



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

**PUBLIC SUMMARY**

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

**Date of Evaluation:** December 31, 2004

**Institution:** Citizens Bank of Cape Vincent  
154 Broadway – P.O. Box 277  
Cape Vincent, NY 13618

**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 Citizens Bank of Cape Vincent ("CBCV") 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, 2004.

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

CBCV 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:** CBCV's LTD ratio is considered marginally reasonable given the bank's size, financial condition and the credit needs of its assessment area.

CBCV's LTD ratio was 33.5% for the eight calendar quarters ending December 31, 2004. By comparison, the peer group's average for the same period was 69.4%.

Although the bank's average LTD ratio was well below the peer group's average, there are extenuating circumstances adversely affecting the bank's performance. Most notably, the local housing market is severely depressed and the demand for loans weak, as evidenced by the fact that nearly 59% of all housing units in the assessment area are vacant.

The impact of low loan demand on CBCV's LTD ratio has been exacerbated by a steady inflow of new deposits into the bank, which has reduced the ratio even further. Furthermore, the bank faces stiff competition from larger banks in the area that offer more aggressive loan pricing and a wider range of products.

- **Assessment Area Concentration:** The bank extended a substantial majority of its loans in the assessment area. For all home mortgage and consumer lending combined, CBCV originated 84.6% of its total number of loans, and 87.3% of its total dollar volume, within its assessment area. Throughout the evaluation period, the bank's assessment area concentration ratio exceeded 80% for each type of loan reviewed.
- **Geographic Distribution of Loans:** This factor was not rated as part of this evaluation because CBCV's assessment area only includes two middle-income census tracts.
- **Distribution by Borrower Characteristics:** The distribution of loans based on borrower characteristics reflects excellent penetration among individuals of different income levels.

For HMDA-reportable lending within the assessment area, CBCV made 39.3% of its loans to LMI borrowers. For consumer loans, a sample of 80 loans revealed that CBCV made approximately 62.5% of originations to LMI borrowers.

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

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

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## PERFORMANCE CONTEXT

### Institution's Profile

Chartered in 1919, CBCV is a retail commercial bank headquartered in the Village of Cape Vincent, New York. In addition to its main office in Cape Vincent, the bank has a branch located in the Village of Chaumont. Neither office has an automated teller machine ("ATM") nor does the bank offer any off-site ATM's. CBCV has not opened or closed any branches since the prior evaluation.

According to its Call Report for December 31, 2004, CBCV reported total assets of \$25 million, including \$6.3 million in net loans.

The table below presents a summary of CBCV's loan portfolio based on Schedule RC-C of the bank's year-end Call Reports for calendar years 2002 through 2004:

<b>GROSS LOANS OUTSTANDING</b>						
LOAN TYPE	12/31/2002		12/31/2003		12/31/2004	
	\$*	%	\$*	%	\$*	%
1-4 Family Residential Mortgage Loans	4,409	62.3	4,137	59.5	3,834	59.4
Commercial & Industrial Loans	117	1.7	65	0.9	177	2.7
Commercial Mortgage Loans	1,352	19.1	1,309	18.8	1,350	20.9
Consumer Loans	1,010	14.3	1,139	16.4	1,046	16.2
Agricultural Loans	185	2.6	103	1.5	43	0.7
Obligations of States & Municipalities		0.0	200	2.9		0.0
Other Loans	2	0.0	2	0.0	1	0.0
<b>Gross Loans</b>	<b>7,075</b>	<b>100.0</b>	<b>6,955</b>	<b>100.0</b>	<b>6,451</b>	<b>100.0</b>

\* In thousands.

As illustrated in the table above, CBCV is primarily a residential real estate lender. As of December 31, 2004, one- to four-family mortgage loans account for 59.4% of the bank's loan portfolio. Other significant lending categories include commercial mortgages (20.9%) and consumer loans (16.2%).

According to the FDIC's most recent deposit market data, compiled as of June 30, 2004, CBCV ranked seventh among eight deposit-taking institutions within Jefferson County. The bank's market share at that time was 2.0%.

CBCV does not participate in any governmentally guaranteed or government-sponsored loan programs.

The New York State Banking Department's previous CRA evaluation of CBCV, conducted as of December 31, 2002, resulted in a rating of "2," reflecting the bank's satisfactory record of helping to meet community credit needs.

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

### **Assessment Area**

CBCV's assessment area includes census tracts 602 and 603 in Jefferson County, New York. These two tracts are both middle-income areas and encompass the townships of Cape Vincent, Lyme and Clayton. Neither tract is adjacent to an LMI area.

The assessment area appears reasonable based on the bank's lending patterns and the location of its branches. 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's population totals 10.9 thousand residents, including 1.6 thousand (14.9%) people over the age of 65 and 2.0 thousand (18.9%) people under the age of 16. The area's population as of the 2000 Census represents an increase of 11.7% (1.1 thousand residents) since the 1990 Census.

*Households and Families:* The number of households and families within the assessment area totaled 3.9 thousand and 2.8 thousand, respectively. Nine percent (9.0%) of total households are living below the poverty level and 35.8% of all families are categorized as LMI. According to estimates from the U.S. Department of Housing and Urban Development ("HUD"), the median family income for the assessment area was \$47.9 thousand during 2004.

*Housing:* The assessment area contains 9.5 thousand housing units, most (58.9%) of which are vacant. Another 32.2% of total housing units are owner-occupied, while only 8.9% are occupied by renters. As of the 2000 Census, the median housing price within the assessment area is \$73.2 thousand. This price represents a 14.4% increase since the 1990 Census, when the median price was \$64 thousand.

*Employers:* The service industry accounts for 35.4% of all businesses within the bank's assessment area. Retail trade and construction firms represent 18.8% and 10.4%, respectively, of the area's employers. According to the New York State Department of Labor, the average unemployment rate for Jefferson County in 2004 was 8.2%, which is substantially higher than the statewide average unemployment rate of 5.8%. These unemployment rates have not been adjusted for seasonality.

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## **PERFORMANCE STANDARDS AND ASSESSMENT FACTORS**

*CBCV'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.*

This evaluation covers calendar years 2003 and 2004. In evaluating factors (2), (3) and (4), examiners considered the bank's performance with respect to HMDA-reportable mortgage loans and consumer loans. Since CBCV does not have an office in a metropolitan area, the bank is not subject to HMDA reporting requirements. As a result, all data pertaining to these loans were provided by bank management. To obtain borrower income information on consumer loans, a sample of 40 loans from each calendar year was selected for review. This sample of 80 loans was used to evaluate CBCV's distribution of consumer loans to borrowers of different income levels.

Since CBCV is not required to report HMDA data, its mortgage lending activity is not part of the data compiled for the market aggregate. Thus, this evaluation will not compare CBCV's performance to the market aggregate. Consumer loan data is not subject to HMDA reporting requirements so aggregate data is not available for comparison.

Demographic data referred to in this report were obtained from the 2000 U.S. Census. Updated median family income figures for calendar years 2003 and 2004 were obtained from HUD.

- **LTD Ratio Analysis and Other Lending-Related Activities: "Satisfactory"**

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

The bank's average LTD ratio for the eight quarters since the prior evaluation is 33.5%, which represents a significant decline from the average LTD ratio of 41.5% observed at the prior evaluation. In addition, the bank's ratio is well below the average of 69.4% for its peer group.<sup>1</sup>

<b>Loan-to-Deposit Ratios</b>									
	3/31/03	6/30/03	9/30/03	12/31/03	3/31/04	6/30/04	9/30/04	12/31/04	Average
Bank	36.79	37.22	35.12	34.62	32.92	31.25	29.28	31.11	33.54
Peer	68.38	69.46	70.07	68.59	67.66	69.94	71.48	69.71	69.41

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<sup>1</sup> These ratios were calculated from information shown in the bank's Uniform Bank Performance Report ("UBPR") as prepared by the FDIC. The bank's peer group includes all insured commercial banks located in a non-metropolitan area with more than one full service office and having assets less than or equal to \$50 million. The UBPR peer group is a national peer group and includes banks that may be operating in very different economic environments.

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As shown in the table above, the bank's LTD ratio ranged from a high of 37.22% in June 2003 to a low of 29.28% in September 2004, and has been declining steadily since the prior evaluation. Bank management states that CBCV offers relatively high interest rates on its saving accounts, which has generated a steady inflow of new deposits and reduced the bank's LTD ratio. At the same time, the area continues to experience a lack of demand for loans because the local real estate market remained depressed, as evidenced by the fact that nearly 59% of all housing units in the assessment area are vacant. Furthermore, CBCV's lending opportunities are limited by the bank's size and its competitive environment. For example, the area's larger banks are able to offer lower interest rates on loans and a broader array of products.

Under other circumstances, the bank's loan-to-deposit ratio would be rated "Needs to Improve"; however, local market conditions provide a clear and solid explanation of the bank's low performance under this criterion.

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

The bank originated a substantial majority of its HMDA-reportable and consumer loans within its assessment area.

#### HMDA-Type Loans

In 2003, CBCV originated 11 HMDA-reportable mortgage loans totaling \$498.7 thousand. Lending within the assessment area accounted for 10 (90.9%) of these loans and \$482.2 thousand (96.7%) of the dollar volume. In 2004, the bank originated 24 HMDA-reportable loans with a total dollar volume of \$807.9 thousand. Even with this increased loan volume, CBCV still made a high percentage of its loans within the assessment area. During 2004, 21 (87.5%) of the loans and \$651.5 thousand (80.6%) of the dollar volume were extended within the bank's assessment area.

#### Consumer Loans

In 2003, CBCV originated 143 consumer loans totaling \$902.7 thousand. Lending within the assessment area accounted for 123 (86.0%) of these loans and \$775.2 thousand (85.9%) of the dollar volume. In 2004, the bank's number of consumer loan originations increased to 153 loans but its dollar volume dropped to \$846.7 thousand. Similarly, CBCV's lending within its assessment area increased in number to 126 loans, but decreased in dollar volume to \$758.1 thousand. The net impact of these changes was that, for 2004, the bank's assessment area concentration ratios declined to 82.4% based on number of loans and increased to 89.5% based on dollar volume.

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### **Geographic Distribution of Loans: “Not Rated”**

This factor was not rated because the bank’s assessment area is comprised of two middle-income census tracts.

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

CBCV’s distribution of loans based on borrower characteristics reflects excellent penetration among individuals of different income levels.

### **HMDA-Reportable Loans**

As mentioned previously, CBCV originated 10 HMDA-reportable loans within its assessment area during 2003. Four (40.0%) of these loans were originated to LMI borrowers. This performance reflects significant improvement from 2002 when the bank did not originate any HMDA-reportable loans to LMI borrowers.

In 2004, CBCV originated eight (38.1%) of its 21 HMDA-reportable loans within the assessment area to LMI borrowers.

### **Consumer Loans**

In 2003, the bank originated 123 consumer loans, totaling \$775.2 thousand, within the assessment area. Examiners reviewed a sample of 40 of these loans, totaling \$433.2 thousand. Within the sample, 62.5% by number and 54.8% by dollar volume were extended to LMI borrowers.

In 2004, the bank originated 126 consumer loans, totaling \$758.1 thousand, within its assessment area. Examiners reviewed a sample of 40 of these loans and found that 62.5% of the number and 58.8% of the dollar volume were extended to LMI borrowers.

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

Neither CBCV nor the New York State Banking Department has received any written complaints regarding the bank’s CRA performance since the prior CRA evaluation.

- **Discrimination and other Illegal Practices**

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

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

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

The most recent regulatory compliance and fair lending examinations were conducted concurrently with this evaluation. These examinations found 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 institution's efforts to communicate with members of its community regarding the credit services being provided by the bank.**

The bank's president is a member of the town's Chamber of Commerce, the Lions Club, Senior Housing Committee and various other organizations, as are the majority of the bank's board of directors. In combination with the size of the bank and its small assessment area, these outreach activities allow for close interaction between bank personnel and community groups, ensuring that community credit needs are ascertained.

**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 regularly in the Thousand Island Sun and occasionally in the Watertown Daily News. CBCV also purchases advertising space in various publications issued by local nonprofit and community organizations. In many cases, the bank receives this advertising space in recognition of its contributions to the organization(s). CBCV does not presently offer any credit related seminars.

**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.**

Through their personal involvement with local community groups, the bank's directors are aware of the community's needs. In addition, the directors review and approve many of the bank's loans, including all loans over \$15,000. As a result, the directors are familiar with the type of credit requested by the bank's customers.

- **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.**

CBCV made nearly \$10 thousand in grants to community and nonprofit organizations.

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## **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.

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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;

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- 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”).

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### **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.