



**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: Tioga State Bank
1 Main Street
Spencer, NY 14883

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 off-site evaluation of the Community Reinvestment Act ("CRA") performance of Tioga State Bank ("TSB") 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. 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

TSB 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 marginally acceptable in light of the bank's size, financial condition and the credit needs of its assessment area. The bank's average LTD ratio for evaluation period was 57.04%, which is approximately 20.5 percentage points lower than its peer group's ratio of 77.56%.

Fortunately, TSB mitigated the impact of its relatively low LTD ratio by providing a significant level of community development loans. During the evaluation period, TSB extended 15 qualified community development loans totaling \$2.7 million. Included within this total are \$1.7 million (63%) in loans to support the provision of affordable housing, \$0.7 million (25.9%) in loans to promote economic development and \$0.3 million (11.1%) in loans to support the delivery of community development services.

➤ ***Assessment Area Concentration***

The bank extended a majority of its loans within the assessment area. During the evaluation period, 78.4% of the number and 71.1% of the dollar volume of TSB's residential mortgage, commercial and consumer loan originations were made within the assessment area.

➤ ***Geographic Distribution of Loans***

The geographic distribution of TSB's loans reflects reasonable dispersion among census tracts of different income levels. Given that TSB's assessment area does not contain any low-income tracts, examiners conducted their geographic distribution analysis on the dispersion of TSB's loans among moderate-, middle- and upper-income tracts, with a focus on moderate-income tracts.

During 2003, two major changes affected the bank's opportunities to lend in moderate-income census tracts within its assessment area. First, in January 2003, updated geographic income classifications based on the 2000 Census were adopted for regulatory reporting purposes. These demographic changes resulted in the reclassification of the assessment area's only moderate-income census tracts into non-LMI areas. Second, in February 2003, TSB opened a new branch office in Broome County and expanded its assessment area to include 23 of that county's 55 census tracts. Although there were six moderate-income census tracts within the newly adopted territory, TSB did not have an established physical presence in the area prior to February 2003, and did not have the full year to lend there. In contrast, the

portions of the 2002 assessment area that were reclassified from LMI to non-LMI areas happened to be located in Tioga County, where the bank has its strongest presence and conducts the majority of its lending.

Given the combined effects of the Census updates and the expansion of TSB's assessment area during 2003, year-over-year comparisons of the bank's penetration rates for LMI geographies are not appropriate between 2002 and 2003.

- **HMDA-reportable Loans:** In 2002, TSB extended 9.6% by number and 10.8% by dollar volume of its HMDA-reportable loans in moderate-income geographies. By comparison, the aggregate's penetration ratios were 11.2% and 8.1%, respectively.

In 2003, the bank's ratios dropped to 2.1% and 1.8%, respectively. As mentioned above and described more thoroughly in the body of this report, the drop in TSB's LMI penetration ratios during 2003 are largely attributable to unique circumstances that do not reflect upon the bank's overall performance.

- **Small Business Loans:** In 2002, the bank extended 13.8% by number and 23.9% by dollar volume of its small business loans in moderate-income geographies. These ratios compare favorably against the geographic benchmark for the assessment area, which shows that 17.8% of the area's businesses are located in moderate-income census tracts.

In 2003, TSB's penetration ratios for small business loans in moderate-income geographies declined to 3.5% by number of loans and 4.0% by dollar volume.

- **Consumer Loans:** In 2002, the bank extended 11.8% by number and 8.6% by dollar volume of its consumer loans in moderate-income geographies. These ratios compare unfavorably with the 17.1% of households located in moderate-income census tracts. In 2003, the bank extended no consumer loans in moderate-income geographies.

➤ ***Distribution by Borrower Characteristics***

Overall, TSB's lending within its assessment area reflects excellent penetration among individuals of different income levels and businesses of different revenue sizes.

- **HMDA-reportable Loans:** In 2002, the bank extended 23.0% of its HMDA-reportable loans to LMI borrowers, which is slightly below the aggregate's penetration ratio of 25.7%. In 2003, the bank's LMI-borrower penetration ratio increased to 27.0%.

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- **Small Business Loans:** In 2002, TSB extended 91.8% of its small business loans to businesses with gross annual revenues (“GARs”) of \$1 million or less. This performance compares favorably with the demographic benchmark for the assessment area, which indicates that 76.4% of total businesses in the assessment area have GARs of \$1 million or less. The bank’s performance was similar in 2003.
 - **Consumer Loans:** In 2002, the bank extended 42.3% of its consumer loans to LMI borrowers, which compares favorably to demographics showing that 34.2% of families living in the assessment area were LMI. In 2003, the bank achieved a LMI-borrower penetration ratio of 41.5%.

➤ ***Complaints***

Neither TSB nor the Banking Department received any complaints regarding the bank’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.

PERFORMANCE CONTEXT

Institution's Profile:

Chartered in 1884, TSB is a commercial bank located in the village of Spencer within the Finger Lakes region of New York State. The bank is a wholly owned subsidiary of TSB Services Incorporated, a one-bank holding company.

On its year-end Call Report for calendar year 2003, the bank reported total assets of \$246.5 million, including \$116.5 million in net loans and lease finance receivables. TSB also reported total deposits of \$204.7 million, resulting in a loan-to-deposit ("LTD") ratio of 56.9%.

According to deposit market data provided by the FDIC, TSB held a market share of 3.77% in its assessment area at mid-year 2003, ranking it ninth among 18 deposit-taking institutions. Within Tioga County, where TSB generated 74% (\$142.8 million) of its total deposits, the bank ranked first out of eight institutions, with a market share of 38.06%. The table below provides TSB's deposit market share and rank by county.

Market Share of Deposits as of June 30, 2003					
County	# of Branches	Deposits (\$000's)	Market Share % By County	Ranking	# of Institutions
Broome	1	16,072	0.71	6	8
Tioga	5	142,799	38.06	1	8
Chemung	1	9,103	0.79	9	10
Tompkins	1	24,654	2.05	9	10
Schuyler	0	0	0	NA	4
Assessment Area	8	192,628	3.77	9	18

TSB offers a variety of commercial and consumer loan products. The following table summarizes TSB's loan portfolio based on Schedule RC-C of the bank's year-end Call Reports for calendar years 2001, 2002 and 2003:

Gross Loans Outstanding (Dollars Shown in Thousands)						
LOAN TYPE	12/31/2001		12/31/2002		12/31/2003	
	\$	%	\$	%	\$	%
1-4 Family Residential Mortgage Loans	56,583	60.7	60,020	59.8	63,715	54.0
Commercial & Industrial Loans	9,271	9.9	14,848	14.8	21,079	17.9
Commercial Mortgage Loans	13,917	14.9	12,513	12.5	16,623	14.1
Multifamily Mortgages	1,861	2.0	1,465	1.5	986	0.8
Consumer Loans	11,035	11.8	10,945	10.9	9,730	8.2
Agricultural Loans	133	0.1	126	0.1	250	0.2
Construction Loans	347	0.4	393	0.4	4,226	3.6
Loans to Commercial banks	0	0.0	0	0.0	1,000	0.8
Other Loans	128	0.1	118	0.1	339	0.3
Gross Loans	93,275	100.0	100,428	100.0	117,948	100.0

As illustrated above, TSB is primarily a 1- to 4-family residential mortgage lender. At the end of calendar year 2003, residential mortgage loans on 1- to 4-family properties accounted for 54.0% of TSB's loan portfolio, whereas commercial and consumer loans accounted for 32.0% and 8.2% of the portfolio, respectively. Since the prior evaluation, TSB's gross loan portfolio has increased by 26.5%.

According to a CRA Wiz[®] lending report for 2002, TSB achieved a 4.6% share of total HMDA-reportable lending in its assessment area, ranking 6th among 149 HMDA-reporting lenders in the area.

As of the evaluation date, TSB was operating eight banking offices, including its main office in the village of Spencer and seven branch offices in the following municipalities: Owego (2), Waverly, Candor, Van Etten, Newfield and Vestal. The branch located in Vestal opened in 2003. As an additional means of serving its customers, TSB offers automated teller machines ("ATMs") at each of its branches.

The bank's participation in governmentally guaranteed or sponsored loan programs includes, but is not limited to, the following:

- Small Business Administration regular and "Low Doc" loan programs
- New York State Linked Deposit Program

At its prior CRA evaluation, conducted by the New York State Banking Department as of December 31, 2001, TSB received a rating of "2," reflecting a satisfactory record of helping to meet community credit needs.

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

Assessment Area:

During the evaluation period, management expanded TSB's assessment area to include a substantial portion of Broome County. Following this change, the assessment area included Tioga County in its entirety and portions of Broome, Chemung, Schuyler and Tompkins Counties. Tioga and Broome Counties are both part of the Binghamton MSA (#0960), while Chemung County is part of the Elmira MSA (#2335). Neither Schuyler nor Tompkins County is part of an MSA.

At the prior evaluation, the assessment area contained 16 census tracts and block numbering areas ("BNAs"). According to data from the 1990 Census, these 16 geographies had the following income characteristics: no low-income, two moderate-income, nine middle-income, three upper-income and two zero-income census tracts. The two moderate-income tracts were both located in Tioga County.

As of the evaluation date, TSB's assessment area contained 38 census tracts. Based on data from the 2000 Census, these tracts can be broken down as follows: no low-income, six

moderate-income, 22 middle-income and 10 upper-income census tracts. All six moderate-income tracts are located in Broome County.

Assessment Area: Distribution of Census Tracts by Income Level							
County	Zero	Low	Moderate	Middle	Upper	Total	LMI %
Broome	0	0	6	10	7	23	26.1
Tioga	0	0	0	8	2	10	0.0
Chemung	0	0	0	2	0	2	0.0
Schuyler	0	0	0	1	0	1	0.0
Tompkins	0	0	0	1	1	2	0.0
Total	0	0	6	22	10	38	15.8

The assessment area appears reasonable based on 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

This evaluation report contains statistics from the following sources:

- Population and Housing Demographics - 2000 U.S. Census
- Median Family Income Levels for 2003 - U.S. Department Of Housing and Urban Development (“HUD”)
- Business Demographics - PCi Corporation’s CRA Wiz[®] software
- Unemployment Rates – New York State Department of Labor.

The final three pages of this section of the report contain demographic and economic information for each county within TSB’s assessment area, as detailed below:

- Chart #1 - Population and Income Characteristics
- Chart #2 - Housing Characteristics
- Chart #3 - Business Demographics

Various demographic details for each county are also provided below in the following paragraphs.

Broome County

Unemployment Rates: Broome County’s average unemployment rate was 6.1% in 2002 and 5.8% in 2003. By comparison, the statewide average unemployment rate was 6.1% in 2002 and 6.3% in 2003.

Business Demographics: As mentioned earlier, TSB’s assessment area only includes a portion of Broome County. In 2003, the portion of Broome County that falls within TSB’s assessment area contained 4.8 thousand businesses. These businesses can be broken down as follows: 2.0 thousand (40.8%) service providers, 1.0 thousand (21.0%) retail trade companies, 343 (7.1%) construction firms, 145 (3%) transportation and communication

companies, 198 (4.1%) manufacturers, 353 (7.4%) finance, insurance and real estate companies, 73 (1.5%) agricultural businesses and 208 (4.3%) wholesale trade companies.

Tioga County

Unemployment Rates: Tioga County's average unemployment rate was 6.0% in both 2002 and 2003, which is below the statewide averages of 6.1% and 6.3%, respectively, for those years.

Business Demographics: In 2003, Tioga County was home to 2.5 thousand businesses, including 880 (35.9%) service providers, 413 (16.8%) retail trade companies, 226 thousand (9.2%) construction firms, 94 (3.8%) transportation and communication companies, 110 (4.5%) manufacturers, 102 (4.2%) finance, insurance and real estate companies; 196 (8.0%) agricultural businesses and 95 (3.9%) wholesale trade companies.

Chemung County

Unemployment Rates: Chemung County's average unemployment rate was 7.0% in 2002 and 6.6% in 2003. By comparison, the statewide average unemployment rates for those years were 6.1% and 6.3%, respectively.

Business Demographic Data: Only a portion of Chemung County falls within TSB's assessment area. In 2003, that portion of Chemung County contained 220 businesses, including 72 (32.7%) service providers, 26 (11.8%) retail trade companies, 29 (13.2%) construction firms, seven (3.2%) public administration entities, 10 (4.6%) manufacturers, eight (3.6%) finance, insurance and real estate companies; 25 (11.4%) agricultural businesses and six (2.7%) wholesale trade companies.

Tompkins County

Unemployment Rates: Tompkins County's average unemployment rate was 3.5% in 2002 and 3.1% in 2003. By comparison, the statewide average unemployment rates for those years were 6.1% and 6.3%, respectively.

Business Demographics: TSB's assessment area includes only a portion of Tompkins County. In 2003, that portion of the county was the home of 471 businesses, including: 144 (30.6%) service providers, 61 (13.0%) retail trade companies, 63 (13.4%) construction firms, 15 (3.2%) transportation and communication companies, 30 (6.4%) manufacturers, 18 (3.8%) finance, insurance and real estate companies, 44 (9.3%) agricultural businesses and 13 (2.8%) public administration entities.

Schuyler County

Unemployment Rates: Schuyler County's average unemployment rate was 8.7% in 2002 and 7.4% in 2003. By comparison, the statewide average unemployment rates for those years were 6.1% and 6.3%, respectively.

Business Demographic Data: As mentioned previously, TSB's assessment area includes only a portion of Schuyler County. In 2003, that portion of the county contained 254 businesses, including 94 (37.0%) service providers; 48 (18.9%) retail trade companies, 19 (7.5%) construction firms, 12 (4.7%) transportation and communication companies, 12 (4.7%) manufacturers, 15 (5.9%) finance, insurance and real estate companies, 13 (5.1%) agricultural businesses and 17 (6.7%) public administration entities.

CHART # 1

TIOGA STATE BANK

ASSESSMENT AREA POPULATION AND INCOME CHARACTERISTICS BY COUNTY

COUNTY	Total Population	Age 66 and over		Age 15 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	
		#	%	#	%				#	%		#	%	#	%	#	%	#	%	#	%
TIOGA	51,784	6,785	13.1	12,490	24.1	46,937	49,100	19,779	1,581	8.0	14,369	2,281	15.9	2,748	19.1	3,656	25.4	5,684	39.6	0	0.0
BROOME	88,292	15,528	17.6	16,673	18.9	50,079	49,100	35,194	3,480	9.9	22,293	3,681	16.5	3,989	17.9	4,859	21.8	9,764	43.8	2,108	27.5
CHEMUNG	7,789	891	11.4	1,801	23.1	41,570	47,400	2,929	278	9.5	2,260	374	16.5	518	22.9	631	27.9	737	32.6	0	0.0
TOMPKINS	10,353	999	9.6	2,365	22.8	47,589	47,300	4,173	301	7.2	2,786	402	14.4	356	12.8	815	29.3	1,213	43.5	0	0.0
SCHUYLER	4,921	815	16.6	1,008	20.5	41,364	47,300	1,973	211	10.7	1,346	268	19.9	274	20.4	321	23.8	483	35.9	0	0.0
TOTAL A/A*	163,139	25,018	15.3	34,337	21.0	48,150	48,868	64,048	5,851	9.1	43,054	7,006	16.3	7,885	18.3	10,282	23.9	17,881	41.5	2,108	14.2

* Assessment Area

CHART # 2

**TIOGA STATE BANK
ASSESSMENT AREA HOUSING CHARACTERISTICS BY COUNTY**

COUNTY	Total Housing Units	1-4 family Units		Multifamily Units		Owner-Occupied Units (O-O)		O-O Units in Low-income Tracts		O-O Units in Moderate-income Tracts		O-O Units in Middle-income Tracts		O-O Units in Upper-income Tracts		Rental Units		Vacant Units	
		#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%
TIOGA	21,410	16,993	79.4	713	3.3	15,347	71.7	0	0.0	0	0.0	11,642	75.9	3,705	24.1	4,973	23.2	1,685	7.9
BROOME	37,586	31,984	85.1	4,657	12.4	23,237	61.8	0	0.0	2,761	11.9	11,609	50.0	8,865	38.2	13,174	35.1	2,487	6.6
CHEMUNG	3,180	2,275	71.5	32	1.0	2,529	79.5	0	0.0	0	0.0	2,529	100.0	0	0.0	484	15.2	253	8.0
TOMPKINS	4,471	3,431	76.7	132	3.0	3,125	69.9	0	0.0	0	0.0	1,500	48.0	1,625	52.0	1,132	25.3	304	6.8
SCHUYLER	2,176	1,636	75.2	106	4.9	1,437	66.0	0	0.0	0	0.0	1,437	100.0	0	0.0	575	26.4	204	9.4
TOTAL A/A*	68,823	56,319	81.8	5,640	8.2	45,675	66.4	0	0.0	2,761	6.0	28,717	62.9	14,195	31.1	20,338	29.6	4,933	7.2

* Assessment Area

CHART # 3

TIOGA STATE BANK ASSESSMENT AREA BUSINESS DEMOGRAPHICS BY COUNTY											
COUNTY	Number of Businesses	Businesses with Rev. of \$1 million or less		Businesses with Rev. of more than \$1 million		Businesses with no revenues reported		Businesses with less than 50 employees		Operating from a single location	
		#	%	#	%	#	%	#	%	#	%
TIOGA	2,455	1,696	69.1	91	3.7	668	27.2	1,987	80.9	2,175	88.6
BROOME	4,804	2,972	61.9	311	6.5	1,521	31.7	3,779	78.7	3,937	82.0
CHEMUNG	220	155	70.5	2	0.9	63	28.6	171	77.7	204	92.7
TOMPKINS	471	320	67.9	17	3.6	134	28.5	355	75.4	444	94.3
SCHUYLER	254	171	67.3	15	5.9	68	26.8	215	84.6	217	85.4
TOTAL A/A*	8,204	5,314	64.8	436	5.3	2,454	29.9	6,507	79.3	6,977	85.0

* Assessment Area

PERFORMANCE STANDARDS AND ASSESSMENT FACTORS

Tioga State Bank'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 includes calendar years 2002 and 2003. Examiners considered HMDA-reportable, small business/small farm and consumer lending in evaluating factors (2), (3) and (4) as noted above.

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

TSB's loan-to-deposit ratio is marginally acceptable considering the bank's size, financial condition and the credit needs of its assessment area.

For the eight calendar quarters included within the evaluation period, the bank's average LTD ratio was 57.04%, or approximately 20 percentage points below the average LTD of 77.56% for its peer group.¹ As shown in the table below, the bank's LTD ratio decreased between the first quarter of 2002 and the first quarter of 2003. Then, in the second quarter of 2003, TSB's LTD ratio began a slow but steady recovery. Even so, TSB's average LTD ratio for the evaluation period reflects a proportional decrease of 11.7% since the prior evaluation period, when the bank's average LTD ratio was 64.6%.

Loan-to-Deposit Ratios									
	3/31/02	6/30/02	9/30/02	12/31/02	3/31/03	6/30/03	9/30/03	12/31/03	Average
Bank	62.92	61.73	59.85	57.58	49.43	53.08	54.86	56.88	57.04
Peer	77.10	77.47	77.25	77.55	77.01	77.29	77.86	78.91	77.56

TSB's community development lending activities provide a degree of mitigation for the bank's low LTD ratio.

Community Development Loans

The bank enhanced the availability of credit in its assessment area by making 15 community development loans, totaling \$2.7 million, during the evaluation period. Included within this total are \$1.7 million (63.0%) in loans supporting affordable housing, \$0.7 million (25.9%) in loans promoting economic development and \$0.3 million (11.1%) in loans assisting organizations that provide community development services.

¹ The peer group consists of commercial banks with total assets between \$100 million and \$300 million. The LTD ratios contained in this report were calculated using information from the FDIC's Uniform Bank Performance Report for Tioga State Bank.

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

TSB originated a substantial majority of its loans within the assessment area. The distribution of the bank’s loans inside and outside of the assessment area is shown in the table below.

Distribution of Loans Inside and Outside of the Assessment Area											
Loan Type	Number of Loans					Dollar Volume (in thousands)					
	Inside		Outside		Total	Inside		Outside		Total	
	#	%	#	%		\$	%	\$	%		
HMDA-Reportable											
2002	209	74.1	73	25.9	282	9,751	73.5	3,517	26.5	13,268	
2003	187	73.6	67	26.4	254	10,026	72.0	3,893	28.0	13,919	
Subtotal: HMDA	396	73.9	140	26.1	536	19,777	72.7	7,410	27.3	27,187	
Small Business and Small Farm											
2002	196	81.7	44	18.3	240	9,724	63.5	5,594	36.5	15,318	
2003	289	80.1	72	19.9	361	21,737	69.7	9,434	30.3	31,171	
Subtotal: SB/SF	485	80.7	116	19.3	601	31,461	67.7	15,028	32.3	46,489	
Consumer											
2002	697	81.5	158	18.5	855	8,320	80.7	1,985	19.3	10,305	
2003	520	76.1	163	23.9	683	6,891	72.9	2,568	27.1	9,459	
Subtotal: Consumer	1,217	79.1	321	20.9	1,538	15,211	77.0	4,553	23.0	19,764	
Total	2,098	78.4	577	21.6	2,675	66,449	71.1	26,991	28.9	93,440	

HMDA-Reportable Loans

In 2002, the bank originated 74.1% of its total number and 73.5% of its total dollar volume of HMDA-reportable loans inside the assessment area. In 2003, these ratios declined slightly to 73.6% and 72.0%, respectively.

Small Business/Small Farm Loans

In 2002, the bank extended 81.7% of its total number and 63.5% of its total dollar volume of small business and small farm loans inside the assessment area. In 2003, the ratio based on number of loans declined slightly to 80.1%, while the ratio based on dollar volume increased to 69.7%.

Consumer Loans

In 2002, the bank extended 81.5% of its total number and 80.7% of its total dollar volume of consumer loans inside the assessment area. In 2003, these ratios decreased to 76.1% and 72.9%, respectively.

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

Overall, the geographic distribution of TSB’s loans reflects reasonable dispersion among census tracts of different income levels.

TSB’s assessment area does not contain any low-income census tracts, but moderate-income tracts were present within the assessment area during both years of the evaluation period. The number and location of those moderate-income tracts changed during the evaluation period for two reasons: the release of updated Census demographics in 2003 and the expansion of TSB’s assessment area into Broome County.

During 2002, the assessment area contained two moderate-income census tracts, both of which were located in Tioga County. At the beginning of 2003, these two tracts were reclassified as non-LMI based on updated Census demographics. Because of these reclassifications, TSB’s assessment area lost its only LMI census tracts. However, in February 2003, TSB opened a branch in Broome County and expanded its assessment area to include 23 of Broome County’s 55 census tracts. Six of the 23 tracts added to the assessment area were moderate-income geographies.

Given the absence of low-income tracts, as well as the changing number and location of moderate-income tracts in the assessment area, TSB faced unique challenges to originating loans in LMI areas during the evaluation period.

HMDA-Reportable Loans

The geographic distribution of the TSB’s HMDA-reportable loans reflects reasonable dispersion among census tracts of different income levels. The following chart reflects the distribution of the bank’s HMDA-reportable lending during the evaluation period:

Distribution of HMDA-Reportable Loans by Geography Income Level								
2002								
Geography Income Level	Bank				Aggregate			
	#	% by #	\$*	% by \$	#	% by #	\$*	% by \$
Low	NA	NA	NA	NA	NA	NA	NA	NA
Moderate	20	9.6	1,056	10.8	510	11.2	24,937	8.1
Middle	164	78.5	7,228	74.1	2,058	45.4	119,081	38.9
Upper	25	12.0	1,467	15.0	1,969	43.4	162,485	53.0
Total	209	100.0	9,751	100.0	4,537	100.0	306,503	100.0
2003								
Geography Income Level	Bank				Aggregate			
	#	% by #	\$*	% by \$				
Low	NA	NA	NA	NA				
Moderate	4	2.1	185	1.8				
Middle	168	89.8	8,544	85.2				
Upper	15	8.0	1,297	12.9				
Total	187	100.0	10,026	100.0				

* Dollars amounts shown in thousands.

In 2002, TSB originated 209 HMDA-reportable loans, totaling \$9.8 million, in the assessment area. The bank's penetration rates for moderate-income areas were 9.6% (20 loans) based on number of loans and 10.8% (\$1.1 million) based on dollar amount. By comparison, the market aggregate's penetration rates were 11.2% and 8.1%, respectively. Given the absence of low-income census tracts within the assessment area, examiners considered the bank's penetration of lending into middle-income areas as part of their evaluation of TSB's performance. This analysis revealed that approximately three-quarters of the bank's loans were originated in middle-income geographies compared to the aggregate's rate of 45.4% by number and 38.9% by dollar volume.

In 2003, the number of loans originated in the assessment area declined by 10.5% versus 2002 levels. In 2003, TSB extended 187 HMDA-reportable loans, totaling \$10 million, in the assessment area. This total includes four loans (2.1%), totaling \$0.2 million (1.8%), originated in moderate-income geographies. The drop in penetration rates between 2002 and 2003 reflects the combined impact of Census updates and the expansion of TSB's assessment area. As described earlier in this report, the Census updates eliminated moderate-income census tracts from the bank's assessment area in January 2003. This change affected TSB's performance because the areas previously designated as moderate-income tracts happened to fall within the bank's prime lending territory in Tioga County.

In February 2003, when the bank opened a branch in Broome County, the assessment area was expanded into a portion of Broome County that included six moderate-income tracts. Since these tracts were not part of the assessment area for the entire year, and were being served by a newly opened branch located outside TSB's prime territory in Tioga County, it is not surprising that TSB's lending in moderate-income areas declined in 2003. At TSB's next CRA evaluation, examiners will expect that the bank's lending in moderate-income areas will have returned to levels consistent with the market aggregate and local demographic benchmarks.

During 2003, the vast majority of TSB's loans were originated in middle-income census tracts. Specifically, the bank originated 89.8% of its total number and 85.2% of its total dollar volume of loans in middle-income areas.

As a reference point, 6.0% of the assessment area's total owner-occupied housing units were located in moderate-income areas, compared to 62.9% located in middle-income geographies. When this evaluation was conducted, aggregate data from 2003 aggregate data were not yet available.

Small Business/Small Farm Loans

The geographic distribution of the bank's small business and small farm loans reflects reasonable dispersion among census tracts of different income levels, given the demographics of the assessment area. The following chart summarizes the distribution of the TSB's small business and small farm loan originations during the evaluation period:

Distribution of Small Business/Small Farm Loans by Geography Income Level						
Year 2002						
Geography Income Level	Bank				Distribution of Total Businesses**	
	#	% by #	\$*	% by \$	#	%
Low	0	0.0	0	0.0	0	0.0
Moderate	27	13.8	2,327	23.9	1,399	17.8
Middle	157	80.1	5,805	59.7	3,793	48.3
Upper	12	6.1	1,592	16.4	2,662	33.9
Total	196	100.0	9,724	100.0	7,854	100.0
2003						
Geography Income Level	Bank				Distribution of Total Businesses**	
	#	% by #	\$*	% by \$	#	%
Low	0	0.0	0	0.0	0	0.0
Moderate	10	3.5	876	4.0	1,472	17.9
Middle	238	82.4	12,345	56.8	4,387	53.5
Upper	41	14.2	8,516	39.2	2,345	28.6
Total	289	100.0	21,737	100.0	8,204	100.0

* Dollar amounts shown in thousands

** Source: Data for 2002 were taken from the 1990 Census. Data for 2003 were taken from the 2000 Census.

In 2002, the bank originated 196 small business or small farm loans totaling \$9.7 million in the assessment area. Loans originated in moderate-income areas accounted for 27 loans (13.8%) totaling \$2.3 million (23.9%). Lending in middle-income geographies accounted for 157 loans (80.1%) totaling \$5.8 million (59.7%). These percentages are reasonable considering that 17.8% of businesses in the assessment area are located in moderate-income census tracts and 48.3% are located in middle-income census tracts.

In 2003, the bank extended 289 small business or small farm loans totaling \$21.7 million in the assessment area, including 10 loans (3.5%) totaling \$0.9 million (4.0%) originated in moderate-income geographies. Originations in middle-income geographies accounted for 238 loans (82.4%) totaling \$12.3 million (56.8%). The lower ratios in 2003 (compared to 2002) are attributable to the previously mentioned change in the assessment area's demographics and TSB's relatively new presence in Broome County.

Consumer Loans

The geographic distribution of the bank's consumer loans reflects a marginally acceptable dispersion among census tracts of different income levels, given the demographics of the bank's assessment area. The following chart summarizes the distribution of TSB's consumer loan originations during the evaluation period:

Distribution of Consumer Loans by Geography Income Level						
Year 2002						
Geography Income Level	Bank				Distribution of Total Households**	
	#	% by #	\$*	% by \$	#	%
Low	0	0.0	0	0.0	0	0.0
Moderate	82	11.8	717	8.6	10,733	17.1
Middle	550	78.9	6,459	77.6	30,493	48.7
Upper	65	9.3	1,144	13.8	21,411	34.2
Total	697	100.0	8,320	100.0	62,637	100.0
2003						
Geography Income Level	Bank				Distribution of Total Households**	
	#	% by #	\$*	% by \$	#	%
Low	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	8,026	12.5
Middle	487	93.7	6,299	91.4	38,030	59.4
Upper	33	6.3	592	8.6	17,992	28.1
Total	520	100.0	6,891	100.0	64,048	100.0

* Dollar amounts shown in thousands.

** Source: Data for 2002 were taken from the 1990 Census; data for 2003 were taken from the 2000 Census.

In 2002, the bank extended 697 consumer loans, totaling \$8.3 million, in the assessment area. This total includes 82 loans (11.8%) summing to \$0.7 million (8.6%) originated in moderate-income geographies. The total also includes 550 loans (78.9%) for a combined \$6.5 million (77.6%) originated in middle-income geographies. TSB's penetration ratios are well below the percentage of households located in moderate-income census tracts (17.1%), but greatly exceed the percentage of households living in middle-income census tracts (48.7%).

In 2003, the bank extended 520 consumer loans, totaling \$6.9 million, in the assessment area. None of these loans was originated in a moderate-income geography, but 487 loans (93.7%) totaling \$6.3 million (91.4%) were originated in middle-income geographies. The change in assessment area demographics, coupled with TSB's expansion into Broome County during 2003, limited the bank's opportunities to lend in moderate-income areas.

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

Overall, the distribution of TSB's loans based on borrower characteristics reflects excellent penetration among individuals of different income levels and businesses of different revenue sizes.

HMDA-Reportable Loans

The distribution of TSB's HMDA-reportable loans based on borrower characteristics reflects reasonable penetration among individuals of different income levels, including LMI borrowers. The following chart shows the distribution of the bank's HMDA-reportable lending during the evaluation period:

Distribution of HMDA-Reportable Loans by Borrower Income Level								
Year 2002								
Borrower Income Level	Bank				Aggregate			
	#*	% by #	\$**	% by \$	#*	% by #	\$**	% by \$
Low	8	3.8	180	1.9	266	5.9	9,870	3.3
Moderate	40	19.2	1,172	12.1	897	19.8	38,669	12.8
Middle	57	27.4	1,983	20.6	1,131	25.0	65,041	21.6
Upper	97	46.6	6,059	62.8	2,019	44.6	173,335	57.5
NA	6	2.9	255	2.6	212	4.7	14,419	4.8
Total	208	100.0	9,649	100.0	4,525	100.0	301,334	100.0
2003								
Borrower Income Level	Bank				Aggregate			
	#*	% by #	\$**	% by \$				
Low	12	6.6	237	2.5				
Moderate	37	20.4	1,318	14.1				
Middle	46	25.4	2,146	23.0				
Upper	81	44.8	5,288	56.6				
NA	5	2.8	359	3.8				
Total	181	100.0	9,348	100.0				

* The analysis excludes multifamily loans for which borrower income data is not relevant; ** Dollar amounts shown in thousands.

In 2002, the bank originated 208 HMDA-reportable loans, totaling \$9.6 million, inside its assessment area. TSB's lending to LMI borrowers accounted for 48 loans (23.0%) with a combined value of \$1.4 million (14.0%). The bank's LMI penetration rates are similar to the market aggregate's ratios of 25.7% and 16.1%, respectively. In 2003, TSB's LMI penetration rates increased to 27.0% by number and 16.6% by dollar volume of loans. The aggregate's penetration rates were not available for comparison as of the evaluation date.

Small Business/Small Farm Loans

As shown in the table below, TSB achieved an excellent distribution of small business and small farm loans to borrowers of different revenue sizes:

Small Business/Small Farm Loans: Distribution by Borrower Revenue Size						
2002						
Revenue Size	Bank				Distribution of Total Business**	
	#	% by #	\$*	% by \$	#	%
\$1million or less	180	91.8	6,916	71.1	6,003	76.4
Over \$1 million	16	8.2	2,808	28.9	432	5.5
Not reported	0	0.0	0	0.0	1,419	18.1
Total	196	100.0	9,724	100.0	7,854	100.0
2003						
Revenue Size	Bank				Distribution of Total Business**	
	#	% by #	\$*	% by \$	#	%
\$1million or less	250	86.5	15,148	69.7	5,314	64.8
Over \$1 million	39	13.5	6,589	30.3	436	5.3
Not reported	0	0.0	0	0.0	2,454	29.9
Total	289	100.0	21,737	100.0	8,204	100.0

* Dollar amounts shown in thousands; ** Source: PCI Corporation's CRA Wiz program

In 2002, an overwhelming majority of TSB's small business and small farm loan originations were made to borrowers with gross annual revenues of \$1 million or less. To be specific, the bank granted 91.8% of the number and 71.1% of the dollar volume of its small business and small farm loans to borrowers with gross annual revenues ("GARs") of \$1 million or less. TSB's ratios compare favorably with the 76.4% of establishments within the assessment area that have GARs of \$1 million or less.

In 2003, the bank originated 250 small business or small farm loans (86.5%), totaling \$15.1 million (69.7%), to businesses with GARs of \$1 million or less. Although TSB's penetration ratios decreased in 2003, their decreases were consistent with changes in the distribution of businesses by revenue size in 2003.

Consumer Loans

The distribution of TSB's consumer loans reflects excellent penetration among individuals of different income levels.

In 2002, the bank originated 697 consumer loans totaling \$8.3 million. This includes 295 loans for \$2.6 million to LMI borrowers. TSB's LMI penetration rate of 42.3% by number of loans exceeded the 34.2% benchmark of LMI families within the assessment area.

In 2003, TSB originated 520 consumer loans totaling \$6.9 million. This includes 216 loans for \$1.9 million to LMI borrowers. TSB's LMI penetration rate of 41.5% by number of loans exceeded the 34.6% benchmark of LMI families within the assessment area.

The table below shows the distribution of TSB's consumer loans by borrower income level:

Distribution of Consumer Loans by Borrower Income Level						
2002						
Borrower Income Level	Bank				Distribution of Total Families**	
	#	% by #	\$*	% by \$	#	%
Low	123	17.6	1,004	12.1	7,255	16.2
Moderate	172	24.7	1,634	19.6	8,075	18.0
Middle	163	23.4	1,837	22.1	10,886	24.3
Upper	207	29.7	3,470	41.7	18,653	41.6
NA	32	4.6	375	4.5	0	0.0
Total	697	100.0	8,320	100.0	44,869	100.0
2003						
Borrower Income Level	Bank				Distribution of Total Families**	
	#	% by #	\$*	% by \$	#	%
Low	88	16.9	627	9.1	7,006	16.3
Moderate	128	24.6	1,284	18.6	7,885	18.3
Middle	121	23.3	1,853	26.9	10,282	23.9
Upper	167	32.1	2,982	43.3	17,881	41.5
NA	16	3.1	145	2.1	0	0.0
Total	520	100.0	6,891	100.0	43,054	100.0

* Dollar amounts shown in thousands;

** Source: Data for 2002 was taken from the 1990 Census. Data for 2003 was taken from the 2000 Census.

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

Neither the bank nor the New York State Banking Department received any written complaints regarding the bank's CRA performance during the evaluation period.

- **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 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 members and officers ascertain the community's credit needs through their involvement in community events and organizations. In addition, TSB has an 18-member business development board that provides input regarding the credit needs of the community.

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's advertising and marketing efforts include the use of press releases, brochures, posters, direct mailings and informational seminars. The media used include newspapers, radio and television. The bank also has a website that includes descriptions of TSB's consumer and mortgage loan products.

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

The board of directors reviews and approves the bank's CRA Statement annually and monitors lending activities quarterly.

- **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.

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:

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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 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.