



**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:** December 31, 2003

**Institution:** First State Bank  
3 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.

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## GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act ("CRA") performance of First State Bank, Canisteo ("FSB") 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.

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## OVERVIEW OF INSTITUTION'S PERFORMANCE

FSB 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 and Other Lending-Related Activities:*** The bank's LTD ratio is more than reasonable in light of the bank's size, financial condition and the credit needs of its assessment area.

FSB's average LTD ratio for the eight consecutive quarters ending December 31, 2003, was 79.6%, which is above the national peer group's average of 70.1%. The bank's current LTD ratio is also an improvement over its own quarterly average ratio of 57.4% during calendar year 2001.

The bank enhanced the availability of credit in the assessment area by providing community development loans and qualified investments totaling \$417.6 thousand.

- ***Assessment Area Concentration:*** The bank extended a majority of loans in the assessment area.

During the evaluation period, the bank originated 763 loans totaling \$20.7 million. This lending activity includes small business, HMDA-reportable and consumer loans. Originations within the assessment area accounted for 525 loans (68.8%) totaling \$8.4 million (40.7%). The bank's performance continues to be affected by its low percentage of small business lending within the assessment area. During the evaluation period, FSB originated only 17.1% by number and 10.3% by dollar volume of its small business loans within the assessment area.

- ***Geographic Distribution of Loans:*** The geographic distribution of FSB's loans reflects reasonable dispersion among the assessment area's moderate- and middle-income census tracts. There are no low- or upper-income geographies within the bank's assessment area.

During the evaluation period, the bank extended 12.5% of its HMDA-reportable loan, 19.2% of its small business loans and 16.1% of consumer loans in moderate-income areas. This level of performance is considered reasonable in light of the bank's size and performance context.

- ***Distribution by Borrowers Characteristics:*** The distribution of FSB's small business loans among businesses of different sizes was excellent.

HMDA-reportable and consumer loans were not evaluated as part of this analysis because data pertaining to borrowers' income levels were unavailable for these two loan types. Please note that FSB is not required to collect this data and currently is exempt from HMDA data collection and reporting requirements.

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In 2002, and 2003, the bank originated 90.9% of the number and 93.3% of the dollar volume of its small business loans in amounts of \$100,000 or less.

- **Complaints:** Neither the bank nor the New York State Banking Department received any complaints with respect to FSB'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.

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## PERFORMANCE CONTEXT

### **Institution's Profile:**

First State Bank (FSB) was established in Canisteo, New York as a state-chartered bank in April 1897. The bank is a wholly owned subsidiary of Canisteo Valley Corporation, a holding company formed in October 1998. In 1913, FSB expanded to its present location at 3 Main Street, Canisteo, in the southern part of Steuben County.

FSB opened a branch in South Hornell in 1983. In 1991, the bank acquired a representative office in the neighboring village of Wellsville, but this office was closed in May 2003. FSB now operates two full-service branches.

On its year-end Call Report for 2003, FSB reported total assets of \$42.8 million, including \$30.6 million in net loans. The bank also reported total deposits of \$36.7 million, resulting in a loan-to-deposit ratio of 83.4%.

According to the FDIC's latest market share report for deposits, compiled as of June 30, 2003, FSB holds 5.0% of all deposits in its assessment area and ranks 6<sup>th</sup> among nine FDIC-insured institutions in Steuben County.

FSB makes real estate, commercial and consumer loans. The following table shows a year-end breakdown of FSB's loan portfolio for calendar years 2001, 2002, and 2003:

<b>GROSS LOANS OUTSTANDING (Dollars in Thousands)</b>						
<b>LOAN TYPE</b>	<b>12/31/2001</b>		<b>12/31/2002</b>		<b>12/31/2003</b>	
	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
1-4 Residential Mortgage Loans	13,937	41.9	12,453	38.2	10,258	32.9
Commercial & Industrial Loans	11,330	34.1	8,330	25.6	8,583	27.5
Commercial Mortgage Loans	3,225	9.7	5,674	17.4	5,869	18.8
Consumer Loans	3,854	11.6	3,678	11.3	3,237	10.4
Agricultural Loans	103	0.3	77	0.2	280	0.9
Construction Loans	0	0.0	0	0.0	544	1.7
Other Loans	794	2.4	2,357	7.3	2,407	7.7
<b>Total Gross Loans</b>	<b>33,243</b>	<b>100.0</b>	<b>32,569</b>	<b>100.0</b>	<b>31,178</b>	<b>100.0</b>

Source: Call Report Schedule RC-C

As illustrated in the above chart, the bank continues to focus on residential real estate lending; however, over the past three years, the significance of commercial real estate lending has increased significantly as a percentage of the portfolio. Between year-end 2001 and year-end 2003, residential real estate declined by 26.4%, while the overall portfolio shrank by 6.2%. In contrast, commercial mortgage lending grew by 82% during that period, increasing from 9.7% to 18.8% of the portfolio.

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FSB participates in the following governmentally guaranteed or sponsored loan programs:

*Small Business Administration (“SBA”) Loan Guarantee Program:* The SBA provides loan guarantees that cover up to 85% of a borrower’s outstanding loan balance. This means that, in the event of a borrower’s default, the lender receives most of its principal back. Proceeds from SBA-guaranteed loans may be used for a wide range of purposes, including business expansion or renovation initiatives, equipment and fixture purchases, receivables financing and land or building purchases. During the evaluation period, FSB originated three SBA-guaranteed loans totaling \$160 thousand. The outstanding balance on these loans was \$115.4 thousand as of year-end 2003.

*New York State Excelsior Linked Deposit (“ELD”) Program:* This program gives small businesses access to financing at interest rates that are two to three percentage points below prevailing market rates. Banks are able to make these loans at reduced rates because New York State places deposits in their institutions at below-market interest rates. These low-cost deposits provide an inexpensive source of funding for the loans.

The ELD program generally benefits manufacturers with fewer than 501 employees or service companies with fewer than 101 employees; however, retail businesses are allowed to participate if they are located in a certified Economic Development Zone or are creating jobs in a highly distressed area. Start-up businesses are not eligible for loans subsidized by this program.

The ELD program subsidy expired in September 2003. FSB did not extend any new loans under this program during the evaluation period. The outstanding balance on loans made during prior evaluation periods totaled \$67.2 thousand as of December 31, 2003.

*Farm Service Agency Guaranteed Loan (FSAGL) Program:* The U.S. Department of Agriculture’s FSAGL program provides participating lenders with guarantees up to 95% of the principal amount on qualified farm ownership or farm operating loans of up to \$700 thousand. Farm ownership loans can be for the purchase of farmland, construction or building repair, for developing farmland to promote soil and water conservation or to refinance debt. Operating loans can be used to purchase items such as livestock, equipment and feed, among other items. Ownership loans have a maximum term of 40 years while operating loans are normally due within seven years.

Under the Department of Agriculture’s Interest Assistance program, qualified participants in the FSAGL program can also receive interest rate reductions of up to 4 percentage points. The bank was approved as a Standard Eligible Lender under the FSAGL program in December 1999. During the current evaluation period, the bank did not originate any loans under this program.

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**Assessment Area:**

The bank's assessment area comprises portions of Steuben County, including the townships of Avoca, Cameron, Canisteo, Dansville, Fremont, Greenwood, Hartsville, Hornellville, Howard, Jasper, Rathbone, Thurston, Troupsburg and West Union.

According to data from the 2000 U.S. Census, the assessment area contains nine census tracts, including one moderate-income and eight middle-income tracts. There are no low- or upper-income tracts in the assessment area.

The following table depicts the distribution of the assessment area's census tracts by geographic income level.

Distribution of Assessment Area Census Tracts by Income Level							
Assessment Area	Tract Income Level					Total	LMI %
	Zero	Low	Moderate	Middle	Upper		
1990 U.S Census	0	0	2	7	0	9	22.2
2000 U.S Census	0	0	1	8	0	9	11.1
Change 1990 – 2000	0	0	-1	+1	0	0	--

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

**Details of Assessment Area:**

*Population:* According to data from the 2000 U.S. Census, the assessment area has a population of 30.9 thousand residents, 14.6% of whom were over the age of 65 and 24.3% of whom were under the age of 16.

*Families:* There are 8.1 thousand families living in the assessment area and approximately 8.3% of these families live in LMI census tracts. Based on their income levels, 42.8% of the assessment area's families are categorized as low-to-moderate income (LMI) and 14% had income levels below the poverty line.

*Housing:* The assessment area contains 14.2 thousand housing units, including 11.2 thousand units (79%) in 1- to 4-family structures and 2.5 thousand units (18%) in mobile homes or trailers. Approximately 8.7 thousand units (61%) are owner occupied, another 3.1 thousand units (22%) are occupied by renters, and the remaining 2.4 thousand units (17%) are vacant. The area's median housing value was \$54.4 thousand and the median age of the housing stock was 36 years.

*Income:* As of 2000, the median family income for the assessment area was \$39.4 thousand, which is slightly below the median family income of \$42.9 thousand for all rural (non-MSA) counties in New York State. As of 2003, the U.S. Department of Housing and

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Urban Development (“HUD”) estimated the area’s median family income to be \$47.3 thousand.

Unemployment: According to the New York State Department of Labor, Steuben County’s unemployment rate averaged 8.5% in 2002 and 8.4% in 2003. These rates are higher than the 2002 and 2003 statewide averages of 6.1% and 6.3%, respectively.

**Other Information:**

The bank’s prior CRA Performance Evaluation, conducted by examiners from the New York State Banking Department as of December 31, 2001, resulted in a rating of “2”. This rating reflected the bank’s satisfactory record of helping to meet community credit needs.

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

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## **PERFORMANCE STANDARDS AND ASSESSMENT FACTORS**

FSB's performance was evaluated using 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. The examiner considered consumer, HMDA-reportable and small business lending in evaluating factors (2) and (3) noted above. In evaluating factor (4), only small business loans were considered because borrower income data were not available for consumer and HMDA-reportable loans.<sup>1</sup>

The demographic data contained in this evaluation were obtained from the 1990 and 2000 U. S. Censuses. Updated median family income figures were obtained from HUD.

- **Loan-to-Deposit Ratio and Other Lending-Related Activities: "Outstanding"**

FSB's loan-to-deposit ("LTD") ratio is more than reasonable considering the bank's size, financial condition and the credit needs of the assessment area.

As shown in the table below, FSB's average LTD ratio for the eight consecutive quarters ending December 31, 2003, was 79.6%. By comparison, the peer group's average LTD ratio for that same timeframe was approximately 70%.<sup>2</sup>

<b>Loan-to-Deposit Ratios by Calendar Quarter: 2002 and 2003</b>									
	2002				2003				Average LTD
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
FSB	82.06	76.34	77.52	80.17	76.44	79.70	81.16	83.37	79.60
Peer	69.27	72.22	72.63	69.84	68.38	69.46	70.05	68.54	70.05

**Community Development Loans/Qualified Investments:** The bank enhanced the availability of credit in its assessment area with community development loans and qualified investments totaling \$417.6 thousand.

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<sup>1</sup> Since FSB does not have an office within an MSA, the bank is exempt from annual HMDA data reporting requirements. In this Performance Evaluation, all references to "HMDA-reportable" loans can be understood to mean loans for which the bank would have reported specific data if it were subject to HMDA reporting requirements. While FSB may not be required to file HMDA data, its home mortgage lending is still reviewed as part of its CRA performance; however, certain data fields may be unavailable for analysis. Since this evaluation was conducted offsite, loan sampling for income data could not be conducted.

<sup>2</sup> These ratios were calculated from information shown in the bank's Uniform Bank Performance Report ("UBPR") prepared by the Federal Deposit Insurance Corporation ("FDIC"). FSB's peer group comprises 434 banks nationwide, including two banks in New York State.

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- *Community Preservation Corporation (“CPC”)*: CPC is a lending consortium that makes construction and permanent loans for the creation, rehabilitation and preservation of affordable housing throughout New York State. The banks that sponsor CPC provide revolving lines of credit for construction and rehabilitation projects and then provide permanent financing by purchasing collateral trust notes backed by CPC mortgages. As of December 31, 2003, the bank had an outstanding balance of \$25.1 thousand with CPC. FSB did not make any new investments in CPC during the evaluation period.
  - *New York Business Development Corporation (“NYSDC”)*: NYBDC is a privately owned corporation created by New York State statute. The corporation is owned and funded by a consortium of commercial and savings bank. The corporation works in conjunction with state agencies such as the Department of Economic Development and provides a broad range of financing to small and mid-sized businesses. FSB is a member of NYBDC and, as of year-end 2003, had a \$100 thousand line of credit with the corporation.
  - *Alcohol and Drug Dependency Service Foundation, Inc. (“ADDSFI”)*: ADDSFI is a nonprofit organization that provides housing facilities for low- and moderate-income individuals recovering from drug and alcohol addiction. On July 1, 2002, the bank participated in a \$1.3 million mortgage loan to ADDSFI. As of December 31, 2003, FSB’s outstanding share of this loan participation was \$292.5 thousand.

- **Assessment Area Concentration: “Satisfactory”**

Overall, the bank originated a majority of its loans within the assessment area.

#### Small Business Loans

FSB originated a substantial majority of its small business loans outside the assessment area.

In 2002, the bank originated 70 small business loans for a total of \$5.8 million. Eleven of those loans (15.7%), totaling \$573 thousand (9.8%), were originated within the assessment area. In 2003, the bank originated 82 loans for a total of \$6.4 million. Only 15 (18.3%) of those loans, totaling \$691 thousand (10.8%), were originated within the assessment area.

Compared to the previous evaluation, the percentage concentration of loans inside the assessment area tripled (from 5.7% to 17.1%) based on number of loans and increased approximately 47% (from 7.0% to 10.3%) based on dollar volume. However, the distribution of small business loans inside the assessment area continues to be marginal.

Distribution of Loans Inside and Outside of the Assessment Area										
Loan Type	Number of Loans					Loans in Dollars (in thousands)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Small Business										
2002	11	15.7	59	84.3	70	573	9.8	5,270	90.2	5,843
2003	15	18.3	67	81.7	82	691	10.8	5,736	89.3	6,427
<b>Subtotal</b>	<b>26</b>	<b>17.1</b>	<b>126</b>	<b>82.9</b>	<b>152</b>	<b>1,264</b>	<b>10.3</b>	<b>11,006</b>	<b>89.7</b>	<b>12,270</b>
Home Mortgage										
2002	38	86.4	6	13.6	44	1,841	83.7	358	16.3	2,199
2003	50	96.2	2	3.8	52	2,514	94.2	155	5.8	2,669
<b>Subtotal</b>	<b>88</b>	<b>91.7</b>	<b>8</b>	<b>8.3</b>	<b>96</b>	<b>4,355</b>	<b>89.5</b>	<b>513</b>	<b>10.5</b>	<b>4,868</b>
Consumer										
2002	196	77.5	57	22.5	253	1,310	70.7	542	29.3	1,852
2003	215	82.1	47	17.9	262	1,429	81.4	326	18.6	1,755
<b>Subtotal</b>	<b>411</b>	<b>79.8</b>	<b>104</b>	<b>20.2</b>	<b>515</b>	<b>2,739</b>	<b>75.9</b>	<b>868</b>	<b>24.1</b>	<b>3,607</b>
<b>Total</b>	<b>525</b>	<b>68.8</b>	<b>238</b>	<b>31.2</b>	<b>763</b>	<b>8,358</b>	<b>40.7</b>	<b>12,387</b>	<b>59.3</b>	<b>20,745</b>

### HMDA-Reportable Loans

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

During 2002, FSB originated 44 HMDA-reportable loans totaling \$2.2 million. Lending within the assessment area accounted for 38 (86.4%) of these loans and \$1.8 million (83.7%) of the dollar volume. During 2003, the bank originated 52 HMDA-reportable loans for a total of \$2.7 million. Lending within the assessment area accounted for 50 loans (96.2%) totaling \$2.5 million (94.2%).

### Consumer Loans

FSB originated a majority of its consumer loans inside the assessment area.

In 2002, the bank originated 253 consumer loans totaling \$1.9 million. Lending within the assessment area accounted for 196 (77.5%) of these loans and \$1.3 million (70.7%) of the total dollar volume. In 2003, FSB originated 262 consumer loans for a total of \$1.8 million. The concentration of loans inside the assessment area increased to 82.1% (215 loans) based on number of loans, and 81.4% (\$1.4 million) based on dollar volume.

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

The geographic distribution of FSB’s loans reflects reasonable dispersion throughout the assessment area.

As mentioned in the Performance Context section of this report, FSB’s assessment area is made up entirely of moderate- and middle-income census tracts. When updated data from the 2000 Census was introduced during 2003, the bank’s assessment area was left with only a single moderate-income tract. Given the composition of the assessment area, the following analysis only mentions the bank’s lending in moderate- and middle-income census tracts.

### HMDA-Reportable Loans

The geographic distribution of FSB’s HMDA-reportable loans reflects reasonable dispersion throughout the assessment area. FSB’s lending during the evaluation period is summarized in the table below:

<b>Distribution of HMDA-reportable Loans by Geographic Income Level</b>								
<b>Geographic Income Level</b>	<b>2002</b>				<b>2003</b>			
	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>
Low	0	0.0	0	0.0		0.0		0.0
Moderate	9	23.7	557	30.3	2	4.0	67	2.7
Middle	21	55.3	842	45.7	47	94.0	2,432	96.7
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown*	8	21.0	442	24.0	1	2.0	15	0.6
<b>Total</b>	<b>38</b>	<b>100.0</b>	<b>1,841</b>	<b>100.0</b>	<b>50</b>	<b>100.0</b>	<b>2,514</b>	<b>100.0</b>

\* Note: For some loans, there was insufficient information for geocoding.

In 2002, the bank originated nine HMDA-reportable loans (23.7%), totaling \$557 thousand (30.3%), in moderate-income census tracts. The bank’s lending in middle-income tracts that year totaled 21 loans (55.3%) with a combined value of \$842 thousand (45.7%).

In 2003, FSB’s originations in moderate-income tracts dropped to only two loans (4%) totaling \$67 thousand (2.7%). In contrast, the bank’s lending in middle-income tracts during 2003 increased to 47 loans (94.0%) totaling \$2.4 thousand (96.7%).

As mentioned in the Performance Context section of this evaluation, the distribution of moderate-income tracts in FSB’s assessment area decreased from two tracts (22.2%) based on the 1990 U.S. Census to one tract (11.1%) based on the 2000 U.S. Census.

### Small Business Loans

The bank’s geographic distribution of small business loans reflects reasonable dispersion throughout the assessment area.

The table below summarizes the bank's small business lending distribution during the evaluation period:

Distribution of Small Business Loans by Geographic Income Level								
Geography Income Level	2002				2003			
	#	%	\$000's	%	#	%	\$000's	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	4	36.4	58	10.1	1	6.7	35	5.1
Middle	6	54.5	505	88.1	12	80.0	640	92.6
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown*	1	9.1	10	1.8	2	13.3	16	2.3
<b>Total</b>	<b>11</b>	<b>100.0</b>	<b>573</b>	<b>100.0</b>	<b>15</b>	<b>100.0</b>	<b>691</b>	<b>100.0</b>

\* Note: For some loans, there was insufficient information for geocoding.

In 2002, the bank's small business lending in moderate-income tracts totaled four business loans (36.4%) amounting to \$58 thousand (10.1%). That same year, FSB made six loans (54.5%) totaling \$505 thousand (88.1%) in middle-income tracts.

### Consumer Loans

The following chart provides a summary of the consumer loans distribution during the evaluation period:

Distribution of Consumer Loans by Geographic Income Level								
Geography Income Level	2002				2003			
	#	%	\$000's	%	#	%	\$000's	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	59	30.1	447	34.1	7	3.2	28	2.0
Middle	118	60.2	761	58.1	187	87.0	1,288	90.1
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown*	19	9.7	102	7.8	21	9.8	113	7.9
<b>Total</b>	<b>196</b>	<b>100.0</b>	<b>1,310</b>	<b>100.0</b>	<b>215</b>	<b>100.0</b>	<b>1,429</b>	<b>100.0</b>

Note: For some loans, there was insufficient information for geocoding.

Changes in the distribution of census tract within the assessment area contributed to a decline in the number of consumer loans extended in moderate-income areas. In 2002, the bank extended 59 loans totaling \$447 thousand in moderate-income census tracts. The following year, in 2003, the bank's volume of consumer loans in moderate-income census tracts decreased to seven loans (3.2%) totaling \$28 thousand (2.0%).

In middle-income areas, the bank's volume of consumer loan originations increased from 118 loans (60.2%) totaling \$761 thousand (58.1%) in 2002, to 187 loans (87.0%) totaling \$1.3 thousand (90.1%) in 2003.

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- **Distribution by Borrower Characteristics: “Outstanding”**

**Small Business Loans**

The distribution of FSB’s small business lending based on borrower characteristics reflects excellent penetration among businesses of different sizes.

When borrower revenue data is available, this distribution analysis would be based on the dispersion of loans among borrowers of different revenue sizes. However, in the absence of borrower revenue data, examiners routinely use loan size as a proxy for borrower revenue size and evaluate the distribution accordingly.

The following chart summarizes the bank’s distribution of small business loans based on loan size:

<b>Distribution of Small Business Loans by Loan Size</b>								
<b>Loan Size (\$ in thousands)</b>	<b>2002</b>				<b>2003</b>			
	<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>
\$100 or Less	10	90.9	273	47.6	14	93.3	436	63.1
\$101 to \$250		0.0		0.0		0.0		0.0
\$251 to \$1,000	1	9.1	300	52.4	1	6.7	255	36.9
<b>Total</b>	<b>11</b>	<b>100.0</b>	<b>573</b>	<b>100.0</b>	<b>15</b>	<b>100.0</b>	<b>691</b>	<b>100.0</b>

In 2002, FSB originated 11 small business loans totaling \$573 thousand. Ten of these loans (90.9%), totaling \$273 thousand (47.6%), were originated for amounts of \$100 thousand or less. In 2003, loans in that dollar range (< \$100 thousand) increased to 14 loans totaling \$436 thousand. During both years of the evaluation period, the bank originated a single small business loan for more than \$100 thousand. In 2002, FSB originated a small business loan for \$300 thousand. During 2003, the bank originated a small business loan for \$255 thousand.

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

Since the prior CRA evaluation, neither FSB nor the New York State Banking Department received any written complaints regarding the bank’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.**

No practices intended to discourage applications for the types of credit offered by the institution were noted during the evaluation.

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**Evidence of prohibited discriminatory or other illegal credit practices.**

The most recent regulatory compliance and fair lending examinations of FSB were conducted concurrently with this evaluation. These examinations revealed 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 members and officers meet with representatives of local community and business organizations to identify financial matters where the bank can offer its expertise or provide assistance. The bank also sponsors a quarterly breakfast for small business owners. This quarterly President's Breakfast features speakers and products geared to small businesses owners' needs and interests.

**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 daily on a variety of local radio stations. These advertisements are rotated throughout the year to promote products appropriate to the season. The bank also advertises its products and services in a variety of widely distributed print media.

**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.**

FSB's president serves as the bank's CRA officer and provides annual performance updates to the board of directors. Included in the annual CRA report is a description of the methods used to ascertain the credit needs of the community.

- **Other Factors**

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

The bank's board of directors, officers and staff actively participate in various types of community activities. The activities enhance the bank's visibility in the community and provide additional opportunities for management to learn about the community's needs.

## 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:

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- 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;

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- ❖ 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 federal Home Mortgage Disclosure Act requires institutions to report data annually regarding applications for residential (including multifamily) mortgage loans.

### **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**

LMI Individuals are those whose income is less than 80% of the area median family income. In the case where the individual resides in an 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.

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**LMI Penetration Rate**

A number that represents the percentage of a bank's total loans (for a particular product) extended to LMI geographies or borrowers. For example, an LMI penetration rate of 20% would indicate that the bank made 20 out of 100 loans in LMI geographies or to LMI borrowers.

**Small Business Loans**

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