



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

October 29, 2012

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Walden Savings Bank  
Charter Number 718043

15 Scott's Corner Drive  
Montgomery, NY 12549

Office of the Comptroller of the Currency

340 Madison Avenue, 4th Floor  
New York, NY 10017-2613

**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 Satisfactory.**

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

The major factors supporting the institution's rating include:

- The bank's loan to deposit ratio is outstanding when compared to similarly situated banks and the fact that the bank's routine sale of home mortgage loans to the secondary market;
- A substantial majority of the bank's loans originated during the evaluation period were within the bank's assessment area (AA);
- The geographic distribution of loans reflects an overall reasonable dispersion and satisfactory performance;
- The borrower distribution reflects an overall reasonable penetration and satisfactory performance; and
- The bank's community development activities demonstrate an overall adequate responsiveness to the community development needs of its AA.

## **Scope of Examination**

Walden Savings Bank (WSB) was evaluated under the Intermediate Small Bank examination procedures, which include a lending test and a community development (CD) test. The lending test evaluates the institutions record of meeting the credit needs of its AA through its lending activities. The CD test evaluates the institution's responsiveness to CD needs in its AA through CD lending, qualified investments, and CD services.

CRA activities at WSB were completed using full-scope review procedures for its AA. Our review covered the bank's performance from January 1, 2009 through December 30, 2011. Residential mortgage loans were determined to be the bank's primary loan product and were reviewed as part of this examination.

## **Description of Institution**

Established in 1872, Walden Savings Bank is a federally chartered mutual savings bank. WSB is headquartered in the town of Montgomery, New York. The bank operates as a community-oriented financial institution offering residential, multi-family and commercial mortgages, consumer loans, and commercial business loans, as well as a range of deposit products for individuals and businesses. The bank offers

investment services through a partnership with Cetera Investment Services and conducts insurance brokerage activities through Exchange Underwriters, Inc.

In addition to its headquarters, the bank maintains 11 full service branches in southeastern New York (Walden, Washingtonville, Montgomery, Cornwall-on-Hudson, Pine Bush, New Windsor, Gardiner, Scotts Corners, Circleville, Middlehope and Florida). With the exception of the Gardiner branch, which is located in Ulster County, all of the bank’s branches are located in Orange County. WSB opened a new office in Florida, NY in November of 2010, but has not closed a branch office within this review period. For lending purposes, the Bank's primary market area covers Orange County, and extends into parts of Ulster and Sullivan Counties, which border Orange.

As of June 30, 2012, Walden Savings Bank had \$429.8 million in assets, \$386.1 million in deposits and total equity of \$37.3 million or 8.68% of total assets. Walden Savings Bank is a community-oriented thrift, with a primary strategic objective of meeting the borrowing and deposit needs of its local customer base. Historically, the bank’s operating strategy has been reflective of a traditional thrift in which 1-4 family residential mortgage loans and retail deposits constitute the principal components of the Bank’s assets and liabilities, respectively. Most of the first lien home mortgage loans are sold in the secondary market. In the time period for this review, the bank sold, in the secondary market, \$72.4 million. This time period was 1Q 2009 through 4Q 2011. Lending diversification by the Bank includes construction, multi-family, vacant land, commercial real estate, consumer loans and commercial business loans.

<b>Table 1 – WSB Offices</b>		
	<b>Office Location</b>	<b>Geography Income Level</b>
1	Walden, NY	Middle
2	Washingtonville, NY	<b>Upper</b>
3	Montgomery, NY (Clinton St)	Middle
4	Cornwall on Hudson, NY	Middle
5	Pine Bush, NY	Middle
6	Gardiner, NY	<b>Upper</b>
7	New Windsor, NY	<b>Moderate</b>
8	Montgomery, NY (Scott’s Corner/HQ)	Middle
10	Circleville, NY	<b>Upper</b>
11	Newburgh, NY	Middle
12	Florida, NY	Middle

The institution is primarily a portfolio lender. The bank’s mortgage products include fixed-rate and ARM (adjustable rate mortgage) loans for the purchase, refinance and construction of one- to four-family and multi-family dwellings. Consumer loan offerings consist of home equity loans and lines of credit and personal secured and unsecured loans. Commercial loans secured by real estate and other collateral and lines of credit

are offered to businesses. **Table 2** below shows the distribution of loans by lending category.

<b>Table 2 - WSB's Investment in Loans (6/30/2012 Call Report)</b>			
<b>Loan Category</b>	<b>Amount (\$000's)</b>	<b>Percent of Total Loans</b>	<b>Percent of Total Assets</b>
Secured 1-4 family residences	\$176,590	55.73%	41.09%
Non-farm, non-residential	87,667	27.67%	20.40%
Construction & Land development	14,792	4.67%	3.44%
Commercial & Industrial & Agricultural	29,297	9.25%	6.82%
OD checking & other consumer	2,445	0.77%	0.57%
Other & Multi-family	6,085	1.92%	1.42%
Total	\$316,876	100.00%	73.73%

According to the June 30, 2012 FDIC Summary of Deposits Market Share Report, WSB was ranked 11th out of 29 institutions in their AA with 4.20% of deposits. KeyBank is ranked first with 20 offices and 14.74% of the deposits. Other financial institutions include JPMorgan Chase with 23 offices and 9.33% of the deposits, Wells Fargo with 3 offices and 9.22% of the deposits, TD Bank with 12 offices and 8.65% of the deposits, and Provident Bank with 14 offices and 7.79% of the deposits.

There are no legal or financial factors impeding the bank's ability to help meet the credit needs in its AA. At the prior CRA examination dated October 20, 2008, WSB was rated "Satisfactory."

## Description of WSB Assessment Area

Table 3--Demographic Information for Full Scope Area: WSB AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	114	4.39	18.42	59.65	17.54	0.00
Population by Geography	521,019	5.95	13.89	61.70	18.46	0.00
Owner-Occupied Housing by Geography	121,831	1.58	9.69	66.31	22.42	0.00
Business by Geography	51,020	5.57	12.41	62.87	19.15	0.00
Farms by Geography	1,615	0.56	5.08	64.21	30.15	0.00
Family Distribution by Income Level	129,103	20.45	17.95	23.58	38.02	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	49,575	9.58	20.06	58.02	12.34	0.00
Median Family Income		47,057	Median Housing Value	129,555		
HUD Adjusted Median Family Income for 2011		64,230	Unemployment Rate**	8.2%/8.6%		
Households Below Poverty Level		10%	Orange Co, Ulster Co			
			Sept 2012			

(\* ) The NA category consists of geographies that have not been assigned an income classification.  
 Source: 2000 US Census and 2011 HUD updated MFI (\*\* ) Sept. 2012 US Bureau of Labor Statistics.

Walden’s AA consists of Orange County and the southern portion of Ulster County, NY. Orange County is located in the Poughkeepsie-Newburgh-Middletown, NY Metropolitan Statistical Area (MSA) #39100 (Poughkeepsie MSA) and Ulster County is in the Kingston, NY MSA #28740. The AA contains 114 tracts. Table 3 illustrates demographic data on population, families, and housing units within the AA. The total population in the AA was 521,019 as of the 2000 U.S. Census. The average unemployment rate of the combined counties in the AA as of September 2012 was 8.4%. This average was higher than the state of NY rate at 8.2%, and is also higher than the national average at 7.8% for the same time period.

Major employers in the AA include the active US military at West Point and the 105<sup>th</sup> Airlift Wing of the Air National Guard, healthcare and social service organizations within Orange County and Education organizations in the same area. Orange County is the second-fastest-growing county in New York State, and has been the 12th most populated County in New York State since 1990. Its location within 60 miles of New York City and major employment centers in northern New Jersey, together with its access to three major interstates and Stewart International Airport contribute to a strong and diverse commuter base and an increasingly urbanized landscape.

The median cost of housing in the AA is \$129,555. The Updated Median Family Income for 2011 is \$64,230. The percentage of households below the poverty level is 10%. The AA's population is comprised of 129,103 families with the following family income distribution: 20.45% are low-income, 17.95% are moderate-income, 23.58% are middle-income, and 38.02% are upper-income.

In 2010, 265 lenders originated Home Mortgage Disclosure Act (HMDA) loans in the AA, according to the HMDA Peer Mortgage Data. WSB was ranked 11<sup>th</sup> out of 25, with a market share of 1.84%. Competition in the AA was strong with Wells Fargo, Bank of America and a Credit Union (Hudson Valley FCU) ranking as the top three lenders with market shares of 14.22%, 10.37%, and 6.43% respectively. Other competitors consisted of large national banks and mortgage companies, large regional banks, and mortgage brokers with nationwide sources of funding.

We completed one community contact as part of this Intermediate Small Bank CRA Examination. We contacted the economic development office of the primary county within the bank's AA. The organization's mission is to be the economic development tool for doing business in Orange County. The office provides "one stop shopping" assistance for the business community looking for state or federal incentive programs that would assist in the startup, expansion or the retaining of the business for Orange County. Funding is both public and private.

Small business development activity has slowed considerably since the economic turndown of 2008 and continues through fiscal year 2012. There isn't any capital available to small businesses for startup ventures or for expansion of current businesses; identified as a credit need by the community contact.

Residential mortgage activity has seen a slight uptick in recent months. The uptick was recognized in new homes built and home sales activity within the county. The county recognizes that this is a buyer's market.

The community contact then shared that bank credit is more difficult to obtain due to tighter criteria for obtaining a loan. However, the community contact feels that the local banks in Orange County are playing a larger role in business and residential lending than their national or regional competitors.

## **Conclusions with Respect to Performance Criteria**

### **Lending Test**

WSB's performance under the lending test is Satisfactory. WSB's loan-to-deposit ratio 87.74% is Satisfactory. A majority of WSB's home mortgage loans were originated 87.09% within the AA. WSB's record of lending to borrowers of different incomes meets the standard for reasonable performance and is considered satisfactory. The geographic distribution of loans in the AA meets the standard for reasonable performance and is also considered satisfactory.

### **Loan-to-Deposit Ratio**

WSB's loan-to-deposit ratio is outstanding. The bank's loan-to-deposit ratio is more than reasonable for satisfactory performance. The bank's average loan-to-deposit ratio for the prior seventeen quarters is 87.74%. This ratio exceeds the 75.93% average loan-to-deposit ratio for similarly situated banks during the same time period. WSB is also an originator and seller of home mortgage loans. The bank sold \$72.4 million of home mortgage loans to the secondary market during the evaluation period, which if retained would have further increased the loan-to-deposit ratio.

### **Lending in Assessment Area**

WSB's lending in their AA is outstanding. A substantial majority of the home mortgage loans originated during the evaluation period were inside the AA. WSB exceeds the standard for satisfactory performance for lending in the AA. An analysis of the loan sample data disclosed that 87.09% of these loans were originated in the AA.

### **Lending to Borrowers of Different Incomes**

WSB's lending to borrowers of different incomes meets the standard for satisfactory performance. Borrower distribution reflects reasonable penetration among residential real estate loans. Ten percent (10%) of the households in this AA live below the poverty level, which accounts for 71% of the total of low-income households. These low-income families may not meet the credit criteria for home ownership, and thus, would not require or need home improvement loans or refinancing options. Also, 32% of the housing units in the AA are rental units with only 7% percent of the rental units being vacant. This provides more competition among landlords resulting in lower rental costs for tenants, which could possibly abate a desire for home ownership among low-income families.

The level of all home purchase mortgage loans originated to low-income borrowers is significantly lower than the percentage of low-income families in the AA. However, when considering the affordability of housing in the AA, this performance is reasonable. The median cost of housing in the AA is \$129,555, based on 2000 census data. The HUD updated median family income for 2011 is \$64,230. This means that a low-income person earns less than \$32,000. Households below the poverty level are at 10%. Based on these statistics, it would be difficult for a low-income individual to purchase housing in the AA. Also, in 2011, of the 265 lenders in the AA, WSB was ranked 11th, with a market share of 1.84%. The level of home mortgage loans originated to moderate-income borrowers is near the percentage of moderate-income families in the AA. This performance is reasonable.

The level of home improvement loans to low-income borrowers is significantly lower than the percentage of low-income families in the AA. This is mitigated by the fact that competition is strong within the AA. Two of the top three lenders are large national banks with market shares of 14.22% and 10.37% respectively. When considering competition, this bank's performance is reasonable, being just outside the top ten. The

level of home improvement loans to moderate-income borrowers is somewhat lower than the percentage of moderate-income families in the AA. This performance is reasonable.

The level of home mortgage refinance loans made to low-income borrowers is significantly lower than the percentage of low-income families in the AA. The level of home mortgage refinance loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the AA. This overall home mortgage refinance performance is reasonable when considering the strong competition with large banks garnering top market share within the lending area.

<b>Table 4 - Borrower Distribution of Residential Real Estate Loans in AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	20.45	6.71	17.95	16.11	23.58	22.82	38.02	54.36
Home Improvement	20.45	6.90	17.95	13.79	23.58	31.03	38.02	48.28
Home Mortgage Refinance	20.45	5.88	17.95	25.74	23.58	28.68	38.02	39.71

Source: 2009-2011 HMDA LAR.

### **Geographic Distribution of Loans**

WSB’s geographic distribution of loans meets the standard for satisfactory performance. The geographic distribution reflects reasonable dispersion in comparison to the geographical distribution of residential mortgage loans within the AA. Our review did not detect any conspicuous or unexplained gaps in the bank’s lending patterns.

### **Geographic Distribution of Residential Real Estate Loans**

The distribution of home purchase loans to low-income geographies exceeds the percentage of low-income families and reflects an excellent dispersion while the distribution of moderate-income geographies is somewhat lower than the percentage of moderate-income families and reflects a reasonable dispersion.

There were no home improvement loans made within the low-income geographies. The distribution of home improvement loans to moderate-income geographies is somewhat lower than the percentage of moderate-income families and reflects a reasonable dispersion.

There were no home refinance loans made within the low-income geographies. The distribution of home improvement loans to moderate-income geographies is somewhat lower than the percentage of moderate-income families and reflects a reasonable dispersion.

The bank’s percentage of home improvement loans (6.45%) and home mortgage refinance loans (6.85%) made in the moderate-income geographies in this AA all exceeded the bank’s market share of 1.84% for this AA. Since the bank’s performance in the moderate-income tracts exceeds its market share, it is deemed to be reasonable.

<b>Table 5 - Geographic Distribution of Residential Real Estate Loans in AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	1.58	2.99	9.69	7.19	66.31	64.67	22.42	25.15
Home Improvement	1.58	0.00	9.69	6.45	66.31	74.19	22.42	19.35
Home Mortgage Refinance	1.58	0.00	9.69	6.85	66.31	76.03	22.42	17.12

Source: 2009-2011 HMDA LAR.

### **Community Development Test**

The bank’s performance under the community development test is rated Satisfactory. WSB’s community development activities demonstrate adequate responsiveness to the community development needs of its AA when considering the bank’s capacity, performance context, and the availability of community development opportunities in the AA. Also, community development activities were adequate to meet area needs for job creation and small business development and expansion as identified through our contact with a local community organization.

### **Number and Amount of Community Development Loans**

We determined that competition stemming from both large regional and other area community financial institutions in WSB’s AA to originate CD loans is considered to be significant. Between the top ten (10) banks on the Deposit Share report, there are 129 locations for small and medium size businesses to consider for their lending and development needs.

WSB provides its customers with a First Time Homebuyers mortgage loan program. This program provided \$13,819,023 in funding to purchase sixty-seven homes in the AA during the evaluation period.

WSB, over the evaluation period, originated eighteen (18) CD loans totaling \$15,015,000 within its AA. The CD loans were responsive to AA credit needs. Furthermore, CD loans served to meet area needs for social services, provided affordable housing, and created jobs that helped stabilize geographies in the AA. A few of the above mentioned CD loans originated by WSB are described below.

In 2010 WSB purchased a portion, \$2,000,000, of a loan in Newburgh, NY. The purpose of the loan was to finance the construction of new affordable apartments. The loan was with a development corporation.

In 2011 WSB purchased a portion, \$2,000,000, of a loan in Woodstock, Ulster County, NY. The purpose of the loan was to build new affordable smart growth apartments. The loan was with a development corporation.

In 2012 WSB purchased a portion, \$3,000,000, of a loan in Walkill, NY. The purpose of the loan was to fund senior citizen apartments. The loan was with a development corporation.

In 2010 WSB originated a \$500,000 loan for the YMCA in Newburgh, NY. The purpose of the loan was to assist with the purchase of their newest building in the city of Newburgh.

### **Number and Amount of Qualified Investments**

We determined that competition stemming from both large regional and other area community financial institutions in WSB's AA for funding CD investments is considered to be significant.

There were four (4) purchases made for municipal bonds that benefited community development needs in the WSB AA. These investments totaled \$529,000.

WSB over the evaluation period granted one hundred sixty-four (164) donations totaling \$228,329 benefitting its AA. The CD grants and donations funded by WSB were responsive to AA needs. They supported local organizations focusing on various CD initiatives, which included serving the needs of low- and moderate-income individuals and geographies within its AA.

### **Extent to Which the Bank Provides Community Development Services**

WSB's representatives over the evaluation period participated in several CD services which were responsive to the needs of its AA. A few of the CD services in which WSB representatives participated are described below.

A WSB officer is the founder and Vice President of a local health center. The organization's prime goal is to assist underprivileged families with health care needs within the bank's AA.

A WSB employee provides financial expertise for a homeownership organization. The organization focuses on promoting homeownership in the bank's AA through education and support services.

A WSB employee serves on the Board of Directors providing financial expertise to a local home refurbishing organization. The organization's focus is to provide refurbished homes for low income families, seniors and/or veterans.

A WSB employee serves as a volunteer to a local community investment group. The organization's purpose is to review loan applications for low cost loans provided by a fund established by the Town of Shawangunk in the bank's AA.

### **Accessibility of Services**

WSB's services are accessible to its AA residents through its branch offices and ATM network, as well as through its alternative delivery systems. In order to determine the extent of accessibility of WSB's delivery systems, population demographics, branches and ATM locations were considered.

WSB operates all eleven of its branch offices within its AA. Of the eleven branch offices, one (1) office (9%) is located within LMI geographies. In comparison of the total AA population, 4.39% reside in low-income AA geographies and 18.42% reside in moderate-income AA geographies. The vast majority of the AA population resides within middle-income AA geographies (59.65%).

Additionally, the retail financial services offered are reasonable for the bank's size. The bank's eleven (11) branch offices have hours of operation typical for the market and have extended hours to 6:00 pm at least two days per week. All branches have Saturday hours, and all eleven (11) branch offices have 24 hour, full service ATMs. Other retail services include direct deposit, electronic payment, 24 hour telephone banking, and night depositories. WSB has an informational website at <http://www.waldensavingsbank.com>. The website provides access to online banking and contains a listing of loan and deposit products and rates.

### **Responsiveness to Community Development Needs**

The bank's CD activities demonstrate adequate responsiveness to the CD needs of its AAs. This takes into consideration the bank's capacity and the need and availability of such opportunities for development within the communities in the bank's AAs. There were no identified, unmet CD needs during the evaluation period.

## **Responses to Complaints**

WSB did not receive any complaints about its performance in helping to meet credit needs in the AA during this evaluation period.

## **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.