



PUBLIC DISCLOSURE

February 10, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Walkkill Valley FS & LA
Charter Number 702528

23 Walkkill Avenue
Walkkill, NY 12589-3103

Office of the Comptroller of the Currency

343 Thornall Street
Suite 610
Edison, NJ 08837

NOTE: 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.

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

The overall rating is based on the following factors:

- The bank's average net loan-to-deposit ratio is more than reasonable.
- The bank originates a substantial majority of its primary lending product within its assessment area.
- The bank's record of lending to borrowers of different incomes demonstrates excellent penetration.
- Geographic distribution of loans throughout census tracts of different income levels reflects reasonable dispersion.
- The bank had no consumer complaints regarding its community reinvestment performance.

SCOPE OF EXAMINATION

This Performance Evaluation is an assessment of Wallkill Valley Federal Savings and Loan's ("WVSL") ability to meet the credit needs of the communities in which it operates. The bank was evaluated using the small bank performance criteria. Conclusions regarding the bank's lending performance are based on the bank's primary lending product, residential real estate loans, originated January 1, 2011 through December 31, 2013. We evaluated residential real estate loans from January 1, 2011 through December 31, 2011 separately from loans originated in January 1, 2012 through December 31, 2013. Loan originations from 2011 were evaluated based on 2000 Census data, and originations from January 1, 2012 through December 31, 2013 were evaluated based on 2010 Census data. We conducted a data integrity review of HMDA data, and found the data to be reliable. Our sample included reviewing 30 loans from 2011, 35 loans from 2012, and 33 loans from 2013. We included all loans originated during our evaluation period in our loan sample.

DESCRIPTION OF INSTITUTION

WVSL is a \$168 million intrastate savings association headquartered in Wallkill, NY, and founded in 1913. The institution primarily services Ulster and Orange Counties. WVSL has three full service branches located in Wallkill, Milton, and Highland Falls. Since the prior CRA examination, WVSL opened the Milton and Highland Falls branches.

As of December 31, 2013, WVSL had \$131 million in net loans and \$127 million in total deposits. Net loans represented 78.4 percent of total assets. The primary lending product is residential real estate loans, representing 74.9 percent of the loan portfolio. Additionally, WVSL has commercial real estate loans equal to 18.3 percent of the loan portfolio, multifamily loans equal to 4.8 percent of the loan portfolio, and commercial and industrial loans equal to 2.0 percent of the loan portfolio. Net loans have increased approximately \$37 million since December 31, 2007.

There are no financial or legal factors preventing the bank from helping to meet the credit needs of its assessment area. The previous Performance Evaluation was issued on March 17, 2008, and the overall CRA rating assigned was Outstanding.

DESCRIPTION OF ASSESSMENT AREA(S)

WVSL's assessment area meets regulatory requirements and does not exclude low or moderate-income geographies where the bank conducts business. The assessment area consists of two contiguous counties, Ulster and Orange. The assessment area expanded within the prior three years, to capture the growth through the Milton branch opening in 2011 and the Highland Falls branch opening in 2012, and further penetration into the counties.

Based on 2000 Census data, the bank's assessment area included 116 census tracts. The assessment area included five low-income, 21 moderate-income, 70 middle-income, and 20 upper-income tracts. The majority, 73 percent, of low and moderate-income tracts were located in Orange County. The total population of the assessment area was 519,116, with 177,745 and 341,367 persons in Ulster and Orange Counties, respectively. The weighted average of median family income was \$52,019 and \$61,313 for Ulster and Orange Counties, respectively. Approximately 10 percent of households in the assessment area were below the poverty level.

Based on 2010 Census data, the bank's assessment area includes 93 census tracts. The assessment area includes two low-income, 15 moderate-income, 59 middle-income, and 17 upper-income tracts. Orange County comprises the same majority of low and moderate-income tracts as in the prior Census. The total population increased by 6.9 percent to 555,306, with 182,493 and 372,813 persons in Ulster and Orange Counties, respectively. The weighted average of median family income was \$72,040 and \$84,872 for Ulster and Orange Counties, respectively. Approximately 9 percent of households in the assessment area were below the poverty level.

The population of the assessment area increased between Censuses, as the area is further used as a commuting hub for persons employed in New York City. According to our community contact, the area is still economically depressed from the 2008 Financial Crisis, but is rebounding. There are increased efforts to court emerging businesses to the area, such as tax abatements and other incentives to bring jobs to the area. Housing stock continues to be depressed, and this effects tax levies, which are

projected to decline through 2015. Pockets of poverty mainly exist in Newburgh, within Orange County.

Much of the employment in the local area stems from the service industry. Educational, health care, and social assistance positions composed approximately 27 percent of jobs. According to our community contact, retail is a large industry in the area, as the proximity to Woodbury Commons provides many opportunities. The unemployment rate is 5.8 and 5.1 percent for Ulster and Orange Counties, respectively. These rates compare similarly to New York State's 5.6 percent rate.

Much competition exists in the assessment area among financial institutions. WVSL ranks 17th out of 28 banks in the assessment area with a deposit market share of 1.24 percent. Major competitors consist of large interstate banks such as JPMorgan Chase, KeyBank, and Wells Fargo, which hold the top three positions in local deposit market share.

The community is well served financially, as there are aggressive banking efforts within the area. A heavy presence of national, local, and state banks exists in the two counties. According to our community contact, financial institutions are well respected in the area and meet community credit needs. There are several local banks with long histories of community presence. They are present at the majority of charitable and nonprofit events and are intertwined within the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The evaluation period covered lending activities for residential real estate loans from January 1, 2011 through December 31, 2013. Loan data from 2011 was analyzed against the 2000 Census data, and loan data from 2012-2013 was analyzed against the 2010 Census data. We compiled separate data tables to evaluate the institution's CRA performance against the appropriate Census data.

Loan-to-Deposit Ratio

The net loan-to-deposit ratio is more than reasonable given the size of the institution, its financial condition, and the assessment area's credit needs. The bank's quarterly average net loan-to-deposit ratio over the 22 quarters since the previous CRA examination in March 2008 is 103.62 percent. The average net loan-to-deposit ratio is consistent with the prior CRA examination ratio of 101.1 percent. During the 22 quarters since the previous CRA examination, the highest ratio was 109.65 percent as of September 30, 2011, and the lowest was 95.14 percent as of September 30, 2012. WVSL's loan-to-deposit ratio reflects active participation in mortgage originations during the review period.

WVSL's average net loan-to-deposit ratio is above the peer group's average ratio of 73.45 percent. Average net loan to deposit ratios for the peer group range from 21.11 percent to 98.35 percent. The local peer group consists of five banks that all operate

within Orange und Ulster counties. The asset sizes of these institutions range from \$148 million to \$442 million. Given that the primary lending product for WVSL is residential real estate, the loan-to-deposit ratio performance is more than reasonable for the size of the institution.

Lending in Assessment Area

The bank originated a substantial majority of loans inside the bank’s assessment area, which meets the standard for outstanding performance. Management originated 80.87 percent of HMDA-reportable loans (home purchase, refinance, and home improvement) within the assessment area between 2011 and 2013. This concentration demonstrates management’s commitment to serving the credit needs of its assessment area. *Please refer to Table 1 below for additional detail.*

Table 1 – Residential Lending in the Assessment Area HMDA-Reportable Loans: 2011 – 2013 (Dollars in thousands)										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total Loans	Inside		Outside		Total Loans
	#	%	#	%		\$	%	\$	%	
Home Purchase	114	83.82	22	16.18	136	22,632	84.46	4,164	15.54	26,796
Home Improvement	50	96.15	2	3.85	52	4,110	95.78	181	4.22	4,291
Refinance	132	74.16	46	25.84	178	27,793	77.03	8,289	22.97	36,082
Totals	296	80.87	70	19.12	366	54,535	81.19	12,634	18.81	67,169

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Over the evaluation period, management’s performance on lending to borrowers with different incomes exceeds standards and demonstrates excellent penetration. In all three primary loan products (home purchase, home improvement, and refinance), qualitative factors, notably competition in the assessment area, offset quantitative performance. We placed less emphasis on Home Improvement loans, as these are not a primary lending product for the institution.

In reviewing the 2000 Census data, the level of residential real estate loans that were originated in 2011 are close to the percentage of low and moderate income families in the assessment area. As shown in Table 2, the bank has significantly outperformed the peer group in lending to low income families for purchases and refinances. The bank was lower than the peer group for lending to moderate income families; however, the percentage of their lending to moderate-income families was close to the percentage of moderate-income families in the assessment area. By definition, low-income families in Ulster County are families with annual incomes below \$36,450 and moderate-income families are families with annual incomes between \$36,450 and \$58,320. Low-income families in Orange County are families with annual incomes below \$43,050 and moderate-income families are families with annual incomes between \$43,050 and \$68,880.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Assessment Area - 2011												
Borrower Income Level	Low			Moderate			Middle			Upper		
Loan Type	% of AA Families	% of Number of Loans	% of Aggregate (or Peers)	% of AA Families	% of Number of Loans	% of Aggregate (or Peers)	% of AA Families	% of Number of Loans	% of Aggregate (or Peers)	% of AA Families	% of Number of Loans	% of Aggregate (or Peers)
Purchase	20.21	18.18	6.09	18.19	18.18	24.28	23.96	9.09	33.41	37.64	50	36.21
Refinance	20.21	13.42	4.56	18.19	26.83	16.36	23.96	17.93	29.28	37.64	41.82	49.8
Improvement	20.21	16.67	8.61	18.19	16.67	19.79	23.96	16.67	27.06	37.64	50	44.53

In reviewing the 2010 Census data, the level of residential real estate loans that were originated in 2012 and 2013 is lower than the percentage of low-income families in the area, and is relatively close to the percentage for moderate-income families. As shown in Table 3 below, the bank is in line with peers for low-income families, and slightly below peers for moderate-income families. By definition, low-income families in Ulster County are families with annual incomes below \$34,900 and moderate-income families are families with annual incomes between \$34,900 and \$55,840. Low-income families in Orange County are families with annual incomes below \$42,900 and moderate-income families are families with annual incomes between \$42,900 and \$68,640.

Table 3 - Borrower Distribution of Residential Real Estate Loans in Assessment Area - 2012-2013												
Borrower Income Level	Low			Moderate			Middle			Upper		
Loan Type	% of AA Families	% of Number of Loans	% of Aggregate (or Peers)	% of AA Families	% of Number of Loans	% of Aggregate (or Peers)	% of AA Families	% of Number of Loans	% of Aggregate (or Peers)	% of AA Families	% of Number of Loans	% of Aggregate (or Peers)
Purchase	18.88	6.53	6.1	18.18	15.32	24.33	22.74	28.15	31.9	40.19	50	37.68
Refinance	18.88	0	5.91	18.18	18.18	16.09	22.74	24.24	30.12	40.19	57.58	47.88
Improvement	18.88	8.33	11.63	18.18	8.33	25.12	22.74	37.5	25.76	40.19	45.83	37.49

There is strong competition for mortgage loans with other lenders in the assessment area. In the Orange County market area, WVSL faces competition from large banks, regional banks, credit unions, and mortgage banks, as WVSL holds a 0.36 percent market share in home purchase loans, a 2.58 percent market share in home improvement loans, and a 0.26 percent market share in refinance loans. In Ulster County, WVSL faces competition primarily from credit unions and other community banks and thrifts, as WVSL holds a 1.69 percent market share in home purchase loans, a 4.06 percent market share in home improvement loans, and a 0.81 percent market share in refinance loans. The strong competition, in addition to the low market share, makes it difficult for the bank to meet the percentages of low and moderate-income families in the assessment area.

When aggregating 2011 and 2012-2013 data, WVSL exceeds peer performance in primary lending products for both low and moderate-income families. Coupled with the aforementioned competition and market conditions, this performance is indicative of excellent penetration.

Geographic Distribution of Loans

We reviewed the distribution of originations across geographic areas with different income levels within WVSL’s assessment area. Table 4 and 5 illustrate the originations within the 2011 and 2012-2013 periods respectively:

Table 4 - Geographic Distribution of Residential Real Estate Loans in Assessment Area - 2011												
Census Tract Income Level	Low			Moderate			Middle			Upper		
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of Aggregate (or Peers)	% of AA Owner Occupied Housing	% of Number of Loans	% of Aggregate (or Peers)	% of AA Owner Occupied Housing	% of Number of Loans	% of Aggregate (or Peers)	% of AA Owner Occupied Housing	% of Number of Loans	% of Aggregate (or Peers)
Purchase	1.56	0	2.2	9.7	0	13.3	68.42	68.18	64.32	20.32	31.82	20.17
Refinance	1.56	1.47	0.99	9.7	2.94	5.59	68.42	54.41	66.6	20.32	41.18	26.83
Improvement	1.56	0	0.86	9.7	0	8.42	68.42	66.67	68.49	20.32	33.33	22.23

Table 5 - Geographic Distribution of Residential Real Estate Loans in Assessment Area - 2012-2013												
Census Tract Income Level	Low			Moderate			Middle			Upper		
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of Aggregate (or Peers)	% of AA Owner Occupied Housing	% of Number of Loans	% of Aggregate (or Peers)	% of AA Owner Occupied Housing	% of Number of Loans	% of Aggregate (or Peers)	% of AA Owner Occupied Housing	% of Number of Loans	% of Aggregate (or Peers)
Purchase	0.91	4.26	0.61	9.92	0	8.22	67.22	78.72	67.16	21.95	17.02	24.01
Refinance	0.91	0	0.34	9.92	0	7.05	67.22	66.67	66.22	21.95	33.33	26.39
Improvement	0.91	0	0	9.92	0	8.23	67.22	83.33	66.86	21.95	16.67	24.91

Low-income geographies represent 2.08 percent of the assessment area. Moderate-income geographies account for 16.67 percent of the assessment area. Middle-income and upper-income geographies account for 62.5 and 18.75 percent of the assessment area, respectively. Due to the low levels of low and moderate-income geographies within the assessment area, less credence is placed on this lending test.

The bank’s lending patterns show a reasonable geographic distribution of loans. While the aggregate lending activity of the bank is lower than the income distribution among the tracts, the lending to low-income tracts within home purchase loans, a primary loan type, is at 4.26 percent compared to the 0.91 percent of owner-occupied units in a low-income tract within the assessment area. This exceeds the standard for home purchase loans.

Responses to Complaints

During the review period, the institution received no complaints.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a National Bank's (Bank) or Federal Savings Association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.