

PUBLIC DISCLOSURE

January 10, 2022

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

WaterStone Bank, SSB
Certificate Number: 28513

11200 West Plank Court
Wauwatosa, Wisconsin 53226

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
Chicago Regional Office

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Chicago, Illinois 60606

This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

PERFORMANCE LEVELS	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X		
Low Satisfactory		X	X
Needs to Improve			
Substantial Noncompliance			
* The Lending Test is weighted more heavily than the Investment and Service Tests when arriving at an overall rating.			

The Lending Test is rated High Satisfactory.

- Lending levels reflect excellent responsiveness to the credit needs in the assessment area.
- An adequate percentage of home mortgage and small business loans are in the assessment area.
- The geographic distribution of loans reflects excellent penetration throughout the assessment area.
- The distribution of borrowers reflects, given the product lines offered by the institution, adequate penetration among retail customers of different income levels and business customers of different sizes.
- The institution makes limited use of innovative and/or flexible lending practices in order to serve assessment area credit needs.
- The bank is a leader in making community development loans.

The Investment Test is rated Low Satisfactory.

- The bank has an adequate level of qualified community development investments and grants, although rarely in a leadership position, particularly those that are not routinely provided by private investors.
- The bank exhibits adequate responsiveness to the credit and community development needs in the assessment area.

- The bank occasionally uses innovative and/or complex investments to support community development initiatives.

The Service Test is rated Low Satisfactory.

- Delivery systems are reasonably accessible to essentially all portions of the institution's assessment area.
- The institution's opening and closing of branches has not adversely affected the accessibility of its delivery systems, particularly in low- and moderate- income geographies and/or to low- and moderate-income individuals.
- Services, including business hours, do not vary in a way that inconveniences portions of the assessment area, particularly low- and moderate-income census tracts and/or individuals.
- The institution provides an adequate level of community development services.

DESCRIPTION OF INSTITUTION

WaterStone Bank SSB (WaterStone) is a commercial bank headquartered in Wauwatosa, Wisconsin, and operates in the southeastern portion of Wisconsin in Milwaukee, Ozaukee, Washington, and Waukesha counties. Waterstone Financial, Inc., a one-bank holding company also located in Wauwatosa, Wisconsin, owns WaterStone. The holding company is publicly traded under the symbol WSBF on the NASDAQ market. The bank has the following wholly owned subsidiaries: Waterstone Mortgage Corporation, a mortgage subsidiary located in Pewaukee, Wisconsin; Wauwatosa Investments, Inc., an investment subsidiary located in Las Vegas, Nevada; and Main Street Real Estate Holding, LLC, an inactive subsidiary that was formed in Wauwatosa, Wisconsin in 2002 and has no assets. The bank received a Satisfactory rating at its previous FDIC Performance Evaluation dated January 28, 2019, based on Interagency Large Institution CRA Examination Procedures.

WaterStone's corporate center is located in Wauwatosa at a separate location from any of its banking offices. The bank operates 14 full service branches located in Brookfield, Fox Point, Franklin, Germantown, Greenfield, Milwaukee, Oak Creek (2), Oconomowoc, Pewaukee, Waukesha, Wauwatosa, and West Allis (2). The bank has one limited service drive-up location in Wauwatosa. Since the prior evaluation, WaterStone opened three branches in Milwaukee, Oak Creek, and West Allis, and closed the commercial loan production office in Maple Grove, Minnesota. No acquisition or merger activities occurred since the prior evaluation.

WaterStone offers a variety of commercial and consumer loan products. The primary focus continues to be on home mortgage loans, specifically non-owner occupied investment properties and multi-family property lending, followed by small business lending. The bank's mortgage subsidiary offers one-to-four family, owner-occupied lending, and provides long term financing on the secondary market. The bank offers several deposit products, including checking, savings, money market, and certificates of deposit. In addition, the bank's investment subsidiary offers investment and insurance products. Alternative banking services include internet banking, mobile and text banking, mobile check deposit, 24-hour telephone banking, online account opening, electronic bill pay, person-to-person funds transfer service, ATMs, prepaid cards, credit cards, merchant deposit and check capture, and the Business Rewards and Valuable Opportunities

(BRAVO) program for employers and employees. The BRAVO program is a way to reach the unbanked and underbanked through their employers.

According to the Consolidated Report of Condition and Income (Call Report) dated December 31, 2021, the bank reported total assets of \$2.2 billion, total loans of \$1.5 billion, total securities of \$180 million, total equity capital of \$378 million, and total deposits of \$1.3 billion. The following table illustrates WaterStone's loan portfolio.

Loan Portfolio Distribution as of 12/31/2021		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	82,588	5.4
Secured by Farmland	-	-
Secured by 1-4 Family Residential Properties	626,055	41.2
Secured by Multifamily (5 or more) Residential Properties	537,956	35.4
Secured by Nonfarm Nonresidential Properties	250,676	16.5
Total Real Estate Loans	1,497,275	98.5
Commercial and Industrial Loans	22,298	1.5
Agricultural Production and Other Loans to Farmers	-	-
Consumer Loans	732	0.0
Obligations of State and Political Subdivisions in the U.S.	-	-
Other Loans	5	0.0
Lease Financing Receivable (net of unearned income)	-	-
Less: Unearned Income	1,787	0.0
Total Loans	1,518,523	100.0
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any financial, legal, or other impediments that affect the bank's ability to meet assessment area needs.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment areas within which examiners will evaluate its CRA performance. WaterStone has designated a single assessment area, which consists of the entire Milwaukee-Waukesha Metropolitan Statistical Area (MSA). This meets the CRA requirements and does not arbitrarily exclude any geographies. The following sections discuss economic and demographic information for the assessment area, identify competition for loans and deposits, detail community contact data, and describe the community development needs and opportunities.

Economic and Demographic Data

The assessment area includes all 431 census tracts in Milwaukee, Ozaukee, Washington, and Waukesha counties (Milwaukee MSA). Based on the 2015 American Community Survey (ACS) five-year estimates, the census tracts have the following income designations:

- 99 low-income census tracts;
- 68 moderate-income census tracts;
- 139 middle-income census tracts;
- 122 upper-income census tracts; and
- 3 census tracts with no income designation.

The following table illustrates select demographic characteristics of the assessment area.

Demographic Information of the Assessment Area						
Assessment Area: Milwaukee-Waukesha MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	431	23.0	15.8	32.3	28.3	0.7
Population by Geography	1,570,006	16.7	14.9	33.7	34.7	0.0
Housing Units by Geography	671,468	16.1	15.1	35.4	33.4	0.0
Owner-Occupied Units by Geography	376,569	7.3	11.9	36.2	44.5	0.0
Occupied Rental Units by Geography	247,577	25.6	20.0	36.1	18.3	0.0
Vacant Units by Geography	47,322	35.9	15.3	25.0	23.9	0.0
Businesses by Geography	92,032	10.9	11.8	34.8	42.4	0.0
Farms by Geography	2,088	5.6	7.2	37.8	49.4	0.0
Family Distribution by Income Level	388,209	23.5	16.2	19.4	40.9	0.0
Household Distribution by Income Level	624,146	25.2	15.4	17.0	42.4	0.0
Median Family Income MSA - 33340 Milwaukee-Waukesha, WI MSA		\$71,764	Median Housing Value			\$186,990
			Median Gross Rent			\$841
			Families Below Poverty Level			11.1%

Source: 2015 ACS and 2020 D&B Data
Due to rounding, totals may not equal 100.0%
(* The NA category consists of geographies that have not been assigned an income classification.

Waukesha County has three moderate-income census tracts in downtown Waukesha. The remaining 164 low- and moderate-income census tracts are located in Milwaukee County with a vast majority in the City of Milwaukee. Three census tracts in the assessment area do not have sufficient population to categorize into an income category. As shown in the demographic table above, the percentage of the population living in low- and moderate-income census tracts, compared to the percentage of low- and moderate-income families in the assessment area indicates some of these families are residing in middle- and upper-income census tracts. In addition, 11.1 percent of families in the assessment area live below the poverty level and are less likely to have the capacity to afford a home.

Examiners rely on the 2019 and 2020 FFIEC-estimated median family (MFI) levels to analyze the home mortgage loans under the Borrower Profile criterion. The FFIEC bases its annual estimates

on the most recent U.S. Census or ACS data, and factors in inflation and other economic variables to arrive at a MFI that more closely reflects current economic conditions. The following table presents the low-, moderate-, middle-, and upper-income levels for the MSA.

Median Family Income Ranges for Milwaukee-Waukesha MSA				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2019 (\$82,300)	<\$41,150	\$41,150 to <\$65,840	\$65,840 to <\$98,760	≥\$98,760
2020 (\$83,800)	<\$41,900	\$41,900 to <\$67,040	\$67,040 to <\$100,560	≥\$100,560

Source: FFIEC

According to the Department of Workforce Development, Milwaukee County has the largest population in Wisconsin with 950,381 residents. Waukesha is the third most populated county in the State with 401,446 residents. Washington County reported 135,970 residents and Ozaukee County has 88,667 residents.

There are 671,468 housing units in the assessment area. Of these, 56.1 percent are owner-occupied, 36.9 percent are occupied rental units, and 7.0 percent are vacant. Type of housing is 77.8 percent one-four family, 21.6 percent multifamily, and 0.6 percent mobile homes. This data provides insight into the potential credit needs and opportunities for various types of residential lending.

Housing prices vary significantly between the four counties in the assessment area. During the evaluation period, median home prices rose considerably in each county. See the following table with data from the Wisconsin Realtors Association.

County	Median Sale Price 2019	Median Sale Price 2020	Percent of Increase
Milwaukee County	\$170,000	\$187,000	10.0%
Ozaukee County	\$317,000	\$335,000	5.7%
Washington County	\$252,000	\$273,750	8.6%
Waukesha County	\$308,500	\$337,500	9.4%

Unemployment rates have soared during the evaluation period due to economic struggles brought about by COVID-19. While Ozaukee, Washington, and Waukesha Counties remained below both the state and national levels, Milwaukee County surpassed both. See the following table for specific unemployment rates.

Area	2019	2020
Milwaukee County	3.9	8.2
Ozaukee County	2.8	5.4
Washington County	2.8	5.6
Waukesha County	2.9	5.6
State of Wisconsin	3.3	6.3
National Average	3.7	8.1

Source: Wisconsin Department of Workforce Development

Service industries continue to represent the largest portion of businesses in the assessment area, at 41.9 percent, followed by non-classified establishments at 13.4 percent, and the retail trade industry rounding out the top three at 13.1 percent. In addition, 59.9 percent of assessment area businesses have four or fewer employees, and 86.9 percent operate from a single location. Some of the largest employers in assessment area include General Mitchell International Airport, University of Wisconsin – Milwaukee, Aurora Medical (various hospital and clinic locations), Rockwell Automation, and Kohl's Corporation.

Competition

The assessment area is a highly competitive market for financial services. According to the FDIC Deposit Market Share data as of June 2021, there were 46 financial institutions, operating 453 full-service branch locations in the assessment area. Of these institutions, WaterStone ranked 10th, with a 1.5 percent market share.

There is also a high level of competition in the Milwaukee MSA from financial institutions for home mortgage loans. According to 2020 HMDA data, 576 financial institutions reported 94,690 HMDA-reportable loans in the Milwaukee MSA. WaterStone ranked 89th, reporting a market share of 0.2 percent by number of loans and 0.5 percent by dollar volume. WaterStone Mortgage Corporation, the bank's lending subsidiary, ranked 41st with a market share of 0.6 percent by number of loans and 0.7 percent by dollar volume. The top three home mortgage lenders in the assessment area representing 20.2 percent total market share by number of loans originated are Landmark Credit Union, Wells Fargo Bank, and the University of Wisconsin Credit Union.

Significant competition is also present in small business lending. According to CRA small business loan reporters in 2020, there were 181 lenders that originated or purchased 33,543 small business loans in the Milwaukee MSA. WaterStone ranked 37th, reporting a market share of 0.3 percent by number of loans and 1.1 percent by dollar volume. The top three lenders representing 34.2 percent of the market share by number of loans include US Bank NA, JP Morgan Chase Bank NA, and BMO Harris Bank NA.

Community Contact

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying the credit and community development needs. This information helps determine whether local financial institutions are responsive to these needs. It also shows what credit and community development opportunities are available. Examiners obtained information from two contacts.

The first contact was a housing organization that provides services to Milwaukee and Waukesha Counties. The contact stated that the need for affordable housing is great due to increasing home values in the area. In addition, the construction of affordable housing is low due to the increasing cost of construction. Both of these issues have made homeownership difficult for low- and moderate-income individuals. The contact felt that COVID-19 has not significantly affected the availability of affordable housing since both issues were problems before the pandemic. The contact stated that financial institutions should participate more in down-payment assistance programs, offer more products for rehabilitation loans, and utilize nontraditional credit to evaluate

low- and moderate-income applicants. Furthermore, the contact said there was a need for banks to offer small-dollar loans to help individuals who might otherwise pay higher interest rates and fees with a payday lender.

The second contact was a Waukesha County government branch dedicated, in part, to fostering the County and surrounding areas' economic development. This contact stated that area businesses are seeking to grow and expand, with growth areas noted in technology, manufacturing, engineering, and healthcare. However, area businesses are experiencing supply chain issues due to the pandemic, as well as a labor shortage that has been occurring for some time. The contact noted that there are not enough qualified workers to fulfill the numerous job vacancies, and workforce re-training efforts have been insufficient. However, the contact mentioned that interest rates are favorable, and banks appear to be meeting the area's financing needs.

The contact also pointed out that the high housing costs in the area have been prohibitive to attracting additional workforce to the area. For example, high home purchase prices have not allowed many people to be able to live and work in Waukesha County. A typical starting salary of around \$75,000 would not allow a person to afford a single-family home for \$375,000. Efforts to improve the supply of affordable housing are ongoing. The County is planning an increase in multifamily housing, and zoning laws are changing to allow more single-family units per acre in some Waukesha County communities.

The contact said that ample funds are available for rent and utility assistance for low- and moderate-income residents, many of whom are in the retail and service industries. The contact feels that banks are sufficiently involved in the community, and is not aware of any unmet credit needs.

Credit and Community Development Needs and Opportunities

Considering information from the community contacts, bank management, and economic and demographic data, examiners determined the primary needs and opportunities in the assessment area are affordable housing, housing rehabilitation loans, nontraditional home mortgage underwriting products, and small business loans for cash-flow shortages due to issues related to the pandemic.

Throughout the evaluation period, affordable housing loans, particularly those that benefit low- and moderate-income families, were in high demand. The significant number and percentage of families in the low- and moderate-income categories and 11.1 percent of families below the poverty level support this conclusion. Furthermore, as indicated by community contact information and economic and demographic data, the assessment area has community development opportunities in economic development and community services.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated January 28, 2019, to the current evaluation dated January 10, 2022. Examiners utilized the Interagency Large Institution Examination Procedures to evaluate WaterStone's CRA performance. These procedures include the

following three tests: the Lending Test, the Investment Test, and the Service Test, as detailed in the Appendix. This evaluation does not include any lending activity performed by affiliates, as the bank opted not to include those lending activities by WaterStone Mortgage Corporation.

Examiners relied upon records provided by the bank, 2015 ACS five-year estimates, D&B demographic data, community contacts, and loan information reported under Home Mortgage Disclosure Act (HMDA) and CRA. WaterStone's CRA performance was analyzed in relation to the bank's performance context, which includes (but is not limited to) bank size and structure, financial condition, loan mix, resources, limitations, assessment area demographics, economic factors, competition, loan demand, and available opportunities. Examiners used information obtained from two community contact interviews to help establish the performance context for this CRA evaluation. The community contact interviewees are representatives in the assessment area and are not affiliated with the bank.

Activities Reviewed

Examiners determined that the bank's major product lines are home mortgage and small business loans. This conclusion considered the bank's business strategy and the number and dollar volume of loans originated during the evaluation period.

The bank's record of originating home mortgage loans contributed more weight to overall conclusions due to the larger loan volume when compared to small business lending during the evaluation period. No other loan types, such as small farm loans or consumer loans, represent a major product line. Therefore, they provided no material support for conclusions or ratings and are not presented. The following table shows the bank's originations and purchases during the evaluation period by loan type.

Loan Products Reviewed		
Loan Category	#	\$(000s)
Home Mortgage		
2019	319	205,742
2020	305	259,598
Subtotal	624	465,340
Small Business		
2019	126	27,700
2020	388	59,472
Subtotal	514	87,172
Total	1,138	552,512
<i>Source: Bank Data</i>		

Examiners considered all home mortgage loans reported on the bank's 2019 and 2020 HMDA loan application registers. Home mortgage loans include all home purchase, home improvement, home refinancing, and multifamily loans reported pursuant to the HMDA requirements. Aggregate data provided a standard of comparison for the bank's home mortgage loans. Examiners also used demographic data from the 2015 American Community Survey (ACS) five-year estimates as a measure of comparison.

Examiners considered all small business loans reported on the bank's 2019 and 2020 CRA loan application registers. Small business loans are defined as loans made to businesses with a loan size of \$1 million or less. Aggregate data and D&B data provided standards of comparison for the bank's small business loans, as well as comparisons with other similarly situated institutions. The significant increase in small business loans in 2020 is a result of the bank's participation in the Paycheck Protection Program (PPP) administered through the Small Business Administration (SBA). This Program is part of the government response to the COVID-19 pandemic. The small business loans through this program are not secured but are fully guaranteed by the Federal government. If certain terms are met, the PPP loans are forgiven and business owners do not have to repay the funds. Of the 388 small business loans originated in 2020, 279 are PPP loans. The bank has shown responsiveness to community needs as this program helped retain jobs and enable many businesses to survive the lockdowns.

The geographic distribution of loans and community development lending carried more weight when drawing conclusions, as the assessment area contains a significant number of low- and moderate-income census tracts. Since the bank's lending focus is on multifamily loans, and financial institutions do not collect income information on multifamily loans, the borrowers' profile criteria carried less weight in examiner conclusions, as well as the other criteria.

For the Lending Test, examiners reviewed the number and dollar volume of home mortgage and small business loans. While number and dollar volume of loans are presented, examiners emphasized performance by number of loans, because the number of loans is a better indicator of the number of individuals and businesses served.

The evaluation includes community development loans, investments, and services since the previous evaluation dated January 28, 2019. Investments that were made before the prior evaluation and that remain outstanding are included at the current book values as prior period investments. Examiners evaluated the quantitative levels of community development loans, investments, and services based on the financial capacity of WaterStone, as well as the qualitative impact to the assessment area.

A review of FDIC records, as well as the bank's CRA Public File, did not reveal any unresolved complaints relating to the bank's CRA performance since the previous evaluation.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

The Lending Test is rated "High Satisfactory." The bank's lending performance reflects good responsiveness to the credit needs of the assessment area. WaterStone demonstrated excellent performance under Lending Activity, Geographic Distribution, and Community Development Loans; and adequate performance under Assessment Area Concentration, Borrower Profile, and Innovative and/or Flexible Lending Practices.

Lending Activity

Lending levels reflect excellent responsiveness to assessment area credit needs. The bank’s loan-to-deposit ratio averaged 137.5 percent over the 11 quarters since the prior evaluation. The ratio has fluctuated from a high of 149.7 percent in June 2020 to low of 115.9 percent in September 2021.

Similarly situated institutions’ ratios during this same period averaged 65.1 percent to 94.8 percent. The similarly situated institutions include five financial institutions operating in the Milwaukee MSA with comparable loan products and asset size. Examiners did not consider secondary market activity in the calculation of these ratios. The bank does not sell loans in the secondary market, but does have a subsidiary that originates and sells owner-occupied one-four family home mortgage loans in the secondary market. The bank purchases some loans from its subsidiary, Waterstone Mortgage Corporation. All non-owner occupied home mortgage loans and all multifamily housing loans are made directly by the bank.

The bank’s lending market share also demonstrates excellent performance. The bank ranked 89th out of 576 lenders with a 0.2 percent market share in 2020 home mortgage loans by number of loans and 0.5 percent market share by dollar volume. The bank ranked 37th out of 181 lenders with a 0.3 percent market share by number of 2020 small business loans and 1.1 percent market share by dollar volume.

Assessment Area Concentration

WaterStone originated an adequate percentage of home mortgage and small business loans in the assessment area. The following table shows that the percentage of home mortgage loans within the assessment area is less than 50.0 percent due to several loans outside the assessment area that the bank purchased from its subsidiary, WaterStone Mortgage Corporation. Excluding the purchased loans, the percent by number of home mortgage loans originated within the assessment area is 50.6 percent in 2019 and 57.7 percent in 2020. A majority of the purchased loans are outside the assessment area, with 75.7 percent in 2019 and 83.3 percent in 2020 being outside the assessment area. Another factor affecting these percentages is the bank’s practice of making loans to real estate clients on large multifamily complexes. A significant number of these large dollar multifamily loans are outside the assessment area.

The bank originated a vast majority of small business loans within the assessment area, with over 90.0 percent both by number and dollar volume in both years reviewed. It warrants mentioning that of the 360 small business loans in the assessment area, 250 are PPP loans.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2019	142	44.5	177	55.5	319	89,763	43.6	115,979	56.4	205,742
2020	144	47.2	161	52.8	305	107,534	41.4	152,064	58.6	259,598
Subtotal	286	45.8	338	54.2	624	197,297	42.4	268,043	57.6	465,340

Small Business										
2019	120	95.2	6	4.8	126	26,194	94.6	1,506	5.4	27,700
2020	360	92.8	28	7.2	388	54,707	92.0	4,765	8.0	59,472
Subtotal	480	93.4	34	6.6	514	80,901	92.8	6,271	7.2	87,172
Total	766	67.3	372	32.7	1,138	278,198	50.4	274,314	49.6	552,512

Source: Bank Data
Due to rounding, totals may not equal 100.0%
Filler: Waterstone 2019 HMDA: Action Taken is Loan originated or Purchased loan.
Waterstone 2020 HMDA: Action Taken is Loan originated or Purchased loan.

Geographic Distribution

The geographic distribution of loans reflects excellent penetration throughout the assessment area. The bank's excellent performance in home mortgage loans and good performance in small business loans support this rating.

Home Mortgage Loans

The bank's performance in home mortgage loans is excellent. As shown in the following table, the bank's performance in low- and moderate-income census tracts significantly and consistently exceeds both aggregate data and demographic statistics in 2019 and 2020.

Geographic Distribution of Home Mortgage Loans							
Assessment Area: Milwaukee-Waukesha MSA							
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%	
Low							
2019	7.3	3.6	46	32.4	23,398	26.1	
2020	7.3	2.7	33	22.9	12,927	12.0	
Moderate							
2019	11.9	9.7	24	16.9	7,197	8.0	
2020	11.9	8.1	34	23.6	22,579	21.0	
Middle							
2019	36.2	35.5	44	31.0	48,627	54.2	
2020	36.2	34.1	45	31.3	49,599	46.1	
Upper							
2019	44.5	51.1	28	19.7	10,541	11.7	
2020	44.5	55.0	32	22.2	22,430	20.9	
Totals							
2019	100.0	100.0	142	100.0	89,763	100.0	
2020	100.0	100.0	144	100.0	107,534	100.0	

Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0%

Small Business Loans

The bank's small business lending performance is good. As shown in the following table, the bank's performance in the low- and moderate-income census tracts is comparable with aggregate data in 2019 and 2020 and below demographic data in both years.

Geographic Distribution of Small Business Loans						
Assessment Area: Milwaukee-Waukesha MSA						
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	10.9	8.1	9	7.5	1,434	5.5
2020	10.9	9.3	23	6.4	3,897	7.1
Moderate						
2019	11.9	10.3	13	10.8	1,231	4.7
2020	11.8	10.7	40	11.1	5,087	9.3
Middle						
2019	35.0	33.9	46	38.3	8,187	31.3
2020	34.8	32.9	125	34.7	22,508	41.1
Upper						
2019	42.2	47.6	52	43.3	15,342	58.6
2020	42.4	47.0	172	47.8	23,215	42.4
Totals						
2019	100.0	100.0	120	100.0	26,194	100.0
2020	100.0	100.0	360	100.0	54,707	100.0

*Source: 2019 & 2020 D&B Data; Bank Data; 2019 & 2020 CRA Aggregate Data.
Due to rounding, totals may not equal 100.0%*

Borrower Profile

The bank's distribution of loans to borrowers reflects, given the product lines offered by the institution, adequate penetration among borrowers of different income levels and businesses of different sizes. Specifically, the bank's home mortgage loan performance to borrowers of different income levels is adequate, and the bank's small business loan performance to business customers of different sizes is also adequate. Due to the low volume of home mortgage loans with reported income information, examiners placed more weight on the bank's small business lending for this criterion.

Home Mortgage Loans

The bank's performance in home mortgage loans is adequate. Financial institutions do not collect income information on multifamily loans, purchased loans from the bank's subsidiary, or for corporations, partnerships, and other entities that are not a natural person. These types of loans make up the majority of the bank's home mortgage loans (77.5 percent in 2019 and 82.6 percent in

2020). The following table excludes loans with no reported income information from bank data and aggregate data.

The bank's performance in home mortgage loans to low-income borrowers is slightly below 2019 aggregate data and exceeds 2020 aggregate data. A low-income family with an income of \$41,900 or below would likely not qualify for a mortgage under conventional underwriting standards, especially considering the 2020 median sales price ranging from \$187,000 to \$337,500 depending upon the county within the assessment area. In addition, the percentage of low-income families includes 11.1 percent of families with incomes below the poverty level. For these reasons, the demand and opportunity for lending to low-income families are relatively limited. Little consideration is given to demographic data as a comparator for this income category, and more emphasis is given to aggregate data as a comparator.

The bank's performance to moderate-income borrowers is below aggregate and demographic data. Overall, the bank's performance in home mortgage loans to low- and moderate-income borrowers is adequate.

Distribution of Home Mortgage Loans by Borrower Income Level						
Assessment Area: Milwaukee-Waukesha MSA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	23.5	7.8	2	6.3	735	7.0
2020	23.5	5.6	2	8.0	79	0.9
Moderate						
2019	16.2	20.3	4	12.5	691	6.5
2020	16.2	19.6	3	12.0	509	6.1
Middle						
2019	19.4	25.4	1	3.1	140	1.3
2020	19.4	25.2	3	12.0	444	5.3
Upper						
2019	40.9	46.5	25	78.1	9,005	85.2
2020	40.9	49.6	17	68.0	7,344	87.7
Totals						
2019	100.0	100.0	32	100.0	10,571	100.0
2020	100.0	100.0	25	100.0	8,375	100.0

*Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0%.*

Small Business Loans

The bank's distribution of small business loans reflects adequate penetration of loans to businesses with revenues of \$1 million or less. As shown in the following table, performance is significantly

below demographic data, and slightly below aggregate data. Of the 170 loans in the table with Revenue Not Available for 2020, 166 of these loans are PPP loans made to help support small businesses during the pandemic. As part of the program, banks were not required to collect revenue information. If loans with unknown revenues are excluded, 57.9 percent of small business loans have revenues of \$1 million or less, which exceeds the most recent aggregate data of 38.1 percent and reflects an increasing trend in performance.

Distribution of Small Business Loans by Gross Annual Revenue Category						
Assessment Area: Milwaukee-Waukesha MSA						
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
<=\$1,000,000						
2019	80.7	47.9	46	38.3	8,431	32.2
2020	80.6	38.1	110	30.6	12,594	23.0
>\$1,000,000						
2019	8.3	--	74	61.7	17,763	67.8
2020	8.1	--	80	22.2	21,023	38.4
Revenue Not Available						
2019	11.0	--	0	0.0	0	0.0
2020	11.3	--	170	47.2	21,090	38.6
Totals						
2019	100.0	100.0	120	100.0	26,194	100.0
2020	100.0	100.0	360	100.0	54,707	100.0

Source: 2019 & 2020 D&B Data; Bank Data; 2019 & 2020 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0%

Examiners also compared the bank's performance with other banks evaluated in the Milwaukee-Waukesha MSA. The following table provides further support for the bank's adequate performance rating.

Comparison with Other Banks in the AA by Percentage of Gross Annual Revenues of \$1 million or less				
Bank Name	Assessment Area	2019	2020	Description of Performance in Public Evaluation
WaterStone Bank SSB	Milwaukee MSA	38.3	57.9	Adequate
Cornerstone Community Bank	Milwaukee MSA	-	44.4	Reasonable
Bank Five Nine	Milwaukee MSA	41.4	-	Adequate
Westbury Bank	Milwaukee MSA	26.5	-	Poor
First Business Bank	Milwaukee MSA	15.1	-	Very Poor

Sources: Bank data and CRA Public Evaluations.

Innovative and/or Flexible Lending Practices

WaterStone makes limited use of innovative and/or flexible lending practices in order to serve assessment area credit needs. The bank offers a low number of innovative or flexible loans products. The bank continued two flexible loan products from the prior evaluation, the Total Line of Credit (TLC) and the commercial programs through the SBA. In early 2019, the bank introduced a flexible microbusiness line of credit product.

WaterStone's lending focus is on non-owner occupied home mortgage and multifamily loans, while WaterStone Mortgage Corporation's lending focus is on owner occupied home mortgage loans that can be sold in the secondary market. The bank's subsidiary offers a variety of secondary market products, including those with down payment assistance programs. The bank has one home mortgage loan product that is considered flexible. The TLC is a type of home equity line of credit (HELOC) with an option to lock in a fixed rate on all or a portion of the line at any time. The remaining portion would continue to operate like a traditional HELOC. This product offers the security of a fixed rate option with fixed monthly payments for the life of the locked-in portion of the loan. The bank made 70 TLCs equaling \$5.7 million in 2019 and 15 TLCs equaling \$1.2 million in 2020. The bank discontinued this product in March 2020.

In addition to home mortgage loans, WaterStone has an equal focus on commercial lending. The bank offers SBA loans to better serve the needs of small business customers. These loans are offered to small businesses that typically would not qualify for conventional financing due to credit risk. The federal government guarantees portions of SBA loans, which lowers the financial institutions' credit risk. The bank made six SBA 504 loans totaling \$11.4 million since the prior evaluation. In addition, the bank participated in another SBA loan program to help businesses retain jobs and enable many businesses to survive the lockdowns. These loans were not secured but were fully guaranteed by the Federal government. If certain terms were met, the PPP loans were forgiven and business owners did not have to repay the funds. The bank made 279 SBA PPP loans totaling \$30.1 million in 2020 and 170 loans totaling \$14.5 million in 2021. The bank has shown responsiveness to community needs as this program was particularly impactful to the survival of many small businesses.

In January 2019, the bank introduced a microbusiness line of credit with more liberal credit and collateral requirements than other commercial loan offerings. This program offers a maximum credit line of up to \$50,000. The bank originated five microbusiness lines totaling \$130,000 in 2019 and two lines totaling \$27,000 in 2020.

Community Development Loans

WaterStone continues to be a leader in making community development loans. During the evaluation period, the bank originated 370 community development loans, totaling \$523.9 million. This equates to 23.7 percent of the bank's total assets, and 34.5 percent of total loans. Community development loans have increased substantially since the January 28, 2019 evaluation, when community development loans equaled 18.9 percent of total assets and 23.8 percent of total loans.

As presented in the following table, the majority of the community development loans are for affordable housing, determined by the rental rates for each property, by location. In addition, the

loans identified as economic development are all SBA 504 Program loans. These loans specifically provide long-term, fixed rate financing of up to \$5 million for major fixed assets that promote business growth and job creation.

Community Development Lending										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2019	111	125,946	-	-	2	4,282	-	-	113	130,228
2020	140	223,517	-	-	3	5,215	-	-	143	228,732
2021	113	163,046	-	-	1	1,903	-	-	114	164,949
Total	364	512,509	-	-	6	11,400	-	-	370	523,909

Source: Bank Data

The loans in the table above include 225 loans totaling \$267.4 million originated within the bank's assessment area, the remaining 145 loans totaling \$256.5 million were originated outside of the assessment area to entities that serve a broader statewide or regional area that includes the assessment area. As the bank has been responsive to the development needs within the assessment area, examiners include these loans outside of the assessment area as well.

Examiners compared WaterStone's performance with other Wisconsin banks evaluated under the Interagency Large Institution CRA Examination Procedures. The bank's performance exceeds the other banks' performance and supports the conclusion of excellent performance.

Bank / Date of CRA Evaluation	Community Development Loan Performance	Community Development Loans (# and \$)		% Total Assets	% Total Loans
WaterStone Bank SSB 1/10/2022	Excellent	370	523,909	23.7	34.5
River Valley Bank 4/15/2019 (now IncredibleBank)	Excellent	80	231,294	17.0	22.5
First Business Bank 1/21/2020	Adequate	76	80,327	3.9	4.7
Bank Five Nine 1/19/2021	Adequate	44	80,842	5.7	8.5

INVESTMENT TEST

The Investment Test is rated "Low Satisfactory." The bank's investment performance reflects adequate responsiveness to the credit needs of the assessment area. WaterStone demonstrated adequate performance under Investment and Grant Activity, Responsiveness to Credit and Community Development Needs, and Community Development Initiatives.

Investment and Grant Activity

The bank an adequate level of qualified community development investments and grants. During the evaluation period, WaterStone reported 125 qualifying investments equaling \$14.0 million. This equates to 7.8 percent of total securities, 3.7 percent of total equity capital, and 0.6 percent of total assets. This performance is an increase from the January 2019 evaluation, at which time

qualifying community investments totaled \$8.0 million and represented 4.0 percent of total securities, 2.1 percent of total equity capital, and 0.4 percent of total assets.

Qualified Investments										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	12	3,513	-	-	1	291	-	-	13	3,804
2019	6	2,983	31	243	2	3	4	34	43	3,263
2020	4	27	23	220	3	7	2	5	32	259
2021	8	6,496	26	154	1	1	2	5	37	6,656
Total	30	13,019	80	617	7	302	8	44	125	13,982

Source: Bank Data

Prior period community development investments remaining on the bank's books are comprised of mortgage-backed securities secured by home mortgage loans to low- and moderate-income borrowers and an investment in a CRA Qualified Investment Fund. In addition, the bank invested in five new mortgage-backed security funds totaling \$9.5 million during the evaluation period.

One notable example of the bank's donations is the combined contributions to the Hunger Task Force. Due in part to the increased need brought on by the pandemic, the bank donated \$182,000 to this charitable organization that provides assistance to food banks, a local farm that grows the food, and related advocacy programs throughout the Milwaukee area. A second notable donation is the combined \$56,000 provided during the evaluation period to an organization in Milwaukee dedicated to empowering families to move out of poverty by offering several core programs related to adult education, workforce development, and family engagement. A third mentionable donation is a combined donation of \$30,000 made throughout the evaluation period to a local veteran's organization that assists at-risk veterans with emergency relief, rehousing, benefits counseling, financial counseling, substance abuse assistance, mental health care, legal assistance, relationship counseling, employment counseling, job training, and job placement.

Examiners compared the bank's performance with other Wisconsin banks evaluated under the Investment Test using Interagency Large Institution CRA Examination Procedures. WaterStone's performance, based on the numbers, dollars, and ratios, is reflective of adequate performance.

Bank / Date of CRA Evaluation	Investment Performance	Qualified Investments # & \$(000s)		% Total Assets	% Total Equity Capital	% Total Securities
WaterStone Bank SSB 1/10/2022	Adequate	125	13,982	0.6	3.5	8.0
Bank Five Nine 1/19/2021	Excellent	176	14,529	1.0	9.9	10.0
River Valley Bank 4/15/2019 (now IncredibleBank)	Excellent	353	19,795	1.4	15.8	10.1
First Business Bank 1/21/2020	Adequate	60	9,812	0.5	4.4	4.7

Sources: Bank records and CRA Public Evaluations

Responsiveness to Credit and Community Development Needs

The bank exhibits adequate responsiveness to the credit and community development needs in the assessment area. Of the bank's qualifying investments, 93.1 percent by dollar amount are investments and donations for affordable housing, a critical need throughout the assessment area according to the community contacts. The investments in mortgage-backed securities provide liquidity to the lenders making these affordable housing loans, and enable them to make additional home loans to low- and moderate-income borrowers. The 4.4 percent of qualifying investments made to community service organizations are comprised of donations to various organizations that support and provide services for low- and moderate-income individuals. The 2.2 percent of qualifying investments for economic development are donations made to organizations in the assessment area that provide support to small businesses. It includes the one investment from the prior period in a CRA Qualified Investment Fund, a mutual fund allowing banks the opportunity to invest in a vehicle that targets community development capital in their local markets. This fund was specifically developed to help banks meet the requirements of CRA. The 0.3 percent of qualifying investments allocated to revitalization and stabilization include donations to organizations that assist neighborhoods and communities with the skills and credentials to compete successfully for quality income and wealth opportunities, and invest in businesses, housing and other community infrastructure to catalyze economic, health, safety and educational mobility for individuals and communities.

Community Development Initiatives

The bank occasionally uses innovative and/or complex investments to support community development initiatives. The investments for affordable housing and economic development are somewhat complex and consist of mortgage-backed securities and the CRA Qualified Investment Fund.

SERVICE TEST

The Service Test is rated "Low Satisfactory." The bank's service performance reflects adequate responsiveness to the credit needs of the assessment area. WaterStone demonstrated adequate performance under Accessibility of Delivery Systems, Reasonableness of Business Hours and Services, and Community Development Services. WaterStone demonstrated good performance under Changes in Branch Locations.

Accessibility of Delivery Systems

Delivery systems are reasonably accessible to essentially all portions of the assessment area. The bank has 14 full-service banking offices, including three branches opened since the prior evaluation. The bank also has one limited-service location that operates only as a drive-up location. The bank owns and operates an ATM at each office location, as well as at the corporate office and the WaterStone Mortgage Corporation office. The bank is also part of the ATM Access Network, which provides no-fee ATM usage on over 850 ATMs in Wisconsin and Minnesota.

As reflected in the following table, the bank does not have any branches or ATMs in low-income census tracts. Comparatively, 7.4 percent of other lenders' bank offices and 16.7 percent of the population are in low-income census tracts. The bank has one branch (7.1 percent) and one ATM (5.9 percent) in moderate-income census tracts, as compared to 9.9 percent of other lenders and 14.9 percent of the population. This distribution is reasonable.

Distribution of Bank Offices and ATMs and Changes in Branch Locations by Income Category of the Census Tract										
Census Tract Income Category	Bank Offices of Other Lenders		Population		Bank Offices		Bank ATMs		Changes in Branch Locations	
	#	%	#	%	#	%	#	%	Opened	Closed
Low	34	7.4	262,370	16.7	-	-	-	-	-	-
Moderate	45	9.9	233,178	14.9	1	7.1	1	5.9	-	-
Middle	192	42.1	529,621	33.7	6	42.9	7	41.2	3	-
Upper	185	40.6	544,837	34.7	7	50.0	9	52.9	-	-
Total	456	100.0	1,570,006	100.0	14	100.0	17	100.0	3	-

Sources: 2015 ACS, Bank records, and 2021 Peer Deposit Data

In addition to the brick and mortar offices and ATMs, the bank offers several alternative delivery systems. WaterStone offers debit cards, banking services through online platforms, and telebanking. The website provides information on products and services and allows consumers to open deposit accounts and apply for loan products. The platform is available via the internet via digital banking, as well as through mobile banking. The digital and mobile access allows customers access to balance information, transfers, person-2-person payments, bill pay, and loan payments. The mobile application also allows customers mobile check deposit access. Since the prior evaluation, the bank began offering mobile wallet access so the customer may link their debit cards with Google Pay, Apple Pay, and Samsung Pay. This service allows a customer to pay with their device, rather than having the actual debit card with them. In addition, for those without the app or internet access on their mobile device, the bank offers text banking to view account balances and view activity. The telebanking system is available 24 hours per day and provides account balance information; the ability to transfer funds between accounts at no charge; the ability to verify whether checks have cleared; and information on bank locations, hours, and services. The bank also offers internet cafés at each office location that customers are able to use for account access. The bank provides the aforementioned alternative services at no cost to the customer.

The bank offers a no-fee checking account, with a minimum of five point-of-sale debit card transactions, and a \$300 direct deposit per statement cycle. In addition, the bank offers low- or no-cost savings accounts, including a certificate of deposit called the Purpose Certificate of Deposit, which allows customers to save for 12 months for a specified purpose with a low \$100 deposit.

For business customers, the bank offers a variety of alternative services as well. These services include merchant services such as the ability to accept credit and debit card payments and merchant check capture, which allows the business to make check deposits remotely by scanning the checks. These services broaden payment acceptance and help reduce fraud and deposit errors.

The bank maintains a list of bilingual employees that are available to assist in translation. There are ten staff members, with eight bilingual in Spanish, one in Kurdish, and one in Albanian and Italian. In addition, the bank's ATMs support Spanish text.

Changes in Branch Locations

WaterStone's opening and closing of branches has not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies and/or to low- and moderate-income individuals. Since the prior evaluation, WaterStone opened three branches in middle-income census tracts in Milwaukee, Oak Creek, and West Allis, and closed the commercial loan production office in Maple Grove, Minnesota. Opening branches during the pandemic is particularly noteworthy as many other banks are closing branches.

Reasonableness of Business Hours and Services

Services, including business hours, do not vary in a way that inconveniences portions of the assessment area, particularly low- and moderate-income census tracts and/or individuals. Operating hours and services are consistent from branch-to-branch, and consistent with hours and services offered by other banks operating with the assessment area. All offices have standard hours of 9 a.m. to 5 p.m. on Monday through Friday, and Saturday hours of 9 a.m. to noon. Drive-up facilities have consistent hours of 8:30 a.m. to 5:30 p.m. on Monday through Friday, with Saturday hours from 8:30 a.m. to noon. Loan officers are present at each of the 14 branches. Business hours are convenient and comparable to other local financial institutions.

Community Development Services

WaterStone provides an adequate level of community development services. During the evaluation period, bank employees and senior management provided financial expertise or technical assistance to 49 community development-related organizations, which is a decrease from 66 at the prior evaluation. Bank directors, officers, and employees devoted 1,200 hours to these activities during the evaluation period, which reflects a decrease from 1,311 hours at the prior evaluation. The following tables illustrate the bank's community development services by year and purpose. All of these services meet the definition of community development and relate to the provision of financial services as required by the regulation.

Community Development Services By Number of Organizations					
	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
Activity Year	#	#	#	#	#
2019	5	13	4	3	25
2020	3	7	1	1	12
2021	3	5	3	1	12
Total	11	25	8	5	49

Source: Bank data

Community Development Services By Number of Hours					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	# Hours	# Hours	# Hours	# Hours	# Hours
2019	29.5	361.0	81.0	5.5	477.0
2020	45.0	273.0	44.5	9.0	371.5
2021	51.8	276.7	20.0	3.0	351.5
Total	126.3	910.7	145.5	17.5	1,200.0

Source: Bank data

Examples of notable qualifying community development services follow.

- Several employees serve as board and committee members for Jewish Family Services and their wholly owned subsidiary, JFS Housing, Inc. These organizations provide affordable housing for low- and moderate-income senior citizens and disabled individuals, as well as provide additional supportive services.
- An employee is a board member of Lotus Legal Clinic, a clinic that provides free legal services to low- and moderate-income individuals with a focus on victims of sexual violence and trafficking.
- An officer of the bank serves on the Loan Oversight Committee for the Lincoln Opportunity Fund, a Community Development Financial Institution owned by the Wisconsin Business Development Finance Corporation. The organization focuses on increasing economic opportunity and promoting community development investments for underserved populations and in distressed communities.
- An employee conducted mock interviews for clients of Employ Milwaukee. This organization assists unemployed and underemployed persons to connect with employers in the community to help find employment.

Examiners compared WaterStone's performance with other Wisconsin banks evaluated under the Interagency Large Institution CRA Examination Procedures. The review revealed support for the adequate performance conclusion.

Bank / Date of CRA Evaluation	Community Development Service Performance	# of Community Development Services	Total Hours Spent on Community Development Services / Average Hours Per Service
WaterStone Bank SSB 1/10/2022	Adequate	49	1,200 / 24.5
First Business Bank 1/21/2020	Excellent	186	5,679 / 30.5
River Valley Bank 1/15/2019 (now IncredibleBank)	Excellent	188	3,791 / 20.2
Bank Five Nine 1/19/2021	Excellent	372	2,379 / 6.4

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners reviewed the bank's compliance with the laws relating to discrimination and other illegal credit practices, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any discriminatory or other illegal credit practices.

APPENDICES

LARGE BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) through its lending activities by considering a bank's home mortgage, small business, small farm, and community development lending. If consumer lending constitutes a substantial majority of a bank's business, the FDIC will evaluate the bank's consumer lending in one or more of the following categories: motor vehicle, credit card, other secured, and other unsecured. The bank's lending performance is evaluated pursuant to the following criteria:

- 1) The number and amount of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, in the bank's assessment area;
- 2) The geographic distribution of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, based on the loan location, including:
 - i. The proportion of the bank's lending in the bank's assessment area(s);
 - ii. The dispersion of lending in the bank's assessment areas(s); and
 - iii. The number and amount of loans in low-, moderate-, middle- and upper-income geographies in the bank's assessment area(s);
- 3) The distribution, particularly in the bank's assessment area(s), of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, based on borrower characteristics, including the number and amount of:
 - i. Home mortgage loans low-, moderate-, middle- and upper-income individuals
 - ii. Small business and small farm loans to businesses and farms with gross annual revenues of \$1 million or less;
 - iii. Small business and small farm loans by loan amount at origination; and
 - iv. Consumer loans, if applicable, to low-, moderate-, middle- and upper-income individuals;
- 4) The bank's community development lending, including the number and amount of community development loans, and their complexity and innovativeness; and
- 5) The bank's use of innovative or flexible lending practices in a safe and sound manner to address the credit needs of low- and moderate-income individuals or geographies.

Investment Test

The Investment Test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) through qualified investments that benefit its assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s). Activities considered under the Lending or Service Test may not be considered under the investment test. The bank's investment performance is evaluated pursuant to the following criteria:

- 1) The dollar amount of qualified investments;
- 2) The innovativeness or complexity of qualified investments;
- 3) The responsiveness of qualified investments to available opportunities; and
- 4) The degree to which qualified investments are not routinely provided by private investors.

Service Test

The Service Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the bank's systems for delivering retail banking services and the extent and innovativeness of its community development services.

The bank's retail banking services are evaluated pursuant to the following criteria:

- 1) The current distribution of the bank's branches among low-, moderate-, middle-, and upper-income geographies;
- 2) In the context of its current distribution of the bank's branches, the bank's record of opening and closing branches, particularly branches located in low- or moderate-income geographies or primarily serving low- or moderate-income individuals;
- 3) The availability and effectiveness of alternative systems for delivering retail banking services (*e.g.*, RSFs, RSFs not owned or operated by or exclusively for the bank, banking by telephone or computer, loan production offices, and bank-at-work or bank-by-mail programs) in low- and moderate-income geographies and to low- and moderate-income individuals; and
- 4) The range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

The bank's community development services are evaluated pursuant to the following criteria:

- 1) The extent to which the bank provides community development services; and
- 2) The innovativeness and responsiveness of community development services.

GLOSSARY

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

American Community Survey (ACS): A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

Community Development: For loans, investments, and services to qualify as community development activities, their primary purpose must:

- (1) Support affordable housing for low- and moderate-income individuals;
- (2) Target community services toward low- and moderate-income individuals;
- (3) Promote economic development by financing small businesses or farms; or
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies.

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Bank CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Community Development Loan: A loan that:

- (1) Has as its primary purpose community development; and
- (2) Except in the case of a wholesale or limited purpose bank:
 - (i) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
 - (ii) Benefits the bank's assessment area(s) or a broader statewide or regional area including the bank's assessment area(s).

Community Development Service: A service that:

- (1) Has as its primary purpose community development;
- (2) Is related to the provision of financial services; and
- (3) Has not been considered in the evaluation of the bank's retail banking services under § 345.24(d).

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

Distressed Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or
- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into "male householder" (a family with a male householder and no wife present) or "female householder" (a family with a female householder and no husband present).

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

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 statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area.

Performance under applicable tests is often analyzed using only quantitative factors (e.g., geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Low Income Housing Tax Credit: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Micropolitan Statistical Area: CBSA associated with at least one urbanized area having a population of at least 10,000, but less than 50,000.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area (also known as non-MSA): All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

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

Rated Area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Investment Company (SBIC): SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

Small Business Loan: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Underserved Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area’s population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

Upper-Income: Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

“Urban” excludes the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.