



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

One State Street
New York, NY 10004

**PUBLIC SUMMARY
OFFSITE EVALUATION**

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

Date of Evaluation: December 31, 2003

Institution: Alden State Bank
13216 Broadway
Alden, NY 14004

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 Alden State Bank ("ASB") 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, 2003.

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 an institution's 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 ("Evaluation") be made available to the public. Evaluations of small banking institutions are primarily based on a review of performance tests and standards described in Section 76.7 and detailed in Section 76.12 of the regulation. These tests and standards incorporate the 12 assessment factors contained in Section 28-b of the New York State Banking Law.

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

OVERVIEW OF INSTITUTION'S PERFORMANCE

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

- ***Loan-to-Deposit Ratio: "Satisfactory"***

ASB's loan-to-deposit ("LTD") ratio is reasonable based on the bank's size, financial condition and the credit needs of the assessment area.

For the eight consecutive calendar quarters ending December 31, 2003, ASB's average LTD ratio was 63.4%, which is well below the 79.1% ratio for its national peer group. ASB's ratio also reflects a slight decline since the prior evaluation period, when its average LTD ratio was 67.8%.

Nonetheless, the bank's average LTD ratio is comparable to those of two local peers, Bank of Akron (66.4%) and Evans National Bank (64.6%). These two institutions operate in the same general market area and offer similar products and services as ASB.

- ***Assessment Area Concentration: "Satisfactory"***

The bank extended a majority of its HMDA-reportable loans inside the assessment area.

During the evaluation period, ASB originated 67.3% by number and 61.0% by dollar volume of its HMDA-reportable loans inside the assessment area.

Based on the number of loans it originated during 2002, ASB ranked ninth among 127 HMDA-reporting lenders in the assessment area, with a market share of 2.78%. Based on dollar volume, ASB's rank was 11th and its market share was 2.16%.

- ***Geographic Distribution of Loans: "Satisfactory"***

The geographic distribution of ASB's loans reflects reasonable dispersion among census tracts of different income levels.

During 2002, the bank's assessment area contained no LMI tracts. That year, the majority of ASB's lending occurred in middle-income census tracts, where the bank's penetration rates was 80% based on number of loans and 72.2% based on dollar volume. This level of performance compares favorably with the market aggregate's middle-income penetration rates of 48.2% and 40.9%, respectively.

Following the introduction of updates from the 2000 Census during calendar year 2003, the bank's assessment area gained one LMI census tract. During 2003, ASB extended two HMDA-reportable loans within this tract, resulting in LMI penetration rates of 2% by number and 0.6% by dollar volume. These rates were consistent with the aggregate's LMI penetration rates of 2% by number and 1.6% by dollar volume. In middle-income areas, ASB achieved a penetration rate of 88.9% by number of loans and 81.9% by dollar volume, compared to the aggregate's rates of 44.7% and 38.6%, respectively.

- ***Distribution by Borrower Characteristics: "Outstanding"***

The bank's distribution of lending in the assessment area reflects excellent penetration among individuals of different income levels.

In 2002, ASB originated 25 loans totaling \$1.0 million to LMI borrowers. These loans accounted for 35.7% of the total number and 19.8% of the total dollar volume of ASB's HMDA-reportable lending for that year. By comparison, the market aggregate achieved significantly lower LMI penetration rates of 18.0% by number of loans and 12.4% by dollar volume. The bank's middle-income penetration rates of 24.3% by number and 20.6% by dollar volume were slightly lower than the aggregate's rates of 28.4% and 25.4%, respectively.

In 2003, the bank extended 33 loans totaling \$1.5 million to LMI borrowers. These loans resulted in an LMI penetration rate of 33.4% by number of loans and 19.4% by dollar volume. In contrast, the aggregate's LMI penetration rates were significantly lower at 18.6% and 12.9%, respectively. During 2003, ASB's penetration rate among middle-income borrowers was 37.4% by number and 41.7% by dollar volume, compared to the aggregate's rates of 28.0% and 24.7%, respectively.

Neither ASB nor the New York State Banking Department received any complaints with respect to the bank's CRA performance during the 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:

Alden State Bank is a commercial bank located in Alden, New York, within Erie County. The bank received its charter from the New York State Banking Department in 1916 and is not part of a holding company or affiliated with any other institution.

ASB has two full service offices, including its main office in the town of Alden and a branch office in the town of Lancaster. Each office provides full-service automated teller machines ("ATMs") that are accessible 24 hours a day.

On its year-end Call Report for 2003, ASB reported total assets of \$182 million, including \$108.8 million in loans and lease finance receivables. ASB also reported total deposits of \$157.2 million, resulting in a loan-to-deposit ratio of 69.2%.

According to the FDIC's most recent deposit market report, dated June 30, 2003, the bank holds a market share of 0.82% inside Erie County, ranking it 11th among 19 FDIC-insured depository institutions in Erie County.

During 2002, ASB's volume of HMDA-reportable lending placed the bank 9th among 127 lenders in its assessment area based on number of loans. This ranking reflects ASB's origination of 70 loans, which gave the bank a market share of 2.78%. Based on dollar volume, ASB achieved a market share of 2.16% (\$5.1 million) and a market ranking of 11th among the same group of 127 lenders.

The bank participates in the U.S. Small Business Administration's ("SBA") guaranteed loan program. During the evaluation period, the bank originated one SBA loan for \$50 thousand. The bank does not offer any other governmentally guaranteed or sponsored loan programs.

The following table provides a year-end summary of ASB's loan portfolio for calendar years 2001 through 2003, as reflected in Schedule RC-C of the bank's Call Reports:

GROSS LOANS OUTSTANDING						
LOAN TYPE	12/31/2001		12/31/2002		12/31/2003	
	\$000	%	\$000	%	\$000	%
1-4 Residential Mortgage Loans	59,087	63.3	58,520	61.0	64,530	59.3
Multifamily Mortgage Loans	303	0.3	284	0.3	265	0.2
Commercial & Industrial Loans	8,175	8.8	9,019	9.4	11,984	11.0
Commercial Mortgage Loans	11,565	12.4	14,475	15.1	16,967	15.6
Consumer Loans	5,772	6.2	6,004	6.3	6,223	5.7
Agricultural Loans	467	0.5	427	0.4	673	0.6
Construction Loans	7,301	7.8	5,964	6.2	7,913	7.3
Other Loans	644	0.7	1,195	1.2	277	0.3
Gross Loans	93,314	100.0	95,888	100.0	108,832	100.00

As shown in the table above, ASB is primarily a residential mortgage lender that finances one- to four-family buildings. As of year-end 2003, residential mortgage loans secured by one- to four-family properties accounted for 59.3% of the bank's loan portfolio. Other significant loan categories include commercial mortgage loans (15.6%) and commercial and industrial loans (11.0%).

ASB does not sell any of its mortgage loans and only offers residential mortgages with terms of 15 years or less. However, to assist borrowers who cannot afford the monthly payments on a 15-year mortgage, the bank will amortize a loan over a longer-term period and add a balloon payment at the end of the 15-year term.

ASB offers the following types of credit:

- 15-year fixed rate residential mortgage loans
- Mobile home loans
- Home improvement loans
- Home equity loans
- Installment loans
- Consumer term and demand loans
- Agricultural loans
- Small business loans

At its prior Performance Evaluation, conducted by the New York State Banking Department on December 31, 2001, ASB received a rating of "2." This rating reflects a "Satisfactory" record of helping to meet community credit needs.

There are no known financial or legal impediments affecting the bank's ability to meet the credit needs of its community.

Assessment Area:

The bank's assessment area includes portions of Erie, Genesee and Wyoming Counties.¹ In Erie County, the assessment area includes the towns and villages of Alden and Lancaster, the township of Marilla and the eastern half of the township of Elma. In Genesee County, the assessment area contains the townships of Darien and Alexander, while in Wyoming County the township of Bennington has been included in the assessment area. The boundaries of ASB's assessment area appear reasonable based upon the bank's lending patterns and the location of its branches. There is no evidence that LMI areas have been arbitrarily excluded.

According to data from the 1990 U.S. Census, the assessment area contains 14 census tracts, including 12 tracts in Erie County, one tract in Genesee County, and one tract in Wyoming County. There are no LMI census tracts within the assessment area. Ten of the assessment area's census tracts are categorized as middle-income areas, and the remaining four tracts are upper-income areas.

¹ Erie County is part of Metropolitan Statistical Area ("MSA") 1280, Buffalo/Niagara Falls. Genesee is part of MSA 6840, Rochester. Wyoming is not a part of an MSA.

During 2003, updated information from the 2000 Census became available. According to that data, the assessment area still contains 14 census tracts, but the distribution of census tracts among different income categories has changed. As of 2003, the assessment area comprises one zero-income tract, one moderate-income tract, eight middle-income tracts and four upper-income tracts.

The following table summarizes the distribution of census tracts across ASB's assessment area by county and by tract income level.²

Geographic and Income Distribution of Census Tracts within the Assessment Area								
Tract Income Level	Erie County		Genesee County		Wyoming County		Assessment Area	
	2002	2003	2002	2003	2002	2003	2002	2003
Zero	0	1	0	0	0	0	0	1
Low	0	0	0	0	0	0	0	0
Moderate	0	1	0	0	0	0	0	1
Middle	9	6	1	1	0	1	10	8
Upper	3	4	0	0	1	0	4	4
Total	12	12	1	1	1	1	14	14

Population: As of the 1990 Census, the assessment area was home to approximately 62 thousand residents, including 7.7 thousand individuals (12.5%) over the age of 65 and 13.4 thousand people (21.7%) under the age of 16. By the time of the 2000 Census, the assessment area's population had increased by 13.1%, to 70.1 thousand residents, including 9.9 thousand people (14.1%) over the age of 65 and 15.5 thousand individuals (22.1%) under the age of 16.

Families: Based on 1990 Census data, approximately 29% of families living in the assessment area were categorized as LMI, while 26.3% were middle-income and 45.0% were upper-income families. As of the 2000 Census, approximately 27% of the assessment area's families were LMI, while 24.6% and 48.5% were categorized as middle- and upper-income families, respectively. Roughly one-half (50.6%) of all LMI families lived within the assessment area's single moderate-income census tract.

Housing: According to 1990 Census data, an overwhelming majority (91.1%) of the assessment area's 22.6 thousand housing units were located within one- to four-family structures, while another 5.2% of all housing units were located in multi-family buildings. As of the 2000 Census, the number of housing units in the assessment area had increased to 26.7 thousand units and the percentage of housing located in one- to four-family and multifamily structures had increased to 91.8% and 5.6%, respectively.

As of 1990, owner-occupied units accounted for 76.9% of the assessment area's housing stock, while rental units accounted for 20.1% of all units. As of the 2000 Census, owner-occupied and rental units accounted for 78.3% and 18.0% of all units, respectively.

In 1990, the median housing value in the assessment area was \$80 thousand and the

² In accordance with regulatory reporting requirements, tract income levels for 2002 are based on data from the 1990 Census, whereas income levels for 2003 are based on 2000 Census data.

median age of the housing stock was 44 years. In 2000, the median housing value was \$108.4 thousand and the median age of the housing stock was 37 years.

Income: According to data from the 2000 Census, the median family income for the assessment area was \$58.3 thousand. As of 2003, the estimated median family income for the entire Buffalo-Niagara Falls Metropolitan Statistical Area (“MSA”) was \$52.5 thousand.³ The Buffalo-Niagara Falls MSA includes both Erie and Niagara Counties. As noted above, 12 of the 14 census tracts in ASB’s assessment area are located within Erie County.

Details of Assessment Area

Please refer to the following tables for additional demographic information about the assessment area:

Chart #1: Population and Income

Chart #2: Housing Characteristics

³ Estimate obtained from the U.S. Department of Housing and Urban Development (“HUD”).

CHART # 1

ALDEN STATE BANK																						
ASSESSMENT AREA POPULATION AND INCOME CHARACTERISTICS BY COUNTY																						
COUNTY	Total Population	Age 65 and over		Age 16 and less		Median Family Income(MFI)	HUD MSA MFI	# of Households		# of HH below poverty level		Total Families	Low income		Moderate income		Middle income		Upper income		LMI families in LMI tracts	
		#	%	#	%			#	%	#	%		#	%	#	%	#	%	#	%	#	%
2002																						
Erie (12**)	53,684	6,909	12.87%	11,369	21.18%	\$39,996	\$50,800	18,851	1,252	6.64%	14,449	1,631	11.29%	2,391	16.55%	3,798	26.29%	6,629	45.88%	0	0	
Genesee (1**)	5,230	509	9.73%	1,338	25.58%	\$37,206	\$54,900	1,701	95	5.58%	1,470	253	17.21%	340	23.13%	424	28.84%	453	30.82%	0	0	
Wyoming (1**)	3,046	308	10.11%	712	23.37%	\$39,000	\$43,600	1,036	66	6.37%	874	85	9.73%	125	14.30%	190	21.74%	474	54.23%	0	0	
TOTAL A/A*	61,960	7,726	12.47%	13,419	21.66%	\$39,700	\$50,579	21,588	1,413	6.55%	16,793	1,969	11.73%	2,856	17.01%	4,412	26.27%	7,556	44.99%	0	0	
2003																						
Erie (12**)	61,276	8,893	14.51%	13,306	21.71%	\$59,494	\$52,500	22,646	1,089	4.81%	16,508	1,625	9.84%	2,631	15.94%	3,973	24.07%	8,279	50.15%	317	7.45%	
Genesee (1**)	5,512	624	11.32%	1,442	26.16%	\$51,116	\$56,900	1,931	103	5.33%	1,517	238	15.69%	341	22.48%	453	29.86%	485	31.97%	0	0	
Wyoming (1**)	3,349	382	11.41%	720	21.50%	\$48,966	\$47,300	1,200	54	4.50%	964	81	8.40%	190	19.71%	243	25.21%	450	46.68%	0	0	
TOTAL A/A*	70,137	9,899	14.10%	15,468	22.05%	\$58,291	\$52,443	25,777	1,246	4.83%	18,989	1,944	10.24%	3,162	16.65%	4,669	24.59%	9,214	48.52%	317	7.45%	

* Assessment Area; ** Number of census tracts within county included in the assessment area ("AA")

CHART # 2

ALDEN STATE BANK																			
ASSESSMENT AREA HOUSING CHARACTERISTICS BY COUNTY																			
COUNTY	Total	1-4 family		Multifamily		Owner-Occupied		O-O Units in		O-O Units in		O-O Units in		O-O Units in		Rental		Vacant/	
	Housing Units	Units		Units		Units (O-O)		Low-income Tracts		Mod-income Tracts		Mid-income Tracts		Upp-income Tracts		Units		Boarded-up Units	
		#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%
2002																			
Erie	19728	17915	90.81%	1158	5.87%	15093	76.51%	0	0.00%	0	0.00%	9921	50.29%	5172	26.22%	4121	20.89%	843	4.27%
Genesee	1785	1674	93.78%	16	0.90%	1411	79.05%	0	0.00%	0	0.00%	1411	79.05%	0	0.00%	308	17.25%	83	4.65%
Wyoming	1119	1037	92.67%	0	0.00%	909	81.23%	0	0.00%	0	0.00%	0	0.00%	909	81.23%	119	10.63%	97	8.67%
TOTAL A/A*	22632	20626	91.14%	1174	5.19%	17413	76.94%	0	0.00%	0	0.00%	11333	50.07%	6081	26.87%	4548	20.10%	1023	4.52%
2003																			
Erie	23434	21395	91.30%	1471	6.28%	18243	77.85%	0	0.00%	533	2.27%	7977.2	34.04%	9732.93	41.53%	4842	20.66%	816	3.48%
Genesee	2018	1916	94.95%	19	0.94%	1618	80.18%	0	0.00%	0	0.00%	1618	80.18%	0	0.00%	328	16.25%	94	4.66%
Wyoming	1273	1226	96.31%	0	0.00%	1073	84.29%	0	0.00%	0	0.00%	1073	84.29%	0	0.00%	140	11.00%	65	5.11%
TOTAL A/A*	26725	24537	91.81%	1490	5.58%	20,934	78.33%	0	0.00%	533	1.99%	10,668	39.92%	9,733	36.42%	5310	19.87%	975	3.65%

* Assessment Area

PERFORMANCE STANDARDS AND ASSESSMENT FACTORS

ASB's performance was evaluated according to the small bank performance criteria, which include the following: (1) Loan-to-Deposit Ratio and Other Lending-Related Activities; (2) Assessment Area Concentration; (3) Geographic Distribution of Loans; (4) Distribution by Borrower Characteristics; and (5) Action Taken in Response to Written Complaints Regarding CRA.

The evaluation period included calendar years 2002 and 2003. Examiners considered the bank's HMDA-reportable loans in evaluating factors (2), (3) and (4), as noted above. Examiners did not consider the bank's small business or consumer loans because these products are not a significant portion of ASB's lending activity. Furthermore, the off-site nature of this evaluation precluded examiners from conducting the data integrity reviews that are typically performed prior to analyzing lending activity that is not required to be reported under CRA or HMDA reporting requirements.¹

In addition to loan information submitted by the bank, aggregate data for HMDA-reportable loans were obtained from the Federal Financial Institutions Examination Council ("FFIEC") and PCi Corporation's CRA Wiz[®] software. The demographic data used in this report were obtained from the 1990 and 2000 U.S. Censuses. Updated median family income figures for 2002 and 2003 were taken from annual HUD estimates.

- **Loan-to-Deposit (LTD) Ratio & Other Lending-Related Activities: "Satisfactory"**

ASB's average LTD ratio is reasonable considering the bank's size, financial condition and the credit needs of its assessment area.

Over the eight quarters that have elapsed since the prior evaluation, ASB's average LTD ratio was 63.4%, which is well below the peer group's eight-quarter average of 79.1%.² During the prior evaluation period, ASB's average LTD ratio was 67.8%.

The bank's low LTD ratio relative to its peer group is explained, in part, by the bank's decision to limit its mortgage loans to 15-year terms or less and to charge interest rates that are not as competitive as their peers' rates. Even so, as illustrated in the table below, the bank's LTD ratio has increased steadily during the previous eight quarters, and is returning to levels last seen during the first half of the prior evaluation period.

Since the peer group referenced above is a national peer group, examiners compared the bank's LTD ratio to the ratios of two local competitors: Bank of Akron and Evans National

¹ As a small banking institution, Alden State Bank is exempt from the Community Reinvestment Act's regulatory reporting requirements for small business loans.

² Source: These ratios were taken from the bank's Uniform Bank Performance Report ("UBPR"), as published by the FFIEC. Alden State Bank's peer group includes all insured commercial banks with assets of \$100 million to \$300 million, three or more banking offices and located in a metropolitan area.

Bank. These two institutions are direct competitors of ASB and offer similar loan products within the same general market area. Over the same eight-quarter period mentioned above, Bank of Akron and Evans National Bank had average LTD ratios of 66.4% and 64.6%, respectively. These ratios are consistent with, but slightly higher than, ASB's average LTD ratio.

Loan-To-Deposit (LTD) Ratios									
Name of Bank	2002				2003				Avg. LTD Ratio
	3/31	6/30	9/30	12/31	3/31	6/30	9/30	12/31	
Alden State Bank	58.95	59.96	62.54	63.32	61.35	66.05	67.23	67.94	63.42
Bank of Akron	71.26	67.08	67.47	67.89	64.92	63.45	64.15	65.01	66.40
Evans National Bank	66.34	67.72	68.65	62.21	57.22	61.13	63.96	69.66	64.61

- **Assessment Area Concentration: "Satisfactory"**

During the evaluation period, the bank originated a majority of its HMDA-reportable loans within the assessment area.

The following table summarizes ASB's lending within and beyond its assessment area:

Distribution of Loans Inside and Outside of the Assessment Area										
	Number of Loans					Dollar Volume (In Thousands)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
HMDA Loans										
2002	70	64.2	39	35.8	109	5,144	55.5	4,126	44.5	9,270
2003	99	69.7	43	30.3	142	7,536	65.5	3,972	34.5	11,508
Total	169	67.3	82	32.7	251	12,680	61.0	8,098	39.0	20,778

During calendar years 2002 and 2003, the bank originated a substantial percentage (67.3%) of its 251 total HMDA-reportable loans inside the assessment area. This represents significant improvement from the prior evaluation period, when roughly 45% of the bank's 56 HMDA-reportable loans were made within the assessment area.

Even though its lending volume increased, the percentage of ASB's lending falling within the assessment area remained virtually unchanged from the previous evaluation period's ratio of 67.7%.

- **Geographic Distribution of Loans: “Satisfactory”**

The geographic distribution of ASB’s HMDA-reportable loans reflects reasonable dispersion among census tracts of different income levels.

Since there is only one moderate-income census tract within the assessment area, examiners also evaluated ASB’s lending distribution across middle- and upper-income census tracts.

The following chart summarizes the geographic distribution of ASB’s HMDA-reportable loans during the evaluation period:

Distribution of HMDA-reportable Loans by Geographic Income Level										
2002										
Geographic Income Level	Census Tracts in AA		Bank				Aggregate			
	#	% of Total	#	%	\$000	%	#	%	\$000	%
Low	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Middle	10	71.4	56	80.0	3,712	72.2	1,114	48.2	88,965	40.9
Upper	4	28.6	14	20.0	1,432	27.8	1,199	51.8	128,654	59.1
NA	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Total	14	100.0	70	100.0	5,144	100.0	2,313	100.0	217,619	100.0
2003										
Geographic Income Level	Census Tracts in AA		Bank				Aggregate			
	#	% of Total	#	%	\$000	%	#	%	\$000	%
Low	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	1	7.1	2	2.0	43	0.6	68	2.0	4,499	1.3
Middle	8	57.1	88	88.9	6,172	81.9	1,537	44.7	136,454	38.6
Upper	4	28.6	9	9.1	1,321	17.5	1,833	53.3	212,733	60.1
NA	1	7.1	0	0.0	0	0.0	2	0.1	163	0.0
Total	14	100.0	99	100.0	7,536	100.0	3,440	100.0	353,849	100.0

Note: “AA” stands for assessment area.

In 2002, ASB originated 56 loans (80%) in middle-income census tracts and 14 loans (20%) in upper-income census tracts. These percentages compare reasonably well to the distribution of middle- (71.4%) and upper-income (28.6%) census tracts within the assessment area. As a reference point, the market aggregate’s distribution of loans totaled 48.2% in middle-income tracts and 51.8% in upper-income tracts.

In 2003, the income distribution of census tracts in the assessment area changed significantly. As described earlier in this report, 2003 was the year in which updated demographics from the 2000 Census were adopted for regulatory reporting purposes. These changes resulted in number census tracts being reclassified by income level. To be specific, the number of low-income tracts within the bank’s assessment area remained at zero, while the number of moderate- and zero-income tracts both changed from zero to one tract due to the reclassification of middle-income tracts.

During 2003, the bank extended two loans (2%) within the assessment area's only moderate-income census tract. ASB also made 88 loans (88.9%) in middle-income census tracts and nine loans (9.1%) in upper-income tracts. Compared to the prior year's performance, these changes reflected an increase of 8.9 percentage points in ASB's lending in middle-income tracts and a decrease of 10.9 percentage points in upper-income areas.

The geographic distribution of ASB's loans compared favorably to the distribution achieved by the market aggregate, which tended to lend more heavily in upper-income areas (53.3%) rather than in moderate-income (2%) or middle-income (44.7%) areas.

- **Distribution by Borrower Characteristics: "Outstanding"**

The distribution of ASB's loans based on borrower characteristics reflects excellent penetration among individuals of different income levels.

The following chart depicts the distribution of the bank's HMDA loans based on borrower income level during the evaluation period:

Distribution of HMDA-reportable Loans by Borrower Income Level*									
2002									
Borrower Income Level	Bank				Aggregate				AA Family Income Level
	#	%	\$000	%	#	%	\$000	%	
Low	13	18.6	553	10.8	84	3.6	4,662	2.1	11.7
Moderate	12	17.1	461	9.0	333	14.4	22,483	10.3	17.0
Middle	17	24.3	1,062	20.6	657	28.4	55,229	25.4	26.3
Upper	23	32.9	2,327	45.2	1,112	48.1	123,325	56.7	45.0
NA	5	7.1	741	14.4	127	5.5	11,920	5.5	--
Total	70	100.0	5,144	100.0	2,313	100.0	217,619	100.0	100.0
2003									
Borrower Income Level	Bank				Aggregate				AA Family Income Level
	#	%	\$000	%	#	%	\$000	%	
Low	18	18.2	795	10.5	130	3.8	7,150	2.0	10.2
Moderate	15	15.2	668	8.9	508	14.8	38,707	10.9	16.7
Middle	37	37.4	3,142	41.7	964	28.0	87,344	24.7	24.6
Upper	24	24.2	2,320	30.8	1,635	47.5	193,013	54.5	48.5
NA	5	5.1	611	8.1	203	5.9	27,635	7.8	--
Total	99	100.0	7,536	100.0	3,440	100.0	353,849	100.0	100.0

* Borrower income levels are established relative to HUD's annual estimate of median family income ("MFI") for the area in which the mortgaged property is located. Low-income is below 50% of the MSA MFI; moderate-income is 50% to <80%, middle-income is 80% to <120%, and upper-income is 120% or greater.

As of 2002, LMI families accounted for 28.7% of all families living in the bank's assessment area. By comparison, ASB originated approximately 36% of its total number of loans, and 19.8% of its dollar volume, to LMI borrowers. The bank's performance also compares favorably to the market aggregate, which extended 18.0% by number and 12.4% by dollar volume of its loans to LMI borrowers.

In 2003, LMI families decreased to 26.9% of all families living in the bank's assessment area. Similarly, the bank's lending to LMI decreased slightly, to 33.4% by number and 19.4% by dollar volume of ASB's total HMDA-reportable lending. In contrast, the aggregate's lending to LMI families remained relatively flat, at 18.6% by number and 12.4% by dollar volume.

- **Action Taken In Response to Written Complaints With Respect to CRA**

Neither ASB nor the New York State Banking Department has received any written complaints regarding the bank's CRA performance since the previous CRA evaluation.

- **Discrimination and other Illegal Practices**

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

Examiners did not note any 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 and fair lending examinations were conducted concurrently with this evaluation and indicate satisfactory adherence to anti-discrimination and other applicable laws and regulations. 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's board of directors, officers and employees help ascertain the credit and banking needs of the community through regular contact and involvement with local government and school officials, local business people, farmers and nonprofit 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 advertises a variety of its credit and deposit products on a local radio station as well as in two local newspapers, the Alden Advertiser and the Lancaster Bee. In addition,

the bank uses statement stuffers and advertisements in community event programs. The bank has not made advertisements specifically targeted to low- or moderate-income individuals.

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 has approved the bank's CRA policy and reviews its CRA statement annually. The board also receives annual updates regarding the bank's HMDA-reportable lending activity.

- **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.

It is the bank's policy and practice to hold local municipal security offerings, thereby reinvesting funds within its assessment area. During the period January 1, 2003 through December 31, 2003, Alden State Bank has maintained over \$9.5 million in investment in securities within New York State. More than \$1.8 million of that amount was invested in the town and village of Alden, the Alden Central School District, the town and village of Lancaster, the towns of Marilla and Newstead and the volunteer fire companies of Alden, Cowlesville, Crittenden, Marilla and Millgrove.

The bank provides financial and technical support for civic and educational organizations within the assessment area. During 2003, ASB's financial support totaled more than \$29 thousand, including donations for local school activities, community service organizations, community sports activities, police and fire organizations and other such organizations. In addition, bank employees volunteer as teachers in Junior Achievement classes at local elementary and middle schools.

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

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- 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 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.

LMI Penetration Rate

A number that depicts the percentage of a bank's total loans (for a particular product) that was 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.