NEW YORK STATE BANKING DEPARTMENT
CONSUMER SERVICES DIVISION
One State Street
New York, NY 10004

PUBLIC SUMMARY

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Off-Site Evaluation

Date of Evaluation: January 1, 2003

Institution: Canisteo Savings and Loan Association
1 Main Street
Canisteo, NY 14823

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.**

TABLE OF CONTENTS

GENERAL INFORMATION

This document is an off-site evaluation of the Community Reinvestment Act ("CRA") performance of Canisteo Savings and Loan Association ("Canisteo") prepared by examiners of 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, 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 performance. Part 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.

Part 76.5 further requires that the CRA rating and the written summary be made available to the public ("Evaluation"). Evaluations of small banking institutions are primarily based on a review of performance tests and standards described in Part 76.7 and detailed in Part 76.12. The 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

Canisteo 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 ("LTD") Ratio:*** The association's LTD ratio is considered reasonable in light of the association's size, financial condition and the credit needs of its assessment area. The association's average LTD ratio for the eight consecutive quarters ended December 31, 2002 was 64.81%.

- ***Assessment Area Concentration**:* The association extended a substantial majority of its home purchase and home improvement loans in the assessment area. During the evaluation period, the association extended 94% of its combined home purchase and home improvement loans within the assessment area.

- ***Geographic Distribution of Loans**:* The geographic distribution of the association's residential real estate loans reflects reasonable dispersion among geographies of different income levels. Based on the number and dollar volume of loans, the current evaluation showed LMI geography penetration rates of 32.4% (11 loans) and 26.2% ($349 thousand). At the previous evaluation, the related LMI penetration rates were 8.3% (one loan) and 2.1% ($8 thousand).

- ***Distribution by Borrower Characteristics**:* The association's lending within the assessment area reflects reasonable penetration among individuals of different income levels. During the evaluation period, the association extended 11.8% (four loans) to moderate-income borrowers. For the previous evaluation period, the corresponding penetration ratios were 16.6% (two loans).

- Neither the association nor the New York State Banking Department received any complaints with respect to Canisteo's CRA performance during the evaluation period.

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

PERFORMANCE CONTEXT

Institution's Profile:

Chartered in 1921, Canisteo is located in the village of Canisteo in Steuben County. The association continues to maintain only one office, and has not opened or closed any branch offices since the prior evaluation.

Canisteo's Thrift Financial Report as of December 31, 2002 indicated total assets of approximately $5.3 million, of which approximately $3 million were loans, and total deposits of $4.7 million, resulting in a loan-to-deposit ratio of 65%. According to the latest available comparative deposit data dated June 30, 2002, the association obtained a market share of 0.65%, or $5.1 million out of $783.9 million, ranking it last among the seven other deposit-taking institutions in Steuben County.

The following is a summary of the association's loan portfolio, based on the Thrift Financial Reports as of December 31, 2000, December 31, 2001 and December 31, 2002:

TOTAL GROSS LOANS OUTSTANDING						
	2000		2001		2002	
LOAN TYPE	$(000s)	%	$(000s)	%	$(000s)	%
1-4 Family Residential Mortgage Loans	2,458	72.1	2,409	75.0	2,383	78.1
Commercial & Industrial Loans	766	22.5	619	19.3	486	15.9
Consumer Loans	186	5.5	184	5.7	183	6.0
Total Gross Loans	3,410	100.0	3,212	100.0	3,052	100.0

As illustrated in the above chart, the association is primarily a residential real estate mortgage lender. As of December 31, 2002, the association had 78.1% of its loan portfolio in residential real estate loans, 15.9% in commercial and industrial loans and 6% in consumer loans.

Canisteo does not participate in any governmentally insured, guaranteed or sponsored loan programs, or offer any other special loan program because of the association's small size.

The association received a rating of "2" reflecting a "Satisfactory" record of helping to meet community credit needs at its prior Performance Evaluation conducted by the New York State Banking Department on January 1, 2001.

Except for the association's size, there are no known financial or legal impediments that would adversely impact the association's ability to meet the credit needs of its community.

Assessment Area:

The association's assessment area is comprised of the western portion of Steuben County and the eastern portion of Allegany County, in southern New York State. The area is rural, comprising small towns and small city communities.

There are 16 block-numbering areas ("BNAs") in the assessment area, three (19%) are moderate-income, 12 (75%) are middle-income and one (6%) is upper-income. There are no low-income geographies in the assessment area.

The assessment area appears reasonable based upon the location of the association's offices and its lending patterns. There is no evidence that LMI areas have been arbitrarily excluded.

Details of Assessment Area:

As per the 1990 U.S Census, the assessment area had a population of approximately 61 thousand persons. The MSA/Non-MSA's median family income was $31.5 thousand and the updated MSA/Non-MSA's median family income for 2002 was $43.6 thousand. The proportion of LMI families living in LMI tracts was only 21.5%. However, LMI families constituted 41.6% of the total number of families living in the assessment area.

In 1990, approximately 14% of the housing stock in the assessment area was vacant or boarded up. Mobile dwellings represented 14.6% of total housing units. Multifamily dwellings accounted for 4.4% of total housing units, a level consistent with the rural characteristics of the assessment area. Owner-occupied units, which represented 62.3% of total housing units, were dispersed throughout the assessment area with 16.0% in moderate-income areas, 78.6% in middle-income areas and 5.4% in upper-income areas.

PERFORMANCE STANDARDS AND ASSESSMENT FACTORS

Canisteo 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 2001 and 2002. The association's HMDA-type loans were considered in evaluating factors (2), (3) and (4), as noted above.

Because of its size, Canisteo is not required to report HMDA data. Additionally, for the purpose of this evaluation, the association is deemed not to have any peers or be comparable to any similarly situated institutions. Therefore, comparisons to aggregate or peer data will not be made in this report.

The demographic data referred to in this report was obtained from the 1990 U.S. Census, with updated median family income figures provided by the U.S. Department of Housing and Urban Development ("HUD").

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

The association's LTD ratio is reasonable considering the association's size, financial condition and the credit needs of the assessment area.

As shown in the table below, the association's average LTD ratio for the eight consecutive quarters ended December 31, 2002 was 64.81%. This ratio was calculated from information shown in the association's Thrift Financial Report.

Loan-to-Deposit Ratios									
	3/31 2001	6/30 2001	9/30 2001	12/31 2001	3/31 2002	6/30 2002	9/30 2002	12/31 2002	Average LTD
Canisteo	66.59	66.12	66.24	63.32	60.68	63.59	66.90	65.02	64.81

- **Assessment Area Concentration**: **"Outstanding"**

The association originated a substantial majority of its HMDA-type loans within the assessment area. The following chart shows the proportion of the association's home purchase and home improvement loans originated inside and outside of the assessment area during the evaluation period.

Distribution of Loans Inside and Outside of the Assessment Area										
Loan Type	Number of Loans					Loans in Dollars				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		$(000s)	%	$(000s)	%	
Home Purchase										
2001	14	100.0	0	0.0	14	502	100.0	0	0.0	502
2002	18	94.7	1	5.3	19	822	91.1	80	8.9	902
Subtotal	**32**	**97.0**	**1**	**3.0**	**33**	**1,324**	**94.3**	**80**	**5.7**	**1,404**
Home Improvement										
2001	1	100.0	0	0	1	6	100.0	0	0.0	6
2002	1	50.0	1	50.0	2	4	57.1	3	42.9	7
Subtotal	**2**	**66.7**	**1**	**33.3**	**3**	**10**	**76.9**	**3**	**23.1**	**13**
Total	**34**	**94.4**	**2**	**5.6**	**36**	**1,334**	**94.1**	**83**	**5.9**	**1,417**

During the evaluation period, the association extended 94.4% of its 36 combined home purchase and home improvement loans in the assessment area. In contrast, at the previous CRA evaluation, 80% of the institution's home purchase and home improvement loans were made in the assessment area.

In 2001, the association made all of its home purchase and home improvement loans in the assessment area. In 2002, 94.7% of the association's home purchase loans were for properties situated in the assessment area. The corresponding ratio based on dollar volume is 91.1%.

- **<u>Geographic Distribution of Loans</u>: "Satisfactory"**

The distribution of loans reflects reasonable dispersion among geographies of different income levels.

During this evaluation period, the degree of lending in LMI areas significantly exceeded the performance observed at the previous evaluation. Based on number and dollar volume, LMI geography penetration rates were 32.4% (11 loans) and 26.2% ($349 thousand), respectively. At the previous evaluation, the related LMI penetration rates were 8.3% (one loan) and 2.1%($8 thousand). As noted in the performance context, three (19%) of the BNAs in the assessment area are moderate-income geographies, and there are no low-income BNAs in the area.

The following chart summarizes the distribution of the association's HMDA-type loans originated during the evaluation period:

Distribution of HMDA-Type Loans by Geography Income Level*								
	Canisteo							
Geography Income Level	2001				2002			
	#	%	$(000s)	%	#	%	$(000s)	%
Low	0	0.0%	0	0.0%	1	5.3%	27	3.3%
Moderate	5	33.3%	121	23.8%	5	26.3%	201	24.3%
Middle	10	66.7%	387	76.2%	13	68.4%	598	72.4%
Upper	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	15	100.0%	508	100.0%	19	100.0%	826	100.0%

* Geography income level is based upon 1990 Census data on median family income figure for the MSA of the mortgaged property. Low-income is defined as <50% of the MSA median, moderate-income is 50% to <80% of the MSA median income, middle-income is 80% to <120%, and upper-income is at least 120%.

In 2001, 33.3% (five loans) of the association's HMDA-type loans were made in moderate-income geographies. The corresponding ratio based on dollar volume was 23.8% ($121 thousand). In 2002, the LMI penetration ratios remained about the same, with 31.6% (six loans) and 27.6% ($228 thousand) based on number and dollar volume, respectively.

- **<u>Distribution by Borrower Characteristics</u>: "Satisfactory"**

The distribution of loans based on borrower characteristics reflects reasonable penetration among individuals of different income levels.

During the evaluation period, the association extended 11.8% (four loans) to moderate-income borrowers. For the previous evaluation period, the corresponding ratio was 16.6% (two loans).

The following chart provides a summary of the association's HMDA-type loans by borrower characteristics:

Distribution of HMDA-Type Loans by Borrower Income Level*								
	Canisteo							
Borrower Income Level	2001				2002			
	#	%	$(000s)	%	#	%	$(000s)	%
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Moderate	1	6.7%	40	7.9%	3	15.8%	124	15.0%
Middle	4	26.7%	162	31.9%	8	42.1%	316	38.3%
Upper	10	66.7%	306	60.2%	8	42.1%	386	46.7%
Total	15	100.0%	508	100.0%	19	100.0%	826	100.0%

* Borrower income level is based upon the HUD's annual estimate of median family income ("MFI") figure for the MSA of the mortgaged property. Low-income is defined as <50% of the MSA MFI, moderate-income is 50% to <80%, middle-income is 80% to <120%, and upper-income is at least 120%.

In 2001, one loan was extended to a moderate-income borrower, which resulted in an LMI borrower penetration ratio of 6.7%. In 2002, three loans were extended to moderate-income borrowers, increasing the LMI borrower penetration ratio to 15.8%. In contrast, middle-income borrowers received 26.7% and 42.1% of the loans in 2001 and 2002, respectively, and lending to upper-income borrowers declined from 66.7% in 2001 to 42.1% in 2002.

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

Since the prior CRA evaluation, neither the association nor the New York State Banking Department has received any written complaints regarding the association's CRA performance.

- **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 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 and fair lending examinations conducted concurrently with this evaluation 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.

Members of the board of directors and employees of the association are active in the local community. They have ongoing contact with local government officials and several nonprofit organizations, including civic and cultural groups.

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 addition to advertising in the local newspaper, the association advertises in a local publication that is distributed free of charge.

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.

Members of the board help to formulate association policies and business plans. Community credit needs and other CRA related matters are discussed at board meetings, as needed.

- **<u>Other Factors</u>**

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

None.

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 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.