

# **PUBLIC DISCLOSURE**

October 22, 2009

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Patriot Federal Bank  
211 Erie Boulevard  
Canajoharie, NY 13317  
Docket #: 17992**

**Office of Thrift Supervision  
Northeast Region  
Harborside Financial Center Plaza Five, Suite 1600  
Jersey City, NJ 07311**

**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.



**Office of Thrift Supervision**  
Department of the Treasury

*Northeast Region*

Northeast Region • Phone Number: (201) 413-1000 Fax: (201) 413-7543  
Harborside Financial Center Plaza Five, Suite 1600 Jersey City, NJ 07311

March 8, 2010

Board of Directors  
Patriot Federal Bank  
211 Erie Boulevard  
Canajoharie, NY 13317

Members of the Board:

Enclosed is your institution's first written Community Reinvestment Act (CRA) Performance Evaluation. The Office of Thrift Supervision (OTS) prepared the evaluation as of August October 22, 2009. Pursuant to the provisions of the CRA and OTS regulations (12 C.F.R. 563e), your institution must make this evaluation and your institution's CRA rating available to the public.

In accordance with 12 C.F.R. 563e, your institution must make this written CRA Performance Evaluation available to the public within 30 business days of receiving it. You must place the evaluation in your CRA public file at your home office and at each branch within this time frame. You may not alter or abridge the evaluation in any manner. At your discretion, you may retain previous written CRA Performance Evaluation(s) with the most recent evaluation in your CRA public file.

Your institution may prepare a response to the evaluation. You may place the response in each CRA public file along with the evaluation. In the event your institution elects to prepare such a response, please forward a copy of it to this office.

All appropriate personnel, particularly customer contact personnel, need to be aware of the responsibilities that the institution has to make this evaluation available to the public. Consequently, we suggest that your institution review internal procedures for handling CRA inquiries, including those pertaining to the evaluation and other contents of the CRA public file.

We strongly encourage the Board of Directors, senior management, and other appropriate personnel to review this document and to take an active interest and role in the CRA activities of your institution.

Sincerely,

Patricia A. Cecconi  
Assistant Director Compliance

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## **General Information**

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of Patriot Federal Bank. The Office of Thrift Supervision (OTS) prepared the evaluation as of October 22, 2009. OTS evaluates performance in assessment area(s) delineated by the institution rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all, of the institution's branches. OTS rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 563e.

## **Institution**

### **Overall Rating**

#### **INSTITUTION'S 'S CRA RATING: Satisfactory**

Patriot Federal Bank (Patriot or the bank) has maintained a reasonable average loan-to-deposit ratio over the 42 month review period. The bank granted a strong majority of its mortgage loans in its defined assessment area. Patriot extended a reasonable percentage of mortgage loans to moderate-income assessment area borrowers when compared to aggregate lending data, and slightly fewer loans on a percentage basis to low-income borrowers. Patriot has not been able to reach moderate-income census tracts with mortgage loans consistent with aggregate lenders, however, there is no evidence that the bank is ignoring the needs of moderate-income areas.

The bank did not receive any CRA-related complaints during the review period, and a concurrently conducted compliance examination disclosed no violations of the substantive provisions of the anti-discrimination laws.

### **Scope of Examination**

OTS evaluated Patriot under the small bank examination procedures using a 42-month review period extending from January 1, 2006, through June 30, 2009. Residential mortgage loans were the primary loan product analyzed as part of the bank's CRA evaluation. For purposes of this evaluation, residential loans are home purchase, home refinance, and home improvement loans that financial institutions typically are required to report pursuant to the Home Mortgage Disclosure Act (HMDA). Patriot is also an active commercial lender, but these loans did not constitute a significant portion of the bank's overall loan portfolio, and were not evaluated.

This is the first CRA evaluation for the bank which opened on December 2, 2005. Patriot does not have an office in a Metropolitan Statistical Area (MSA). As a result, the bank is exempt from the data reporting requirements of the HMDA. However, the bank has maintained data on its residential loans and we performed our analysis based on this information and compared the data to the aggregate HMDA reporters when available. The aggregate data reported throughout this evaluation does not include the bank's lending activity, nor does it include other lending institutions that are exempt from HMDA reporting requirements.

**Institution (continued)**

**Description of Institution**

Patriot is a federally chartered thrift headquartered in Canajoharie, Montgomery County, New York. The bank reported total assets of \$66.7 million as of June 30, 2009. Patriot maintains a second branch located in nearby Johnstown, Fulton County, New York. Both offices are located in middle-income census tracts.

The bank is a portfolio lender that offers a variety of loan products, including residential mortgage loans primarily for the purchase or refinance of one-to four-family dwellings as well as commercial mortgages. The bank also offers small business loans, home improvement and home equity loans, automobile loans, loans secured by deposit accounts, and unsecured consumer loans.

As of June 30, 2009, the loan portfolio totaled approximately \$51.2 million. Table 1 shows the distribution of loans by category.

<b>Loan Category</b>	<b>Amount (\$000's)</b>	<b>Percent of Total Loans</b>	<b>Percent of Total Assets</b>
Residential Mortgage	33,767	65.9	50.6
Nonresidential Mortgage	8,978	17.5	13.5
Commercial Non-Mortgage	6,660	13.0	10.0
Consumer	1,822	3.6	2.7
Total	51,227	100.0	76.8

Patriot's total assets stood at \$38.6 million at year-end 2007, just over a year after opening its doors, and grew by 45 percent at year-end 2008, and have since grown an additional 19 percent over the first six months of 2009. This growth was mostly fueled by increased commercial lending where portfolio balances rose 44 percent between 2007 and 2008 and another 14 percent over the first six months of 2009. Residential loan portfolio balances rose similarly between 2007 and 2008, but have declined by 8 percent thus far in 2009. Consumer loan balances have remained static over the review period. Funding the bank's loan and total asset growth was traditional deposit gathering as these balances have increased at very similar rates over the review period.

Based on the bank's size, financial condition, and the lack of any apparent legal impediments, the bank was financially capable of meeting community credit needs

**Institution (continued)**

**Description of Patriot Bank’s Assessment Area**

Patriot has defined its assessment area (AA) to include three contiguous counties in East-Central New York State west of Albany, the state capital. Fulton (15 census tracts) and Montgomery (16 census tracts) are rural non-metropolitan counties while Schoharie County (8 census tracts) is considered part of the Albany–Schenectady-Troy, NY MSA #10580 . The bank has no branches in the MSA portion of this assessment area. For the purpose of this evaluation the three counties are combined and the bank’s performance evaluated as one AA. The assessment area reflects 39 total census tracts (geographies) with 12 considered moderate-income and 26 considered middle-income census tracts. One census tract has an income “NA” classification. There are no low- or upper-income census tracts in the AA. Table 2 presents AA demographic data.

<b>Demographic Data</b>	<b>2000 Census</b>
Population	136,363
Total Families	35,974
1-4 Family Units	63,054
Multi-family Units	3,170
Mobile Homes or Trailers	7,383
% Owner-Occupied Units	58%
% Rental-Occupied Units	24%
% Vacant Housing Units	18%
Weighted Average Median Housing	\$67,603

Table 3 indicates the number of geographies in each income level and compares it to the distribution of families living in those geographies and to one-four-family units located within those geographies. The table illustrates demographic data based on 2004 Office of Management and Budget (OMB) revisions .

<b>Geography Income Level</b>	<b>Geographies</b>		<b>Total Area Families</b>		<b>1-4 Family Units</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>2004 Revision:</b>						
Moderate	12	30.8%	10,124	28.1%	19,422	30.8%
Middle	26	66.6%	25,850	71.9%	43,632	69.2%
Income NA	1	2.6%	0	0.0%	0	0.0%
<b>Total</b>	<b>39</b>	<b>100.0%</b>	<b>35,974</b>	<b>100.0%</b>	<b>63,054</b>	<b>100.0%</b>

**Institution (continued)**

According to the 2000 U.S. census data, 42.6 percent of the families in the AA are classified as low-or-moderate-income (LMI) with 8.8 percent of the families reporting income below the defined poverty level. The Department of Housing and Urban Development (HUD) annually adjusts the 2000 U.S. census data to update the income levels for current conditions. The adjusted figures are estimates and are used in the “Lending to Borrowers of Different Incomes” section of this evaluation. Table 4(a) presents the distribution of families in each income range in the combined AA.

<b>Table 4(a)- Distribution of Families In the Assessment Area</b>		
<b>Family Income Category (As a % of MSA/State Median)</b>	<b>2000 Census Data</b>	
	<b>Number</b>	<b>Percent</b>
Low (< 50%)	7,532	20.9%
Moderate (50% - 79%)	7,774	21.6%
Middle (80% - 119%)	8,366	23.3%
Upper (>= 120%)	12,302	34.2%
Total	35,974	100.0%

Table 4(b) shows the 2009 income ranges for persons residing in non-MSA portions of New York, where both of Patriot’s branches are located. Table 4(c) shows the median family income figures for each year of the review period for both the Albany–Schenectady-Troy, NY MSA #10580, due to the inclusion of Schoharie County in the assessment area, and the New York statewide non-MSA median income.

<b>Table 4(b) - Median Family Income Ranges (*)</b>		
<b>Income Category (As % of non-MSA Median)</b>	<b>Income Ranges</b>	
	<b>From</b>	<b>To</b>
Low (< 50%)	\$1	\$27,449
Moderate (50% - 79%)	\$27,449	\$43,919
Middle (80% - 119%)	\$43,919	\$65,879
Upper (>= 120%)	\$65,879	+

<b>Table 4(c) - Annual HUD Median Family Income</b>		
<b>Year</b>	<b>MSA</b>	<b>Non-MSA</b>
2006	66,200	49,600
2007	66,300	50,900
2008	70,600	52,700
2009	74,100	54,900

\* Based on HUD 2009 Statewide New York non-MSA Median Family Income

The economy in the assessment area appears to be stabilizing after prior sharp declines. The unemployment rates in Fulton, Montgomery, and Schoharie County rose dramatically between August 2008 and the evaluation date, but each rate has shown slight declines since that date.



### ***Institution (continued)***

We conducted an interview with a representative of a local economic development organization located in the AA. This individual stated that there are signs of a recovering economy recently. The contact indicated that several banks in the AA are active participants with various economic development programs that it offers. The contact specifically noted Patriot as having a working relationship with this entity.

### **Conclusions with Respect to Performance Tests**

#### **Loan-to-Deposit Analysis**

This analysis is conducted to determine if the bank's LTD ratio is reasonable given its business focus and market served. Patriot's performance under this factor meets the standards for satisfactory performance.

Patriot's loan-to-deposit (LTD) ratio averaged 85 percent over the fifteen quarters between bank opening and June 30, 2009. After the bank's first full year of operations, the ratio rose to 99 percent as of December 31, 2006. Subsequent to that point through the most recent reporting quarter, the LTD ratio fluctuated between 83 and 96 percent. Patriot's most recent quarterly LTD ratio stood at 87 percent. Comparison of this figure to the LTD ratio for nine other small financial banks operating in the same general part of the state yielded three banks with higher and five with lower ratios.

#### **Lending in the Assessment Area**

The bank's performance meets the standards for satisfactory performance under this factor.

Patriot is a traditional thrift primarily specializing in the origination of residential mortgage loans. Table 5 illustrates the total number and dollar amount of HMDA-reportable loans (home purchase, refinance, and home improvement loans) originated in and outside the combined AA during the 42-month review period ending June 30, 2009.

**Institution (continued)**

<b>Table 5 - Concentration of HMDA-Reportable Loans</b>					
<b>1/1/2006 – 6/30/2009</b>					
<b>(Dollars in thousands)</b>					
<b>Period By Year</b>	<b>In Assessment Area</b>		<b>Outside Assessment Area</b>		<b>Total HMDA Loans</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>
2006	70	76.9%	21	23.1%	91
2007	91	77.1%	27	22.9%	118
2008	122	85.9%	20	14.1%	142
2009 (6 months)	57	75.0%	19	25.0%	76
Total	340	79.6%	87	20.4%	427
	<b>\$ Amt</b>	<b>%</b>	<b>\$ Amt</b>	<b>%</b>	<b>\$ Amt</b>
2006	\$6,762	68.7%	\$3,084	31.3%	\$9,846
2007	\$9,525	74.1%	\$3,337	25.9%	\$12,862
2008	\$14,272	85.9%	\$2,349	14.1%	\$16,621
2009 (6 months)	\$6,882	72.6%	\$2,600	27.4%	\$9,482
Total	\$37,441	76.7%	\$11,370	23.3%	\$48,811

Patriot originated a majority of its mortgage loans within the assessment area over the review period. By product type, home purchase loans saw a slightly lower (but still a solid majority) percentage in the assessment area while a higher percentage of home improvement loans were originated in the assessment area when compared to the overall HMDA loan penetration in the assessment area.

**Lending to Borrowers of Different Incomes**

The bank has demonstrated a reasonable distribution of lending based on the income level of the borrower and the bank meets the standards for satisfactory performance.

As part of our lending analysis, we reviewed Patriot’s distribution of mortgage loans among borrowers of different income levels within the AA. Table 6 illustrates loan originations, categorized by borrower income level, that were reported by Patriot during the review period.

**Institution (continued)**

<b>Table 6 - Distribution of Patriot's HMDA-Reportable Loans By Borrower Income Level in the Assessment Area (Dollars in thousands)</b>								
<b>Borrower Inc. Level</b>	<b>2006</b>		<b>2007</b>		<b>2008</b>		<b>1/1/09- 6/30/09</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Low	3	4.3%	6	6.6%	9	7.4%	1	1.8%
Moderate	15	21.4%	14	15.4%	21	17.2%	11	19.3%
Middle	17	24.3%	20	22.0%	23	18.9%	18	31.6%
Upper	35	50.0%	49	53.9%	64	52.4%	23	40.3%
Income NA	0	0.0%	2	2.2%	5	4.1%	4	7.0%
<b>Total</b>	<b>70</b>	<b>100.0%</b>	<b>91</b>	<b>100.0%</b>	<b>122</b>	<b>100.0%</b>	<b>57</b>	<b>100.0%</b>
	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
Low	\$113	1.7%	\$347	3.6%	\$443	3.1%	\$50	0.7%
Moderate	921	13.6%	1,125	11.8%	1,280	9.0%	723	10.5%
Middle	1,630	24.1%	1,631	17.1%	2,689	18.8%	1,729	25.1%
Upper	4,098	60.6%	6,317	66.4%	9,355	65.6%	3,579	52.1%
Income NA	0	0.0%	105	1.1%	505	3.5%	801	11.6%
<b>Total</b>	<b>\$6,762</b>	<b>100.0%</b>	<b>\$9,525</b>	<b>100.0%</b>	<b>\$14,272</b>	<b>100.0%</b>	<b>\$6,882</b>	<b>100.0%</b>

Table 7 reflects Patriot's overall borrower distribution activity during the review period and compares this activity to the 2006 and 2007 aggregate reporter's percentages.

<b>Table 7 - Comparison of HMDA Loans By Borrower Income Level in the Assessment Area (Dollars in thousands)</b>				
<b>Borrower Income Level</b>	<b>Review Period</b>		<b>Aggregate Lenders</b>	
	<b>1/1/06 – 6/30/09</b>		<b>2006</b>	<b>2007</b>
	<b>#</b>	<b>%</b>	<b>% by #</b>	<b>% by #</b>
Low	19	5.6%	10.1%	10.5%
Moderate	61	17.9%	22.7%	23.8%
Middle	78	22.9%	26.5%	28.6%
Upper	171	50.3%	31.6%	32.5%
Income NA	11	3.3%	9.1%	4.6%
<b>Total</b>	<b>340</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
	<b>\$</b>	<b>%</b>	<b>% by \$</b>	<b>% by \$</b>
Low	\$953	2.5%	6.4%	6.4%
Moderate	4,049	10.8%	17.5%	18.0%
Middle	7,679	20.5%	25.3%	26.9%
Upper	23,349	62.4%	40.8%	42.7%
Income NA	1,411	3.8%	10.0%	6.0%
<b>Total</b>	<b>\$37,441</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

***Institution (continued)***

For 2006 and 2007, Patriot granted somewhat fewer loans on a percentage basis to low-and-moderate-income (LMI) borrowers when compared to aggregate lending data for the assessment area. For 2006, the bank originated 25.7 percent of mortgage loans to LMI borrowers whereas aggregate records reflected 32.8 percent of all HMDA loans granted to LMI borrowers. Similar performance is noted for 2007 with 22.0 percent of bank loans to LMI versus 34.3 percent by aggregate. Patriot’s performance in reaching moderate-income borrowers was comparable to aggregate in both years, but the bank had some difficulty in reaching low-income borrowers. LMI lending increased in 2008 to 24.6 percent and to low-income borrowers particularly at 7.4 percent. Partial year 2009 performance is down, but these results may be more of a function of the economy. Patriot has only been open since late 2005 and full year LMI lending trends are improving.

While Patriot’s lending is lower on a percentage basis, it must be viewed in context with overall performance in the assessment area. Had Patriot been a HMDA reporter, it would have been the ninth leading HMDA lender in the assessment area in 2006 and it would have risen to the fifth leading HMDA lender for 2007. In terms of lending solely to LMI borrowers, Patriot would have been the 16<sup>th</sup> leading lender in 2006 and its standing would have risen one spot to 15<sup>th</sup>.

**Geographic Distribution of Loans**

Based on competitive factors and the demographics of the AA, Patriot’s distribution of loans to moderate-income geographies meets the standard for satisfactory performance.

As part of our lending analysis, we reviewed Patriot’s distribution of loans among geographic areas of different income levels within the AA. Table 8 illustrates loan originations, categorized by geography income level, that were reported by Patriot during the review period.

<b>Table 8 - Distribution of Patriot’s HMDA-Reportable Loans By Geography Income Level in the Assessment Area (Dollars in thousands)</b>								
<b>Geography Inc. Level</b>	<b>2006</b>		<b>2007</b>		<b>2008</b>		<b>1/1/09- 6/30/09</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Moderate	6	8.6%	4	4.4%	15	12.3%	4	7.0%
Middle	64	91.4%	87	95.6%	107	87.7%	53	93.0%
Total	70	100.0%	91	100.0%	122	100.0%	57	100.0%
	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
Moderate	\$817	12.1%	\$412	4.3%	\$1,429	10.0%	\$612	8.9%
Middle	5,945	87.9%	9,113	95.7%	12,843	90.0%	6,270	91.1%
Total	\$6,762	100.0%	\$9,525	100.0%	\$14,272	100.0%	\$6,882	100.0%

**Institution (continued)**

Table 9 reflects Patriot’s overall geography distribution activity during the review period and compares this activity to the 2006 and 2007 aggregate reporter’s percentages.

<b>Table 9 - Comparison of HMDA Loans By Geography Income Level in the Assessment Area (Dollars in thousands)</b>				
<b>Geography Income Level</b>	<b>Review Period</b>		<b>Aggregate Lenders</b>	
	<b>1/1/06 – 6/30/09</b>		<b>2006</b>	<b>2007</b>
	<b>#</b>	<b>%</b>	<b>% by #</b>	<b>% by #</b>
Moderate	29	8.5%	28.1%	28.6%
Middle	311	91.5%	71.9%	71.4%
Total	340	100.0%	100.0%	100.0%
	<b>\$</b>	<b>%</b>	<b>% by \$</b>	<b>% by \$</b>
Moderate	3,270	8.7%	26.9%	26.8%
Middle	34,141	91.3%	73.1%	73.2%
Total	\$37,411	100.0%	100.0%	100.0%

Patriot has had limited success in reaching moderate-income assessment area geographies with mortgage loans. For 2006, Patriot extended 8.6 percent of its mortgage loans in moderate-income tracts whereas aggregate data reflects a 28.1 percent penetration rate into these tracts. Similarly for 2007, Patriot extended 4.4 percent whereas aggregate data reflects a 28.6 percent rate in originated loans in moderate-income tracts. Modest improvement was noted in 2008 with a 12.3 percent moderate-income penetration rate, but performance has again declined for partial year 2009 at 7.0 percent. There was no significant difference in the above percentage by product type, i.e. home purchase or refinancing.

One of the primary reasons for the lack of lending in moderate-income geographies may be the lack of proximity of Schoharie County in the bank’s assessment area. The county is further south than the two counties (Montgomery and Fulton) that are home to Patriot offices. Given the bank’s small size, it may have difficulty attracting significant lending volumes from Schoharie County, especially considering that there are a number of banking options in Schoharie, Albany, and Schenectady Counties. Of the twelve moderate-income census tracts in Patriot’s assessment area, five are in Schoharie County. Patriot has granted a mere nine mortgage loans over the 42 month review period in Schoharie County as a whole, however, eight of those nine mortgages were extended in moderate-income Schoharie geographies. While the bank may have difficulty reaching Schoharie County, it is clearly not ignoring the needs of moderate-income geographies therein.

***Institution (continued)***

**Response to Complaints**

Patriot has not received any CRA-related complaints since it opened for business.

**Fair Lending or Other Illegal Credit Practices Review**

A concurrently conducted compliance examination disclosed no violations of the substantive provisions of the anti-discrimination laws.

## **CRA Rating Definitions**

There are four separate and distinct CRA assessment methods set forth in the CRA: the lending, investment, and service tests for large, retail institutions; the streamlined examination method for small institutions; the community development test for wholesale and limited purpose institutions; and the strategic plan option for all institutions. OTS will assign an institution one of the four assigned ratings required by Section 807 of the CRA:

1. "Outstanding record of meeting community credit needs."
2. "Satisfactory record of meeting community credit needs."
3. "Needs to improve record of meeting community credit needs."
4. "Substantial noncompliance in meeting community credit needs."

OTS judges an institution's performance under the test and standards in the rule in the context of information about the institution, its community, its competitors, and its peers. Among the factors to evaluate in an examination are the economic and demographic characteristics of the assessment area(s); the lending, investment, and service opportunities in the assessment area(s); the institution's product offerings and business strategy; the institution's capacity and constraints; the prior performance of the institution; in appropriate circumstances, the performance of a similarly situated institution; and other relevant information. An institution's performance need not fit each aspect of a particular rating profile in order to receive that rating, and exceptionally strong performance with respect to some aspects may compensate for weak performance in others. The institution's overall performance, however, must be consistent with safe and sound banking practices and generally with the appropriate rating profile. In addition, OTS adjusts the evaluation of an institution's performance under the applicable assessment method in accordance with §563e.21 and §563e.28, which provide for adjustments on the basis of evidence of discriminatory or other illegal credit practices.