



**NEW YORK STATE BANKING DEPARTMENT
CONSUMER SERVICES DIVISION**

One State Street
New York, NY 10004

PUBLIC SUMMARY

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

Date of Evaluation: December 31, 2001

Institution: Bank of Smithtown
One East Main Street
Smithtown, NY 11787

Note: This evaluation is not an assessment of the financial condition of this institution. The rating assigned does not represent an analysis, conclusion or opinion of the New York State Banking Department concerning the safety and soundness of this financial institution.

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GENERAL INFORMATION

This document is an on-site evaluation of the Community Reinvestment Act ("CRA") performance of Bank of Smithtown ("BoS") prepared by the New York State Banking Department. The evaluation represents the Banking Department's current assessment and rating of the institution's CRA performance based on an evaluation conducted as of December 31, 2001.

Section 28-b of the New York State Banking Law, as amended, requires that when evaluating certain applications, the Superintendent of Banks shall assess a banking institution's record of helping to meet the credit needs of its entire community, including low and moderate income areas, consistent with safe and sound operations.

Part 76 of the General Regulations of the Banking Board implements Section 28-b and further requires that the Banking Department assess the CRA performance records of regulated financial institutions. Part 76 establishes the framework and criteria by which the Department will evaluate the performance. Section 76.5 further provides that the Banking Department will prepare a written report summarizing the results of such assessment and will assign to each institution a numerical CRA rating based on a 1 to 4 scoring system. The numerical scores represent an assessment of CRA performance as follows:

- (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; and
- (4) substantial noncompliance in meeting community credit needs.

Section 76.5 further requires that the CRA rating and the written summary be made available to the public ("Evaluation"). Evaluations are primarily based on a review of performance tests and standards described in Section 76.7 and detailed in Sections 76.8 – 76.13. The tests and standards incorporate the 12 assessment factors contained in Section 28-b of the New York State Banking Law.

For explanation of technical terms used in this report, please consult the *GLOSSARY* at the back of this document.

OVERVIEW OF INSTITUTION'S PERFORMANCE

Overall Rating

Bank of Smithtown is rated "2", indicating a "satisfactory" record helping to meet community credit needs. While the bank's performance was weak or only marginally adequate in several respects, the fact that BoS only recently became a large bank supported a somewhat lenient application of certain performance standards. In order to retain a satisfactory rating, the bank will need to address these shortcomings going forward.

Lending Test- "Low Satisfactory"

- **Lending Activity:** "High Satisfactory"

The Bank of Smithtown is an active lender with a net loan to deposit ("LTD") ratio well above that of its peers. On the assessment date, the bank had an LTD ratio of 89.13%, well above the peer average of 79.98%. In addition, the bank's LTD for the three-year period beginning in 1999 was 86.71%, compared with the peer average of 78.53%.

- **Assessment Area Lending:** "Outstanding"

The bank made a substantial majority of its small business loans and a majority of its Home Mortgage Disclosure Act ("HMDA")-reportable loans within its assessment area.

- Small business loan data is not available for 2000, as the bank was not required to file government monitoring information when it was a small bank. In 2001, BoS originated 88.5% by number and 82.2% by dollar volume of its small business loans within the assessment area.
- The two-year weighted average of HMDA-reportable loans reveals that 70.9% by number and 53.8% by dollar volume were made within the bank's assessment area. The assessment area concentration for HMDA loans declined significantly between the two years.

- **Geographic Distribution:** "Low Satisfactory"

The bank's geographic distribution of loans represents adequate dispersion throughout the assessment area.

- In 2001, the bank originated 12.9% by number and 17% by dollar volume of its small business loans in LMI areas. The bank's LMI penetration rates are well

above the 8.1% and 4.5% LMI percentages achieved by the aggregate for the number and dollar volume of loans, respectively.

- The bank's LMI penetration rates for HMDA-reportable loans were well below the aggregates' for both 2000 and 2001. Specifically, in 2000, the bank extended only 10.9% of its loans in LMI areas, significantly below the 22.0% penetration rate achieved by the aggregate. In terms of dollar volume, the bank originated 13% of its loans in LMI areas, also well below the 18.9% penetration rate achieved by the aggregate. Data for 2001 reveals weakened performance relative to its peers, with only 6.7% by number and 5.4% by dollar volume of HMDA loans extended in LMI areas. These LMI penetration rates are further below the aggregate's rates of 20.3% by number and 17.7% by dollar volume, respectively.

- **Borrower Characteristics: "Low Satisfactory"**

The bank's lending distribution reflects adequate penetration among individuals of different income levels and businesses of different sizes.

- The data indicates a broad distribution of small business loans of various sizes within the assessment area by number of loans, with a relatively low percentage extended by the bank in origination amounts of \$100 thousand or less. Specifically, in 2001 the bank extended 36.7% of its total small business loans in origination amounts of \$100 thousand or less. For the same period, the aggregate extended 95.5% of its loans in amounts in \$100 thousand or less, reflecting greater emphasis on meeting the credit needs of smaller businesses. The data reveals that BoS extended a relatively high proportion of loans with origination amounts greater than \$250 thousand, suggesting that it focused on businesses at the higher end of the revenue spectrum.
- On the other hand, in 2001 the bank extended 59.7% by number and 57.9% by dollar volume of its small businesses loans in the assessment area to businesses with gross annual revenues of \$1 million or less. In this category, the bank outperformed the aggregate, which extended 41.4% by number and 38.4% by dollar volume of its small business loans to businesses with gross annual revenues of \$1 million or less.
- The bank's HMDA-related lending reflects adequate penetration among individuals of different income levels. In 2000, BoS originated 16.4% by number and 4.9% by dollar volume of its loans to LMI borrowers, significantly below the 30% and 19.2% LMI penetration rates achieved by the aggregate. While the bank originated fewer loans and smaller dollar volume in 2001, its LMI penetration rates of 15.6% and 5.9% were slightly closer to the aggregate's rate of 26.5% and 18.2%, respectively, for that year.

- **Community Development Lending: “Low Satisfactory”**

The bank’s community development loans totaled \$266 thousand for the evaluation period. While representing a relatively low volume of activity for an institution of its size and capacity, this level is considered marginally adequate for an institution that only recently became a “large bank” for purposes of its evaluation under the CRA.

Investment Test - “Needs to Improve”

- The bank’s qualified investment activity for the assessment period is extremely limited and needs to improve.
- Qualified investments were limited to the bank’s contribution of \$31 thousand in 2001 to the Affordable Housing Program (AHP) of the Federal Home Loan Bank of New York, representing its pro rata share of the 10% of profits set-aside annually by the FHLBNY for this program.

Service Test - “Low Satisfactory”

- Given the significantly expanded assessment area utilized for this evaluation, the bank’s delivery systems are only marginally accessible to all customers from all parts of the assessment area. While the performance context allows for a degree of leniency in this evaluation, unless addressed, the lack of branches accessible to LMI communities will present a more significant issue for this bank at future evaluations.
- All branches provide extended working hours on Fridays and remain open on Saturdays from 9:00 a.m. to 12:00 p.m. BoS also provides drive up window services at its branches to all customers while the branches are open. Additionally, 24-hour ATM facilities and night depositories are available.
- While BoS participates in community activities and on the boards of local organizations, historically these relationships have not generally been with groups that have a primary purpose of community development. The bank is urged to significantly increase its community development services going forward.

This on-site Evaluation was conducted based on a review of the 12 assessment factors set forth in Section 28-b of the New York State Banking Law and Part 76 of the General Regulations of the Banking Board.

PERFORMANCE CONTEXT

Institution's Profile:

Chartered Bank in 1910, BoS is a full service commercial bank that is wholly owned by the Smithtown Bancorp, a one-bank holding company. The institution is a member of the Federal Reserve System and is FDIC insured.

In addition to its head office, located in the Town of Smithtown, Suffolk County, the bank operates six full service branches in the communities of Commack, Hauppauge, Kings Park, Centereach, Lake Grove and Northport. All of the bank's offices are located in its assessment area in the north central region of Suffolk County on eastern Long Island. All branches are equipped with 24-hour Automated Teller Machines (ATMs) and are networked through the NYCE system.

As of June 30, 2001, Bank of Smithtown ranked 17th out of 25 banks in Suffolk County with a deposit market share of 1.26%, up from 0.83% at June 30, 1999. In contrast, BoS had only a 0.16% market share and ranked 133 of 464 lenders originating HMDA loans within its assessment area during 2001.

As of December 31, 2001, the bank reported \$380.2 million in total assets comprised primarily of \$281.7 million (74.1%) in net loans and leases, \$67.3 million (17.7%) in securities, and \$10.8 million (2.83%) in cash and due from depository institutions. The bank reported total deposits of \$312.6 million and equity of \$26.5 million. For the year 2001, the bank generated net income of \$6.1 million, realizing a 1.6% return on assets and a 23.1% return on equity.

The bank's lending products include:

- Mortgages:
 - Commercial mortgages
 - Residential mortgages
 - Multifamily mortgages
 - Home Equity Loans/Lines of Credit
- Consumer Loans:
 - Home/Property Improvement Loans
 - Personal Loans
 - Automobile Loans
 - Passbook Savings Loans
- Business Loans
 - Business Mortgage Loans
 - Business Loans
 - Business Lines of Credit

The bank offers a wide range of commercial and consumer loans, but has its largest concentration in real estate-related lending which has grown to approximately 90% of the gross portfolio. More specifically, commercial (non-residential) mortgages comprise approximately half, while one-to-four family, multifamily and construction loans total another 40%, of the bank's portfolio. Commercial and industrial loans have declined in importance from nearly 20% of the portfolio in 1999 to less than 10% as of the assessment date.

The following table provides a summary of the bank's lending distribution, by type, over the past three years:

TOTAL GROSS LOANS OUTSTANDING						
LOAN TYPES	12/31/2001		12/31/2000		12/31/1999	
	\$000	%	\$000	%	\$000	%
Commercial Mortgage Loans	145,255	51.5	113,457	49.7	81,337	46.0
1-4 Family Residential Mortgage Loans	63,206	22.4	37,498	16.4	29,644	16.8
Multifamily Mortgage Loans	10,696	3.8	12,420	5.4	7,816	4.4
Consumer Loans	2,821	1.0	9,399	4.1	3,350	1.9
Commercial and Industrial Loans	24,651	8.7	31,606	13.8	31,997	18.1
Construction and Land Development Loans	35,188	12.5	23,737	10.4	22,564	12.8
Other Loans	273	0.1	203	0.1	112	0.01
Total Gross Loans	282,090	100%	228,320	100%	176,820	100%

During the evaluation period, the bank did not open or close any offices. However, it opened branches in Setauket and Rocky Point during the first half of 2002, after the close of the assessment period.

The bank's government-related lending is limited to the following:

BoS offers commercial financing under the Section 504 program of U.S Small Business Administration (SBA) and Long Island Development, Corporation (LIDC). The program allows the borrower a higher loan to value (LTV) and a smaller equity injection than normal bank policy guidelines of 75% and 25%, respectively. On the evaluation date, the bank had three loans with \$1.1 million outstanding under this program.

Additionally, the BoS is an approved FNMA lender and in December 2001, it sold a loan of \$85,522 to FNMA.

The bank received a rating of “2” at its last Performance Evaluation by the New York State Banking Department on March 31, 1999, reflecting “satisfactory” performance in helping to meet the credit needs of its assessment area. The 1999 evaluation was based on the “small bank” performance standards.

There were neither legal nor financial impediments noted that would adversely impact the bank’s ability to meet the credit needs of its community.

Assessment Area:

Bank of Smithtown has delineated Suffolk County, Long Island in its entirety as its CRA assessment area, reflecting the locations of its headquarters and branch offices. This represents a significant expansion in size compared with the delineation for the last evaluation, which encompassed only 75 census tracts surrounding the bank’s branches.

Suffolk County is suburban in nature and is part of Primary Metropolitan Statistical Area (PMSA) 5380 (Nassau-Suffolk, NY). Suffolk County is comprised of 312 census tracts. The largest segment is middle income, comprising 66% of all tracts, followed by moderate-income at 19%, upper-income at 13%, no-income at 2% and low-income at less than one percent.

U.S. Census Bureau data reveals that Suffolk County had a population of 1.3 million in 1990 that increased by 7.4% to 1.4 million in 2000. In 1990, there were 343.6 thousand families in the county, of which 39.0% were considered low- to moderate-income (“LMI”), 27.6% were middle-income and 33.4% were upper-income. There were 424.6 thousand households in the county of which 4.9% had income below the poverty level. The 1990 median family income for the county was \$53.2 thousand, slightly below the median family income for the MSA of \$56.7 thousand. HUD’s estimated median family income for the MSA increased to \$78.7 thousand in 2000.

There were 481.3 thousand housing units in Suffolk County, of which 91.2% were 1 to 4 family units and 6.6% were multifamily units. Owner-occupied units comprised 70.7% of the county’s housing units, while 17.5% were renter occupied and the remainder was vacant or boarded up. The median housing value was \$178.3 thousand and the median age of the housing was 27 years.

According to a 2000 Dun and Bradstreet survey there were 74.3 thousand businesses in Suffolk County, of which 85.1% had revenues of \$1 million or less. Businesses with fewer than 50 employees comprised 92.7% and 87.4% operated from a single location.

County business in Suffolk are segmented as follows: 39.5% were service providers, 19.3% were in the retail trade, 12.9% in construction, 7.3% in finance, insurance and real estate, 7.0% in the wholesale trade and 6.1% in manufacturing.

Portions of Suffolk County are designated as Economic Development Zones (EDZ) by the State of New York, based on community economic distress. Brookhaven,

Riverhead and Islip have been designated EDZs. Firms located in these areas may be eligible for assistance including various tax credits, such as wage tax credits, investment tax credits, zone capital credits, sales tax refunds, real property tax abatements, technical assistance and utility rate savings.

PERFORMANCE TESTS AND ASSESSMENT FACTORS

This performance evaluation was based on a review of the bank's lending, investment, and service activities within its assessment area for calendar years 2000 and 2001. This is Bank of Smithtown's first CRA evaluation under *Large Bank* performance standards.

Statistics utilized in this evaluation were derived from various sources. In addition to bank-specific loan information, which was submitted by the bank, aggregate data for HMDA-reportable loans and small business loans were obtained from the Federal Financial Institutions Examination Council ("FFIEC") and PCI Services, Inc. CRA Wiz®, an external vendor. Demographic data was derived from the 1990 U.S. Census, supplemented by the 2000 HUD-estimated median family income.

Peer comparisons for the bank's HMDA-reportable and small business loans were based upon the 2000 and 2001 aggregates, respectively.

I. Lending Test: "Low Satisfactory"

The bank's lending performance was evaluated pursuant to the following criteria: (1) Lending Activity; (2) Geographic Distribution; (3) Borrower Characteristics; (4) Community Development Lending; and (5) Innovative or Flexible Lending Practices.

In the analysis of factors (1), (2), and (3) above, examiners focused primarily on the bank's small business and HMDA-reportable loans. In arriving at the component ratings, small business loans, as the bank's primary product, received greater emphasis.

Overall, the bank's lending performance is considered "Low Satisfactory", based on the following:

Lending Activity: "High Satisfactory"

The Bank of Smithtown is an active lender with a net loan to deposit (LTD) ratio well above the peer average, both for the single year and for the three-year period ending on December 31, 2001. On the assessment date, the bank had an LTD of 89.13%, well above the peer average of 79.98%. The bank's LTD ratio for the three-year period was 86.71%, compared with the peer average of 78.53%.

Net Loans and Leases to Deposits	12/31/2001	12/31/2000	12/31/1999	Average
Bank of Smithtown	89.13%	87.65%	83.36%	86.71%
Peer Group	79.98%	80.03%	75.57%	78.53%

Assessment Area Lending: “High Satisfactory”

A substantial majority of the bank’s small business loans and a majority of its HMDA-reportable loans were made within its assessment area.

Small Business Loans

Small business loan data was not available for 2000. However, in 2001, BoS originated 88.5% of its small business loans by number and 82.2% by dollar volume within the assessment area. These percentages reflect 157 small business loan originations totaling \$41.0 million, of which 139 loans for \$33.7 million were within the assessment area.

The following chart provides a summary of the bank’s assessment area lending:

Assessment Area Lending			
Bank of Smithtown			
		Year	Year
HMDA Summary		2000	2001
			Two-Year
			Weighted Avg
		Number of Loans	
Total Originations		56	85
Total AA Originations		55	45
% In Assessment Area		98.2%	52.9%
			70.9%
		By \$ Volume (000s)	
Total Originations		\$ 12,310	\$ 20,834
Total AA Originations		\$ 12,260	\$ 5,565
% In Assessment Area		99.6%	26.7%
			53.8%
Small Business Loans			
		2000	2001
			Two-Year
			Weighted Avg
		Number of Loans	
Total Originations		N/A	157
Total AA Originations		N/A	139
% In Assessment Area		N/A	88.5%
			88.5%
		By \$ Volume (000s)	
Total Originations		N/A	\$ 41,014
Total AA Originations		N/A	\$ 33,702
% In Assessment Area		N/A	82.2%
			82.2%

HMDA Loans

The two-year weighted average of HMDA-reportable loans reveals assessment area concentrations of 70.9% by number and 53.8% by dollar volume.

In 2000, 55 of 56 HMDA loans, or 98.2%, were originated within the assessment area. Of \$12.3 million in total originations, \$12.3 million or 99.6% were in the assessment area. The very high assessment area concentration reported for 2000 declined sharply

in 2001, when the bank extended only 45 (52.9%) of 85 HMDA loans within the assessment area. The decline in dollars was even more dramatic as the bank originated \$20.8 million in total, but only \$5.6 million (26.7%) of its loans within the assessment area.

Geographic Distribution of Loans: “Low Satisfactory”

The bank’s geographic distribution of loans reflects adequate dispersion throughout the assessment area.

Small Business Loans

BoS was not required to report government monitoring information on its small business lending activities for 2000; therefore, the analysis of this product is limited to its activities for 2001. Aggregate data for 2000 is shown in the chart below for illustrative purposes.

Small Business Loans		Bank of Smithtown				Aggregate		
AA Originations	Year	2000	Year	2001	Year	2000	Year	2001
Tract Income	Count	\$000's	Count	\$000's	Count	\$000's	Count	\$000's
Low Income	N/A	N/A	-	-	25	\$ 512	29	\$ 569
Moderate Income	N/A	N/A	18	5,727	556	\$ 8,303	678	\$ 10,722
Middle Income	N/A	N/A	99	20,812	5,612	\$ 173,837	6,443	\$ 200,380
Upper Income	N/A	N/A	22	7,163	1,572	\$ 30,904	1,584	\$ 35,496
N/A	N/A	N/A	-	-	-	\$ -	-	\$ -
Total	N/A	N/A	139	33,702	7,765	\$ 213,556	8,734	\$ 247,167
Tract Income	%	%	%	%	%	%	%	%
Low Income	N/A	N/A	0.0%	0.0%	0.3%	0.2%	0.3%	0.2%
Moderate Income	N/A	N/A	12.9%	17.0%	7.2%	3.9%	7.8%	4.3%
Middle Income	N/A	N/A	71.2%	61.8%	72.3%	81.4%	73.8%	81.1%
Upper Income	N/A	N/A	15.8%	21.3%	20.2%	14.5%	18.1%	14.4%
N/A	N/A	N/A	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	N/A	N/A	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

In 2001, the bank originated 18 of 139 small business loans totaling \$5.7 million in LMI geographies, representing 12.9% by number and 17% by dollar volume of all assessment area small business loans. These penetration rates compare very favorably to the aggregate, which originated 8.1% by number and 4.5% by dollar volume of its loans, in LMI tracts.

HMDA Loans

In contrast, the bank’s LMI area penetration for HMDA loans was much weaker than that of its peers.

Of 55 HMDA loans originated in the assessment area in 2000, six loans or 10.9%, were originated in LMI geographies. This is approximately 50% below the 22.0% LMI area penetration rate achieved by the aggregate. In terms of dollar volume, the bank extended \$1.6 million or 13% of its loans in LMI areas, approximately 31% less than the 18.9% penetration rate achieved by the aggregate.

As the charts below illustrate, the bank's largest concentration of HMDA-lending was in middle-income tracts, with 37 loan originations for \$6.2 million, representing 67.3% of the number and 50.4% of the dollar volume extended.

Geographical Distribution								
Bank of Smithtown								
Assessment Area								
HMDA Reportable	Bank of Smithtown				Aggregate		AA-Only	
2000	Applications		Originations		Applications		Originations	
Tract Income	Count	\$000's	Count	\$000's	Count	\$000's	Count	\$000's
Low Income	-	-	-	-	153	13,126	55	4,571
Moderate Income	15	3,607	6	1,598	21,803	2,383,625	9,072	1,149,446
Middle Income	69	11,369	37	6,185	59,241	7,520,796	27,281	3,944,085
Upper Income	23	7,065	12	4,477	8,703	1,631,770	4,793	945,242
N/A	-	-	-	-	661	142,380	290	82,896
Total	107	22,041	55	12,260	90,561	11,691,697	41,491	6,126,240
2000	Applications		Originations		Applications		Originations	
Tract Income	Count	\$000's	Count	\$000's	Count	\$000's	Count	\$000's
Low Income	0.0%	0.0%	0.0%	0.0%	0.2%	0.1%	0.1%	0.1%
Moderate Income	14.0%	16.4%	10.9%	13.0%	24.1%	20.4%	21.9%	18.8%
Middle Income	64.5%	51.6%	67.3%	50.4%	65.4%	64.3%	65.8%	64.4%
Upper Income	21.5%	32.1%	21.8%	36.5%	9.6%	14.0%	11.6%	15.4%
N/A	0.0%	0.0%	0.0%	0.0%	0.7%	1.2%	0.7%	1.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Data for 2001 reveals even weaker performance by BoS, relative to its peers. The bank's LMI area penetration rates for that year were 67% and 69% lower than the rates achieved by the aggregate for the number and dollar volume of loans, respectively.

Of 45 HMDA-reportable loans originated in the assessment area, BoS extended only three loans (6.7%) totaling \$301 thousand (5.4%) in LMI geographies. This is substantially lower than the aggregate, which made 20.3% by number and 17.7% by dollar volume of its assessment area loans in LMI areas.

As the charts below illustrate, the bank's highest proportion of HMDA-lending was in middle-income tracts, with 29 loan originations for \$3.239 million representing 64.4% of the number and 58.2% of the dollar volume extended.

Tract Income	Bank of Smithtown				Aggregate		AA-Only	
Assessment Area	Applications		Originations		Applications		Originations	
2001	Count	\$000's	Count	\$000's	Count	\$000's	Count	\$000's
Low Income	-	-	-	-	212	22,025	75	9,116
Moderate Income	7	401	3	301	29,089	3,782,546	13,918	2,033,464
Middle Income	47	4,760	29	3,239	87,087	12,982,139	46,502	7,586,195
Upper Income	19	2,800	13	2,025	13,162	2,889,137	7,984	1,809,124
N/A	-	-	-	-	574	146,709	358	90,032
Total	73	7,961	45	5,565	130,124	19,822,556	68,837	11,527,931
Tract Income	Applications		Originations		Applications		Originations	
2001	Count	\$000's	Count	\$000's	Count	\$000's	Count	\$000's
Low Income	0.0%	0.0%	0.0%	0.0%	0.2%	0.1%	0.1%	0.1%
Moderate Income	9.6%	5.0%	6.7%	5.4%	22.4%	19.1%	20.2%	17.6%
Middle Income	64.4%	59.8%	64.4%	58.2%	66.9%	65.5%	67.6%	65.8%
Upper Income	26.0%	35.2%	28.9%	36.4%	10.1%	14.6%	11.6%	15.7%
N/A	0.0%	0.0%	0.0%	0.0%	0.4%	0.7%	0.5%	0.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Borrower Characteristics: "Low Satisfactory"

The bank's lending distribution reflects adequate penetration among individuals of different income levels and businesses of different sizes.

Small Business Loans

The tables below reflect the distribution of assessment area small business loans for the bank and the aggregate of all reporting lenders. It indicates a broad distribution of small business loans of various sizes within the assessment area by number of loans, with a relatively low percentage extended by the bank in origination amounts of \$100 thousand or less. Specifically, in 2001 the bank extended 51 loans for \$2.2 million in amounts of \$100 thousand or less, representing 36.7% of its total small business loans. In contrast, the aggregate extended 95.5% of its loans in amounts in \$100 thousand or less, reflecting a far greater emphasis on meeting the credit needs of smaller businesses. The data reveals that BoS extended a relatively high proportion of loans with origination amounts greater than \$250 thousand, suggesting that it focused on businesses at the higher end of the revenue spectrum.

Small Business Lending			Distribution by Loan Size	
2000	Bank of Smithtown		Aggregate	
Loan Size	Count	Amount	Count	Amount
<\$100K	N/A	\$ N/A	7,425	\$ 97,036
\$100-\$250K	N/A	\$ N/A	178	\$ 33,279
>\$250K	N/A	\$ N/A	162	\$ 83,241
Total	N/A	\$ N/A	7,765	\$ 213,556
Percentages				
2000	Bank of Smithtown		Aggregate	
Loan Size	Count	Amount	Count	Amount
<\$100K	N/A	N/A	95.6%	45.4%
\$100-\$250K	N/A	N/A	2.3%	15.6%
>\$250K	N/A	N/A	2.1%	39.0%
Total	N/A	N/A	100.0%	100.0%
2001	Bank of Smithtown		Aggregate	
Loan Size	Count	Amount	Count	Amount
<\$100K	51	\$ 2,191	8,342	\$ 100,940
\$100-\$250K	38	\$ 6,651	184	\$ 34,040
>\$250K	50	\$ 24,860	208	\$ 112,187
Total	139	\$ 33,702	8,734	\$ 247,167
Percentages				
2001	Bank of Smithtown		Aggregate	
Loan Size	Count	Amount	Count	Amount
<\$100K	36.7%	6.5%	95.5%	40.8%
\$100-\$250K	27.3%	19.7%	2.1%	13.8%
>\$250K	36.0%	73.8%	2.4%	45.4%
Total	100.0%	100.0%	100.0%	100.0%

Of the 139 small business loans for \$33.7 million extended by the bank in its assessment area in 2001, 83 loans for \$19.5 million were made to businesses with gross annual revenues of \$1 million or less, representing 59.7% by number and 57.9% by dollar volume of the total. In this category, the bank outperformed the aggregate, which extended 41.4% by number and 38.4% by dollar volume of its small business loans to businesses having gross annual revenues of \$1 million or less.

HMDA Loans

The distribution of HMDA-related loans according to borrower characteristics for 2000 and 2001 is shown in the tables below.

Distribution by Borrower Characteristics								
Assessment Area Only			Bank of Smithtown		Aggregate			
2000	Applications		Originations		Applications		Originations	
Applicant Income	Count	\$000's	Count	\$000's	Count	\$000's	Count	\$000's
Low Income	10	\$ 243	5	\$ 188	9,074	\$ 677,253	2,879	\$ 210,893
Moderate Income	16	\$ 1,565	4	\$ 408	21,493	\$ 2,064,107	9,562	\$ 966,949
Middle Income	16	\$ 2,406	8	\$ 1,163	23,390	\$ 2,663,446	12,169	\$ 1,467,864
Upper Income	62	\$17,691	35	\$10,365	23,002	\$ 4,716,945	13,289	\$ 2,890,288
N/A	3	\$ 136	3	\$ 136	13,602	\$ 1,569,946	3,592	\$ 590,246
Total	107	\$22,041	55	\$12,260	90,561	\$11,691,697	41,491	\$ 6,126,240
2000								
% of Total	Count	\$000's	Count	\$000's	Count	\$000's	Count	\$000's
Low Income	9.3%	1.1%	9.1%	1.5%	10.0%	5.8%	6.9%	3.4%
Moderate Income	15.0%	7.1%	7.3%	3.3%	23.7%	17.7%	23.0%	15.8%
Middle Income	15.0%	10.9%	14.5%	9.5%	25.8%	22.8%	29.3%	24.0%
Upper Income	57.9%	80.3%	63.6%	84.5%	25.4%	40.3%	32.0%	47.2%
N/A	2.8%	0.6%	5.5%	1.1%	15.0%	13.4%	8.7%	9.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Assessment Area Only								
Assessment Area Only			Bank of Smithtown		Aggregate			
2001	Applications		Originations		Applications		Originations	
Applicant Income	Count	\$000's	Count	\$000's	Count	\$000's	Count	\$000's
Low Income	10	\$ 519	3	\$ 135	10,600	\$ 950,679	3,913	\$ 352,785
Moderate Income	11	\$ 885	4	\$ 197	29,120	\$ 3,334,827	14,312	\$ 1,744,708
Middle Income	21	\$ 1,911	15	\$ 1,430	37,371	\$ 5,086,900	21,169	\$ 3,067,065
Upper Income	29	\$ 4,401	23	\$ 3,803	37,282	\$ 7,995,927	22,586	\$ 5,023,465
N/A	2	\$ 245	-	\$ -	15,751	\$ 2,454,223	6,857	\$ 1,339,908
Total	73	\$ 7,961	45	\$ 5,565	130,124	\$19,822,556	68,837	\$ 11,527,931
2001								
% of Total	Count	\$000's	Count	\$000's	Count	\$000's	Count	\$000's
Low Income	13.7%	6.5%	6.7%	2.4%	8.1%	4.8%	5.7%	3.1%
Moderate Income	15.1%	11.1%	8.9%	3.5%	22.4%	16.8%	20.8%	15.1%
Middle Income	28.8%	24.0%	33.3%	25.7%	28.7%	25.7%	30.8%	26.6%
Upper Income	39.7%	55.3%	51.1%	68.3%	28.7%	40.3%	32.8%	43.6%
N/A	2.7%	3.1%	0.0%	0.0%	12.1%	12.4%	10.0%	11.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

In 2000, the bank originated nine loans to LMI borrowers for \$596 thousand, representing 16.4% of all assessment area loans by number and 4.8% by dollar volume. These LMI penetration rates are 45% by number and 75% by dollar volume below those of the aggregate, which extended 29.9% of all assessment area loans to LMI borrowers representing 19.2% of all monies loaned.

In 2001, the bank originated fewer loans and a smaller dollar volume, but its LMI penetration rates were closer to those of the corresponding aggregate.

BoS originated seven loans representing 15.6% of all HMDA-related loans to LMI borrowers, approximately 41% below the 26.5% penetration rate achieved by the aggregate. These loans equal \$332 thousand and represent 5.9% of total dollar volume, approximately 67% below the 8.2% LMI penetration rate achieved by the aggregate.

Community Development Lending: “Low Satisfactory”

BoS’ community development loans totaled \$266 thousand for the evaluation period. While representing a weak volume of activity for an institution of its size and capacity, this level is considered marginally adequate for an institution that only recently became a “large bank” for purposes of its evaluation under the CRA. The following is a summary of the bank’s community development loans:

Community Development Corporation of Long Island (“CDCLI”) - BoS had a committed confirmed line of credit of \$50 thousand, and the entire amount was outstanding on the evaluation date. CDCLI is a not-for-profit organization that operates a range of affordable housing and economic development programs, including community development lending targeting small businesses. CDCLI’s goal is to provide alternative financing for projects benefiting low and moderate-income persons and other disadvantaged groups, addressing the gaps between the financing needed and that which is available from traditional lenders.

New York State Business Development Corporation (NYSBDC) - BoS had committed a confirmed line of \$216 thousand, of which \$21.2 thousand was outstanding at the evaluation date. The NYSBDC is a privately-owned entity created by New York statute and funded by commercial and savings banks under lines of credit – typically at a LIBOR based rates – that are utilized to provide a broad range of financing to small and mid-sized businesses located in New York State. The corporation borrows from member banks and grants loans at favorable interest rates to businesses that might not otherwise meet bank-lending criteria.

II. Investment Test: “Needs to Improve”,

The Investment Test evaluates the bank's record of helping to meet the needs of its assessment area through qualified investments. Qualified investments are evaluated based on their dollar volume, their innovation or complexity, their responsiveness to community development needs, and the degree to which the investments are not routinely provided by private investors.

The bank’s qualified investment activity for the assessment period is extremely limited.

In 2001, the bank made a contribution of \$31.3 thousand to the Affordable Housing Program (AHP) of the Federal Home Loan Bank of New York (FHLBNY). This sum

constitutes the bank's share of the FHLB's annual set-aside of profits for the AHP, based on BoS' pro rata share of stock ownership in the bank.

BoS is urged to significantly increase its qualified investment activity going forward.

III. Service Test: "Low Satisfactory"

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

Overall, the bank's record of providing services to its assessment area is deemed "Highly Satisfactory."

Retail Banking Services: "High Satisfactory"

Accessibility of Delivery Systems

The bank's delivery of services is only marginally accessible to all customers, including commercial customers, in its assessment area.

Five branches of the bank are located in middle-income geographies and two branches are located in upper-income geographies. The bank does not have a physical presence in, or adjacent to, LMI areas.

As noted earlier, the bank's assessment area for this evaluation is vastly expanded from the very narrow delineation used for the prior evaluation. This modification was a result of changes in BoS' lending patterns. Given the short time frame involved, it would have been extremely difficult for the bank to ensure accessible branch service throughout the expanded assessment area. Unless addressed, however, the lack of branches accessible to LMI communities will present a more significant issue for this bank at future evaluations.

Changes in Branch Locations

During the assessment period, the bank did not open or close any branches. However, two new branches were opened in the first half of 2002 (following the close of the assessment period) and a third branch is scheduled to open later in the year.

Reasonableness of Business Hours and Services in Meeting Assessment Areas' Needs

In addition to regular banking hours (9:00 a.m. to 3:00 p.m.) on weekdays, all branches have extended working hours on Fridays and all branches remain open from 9:00 a.m.

to 12:00 noon on Saturdays. Each branch has a drive-up window that operates during the same hours as the branch.

The bank also has alternative delivery systems that include the following:

- ATMs;
- Bank by mail;
- Customer Hotline and Telephone System (“CHATS”), a 24 hour telephone System wherein customers can conduct banking by phone; and
- Online banking, wherein customers can access their accounts by computer in the privacy of their homes and transact business with click of a button.

These services are available to all consumers as well as commercial customers.

Community Development Services: “Needs to Improve”

The bank’s participation in community development services is very limited. While quite active in organizations that serve the local community surrounding its branches, few appear to be groups focusing primarily on LMI populations or communities.

BoS’ activities appear to be limited to its participation in housing fairs and expos designed to attract potential LMI borrowers.

IV. Discrimination or Other Illegal Practices

Any practices intended to discourage applications for types of credit set forth in the banking institution’s CRA Public File.

The bank’s CRA public file does not contain any comment from the community pertaining to CRA. Additionally, there are no complaints pending with the Banking Department concerning this institution. Examiners noted no practices that were intended to discourage applicants for the types of credit offered by the institution.

Evidence of prohibited discriminatory or other illegal credit practices.

The most recent regulatory compliance examination (conducted concurrently with this assessment) indicates satisfactory performance in adhering to anti-discrimination and other applicable laws and regulations. No evidence of prohibited discrimination or other illegal credit practices was noted.

V. Process Factors

Activities conducted by the banking institution to ascertain the credit needs of its community, including the extent of the banking institution's efforts to communicate with members of its community regarding the credit services being provided by the banking institution.

The bank ascertains the credit needs of its community through ongoing and extensive contacts with a broad range of individuals, and community groups. The bank's employees participated to market bank's loan products to prospective homebuyers in a breakfast meeting in June 2000 organized by the Community Home Purchase Process Initiative (CHPPI) for First-time Homebuyers Expo. They also participated in a similar program organized by the North Shore Home Improver in 2001. The bank was expected to participate in another Expo in October 2002 for the same purpose.

The extent of the banking institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the banking institution.

To create awareness of the credit services offered by the bank, officers and employees of the bank actively participate in the activities of community development organizations. BoS employees serve on the boards or held other executive positions in such organizations as: Rotary Club of Commack-Kings Park, Guide Dog Foundation for the Blind; Smithtown YMCA, Boy Scouts of America, Suffolk County Council, Smithtown Education Foundation, Smithtown Library Foundation and others.

The bank does not use print media to market its services. However, in order to create awareness in the community, it donates to several charitable organizations and buys advertising space in souvenir magazines published by these organizations. In 2001, the bank made donations and/or took out journal ads totaling nearly \$28 thousand.

The extent of participation by the banking institution's board of directors/trustees in formulating the banking institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

The bank's Board of Directors reviews CRA activities through reviews of loans and presentation of CRA matters by the President and the Chairman of the Board. The CRA Officer does not review any CRA related activity of the bank or prepare a formal report for the board.

VI. Other Factors

Other factors that in the judgment of the Superintendent and Banking Board bear upon the extent to which a banking institution is helping to meet the credit needs of its entire community.

None noted.

GLOSSARY

Aggregate

The cumulative lending by all HMDA-reporting lenders in the same geographic area under evaluation.

Community Development

The term “community development” is defined to mean:

1. Affordable housing (including multifamily housing) for low- or moderate-income (“LMI”) individuals;
2. Community services targeted to LMI individuals;
3. Activities that promote economic development by financing business or farms that meet the size eligibility standards of the United States Small Business Administration (“SBA”) Development Company or Small Business Investment Company programs, or have gross annual incomes of \$1 million or less;
4. Activities that revitalize or stabilize LMI geographies; and
5. Activities that seek to prevent defaults and/or foreclosures in loans included in (1) and (3), above.

A “community development loan” is defined as a loan that has as its *primary purpose* community development. This includes but is not limited to loans to:

- Borrowers for affordable housing rehabilitation and construction, including construction and permanent financing for multifamily rental property serving low or moderate income (“LMI”) persons;
- Nonprofit organizations serving primarily LMI or other community development needs;
- Borrowers to construct or rehabilitate community facilities that are located in LMI areas or that primarily serve LMI individuals;
- Financial intermediaries including community development financial institutions, community development corporations, minority- and women-owned financial institutions, community loan funds or pools, micro-finance institutions, and low-income or community development credit unions that primarily lend or facilitate lending to promote community development;
- Local, state and tribal governments for community development activities; and
- Borrowers to finance environmental clean up or redevelopment of an industrial site as part of an effort to revitalize the LMI community in which the property is located.

A “qualified investment” is defined as a lawful investment, deposit, membership share or grant that has as its *primary purpose* community development. This includes but is not limited to investments, deposits, membership shares or grants in or to:

- Financial intermediaries (including community development financial institutions, community development corporations, minority- and women-owned financial institutions, community loan funds, micro-finance institutions and low-income or community development credit unions) that primarily lend or facilitate lending in LMI areas or to LMI individuals in order to promote community development;
- Organizations engaged in affordable housing rehabilitation and construction;
- Organizations, including, for example, small business investment corporations that promote economic development by financing small businesses;
- Facilities that promote community development in LMI areas or LMI individuals, such as youth programs, homeless centers, soup kitchens, health care facilities, battered women’s centers, and alcohol and drug recovery centers;
- Projects eligible for low-income housing tax credits;
- State and municipal obligations, such as revenue bonds that specifically support affordable housing or other community development needs;
- Organizations serving LMI housing or other community development needs, such as counseling for credit, home ownership, home maintenance, and other financial services education; and
- Organizations supporting activities essential to the capacity of LMI individuals or geographies to utilize credit to sustain economic development, such as day care operations and job training programs that facilitate access to permanent jobs.

A “community development service” is defined as a service that has as its *primary purpose* community development, is related to the provision of financial services, and has not been considered in the evaluation of the banking institution's retail banking services. This includes but is not limited to:

- Providing technical assistance on financial matters to nonprofit, tribal or government organizations serving LMI housing or economic revitalization and development needs;
- Providing technical assistance on financial matters to small businesses or community development organizations;
- Lending employees to provide financial services for organizations facilitating affordable housing construction and rehabilitation or development of affordable housing;
- Providing credit counseling, home buyers and home maintenance counseling, financial planning or other financial services education to promote community development and affordable housing;
- Establishing school savings programs for LMI individuals;
- Providing seminars for LMI persons on banking and bank account record-keeping;
- Making ATM “Training Machines” available for extended periods at LMI community sites or at community facilities that serve LMI individuals; and
- Technical assistance activities to community development organizations such as:
 - ❖ Serving on a loan review committee;
 - ❖ Developing loan application and underwriting standards;
 - ❖ Developing loan processing systems;
 - ❖ Developing secondary market vehicles or programs;

- ❖ Assisting in marketing financial services, including the development of advertising and promotions, publications, workshops and conferences;
- ❖ Furnishing financial services training for staff and management;
- ❖ Contributing accounting/bookkeeping services; and
- ❖ Assisting in fund raising, including soliciting or arranging investments.

Demand-Adjusted Penetration Rate

The number of owner-occupied loans made by the institution (or aggregate as appropriate) in a geographic area per thousand owner-occupied housing units in that area. Mathematically, it is arrived at by dividing the number of owner-occupied housing units into the number of loans made and then multiplying by 1,000.

Demand-Adjusted Penetration Ratio

A ratio that depicts geographic penetration of loans by comparing demand-adjusted lending in LMI areas with non-LMI areas. Mathematically, it is arrived at by dividing the demand-adjusted penetration rate in non-LMI areas into the demand-adjusted penetration rate in LMI areas and then expressed as a percentage.

A ratio of 100% means that the institution (or aggregate as appropriate) made an equal number of loans proportionally in LMI and non-LMI areas. Less than 100 percent would indicate less lending in LMI areas on the same basis compared to non-LMI areas, whereas over 100 percent would indicate a greater level of lending in LMI areas versus non-LMI areas.

Home Mortgage Disclosure Act (“HMDA”)

The Home Mortgage Disclosure Act, enacted by Congress in 1975, and subsequently amended, requires institutions to annually report data about applications for residential (including multifamily) financing.

Loans to Small Businesses

Small business loans to businesses with gross annual revenues of \$1 million or less.

Low or Moderate Income (“LMI”) Geographies

Those census tracts or block numbering areas (“BNAs”), where according to the 1990 US Census, the median family income is less than 80% of the area median family income. In the case of tracted areas that are part of a Metropolitan Statistical Area (“MSA”) or Primary Metropolitan Statistical Area (“PMSA”), this would relate to the median family income for the MSA or PMSA in which the tracts are located. In the case of BNAs and tracted areas that are not part of a MSA or PMSA, the area median family income would be the statewide nonmetropolitan median family income.

LMI Borrowers

Borrowers whose income, as reported on the loan application which the lender relied upon in making the credit decision, is less than 80% of the area median family income. In the case where the residential property is located in a MSA or PMSA, this would relate to the median family income for that MSA or PMSA. Otherwise, the area median family income would be the statewide nonmetropolitan median family income. In all instances, the area median family incomes used to measure borrower income levels are updated annually by the U.S. Department of Housing and Urban Development (“HUD”).

LMI Individuals/Persons

Those individuals, whose income is less than 80% of the area median family income. In the case where the individual resides in a MSA or PMSA, this would relate to the median family income for that MSA or PMSA. Otherwise, the area median family income would be the statewide nonmetropolitan median family income. In all instances, the area median family incomes used to measure individual income levels are updated annually by HUD.

Small Business Loans

Loans to businesses with original amounts of \$1 million or less.