



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

One State Street
New York, NY 10004

PUBLIC SUMMARY

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

Date of Evaluation: March 31, 2019

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 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 Watertown Savings Bank (“WSB” or the “Bank”) 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 March 31, 2019.

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 (“GRS”) 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 institutions’ 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 in 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 WSB according to the intermediate small bank performance criteria pursuant to Sections 76.7 and 76.12 of the GRS. The assessment period included calendar years 2016, 2017, and 2018 for lending activities, and July 1, 2016, through March 31, 2019 for community development activities. WSB is rated "2", indicating a "**Satisfactory**" record of helping to meet community credit needs with regulatory standards.

The rating is based on the following factors:

Lending Test: "Satisfactory"

WSB's small business and HMDA-reportable lending activities were reasonable in light of its size, business strategy, and financial condition, as well as aggregate and peer group activity and the demographic characteristics and credit needs of the assessment area.

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

WSB's average loan-to-deposit ratio ("LTD ratio") was adequate considering its size, business strategy, financial condition as well as the activity of its peer group and the demographic characteristics of its assessment area.

WSB's average LTD ratio of 74% as of December 31, 2018 was an increase from its prior period average of 68.2%. While WSB's average LTD ratio was below the peer group's average rate of 90.4%, the LTD ratio was impacted by the Bank's business strategy of selling loans into the secondary market.

Assessment Area Concentration: "Outstanding"

During the evaluation period, WSB originated 93.2% by number and 91.1% by dollar value of its total small business and HMDA-reportable loans within the assessment area. This substantial majority of lending inside of its assessment area reflects an excellent concentration of lending within the assessment area.

Distribution by Borrower Characteristics: "Satisfactory"

WSB's small business and HMDA-reportable loans demonstrated a reasonable distribution of loans based on borrower characteristics.

While the Bank's small business lending demonstrated an excellent distribution of loans among businesses of different revenue sizes, its HMDA-reportable lending demonstrated a less than adequate distribution of loans among individuals of different income levels.

Geographic Distribution of Loans: “Satisfactory”

WSB’s origination of loans in census tracts of varying income levels demonstrated a reasonable distribution of lending. DFS evaluated this criterion based on WSB’s lending performance in moderate-income census tracts only; the Bank’s assessment area did not contain low-income census tracts.

Action Taken in Response to Written Complaints with Respect to CRA: “Not Rated”

Neither DFS nor WSB received any written complaints during the evaluation period regarding WSB’s CRA performance.

Community Development Test: “Satisfactory”

WSB’s community development performance demonstrated reasonable responsiveness to the community development needs of its assessment area through community development loans, investments and services, considering WSB’s capacity and the need for and availability of opportunities for community development in its assessment area.

Community Development Lending: “Satisfactory”

During the evaluation period, WSB originated \$9.2 million in new community development loans, and had \$2.9 million outstanding from prior evaluation periods. This demonstrated an adequate level of community development lending over the course of the evaluation period.

Community Development Investments: “Needs to Improve”

During the evaluation period, WSB’s community development investments consisted of 69 grants totaling \$206,200. The Bank did not make any qualified investments during the evaluation period and had no qualified investments outstanding from prior evaluation periods.

Community Development Services: “Outstanding”

WSB demonstrated an excellent level of community development services over the course of the evaluation period. WSB’s senior management and other bank personnel were involved in local nonprofit, civic and business organizations. Bank representatives provided financial and management expertise through their leadership roles serving as chairperson or president and through board and committee memberships of various organizations during the evaluation period.

Responsiveness to Community Development Needs: “Satisfactory”

WSB demonstrated a reasonable level of responsiveness to the credit and community development needs of its assessment area. The Bank’s activities included facilitating

affordable housing projects, economic development and revitalization and stabilization efforts and community service needs. In addition, the Bank offered several flexible lending programs to address the credit needs of LMI individuals and families and small businesses in its assessment area.

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 GRS Part 76.

PERFORMANCE CONTEXT

Institution Profile:

Established in 1893, WSB is a New York State-chartered, mutual savings bank headquartered in Watertown, NY. WSB has a wholly owned subsidiary, WSB Municipal Bank, a special purpose institution established to accept and hold municipal deposits.

In its Consolidated Report of Condition ("Call Report") as of December 31, 2018, filed with the Federal Deposit Insurance Corporation ("FDIC"), WSB reported total assets of \$654.8 million, of which \$433.6 million were net loans and lease financing receivables. It also reported total deposits of \$543.4 million resulting in an LTD ratio of 79.8%. According to the latest available comparative deposit data as of June 30, 2018, WSB held a market share of 33.5%, or \$545.3 million in a market of \$1.63 billion, ranking it first among ten deposit-taking institutions in Jefferson County.

The following is a summary of the Bank's loan portfolio, based on Schedule RC-C of the Bank's December 31, 2016, 2017 and 2018 Call Reports:

TOTAL GROSS LOANS OUTSTANDING						
Loan Type	2016		2017		2018	
	\$000's	%	\$000's	%	\$000's	%
1-4 Family Residential Mortgage Loans	142,792	36.0	147,832	34.8	155,347	36.6
Commercial & Industrial Loans	35,642	9.0	41,126	9.7	42,155	9.9
Commercial Mortgage Loans	162,574	41.0	176,332	41.5	187,936	44.3
Multifamily Mortgages	12,105	3.1	13,948	3.3	9,328	2.2
Consumer Loans	7,072	1.8	7,147	1.7	8,777	2.1
Farm & Agricultural Loans	198	0.0	292	0.1	254	0.1
Construction Loans	35,838	9.0	37,817	8.9	34,207	8.1
Other Loans	79	0.0	64	0.0	99	0.0
Total Gross Loans	396,300		424,558		438,103	

As of December 31, 2018, commercial and industrial loans and commercial mortgages represented a combined total of 54.2% of total gross loans, while residential mortgage loans constitute 36.6% of total gross loans. The Bank's mix of loans has remained relatively unchanged since the prior evaluation period.

WSB operated eight full-service offices (including its headquarters) and one drive-thru only location. The Bank's full-service offices were located in middle-income census tracts, while the drive-thru only facility was located in a moderate-income census tract.

Examiners found no evidence of financial or legal impediments that had an adverse impact on WSB's ability to meet the credit needs of its community.

Assessment Area

The Bank's assessment area is comprised of Jefferson County in its entirety. There are 26 census tracts in the area, of which five are moderate-income, 17 are middle-income, two are upper-income, and two are tracts with no income indicated.

Assessment Area Census Tracts by Income Level							
County	N/A	Low	Mod	Middle	Upper	Total	LMI %
Jefferson	2	0	5	17	2	26	19.2
Total	2	0	5	17	2	26	19.2

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

Demographic & Economic Data

The assessment area had a population of 118,947 during the examination period. Approximately 11.8% of the population was over the age of 65 and 22.6% was under the age of 16.

Of the 30,116 families in the assessment area 19.8% were low-income, 18.4% were moderate-income, 22.4% were middle-income and 39.5% were upper-income. There were 44,306 households in the assessment area, of which 13.9% had income below the poverty level and 2.7% were on public assistance.

The weighted average median family income in the assessment area was \$58,535.

There were 58,536 housing units within the assessment area, of which 76.7% were one- to- four family units and 10.7% were multifamily units. A plurality (42.0%) of the area's housing units were owner-occupied, while 33.7% were rental units. Of the 24,610 owner-occupied housing units, 7.9% were in moderate-income census tracts while 92.1% were in middle- and upper-income census tracts. The median age of the housing stock was 53 years, and the median home value in the assessment area was \$139,278.

There were 5,015 non-farm businesses in the assessment area. Of these, 74.6% were businesses with reported revenues of less than or equal to \$1.0 million, 7.0% reported revenues of more than \$1.0 million and 18.4% did not report their revenues. Of all the businesses in the assessment area, 95.8% were businesses with less than fifty employees while 81.5% operated from a single location. The largest industries in the

area were services (38.4%), followed by retail trade (16.0%) and construction (8.0%); 7.8% of businesses in the assessment area were not classified.

According to the New York State Department of Labor, the average unemployment rate for New York State during of the evaluation period decreased from 4.9% in 2016 to 4.1% in 2018, resulting in a 3-year average rate of 4.6%, indicating improvement in the economy over the evaluation period. Jefferson County consistently had higher unemployment rates than New York State during the evaluation period.

Assessment Area Unemployment Rate		
Year	Statewide	Jefferson County
2016	4.9	6.2
2017	4.7	6.5
2018	4.1	5.6
Average	4.6	6.1

Community Information

DFS contacted a community based, nonprofit organization in conjunction with this CRA evaluation. The organization was established to build and provide affordable and stable housing for LMI families throughout Jefferson County. The organization also provided training and access to resources to help families find permanent housing.

DFS examiners interviewed the executive director of the organization, who stated that financial literacy and education programs were needed to make members of the community aware of the products and services offered by local financial institutions and to educate potential home buyers on the overall mortgage process. The interviewee also emphasized the need for home improvement loans and alternative underwriting standards to accommodate potential borrowers with no prior credit history.

DFS also conducted an interview with the marketing director of an economic development corporation in Jefferson County. The corporation provides access to a range of county-level programs that support business growth and expansion and economic growth including loan funds to small businesses and industrial revenue bonds. The director stated that while the overall economic condition of Jefferson County was stable, there were still some areas struggling due to relatively high poverty rates. The interviewee identified the need for micro loan programs to aid start-up businesses, as well as the need for ongoing communication between corporations and local financial institutions to develop better strategic plans for projects that benefit the community.

PERFORMANCE STANDARDS AND ASSESSMENT FACTORS

DFS evaluated WSB under the intermediate small bank performance standards in accordance with Sections 76.7 and 76.12 of the GRS, which consist of the lending test and the community development test.

The lending test includes:

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

The community development test includes:

- 1. Community development lending;*
- 2. Community development investments;*
- 3. Community development services; and*
- 4. Responsiveness to community development needs.*

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. Evidence of 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.*

DFS derived statistics employed in this evaluation from various sources. WSB 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 from the FDIC. DFS obtained LTD ratios from the Bank's Uniform Bank Performance Report, compiled by the FFIEC from call report data.

DFS sourced the demographic data referred to in this report from the 2010 U.S. Census and the 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 includes lending activities for HMDA-reportable and small business loans¹ from January 1, 2016 to December 31, 2018 and community development activities from July 1, 2016 to March 31, 2019.

¹ WSB voluntarily reports its small business lending activity. As an intermediate small bank, it is not required to do so.

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

Examiners gave greater weight to WSB's small business lending as it represents two thirds or 66.2% in number and 58.5% by dollar of all loans originated in the assessment area for evaluation.

During the current evaluation period, WSB's small business lending increased from an average of 215 loans per year to a level of 383 small business loans annually. During the same period, HMDA-reportable lending decreased to an annual average of 195 loans from the average annual level of 258 loans noted during the prior evaluation period. WSB attributed this shift to an increase in demand for small business loans as a result of a strengthening economy and economic development opportunities in the assessment area, as well as to higher interest rates from HMDA-reportable loans.

At its **prior** Performance Evaluation as of June 30, 2016, DFS assigned WSB a rating of "2," reflecting a "Satisfactory" record of helping to meet the credit needs of WSB's community.

Current CRA Rating: "Satisfactory"

Lending Test: "Satisfactory"

WSB's small business and HMDA-reportable lending activities were reasonable in light of its size, business strategy, and financial condition, as well as aggregate and peer group activity and the demographic characteristics and credit needs of the assessment area.

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

WSB's average LTD ratio was adequate considering its size, business strategy and financial condition, as well as the activity of its peer group and the demographic characteristics of its assessment area.

WSB's average LTD ratio of 74% as of December 31, 2018 was an increase from its prior period average of 68.2%. While WSB's average LTD ratio was below the peer group's average rate of 90.4%, the LTD ratio was impacted by the Bank's business strategy of selling loans into the secondary market.

The table below shows WSB's LTD ratios in comparison with the peer group's ratios for the 12 quarters since the prior evaluation.

Loan-to-Deposit Ratios													
	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	Avg.
Bank	71.8	72.8	72.2	72.3	69.8	73.6	70.5	77.0	75.5	77.0	75.4	79.8	74.0
Peer	88.2	89.4	89.1	89.3	88.6	89.6	90.5	91.5	91.1	92.1	92.5	92.5	90.4

Assessment Area Concentration: “Outstanding”

During the evaluation period, WSB originated 93.2% by number and 91.1% by dollar value of its total small business and HMDA-reportable loans within the assessment area. This substantial majority of lending inside of its assessment area reflects an excellent concentration of lending within the assessment area.

Small Business Loans:

During the evaluation period, WSB originated 93.0% by number and 89.3% by dollar value of its small business loans within the assessment area. This substantial majority of lending inside of WSB’s assessment area reflects an excellent concentration of lending within its assessment area.

HMDA-Reportable Loans:

During the evaluation period, WSB originated 93.8% by number and 93.8% by dollar value of its HMDA-reportable loans within the assessment area. This substantial majority of lending inside of WSB’s assessment area reflects an excellent concentration of lending within its assessment area.

The following table shows the percentages of WSB’s small business and HMDA-reportable loans originated inside and outside of the assessment area.

Distribution of Loans Inside and Outside of the Assessment Area											
Loan Type	Number of Loans					Loans in Dollars (in thousands)					
	Inside		Outside		Total	Inside		Outside		Total	
	#	%	#	%		\$	%	\$	%		
HMDA-Reportable											
2016	190	93.6%	13	6.4%	203	26,039	95.4%	1,266	4.6%	27,305	
2017	195	93.8%	13	6.3%	208	25,307	90.9%	2,524	9.1%	27,831	
2018	201	93.9%	13	6.1%	214	29,316	94.9%	1,577	5.1%	30,893	
Subtotal	586	93.8%	39	6.2%	625	80,662	93.8%	5,367	6.2%	86,029	
Small Business											
2016	370	94.1%	23	5.9%	393	34,987	92.5%	2,852	7.5%	37,839	
2017	383	90.8%	39	9.2%	422	39,914	86.3%	6,313	13.7%	46,227	
2018	397	94.1%	25	5.9%	422	38,894	89.7%	4,449	10.3%	43,343	
Subtotal	1,150	93.0%	87	7.0%	1,237	113,795	89.3%	13,614	10.7%	127,409	
Grand Total	1,736	93.2%	126	6.8%	1,862	194,457	91.1%	18,981	8.9%	213,438	

Distribution by Borrower Characteristics: “Satisfactory”

WSB’s small business and HMDA-reportable loans demonstrated a reasonable distribution of loans based on borrower characteristics.

While the Bank’s small business lending demonstrated an excellent distribution of loans among businesses of different revenue sizes, its HMDA-reportable lending demonstrated a less than adequate distribution of loans among individuals of different income levels within the assessment area.

Small Business Loans:

WSB’s small business lending demonstrated an excellent distribution of loans among businesses of different revenue sizes.

During the evaluation, WSB’s lending to businesses with gross annual revenues of \$1 million or less, averaged 59.0% by number and 41.7% by dollar value of loans. The Bank’s lending rates to small businesses outperformed the aggregate’s rates of 48.5% and 37.1% respectively.

Information from the Institution Market Share report for small business loans originated indicated that WSB consistently ranked first among 46 lenders in the assessment area. Examiners also noted that the other institutions ranked among the top ten were larger national and regional banks.

The following table provides a summary of the distribution of WSB’s small business loans by the revenue size of the business.

Distribution of Small Business Lending by Revenue Size of Business									
2016									
Rev. Size	Bank				Aggregate				Bus. Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	197	53.2%	10,394	29.7%	659	45.4%	25,750	33.5%	74.2%
Rev. > \$1MM	150	40.5%	22,390	64.0%					7.1%
Rev. Unknown	23	6.2%	2,203	6.3%					18.6%
Total	370		34,987		1,451		76,799		
2017									
Rev. Size	Bank				Aggregate				Bus. Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	231	60.3%	20,264	51.7%	742	49.5%	32,587	42.9%	74.0%
Rev. > \$1MM	144	37.6%	18,481	47.2%					7.3%
Rev. Unknown	8	2.1%	449	1.1%					18.7%
Total	383		39,194		1,500		75,987		
2018									
Rev. Size	Bank				Aggregate				Bus. Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	250	63.0%	16,527	42.5%	774	50.5%	27,307	34.9%	74.6%
Rev. > \$1MM	130	32.7%	20,808	53.5%					7.0%
Rev. Unknown	17	4.3%	1,559	4.0%					18.4%
Total	397		38,894		1,534		78,199		
GRAND TOTAL									
Rev. Size	Bank				Aggregate				Bus. Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	678	59.0%	47,185	41.7%	2,175	48.5%	85,644	37.1%	
Rev. > \$1MM	424	36.9%	61,679	54.5%	-				
Rev. Unknown	48	4.2%	4,211	3.7%	0				
Total	1,150		113,075		4,485		230,985		

HMDA-Reportable Loans:

WSB's HMDA-reportable lending demonstrated a poor distribution of loans among borrowers of different income levels.

During the evaluation period, WSB's HMDA-reportable lending rates among LMI borrowers averaged 15.1% by number loan loans and 6.9% by dollar value, underperforming the aggregate's rates of 21.8% and 13.2%. In addition, the Bank's rate of lending to LMI borrowers trailed the demographic characteristics of 38% of LMI families in the assessment area.

The following table provides a summary of the distribution of WSB's 1-4 family loans by borrower income.

Distribution of 1-4 Family Loans by Borrower Income									
2016									
Borrower Income	Bank				Aggregate				Fam.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	6	3.4%	371	1.5%	88	4.5%	4,767	1.9%	20.8%
Moderate	21	12.1%	1,273	5.1%	276	14.2%	21,439	8.6%	18.0%
LMI	27	15.5%	1,644	6.6%	364	18.7%	26,206	10.5%	38.8%
Middle	31	17.8%	3,209	12.8%	460	23.7%	48,223	19.4%	22.0%
Upper	113	64.9%	19,197	76.5%	988	50.8%	153,361	61.7%	39.2%
Unknown	3	1.7%	1,034	4.1%	131	6.7%	20,886	8.4%	
Total	174		25,084		1,943		248,676		
2017									
Borrower Income	Bank				Aggregate				Fam.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	3	1.7%	111	0.5%	99	5.2%	5,104	2.1%	19.8%
Moderate	22	12.2%	1,289	5.5%	346	18.0%	27,571	11.5%	18.4%
LMI	25	13.8%	1,400	6.0%	445	23.2%	32,675	13.7%	38.1%
Middle	50	27.6%	4,394	18.8%	518	27.0%	61,277	25.6%	22.4%
Upper	96	53.0%	16,643	71.4%	863	45.0%	131,506	55.0%	39.5%
Unknown	10	5.5%	880	3.8%	92	4.8%	13,460	5.6%	
Total	181		23,317		1,918		238,918		
2018									
Borrower Income	Bank				Aggregate				Fam.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	9	4.6%	509	2.0%	126	6.3%	9,500	3.5%	19.8%
Moderate	22	11.3%	1,527	6.0%	348	17.3%	31,450	11.7%	18.4%
LMI	31	15.9%	2,036	8.0%	474	23.6%	40,950	15.2%	38.1%
Middle	42	21.5%	4,120	16.1%	538	26.7%	61,330	22.8%	22.4%
Upper	106	54.4%	17,414	68.2%	951	47.3%	153,840	57.2%	39.5%
Unknown	16	8.2%	1,973	7.7%	49	2.4%	12,965	4.8%	
Total	195		25,543		2,012		269,085		
GRAND TOTAL									
Borrower Income	Bank				Aggregate				Fam.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	18	3.3%	991	1.3%	313	5.3%	19,371	2.6%	
Moderate	65	11.8%	4,089	5.5%	970	16.5%	80,460	10.6%	
LMI	83	15.1%	5,080	6.9%	1,283	21.8%	99,831	13.2%	
Middle	123	22.4%	11,723	15.9%	1,516	25.8%	170,830	22.6%	
Upper	315	57.3%	53,254	72.0%	2,802	47.7%	438,707	58.0%	
Unknown	29	5.3%	3,887	5.3%	272	4.6%	47,311	6.3%	
Total	550		73,944		5,873		756,679		

Geographic Distribution of Loans: "Satisfactory"

WSB's origination of loans in census tracts of varying income levels demonstrated a reasonable distribution of lending. DFS evaluated this criterion based on WSB's lending performance in moderate-income census tracts only; the Bank's assessment area did not contain low-income census tracts.

Small Business Loans:

The distribution of WSB's small business loans among census tracts of varying income levels was reasonable.

During the evaluation period, WSB's rate of lending in moderate-income geographies outperformed the aggregate rate of lending in both number and dollar value of loans. WSB originated 17.0% by number and 17.3% by dollar value of its small business loans in moderate-income geographies, while the aggregate originated 14.7% and 16.5% respectively.

The following table provides a summary of the distribution of WSB's small business loans by the income level of the geography where the business was located.

Distribution of Small Business Lending by Geographic Income of the Census Tract									
2016									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Moderate	69	18.6%	7,343	21.0%	221	15.2%	14,982	19.5%	18.7%
LMI	69	18.6%	7,343	21.0%	221	15.2%	14,982	19.5%	18.7%
Middle	223	60.3%	20,300	58.0%	902	62.2%	45,869	59.7%	59.3%
Upper	78	21.1%	7,344	21.0%	328	22.6%	15,948	20.8%	21.8%
Unknown		0.0%		0.0%		0.0%		0.0%	
Total	370		34,987		1,451		76,799		
2017									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Moderate	61	15.9%	5,716	14.6%	225	15.0%	12,514	16.5%	18.2%
LMI	61	15.9%	5,716	14.6%	225	15.0%	12,514	16.5%	18.2%
Middle	300	78.3%	31,377	80.1%	1,176	78.4%	59,377	78.1%	75.9%
Upper	22	5.7%	2,101	5.4%	98	6.5%	4,095	5.4%	5.9%
Unknown		0.0%		0.0%	1	0.1%	1	0.0%	0.0%
Total	383		39,194		1,500		75,987		
2018									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%		0.0%		0.0%	0.0%
Moderate	65	16.4%	6,523	16.8%	212	13.8%	10,603	13.6%	18.2%
LMI	65	16.4%	6,523	16.8%	212	13.8%	10,603	13.6%	18.2%
Middle	308	77.6%	30,769	79.1%	1,224	79.8%	65,007	83.1%	75.7%
Upper	24	6.0%	1,602	4.1%	98	6.4%	2,589	3.3%	6.0%
Unknown		0.0%		0.0%	0	0.0%	0	0.0%	0.1%
Total	397		38,894		1,534	#DIV/0!	78,199		
GRAND TOTAL									
Geographic Income	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	-	0.0%	-	0.0%	
Moderate	195	17.0%	19,582	17.3%	658	14.7%	38,099	16.5%	
LMI	195	17.0%	19,582	17.3%	658	14.7%	38,099	16.5%	
Middle	831	72.3%	82,446	72.9%	3,302	73.6%	170,253	73.7%	
Upper	124	10.8%	11,047	9.8%	524	11.7%	22,632	9.8%	
Unknown	-	0.0%	-	0.0%	1	0.0%	1	0.0%	
Total	1,150		113,075		4,485		230,985		

HMDA-Reportable Loans:

The distribution of WSB's HMDA-reportable loans among census tracts of different income levels was reasonable.

During the evaluation period, WSB originated 6.7% of its HMDA-reportable loans in moderate-income census tracts, totaling \$4.1 million or 5.1% by dollar volume. The Bank's rates of lending were slightly lower than the aggregate's rate of 7.7% by number and 7.8% by dollar value of loans.

The following table provides a summary of the distribution of WSB's HMDA-reportable loans by the income level of the geography where the property was located.

Distribution of HMDA-Reportable Lending by Geographic Income of the Census Tract									
2016									
Geographic Income	Bank				Aggregate				OO HUs
	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Moderate	12	6.3%	607	2.3%	164	7.7%	17,168	6.3%	9.2%
LMI	12	6.3%	607	2.3%	164	7.7%	17,168	6.3%	9.2%
Middle	127	66.8%	19,070	73.2%	1,525	71.9%	196,700	72.6%	69.6%
Upper	51	26.8%	6,362	24.4%	430	20.3%	56,656	20.9%	21.2%
Unknown		0.0%		0.0%	2	0.1%	328	0.1%	
Total	190		26,039		2,121		270,852		
2017									
Geographic Income	Bank				Aggregate				OO HUs
	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Moderate	17	8.7%	1,628	6.4%	162	7.6%	32,311	10.7%	7.9%
LMI	17	8.7%	1,628	6.4%	162	7.6%	32,311	10.7%	7.9%
Middle	162	83.1%	21,501	85.0%	1,793	84.4%	247,446	82.2%	83.2%
Upper	16	8.2%	2,178	8.6%	169	8.0%	21,269	7.1%	9.0%
Unknown		0.0%		0.0%	0	0.0%		0.0%	
Total	195		25,307		2,124		301,026		
2018									
Geographic Income	Bank				Aggregate				OO HUs
	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Moderate	10	5.0%	1,886	6.4%	156	7.7%	15,710	5.8%	7.9%
LMI	10	5.0%	1,886	6.4%	156	7.7%	15,710	5.8%	7.9%
Middle	177	88.1%	26,086	89.0%	1,693	83.6%	227,585	84.6%	83.2%
Upper	14	7.0%	1,344	4.6%	176	8.7%	25,790	9.6%	9.0%
Unknown		0.0%		0.0%		0.0%	0	0.0%	
Total	201		29,316		2,025		269,085		
GRAND TOTAL									
Geographic Income	Bank				Aggregate				OO HUs
	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	0	0.0%	-	0.0%	
Moderate	39	6.7%	4,121	5.1%	482	7.7%	65,189	7.8%	
LMI	39	6.7%	4,121	5.1%	482	7.7%	65,189	7.8%	
Middle	466	79.5%	66,657	82.6%	5,011	79.9%	671,731	79.9%	
Upper	81	13.8%	9,884	12.3%	775	12.4%	103,715	12.3%	
Unknown	-	0.0%	-	0.0%	2	0.0%	328	0.0%	
Total	586		80,662		6,270		840,963		

Action Taken in Response to Written Complaints with Respect to CRA: "Not Rated"

Neither DFS nor WSB received any written complaints during the evaluation period regarding WSB's CRA performance.

Community Development Test: “Satisfactory”

WSB’s community development performance demonstrated reasonable responsiveness to the community development needs of its assessment area through community development loans, investments and services considering WSB’s capacity and the need for and availability of opportunities for community development in its assessment area.

During the evaluation period, WSB originated \$9.2 million in new community development loans and had \$2.9 million in such loans outstanding from prior evaluation periods. During the current evaluation period, WSB made a total of \$206,200 in community development grants, but did not make any qualified investments.

A more detailed description of WSB’s community development activity follows:

Community Development Lending: “Satisfactory”

During the evaluation period, WSB originated \$9.2 million in new community development loans and had \$2.9 million outstanding from prior evaluation periods. This demonstrated an adequate level of community development lending over the course of the evaluation period.

Community Development Loans				
	This Evaluation Period		Outstandings from Prior Evaluation Periods	
Purpose	# of Loans	\$000	# of Loans	\$000
Affordable Housing	3	3,561		
Economic Development				
Revitalize/Stabilize	3	3,853	3	2,937
Community Services	1	1,760		
Total	7	9,174	3	2,937

Below are highlights of WSB’s community development lending.

- WSB made three commercial mortgage loans for a total of \$3.6 million to two private entities, the proceeds of which were used to purchase and renovate multifamily rental properties within the assessment area. A majority of the properties’ rent rolls were below United States Housing and Urban Development (“HUD”) fair market rent, supporting and providing affordable housing in the assessment area.
- WSB originated a \$1.3 million loan for the renovation and construction of four properties located in moderate-income census tracts in downtown Watertown. The project also received a Restore NY grant. The Restore NY Communities Initiative provides municipalities with financial assistance for revitalization of commercial and residential properties. It encourages community development and

neighborhood growth through elimination and redevelopment of blighted structures. The grant further applies the NYS's Empire State Development diversity program for Minority and Women Owned Business Enterprise and Service-Disabled Veteran-owned Business participation for the project.

- WSB originated a \$1.2 million to a private entity for refinance and capital improvements of a property located in the downtown area of Watertown within moderate-income tract, supporting revitalization and stabilization of the assessment area.
- WSB extended a \$1.4 million commercial loan to refinance various outstanding loans to a professional private practice providing medical eye care. The medical office is located in moderate-income tract and employs doctors and support staff retaining jobs, supporting and providing revitalization of downtown Watertown.

Community Development Investments: "Needs to Improve"

During the evaluation period, WSB's community development investment activity consisted of 69 grants totaling \$206,200. The Bank did not make any qualified investments during the evaluation period and had no qualified were outstanding from prior evaluation periods.

Community Development Investments and Grants				
	This Evaluation Period		Outstandings from Prior Evaluation Periods	
	# of Inv.	\$000	# of Inv.	\$000
CD Investments				
Affordable Housing				
Economic Development				
Community Services				
Other				
Total	0	\$ -	0	0
CD Grants	# of Grants	\$000	Not Applicable	
Affordable Housing	2	28		
Economic Development	3	16		
Community Services	64	162		
Other				
Total	69	206		

A majority of grants WSB made during the evaluation period supported community service activities performed by not-for-profit organizations that provide social and supportive services to LMI individuals and families within the Bank's assessment area.

Below are highlights of WSB's community development grants.

- WSB donated a total of \$89,000 to a not-for-profit organization that raises and

distributes money to local charitable and not-for-profit organizations that provides prevention, intervention and crisis care services to LMI individuals and families in Jefferson County.

- WSB made grants totaling \$22,500 to a local community college foundation. The foundation is a not-for-profit organization with a purpose of financially assisting students and to enrich and enhance the educational opportunities provided by the college. Jefferson County has a high poverty rate at 13.9% and a high LMI family concentration at 38.1%.
- WSB donated a single-family property with a book value of \$25,000 to a not-for-profit organization that provides affordable housing to LMI families in Jefferson and Lewis counties.
- Through a partnership with a not-for-profit business association that serves Jefferson County, WSB sponsored and donated \$16,280 for a weekly farmer's market in Watertown. The market offers a wide variety of farm and craft products from local farms and small businesses.

Community Development Services: "Outstanding"

WSB demonstrated an excellent level of community development services over the course of the evaluation period. WSB's senior management and other bank personnel were involved in local nonprofit, civic and business organizations. Bank representatives provided financial and management expertise through their leadership roles serving as chairperson or president and through board and committee memberships of various organizations during the evaluation period.

Highlights of the Bank's community development service activities are as follows:

Economic Development

- The president and chief executive officer ("CEO") serve on the board and regional loan committee of the New York Business Development Corporation ("NYBDC"). The corporation's goal is to assist, promote and advance the business prosperity and economic welfare of the state by providing loans to small businesses including start-up, early stage and mature businesses with a particular emphasis on minority and women-owned businesses.
- A commercial loan officer is a treasurer of a local nonprofit development corporation that works with city government, economic development agencies and private sector to promote economic expansion, such as job creation and retention and elimination of blight in neighborhoods.

Community Service

- The president and CEO serve as the president of a local, private, nonprofit corporation whose mission is to provide funds to a local school district specifically to support students in industrial arts programs. A majority or 64% of the school district's student population receive free or reduced-priced lunch.
- A vice president and commercial loan officer serves as a board member of a county level public authority whose mission is to advance the job opportunities and general prosperity and economic welfare of Jefferson County. The officer is also a committee member of a city government sponsored local group of business and community leaders that serve in an advisory role to various issues including community development, housing and economic development.
- A branch manager serves on the board of a nonprofit corporation whose mission is to own and manage affordable housing for LMI individuals and families and other community projects. The organization is funded in part by New York State agencies and serves various townships in Jefferson County.
- The Bank's wholly owned subsidiary, WSB Municipal Bank, provides cash management services at no cost to local municipalities.

Innovativeness of Community Development Investments:

During the evaluation period, WSB did not use innovative investments to support community development.

Responsiveness to Community Development Needs: "Satisfactory"

WSB demonstrated a reasonable level of responsiveness to the community development needs of its assessment area. The Bank's activities included facilitating affordable housing projects, economic development and revitalization and stabilization, and community service efforts. In addition, the Bank offered several flexible lending programs to address the credit needs of LMI individuals and families and small businesses in its assessment area. Below are some notable examples of these activities.

- The Bank had a "First Time Homebuyer" program available for fixed rate mortgage loans at current market rates and terms or for adjustable rate mortgage loans with the initial rate set 0.125% lower. The Bank waived application and loan administration fees for both loan types. The Bank financed 95% of the value of the property with private mortgage insurance providing additional lender protection.
- WSB participates in the US Small Business Administration ("SBA") SBA 7(a) and Express loan programs, the primary programs to help start-up and existing small

businesses obtain financing when they might not qualify for financing through conventional lending channels. The programs help lenders simplify the loan application process and expedite financial assistance to small businesses.

- The Bank partners with the New York State Linked Deposit Program providing low-interest small business loans. This program helps existing New York State businesses obtain reduced-rate financing so they can undertake projects to improve their competitiveness, market access and product development as well as to modernize equipment and/or expand facilities or to introduce new technologies. This financing may also be used to facilitate ownership transition and to promote job creation and retention.

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 CRA.

The board of trustees reviews and approves the Bank's quarterly CRA/Compliance/Fair Lending committee minutes. WSB has a CRA/Compliance/Fair Lending committee comprised of senior management from each business department, including commercial and consumer lending, branch administration, deposit operations, and marketing. WSB also conducts an annual CRA self-assessment that includes analysis of the Bank's lending within the assessment area and the distribution of loans in LMI areas and to borrowers.

Discrimination and other illegal practices

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

DFS examiners noted no practices intended to discourage applications for the types of credit offered by WSB.

- *Evidence of prohibited discriminatory or other illegal credit practices.*

DFS examiners noted no evidence of prohibited discriminatory or other illegal practices by WSB.

Record of opening and closing offices and providing services at offices

WSB operated eight full-service offices (including its headquarters) and one drive-thru only location. The Bank's full-service offices were located in middle-income census tracts. The drive-thru only facility was located in a moderate-income census tract.

WSB did not open or close any branch offices during the evaluation period.

Distribution of Branches within the Assessment Area							
County	N/A #	Low #	Moderate #	Middle #	Upper #	Total #	LMI %
Jefferson				8		8	0%
Total	0	0	0	8	0	8	0%

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.

WSB’s trustees, senior management and employees served as members of committees or boards of various community and civic organizations. These organizations include local business associations, economic development corporations, education support organizations and community foundations. WSB’s involvement in its community allows the Bank to identify and effectively address the credit needs of its assessment area. WSB also works with Neighbors of Watertown and other LMI housing agencies.

- 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

WSB markets its products and services via various types of media including internet, television, newspapers, magazine, billboard and in-branch signage. WSB’s only credit related promotions are for a home equity line of credit and home equity loans.

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

WSB also loaned \$25.6 million to fund economic development initiatives and projects in adjacent Onondaga and Lewis counties (outside its assessment area). The projects helped to create or retain jobs, generated increased economic activity and improved the economic vitality of local communities.

GLOSSARY

Aggregate Lending

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 Metropolitan Statistical Area ("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

Small Business Loan

A small business loan is a loan less than or equal to \$1 million.

Low or Moderate Income ("LMI") Geographies

Those census tracts or block numbering areas where, according to the 2010 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 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.