



**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: Community Bank of Sullivan County
4438 State Route 42 North
Monticello, New York 12701

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 Community Bank of Sullivan County (“CBSC”) 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.

OVERVIEW OF INSTITUTION'S PERFORMANCE

Community Bank of Sullivan County 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**
CBSC's LTD ratio is considered reasonable in light of the bank's size, financial condition and the credit needs of its assessment area. CBSC's average ratio for the eight quarters since the prior evaluation was higher than the peer's average.
- **Assessment Area Concentration of Lending**
A majority of CBSC's small business loans are inside the assessment area. In 2003 and 2004, CBSC extended 84.5% and 65.8% of its loans in the assessment area.
- **Geographic Distribution of Loans**
The geographic distribution of loans reflects a reasonable dispersion among census tracts of different income levels. CBSC's penetration rate in the LMI areas is consistent with the geographic distribution of businesses within the assessment area.
- **Distribution of Loans by Borrower Characteristics**
The distribution of CBSC's small business loans reflects a reasonable distribution among businesses of different sizes. In 2004, the ratio of small business loans to businesses with revenues of \$1 million or less increased to 63.3% from 45.1% in 2003.
- Neither CBSC nor the New York State Banking Department received any complaints with respect to the bank's CRA performance during the evaluation period.

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

PERFORMANCE CONTEXT

Institution Profile

Community Bank of Sullivan County ("CBSC") is a state-chartered commercial bank incorporated in October 1993. The bank operates three branches, one each in Monticello, Liberty, and Middletown, New York. The bank's main office is located in Monticello. There were no branch openings or closings during the evaluation period. The bank has no holding company or affiliate relationships.

According to its Call Report for December 31, 2004, CBSC's assets total \$73.6 million, including \$50.9 million in net loans and lease financing receivables. The bank also reported total deposits of \$66.5 million, resulting in a loan-to-deposit ratio of 76.5%.

Deposit Market Share

According to the FDIC's most recent comparative deposit market data, compiled as of June 30, 2004, CBSC achieved a market share of 1.04%, and ranked 17th among 25 deposit-taking institutions, within Sullivan and Orange Counties.

Loan Portfolio

CBSC is primarily a commercial lender. As of December 31, 2004, more than 80% of the bank's loan portfolio consisted of commercial and industrial loans and commercial mortgage loans.

The following table illustrates CBSC's loan portfolio based on Schedule RC-C of the bank's year-end Call Reports for calendar years 2002 through 2004:

TOTAL LOANS OUTSTANDING						
LOAN TYPE	12/31/2002		12/31/2003		12/31/2004	
	\$*	%	\$*	%	\$*	%
1-4 Residential Mortgage Loans	3,990	10.4	3,455	7.9	4,593	8.9
Commercial & Industrial Loans	12,604	32.9	12,797	29.4	16,271	31.5
Commercial Mortgage Loans	16,962	44.2	22,082	50.7	25,448	49.3
Multifamily Mortgages	0	0.0	144	0.3	117	0.2
Consumer Loans	2,388	6.2	2,522	5.8	4,145	8.0
Agricultural Loans	240	0.6	201	0.5	155	0.3
Construction Loans	2,009	5.2	2,132	4.9	834	1.6
Other Loans	175	0.5	189	0.4	31	0.1
Lease financing	0	0.0	0	0.0	69	0.1
Total Loans	38,368	100.0	43,522	100.0	51,663	100.0

*In thousands

Since CBSC is primarily a commercial lender, examiners only evaluated the bank's small business loan distribution. HMDA-reportable loans were not considered.

CBSC is an approved lender with the New York Energy \$mart Loan Fund, a program designed to promote energy efficiency by encouraging businesses and residential consumers to take advantage of available products, technologies and other measures that reduce energy use. New York Energy \$mart Loan Fund, which is administered by New York State Energy Research and Development Authority is funded by a system benefits charge on the electricity transmitted and distributed by most of the states investor owned utilities. The loan fund makes it possible for businesses and individuals to borrow money at reduced rates for projects that promote energy efficiency.

CBSC did not participate in any governmentally-guaranteed or government-sponsored loan programs.

At the bank’s prior Performance Evaluation, conducted by the New York State Banking Department as of December 31, 2002, CBSC received a rating of “2,” reflecting the institution’s “Satisfactory” record of helping to meet community credit needs.

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

Assessment Area

CBSC’s assessment area is comprised of portions of Sullivan and Orange Counties. This area includes the towns of Bethel, Liberty, Fallsburg, Forestburg, Highland, Lumberland, MamaKating and Thompson in Sullivan County and the town of Wallkill in Orange County. Based on U.S. Office of Management and Budget (“OMB”),¹ the assessment area has 21 census tracts, of which three are moderate-income, 15 are middle-income and three are upper-income. There are no low-income tracts in the area.

The following table shows the distribution of census tracts within the assessment area in 2004 based OMB changes, and in 2003 based on the 2000 U.S. Census:

Distribution of Census Tracts Based On OMB Changes, Effective in 2004							
County	Zero	Low	Moderate	Middle	Upper	Total	LMI %
Orange*	0	0	1	3	0	4	25.0
Sullivan*	0	0	2	12	3	17	11.8
Total	0	0	3	15	3	21	14.3
Distribution of Census Tracts Based on 2000 U.S. Census							
County	Zero	Low	Moderate	Middle	Upper	Total	LMI %
Orange*	0	0	1	3	0	4	25.0
Sullivan*	0	0	2	13	2	17	11.8
Total	0	0	3	16	2	21	14.3

*Partial Counties

¹ The Metropolitan Statistical Area/Metropolitan Division Median Family Income values were re-calculated for the Office of Management and Budget’s new geographic classifications that were released in June 2003 and updated in December 2003 with 2000 demographic data. Therefore, although the number of census tract in the bank’s assessment area remains the same from 2003 to 2004 the income levels of some tracts have changed because of the re-calculations.

CBSC's 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.

The following table illustrates the distribution of businesses among industries within the assessment area during 2003 and 2004:

Type Of Industry	2003		2004	
	Count	% of Total	Count	% of Total
Agriculture, Forestry & Fishing	141	2.5	152	2.7
Mining	3	0.1	5	0.1
Construction	494	8.7	487	8.7
Manufacturing	159	2.8	161	2.9
Transportation, Communication	240	4.2	244	4.3
Wholesale Trade	216	3.8	200	3.6
Retail Trade	1093	19.2	1096	19.5
Finance, Insurance & Real Estate	454	8.0	468	8.3
Services	2078	36.6	2084	37.1
Public Administration	84	1.5	85	1.5
Non-Classified Establishments	721	12.7	631	11.2
Total	5,683	100.0	5,613	100.0

Unemployment Data

Orange and Sullivan Counties' average unemployment rate of 5.3% and 5.4%, respectively, were slightly higher than Hudson Valley's average of 4.5% in 2004. However, these rates were lower than New York State's average unemployment rate of 5.8% in 2004.

Additional Demographic Details for the Assessment Area

Chart # 1: Population

Chart # 2: Business Demographics

CHART # 1

ASSESSMENT AREA POPULATION AND INCOME CHARACTERISTICS BY COUNTY																						
COUNTY	Total Population**		Age 65 and over		Age 16 and less		Median Family Income(MFI)	HUD MSA MFI	# of Households	# of HH below poverty level		Total Families	Low income		Moderate income		Middle income		Upper income		LMI families in LMI tracts	
	#	%	#	%	#	%				#	%		#	%	#	%	#	%	#	%	#	%
Orange***	20,870	2,262	10.8	4,904	23.50	56,597	70,700	7,601	614	8.1	5,410	1,183	21.9	1,019	18.8	1,622	30.0	1,586	29.3	838	38.1	
Sullivan***	56,595	7,771	13.7	12,199	21.6	42,972	47,900	20,973	3,109	14.8	13,760	2,865	20.8	2,375	17.3	2,736	19.9	5,784	42.0	537	10.2	
TOTAL A/A*	77,465	10,033	13.0	17,103	22.1	46,818	52,243	28,574	3,723	13.0	19,170	4,048	21.1	3,394	17.7	4,358	22.7	7,370	38.4	1,375	18.5	

* Assessment Area ** In thousands ***Partial Counties

Chart # 2

BUSINESS DEMOGRAPHICS BY COUNTY											
COUNTY AND ASSESSMENT AREA(A/A)	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	
Sullivan*	3,891	2,574	66.2	161	4.1	1,156	29.7	2,952	75.9	3,512	90.3
Orange*	1,722	1,055	61.3	102	5.9	565	32.8	1,375	79.8	1,375	79.8
Total A/A	5,613	3,629	64.7	263	4.7	1,721	30.7	4,327	77.1	4,887	87.1

*Partial Counties

PERFORMANCE STANDARDS AND ASSESSMENT FACTORS

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

The evaluation period included calendar years 2003 and 2004. Examiners considered small business lending in evaluating factors (2), (3) and (4), as noted above.

Demographic data in this report were obtained from the 2000 U.S. Census Bureau. Estimated median family income for 2003 and 2004 were obtained from the U.S. Department of Housing and Urban Development ("HUD").

At this evaluation, CBSC's lending performance was compared primarily to the assessment area's business demographics. Given the size of the bank and its focus on commercial lending, aggregate data was not useful for comparative purposes.

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

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

CBSC's average LTD ratio for the prior eight quarters ending December 31, 2004 was 75.15%, which is slightly above the peer's average of 74.84%. These ratios were calculated from information shown in the bank's Uniform Bank Performance Report ("UBPR") prepared by the Federal Deposit Insurance Corporation ("FDIC"). The peer group includes all insured commercial banks having assets between \$50 million and \$100 million in a non-metro area with three or more full service offices.

The following table shows the loan-to-deposit ratios for the eight quarters since the previous evaluation:

Loan-to-Deposit Ratios									
	3/31/03	6/30/03	9/30/03	12/31/03	3/31/04	6/3/04	9/30/04	12/31/04	Aver.* LTD
Bank	72.52	73.56	74.80	76.18	77.62	78.28	71.73	76.48	75.15
Peer	73.57	74.99	74.91	73.72	73.53	75.65	76.96	75.35	74.84

*Average

Other Lending-related Activities

In September 2000, CBSC extended a \$10 thousand line of credit, with a maturity date of March 31, 2005, to a not-for-profit organization that provides education and assistance to individuals facing eviction or homelessness. This facility has provided assistance in the form of food, shelter and funds for rent and utilities to needy individuals within the assessment area.

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

A majority of CBSC’s loans were originated to businesses inside the assessment area. In 2003, CBSC made 84.5% of its small business loans within the assessment area; however, during 2004, this ratio decreased to 65.8% because of relatively strong loan growth outside the assessment area.

The following table illustrates the distribution of CBSC’s small business loans inside and outside the assessment area during the evaluation period:

Distribution of Loans Inside and Outside of the Assessment Area										
Loan Type	Number of Loans					Loans in Dollars (in thousands)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Small Business (2003)	71	84.5	13	15.5	84	13,580	79.5	3,496	20.5	17,076
(2004)	79	65.8	41	34.2	120	11,212	54.9	9,197	45.1	20,409
Total	150	73.5	54	26.5	204	24,792	66.1	12,693	33.9	37,485

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

The geographic distribution of loans reflects a reasonable dispersion among census tracts of different income levels.

In 2003, CBSC originated 4.2% of its small business loans in LMI areas, which was well below the percentage of total businesses located in LMI areas. However, CBSC’s LMI penetration rate increased to 12.7% in 2004, slightly less than the level of businesses in LMI tracts.

The following table illustrates the distribution of CBSC’s small business loans by geography income level:

Distribution of the Bank's Small Business Loans by Geography Income Level								
Geography Income Level	2003				2004			
	#	%	\$000	%	#	%	\$000	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	3	4.2	560	4.1	10	12.7	2,162	19.3
Middle	64	90.2	12,601	92.8	59	74.6	7,746	69.1
Upper	4	5.6	419	3.1	10	12.7	1,304	11.6
Total	71	100.0	13,580	100.0	79	100.0	11,212	100.0

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

The distribution of CBSC’s small business loans reflects a reasonable distribution among businesses of different revenue sizes.

In 2003, 45.1% of CBSC’s small business loans were originated to businesses with annual revenues of \$1 million or less. This ratio was well below the 64.2% of total businesses classified as small business during 2003. However, CBSC’s lending to small businesses increased to 63.3% in 2004, slightly less than the 64.7% of businesses in the assessment area that were categorized as small businesses (i.e., businesses with gross annual revenues of \$1 million or less.)

The following table illustrates the distribution of CBSC’s small business loans among businesses of different revenue sizes:

Distribution of Small Business Loans by Business Revenue Size								
Business Revenue Size	2003				2004			
	#	%	\$*	%	#	%	\$*	%
\$1million or less	32	45.1	4,990	36.7	50	63.3	5,489	49.0
Over \$1 million	10	14.1	2,164	15.9	23	29.1	4,478	39.9
No Revenue Info	29	40.8	6,426	47.3	6	7.6	1,245	11.1
Total	71	100.0	13,580	100.0	79	100.0	11,212	100.0

*In thousands.

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

Since the latest CRA evaluation as of December 31,2002, neither CBSC nor the New York State Banking Department has received any written complaints regarding CBSC’s CRA performance.

- **Discrimination and other Illegal Practices**

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

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

Evidence of prohibited discriminatory or other illegal credit practices.

The most recent regulatory compliance and fair lending examinations conducted concurrently with this examination indicated 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.

Directors, management and staff of CBSC are all active in a host of charitable, civic and community organizations in the markets that they serve. Membership in these organizations and attending their meetings will give them the opportunity to learn the credit needs of the businesses and individuals in the bank's assessment area.

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.

CBSC regularly advertises its credit products in various local publications and on local radio TV stations.

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.

CBSC's executive vice president, who is also the chief financial officer, performs the duties of compliance officer and is responsible for CBSC's CRA performance. He reports regularly to the board of directors.

- **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.

CBSC processes, free of charge, past due real estate taxes that are collected through a tax amnesty program implemented by a local government authority. Without this program many homeowners were faced with the prospect of losing their homes. According to management, CBSC is the only bank involved in this program.

GLOSSARY

Aggregate

The cumulative lending by all HMDA-reporting lenders in the same geographic area under evaluation.

Community Development

The term “community development” is defined to mean:

1. Affordable housing (including multifamily housing) for low- or moderate-income (“LMI”) individuals;
2. Community services targeted to LMI individuals;
3. Activities that promote economic development by financing business or farms that meet the size eligibility standards of the United States Small Business Administration (“SBA”) Development Company or Small Business Investment Company programs, or have gross annual incomes of \$1 million or less;
4. Activities that revitalize or stabilize LMI geographies; and
5. Activities that seek to prevent defaults and/or foreclosures in loans included in (1) and (3), above.

A “community development loan” is defined as a loan that has as its *primary purpose* community development. This includes but is not limited to loans to:

- Borrowers for affordable housing rehabilitation and construction, including construction and permanent financing for multifamily rental property serving low or moderate income (“LMI”) persons;
- Nonprofit organizations serving primarily LMI or other community development needs;
- Borrowers to construct or rehabilitate community facilities that are located in LMI areas or that primarily serve LMI individuals;
- Financial intermediaries including community development financial institutions, community development corporations, minority- and women-owned financial institutions, community loan funds or pools, micro-finance institutions, and low-income or community development credit unions that primarily lend or facilitate lending to promote community development;
- Local, state and tribal governments for community development activities; and
- Borrowers to finance environmental clean up or redevelopment of an industrial site as part of an effort to revitalize the LMI community in which the property is located.

A “qualified investment” is defined as a lawful investment, deposit, membership share or grant that has as its *primary purpose* community development. This includes but is not limited to investments, deposits, membership shares or grants in or to:

- Financial intermediaries (including community development financial institutions, community development corporations, minority- and women-owned financial institutions, community loan funds, micro-finance institutions and low-income or community development credit unions) that primarily lend or facilitate lending in LMI areas or to LMI individuals in order to promote community development;
- Organizations engaged in affordable housing rehabilitation and construction;
- Organizations, including, for example, small business investment corporations that promote economic development by financing small businesses;
- Facilities that promote community development in LMI areas or LMI individuals, such as youth programs, homeless centers, soup kitchens, health care facilities, battered women’s centers, and alcohol and drug recovery centers;
- Projects eligible for low-income housing tax credits;
- State and municipal obligations, such as revenue bonds that specifically support affordable housing or other community development needs;
- Organizations serving LMI housing or other community development needs, such as counseling for credit, home ownership, home maintenance, and other financial services education; and
- Organizations supporting activities essential to the capacity of LMI individuals or geographies to utilize credit to sustain economic development, such as day care operations and job training programs that facilitate access to permanent jobs.

A “community development service” is defined as a service that has as its *primary purpose* community development, is related to the provision of financial services, and has not been considered in the evaluation of the banking institution's retail banking services. This includes but is not limited to:

- Providing technical assistance on financial matters to nonprofit, tribal or government organizations serving LMI housing or economic revitalization and development needs;
- Providing technical assistance on financial matters to small businesses or community development organizations;
- Lending employees to provide financial services for organizations facilitating affordable housing construction and rehabilitation or development of affordable housing;
- Providing credit counseling, home buyers and home maintenance counseling, financial planning or other financial services education to promote community development and affordable housing;
- Establishing school savings programs for LMI individuals;
- Providing seminars for LMI persons on banking and bank account record-keeping;

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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 2000 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.