



**NEW YORK STATE
DEPARTMENT OF FINANCIAL SERVICES
FINANCIAL FRAUDS AND CONSUMER PROTECTION DIVISION**

One State Street
New York, NY 10004

PUBLIC SUMMARY

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

Date of Evaluation: December 31, 2014

Institution: Victory State Bank
4142 Hylan Blvd.
Staten Island, NY 10310

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 Department of Financial Services 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 Victory State Bank (“VSB”) prepared by the New York State Department of Financial Services (“DFS” or the “Department”). This evaluation represents the Department’s current assessment and rating of the institution’s CRA performance based on an evaluation conducted as of December 31, 2014.

Section 28-b of the New York Banking Law, as amended, requires that when evaluating certain applications, the Superintendent of Financial Services 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 Superintendent implements Section 28-b and further requires that the 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 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 (“Evaluation”) be made available to the public. Evaluations of banking institutions are primarily based on a review of performance tests and standards described in Section 76.7 and detailed in Sections 76.8 through 76.13. The tests and standards incorporate the 12 assessment factors contained in Section 28-b of the New York 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

DFS evaluated VSB according to the small bank performance criteria pursuant to Part 76.7 and 76.12 of the General Regulations of the Superintendent ("GRS"). This assessment period included calendar years 2011, 2012, 2013 and 2014. VSB is rated "1" indicating an "Outstanding" record of helping to meet community credit needs.

VSB was evaluated only on small business lending for factors (2), (3) and (4) of the lending test as noted in Part 76.12. VSB was not required to have its community development activities evaluated as a part of its CRA examination under the small bank performance standards. Nevertheless, VSB made qualified community development loans investments (in the form of grants), and services that benefited small businesses, low- and moderate-income ("LMI") individuals, and residents in under-banked communities.

The rating is based on the following factors:

- **Loan-to-Deposit Ratio and other Lending-Related Activities:** "Satisfactory"

VSB's average LTD ratio was less than reasonable considering its size, business strategy, financial condition and peer group¹ activity. VSB's level of community development lending activity, however, was more than reasonable, which compensated for the low LTD ratio.

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

VSB originated 85.2% by number, and 92.5% by dollar value of its small business lending within the assessment area. This substantial majority of lending inside VSB's assessment area was an excellent record of lending.

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

VSB's small business lending demonstrated an excellent distribution of loans among businesses of different revenue sizes. VSB's average rate of lending to businesses with revenue size of \$1 million or less, during the evaluation period, was 57.6% by dollar value, well above the aggregate's rate of 39.0%.

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

VSB's loans originated in census tracts of varying income levels demonstrated a reasonable distribution of lending.

¹ Peer group is insured commercial banks having assets between \$100 million and \$300 billion, with 3 or more full service banking offices and located in a metropolitan statistical area.

VSB's average rate of lending in LMI geographies exceeded the aggregate's rate for the evaluation period. It also exceeded the business demographics for LMI geographies for each year except for 2011.

- **Action Taken in Response to Written Complaints with Respect to CRA:**

Neither DFS nor VSB received any CRA related complaints during the evaluation period.

- **Community Development Activities**

VSB made a total of \$3.1 million of community development loans, \$208,254 thousand in grants and numerous community services. The volume of VSB's community development loans, grants and services were more than reasonable considering VSB's size (small bank), financial condition, business strategy and peer group activity.

VSB's community development loans promoted community services, economic development and neighborhood revitalization. The bank made grants to various organizations in Staten Island that provided health services, affordable housing and other services to children, the elderly and disabled individuals. VSB's community development services benefited LMI individuals, small businesses and residents of under-banked communities.

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

PERFORMANCE CONTEXT

Institution Profile:

VSB is a commercial bank headquartered in Staten Island, Richmond County. VSB chartered in New York in 1997 and is a wholly-owned subsidiary of VSB Bancorp, a one-bank holding company formed in 2003.

VSB offers a variety of traditional banking services with Staten Island as its primary market area. Its principal business strategy is to acquire deposits and make commercial loans.

Per the Consolidated Report of Condition (“Call Report”) as of December 31, 2014, filed with the Federal Deposit Insurance Corporation (“FDIC”), VSB reported total assets of \$285.7 million, of which \$66.5 million were net loans and lease finance receivables. It also reported total deposits of \$256.8 million, resulting in a loan-to-deposit ratio of 25.9%. According to the latest available comparative deposit data as of June 30, 2014, VSB obtained a market share of 2.5%, or \$258.9 million in a market of \$10.5 billion, ranking it 9th among 19 deposit-taking institutions in the assessment area.

The following is a summary of VSB’s loan portfolio, based on Schedule RC-C of the bank’s December 31, 2011, 2012, 2013 and 2014 Call Reports:

TOTAL GROSS LOANS OUTSTANDING								
Loan Type	2011		2012		2013		2014	
	\$000's	%	\$000's	%	\$000's	%	\$000's	%
1-4 Family Residential Mortgages	13,106	15.9	11,789	14.3	8,664	11.8	8,648	12.8
Commercial & Industrial Loans	14,520	17.7	18,554	22.5	16,819	23.0	18,121	26.8
Commercial Mortgage Loans	41,992	51.0	40,001	48.5	36,476	49.8	31,367	46.4
Multifamily Mortgages	-	-	2,203	2.7	-	-	0	0.0
Consumer Loans	602	0.7	566	0.7	849	1.2	871	1.3
Construction Loans	11,198	13.6	8,319	10.1	9,127	12.5	7,437	11.0
Other Loans	845	1.0	1,021	1.2	1,330	1.8	1,168	1.7
Total Gross Loans	82,263	100.0	82,453	100.0	73,265	100.0	67,612	100.0

As illustrated in the above table, VSB is primarily a commercial lender, with 73.2% of its loan portfolio in commercial loans, while residential mortgage loans make up 12.8% of the portfolio. VSB’s loan portfolio decreased by \$14.7 million or 17.8% during the evaluation period primarily due to a decrease in its commercial mortgage loan portfolio.

VSB operates five full-service branches, all located in Staten Island. VSB’s branch network is supplemented by automated teller machines (“ATMs”) located at every branch. All ATMs allow customers to make deposits and cash withdrawals and are accessible 24 hours a day and seven days a week, except for the ATM at the St. George branch which is available during regular business hours.

Examiners did not find evidence of financial or legal impediments that had an adverse impact on VSB's ability to meet the credit needs of its community.

Assessment Area:

VSB's assessment area is comprised of Richmond County and contains 110 census tracts, of which three are low-income, 11 are moderate-income, 33 are middle-income, 61 are upper-income, and three are tracts with no income level indicated.

Assessment Area Census Tracts by Income Level							
County	N/A	Low	Mod	Middle	Upper	Total	LMI %
Richmond County	3	3	11	33	61	111	13
Total	3	3	11	33	61	111	13

Demographic & Economic Data

The assessment area had a population of 468,730 during the examination period. About 12.2% of the population were over the age of 65, and 20.4% were under the age of sixteen.

Of the 122,677 families in the assessment area 17.6% were low-income, 13.0% were moderate-income, 18.2% were middle-income and 51.2% were upper-income families. There were 164,279 households in the assessment area, of which 10.6% had income below the poverty level and 2.6% were on public assistance.

The weighted average of median family income in the assessment area was \$83,600.

There were 175,907 housing units within the assessment area, of which 86.7% were one- to four-family units, and 12.9% were multifamily units. A majority (65.7%) of the area's housing units were owner-occupied, while 27.7% were rental units. Of the 115,527 owner-occupied housing units, 5.4% were in low- and moderate-income census tracts while 94.6% were in middle- and upper-income census tracts. The median age of the housing stock was 48 years, and the median home value in the assessment area was \$457,158.

There were 27,668 non-farm businesses in the assessment area. Of these, 74.3% were businesses with reported revenues of less than or equal to \$1 million, 3.0% reported revenues of more than \$1 million, and 22.7% did not report their revenues. Of all the businesses in the assessment area, 79.6% were businesses with less than fifty employees, and 94.8% operated from a single location. The largest industries in the area were service (45.6%), retail trade (13.9%), and construction (9.0%), while 14.2% of businesses in the assessment area were not classified.

According to the New York State Department of Labor, Richmond County had a higher unemployment rate for each year of the evaluation period than New York State. The unemployment rates for Richmond County and New York State steadily declined every year during the evaluation period reflecting a slow but steady recovery in the local economy.

Assessment Area Unemployment Rate		
	Statewide	Richmond
2011	8.30%	9.10%
2012	8.50%	9.30%
2013	7.70%	8.70%
2014	6.30%	7.20%
Average 4 years	7.70%	8.58%

Community Information

Community contacts included a not-for-profit organization that provides technical assistance to small business owners and entrepreneurs and a nonprofit organization that provides assistance to consumers in understanding and improving their ability to manage their financial affairs.

During the fourth quarter of 2012, Hurricane Sandy hit the Eastern seaboard. The storm had a severe impact on small businesses in Staten Island. The executive director of a local community development corporation, who is also the executive director of a local Business Improvement District (BID), noted that many small businesses needed three years to recover from Sandy. He also noted that small business owners, including women and minority owners have a continuous need for financial literacy training, capital financing assistance, access to micro-loans, alternative financing, pre-start up loans and technical assistance to improve their business. The community contacts also identified the need for providing financial literacy training to individuals living in unbanked or under-banked communities.

PERFORMANCE STANDARDS AND ASSESSMENT FACTORS

VSB was evaluated under the small bank performance standards in accordance with Parts 76.7 and 76.12 of the GRS, consisting of the lending test.

The lending test includes:

- 1. Loan-to-deposit ratio and other lending-related activities;*
- 2. Assessment area concentration;*
- 3. Distribution by borrower characteristics;*
- 4. Geographic distribution of loans; and*
- 5. Action taken in response to written complaints regarding CRA.*

DFS also considered the following factors in assessing the bank's record of performance:

- 1. The extent of participation by the board of directors or board of trustees in formulating CRA policies and reviewing CRA performance;*
- 2. Any practices intended to discourage credit applications;*
- 3. Evidence of prohibited discriminatory or other illegal credit practices;*
- 4. Record of opening and closing offices and providing services at offices; and*
- 5. Process factors, such as activities to ascertain credit needs and the extent of marketing and special credit related programs.*

Finally, the evaluation considered other factors as delineated in Section 28-b of the New York Banking Law that reasonably bear upon the extent to which VSB helped to meet the credit needs of its entire community.

DFS derived statistics employed in this evaluation from various sources. VSB submitted bank specific information both as part of the examination process and on its Call Report submitted to the FDIC. DFS obtained aggregate lending data from the Federal Financial Institutions Examination Council ("FFIEC") and deposit data were obtained from the FDIC. DFS calculated loan-to-deposit ratios from information shown in the Bank's Uniform Bank Performance Report, submitted to the FDIC.

DFS derived the demographic data referred to in this report from the 2000 and 2010 U.S. Census and FFIEC. DFS based business data on Dun & Bradstreet reports, which Dun & Bradstreet updates annually. DFS obtained unemployment data from the New York State Department of Labor.

The assessment period included calendar years 2011, 2012, 2013 and 2014.

Examiners considered VSB's small business loans in evaluating factors (2), (3) and (4) of the lending test noted above.

As a small bank, VSB is not required to report small business loan data. Therefore, VSB's small business loan data are not included in the aggregate data, which are shown only for comparative purposes.

At its **prior** Performance Evaluation as of December 31, 2010, DFS assigned VSB a rating of “1,” reflecting an “Outstanding” record of helping to meet community credit needs.

Current CRA Rating: “Outstanding”

Lending Test: “Outstanding”

VSB’s small business lending and community development lending activities were more than reasonable in light of aggregate and peer group activity and demographics.

Loan-to-Deposit (“LTD”) Ratio and other Lending-Related Activities: “Satisfactory”

VSB’s average LTD ratio of 31.7% was less than reasonable considering its size, business strategy, financial condition, and the LTD ratio of its peer group.¹ The peer group’s LTD ratio was 73.5%, more than double VSB’s ratio. VSB’s other lending activities such as its community development lending, however, compensated in this evaluation for VSB’s low LTD ratio. See the community development activities section of this report for more detail on VSB’s community development lending.

VSB’s loan volume of construction, commercial mortgage and commercial & industrial loans decreased to 58.9 million in 2014 from \$69.7 million in 2011, primarily due to the increase in competition for these types of loans in VSB’s market area.

The table below shows VSB’s quarterly LTD ratios in comparison with the peer group’s ratios for the sixteen quarters since the prior evaluation.

Loan-to-Deposit Ratios																	
	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	Avg.
Bank	37.0	37.4	37.0	37.4	36.4	37.2	34.4	32.9	31.2	27.8	27.5	26.5	27.5	27.1	24.1	25.9	31.7
Peer	74.9	74.9	74.4	73.9	71.9	72.8	72.5	72.1	70.8	72.5	72.7	73.0	72.5	74.1	74.9	78.3	73.5

Assessment Area Concentration: “Outstanding”

VSB originated 85.2% by number, and 92.5% by dollar value of its small business loans within the assessment area. This substantial majority was an excellent concentration of lending inside VSB’s assessment area.

The following table shows the percentages of VSB’s small business loans originated inside and outside of the assessment area.

¹ Peer group represents insured commercial banks having assets between \$100 million and \$300 billion, with 3 or more full service banking offices and located in a metropolitan statistical area.

Distribution of Loans Inside and Outside of the Assessment Area										
Loan Type	Number of Loans					Loans in Dollars (in thousands)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Small Business										
2011	713	88.0%	97	12.0%	810	37,902	95.8%	1,645	4.2%	39,547
2012	824	83.7%	161	16.3%	985	36,725	91.7%	3,332	8.3%	40,057
2013	733	84.3%	137	15.7%	870	21,161	90.4%	2,241	9.6%	23,402
2014	769	85.2%	134	14.8%	903	23,982	90.8%	2,436	9.2%	26,418
Subtotal	3,039	85.2%	529	14.8%	3,568	119,770	92.5%	9,654	7.5%	129,424
Grand Total	3,039	85.2%	529	14.8%	3,568	119,770	92.5%	9,654	7.5%	129,424

Distribution by Borrower Characteristics: "Outstanding"

VSB's business lending demonstrated an excellent distribution of loans among businesses of different revenue sizes.

VSB's average rate of lending to small businesses with revenue of \$1 million or less of 44.9% by number and 57.6% by dollar value of loans, exceeded its aggregate's rate of 43.2% and 39.0%, respectively. VSB also exceeded the aggregate's rate of lending by dollar value of loans every year of the evaluation period and by number of loans every year except for 2014.

The following Table provides a summary of the distribution of VSB's business lending based on revenue size during the evaluation period.

Distribution of Business Lending by Revenue Size of Business									
2011									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	403	56.5%	24,116	63.6%	2,787	37.7%	46,146	37.4%	70.8%
Rev. > \$1MM	310	43.5%	13,786	36.4%					2.3%
Rev. Unknown		0.0%		0.0%					27.0%
Total	713		37,902		7,390		123,506		
2012									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	366	44.4%	21,379	58.2%	3,423	43.4%	61,108	38.9%	76.2%
Rev. > \$1MM	458	55.6%	15,346	41.8%					2.7%
Rev. Unknown		0.0%		0.0%					21.1%
Total	824		36,725		7,893		157,234		
2013									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	323	44.1%	8,518	40.3%	3,192	47.0%	66,023	38.4%	76.7%
Rev. > \$1MM	410	55.9%	12,643	59.7%					3.0%
Rev. Unknown		0.0%		0.0%					20.3%
Total	733		21,161		6,789		171,913		
2014									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	272	35.4%	14,983	62.5%	3,435	44.9%	64,187	41.2%	74.3%
Rev. > \$1MM	497	64.6%	8,999	37.5%					3.0%
Rev. Unknown		0.0%		0.0%					22.7%
Total	769		23,982		7,653		155,618		
GRAND TOTAL									
Rev. Size	Bank				Aggregate				
	#	%	\$000's	%	#	%	\$000's	%	
Rev. <= \$1MM	1,364	44.9%	68,996	57.6%		43.2%		39.0%	
Rev. > \$1MM	1,675	55.1%	50,774	42.4%					
Rev. Unknown	-	0.0%	-	0.0%					
Total	3,039		119,770						

Geographic Distribution of Loans: "Satisfactory"

VSB's origination of small business loans in census tracts of varying income levels demonstrated a reasonable distribution of lending.

VSB's rate of small business lending in LMI geographies of 6.9% by number and 8.6% by dollar value of loans exceeded the aggregate's rate of 4.7% and 4.7%, respectively. This was due to VSB's performance in moderate-income census tracts as it originated

more loans by dollar value than the aggregate for each year of the evaluation period. However, VSB did not perform as well in the low-income census tracts as it only originated one loan during the evaluation period. VSB also exceeded the business demographics for LMI geographies for each year except for 2011.

The following Table provides a summary of VSB's business lending distribution based on the income level of the geography.

Distribution of Business Lending by Geographic Income of the Census Tract									
2011									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	16	0.2%	913	0.7%	0.8%
Moderate	9	1.3%	1,246	3.3%	258	3.5%	2,136	1.7%	5.3%
LMI	9	1.3%	1,246	3.3%	274	3.7%	3,049	2.5%	6.1%
Middle	317	44.5%	12,026	31.7%	1,484	20.1%	28,315	22.9%	23.5%
Upper	387	54.3%	24,630	65.0%	5,629	76.2%	92,118	74.6%	70.3%
Unknown		0.0%		0.0%	3	0.0%	24	0.0%	0.1%
Total	713		37,902		7,390		123,506		
2012									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	1	0.1%	350	1.0%	33	0.4%	925	0.6%	0.6%
Moderate	55	6.7%	2,712	7.4%	363	4.6%	7,962	5.1%	6.9%
LMI	56	6.8%	3,062	8.3%	396	5.0%	8,887	5.7%	7.5%
Middle	333	40.4%	10,401	28.3%	1,810	22.9%	39,833	25.3%	24.5%
Upper	435	52.8%	23,262	63.3%	5,687	72.1%	108,514	69.0%	68.0%
Unknown		0.0%		0.0%	0	0.0%	0	0.0%	0.0%
Total	824		36,725		7,893		157,234		
2013									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	39	0.6%	1,643	1.0%	0.6%
Moderate	61	8.3%	1,829	8.6%	325	4.8%	6,625	3.9%	6.8%
LMI	61	8.3%	1,829	8.6%	364	5.4%	8,268	4.8%	7.4%
Middle	427	58.3%	9,199	43.5%	1,547	22.8%	44,620	26.0%	24.3%
Upper	245	33.4%	10,133	47.9%	4,878	71.9%	119,025	69.2%	68.3%
Unknown		0.0%		0.0%	0	0.0%	0	0.0%	0.0%
Total	733		21,161		6,789		171,913		
2014									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	72	0.9%	3,457	2.2%	1.1%
Moderate	85	11.1%	4,533	18.9%	459	6.0%	12,084	7.8%	7.8%
LMI	85	11.1%	4,533	18.9%	531	6.9%	15,541	10.0%	8.9%
Middle	452	58.8%	6,242	26.0%	1,986	26.0%	38,554	24.8%	27.5%
Upper	232	30.2%	13,207	55.1%	5,136	67.1%	101,523	65.2%	63.7%
Unknown		0.0%		0.0%	0	0.0%	0	0.0%	0.0%
Total	769		23,982		7,653		155,618		
GRAND TOTAL									
Geographic Income	Bank				Aggregate				
	#	%	\$000's	%	#	%	\$000's	%	
Low	1	0.0%	350	0.3%		0.5%		1.1%	
Moderate	210	6.9%	10,320	8.6%		4.7%		4.7%	
LMI	211	6.9%	10,670	8.9%		5.3%		5.9%	
Middle	1,529	50.3%	37,868	31.6%		23.0%		24.9%	
Upper	1,299	42.7%	71,232	59.5%		71.8%		69.2%	
Unknown	-	0.0%	-	0.0%		0.0%		0.0%	
Total	3,039		119,770						

Community Development Activities

VSB was evaluated under the small bank performance standards and was not required

to engage in community development activities for CRA purposes. Nevertheless, VSB made an excellent level of community development loans, investments in the form of grants and community services during the evaluation period.

Community Development Lending

VSB made a total of \$3.1 million of community development loans that promoted community services, economic development, and neighborhood revitalization. Some of the community development loans VSB extended during the evaluation period were as follows:

- VSB participated in loans made by the New York Business Development Corporation (NYBDC) totaling \$200,000. NYBDC is a privately-owned entity created by state law providing a broad range of financing to minority and women owned businesses and small- and mid-sized businesses located in New York State. NYBDC is funded by lines of credit provided by partner banks such as VSB.
- VSB extended an annual renewable line of credit of \$150,000 each year (total of \$600,000 for the evaluation period) to a preschool formed to provide training and instructions for the education and development of handicapped preschool children including physical health, nutritional, intellectual, emotional and social development. The school is approved and funded by New York State Department of Education.
- VSB extended an annual renewable line of credit of \$60,000 each year (total of \$240,000 for the evaluation period) to a nonprofit organization located in Staten Island. The organization provides homebuyer education, counseling for foreclosure and first-time home buyers. It also provides economic and community development by assisting local merchants in making Staten Island an economically vibrant community.

Community Development Investments (Grants)

VSB made a total of \$208,254 in grants to various organizations in Staten Island providing a range of services that included food, clothing, housing, education, mental health and other human services to the most vulnerable population such as the elderly, children, people with disabilities, low-income individuals, the homeless and people at risk of becoming homeless.

- VSB made a grant of \$6,977 for affordable housing. The funds were derived from VSB's member share of the Federal Home Loan Bank of New York's revenue for 2011, 2012 and 2013. VSB's grant was used to fund the Federal Home Loan Bank's Affordable Housing Program, which includes the First Home Club and the first-time homebuyer assistance programs.

Community Development Services

VSB demonstrated an excellent level of community services benefitting small businesses and LMI individuals and residents of under-banked communities.

Members of VSB's board of directors and other senior management staff provided their financial expertise and technical assistance to several nonprofit and community based organizations that provided a range of services to the elderly, children and people with disabilities as well as small business owners in Staten Island. Some of the services performed included the following:

- VSB's president and CEO was chairman of the board of the Staten Island Chamber of Commerce from 2012 to 2014. The organization helped local companies to grow their businesses and create a strong local economy.
- VSB's president and CEO was chairman of the board of a private, not-for profit child welfare agency aimed at protecting and caring for the most vulnerable children and helping families to overcome alcohol, substance abuse and other family problems that can threaten a child's safety and future.
- VSB's chairman of the board was chairman and board member of a private not-for-profit agency that provided mental health services to economically disadvantaged children who are behaviorally disturbed, have learning disabilities and suffer from other mental related disorders.
- The chief lending officer was the board secretary and past president of a local not-for-profit organization that empowers low- and moderate business owners by assisting businesses through, among other ways, counseling, assistance with business planning, marketing education, and seminars and workshops on a range of other business topics, including government certification.
- VSB's compliance officer serves as board member, president, treasurer and secretary for four different nonprofit organizations in Staten Island. The organizations were involved in advocating for housing, health care and social services to individuals of all ages and all levels of disability.
- The chief lending officer is on the board of directors of a local not-for-profit agency providing two meals a day five days a week to those 60 years of age and older who can no longer shop and prepare their own meals.
- In partnership with a non-profit organization with a mission of assisting consumers in understanding and improving their ability to manage their financial affairs, VSB provided financial literacy classes and workshops to students and small

businesses in public schools and Banking Development District (“BDD”) branches. Topics included budgeting, banking, savings, and identity theft for individuals, and financing options, workshops on women/minority business certification, and networking techniques for local business owners.

- VSB continues to be the only bank in Staten Island that has a program with the New York City Housing Authority (NYCHA) to accept rental payments from NYCHA tenants at a fee of \$1.00 instead of the \$2.50 charged by local check cashiers for accepting rental payments.
- VSB, in the aftermath of Hurricane Sandy, provided financial relief and assistance to Staten Island residents and small businesses affected by the storm as the bank paid on overdrawn accounts, reversed overdraft fees on a few occasions, approved requests for loan payment deferrals, suspended delinquency reporting to the credit bureaus on 23 customers and waived late fees totaling \$4,785 for 39 customers.

Action Taken in Response to Written Complaints with Respect to CRA:

Neither DFS nor VSB received any CRA related complaints during the evaluation period.

Additional Factors

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

VSB’s annual Strategic Plan contains a CRA evaluation. The evaluation provides the board with an overview of VSB’s CRA performance during the year, as well as notes goals for the coming years to ensure continuous performance.

Any practices intended to discourage applications for types of credit set forth in the banking institution’s CRA Public File.

DFS examiners did not note evidence or practices by VSB intended to discourage applications for the types of credit offered by the bank.

Evidence of prohibited discriminatory or other illegal credit practices.

DFS examiners did not note evidence of prohibited, discriminatory or other illegal practices.

Record of opening and closing offices and providing services at offices

VSB operates five full-service branches, all located in Staten Island and accessible by public transportation from the assessment areas fourteen LMI census tracts. VSB did not open or close any branches or automated teller machines (“ATMs”) during the evaluation period.

VSB’s branch network is supplemented by ATMs located at every branch. All ATMs allow customers to make deposits and cash withdrawals and are accessible 24 hours a day and seven days a week, except for the ATM at the St. George branch (moderate-income census tract), which is available only during regular business hours. All branches are open from 8:30 A.M. to 4:00 P.M. Monday through Friday and except for the St. George branch, remain open until 6:00 P.M once a week and offer Saturday hours.

The St. George and the Rosebank branch are BDD branches and are adjacent to eight of the fourteen low- and moderate-income census tracts. The table below shows the distribution of VSB’s branches by census tract income level.

Distribution of Branches within the Assessment Area							
County	N/A	Low	Moderate	Middle	Upper	Total	LMI
Richmond County	0	0	1	2	2	5	20%
Total	0	0	1	2	2	5	20%

VSB continues to provide the following retail products to address specific banking needs for the under-banked and small businesses:

- Basic Checking and Savings BDD accounts: allowing individuals residing in under-banked communities to have a deposit account with no maintenance fee or no minimum balance.
- Remote deposit capture, which is a deposit transaction delivery system that allows business customers to make non-cash deposits remotely at their business location into their VSB deposit accounts.

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 president/CEO, as well as the remaining members of the board of directors and senior management team, actively participate in various community based organizations providing a range of services to Staten Island’s elderly, children, low- and moderate-

income population as well as small business owners. VSB board members and senior management actively serve on the board or committees of these organizations. This allows VSB the opportunity to promote awareness of its banking products and services and assess the credit needs of the community, as well as offer its financial expertise to these organizations and the individuals they serve.

- *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*

VSB engages in limited marketing. Instead, bank employees visit local businesses to ascertain their banking needs and make them aware of VSB's credit services and products.

Other factors that in the judgment of the Superintendent bear upon the extent to which a banking institution is helping to meet the credit needs of its entire community

VSB as a small bank engaged in community development lending, investing (grants) and community services during the evaluation period to help meet the credit needs of its entire community.

GLOSSARY

Aggregate Penetration Rate

The number of loans originated and purchased by all reporting lenders in specified categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the assessment area.

Community Development

“Community development”:

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.

Community Development Loan

A loan that has 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.

Community Development Service

Service that has community development as its *primary purpose*, 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.

Geography

A census tract delineated by the United States Bureau of the Census in the most recent decennial census

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.

Income Level

The income level for borrowers is based on household or family income. A geography's income is categorized by median family income for the geography. In both cases, the income is compared to the MSA or statewide nonmetropolitan median income.

Income level of individual or geography	% of the area median income
Low-income	Less than 50
Moderate-income	At least 50 and less than 80
Middle-income	At least 80 and less than 120
Upper-income	120 or more

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 where, according to the 2000 U.S. 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 cases 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

Individuals or persons 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 represents 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 in LMI geographies or to LMI borrowers.

Low-Income Housing Tax Credit (LIHTC)

A dollar for dollar tax credit for affordable housing, created under the Tax Reform Act of 1986, that provides incentives to invest in projects for the utilization of private equity in the development of affordable housing aimed at low income Americans. It is also more commonly called Section 42 credits in reference to the applicable section of the IRC. The tax credits are more attractive than tax deductions as they provide a dollar for dollar reduction in a taxpayer's federal income tax. It is more commonly attractive to corporations since the passive loss rules and similar tax changes greatly reduced the value of tax credits and deductions to individual taxpayers.

New Markets Tax Credit (NMTC)

The New Markets Tax Credits (NMTC) Program was established by Congress in December 2000 to stimulate economic and community development and job creation in low-income communities. It permits individual and corporate taxpayers to receive a credit against federal income taxes for making qualified equity investments in Community Development Entities (CDEs). The credit provided to the investor totals 39% of the cost of the investment and is claimed over a 7-year period. CDEs must use substantially all of the taxpayer's investments to make qualified investments in low-income communities. The Fund is administered by the US Treasury Department's Community Development Financial Institutions Fund (CDFI).

Qualified Investment

A lawful investment, deposit, membership share or grant that has community development as its *primary purpose*. 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.