



**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: January 1, 2002

Institution: First Tier Bank and Trust
107 Main Street
Salamanca, New York 14779

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 evaluation of the Community Reinvestment Act (“CRA”) performance of First Tier Bank and Trust (“First Tier”) 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 January 1, 2002.

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 (“LMI”) 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

First Tier Bank and Trust is rated "1", indicating an outstanding record of helping to meet community credit needs, based on the following factors:

Lending Test - "High Satisfactory"

- The bank had a good volume of small business and mortgage loans for the evaluation period, with both products showing significant growth from the levels reported at the prior evaluation.
- The bank made a high percentage of its HMDA and small business loans in its assessment area. In 2001, the bank made 83% of its number and 79% of its corresponding dollar amount of small business loans, as well as nearly 90% of its number and 91% of its dollar amount of HMDA loans in the assessment area.
- The geographic distribution of loans reflected reasonable dispersion of HMDA-reportable loans and good dispersion of small business loans throughout the assessment area.
 - In 2001, the bank made 13.9% of its number of HMDA loans in LMI areas, somewhat below the aggregate's 2000 LMI penetration rate of 15.9%. Based on the corresponding dollar volume, the bank achieved an LMI penetration rate of 7.8%, significantly below the aggregate's rate of 12.4%.
 - In 2001, the bank's 34.5% penetration rate for small business loans significantly exceeded the 2000 aggregate's 16.5% penetration for the number of loans in LMI areas. By dollar volume, the bank's LMI penetration rate of 40.8% was nearly two-and-a-half times higher than the 12.3% rate achieved by the aggregate.
- The bank's lending distribution based on borrower characteristics shows reasonable penetration among borrowers of different income levels for its HMDA-reportable loans, and good penetration among businesses of different sizes for its small business loans.
 - In 2001, the bank extended 19.2% of its number of HMDA loans to LMI individuals, trailing the 2000 aggregate's 25.7% LMI penetration rate.
 - The bank's small business lending distribution was close to that of the aggregate, whether measured by loan size or borrower revenue size. In 2001, the bank made 77.7% of its small business loans in origination amounts of less than \$100 thousand, compared with the 80% for the 2000 aggregate. Likewise, the bank made 77.7% of its total number of small business loans to businesses with gross annual revenues of \$1 million or less, compared with 80.5% by the aggregate.

- The bank made a significant level of community development loans given its size and the credit needs of its assessment area. These loans aggregated \$552.1 thousand, of which \$322.3 thousand, or 58.4%, is considered “new money.”
- The bank makes good use of flexible lending programs to serve the credit needs of its assessment area.

Investment Test - “Outstanding”

First Tier’s qualified investments for this evaluation period are significant for an institution that only recently became a “large bank” for CRA purposes. Qualified investments totaled \$156.2 thousand, of which \$52.3 thousand, or 33.5%, is deemed “new money.” Nearly all of the bank’s qualified investments were debt instruments issued by the local municipalities where the bank has a presence. While the institution should increase its level of activity in order to retain the outstanding rating going forward, First Tier’s performance at this evaluation is highly responsive to its community, given the Performance Context.

Service Test - “Outstanding”

- The bank’s delivery systems are readily accessible to all portions of its assessment area. Of the five branches operated by the bank, two, or 40%, are located in moderate-income census tracts and three, or 60%, are in areas that are adjacent to LMI geographies. Supplementing the branch network are four on-site automated teller machines (ATMs) and three off-site ATMs. One on-site ATM is in a moderate-income tract and one offsite ATM is located in a low-income area.
- The bank has not opened or closed any branches during the evaluation period.
- In general, the bank’s business hours and services appear tailored to the convenience and needs of the assessment area.
- The bank provided a relatively high level of community development services. During the evaluation period, two of the bank’s staff conducted two home-buying seminars and one credit seminar. In addition, five other officers served in local nonprofit organizations where they provided financial services.

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:

Chartered in 1882 as Salamanca National Bank, the bank was succeeded by Salamanca Trust Company in 1902, which changed to its current name, First Tier Bank & Trust, in 1996. First Tier is a New York State-chartered bank and a member of the Federal Reserve System. The bank operates as a commercial bank with a primary focus on serving the needs of small- to moderate-sized businesses in Cattaraugus and Allegany counties.

The bank is a wholly owned subsidiary of Financial Institutions, Inc. ("FII"), a five-bank holding company located in Warsaw, New York, with approximately \$1.8 billion in total assets at December 31, 2001. Other than First Tier, FII owns Wyoming County Bank, Pavilion State Bank, National Bank of Geneva and Bath National Bank, which was acquired through the purchase of its parent company, Bath National Corporation, in May 2001. All of these banks are separately managed.

First Tier operates five full service branch offices, of which four are located in Cattaraugus County and one is located in Allegany County. Of the four Cattaraugus branches, one each is in the towns of Olean, Ellicottville, Allegany, and Salamanca. The branch in Allegany County is in the town of Cuba. Supplementing the branch offices is an automated teller machine (ATM) network, consisting of four ATMs located at the branches in Ellicottville, Olean, Allegany and Cuba, and three non-deposit taking off-site ATMs located one each at St. Bonaventure University in the town of Allegany, Olean Hospital in Olean, and in the Parkview Market in Salamanca.

In addition to customary bank products (checking and savings accounts), First Tier offers a wide variety of lending products including residential mortgages, commercial mortgages, home equity line of credit, home equity loans, business loans and consumer loans.

According to the FDIC Consolidated Report of Condition at December 31, 2001 ("Call Report"), the bank reported \$161.8 million in total assets, comprised primarily of \$92.2 million, or nearly 57%, in loans (net of unearned income and allowance for loan and leases losses) and \$51.4 million (31.8 %) in investments. Total deposits were \$146.3 million and equity capital totaled \$9.3 million. As per the Call Report of the same date, the bank reported a net income of \$1.8 million.

The following table illustrates the bank's loan portfolio according to the Call Reports at December 31, 2001 and December 31, 2000:

TOTAL GROSS LOANS OUTSTANDING				
LOAN TYPE	12/31/2001		12/31/2000	
	\$000	%	\$000	%
Residential Mortgage Loans	30,028	31.7	32,609	39.0
Commercial Mortgage Loans	26,778	28.2	20,167	24.1
Multifamily Mortgages	387	0.4	1,205	1.4
Consumer Loans	18,926	19.9	14,232	17.0
Agricultural Loans	473	0.5	512	0.7
Commercial & Industrial Loans	17,841	18.8	14,165	17.0
Other Loans	437	0.5	623	0.8
Total Gross Loans	94,870	100.0	83,513	100.0

As shown above, the bank's loan portfolio grew to \$94.9 million at December 31, 2001 from \$83.5 million at the previous year, an increase of almost 14%. First Tier is primarily a residential and commercial mortgage lender. Refer to the chart for details of the loan portfolio composition.

According to the latest available comparative deposit data ("Market Share Report" of deposits of all FDIC-Insured Institutions), dated June 30, 2001, First Tier was ranked second out of ten banks in Cattaraugus County, with a 15.6% share of the county deposits. In Allegany County, it ranked fourth out of five banks, with a 2.6% share of the county deposits.

First Tier was rated "1", indicating an outstanding record of helping to meet community credit needs at its prior CRA evaluation by the New York State Banking Department on June 30, 2000. The prior evaluation was performed under the small bank performance standards.

Examiners noted no financial or other factors likely to impede the institution's ability to help serve the credit needs of the community.

Assessment Area:

First Tier's assessment area encompasses most of Cattaraugus County except for those townships¹ and parts thereof that fall within Block Numbering Areas ("BNAs") 9601, 9604, 9605 and 9619. The assessment area also includes those Allegany communities² that fall within BNAs 9504, 9505, and 9513 where the bank has a branch presence. The bank's assessment area includes two Native American Reservations, namely the Allegany and Oil Springs reservations. The assessment area is not a part of a Metropolitan Statistical Area (MSA), and includes 19 BNAs, of which four (21%) are LMI.

¹Perrysburg, Dayton, Persia, Leon, Western part of New Albion, Northern Part of Conewango, and the NorthEastern Part of Napoli.

²Rushford, Caneadea, New Hudson, Belfast Cuba and Friendship.

One BNA is non-residential in nature and is defined as a zero-income area. This area is the portion of the Oil Springs Reservation that is located in Allegany County. The one low-income census tract is the portion of the Oil Springs Reservation that is located in Cattaraugus County and, according to the 1990 census, had a population of only three persons. The Allegany Reservation, which includes most of the Salamanca City in Cattaraugus County, is one of the three moderate-income census tracts in the assessment area.

Population - According to the 1990 U.S. census data, the assessment area had a population of about 74.1 thousand of which about 14%³ were over the age of 65 and about 24% were 16 years or younger. The area had approximately 19.3 thousand families, of which about 8.4 thousand, or 44%, were LMI families. Almost 2.1 thousand, or 25% of all LMI families lived in LMI areas. There were nearly 27 thousand households, of which about 3.8 thousand, or 14%, had incomes below the poverty level.

Housing Units - There were about 34.2 thousand housing units in the assessment area, of which about 27.5 thousand (80.4%) were 1-4 families units, 1.6 thousand (4.7%) were multifamily units and 4.5 thousand (13.2%) were mobile homes or trailers. Approximately 19.6 thousand (57.3%) units were owner-occupied, 7.4 thousand (21.6%) were renter-occupied and 7.3 thousand (21.3%) were vacant or boarded up. The median age of the housing units was 39 years and the median value was almost \$42.0 thousand.

Median Family Income - In 1990, the median family income for the assessment area was \$28.1 thousand and the MSA/Non-MSA Census median family income was about \$31.5 thousand. The MSA/Non-MSA median family income updated for 2002 by the U.S. Department of Housing and Urban Development ("HUD") was \$43.6 thousand.

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

³ Please note that while percentage figures are based on exact numbers, absolute numbers pertaining to population and housing characteristics that are listed in the report have been rounded to the nearest decimal point.

PERFORMANCE STANDARDS AND ASSESSMENT FACTORS

While First Tier had assets of only \$161.8 million on the examination date, the institution was evaluated under the “large bank” performance tests standards because it is wholly owned by a bank holding company that had assets exceeding \$1 billion for each of the two prior calendar years. This is First Tier’s first evaluation as a large bank.

This evaluation incorporates a review of the bank’s lending, investments and service activities in its assessment area during 2001. Prior to 2001, the bank was not a HMDA reporter and was not required to report government monitoring information on its small business loans. Since the 2001 aggregate data was not available for this evaluation, First Tier’s performance was compared to the year 2000 performance of a customized peer group consisting of Cattaraugus County Bank, Jamestown Savings Bank and Community Bank N.A., which operate in a similar assessment area. The peer group is referred to as “the aggregate” throughout this report.

Statistics utilized in this evaluation were derived from various sources. In addition to loan information submitted by the bank, aggregate data for HMDA-reportable 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 are from the 1990 U.S. Census, with estimated median income for 2002 furnished by HUD.

I. Lending Test: “High Satisfactory”

The lending test evaluates the bank’s record of helping to meet the credit needs of its assessment area(s) through its lending activities by considering the bank’s home mortgage, small business, small farm, and community development lending. The bank’s performance criteria includes the following:

Lending Activity: “High Satisfactory”

The bank had a good volume of small business and mortgage loans for the evaluation period, with both products showing significant growth since the prior evaluation.

HMDA Lending – In 2001, the bank made 260 HMDA-reportable loans totaling \$15.3 million in its assessment area. The bank’s current lending level represents increases of 138% and 94% from the number (109) and dollar volume (\$7.9 million) reported at the prior evaluation. Refer to the chart below for details.

Summary of HMDA Loans as of December 31, 2001		
Loan Type	Originations	
	Number	\$ in thousands
Home Purchase	64	4,474
Refinance	118	9880
Home Improvement	78	994
Multifamily	0	0
Total	260	15,348

Small Business Loans - In 2001, the bank made 206 small business loans totaling \$19.7 million in its assessment area. The number of loans reported for 2001 represents an increase of 78% over the 1999 level (116 loans), while by dollar volume, the bank's lending increased by 137% compared to its 1999 volume of \$8.3 million.

Assessment Area Lending: "High Satisfactory"

The bank made a high percentage of its HMDA-reportable and small business loans in its assessment area.

HMDA: In 2001, the bank made 260, or nearly 90% of its total 289 HMDA-reportable loans in its assessment area. By dollar volume, the bank lent \$15.3 million, or approximately 91.0% of its total \$16.9 million in its assessment area.

Small Business Loans: In 2001, the bank made 206, or almost 83% of its total 249 small business loans in its assessment area. By the corresponding dollar volume, the bank lent \$19.7 million, or 79% of its total \$19.7 million in its assessment area.

Geography Distribution: "High Satisfactory"

The geographic distribution of loans reflected reasonable dispersion of HMDA-reportable loans and good dispersion of small business loans throughout the assessment area.

HMDA - In 2001, the bank made 13.9% of its number of loans in LMI areas, somewhat below the aggregate's 2000 LMI penetration rate of 15.9%. Based on corresponding dollar volume, the bank achieved an LMI penetration rate of 7.8%, significantly below the aggregate's rate of 12.4%.

Small Business Loans – In 2001, the bank's LMI penetration rate of 34.5% was more than 100% higher than the 2000 aggregate's 16.5% rate. By dollar volume, the bank achieved a 40.8% LMI penetration rate, nearly two-and-a-half times higher than the 12.3% rate achieved by the aggregate.

Borrower's Characteristics: "High Satisfactory"

The bank's lending distribution based on borrower characteristics showed reasonable penetration among borrowers of different income levels for its HMDA-reportable loans, and good penetration among businesses of different sizes for its small business lending.

HMDA - In 2001, the bank extended 19.2% of its number of loans to LMI individuals, trailing the 2000 aggregate's 25.7% LMI penetration rate.

Small Business Loans – *Measured by loan size*, the bank's penetration of loans with origination amounts of less than or equal to \$100 thousand (LS1) was below, but close to the aggregate, while its percentage of loans in amounts of more than \$100 thousand but less than \$250 thousand (LS2) were below the aggregate's. First Tier's performance mirrored that of the aggregate with respect to loans of \$250 thousand but less than \$1 million (LS3).

In 2001, the bank made 77.7% of its small business loans in the LS1 category compared with the 80% for the 2000 aggregate. In the LS2 and LS3 categories, the bank made 14.1% and 8.3%, respectively, against the aggregate's 11.4% and 8.6%, respectively.

Measured by borrower revenues, the bank performed close to the aggregate in extending loans to business with gross annual revenues of \$1 million or less. In 2001, the bank made 77.7% of its total number of small business loans to businesses in this revenue category, compared with 80.5% made by the aggregate. By corresponding dollar volume, the bank lent 54.4% compared to the aggregate's 54.8% of loans to small businesses.

Community Development Lending: "High Satisfactory"

For the evaluation period, the bank made a relatively high level of community development loans, given its size, capacity and the credit needs of its assessment area. Community development loans totaled \$552.1 thousand, of which \$322.3 thousand, or 58.4%, is considered "new money." Included in the total is almost \$195 thousand representing the outstanding balance at December 31, 2001 of two loans considered at the previous performance evaluation.

Except for one loan, all loan proceeds went to support economic development. The following are examples of the organizations that received funding from the bank:

Cattaraugus Economic Development Zone Corporation ("CEDZC") - In 2000, First Tier made three community development loans aggregating \$292.3 thousand to this local non-profit organization located in a moderate-income census tract. CEDZC facilitates economic development in the area and is affiliated with the *Olean Chamber of Commerce*.

Allegany/Cattaraugus Counties Workforce Investment Board ("ACCWIB") - In 2001, the bank extended an unsecured, overdraft protection for a \$20 thousand line of credit to this non-profit organization, whose purpose is to provide employment and work force development services.

This entity also receives funding from the Workforce Investment Act (WIA) and other local, state or federal agencies supporting workforce services.

Allegany Regional Development Corporation (“ARDC”) - In 2001, the bank renewed a \$35 thousand revolving line of credit used for temporary working capital pending receipts of New York State funding. This nonprofit organization assists Native-American families by providing support services through case management, counseling and in-home training.

Allegany Area Economic Development Corporation (“AAEDC”) – Established in 1985, AAEDC is a nonprofit economic development organization whose mission is to reduce adult unemployment, provide job opportunities, teach job skills, attract new businesses to the area and encourage economic development. The bank had previously made two loans totaling about \$279.3 thousand to this entity, and at December 31, 2001, there was a total of about \$194.8 thousand still outstanding. At this evaluation, the bank received credit for this balance.

Innovative or Flexible Lending Practices: “High Satisfactory”

The bank makes good use of flexible lending practices to serve the credit needs of its assessment area.

Mortgage Financing - In an effort to make mortgage financing more affordable in the community, First Tier offers residential mortgage financing with Private Mortgage Insurance (PMI), which allows borrowers to receive mortgage financing with a minimum down payment of 5% of the total purchase price. For this evaluation, the bank originated eight mortgage loans, with PMI, totaling \$374.1 thousand.

The bank also offers a no-closing cost option for home equity loans, lines and collateral real estate mortgage (“CREM”) loans. This option allows borrowers to finance a mortgage with no down payment, making mortgage financing more affordable in the bank’s assessment area. In 2001, the bank originated 17 such loans aggregating about \$291.9 thousand.

In addition, the bank offers mobile homes financing through approved dealers and on a direct basis. This type of loan allows for a loan-to-value of up to 90% of the value based on invoice plus appraisal value of the land, if applicable, and a loan term of 20 years. In 2001, First Tier made three loans totaling \$49.4 thousand, in an effort to make mortgage financing more affordable within the community.

Small Business Loans - First Tier is an approved Small Business Administration (“SBA”) lender, offering the SBA 7(a) Guaranteed Loan Program. Under this program, the SBA provides lenders with a maximum 80% guarantee for small business loans of less than \$100 thousand (Low-Doc SBA loan), and a maximum of 75% for loans of \$100 thousand or more, with a total maximum guaranty of \$75 thousand. Proceeds may be used for business expansion or renovations, new facility construction, purchase of buildings, equipment and fixtures, leasehold improvements, working capital, seasonal lines of credit, and inventory. The bank originated seven SBA loans for \$875 thousand in 2001.

The bank is also a participant in *Rural Economic Community Development* (formerly FmHA), a program that helps rural LMI families to obtain affordable housing. In 2001, the bank originated five loans totaling \$363.3 thousand under this program.

During the evaluation period, the bank did not extend any FNMA, FHA or SONYMA loans.

II. Investment Test: “Outstanding”

The investment test evaluates the bank’s record of helping its assessment area through qualified investments, which are evaluated based on the dollar amount, their innovativeness or complexity, and their responsiveness to community development needs.

First Tier’s qualified investments for this evaluation period are significant for an institution that only recently became a “large bank” for purposes of its evaluation under the CRA. Qualified investments totaled \$156.2 thousand, of which \$52.3 thousand, or 33.5%, is deemed “new money.” The overall volume notwithstanding, First Tier’s minimal level of grants, at about \$6 thousand, is an area of weakness. While the institution should increase the level of qualified investments, including grants, in order to retain its outstanding rating going forward, First Tier demonstrated a high level of responsiveness to its community at this evaluation, given the Performance Context.

All of the bank’s qualified investments, other than grants, are debt instruments such as “Statutory Installment Bonds” (“SIB”) and “Bond Anticipation Notes” (“BAN”) issued by the local municipalities where the bank has a presence. The following are brief examples of these investments:

Town of New Hudson – In December 2001, the bank made a \$27 thousand investment in a SIB issued by the Town of New Hudson, Allegany County. This municipality used the proceeds to purchase a used 1997 HYPAC roller, which will be used to improve the quality of life of the residents of this moderate-income area.

Town of New Hudson – In May 2001, the bank invested \$19.4 thousand in a BAN issued by the Town of New Hudson, Allegany County. This municipality used the funds to buy a motor grader, which is to be used to improve the infrastructure of this moderate-income area.

City of Salamanca – In January 1999, the bank had invested \$59.7 thousand in a SIB issued by the City of Salamanca. This municipality used the funds to repair the local covered storage portable water reservoir thereby maintaining the quality of life of the residents of this moderate-income area. At December 31, 2001, the bank’s SIB had a book value of \$29.7 thousand, which is the amount given consideration at this evaluation.

City of Salamanca – In April 1997, the bank had invested \$137.5 thousand in a SIB issued by the City of Salamanca, which used the funds to buy a foot aerial ladder fire truck. At

December 31, 2001, the bank's SIB had a book value of \$45.8 thousand, which is the amount given consideration at this evaluation.

Grants – In October 2001, as a result of the terrorist attacks of September 11, 2001, the bank's holding company, FII, made two donations on behalf of all its subsidiary banks. A \$5 thousand donation was given to *Keefe, Bruyette & Woods Fund* and a \$10 thousand grant was given to the *Victims & Families Relief Fund-ABA Charities*. Of the total \$15 thousand, First Tier was apportioned \$3 thousand.

First Tier also made a \$3 thousand grant, representing its pro-rata share of the 10% set-aside by the Federal Home Loan Bank of New York's ("FHLBNY") to fund its Affordable Housing Program. Each bank's share is based on its percentage ownership of the FHLBNY.

III. Service Test: "Outstanding"

The service test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the bank's systems for delivering retail banking services and the extent and innovativeness of its community development services.

Retail Banking Services: "Outstanding"

Accessibility of Delivery Systems- The bank's delivery systems are readily accessible to all portions of its assessment area. Of the five branch offices, two (40%) are located in moderate-income census tracts, and the three others (60%) are in areas that are adjacent to LMI geographies.

Alternative delivery systems – Supporting the bank's branch network are four on-site ATMs, of which three (75%) are in areas adjacent to LMI tracts and one (25%) is located in a moderate-income area. Of the three off-site ATMs, one (33%) is located in a low-income area. Except for one ATM located in Allegany County, all others are in Cattaraugus County. They are available 24 hours a day, seven days a week, and are linked to NYCE, CIRBUS, and Plus ATM regional and national networks.

To enhance its branch and ATM network, the bank offers direct mail and the following alternative delivery systems:

Banking-by-telephone – This service, which is available 24 hours a day, can be used for balance inquiries; transaction verifications; transfer of funds between accounts; requests for stop payments or fax statements; interest rate quotes, and branch office hours and location information.

Internet Banking - The bank's web site (Firsttierbank.com) enables customers to check interest rates and the status of checks and deposits, and to access loan and mortgage loans.

Trust Services - The bank offers this service from the bank's headquarters and two other branches.

All branch locations offer night office boxes for after-office hour transactions, and three branches have drive-up facilities.

Changes in Branch Locations - The bank has not opened or closed any branch during the evaluation period.

Reasonableness of Business Hours and Services in Meeting Assessment Area Needs – Business hours and services are generally tailored to the convenience and needs of the assessment area. Except for one branch, which opens at 8:30 a.m., all open at 9:00 a.m. Three branches offer Saturday hours, including one located in a moderate-income area, and offer extended hours on Thursdays and Fridays.

Community Development Services: “High Satisfactory”

The bank provided a relatively high level of community development services. During the evaluation period, employees conducted two home buying seminars and one credit seminar. The home-buying seminars, attended by 10 to 12 individuals each, were conducted for the Rural Revitalization Corporation (“RRC”), an organization in Salamanca that helps LMI individuals obtain home mortgages. The credit seminar was conducted for the benefit of incoming freshmen at St. Bonaventure University, a local university. Approximately 300 students were in attendance.

In addition, five other bank employees provided technical assistance concerning financial matters to local nonprofit organizations. They served as board members, loan/credit or finance committee members, and treasurer. For example, a loan officer served as a member of the City of Olean Project Loan Committee, where he used his expertise to screen applicants to receive grants for down payments, closing costs and property repairs.

Another senior lender served as president of the board of directors of the Center for Family Unity in Salamanca, whose mission is the prevention of child abuse. This officer used his expertise to guide this local organization to financial stability through the use of budgets and sound fiscal management.

A branch manager served as vice chairman of the City of Salamanca Industrial Development Agency, which is charged with encouraging and promoting economic development in this moderate-income area. This manager used his expertise to help the organization fund various projects that will create jobs in the community.

First Tier may refer potential customers to the New York Business Development Corporation (“NYBDC”) for financing. NYBDC 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

rate, that are utilized to provide a broad range of financing to small and mid-sized businesses located in New York State. NYBDC borrows from member banks and make loans at favorable interest rates to businesses that might not otherwise meet standard lending criteria. For this evaluation period, bank staff referred two customers to NYBDC, which provided each of them a loan aggregating \$1.1million. As a result, approximately 36 jobs will be created, of which 25 will be created in the rural community of Allegany, New York.

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.

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

Evidence of prohibited discriminatory or other illegal credit practices.

The most recent regulatory compliance report prepared concurrent with this assessment indicates satisfactory adherence to antidiscrimination or 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.

First Tier ascertains the credit needs of the community through the direct contacts by its directors, officers and staff with local businesses, social and religious organizations involved in affordable housing and other activities that promote community development. The following is a partial list of these organizations:

- March of Dimes;
- Literacy Volunteers of Cattaraugus County;
- Bank Marketing Association;
- Olean First Baptist Church;
- Greater Olean Chamber of Commerce;
- Olean General Services Corporation;
- Southern Tier Economic Development Corporation;
- American Red Cross;
- American Heart Association;
- Center for Family Unity;

- Salamanca Kwianis Club;
- Rural Revitalization Corporation;
- Cattaraugus County Business Development Corporation;
- American Heart Association;
- City of Olean Revolving Loan Fund;
- Jamestown Boys & Girls Club;
- Rural Revitalization Corporation;
- United Way of Cattaraugus County;
- Olean YMCA;
- Girl Scouts;
- The Learning Center;
- Muscular Distrophy;
- Cerebral Palsy Association;
- American Legion;
- American Cancer Society;
- Cuba Lions Club; and
- United Methodist Congregational Church.

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.

In order to make the community aware of its credit products, First Tier uses advertisements with local newspapers and radio. The bank regularly advertises in the Empire Penny Savers, Olean Times Herald, Ellicottville Events, Salamanca Press, Cuba Patriot, WPIG, and WMXO. Direct mail, brochures, lobby posters, and statement stuffers are also utilized.

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 board of directors participates in a variety of community-oriented organizations and takes an active role in formulating the bank’s CRA policies, approving an annual CRA plan and annually reviewing and approving the CRA Statement. Furthermore, directors help to promote the bank’s CRA activities through their business activities and contacts with community organizations.

The bank’s holding company, FII, performs an annual self-assessment of the bank’s CRA policy, which is also reviewed by 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.

First Tier continues to support charitable, civic, religious and educational organizations in its assessment area, donating among them about \$6.1 thousand during 2001. Among the organizations that received donations were the Salamanca City School District, Salamanca Police Club, City of Salamanca, Salamanca Exchange Club, Olean General Hospital, Salamanca Youth Activities and The Child Abuse Prevention Center.

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 (“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.

LMI Penetration Rate

A number that depicts the percentage of loans extended to LMI geographies or borrowers. For example, an LMI penetration rate of 20% would indicate that the bank made 20 out of a total of 100 loans to LMI geographies or borrowers.

Small Business Loans

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