



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

Two Rector Street
New York, NY 10006

PUBLIC SUMMARY

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

Date of Evaluation: December 31, 2001

Institution: Hamptons State Bank
243 North Sea Road
Southampton, NY 11969

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 the Hamptons State Bank (“Hamptons State”) 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

Hamptons State Bank is rated "2", indicating a satisfactory record of helping to meet community credit needs. This rating is based on the following:

- Hamptons State Bank's loan-to-deposit (LTD) ratio is satisfactory for a new bank. The bank's LTD ratio nearly doubled, from 32.1% on the prior evaluation date to 60.4% on this evaluation date. Further, the average loan-to-deposit ratio for 2001 was 52.5%, compared to 39.9% for 2000.
- The bank has a satisfactory record of originating residential mortgages and small business loans in the assessment area. The bank originated 116 (or 57%) of its loans totaling \$13.3 million in its assessment area.
- The geographic distribution of loans based on census tract income is considered reasonable. The bank originated 25% (or 20) of its residential mortgages, totaling \$1.7 million, and 25% (or 5) of its small business loans totaling \$1.2 million, in moderate-income census tracts.
- The distribution by size of small business loans within the assessment area is considered satisfactory. The bank originated 35 small business loans totaling \$4.8 million, of which 22 (or 63%) were for less than \$100 thousand. The small business borrowers' revenues and the income for the consumer borrowers were not available for this evaluation.
- Neither the bank nor the New York State Banking Department received any written CRA related complaints during this evaluation period

This 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

Hamptons State Bank ("Hamptons"), chartered in October 1998, is a single-office community commercial bank, located in Southampton, Suffolk County, New York.

On December 31, 2001, the bank reported total loans of \$14 million, of which residential mortgages accounted for \$8 million (or 55%), commercial mortgage loans \$2 million (or 18%) and commercial and industrial loans \$3 million (or 20%). Net loans calculated as a percentage of deposits of \$23 million resulted in a loan-to-deposit ratio of 60.4%

The bank offers a variety of lending products including commercial loans, small business loans, commercial mortgages, letters of credit, secured and unsecured lines of credit, construction loans, personal loans, secured and unsecured personal lines of credit and residential home mortgages.

The following chart illustrates a breakdown of the bank's loan portfolio as of December 31, 2001 and December 31, 2000.

TOTAL GROSS LOANS OUTSTANDING				
LOAN TYPE	12/31/01		12/31/00	
	\$ ('000)	%	\$ ('000)	%
Residential Mortgage Loans	7,731	55.1	4,868	53.5
Commercial Mortgage Loans	2,521	18.0	1327	14.6
Commercial & Industrial Loans	2,839	20.2	2492	27.3
Consumer Loans	940	6.7	418	4.6
Total Gross Loans	\$14,031	100.0	\$9,106	100.0

The bank is located in a competitive market dominated by money center banks, large savings banks and other large institutions operating through their extensive branch networks. Hamptons' approach is to emphasize personal service and community-focused banking. The bank's home county of Suffolk provides 100% of its deposits. According to the latest deposit market share report dated June 30, 2000, the bank ranked 22nd out of the 24 depository institutions in Suffolk County.

On December 31, 2001, the bank reported total assets of \$33 million, of which \$14 million were loans and \$15 million investments. Deposits were \$23 million and equity \$5 million. The bank reported a net loss of \$445 thousand for fiscal year 2001. Continued losses could inhibit the bank's ability to help meet the needs of its community.

Assessment Area

Hamptons State Bank's assessment area encompasses the eastern section of Southampton Township and the western section of East Hampton Township in Suffolk County, including the Villages and Hamlets of Southampton, Water Mill, North Sea, Sag Harbor, and Hamptons Bays as well as the Shinnecock Indian Reservation. The assessment area consists of nine census tracts: four (or 44%) moderate-income and five (or 56%) middle-income tracts.

The assessment area had a 1990 population of 32.4 thousand, of which 6.0 thousand or 19% were over 65 years of age and 6.6 thousand, or 20% were under the age of sixteen. There were 8.7 thousand families in the assessment area, of which 4.3 thousand or 50% were low or moderate-income (LMI) families. Of the total LMI families, 1.7 thousand or 39% lived in the moderate-income tracts and they accounted for 58% of the total families (2.9 thousand) that lived in these tracts. There were 13.5 thousand households in the area of which 1.0 thousand 7% had income below the poverty level.

There were 28 thousand housing units, of which 27 thousand or 95% were 1-4 family units and 1.0 thousand or 3% were multifamily units. Thirty-four percent (9.6 thousand) of the units were located in the moderate-income tracts. Eleven thousand (38%) of the housing units were owner occupied including 3.5 thousand units (33%) in moderate-income tracts. Rental occupied units totaled 2.9 thousand (10%) including 1.1 thousand units (39%) in moderate-income tracts. There were 15 thousand (53%) vacant and or boarded-up units. The median housing value was \$228 thousand and the median age was 26 years.

In 1990, the area's weighted-average median family income was \$46.6 thousand. The 1999 HUD estimated median family income for the MSA (Nassau/Suffolk) was \$73.3 thousand.

The assessment area appears reasonable based upon the location of the bank and its lending pattern. There is no evidence that LMI areas are arbitrarily excluded.

PERFORMANCE STANDARDS AND ASSESSMENT FACTORS

Hamptons' performance was evaluated under the small bank performance criteria, which include the following: (1) Loan-to-Deposit Ratio; (2) Proportion of Lending in the Assessment Area; (3) Geographic Distribution of Lending; (4) Distribution of Lending Based on Borrower Characteristics and (5) Action Taken in Response to Written Complaints Regarding CRA.

The assessment period encompasses calendar years 2000 and 2001. The demographic data referred to in this report was obtained from the 1990 U.S. Census along with the updated HUD-estimated median family income.

Loan-to-Deposit Analysis: "Satisfactory"

Hamptons' loan-to-deposit ratio is satisfactory for a new bank. While there was a steady increase in the ratio from 32.1% on September 30, 1999 (the prior evaluation date) to 60.4% on December 31, 2001, the bank's ratio is still slightly below the national peer ratio of 69.0%. The bank's average loan to deposit ratio for 2001 was 52.5%, compared with 39.9% for 2000.

The table below shows the increasing trend of the bank's ratios, compared to the variable trend exhibited by the national peer group.

Loan-to-Deposit Ratios

12/31/01	9/30/01	6/30/01	3/31/01	12/31/00	9/30/00	6/30/00	3/31/00	12/31/99	9/30/99
* 60.41	52.59	51.07	45.72	46.23	44.83	33.77	34.88	29.43	32.1
** 69.00	77.52	76.69	72.58	74.90	76.32	78.19	76.04	76.00	75.92

* Hamptons State Bank

** National Peer

Proportion of Lending Within Assessment Area: "Satisfactory"

The bank has a satisfactory record of originating residential mortgages and small business loans in the assessment area. During the evaluation period, the bank originated 202 loans totaling \$18.8 million, of which 116 (or 57%) totaling \$13.3 million were made within its assessment area.

During 2000, the bank originated 19 small business loans totaling \$3.8 million, of which 14 (or 74%) totaling \$2.5 million were made within the assessment area. In 2001, 35 loans totaling \$3.5 million were originated, of which 20 (or 57%) totaling \$2 million were made within the assessment area.

Small Business Loan Originations						
Year	Inside Assessment Area				Total Loans	
	Number #	Percent %	Amount S ('000)	Percent %	Number #	Amount S ('000)
2001	20	57.14	2,027	57.23	35	3,542
2000	14	73.68	2,460	75.07	19	3,277
1999*	1	50.00	287	68.82	2	417
Totals	35	62.50	4,774	65.98	56	7,236

During 2000, the bank originated 55 consumer loans (including residential mortgages), totaling \$5.4 million, of which 36 loans (or 65%) totaling \$4.3 million were made within the assessment area. In 2001, 74 consumer loans totaling \$4.9 million were originated, of which 35 (or 47%) totaling \$3.4 million were made within the assessment area.

Residential Mortgage Loan Originations						
Year	Inside Assessment Area				Total Loans	
	Number #	Percent %	Amount S ('000)	Percent %	Number #	Amount S ('000)
2001	35	47.29	3,427	69.44	74	4,935
2000	36	65.45	4,289	79.00	55	5,429
1999*	10	55.55	834	67.53	18	1,235
Totals	81	55.48	8,550	73.71	146	11,599

Geographic Distribution of Lending: "Satisfactory"

The bank's geographic distribution of lending is satisfactory.

In 2000, the bank originated three small business loans (or 21%) totaling \$1.0 million in moderate-income tracts of its assessment area and 11 loans (or 79%) totaling \$1.4 million in middle-income tracts.

During 2001, Hamptons originated two small business loans (or 10%) totaling \$205 thousand in moderate-income tracts and 18 small business loans (or 90%) totaling \$1.8 million in middle-income tracts.

Small Business Loan Originations										
Year	Total		Middle Income				Moderate Income			
	#	\$ ('000)	#	%	\$	%	#	%	\$	%
2001	20	\$2,027	18	90.0	1,822	89.9	2	10.0	205	10.1
2000	14	2,460	11	78.6	1,450	58.9	3	21.4	1,010	41.2
1999*	1	287	1	100	287	100.0	-	-	-	-
Total	35	4,774	30	85.7	3,559	74.5	5	14.3	1,215	25.5

*Figures are for last quarter

In 2000, the bank originated 10 residential mortgages (or 27.8%) totaling \$1.3 million in moderate-income tracts and 26 loans totaling \$42.9 million in middle-income tracts.

During 2001, Hamptons originated nine residential mortgage loans (or 25.7%) totaling \$384 thousand in moderate-income tracts and 26 such loans (or 74.3%) totaling \$3 million in middle-income tracts.

Residential Mortgage Loan Originations										
Year	Totals		Middle Income				Moderate Income			
	#	\$	#	%	\$	%	#	%	\$	%
2001	35	\$3,427	26	74.3	\$3,043	88.8	9	25.7	\$ 384	11.2
2000	36	4,289	26	72.2	2,953	68.9	10	27.8	1,336	31.1
1999*	10	834	9	90.0	832	99.8	1	10.0	2	0.2
Total	81	8,550	61	75.3	6,828	79.9	20	24.7	1,722	20.1

*Figures are for last quarter

Borrower Distribution of Lending: "Satisfactory"

The bank's distribution of lending based on loan size is satisfactory. The small business borrowers' revenues and the income for the residential borrowers were not available for this evaluation.

In 2000, the bank originated 13 small business totaling \$2.1 million, of which eight (or 62%) totaling \$386 thousand were for less than \$100 thousand, five (or 38%) totaling \$299 thousand were for between \$101 thousand but less than \$250 thousand, and three (or 23%) totaling \$1.4 million were for over \$250 thousand but less than \$1 million.

During 2001, Hamptons originated 21 small business totaling \$2.4 million, of which 14 (or 67%) totaling \$474 thousand were made for less than \$100 thousand, two or 10% totaling \$903 thousand were made for between \$101 thousand but less than \$250 thousand, and two (or 10%) totaling \$1.0 million were made for over \$250 thousand but less than \$1 million.

Small Business Loans By Size (In thousands)															
Year	= \$100,000				\$100,001 - \$250,000				\$250,001 - \$1,000,000				Totals Loans		
	#	%	\$	%	#	%	\$	%	#	%	\$	%	#	\$	
2001	14	67	474	20	2	10	903	37	2	10	1,050	43	21	2,427	
2000	8	62	386	18	5	38	299	15	3	23	1,375	67	13	2,060	
1999*	-	-	-	-	-	-	-	-	-	1	100	287	100	1	287
Total	22	37	860	18	7	20	1,202	25	6	17	2,712	57	35	4,774	

*Figures are for last quarter

Action Taken In Response to Written Complaints With Respect to CRA

There were no written complaints received by the bank or the New York State Banking Department with respect to the bank's CRA performance.

Services

The branch office is open from 9:00 am to 3:00 pm, Monday through Friday and also has extended hours on Fridays until 6:00 pm and on Saturdays from 9:00 am to 12:00 pm. Drive up hours are from 8.30 am to 4.30 pm, Monday through Thursday. These hours are extended until 6:00 pm on Fridays. The bank also has an ATM service, which is available on a 24-hour basis, 7 days a week.

The bank offers free checking accounts and provides free banking accommodations to charitable and civic organizations.

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.

There were no practices noted that were intended to discourage applications for the types of credit offered by the institution.

Evidence of prohibited discriminatory or other illegal credit practices.

No evidence of prohibited discriminatory or other illegal credit practices was noted.

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 utilizes a variety of outreach activities to ascertain the credit needs of its community, including direct customer contact, written correspondence, field visits and speaking engagements through contacts with businesses, charitable organizations, consumer interest groups and local government. The bank encourages its staff to take an active role in civic, charitable and fraternal organizations.

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.

The bank relies on local media to inform the community of its credit and deposit products, and other banking services. The bank utilizes brochures, print advertisements and radio to market its products and services. In addition to other print advertisements, the bank uses print advertisements published by charities, special interest groups, and minority groups. The bank's president is available to the public either by phone or personally.

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

The board of directors approved the latest CRA statement of the bank on March 12, 2002. The bank's CRA Officer prepared a CRA self-assessment in March of 2002.

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.

The bank donated \$550 in 2000 and \$6.4 thousand in 2001 to various local charitable civic and community organizations.

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.

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 (“Bans”), 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 non-metropolitan 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 non-metropolitan 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 non-metropolitan 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.