108**	**100.0**

* Geography income level is based upon 2000 Census data on median family income figure for the MSA. 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%.

- **<u>Distribution by Borrower Characteristics</u>: "Outstanding"**

WSB's small business loans and consumer loans reflect an excellent penetration, and its HMDA-type loans reflect a reasonable penetration among individuals of different income (including LMI) levels and businesses of different revenue sizes.

<u>Small Business</u>

WSB's small business lending distribution, based on borrower characteristics, reflects an excellent penetration among businesses of different revenue sizes.
In 2006, WSB made 72.9% of its small business loans to businesses with revenue of

one million dollars or less This ratio compared favorably with the 57.0% of total businesses in the assessment area. WSB's lending to businesses with revenue of one million dollars or less improved to 73.3% in 2007, again significantly above the 57.4% of small businesses located in the assessment area.

The following charts provide a summary of the bank's small business lending distribution based on borrower revenues:

Distribution of Small Business Loans by Business Revenue Size						
	2006					
Revenue Size	**Bank**				**Businesses by Revenue Size**	
	#	%	$000's	%	#	%
$1 million or less	121	72.9	14,011	58.2	3,802	57.0
Over $1 million	44	26.5	10,035	41.7	351	5.3
Revenue Not Known	1	3.4	15	0.1	2,517	37.7
Total	166	100.0	24,061	100.0	**6,670**	**100.0**
	2007					
Revenue Size	**Bank**				**Businesses by Revenue Size**	
	#	%	$000's	%	#	%
$1 million or less	165	73.3	14,256	45.1	3,919	57.4
Over $1 million	60	26.7	17,328	54.9	341	5.0
Revenue Not Known	0	0.0	0	0.0	2,570	37.6
Total	225	100.0	31,584	100.0	**6,830**	**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. 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%.

HMDA-type Loans

The distribution of WSB HMDA-type loans based on borrower characteristics reflects a marginally reasonable penetration among individuals of different income levels and businesses of different sizes.

In 2006, WSB originated 1.6% and 7.9% of its HMDA-type loans to low- and moderate-income borrowers, respectively, which was significantly below the market aggregate of 4.8% and 14.9% to low- and moderate-income borrowers respectively in the assessment area.

WSB's lending in 2007 of 2.5% and 9.9% of its HMDA-type loans to low- and moderate-income borrowers, respectively, represented an upward trend from 2006. Notwithstanding these increases, the percentages are low considering that 20.7% and 20.1% of the assessment area's families are low- and moderate-income borrowers.

The following chart provides a summary of the distribution of the bank's HMDA-type lending based on borrower income level during the evaluation period:

Distribution of HMDA-Type Loans by Borrower Income Level*								
	2006							
Borrower Income Level	Bank				Aggregate			
	#	%	$(000)	%	#	%	$(000)	%
Low	1	1.6	50	0.7	123	4.8	4,060	1.5
Moderate	5	7.9	271	3.9	385	14.9	22,538	8.1
Middle	7	11.1	679	9.7	782	30.2	64,828	23.4
Upper	45	71.4	5,377	76.7	1,235	47.8	142,380	51.3
N/A	5	7.9	631	9.0	61	2.4	43,730	15.8
Total	**63**	**100.0**	**7,008**	**100.0**	**2,586**	**100.0**	**277,536**	**100.0**
	2007							
Borrower Income Level	Bank				Distribution of Families			
	#	%	$(000)	%	#	%		
Low	2	2.5	100	0.9	5,850	20.7		
Moderate	8	9.9	716	6.1	5,685	20.1		
Middle	17	21.0	1,258	10.7	6,783	24.0		
Upper	52	64.2	9,254	78.8	9,932	35.2		
N/A	2	2.5	412	3.5	0	0.0		
Total	**81**	**100.0**	**11,740**	**100.0**	**28,250**	**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%.

Consumer Loans

WSB's distribution of consumer loans is excellent among individuals of different income, including low- and moderate-income levels.

In 2006, of the 656 consumer loans originated, WSB made 143 loans (21.8%) to low- and 134 loans (20.4%) to moderate-income borrowers. These ratios compare favorably to the zero percent and 25.2% of low- and moderate-income households in WSB's assessment area.

In 2007, WSB originated only 599 consumer loans, representing a decrease from 2006. Consumer loans to low-income families decreased to 119 (19.9%) loans and to 139 loans (23.2%) for moderate-income borrowers. Nevertheless, WSB's penetration ratios to low and moderate- income individuals compared favorably with the distribution of low and moderate-income households and the poverty level of WSB's assessment area.

The following chart provides additional information regarding WSB's consumer loan distribution during the evaluation period:

Distribution of Consumer Loans by Borrower Income*						
Borrower	**2006**				**Distribution of Households**	
Income Level	#	%	$(000s)	%	#	%
Low	143	21.8	718	6.7	0	0.0
Moderate	134	20.4	1,286	12.0	10,105	25.2
Middle	147	22.4	2,305	21.5	28,512	71.1
Upper	175	26.7	5,443	50.7	1,491	3.7
N/A	57	8.7	984	9.2	0	0.0
Total	**656**	**100.0**	**10,736**	**100.0**	**40,108**	**100.0**
Borrower	**2007**				**Distribution of Households**	
Income Level	#	%	$(000s)	%	#	%
Low	119	19.9	695	8.0	0	0.0
Moderate	139	23.2	1,283	14.8	10,105	25.2
Middle	143	23.9	2,163	24.9	28,512	71.1
Upper	141	23.5	3,840	44.1	1,491	3.7
N/A	57	9.5	717	8.2	0	0.0
Total	**599**	**100.0**	**8,698**	**100.0**	**40,108**	**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. 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%.

II. Community Development Test - "Satisfactory"

The bank's community development performance demonstrates adequate responsiveness to the community development needs of its assessment area through community development loans, qualified investments and community development services, as appropriate, considering the size of its operations and the need and availability of such opportunities for community development in the bank's assessment area.

The following are examples of the bank's community development lending, investments and service activities:

Qualified Community Development Loans

As of the evaluation date, the bank had eight qualified community development loans totaling approximately $7.5 million of which $5.2 was new money. The following are examples of qualified community development loans offered by the bank:

- A $2.3 million construction loan was extended to a for-profit organization. The loan was used to construct a hotel in a moderate-income area. The development is located just off the interstate and is expected to draw visitors to revitalize the area. In addition, the development has created a number of permanent jobs at various skill levels to low and moderate income employees.

- The bank extended a $2.1 million construction loan to a for-profit real estate holding company. The loan helped to promote economic development and stabilized an economically distressed area through the construction of a medical

center. The center not only promotes health care services, but also created job opportunities in the assessment area. The facility is located in a distressed middle-income area and within a New York State designated Empire Zone.

- A $654,000 construction loan was extended to a not-for-profit organization which provides affordable housing and human services for children and adults with disabilities in Jefferson County. The loan was used to construct a new daytime rehabilitation facility.

- During the evaluation period, the bank renewed a $112,000 line of credit to the New York Business Development Corporation ("NYBDC"). NYBDC loans provide financing for higher risk small businesses through New York State.

Qualified Community Development Investment and Grants

During the evaluation period, the bank made $95.3 thousand in the form of grants and donations to the community. As the bank's investment opportunities are limited given the rural nature and economic designation of its assessment area, all of the bank's qualified investments were in the form of grants and donations.

- During the evaluation period, the bank contributed $14.3 thousand to the Federal Home Loan Bank of New York's (FHLBNY) Affordable Housing Program (AHP). In 1989, Congress authorized the FHLBNY and the other home loan banks to launch the AHP. The FHLBNY, with its over 300 members, and many not-for-profit community organizations have partnered to fund numerous affordable housing initiatives.

- WSB made a commitment of $10 thousand to the North Country Alliance Local Development Corporation which consists of a consortium of economic development organizations. The organization is responsible for administering the revolving loan fund of the Development Authority of the North Country. The loan fund is available for small business loans in the assessment area.

- WSB donated $3.0 thousand to a not-for-profit organization that contributed all of its donations to aid the victims of Hurricane Katrina.

- As part of the bank's partnership with Habitat for Humanity, WSB gave $2.5 thousand in grants to the organization to sponsor its "Loans for Homes" housing projects within the assessment area.

Qualified Community Development Services

WSB provided community development services which benefited its assessment area, through sponsoring and partnering financial education projects with not-for-profit organizations and government agencies, the bank actively participates in community development services.

WSB sponsored two six-week workshops at the Small Business Development Center.

The workshops are geared to assist small businesses gain develop business plans. WSB management provides technical assistance to the business owners on preparation and presentation of their plans.

Technical Assistance – The bank's employees provided an excellent level of community services in the form of technical assistance during the evaluation period. Senior management and officers alike serve as chairs and board of director, advisory board, financial committee, and loan review committee members in a large number of community development organizations within the assessment area. Most of the organizations served have missions dedicated to creating affordable housing, enhancing economic development and providing community services. The services provided include but are not limited to the following:

- The president serves on the Regional Loan Review Committee of a New York State economic development organization, which provides financial assistance to small and mid-sized businesses. This organization increases job opportunities, supports business development and promotes the local economy.

- The president also serves as the Chair of the Finance Committee and sits on the board of a local community college foundation. The foundation provides technical and financial support to the local community college. The college provides local residents (from primarily moderate- and distressed middle-income geographies within the assessment area) with the education necessary to improve job skills to obtain sustainable employment.

- Two WSB board members serve on the boards of local economic development organizations, which support job creation and promote the local economy.

- The Executive Vice President ("EVP") of WSB serves on the board of the local housing authority, which administers 674 low-income housing units in the Watertown area.

- The EVP also provides lectures two times a year on behalf of the Small Business Development Center at the center's business planning class.

- A Vice President serves on the board and the Loan Committee of a local economic development agency, and uses his financial expertise to review loan applications on behalf of the agency.

- A commercial lending officer serves as treasurer of United Way of Northern New York, a local not-for-profit organization that primarily serves low- and moderate-income individuals.

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

Since the latest CRA evaluation as of December 31, 2004, neither the bank nor the New York State Banking Department has received any written complaints regarding the bank's CRA performance.

- **Discrimination and other Illegal Practices**

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

Evidence of prohibited discriminatory or other illegal credit practices.

The most recent regulatory compliance and fair lending examinations conducted on August 15, 2007, 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.

The board of trustees consists of local businesspersons from the community and these members serve on the boards of various community organizations involved in economic well being of the residents of the assessment area.

WSB ascertains the credit needs of its community through its involvement with various community organizations. Based on this involvement, WSB created a "no closing cost" mortgage product to provide a more affordable product to prospective buyers.

In addition, WSB continued its "Customer Call Program" where commercial loan officers contact existing commercial customers directly to ascertain how WSB can best serve their credit needs.

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.

The bank continues to actively advertize its products and services through the local radio station, television, internet and newspaper (Town Times) to reach potential customers in the assessment area. It also employs in-house advertising through display ads in the lobby, at the drive thru and in the ATM lanes. These ads are changed every three to four months to maintain customer's interest.

The extent of participation by the banking institution's board of directors/trustees in formulating the banking institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

WSB's board of trustees is involved in developing and monitoring CRA policies and ensuring their implementation. The trustees review the CRA committee minutes and monitor the bank's CRA activities at each board meeting. The board appointed a CRA

committee, which normally meets on a quarterly basis.

- **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.

WSB participates in New York State's Linked Deposit program and originated one loan for $200 thousand under this program during the evaluation period. The Linked Deposit Program gives small businesses access to low-cost loans for projects that will retain existing jobs and create new jobs in designated areas. In return for originating these loans, a bank receives compensating low-cost deposits from the State of New York. In effect, the low-cost deposits serve as an indirect subsidy for the loan.

In addition, WSB continues its school savings program. Once a week, a branch manager goes into a local school, collects deposits from students in grades K-12 and updates their passbooks. Students who make a deposit at least once during the month are entered into a monthly drawing for a $50 savings bond donated by WSB.

WSB continues to support local businesses and organizations through donations and various services provided, regardless of whether the donations qualify for community development credits. As indicated in the Performance Context, WSB's assessment area is primarily distressed, and without support from the area financial institutions, many community development initiatives would not be possible.

GLOSSARY

Aggregate

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

Community Development

The term "community development" is defined to mean:

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

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

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

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

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

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

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

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

Home Mortgage Disclosure Act ("HMDA")

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

Loans to Small Businesses

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

Low or Moderate Income ("LMI") Geographies

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

LMI Borrowers

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

LMI Individuals/Persons

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

LMI Penetration Rate

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

Small Business Loans

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