PUBLIC DISCLOSURE

June 2, 2022

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Kearny Bank
Certificate Number: 28765

614 Kearny Avenue
Kearny, New Jersey 07032

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

350 Fifth Avenue, Suite 1200
New York, New York 10118

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		X	
High Satisfactory	X		X
Low Satisfactory			
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 good responsiveness to assessment area credit needs.
- The bank made a high percentage of loans in its assessment area.
- The geographic distribution of loans reflects adequate 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 institution is a leader in making community development loans.

The Investment Test is rated Outstanding.

- The institution has an excellent level of qualified community development investments and donations.
- The institution exhibits excellent responsiveness to credit and community development needs.

- The institution rarely uses innovative and/or complex investments to support community development initiatives.

The Service Test is rated <u>High Satisfactory</u>.

- Delivery systems are reasonably accessible to essentially all portions of the assessment area.
- To the extent changes have been made, the institution's opening and closing of branches has generally 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 and business hours do not vary in a way that inconveniences certain portions of the assessment area, particularly low- and moderate-income geographies and/or individuals.
- The institution is a leader in providing community development services.

DESCRIPTION OF INSTITUTION

Background

Kearny Bank is a full-service community bank headquartered in Fairfield, New Jersey. Kearny Financial Corporation wholly owns the bank. The bank maintains one active subsidiary, CJB Investment Corp, a New Jersey registered investment holding company. In July 2020, Kearny Bank acquired Millington Bank headquartered in Millington, New Jersey. Kearny Bank received a Satisfactory rating at its previous FDIC Performance Evaluation, dated April 29, 2019, based on Interagency Large Institution Examination Procedures.

Operations

Kearny Bank operates 45 full-service branches, with 42 in New Jersey and 3 in New York. The New Jersey branches are located throughout the counties of Bergen (11), Essex (2), Hudson (4), Middlesex (3), Monmouth (9), Morris (3), Ocean (4), Passaic (3), Somerset (2), and Union (1). The New York branches are in Kings (2) and Richmond (1) Counties. Of the 45 branches, 21 are in upper-income census tracts, 20 are in middle-income census tracts, and 4 are in moderate-income census tracts. The bank added four branches with the Millington Bank acquisition and opened an additional two branches in middle and upper-income census tracts. Additionally, the bank relocated three branches during the evaluation period, of which two are now adjacent to moderate-income census tracts. Kearny Bank also closed 16 branches following the previous evaluation including 1 of the Millington Bank branches.

Kearny Bank offers residential, consumer, and commercial loan products, primarily focusing on residential lending. The bank also offers a variety of business and consumer deposit accounts including checking, savings, money market, and certificate of deposit accounts. Alternative banking services include online banking, mobile banking, bill pay, person-to-person payments through Zelle, and automated teller machines (ATMs).

Ability and Capacity

As of March 31, 2022, assets totaled $7.4 billion and loans totaled $5.0 billion, representing an increase of 10.5 percent and 5.3 percent, respectively, since the previous evaluation. Securities totaled $1.6 billion, reflecting an increase of 31.8 percent since the last evaluation. Examiners did not identify any financial, legal, or other impediments that would limit the institution’s ability to meet the credit needs of its assessment area.

The following table illustrates the loan portfolio.

Loan Portfolio Distribution as of March 31, 2022		
Loan Category	**$(000s)**	**%**
Construction, Land Development, and Other Land Loans	120,332	2.4
Secured by Farmland	0	0.0
Secured by 1-4 Family Residential Properties	1,567,151	31.3
Secured by Multifamily (5 or more) Residential Properties	2,072,587	41.4
Secured by Nonfarm Nonresidential Properties	1,074,350	21.5
Total Real Estate Loans	**4,834,420**	**96.6**
Commercial and Industrial Loans	168,839	3.3
Agricultural Production and Other Loans to Farmers	0	0.0
Consumer Loans	2,764	0.1
Obligations of State and Political Subdivisions in the U.S.	0	0.0
Other Loans	0	0.0
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
Total Loans	**5,006,023**	**100.0**
Source: Reports of Condition and Income. Due to rounding, totals may not equal 100.0%.		

DESCRIPTION OF ASSESSMENT AREA

The Community Reinvestment Act (CRA) requires each financial institution to define one or more assessment areas within which examiners evaluate its CRA performance. Kearny Bank designated one contiguous assessment area that includes the entire counties of Bergen, Essex, Hudson, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, and Union Counties in New Jersey, and Kings and Richmond in New York. Bergen, Hudson, Passaic, Kings, and Richmond Counties are located in Metropolitan Division (MD) 35614 (New York-Jersey City-White Plains, NY-NJ). Essex, Morris, and Union Counties are located in MD 35084 (Newark, NJ-PA). Middlesex, Monmouth, Somerset, and Ocean Counties are located in MD 35154 (New Brunswick-Lakewood, NJ). These contiguous MDs are part of Metropolitan Statistical Area 35620 (New York-Newark-Jersey City, NY-NJ-PA), which is part of the larger Combined Statistical Area 408 (New York-Newark, NY-NJ-CT-PA). Kearny Bank expanded its assessment area following the Millington Bank acquisition to include the entirety of Somerset County in New Jersey.

<u>Economic and Demographic Data</u>

The assessment area includes 2,247 census tracts that reflect the following income designations according to 2015 American Community Survey (ACS) Data:

- 281 low-income tracts,
- 526 moderate-income tracts,
- 684 middle-income tracts,
- 728 upper-income tracts, and

- 28 tracts with no income designation.

There are 23 cities in the assessment area that the New Jersey state government designated as Urban Enterprise Zones (UEZs). The UEZ Program, enacted in 1983, serves to revitalize deteriorating urban communities and stimulate growth by encouraging businesses to develop and create private sector jobs through public and private investment. UEZ Program-approved businesses benefit from reduced sales taxes and tax-free purchases on capital equipment. Additional benefits include financial assistance from the state economic development authority, subsidized unemployment insurance, energy sales tax exemption for qualified manufacturing firms, and certain tax credit options.

The following table shows demographic information for the assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	**#**	**Low % of #**	**Moderate % of #**	**Middle % of #**	**Upper % of #**	**NA* % of #**
Geographies (Census Tracts)	2,247	12.5	23.4	30.4	32.4	1.2
Population by Geography	9,376,347	12.2	23.4	29.4	34.9	0.1
Housing Units by Geography	3,667,973	11.6	23.5	30.4	34.5	0.0
Owner-Occupied Units by Geography	1,760,096	4.0	15.1	32.5	48.4	0.0
Occupied Rental Units by Geography	1,581,934	19.3	32.0	27.6	21.0	0.1
Vacant Units by Geography	325,943	15.0	27.6	32.3	24.9	0.1
Businesses by Geography	1,128,921	10.2	19.9	29.0	40.5	0.3
Farms by Geography	14,044	5.2	13.7	29.8	51.2	0.1
Family Distribution by Income Level	2,267,873	24.6	15.0	16.9	43.6	0.0
Household Distribution by Income Level	3,342,030	26.8	14.1	15.6	43.4	0.0
Median Family Income MSA - 35084 Newark, NJ-PA		$90,570	Median Housing Value			$429,385
Median Family Income MSA - 35154 New Brunswick-Lakewood, NJ		$95,564	Median Gross Rent			$1,256
Median Family Income MSA - 35614 New York-Jersey City-White Plains, NY-NJ		$67,560	Families Below Poverty Level			11.4%

Source: 2015 ACS and 2021 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.

The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units. Of the 3,667,973 housing units in the assessment area, 48.0 percent are owner-occupied, 43.1 percent are occupied rental units, and 8.9 percent are vacant. Owner-occupied housing units reflect the opportunity for institutions to originate 1-4 family residential mortgage loans. As shown in the table above, only 4.0 percent of the assessment area's owner-occupied housing units are located in low-income tracts. This indicates limited opportunity for lenders to originate 1-4 family residential loans in these geographies.

Also shown above, 24.6 percent of assessment area families are low-income and 15.0 percent are moderate-income. In addition, 11.4 percent have incomes below the poverty threshold. It would be difficult for these families, particularly those below the poverty threshold, to qualify for a home mortgage loan or to support a monthly mortgage payment considering the assessment area's median housing value of $429,385. This data supports the challenges lenders face in originating loans to low- or moderate-income borrowers.

Examiners used the Federal Financial Institutions Examination Council's (FFIEC) updated median family income data to analyze the bank's home mortgage lending under the Borrower Profile criterion. The following table reflects the median family income ranges for the low-, moderate-, middle-, and upper-income categories in the assessment area.

Median Family Income Ranges				
Median Family Incomes	**Low <50%**	**Moderate 50% to <80%**	**Middle 80% to <120%**	**Upper ≥120%**
Newark, NJ-PA Median Family Income (35084)				
2020 ($103,200)	<$51,600	$51,600 to <$82,560	$82,560 to <$123,840	≥$123,840
2021 ($105,600)	<$52,800	$52,800 to <$84,480	$84,480 to <$126,720	≥$126,720
New Brunswick-Lakewood, NJ Median Family Income (35154)				
2020 ($112,500)	<$56,250	$56,250 to <$90,000	$90,000 to <$135,000	≥$135,000
2021 ($113,400)	<$56,700	$56,700 to <$90,720	$90,720 to <$136,080	≥$136,080
New York-Jersey City-White Plains, NY-NJ Median Family Income (35614)				
2020 ($81,800)	<$40,900	$40,900 to <$65,440	$65,440 to <$98,160	≥$98,160
2021 ($85,500)	<$42,750	$42,750 to <$68,400	$68,400 to <$102,600	≥$102,600
Source: FFIEC				

The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by gross annual revenue (GAR) level. According to 2021 D&B data, 1,128,921 non-farm businesses operate in the assessment area. The following reflects the GARs for these businesses.

- 91.8 percent have GARs of $1.0 million or less,
- 3.3 percent have GARs of more than $1.0 million, and
- 4.9 percent have unknown revenues.

Service industries represent the largest portion of businesses (34.1 percent), followed by non-classifiable establishments (29.4 percent), retail trade (11.2 percent), and finance, insurance, and real estate (7.9 percent). In addition, 58.6 percent of the area's businesses have four or fewer employees, and 96.1 percent operate from a single location. This data supports opportunity for small business lending in the area.

Data obtained from the U.S. Bureau of Labor Statistics show that unemployment rates at the county, state, and national levels increased from 2019 to 2020, notably from the impact of the COVID-19 pandemic in March 2020. Although declining in 2021, unemployment rates in the county, state, and national areas remain elevated when compared to pre-pandemic levels. The following table presents annual and current unemployment rates by assessment area counties, as well as the state and national levels since 2019.

Unemployment Rates				
Area	**2019**	**2020**	**2021**	**March 2022**
	%	**%**	**%**	**%**
Bergen County, NJ	2.8	9.2	6.0	3.8
Essex County, NJ	4.2	11.3	8.0	5.2
Hudson County, NJ	3.1	10.2	6.8	4.3
Middlesex County, NJ	3.0	8.5	5.7	3.7
Monmouth County, NJ	3.0	8.6	5.5	3.7
Morris County, NJ	2.7	7.5	5.0	3.2
Ocean County, NJ	3.5	9.1	6.0	4.2
Passaic County, NJ	4.1	12.2	8.4	5.5
Somerset County, NJ	2.9	7.5	5.1	3.3
Union County, NJ	3.5	9.6	6.7	4.4
State of New Jersey	3.4	9.5	6.3	4.2
Kings County, NY	4.0	12.6	10.1	6.2
Richmond County, NY	3.7	10.6	8.7	5.6
State of New York	3.8	9.9	6.9	4.7
National Average	3.7	8.1	5.4	3.6
Source: U.S. Bureau of Labor Statistics				

Competition

The assessment area is highly competitive in the market for financial services. According to 2020 FDIC Deposit Market Share data, 231 financial institutions operated 2,592 full-service branches in the assessment area. Of these institutions, Kearny Bank ranked 19th with a 1.1 percent deposit market share.

Significant competition exists for home mortgage loans in the assessment area among banks, credit unions, and non-depository mortgage lenders. In 2020, 777 lenders reported 348,800 originated or purchased home mortgage loans. Wells Fargo Bank, Quicken Loans, JP Morgan Chase Bank, Loan Depot, and the New Jersey Lenders Corporation were the top ranking home mortgage lenders in the assessment area in 2020. These five top lenders captured 25.7 percent of the market share by number of loans. Kearny Bank ranked 50th with a market share of 0.4 percent.

Significant competition also exists for small business loans in the assessment area. In 2020, 363 lenders reported 337,345 originated or purchased small business loans. The five most prominent small business lenders in the assessment area, American Express National Bank, J.P. Morgan Chase Bank, Bank of America, TD Bank, and Cross River Bank accounted for 56.0 percent of the total market share. Kearny Bank ranked 37th out of this group with a market share of 0.3 percent.

Community Contacts

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying credit and community development needs. This information indicates what credit and community development opportunities may be available. It also helps examiners determine if local financial institutions are responsive to those needs.

Examiners reviewed a recent contact with the director of a Passaic County government office. The organization's mission is to promote the development of local communities by supporting employment, affordable housing, and transportation needs. The contact stated that the primary needs for small businesses are grants, low interest loans, and working capital. The contact also noted that, despite the large number of vacant positions, businesses are unable to find candidates. Additionally, the contact stated that low- and moderate-income families need rental assistance programs and safe and secure housing, noting that the majority of the area's housing stock is old and in short supply. Last, the contact noted opportunities for banks to collaborate with government agencies to support affordable housing initiatives, provide funding for small businesses, and offer small business mentorship opportunities.

Examiners also reviewed a recent contact with the executive director of an economic development company that provides workforce development programs, economic revitalization programs, and employment placement services in Union County and northern New Jersey. The contact stated that the primary credit need is working capital loans for small businesses. The contact also identified an opportunity for local banks to collaborate with local community development organizations.

Credit and Community Development Needs and Opportunities

Considering information from the community contacts, bank management, and demographic and economic data, examiners determined that affordable housing and economic development are primary community development needs, and flexible loan programs are primary credit needs in the assessment area. Economic and demographic data supports the need for affordable housing that the community contact identified. Innovative programs offering principal reduction, mortgage modifications, or down payment assistance would benefit low- and moderate-income individuals and families in the assessment area seeking mortgage loans. Small business micro-loans and technical assistance for small business owners and entrepreneurs represent additional assessment area needs.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated April 29, 2019, to the current evaluation dated June 2, 2022. Examiners used the FFIEC Large Institution CRA Examination Procedures to evaluate Kearny Bank's CRA performance. These procedures include the Lending, Investment, and Service Tests (see Appendices for complete description). Examiners used full-scope procedures to assess Kearny Bank's performance in the assessment area.

Activities Reviewed

Kearny Bank's major product lines, considering its business strategy and the number and dollar volume of loans originated during the evaluation period, are home mortgage and small business loans. The bank's record of originating home mortgage loans contributed significantly more weight in arriving at overall conclusions due to the larger loan volume when compared to small business loans during the review period. As of March 31, 2022, home mortgage (1-4 family and multi-family residential loans) represented a combined 72.7 percent of the bank's loan portfolio. No other loan types, such as small farm or consumer loans, represent a major product line or provide material support for conclusions or ratings; therefore, examiners did not present these products.

This evaluation considered all home mortgage loans reported on Kearny Bank's 2019, 2020, and 2021 Home Mortgage Disclosure Act (HMDA) Loan Application Registers. Kearny Bank reported 1,031 home mortgage loans totaling $482.4 million in 2019, 1,696 home mortgage loans totaling $878.7 million in 2020, and 1,735 home mortgage loans totaling $1.1 billion in 2021. Examiners reviewed aggregate lending data and 2015 ACS data for comparison purposes. Aggregate lending data for 2021 was not available as of this evaluation date.

This evaluation also considered all small business loans that the bank reported on its 2019, 2020, and 2021 CRA Loan Registers. The bank reported 254 small business loans totaling $42.4 million in 2019, 1,023 small business loans totaling $128.2 million in 2020, and 252 small business loans totaling $76.7 million in 2021. Management attributes the significant increase in 2020 small business loan volume to the bank's participation in the Small Business Administration's (SBA) Paycheck Protection Program (PPP), a SBA-backed loan program designed to help businesses keep workforces employed during the COVID-19 pandemic. Examiners reviewed aggregate lending data and D&B demographic data for comparison purposes. Aggregate lending data for 2021 was not available as of this evaluation date.

For the Lending Test, the Assessment Area Concentration criterion includes loan data for each of the three years analyzed; however, the other rating criteria only include loan data for 2020 and 2021, as the bank's performance throughout the rating period was generally consistent with the years presented. Examiners reviewed the number and dollar volume of loans; however, examiners emphasized performance by number of loans since that is a better indicator of the number of individuals and businesses served.

The Lending Test also considered community development loans and loans originated under the bank's innovative and flexible lending programs since the prior evaluation. The Investment Test includes both qualified investments purchased prior to the last evaluation that remain outstanding, as well as investments purchased during the current evaluation period. Examiners also considered bank donations since the previous evaluation. The Service Test includes all community development services that the bank performed since the last evaluation. Additionally, the Service Test considers retail banking products and services that benefit low- and moderate-income individuals and small businesses. Last, examiners considered the bank's delivery systems for providing retail banking services, including branches and alternative delivery systems, and the impact of branch network changes during the evaluation period.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

The Lending Test is rated "High Satisfactory." The following sections outline Kearny Bank's performance under each criterion.

Lending Activity

Kearny Bank's lending levels reflect good responsiveness to assessment area credit needs.

Kearny Bank reported 862 home mortgage loans totaling $369.1 million in the assessment area in 2019; 1,479 home mortgage loans totaling $675.7 million in 2020; and 1,409 home mortgage loans for $818.1 million in the assessment area in 2021. In 2020, Kearny Bank ranked 50th out of 777 lenders that reported at least one home mortgage loan in the assessment area. Most of the institutions that ranked higher than Kearny Bank are significantly larger national or regional financial institutions and mortgage companies including Wells Fargo Bank, Quicken Loans, JPMorgan Chase Bank, Loan Depot, and the New Jersey Lenders Corporation. These five home mortgage lenders captured 25.7 percent of the total market share, by number of loans, further reflecting the competitive nature of the home mortgage market.

Kearny Bank reported 208 small business loans totaling $34.1 million in the assessment area in 2019; 949 small business loans totaling $117.5 million in 2020; and 238 small business loans for $68.1 million in 2021. In 2020, Kearny Bank ranked 37th out of 363 lenders that reported at least one small business loan in the assessment area. Most of the institutions that ranked higher than Kearny Bank are significantly larger regional and national lenders including American Express National Bank, JPMorgan Chase Bank, Bank of America, TD Bank, and Cross River Bank. These five institutions captured 56.0 percent of the total market share. More recently, due to the nationwide pandemic response, Kearny Bank originated a significant number of PPP loans for area businesses.

Assessment Area Concentration

Kearny Bank made a high percentage of home mortgage and small business loans within the assessment area. Please refer to the following table.

Lending Inside and Outside of the Assessment Area										
	Number of Loans					Dollar Amount of Loans $(000s)				
Loan Category	**Inside**		**Outside**		**Total**	**Inside**		**Outside**		**Total**
	#	**%**	**#**	**%**	**#**	**$**	**%**	**$**	**%**	**$(000s)**
Home Mortgage										
2019	862	83.6	169	16.4	1,031	369,056	76.5	113,321	23.5	482,377
2020	1,479	87.2	217	12.8	1,696	675,685	76.9	203,055	23.1	878,740
2021	1,409	81.2	326	18.8	1,735	818,126	72.5	311,106	27.6	1,129,232
Subtotal	**3,750**	**84.0**	**712**	**16.0**	**4,462**	**1,862,867**	**74.8**	**627,483**	**25.2**	**2,490,349**
Small Business										
2019	208	81.9	46	18.1	254	34,073	80.4	8,315	19.6	42,388
2020	949	92.8	74	7.2	1,023	117,459	91.6	10,722	8.4	128,181
2021	238	94.4	14	5.6	252	68,086	88.8	8,627	11.2	76,713
Subtotal	**1,395**	**91.2**	**134**	**8.8**	**1,529**	**219,618**	**88.8**	**27,664**	**11.2**	**247,282**
Total	**5,145**	**85.9**	**846**	**14.1**	**5,991**	**2,082,485**	**76.1**	**655,147**	**23.9**	**2,737,631**
Source: Bank Data *Due to rounding, totals may not equal 100.0%*										

Geographic Distribution

The geographic distribution of loans reflects adequate penetration throughout the assessment area. The bank's adequate distribution of home mortgage and small business loans supports this conclusion.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects adequate penetration throughout the assessment area. Examiners focused on the percentage by number of loans in low- and moderate-income census tracts. Kearny Bank's performance in low- and moderate-income census tracts was below aggregate lending data and area demographics throughout the evaluation period.

Market share data provides further support for the bank's adequate performance. Specifically, in 2020, only 421 lenders made loans in low-income tracts, of which over one-third made two or fewer loans. Kearny Bank ranked in the top one-third of lenders in low-income tracts. In addition, the top ten lenders, all significantly larger institutions operating on a national or regional level, accounted for a combined 31.3 percent of total loans in low-income geographies.

According to 2020 market share data, 559 lenders made at least one loan in the area's moderate-income census tracts. Of these, just under one-fifth made a single loan. In contrast, the top ten lenders in moderate-income tracts accounted for a combined 35.0 percent of the market. Kearny Bank ranked in the top one-fifth of lenders.

In addition, in 2020, the bank ranked 7th in market share among community banks for loans originated in low-income tracts and ranked 4th among community banks for loans originated in moderate-income census tracts, reflecting adequate performance. Considering these comparisons, trends, and market share data, Kearny Bank's performance of lending in low- and moderate-income geographies is adequate.

The following table depicts the distribution of home mortgage loans within the assessment area for 2020 and 2021.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	**% of Owner-Occupied Housing Units**	**Aggregate Performance % of #**	**#**	**%**	**$(000s)**	**%**
Low						
2020	4.0	4.1	14	0.9	17,260	2.6
2021	4.0	--	22	1.6	28,614	3.5
Moderate						
2020	15.1	13.2	92	6.2	56,400	8.3
2021	15.1	--	87	6.2	66,432	8.1
Middle						
2020	32.5	30.9	334	22.6	150,730	22.3
2021	32.5	--	310	22.0	158,574	19.4
Upper						
2020	48.4	51.7	1,037	70.1	450,085	66.6
2021	48.4	--	990	70.3	564,506	69.0
Not Available						
2020	0.0	0.1	2	0.1	1,210	0.2
2021	0.0	--	0	0.0	0	0.0
Totals						
2020	**100.0**	**100.0**	**1,479**	**100.0**	**675,685**	**100.0**
2021	**100.0**	**--**	**1,409**	**100.0**	**818,126**	**100.0**
Source: 2015 ACS; Bank Data, 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%						

Small Business Loans

The geographic distribution of small business loans reflects adequate penetration throughout the assessment area. Examiners compared Kearny Bank's percentage of loans to aggregate lending data and demographic data. Kearny Bank's performance in low- and moderate-income census tracts trailed area demographics and aggregate lending data throughout the review period.

Market share data provides further support for the bank's adequate performance. Specifically, in 2020, only 163 lenders made loans in low-income tracts, of which one-third made two or fewer loans. Kearny Bank ranked in the top one-third of lenders in low-income tracts. In addition, the top ten lenders, all significantly larger institutions operating on a national or regional level, accounted for a combined 73.7 percent of total loans in low-income geographies.

According to 2020 market share data, 214 lenders made at least one loan in the area's moderate-income census tracts. Of these, just under one-fifth made only a single loan. In contrast, the top ten lenders in moderate-income tracts accounted for a combined 74.1 percent of the market. Kearny Bank ranked in the top one-fifth of lenders.

In addition, in 2020, Kearny Bank ranked 3rd among community banks that originated at least a single loan in a low-income census tract, and the bank ranked 6th among community banks that originated at least one loan in a moderate-income census tract. Considering these comparisons, trends, and market share data, Kearny Bank's performance of lending in low- and moderate-income geographies is adequate. The following table depicts the distribution of the bank's small business loans by census tract income level.

Geographic Distribution of Small Business Loans						
Tract Income Level	**% of Businesses**	**Aggregate Performance % of #**	**#**	**%**	**$(000s)**	**%**
Low						
2020	9.4	9.0	67	7.1	8,519	7.3
2021	10.2	--	19	8.0	7,749	11.4
Moderate						
2020	19.2	18.0	117	12.3	13,016	11.1
2021	19.9	--	22	9.2	7,115	10.4
Middle						
2020	29.0	28.5	370	39.0	45,283	38.6
2021	29.0	--	73	30.7	26,347	38.7
Upper						
2020	42.1	44.0	393	41.4	50,231	42.8
2021	40.6	--	123	51.7	26,625	39.1
Not Available						
2020	0.3	0.5	2	0.2	410	0.3
2021	0.3	--	1	0.4	250	0.4
Totals						
2020	**100.0**	**100.0**	**949**	**100.0**	**117,459**	**100.0**
2021	**100.0**	**--**	**238**	**100.0**	**68,086**	**100.0**
Source: 2020 & 2021 D&B Data; Bank Data; 2020 CRA Aggregate Data, "--" data not available. *Due to rounding, totals may not equal 100.0%*						

Borrower Profile

The distribution of borrowers reflects adequate penetration among retail customers of different income levels and businesses of different sizes. The bank's adequate distribution of home mortgage and small business loans supports the overall conclusion.

Home Mortgage Loans
The distribution of home mortgage loans reflects adequate penetration among individuals of different income levels, including low- and moderate-income borrowers. Examiners compared Kearny Bank's home mortgage lending performance to applicable demographic and aggregate lending data.

In 2020, Kearny Bank's lending to low- and moderate-income borrowers was below area demographics and slightly below aggregate lending data. The bank's level of lending to low- and moderate-income borrowers remained consistent in 2021, continuing to trail demographic data.

As previously addressed, Kearny Bank faces distinct challenges in this assessment area, particularly lending to low-income borrowers. Specifically, a low-income family in the assessment area, with an income below $56,700, would likely not qualify for a mortgage under conventional underwriting standards, especially considering the median housing value of $429,385. Furthermore, 11.4 percent of low-income families are below the poverty level and are unlikely to be able to afford a home mortgage loan. Therefore, the demand and opportunity for lending to low-income families are relatively limited. This helps explain the difference between the aggregate performance of lending to low-income borrowers (3.1 percent) and the percentage of families of this income level (24.6 percent).

Market share data provides further support for the bank's adequate performance. Specifically, in 2020, only 290 lenders made loans to low-income borrowers, of which over one-fifth made two or fewer loans. Kearny Bank ranked in the top one-third of lenders in lending to low-income borrowers. In addition, the top ten lenders, all significantly larger institutions operating on a national or regional level, accounted for a combined 38.5 percent of total loans to low-income borrowers.

According to 2020 market share data, 412 lenders made at least one loan to moderate-income borrowers. Of these, just under one-fifth made only two loans. In contrast, the top ten lenders to moderate-income borrowers accounted for a combined 38.0 percent of the market. Kearny Bank ranked in the top one-fifth of lenders.

In addition, in 2020, the bank ranked 4^{th} in market share among community banks for loans originated to low-income borrowers and ranked 4^{th} among community banks for loans originated to moderate-income borrowers, reflecting adequate performance. Considering these comparisons, trends, and market share data, Kearny Bank's performance of lending to low- and moderate-income borrowers is adequate.

The following table illustrates the distribution of home mortgage loans by borrower income level for 2020 and 2021.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	**% of Families**	**Aggregate Performance % of #**	**#**	**%**	**$(000s)**	**%**
Low						
2020	24.6	3.1	26	1.8	3,980	0.6
2021	24.6	--	27	1.9	3,505	0.4
Moderate						
2020	15.0	11.2	121	8.2	26,625	3.9
2021	15.0	--	115	8.2	24,528	3.0
Middle						
2020	16.9	19.2	261	17.6	74,915	11.1
2021	16.9	--	207	14.7	62,333	7.6
Upper						
2020	43.6	48.6	994	67.2	439,150	65.0
2021	43.6	--	968	68.7	556,128	68.0
Not Available						
2020	0.0	17.9	77	5.2	131,015	19.4
2021	0.0	--	92	6.5	171,631	21.0
Totals						
2020	**100.0**	**100.0**	**1,479**	**100.0**	**675,685**	**100.0**
2021	**100.0**	**--**	**1,409**	**100.0**	**818,126**	**100.0**
Source: 2015 ACS; Bank Data, 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%						

Small Business Loans

The distribution of borrowers reflect adequate penetration among businesses of different sizes. In 2020, the bank's lending to businesses with GARs of $1.0 million or less was significantly below demographic and aggregate lending data. This disparity is primarily due to the number of PPP loans the bank originated in 2020. Since the PPP does not require lenders to collect business revenue information, a significant portion of the bank's small business loans do not report revenues. When excluding these loans, the bank made 88 of 203 small business loans, or 43.3 percent, to businesses with GARs of $1.0 million or less. In 2021, the bank's level of lending to businesses with GARs of $1 million or less declined and continued to trail area demographics.

Market share data further supports the bank's adequate performance. Market share data for 2020 reflects that Kearny Bank's market rank (36th) lending to businesses with GARs of $1.0 million or less is comparable to its overall market rank (37th). Specifically, in 2020, only 191 lenders made loans to businesses with GARs of $1.0 million or less, of which over one-third made two or fewer loans. Kearny Bank ranked in the top one-third in lending to businesses with GARs of $1.0 million or less. In addition, the top five lenders, all significantly larger institutions operating on a national or regional level, accounted for a combined 69.8 percent of total loans to businesses with GARs of $1.0 million or less.

In addition, in 2020, the bank ranked 6th in market share among community banks for loans originated to businesses with GARs of $1.0 million or less, reflecting adequate performance. Considering these comparisons, trends, and market share data, Kearny Bank's performance of lending to businesses with GARs of $1.0 million or less is adequate.

The following table displays the distribution of small business loans by revenue category.

Distribution of Small Business Loans by Gross Annual Revenue Category						
Gross Revenue Level	**% of Businesses**	**Aggregate Performance % of #**	**#**	**%**	**$(000s)**	**%**
<=$1,000,000						
2020	89.1	36.3	88	9.3	19,429	16.5
2021	91.8	--	66	27.7	13,930	20.5
>$1,000,000						
2020	4.7	--	115	12.1	33,432	28.5
2021	3.3	--	158	66.4	48,360	71.0
Revenue Not Available						
2020	6.2	--	746	78.6	64,598	55.0
2021	4.9	--	14	5.9	5,796	8.5
Totals						
2020	**100.0**	**100.0**	**949**	**100.0**	**117,459**	**100.0**
2021	**100.0**	**--**	**238**	**100.0**	**68,086**	**100.0**
Source: 2020 & 2021 D&B Data; Bank Data; 2020 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0%						

Innovative or Flexible Lending Practices

Kearny Bank makes limited use of innovative and/or flexible lending practices in order to serve assessment area credit needs. During the evaluation period, the bank originated 18 loans totaling $7.1 million using innovative or flexible programs.

Below are details of the bank's innovative or flexible lending programs.

- ***First-Time Homebuyer Program:*** Kearny Bank offers a first-time homebuyer program that features discounted interest rates, reduced fees, and relaxed private mortgage insurance coverage requirements for low- and moderate-income applicants. During the evaluation period, Kearny Bank originated nine loans totaling $2.3 million through this program.

- ***Federal Home Loan Bank Homebuyer Dream Program:*** The homebuyer dream program provides grants for first-time homebuyers earning at or below 80.0 percent of area median income levels as designated by the U.S. Department of Housing and Urban Development (HUD). This program provides up to $10,000 in assistance, including up to $9,500 in grants and $500 toward homeownership counseling costs. Qualified applicants may use grant funds for down payment and closing cost assistance. During the evaluation period, the bank awarded $38,000 to four applicants benefitting from this program.

- ***SBA Loan Programs**:* SBA-guaranteed loans provide small business financing through more flexible terms than traditional business loans. Kearny Bank participates in the following programs:

    - SBA 7(a) – The 7(a) Loan Guaranty helps qualified small businesses obtain financing they might not be eligible to obtain through other lending channels. In conjunction with the 7(a) program, Kearny Bank offers SBA Express loans, featuring a simplified application and approval process for term loans and lines of credit up to $250,000. Since the previous evaluation, the bank originated six loans totaling $835,000 under this program.
    - SBA 504 – The 504 provides growing businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings. The bank originated three loans totaling $4.0 million under this program.

In addition to the innovative and/or flexible programs offered throughout the entire evaluation period, Kearny Bank offered flexible programs in response to the COVID-19 pandemic in 2020.

- ***COVID-19 Pandemic Relief:*** In response to the COVID-19 pandemic, Kearny Bank implemented a loan deferral program, offered temporary lines of credit for customers experiencing financial hardship, and eliminated late payment fees on residential and commercial loans. Between April 1, 2020, and August 1, 2021, Kearny Bank approved 231 deferrals for residential customers on loans totaling approximately $84.0 million, and 264 deferrals for commercial customers on loans totaling approximately $465.0 million.

Community Development Loans

Kearny Bank is a leader in making community development loans. The bank originated 195 community development loans totaling $477.2 million during the evaluation period. This represents 6.9 percent of average total assets and 10.1 percent of average total loans since the prior evaluation. This level of activity is consistent with the dollar amount noted in the prior evaluation, during which time the bank was a leader in making community development loans. The bank made 212 community development loans totaling $477.5 million during the last evaluation period. The substantial majority of community development loans benefitted affordable housing, which the community contact identified as a primary community development need in the assessment area.

Kearny Bank also participated in the SBA's PPP. Eligible PPP loan recipients include small businesses that meet the SBA's size standards, as well as sole proprietors, independent contractors, and self-employed persons. These loans provided an incentive for businesses to keep employees on their payrolls as part of the federal government response to the COVID-19 pandemic. The SBA will forgive the loans if businesses meet employee retention criteria and the funds are used for eligible expenses. Examiners considered PPP loans in amounts greater than $1.0 million under this criterion. The following table illustrates the community development lending activity by year and purpose.

Community Development Lending										
Activity Year	**Affordable Housing**		**Community Services**		**Economic Development**		**Revitalize or Stabilize**		**Totals**	
	#	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**
2019	25	67,091	0	0	0	0	0	0	**25**	**67,091**
2020	51	150,094	0	0	0	0	0	0	**51**	**150,094**
2021	82	127,084	2	3,875	0	0	0	0	**84**	**130,959**
YTD 2022	34	127,359	0	0	0	0	1	1,669	**35**	**129,028**
Total	**192**	**471,628**	**2**	**3,875**	**0**	**0**	**1**	**1,669**	**195**	**477,172**
Source: Bank Records										

The following are notable examples of qualified community development loans.

- In 2021, Kearny Bank refinanced a $2.3 million loan for a 23-unit apartment building located in a low-income census tract in Kings County. Of the 23 units, 22 units provide affordable rents for low- and moderate-income individuals, as designated by HUD's Fair Market Rent (FMR) guidelines.

- In 2021, Kearny Bank refinanced a $1.9 million loan secured by a 16-unit apartment building located in a moderate-income census tract of Union County. All units provide affordable rents for low- and moderate-income individuals, as designated by HUD's FMR guidelines.

- In 2022, Kearny Bank originated a $1.8 million loan secured by a 16-unit apartment building located in a moderate-income census tract of Hudson County. All units provide affordable rents for low- and moderate-income individuals, as designated by HUD's FMR guidelines.

INVESTMENT TEST

The Investment Test is rated "Outstanding." The following sections outline Kearny Bank's performance under each criterion.

Investment and Grant Activity

Kearny Bank has an excellent level of qualified community development investments and donations. Qualified investments and donations totaled $100.5 million, which includes 90 outstanding prior period investments with a current book value of $48.0 million, 8 new investments totaling $51.0 million, and 125 grants totaling $1.5 million. This represents 6.6 percent of average total investments and 1.4 percent of average total assets since the prior evaluation. Investments and donations are consistent with the dollar amount noted in the previous evaluation, during which time the bank had an excellent level of qualified community development investments and donations. During the prior evaluation period, Kearny Bank made 173 community development investments and donations totaling $104.5 million. Kearny Bank's investments primarily supported affordable housing, which is a critical need in the assessment area.

The following table illustrates qualified investments and donations by year and community development purpose.

Qualified Investments by Year										
Activity Year	**Affordable Housing**		**Community Services**		**Economic Development**		**Revitalize or Stabilize**		**Totals**	
	#	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**
Prior Period	90	48,020	0	0	0	0	0	0	**90**	**48,020**
2019	0	0	0	0	0	0	0	0	**0**	**0**
2020	0	0	0	0	0	0	0	0	**0**	**0**
2021	4	30,311	0	0	0	0	0	0	**4**	**30,311**
YTD 2022	4	20,718	0	0	0	0	0	0	**4**	**20,718**
Subtotal	**98**	**99,049**	**0**	**0**	**0**	**0**	**0**	**0**	**98**	**99,049**
Qualified Grants & Donations	17	275	108	1,180	0	0	0	0	**125**	**1,455**
Total	**115**	**99,324**	**108**	**1,180**	**0**	**0**	**0**	**0**	**223**	**100,504**
Source: Bank Records										

Below are notable examples of Kearny Bank's qualified investments.

- Kearny Bank purchased $2.2 million in the Community Capital Management Community Impact Bond fund. An example of an investment in this bond fund is a $565,000 mortgage-backed security collateralized by an affordable housing complex in Essex County. This complex encompasses 429 units, all of which receive assistance through HUD's Section 8 program.

- During the evaluation period, Kearny Bank donated $50,000 to a social services organization whose mission is to help homeless and low-income families achieve sustainable independence. The donation allowed the organization to continue providing essential services during the COVID-19 pandemic.

- Kearny Bank donated $5,000 every year from 2019 through 2021, totaling $15,000, to an organization that supports domestic and sexual violence victims in Monmouth County. The bank's donations supported the organization's emergency domestic violence shelter. The shelter serves low-income individuals.

Responsiveness to Credit and Community Development Needs

Kearny Bank exhibits excellent responsiveness to credit and community development needs. Of the $100.5 million in qualified investments, grants, and donations, 98.8 percent benefited affordable housing efforts in the assessment area, which the community contact identified as a primary community development need. Furthermore, in response to the COVID-19 pandemic, Kearny Bank donated $140,000 to support healthcare workers on the front-line. These donations focused on healthcare organizations that provide services to low- and moderate-income individuals.

Community Development Initiatives

Kearny Bank rarely uses innovative and/or complex investments to support community development initiatives. All qualified investments consist of securities backed by mortgage loans to low- and moderate-income individuals and investments in community development equity funds, which are routinely provided by private investors.

SERVICE TEST

The Service Test is rated "High Satisfactory." The following sections outline the bank's performance under each criterion.

Accessibility of Delivery Systems

Delivery systems are reasonably accessible to essentially all portions of the assessment area. Kearny Bank operates 45 full-service branches and 49 ATMs in its assessment area. While the bank does not have any branches or ATMs in low-income census tracts, seven branches located in Belmar, Bradley Beach, Hoboken, North Bergen, Oakhurst, Ocean Grove, and Toms River in New Jersey can reasonably serve low- and moderate-income geographies. For example, these branches are within 1.4 miles of the area's low- and moderate-income tracts. Additionally, Kearny Bank has seven branches adjacent to opportunity zones located within the institution's assessment area. The distribution of branches in moderate-income tracts is 14.5 percentage points below the population distribution in these tracts. The following table illustrates the distribution of branches and ATMs by census tract income designation.

Branch and ATM Distribution by Geography Income Level								
Tract Income Level	**Census Tracts**		**Population**		**Branches**		**ATMs**	
	#	**%**	**#**	**%**	**#**	**%**	**#**	**%**
Low	281	12.5	1,141,210	12.2	0	0.0	0	0.0
Moderate	526	23.4	2,198,676	23.4	4	8.9	4	8.2
Middle	684	30.4	2,759,002	29.4	20	44.4	22	44.9
Upper	728	32.4	3,267,895	34.9	21	46.7	23	46.9
NA	28	1.2	9,564	0.1	0	0.0	0	0.0
Total	**2,247**	**100.0**	**9,376,347**	**100.0**	**45**	**100.0**	**49**	**100.0**
Sources: 2015 ACS U.S. Census, Bank records. (*) The NA category consists of geographies that have not been assigned an income classification.								

Kearny Bank offers several alternative delivery systems beyond its branch structure to increase availability of retail banking services throughout the assessment area. For example, the bank offers remote banking services including online, mobile, and telephone banking. The free online and mobile banking platforms feature mobile deposit options, person-to-person payments, free bill pay services, fund transfers, and e-statements.

As of March 2022, the bank had 26,179 online banking customers and 18,348 mobile banking users in its assessment area. The bank's automated telephone banking services are accessible toll-free 24-hours a day, 7-days a week. Telephone banking provides services such as bill pay, fund transfers, and balance inquiries.

Additionally, Kearny Bank offers a free bank-by-mail option for all customers. Last, the bank does not charge customers a fee to use bank-owned ATMs, nor does the bank charge an annual debit card fee. These alternative delivery channels reduce the need to visit a physical branch for those who may have difficulty doing so because of travel restrictions or transportation costs.

Changes in Branch Locations

Kearny Bank's record of opening and closing branches has generally not adversely affected the accessibility of delivery systems, particularly to low- and moderate-income geographies and/or individuals.

Since the prior evaluation, the bank closed one branch in a low-, two branches in moderate-, six branches in middle, and seven branches in upper-income census tracts. While Kearny Bank closed branches in low- and moderate-income census tracts, these geographies were not adversely affected as they are reasonably served by other Kearny Bank branches which are less than four miles away from the original branches. Management indicated that unprofitability and redundancy are the primary reasons for these closures.

The bank opened one branch in a middle- and one branch in an upper-income census tract since the prior evaluation. Kearny Bank relocated three branches within middle-income census tracts, of which, two are adjacent to moderate-income census tracts. Last, Kearny Bank added four branches with the acquisition of Millington Bank, all located in upper-income census tracts.

Reasonableness of Business Hours and Services

Business hours and services do not vary in a way that inconveniences certain portions of the assessment area, particularly low- and moderate-income geographies and/or individuals. Branch business hours are Monday through Friday from 9:00 a.m. to 5:00 p.m., including drive-up hours. Most branches, including all four branches in moderate-income tracts, offer Saturday lobby and drive-up banking hours between 9:00 a.m. and 12:00 p.m. Loan and deposit products do not vary among Kearny Bank's 45 branch offices.

Community Development Services

Kearny Bank is a leader in providing community development services. During the evaluation period, bank directors, officers, and employees provided 277 instances of financial expertise or technical assistance to 74 different community development-related organizations, often on an ongoing basis. This is a decrease from the services noted at the previous examination, during which time the bank provided 322 services to 49 different organizations and was considered a leader in providing community development services. However, management explained that local community development service opportunities declined, in large part due to the COVID-19 pandemic. Specifically, the bank performs substantial financial literacy courses targeted toward low- and moderate-income students and these activities were cancelled for the majority of 2020 and into 2021. Bank staff resumed in-person financial literacy courses in 2022.

Bank representatives served on boards of various community groups providing affordable housing and essential community services to low- and moderate-income individuals. These activities are consistent with the needs identified by the community contacts. The following table reflects the bank's community development services by year and purpose.

Community Development Services					
Activity Year	**Affordable Housing**	**Community Services**	**Economic Development**	**Revitalize or Stabilize**	**Totals**
	#	#	#	#	#
2019	17	111	12	0	**140**
2020	5	11	0	0	**16**
2021	30	48	4	0	**82**
YTD 2022	0	36	3	0	**39**
Total	**52**	**206**	**19**	**0**	**277**

Source: Bank Records

Below are notable examples of the bank's community development services.

- The Chief Operating Officer provides financial expertise while serving as a Board member of an organization whose mission is to revitalize low-and-moderate income communities.

- Several employees provided financial education to residents at six senior housing facilities in the assessment area. The majority of residents that participated in the educational seminars were low- or moderate-income individuals.

- The Compliance Officer serves on the Board of a non-profit organization designed to mentor youth and prepare them for success. During the evaluation period, this organization hosted educational events for low-income youth, during which the Compliance Officer presented information about potential job prospects in banking.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The bank's compliance with the laws relating to discrimination and other illegal credit practices was reviewed, 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 <u>financial</u> 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.