



PUBLIC SUMMARY

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION OF HANOVER COMMUNITY BANK

AS OF MARCH 31, 2023

New York State Department of Financial Services
Consumer Protection and Financial Enforcement Division
One State Street, New York NY 10004

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.

TABLE OF CONTENTS

Sections

- I. **General Information**
 - II. **Overview of Institution’s Performance**
 - III. **Performance Context**
 - A. Institution Profile
 - B. Assessment Area
 - C. Demographic & Economic Data
 - D. Community Information
 - IV. **Performance Standards and Assessment Factors**
 - A. Lending Test
 - B. Community Development Test
 - C. Additional Factors
 - V. **Glossary**
-

HANOVER COMMUNITY BANK – CRA PERFORMANCE EVALUATION

I - GENERAL INFORMATION

This document is an evaluation (the “Evaluation”) of the Community Reinvestment Act (“CRA”) performance of Hanover Community Bank (“HCB” 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 Bank’s CRA performance based on an evaluation conducted as of March 31, 2023.

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 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 end of this Evaluation.

HANOVER COMMUNITY BANK – CRA PERFORMANCE EVALUATION

II - OVERVIEW OF INSTITUTION'S PERFORMANCE

The Department evaluated HCB according to the intermediate small banking institutions performance criteria pursuant to Sections 76.7 and 76.12 of the GRS. The evaluation period included calendar years 2020, 2021 and 2022 for the lending test and the period from April 1, 2020, to March 31, 2023, for the community development test. HCB is rated “2,” indicating a “Satisfactory” record of helping to meet community credit needs.

The rating is based on the following factors:

A. Lending Test: Outstanding

1. Loan-to-Deposit Ratio and other Lending-Related Activities: Outstanding

HCB's average LTD ratio was excellent considering its size, business strategy, financial condition, and peer group activity.

HCB's average LTD ratio of 106.2% for the evaluation period significantly exceeded its peer average LTD ratio of 76.1%.

2. Assessment Area Concentration: Outstanding

During the evaluation period, HCB originated 90.9% by number and 96% by dollar value of its total HMDA-reportable and small business loans within the assessment area, demonstrating an excellent concentration of lending.

3. Distribution by Borrower Characteristics: Outstanding

HCB's HMDA-reportable and small business lending demonstrated an excellent distribution of loans among individuals of different income levels and businesses of different revenue sizes.

4. Geographic Distribution of Loans: Outstanding

HCB's origination of loans in census tracts of varying income levels demonstrated an excellent distribution of lending for HMDA-reportable loans and reasonable distribution of lending for small business loans. Greater weight was given to the Bank's HMDA-reportable lending.

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

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

B. Community Development Test: Satisfactory

HCB's community development performance demonstrated adequate responsiveness to the community development needs of its assessment area mainly through community development

HANOVER COMMUNITY BANK – CRA PERFORMANCE EVALUATION

loans and services considering HCB's capacity, and the need for and availability of opportunities for community development in its assessment area.

1. Community Development Lending: Outstanding

During the evaluation period, HCB originated \$135.9 million in new community development loans and had \$16.2 million outstanding from prior evaluation periods. This demonstrated an excellent level of community development lending.

2. Qualified Investments: Substantial Noncompliance

HCB made no investments during the current evaluation period and had no investments outstanding from prior evaluation periods. The Bank made \$88,000 in qualified grants. This demonstrated a very poor level of qualified investments over the course of the evaluation period.

3. Community Development Services: Satisfactory

HCB demonstrated an adequate level of community development services over the course of the evaluation period.

4. Responsiveness to Community Development Needs:

HCB demonstrated an adequate level of responsiveness to credit and community development needs.

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.

HANOVER COMMUNITY BANK – CRA PERFORMANCE EVALUATION

III - PERFORMANCE CONTEXT

A. Institution Profile

Established in 2009, HCB is a New York State chartered commercial bank headquartered in Garden City Park, Nassau County, New York. The bank is a wholly owned subsidiary of Hanover Bancorp, Inc., a one bank holding company headquartered in Mineola, New York.

HCB acquired Savoy Bank in May of 2021, including a branch office located at Rockefeller Center in New York County. As of the end of the evaluation period, HCB operated seven branch locations in New York State including two branches each in Queens, New York and Nassau counties, and one in Kings County. In addition to the branch offices, HCB maintains one automated teller machine (ATM) at each branch, except the Kings County and the Rockefeller Center branches. The bank is also a member of the AllPoint ATM network which provides the Bank's customers with surcharge free access to approximately 55,000 ATMs nationwide.

HCB offers consumer and commercial products and services that include checking and saving accounts, certificates of deposit, residential mortgages, personal loans, home equity loans, commercial real estate loans, multi-family loans, small business loans, business banking, and business cash/management services. These products are offered via its branch network, website and other delivery systems.

In its Consolidated Report of Condition (the "Call Report") as of December 31, 2022, filed with the Federal Deposit Insurance Corporation ("FDIC"), HCB reported total assets of \$2 billion, of which \$1.7 billion were net loans and lease financing receivables. It also reported total deposits of \$ 1.5 billion in domestic offices, resulting in an LTD ratio of 114.1%. According to the latest available comparative deposit data as of June 30, 2022, HCB obtained a of 0.06%, or \$1.3 billion market share in a market of \$2.2 trillion, ranking it 46th among 110 deposit-taking institutions in the assessment area.

The following is a summary of the Bank's loan portfolio, based on Schedule RC-C of the Bank's Call Reports for December 31, 2020, December 31, 2021, and December 31, 2022.

TOTAL GROSS LOANS OUTSTANDING						
Loan Type	2020		2021		2022	
	\$000's	%	\$000's	%	\$000's	%
1-4 Family Residential Mortgage Loans	450,024	61.4	436,569	34.2	576,519	33.0
Commercial & Industrial Loans	20,213	2.8	109,718	8.6	46,162	2.6
Commercial Mortgage Loans	115,358	15.7	360,798	28.2	517,955	29.7
Multifamily Mortgages	147,266	20.1	358,831	28.1	590,530	33.8
Consumer Loans	30	0.0	31	0.0	157	0.0
Construction Loans	0	0.0	11,487	0.9	15,487	0.9
Other Loans	11	0.0	0	0.0	0	0.0
Total Gross Loans	732,902	100.0	1,277,434	100.0	1,746,810	100.0

HANOVER COMMUNITY BANK – CRA PERFORMANCE EVALUATION

As illustrated in the above table, HCB is primarily a residential real estate lender with multifamily and one-to-four family residential mortgage loans accounting for 33.8% and 33% of its gross loan portfolio, respectively.

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

B. Assessment Area

The Bank's assessment area consists of New York, Kings, Queens, Bronx, Richmond, Nassau and Suffolk counties. The Bank added Suffolk County to its assessment area in July 2021.

There are 2,998 census tracts in the Bank's assessment area, of which 300 are low-income, 691 are moderate-income, 1,093 are middle-income, 748 are upper-income, and 166 are tracts with no income indicated.

Assessment Area Census Tracts by Income Level							
County	N/A	Low	Mod	Middle	Upper	Total	LMI %
Suffolk	8	5	90	220	62	385	24.7
Nassau	9	10	31	146	90	286	14.3
New York	23	36	44	32	175	310	25.8
Kings	46	91	235	263	170	805	40.5
Queens	52	26	157	325	165	725	25.2
Bronx	21	129	121	65	25	361	69.3
Richmond	7	3	13	42	61	126	12.7
Total	166	300	691	1,093	748	2,998	33.1

C. Demographic & Economic Data

The assessment area had a population of 11,725,884 during the evaluation period. Approximately 14.9% of the population was over the age of 65 and 22.2% was under the age of 16.

Of the 2,610,075 families in the assessment area, 27.2% were low-income, 16.5% were moderate-income, 17.8% were middle-income and 38.5% were upper income. There were 4,137,325 households in the assessment area, of which 14.7% had income below the poverty level and 4% were on public assistance. The weighted average median family income in the assessment area was \$100,800.

There were 4,569,637 housing units within the assessment area, of which 50.1% were one- to four-family units and 49.6% were multifamily units. A majority (50.8%) of the housing units were rental-occupied units, 39.8% were owner-occupied units and 9.5% of units were vacant. Of the total 2,320,304 rental-occupied units, 48.2% were in LMI census tracts while 50.4% were in middle- and upper-income census tracts. Average monthly gross rent was \$1,605.

HANOVER COMMUNITY BANK – CRA PERFORMANCE EVALUATION

Of the 1,817,021 owner-occupied housing units, 18.9% were in LMI census tracts while 80.5% were in middle- and upper-income census tracts. The median age of the housing stock was 72 years, and the median home value in the assessment area was \$643,676.

There were 1,558,673 non-farm businesses in the assessment area. Of these, 91.7% were businesses with reported revenues of less than or equal to \$1 million, 3.2% reported revenues of more than \$1 million and 5.1% did not report their revenues. Of all the businesses in the assessment area, 97.4% were businesses with less than fifty employees while 95.3% operated from a single location. The largest industries in the area were services (34.3%); retail trade (11.3%); and finance, insurance, and real estate (9.6%); 29.7% of businesses in the assessment area were not classified.

An analysis of the employment data from the New York State Department of Labor showed, that the average unemployment rate decreased considerably during the evaluation period for New York State and each of the counties in the Bank’s assessment area. This was mainly due to the COVID-19 pandemic waning. Bronx County had the highest unemployment rate each year of the evaluation period, while Nassau had the lowest unemployment rate each year.

Assessment Area Unemployment Rate								
	Statewide	Bronx	Kings	Nassau	New York	Queens	Richmond	Suffolk
2020	9.8%	16.0%	12.4%	8.0%	9.5%	12.4%	10.5%	8.1%
2021	7.0%	13.8%	10.3%	4.5%	7.7%	9.8%	8.9%	4.6%
2022	4.3%	7.8%	5.9%	2.9%	4.6%	5.2%	5.5%	3.1%
Average of Years above	7.0%	12.5%	9.5%	5.1%	7.3%	9.1%	8.3%	5.3%

D. Community Information

DFS examiners met with representatives of three community organizations within the Bank’s assessment area to get their insight into the economic conditions and credit needs of their communities.

DFS examiners held interviews with two executives each serving on a community board serving different sections of Bronx County. As a mandated by the New York City Charter, community boards hold regular committee and board meetings open to the public in order to understand community needs and thereby act as representatives of the community in advising the city on land use and zoning, budgeting, making city services accessible and responsive, and submit plans for the development, growth, and improvement of their communities. Both executives noted that closures of local bank branches are devastating to small businesses and LMI individuals and families in their neighborhood, as people and businesses rely on local relationship banking rather than mobile and internet banking. Banks should renew focus on local relationship banking and offer more financial literacy seminars, including how to manage one’s credit. One executive also stated that banks should make more grants and small businesses need more capital including bodegas, which are vital to the communities. Also, banks should offer more flexible business hours allowing business owners convenient access to various bank services. The COVID pandemic caused economic stress and forced many small business closures, but many other small businesses

HANOVER COMMUNITY BANK – CRA PERFORMANCE EVALUATION

remain and need more flexible loan programs providing much needed financing to these businesses. Public transportation has to be improved since transit lines are over-crowded, and there is shortage of parking space in these areas and also traffic congestion. These factors negatively affect the small businesses since they are not conveniently accessible.

The third community contact was with an executive of a non-profit organization which serves Nassau County and Queens County by providing various community services including child-care, academic assistance and recreational/cultural activities for children. The organization also conducts home-buyer seminars/workshops, tenant-landlord mediation services, provides employment related assistance for unemployed day workers and works towards homelessness prevention. The executive stated that some banks are very active in soliciting deposit accounts but fail to recognize that large segments of the local population lack knowledge of all the available bank products and services. Furthermore, the contact stated that banks during merger talks often promise to fund community development projects, but once the merger is done they often do not follow through on their promises.

HANOVER COMMUNITY BANK – CRA PERFORMANCE EVALUATION

IV - PERFORMANCE STANDARDS AND ASSESSMENT FACTORS

The Department evaluated HCB under the intermediate small banking institution performance criteria 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. HCB submitted bank-specific information both as part of the Evaluation process and in its call reports 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 loan to deposit ("LTD") ratios from information shown in the Bank's Uniform Bank Performance Report, compiled by the FFIEC from call report data.

DFS derived the demographic data referred to in this report from the 2020 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 evaluation period included calendar years 2020, 2021, and 2022 for lending activities and the period from April 1, 2020, to March 31, 2023, for community development activities.

HANOVER COMMUNITY BANK – CRA PERFORMANCE EVALUATION

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

DFS gave greater weight to the Bank’s HMDA-lending in evaluating the factors above, as HMDA loans within the assessment area made up 58.3% by number and 89.4% by dollar value of all of the bank’s HMDA and small business loans within the assessment area.

DFS evaluated the Bank’s small business lending for 2021 and 2022 only, as the Bank made only eight small business loans in its assessment area in 2020. The number of small business loans originated by the Bank in 2020 is too low for a meaningful analysis.

In its prior Community Reinvestment Act Performance Evaluation as of March 31, 2020, DFS assigned HCB a rating of “2” or “satisfactory” compliance with regulatory standards.

CRA Rating: Satisfactory

A. Lending Test: Outstanding

HCB’s HMDA-reportable and small business lending activities were excellent in light of HCB’s 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.

1. Loan-to-Deposit Ratio and other Lending-Related Activities: Outstanding

HCB’s average LTD ratio was excellent considering its size, business strategy, financial condition, and peer group activity.

For the evaluation period, HCB’s average LTD ratio of 106.2% was well above its peer group average ratio of 76.1%. Furthermore, the Bank’s quarterly LTD ratios exceeded its peer group quarterly LTD ratios for each quarter of the evaluation period.

The table below shows HCB’s LTD ratios in comparison with the peer group’s ratios for the 12 quarters of this evaluation.

Loan-to-Deposit Ratios													
	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4	Avg.
Bank	95.7	108.4	107.8	105.1	105.1	111.1	106.3	107.7	104.0	104.0	105.4	114.1	106.2
Peer	81.9	80.8	80.0	75.8	72.3	75.2	72.7	72.1	71.4	74.6	76.8	79.3	76.1

2. Assessment Area Concentration: Outstanding

During the evaluation period, HCB originated 90.9% by number and 96% by dollar value of its total HMDA-reportable and small business loans within the assessment area, demonstrating an excellent concentration of lending.

HANOVER COMMUNITY BANK – CRA PERFORMANCE EVALUATION

a. HMDA-Reportable Loans:

During the evaluation period, HCB originated 95.8% by number and 96.5% by dollar value of its HMDA-reportable loans within the assessment area. This substantial majority of lending inside of HCB’s assessment area reflects an excellent concentration of lending.

b. Small Business Loans:

In 2021 and 2022, HCB originated 84.7% by number and 91.4% by dollar value of its small business loans within the assessment area. This substantial majority of lending inside of HCB’s assessment area reflects an excellent concentration of lending.

The significant increase of small business loans by HCB in 2021 was due to the Bank originating a large number of “Paycheck Protection Program” (“PPP”) loans, a loan program (the program ended May 31, 2021) that was temporarily implemented by the U.S. Small Business Administration to assist small businesses through the difficult economic conditions caused by the COVID-19 pandemic.

The following table shows the percentages of HCB’s HMDA-reportable and small business 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										
2020	121	87.7%	17	12.3%	138	102,825	92.7%	8,130	7.3%	110,955
2021	241	98.0%	5	2.0%	246	316,905	98.7%	4,015	1.3%	320,920
2022	421	97.2%	12	2.8%	433	417,974	95.9%	17,892	4.1%	435,866
Subtotal	783	95.8%	34	4.2%	817	837,704	96.5%	30,037	3.5%	867,741
Small Business										
2021	525	84.3%	98	15.7%	623	78,453	92.2%	6,642	7.8%	85,095
2022	35	92.1%	3	7.9%	38	21,224	88.6%	2,725	11.4%	23,949
Subtotal	560	84.7%	101	15.3%	661	99,677	91.4%	9,367	8.6%	109,044
Grand Total	1,343	90.9%	135	9.1%	1,478	937,381	96.0%	39,404	4.0%	976,785

3. Distribution by Borrower Characteristics: Outstanding

HCB’s HMDA-Reportable and small business lending demonstrated an excellent distribution of loans among individuals of different income levels and businesses of different revenue sizes.

a. One-to-four Family HMDA-Reportable Loans:

HCB’s one-to-four family HMDA-reportable lending demonstrated an excellent distribution of loans among borrowers of different income levels.

HANOVER COMMUNITY BANK – CRA PERFORMANCE EVALUATION

During the evaluation period, HCB HMDA-reportable lending rates to LMI borrowers of 30.8% by number and 24.1% by dollar value significantly exceeded the aggregate’s lending rates of 16.8% and 9%, respectively.

Both the Bank’s and the aggregate’s HMDA-reportable lending rates to LMI borrowers were below the average percentage of 45.4% of LMI families (family demographics) living in the assessment area. While the Bank trailed the family demographics in the assessment area, examiners noted that 14.7% of the population in the assessment area have income below the poverty level providing for limited lending opportunity.

The following table provides a summary of the distribution of HCB’s one-to-four family loans by borrower income.

Distribution of One-to-Four Family Loans by Borrower Income									
2020									
Borrower	Bank				Aggregate				Fam.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	10	9.3%	3,880	6.1%	2,426	1.9%	726,370	1.1%	30.5%
Moderate	8	7.5%	3,970	6.2%	12,210	9.7%	3,717,320	5.4%	16.3%
LMI	18	16.8%	7,850	12.4%	14,636	11.6%	4,443,690	6.5%	46.7%
Middle	16	15.0%	9,030	14.2%	28,176	22.3%	10,414,050	15.2%	16.6%
Upper	44	41.1%	30,380	47.8%	75,569	59.9%	47,048,105	68.7%	36.7%
Unknown	29	27.1%	16,285	25.6%	7,777	6.2%	6,558,935	9.6%	
Total	107		63,545		126,158		68,464,780		
2021									
Borrower	Bank				Aggregate				Fam.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	31	16.7%	12,705	11.3%	7,280	3.3%	1,989,590	1.7%	29.3%
Moderate	37	19.9%	19,535	17.3%	30,920	14.2%	9,630,150	8.1%	16.6%
LMI	68	36.6%	32,240	28.6%	38,200	17.5%	11,619,740	9.8%	45.9%
Middle	42	22.6%	21,160	18.8%	52,876	24.3%	19,938,920	16.8%	17.5%
Upper	46	24.7%	35,200	31.2%	113,729	52.2%	75,978,795	64.1%	36.6%
Unknown	30	16.1%	24,170	21.4%	12,878	5.9%	10,989,340	9.3%	
Total	186		112,770		217,683		118,526,795		
2022									
Borrower	Bank				Aggregate				Fam.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	52	14.6%	22,370	10.7%	6,014	4.7%	1,534,640	2.0%	27.2%
Moderate	62	17.4%	30,445	14.5%	20,243	16.0%	6,325,335	8.1%	16.5%
LMI	114	32.0%	52,815	25.2%	26,257	20.7%	7,859,975	10.1%	43.7%
Middle	79	22.2%	39,154	18.7%	29,957	23.6%	11,554,125	14.8%	17.8%
Upper	73	20.5%	49,628	23.7%	61,681	48.7%	48,720,205	62.6%	38.5%
Unknown	90	25.3%	67,673	32.3%	8,852	7.0%	9,754,390	12.5%	
Total	356		209,270		126,747		77,888,695		
GRAND TOTAL									
Borrower	Bank				Aggregate				Fam.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	93	14.3%	38,955	10.1%	15,720	3.3%	4,250,600	1.6%	
Moderate	107	16.5%	53,950	14.0%	63,373	13.5%	19,672,805	7.4%	
LMI	200	30.8%	92,905	24.1%	79,093	16.8%	23,923,405	9.0%	45.4%
Middle	137	21.1%	69,344	18.0%	111,009	23.6%	41,907,095	15.8%	
Upper	163	25.1%	115,208	29.9%	250,979	53.3%	171,747,105	64.8%	
Unknown	149	23.0%	108,128	28.0%	29,507	6.3%	27,302,665	10.3%	
Total	649		385,585		470,588		264,880,270		

HANOVER COMMUNITY BANK – CRA PERFORMANCE EVALUATION

b. Small Business Loans:

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

As PPP loans did not require revenue information to be collected or maintained for loan approval, PPP loans were excluded from the below analysis to not negatively skew the small business by revenue analysis. Still, of the Bank's 507 PPP loans originated in 2021 within the assessment area in the amount of less than \$1 million, 304 or 60% were for a loan amount of less than or equal to \$100,000, and 115 or 22.7% were for loans in the amount of greater than \$100,000 but less than or equal to \$250,000.

The Bank's average lending rates to small businesses with revenue less than or equal to \$1 million of 71.7% by number and 70.9% by dollar value significantly exceeded the aggregate's lending rates of 43.1% and 16.8%, respectively. This was the result of the Bank's lending rates in 2022 significantly exceeding the aggregate's lending rates to small businesses with revenue of \$1 million or less.

Both the HCB's and the aggregate's lending rates were below the average percentage of 91.6% of small businesses with revenue of \$1 million or less located within the Bank's assessment area.

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

Distribution of Small Business Lending by Revenue Size of Business									
2021									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	6	33.3%	1,473	15.5%	171,262	37.8%	2,991,109	18.2%	91.4%
Rev. > \$1MM	12	66.7%	8,060	84.5%	281,304	62.2%	13,415,612	81.8%	3.4%
Rev. Unknown	-	0.0%	-	0.0%	-	0.0%	-	0.0%	5.2%
Total	18		9,533		452,566		16,406,721		
2022									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	32	91.4%	20,342	95.8%	197,402	49.0%	3,183,848	15.7%	91.7%
Rev. > \$1MM	3	8.6%	881	4.2%	205,412	51.0%	17,130,079	84.3%	3.2%
Rev. Unknown	-	0.0%	0	0.0%	-	0.0%	-	0.0%	5.1%
Total	35		21,223		402,814		20,313,927		
GRAND TOTAL									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	38	71.7%	21,815	70.9%	368,664	43.1%	6,174,957	16.8%	91.6%
Rev. > \$1MM	15	28.3%	8,941	29.1%	486,716	56.9%	30,545,691	83.2%	
Rev. Unknown	-	0.0%	-	0.0%	-	0.0%	-	0.0%	
Total	53		30,756		855,380		36,720,648		

HANOVER COMMUNITY BANK – CRA PERFORMANCE EVALUATION

4. Geographic Distribution of Loans: Outstanding

HCB's origination of loans in census tracts of varying income levels demonstrated an excellent distribution of lending for HMDA-reportable loans and reasonable distribution of lending for small business loans. Greater weight was given to the Bank's HMDA-reportable lending.

a. HMDA-Reportable Loans:

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

During the evaluation period, HCB's average HMDA-reportable lending rates in LMI census tracts of 35.1% by number and 54.7% by dollar value of loans significantly exceeded the aggregate's rates of 17.6% and 20.7%, respectively.

The Bank's average HMDA-reportable lending rates in LMI census tracts by number and dollar value of loans also exceeded the average percentage of 18% of LMI owner-occupied housing units located in the assessment area during the evaluation period.

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

HANOVER COMMUNITY BANK – CRA PERFORMANCE EVALUATION

Distribution of HMDA-Reportable Lending by Geographic Income of the Census Tract									
2020									
Geographic	Bank				Aggregate				OO HUs
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	5	4.2%	10,455	10.2%	4,275	3.3%	4,953,695	5.5%	2.9%
Moderate	33	27.5%	44,195	43.2%	16,080	12.4%	13,189,720	14.6%	14.1%
LMI	38	31.7%	54,650	53.4%	20,355	15.7%	18,143,415	20.1%	17.1%
Middle	46	38.3%	25,080	24.5%	49,692	38.4%	24,056,460	26.7%	39.9%
Upper	36	30.0%	22,610	22.1%	59,126	45.7%	47,766,600	53.0%	42.9%
Unknown	0	0.0%	0	0.0%	235	0.2%	236,715	0.3%	0.2%
Total	120		102,340		129,408		90,203,190		
2021									
Geographic	Bank				Aggregate				OO HUs
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	18	7.5%	49,730	15.7%	6,583	3.0%	7,042,935	5.0%	2.6%
Moderate	66	27.4%	148,780	46.9%	32,855	14.8%	22,582,795	16.0%	15.3%
LMI	84	34.9%	198,510	62.6%	39,438	17.8%	29,625,730	21.0%	17.9%
Middle	92	38.2%	61,840	19.5%	96,912	43.7%	47,262,590	33.5%	44.7%
Upper	65	27.0%	56,555	17.8%	84,923	38.3%	64,205,185	45.4%	37.2%
Unknown	0	0.0%	0	0.0%	296	0.1%	172,780	0.1%	0.1%
Total	241		316,905		221,569		141,266,285		
2022									
Geographic	Bank				Aggregate				OO HUs
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	32	7.6%	64,087	15.4%	3,936	3.0%	4,989,170	4.8%	2.6%
Moderate	120	28.6%	140,090	33.6%	20,854	15.9%	16,578,310	16.0%	16.3%
LMI	152	36.2%	204,177	48.9%	24,790	19.0%	21,567,480	20.8%	18.9%
Middle	188	44.8%	138,562	33.2%	57,315	43.8%	32,033,485	31.0%	46.0%
Upper	78	18.6%	71,268	17.1%	47,714	36.5%	48,749,210	47.1%	34.6%
Unknown	2	0.5%	3,430	0.8%	982	0.8%	1,092,920	1.1%	0.6%
Total	420		417,437		130,801		103,443,095		
GRAND TOTAL									
Geographic	Bank				Aggregate				OO HUs
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	55	7.0%	124,272	14.9%	14,794	3.1%	16,985,800	5.1%	
Moderate	219	28.0%	333,065	39.8%	69,789	14.5%	52,350,825	15.6%	
LMI	274	35.1%	457,337	54.7%	84,583	17.6%	69,336,625	20.7%	18.0%
Middle	326	41.7%	225,482	26.9%	203,919	42.3%	103,352,535	30.9%	
Upper	179	22.9%	150,433	18.0%	191,763	39.8%	160,720,995	48.0%	
Unknown	2	0.3%	3,430	0.4%	1,513	0.3%	1,502,415	0.4%	
Total	781		836,682		481,778		334,912,570		

b. Small Business Loans:

The distribution of HCB’s small business loans (including PPP loans) among census tracts of varying income levels was reasonable.

HANOVER COMMUNITY BANK – CRA PERFORMANCE EVALUATION

HCB’s average small business lending rates of 21.3% by number and 15.5% by dollar value of loans in LMI census tracts trailed the aggregate’s rates of 26% and 22.5%.

The Bank’s average small business lending rates in LMI census tracts also trailed the average percentage of 26.4% of small business located in LMI census tracts within the assessment area during the evaluation period.

The following table provides a summary of the distribution of HCB’s small business loans by the income level of the geography where the businesses were located.

Distribution of Small Business Lending by Geographic Income of the Census Tract									
2021									
Geographic	Bank				Aggregate				Bus.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	22	4.2%	2,207	2.8%	31,140	6.9%	898,116	5.5%	7.3%
Moderate	89	17.0%	6,572	8.4%	88,127	19.5%	2,648,497	16.1%	19.6%
LMI	111	21.1%	8,779	11.2%	119,267	26.4%	3,546,613	21.6%	26.9%
Middle	139	26.5%	19,023	24.2%	146,952	32.5%	4,784,991	29.2%	31.4%
Upper	263	50.1%	47,330	60.3%	178,058	39.3%	7,503,080	45.7%	39.9%
Unknown	12	2.3%	3,321	4.2%	8,289	1.8%	572,037	3.5%	1.8%
Total	525		78,453		452,566		16,406,721		
2022									
Geographic	Bank				Aggregate				Bus.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	5	14.3%	4,265	20.1%	27,581	6.8%	681,465	6.7%	7.4%
Moderate	3	8.6%	2,450	11.5%	75,378	18.7%	1,773,105	17.4%	18.6%
LMI	8	22.9%	6,715	31.6%	102,959	25.6%	2,454,570	24.0%	26.0%
Middle	14	40.0%	7,718	36.4%	137,444	34.1%	3,159,888	30.9%	32.8%
Upper	11	31.4%	5,541	26.1%	148,134	36.8%	4,025,113	39.4%	37.6%
Unknown	2	5.7%	1,250	5.9%	14,277	3.5%	574,356	5.6%	3.6%
Total	35		21,224		402,814		10,213,927		
GRAND TOTAL									
Geographic	Bank				Aggregate				Bus.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	27	4.8%	6,472	6.5%	58,721	6.9%	1,579,581	5.9%	
Moderate	92	16.4%	9,022	9.1%	163,505	19.1%	4,421,602	16.6%	
LMI	119	21.3%	15,494	15.5%	222,226	26.0%	6,001,183	22.5%	26.4%
Middle	153	27.3%	26,741	26.8%	284,396	33.2%	7,944,879	29.8%	
Upper	274	48.9%	52,871	53.0%	326,192	38.1%	11,528,193	43.3%	
Unknown	14	2.5%	4,571	4.6%	22,566	2.6%	1,146,393	4.3%	
Total	560		99,677		855,380		26,620,648		

5. Action Taken in Response to Written Complaints with Respect to CRA: N/A

Neither DFS nor HCB receive any written complaints during the evaluation period regarding The Bank’s CRA performance.

HANOVER COMMUNITY BANK – CRA PERFORMANCE EVALUATION

B. Community Development Test: Satisfactory

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

1. Community Development Lending: Outstanding

During the evaluation period, HCB originated \$135.9 million in new community development loans and had \$16.2 million outstanding from prior evaluation periods. This demonstrated an excellent level of community development lending over the course of the evaluation period.

The level of new community development loans originated by the Bank during the evaluation period represented a significant increase from the \$33.6 million originated in the prior evaluation period. HCB’s community development loans primarily supported the community development purpose of affordable housing.

Community Development Loans				
	This Evaluation Period		Outstandings from Prior Evaluation Periods	
Purpose	# of Loans	\$000	# of Loans	\$000
Affordable Housing	88	132,855	15	16,182
Economic Development				
Community Services	1	3,000		
Other (Please Specify)				
Total	89	135,855	15	16,182

Below are highlights of HCB’s community development lending.

- The Bank originated a \$4 million mortgage loan secured by a 23-unit residential property located in a low-income tract and providing affordable housing for the area as all but the rent for one residential unit were below the U.S. Department of Housing and Urban Development (“HUD”) fair market rents for the area.
- HCB originated a \$3.2 million loan secured by a 24-unit residential property and 2 retail stores located in a low-income tract. The rents for all 24 units were below the HUD fair market rents for the area, thus providing affordable housing.
- The Bank originated a \$2 million loan secured by a 12-unit residential property located in a moderate-income tract. The loan supported affordable housing as the rents for ten of the twelve units were below the HUD fair market rents for the area.

HANOVER COMMUNITY BANK – CRA PERFORMANCE EVALUATION

- HCB originated a \$600,000 mortgage loan secured by a mixed-use building with five residential units and a retail store. The building is located in a moderate-income census tract and provides affordable housing as the rents for all five units were below HUD fair market rents for the area.
- The Bank originated a \$1.5 million mortgage loan secured by a mixed-use property containing five residential units and a retail store. The building is located in a moderate-income census tract. The rents for all five residential units were below the HUD Fair Market rents for the area thus qualifying the loan for affordable housing.

2. Qualified Investments: Substantial Noncompliance

During the evaluation period, HCB made no new qualified investments and had none outstanding from prior evaluation periods. HCB made \$87,837 in qualified grants. This demonstrated a very poor level of qualified investments and grants over the course of the evaluation period.

HCB did not make new investments and had none outstanding from prior periods, as the Bank also did not make any qualified investments during the prior evaluation. Prior evaluation period grants totaled \$67,121.

Qualified Investments and Grants				
	This Evaluation Period		Outstandings from Prior Evaluation Periods	
CD Investments	# of Inv.	\$000	# of Inv.	\$000
Affordable Housing	0		0	0
Economic Development				
Community Services				
Revitalization & Stabilization				
Total	0	0	0	0
CD Grants	# of Grants	\$000	Not Applicable	
Affordable Housing	6	57		
Economic Development	0	0		
Community Services	11	12		
Revitalization & Stabilization	10	19		
Total	27	88		

Below are highlights of HCB’s qualified grants.

- HCB made donations totaling \$18,000 to an organization that provides affordable housing opportunities and other related services for LMI residents of southern Queens. The organization assists prospective homebuyers through programs that include housing education, counseling, and financial services.
- The Bank donated \$2,000 to an organization which provides community services including food and shelter to LMI individuals and families in Nassau County.

HANOVER COMMUNITY BANK – CRA PERFORMANCE EVALUATION

3. Community Development Services: Satisfactory

HCB demonstrated an adequate level of community development services over the course of the evaluation period. Bank management and employees performed 39 instances of community development services including providing technical assistance or serving on the board and/or committees of various nonprofit organizations.

Community Development Services	
Activity Type	Number of Activities
On-Going Board & Committee Memberships	22
Technical Assistance	9
Seminars	8
Credit Counseling	0
Other Services	0
Total Community Development Services	39

Below are highlights of HCB’s community development services.

- A member of HCB’s senior management served as a member of the board of directors of a nonprofit organization in Suffolk County which provides emergency shelters, food pantry, and transitional apartments for LMI individuals and families.
- A member of the Bank’s senior management assisted a nonprofit organization in providing business counseling and financial webinars to individuals and small businesses with the goal of helping them become successful.
- A loan officer of HCB acted as the public relations officer for a nonprofit organization in Queens County which provides funds for affordable healthcare and housing programs for LMI individuals and families.
- A loan officer of the Bank provided a series of educational workshops for prospective homeowners on behalf of a non-profit organization dedicated to increasing home ownership in and revitalization of low- and moderate-income communities in Queens. These workshops are part of the organization’s programs which include below-market interest rate loans to homeowners who are unable to get loans from conventional lending institutions, downpayment assistance grants, grants to existing low- and moderate-income homeowners for home improvement projects, emergency home repair loans to homeowners in financial distress, and homebuyer financial planning.

Responsiveness to Community Development Needs:

HCB demonstrated an adequate level of responsiveness to credit and community development needs.

HANOVER COMMUNITY BANK – CRA PERFORMANCE EVALUATION

C. Additional Factors

1. 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.

HCB’s board of directors reviews and approves the Bank’s CRA policy at least annually. The Bank has established a board level Community Reinvestment Act and Fair Lending Committee to assist the board in its CRA oversight responsibilities. This committee meets quarterly in a combined meeting with the Community Reinvestment Act and Fair Lending Management Committee (“CRAFLMC”) comprised of the CRA officer and key employees from various areas of the Bank. As part of its duties, the management committee, during the quarterly meetings, provides a presentation of the Bank’s CRA performance including community outreach, CRA lending trends, training, marketing efforts, community development activities and self-assessment.

The board appointed CRA Officer assisted by the CRAFLMC is responsible for coordinating, documenting and monitoring the Bank’s CRA lending, investment and service activities and to periodically report on the bank’s CRA performance to the two committees and to the full board at least annually.

2. 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 did not note practices by HCB intended to discourage applications for the types of credit offered by HCB.

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

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

3. Record of opening and closing offices and providing services at offices

HCB operates seven branches in New York State located in the following counties: two in Nassau, two in Queens two in New York and one in Nassau County. Four (57%) of the seven branches are located in LMI census tracts as shown in the table below.

During the current evaluation period, the Bank acquired a branch as a result of the acquisition of Savoy Bank in May of 2021. This branch is located in New York County in an upper-income census tract. HCB also closed one branch in August of 2021, the branch was located in New York County in a low-income census tract.

All branches offer business hours from 9:00am to 5:00pm, Monday through Friday. In addition, three branches located in LMI census tracts also offer Saturday hours from 9:00am to 1:00pm. All

HANOVER COMMUNITY BANK – CRA PERFORMANCE EVALUATION

branches have at least one ATM, except one branch in New York County located in an upper-income census tract and one branch located in Kings County in a moderate-income census tract. Also the ATM at the branch located in Queens County in a low-income census tract is available only during business hours, while the other branch located ATMs are accessible 24 hours.

Distribution of Branches within the Assessment Area							
	N/A	Low	Moderate	Middle	Upper	Total	LMI
	#	#	#	#	#	#	%
Kings			1			1	100%
Nassau			1	1		2	50%
New York			1		2	3	33%
Queens		1				1	100%
Suffolk						0	0%
Total	0	1	3	1	2	7	57%

4. 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.

HCB ascertains the credit needs of its community through outreach to local community organizations, nonprofit groups, government officials, and business and trade associations. During the evaluation period, the Bank also conducted additional outreach with housing related organizations to ascertain specific credit and loan products need across all segments of the Bank’s market area.

- 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

HCB markets its products and services in local newspapers, at its branch locations, and community events, as well as through its partnerships and involvement with various community organizations. HCB’s products and services are also advertised and available on its website including the Bank’s Affordable Home Loan (AHL) Program which launched in June 2022 targeted at low- and moderate-income first-time homebuyers in New York.

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

DFS examiners noted no other factors.

V - GLOSSARY

Aggregate Lending

“Aggregate lending” means 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.

Banking Development District (“BDD”) Program

The BDD Program is a program designed to encourage the establishment of bank branches in areas across New York State where there is a demonstrated need for banking services, in recognition of the fact that banks can play an important role in promoting individual wealth, community development, and revitalization. Among others, the BDD Program seeks to reduce the number of unbanked and underbanked New Yorkers and enhance access to credit for consumers and small businesses. More information about the program, may be found at <https://www.dfs.ny.gov> and search for the BDD Program.

Community Development

“Community development” means:

- Affordable housing (including multifamily housing) for LMI individuals;
- Community services targeted to LMI individuals;
- 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;
- Activities that revitalize or stabilize LMI geographies, designated disaster areas, or distressed or underserved metropolitan middle-income geographies designated by the Board of Governors of the federal Reserve System, FDIC, and the Office of Comptroller of the Currency; and
- Activities that seek to prevent defaults and/or foreclosures in loans included in the first and third bullet points above.

Community Development Loan

“Community development loan” means 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 LMI persons (DFS multifamily industry letter www.dfs.ny.gov/industry_guidance/industry_letters/il20141204_guidelines_bank_lending_multifamily_properties_cra_updated) ;
- Nonprofit organizations serving primarily LMI or other community development needs;

HANOVER COMMUNITY BANK – CRA PERFORMANCE EVALUATION

- 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

“Community development service” means a 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.

HANOVER COMMUNITY BANK – CRA PERFORMANCE EVALUATION

Community Development Financial Institution (“CDFI”)

A CDFI is a financial institution that provides credit and financial services to underserved markets and populations and has a primary mission of community development, serves a target market, is a financing entity, provides development services, remains accountable to its community, and is a non-governmental entity. CDFIs are certified as such by United States Treasury Department’s CDFI Fund.

Fair Market Rents (“FMRs”)

Fair Market Rents are published and developed annually by the US Department of Housing and Urban Development (“HUD”) and used to determine rent payments for affordable housing projects such as Section 8 contracts in defined metropolitan statistical areas (“MSAs”) nationwide. For easy reference of annual FMRs in New York MSAs or counties, go to www.huduser.gov/portal/datasets/fmr.html

Geography

“Geography” means 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

LMI Geographies

“LMI geographies” means those census tracts or block numbering areas where, according to the most current 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 Block Numbering Areas (“BNAs”) and tracted areas that are

HANOVER COMMUNITY BANK – CRA PERFORMANCE EVALUATION

not part of a MSA or PMSA, the area median family income would be the statewide non-metropolitan median family income.

LMI Borrowers

“LMI borrowers” means 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 Federal Financial Institutions Examination Council (“FFIEC”).

LMI Individuals/Persons

“LMI individuals” or “LMI persons” means 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 the FFIEC.

LMI Penetration Rate

“LMI penetration rate” means the percentage of a bank’s total loans (for a particular product) that was extended to LMI geographies or borrowers. For example, if a bank made 20 out of a total of 100 loans in LMI geographies or to LMI borrowers, the penetration rate would be 20%.

Low-Income Housing Tax Credit (“LIHTC”)

LIHTC were 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. The tax credits 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.

Minority Depository Institutions (“MDIs”)

An MDI is defined as a federal insured depository institution for which (1) 51 percent or more of the voting stock is owned by minority individuals; or (2) a majority of the board of directors is minority and the community that the institution serves is predominantly minority. For more of MDIs, go to FDIC.gov (Minority Depository Institutions Program) including list of MDIs.

HANOVER COMMUNITY BANK – CRA PERFORMANCE EVALUATION

New Markets Tax Credit (“NMTC”)

The NMTC Program was established by Congress in December 2000 to stimulate economic and community development and job creation in low-income communities. It permits 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 CDFI Fund, an agency of the United States Department of the Treasury.

Paycheck Protection Program (“PPP”) Loans

The Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) temporarily permits the U.S. Small Business Administration (“SBA”) to guarantee 100% of 7(a) loans under a new program titled the “Paycheck Protection Program”. The intent of the PPP is to help small business cover payroll costs providing for forgiveness of up to the full principal of qualifying loans guaranteed under the PPP subject to certain rules including how much or percentage of the loan proceeds a borrower spends on payroll costs. A small business owner can apply through any existing SBA 7(a) lender or through any federally insured depository institution, federally insured credit union, and Farm Credit System institution that is participating. Any amount of the PPP loan that is not forgiven shall be repaid over a 5-year term at a fixed interest rate of 1%. The program officially ended May 31, 2021.

Qualified Investment

“Qualified investment” means 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

HANOVER COMMUNITY BANK – CRA PERFORMANCE EVALUATION

- 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.

Small Business Loan

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