New York State

Department of Financial Services

Community Banking Report

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I. Executive Summary

Since 1791, when New York's first State chartered bank was authorized by the Legislature,[1] community banks[2] have served as an engine of the State's local and regional economies. Today, New York's community banks continue to drive growth throughout the State, touching virtually every major aspect of the economy and significantly affecting the everyday lives of many New Yorkers. Community banks continue to make small business loans—including small farm loans[3]—that create jobs, home loans that strengthen our communities, and student loans that build a more competitive workforce. Because community banks focus on the unique needs of their respective communities, they offer service and assistance that is not always available from large banks.

At its essence, community banking is based on a simple and traditional business model. Community banks focus on gathering deposits from the communities they serve and exclusively lending back to those communities. In doing so, community banks leverage their ability to: (1) attract local retail deposits; (2) forge strong relationships with their customers through personal service; and (3) effectively gauge "soft" criteria, such as an applicant's character, ability and reputation. This type of service is particularly valuable when borrowers lack lengthy credit histories. Large banks tend to have a broader geographic and strategic focus and do not always provide enough flexibility for regional business needs.[4]

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[1] The Bank of New York was the first State chartered New York bank, receiving its charter from the State in 1791. *See* Chapter 37 of the Laws of 1791.

[2] For purposes of this report, "community banks" are those banking organizations with less than $10 billion in assets and include both state- and federally-chartered institutions.

[3] For purposes of this report, "small business loans" are defined as (1) commercial and industrial loans made to U.S. addresses with an original amount of less than $1 million, and (2) Loans secured by non-farm, non-residential properties with an original amount of less than $1 million. "Small farm loans" are defined as loans with original amounts less than $500,000 either (1) to finance agricultural production or (2) secured by farmland.

[4] For purposes of this report, "large banks" are defined as banking organizations, state and federally chartered, with assets of greater than or equal to $10 billion.

The impact of this business model has been significant, particularly in the area of small business and farm lending. Indeed, while community banks hold approximately 22% of all the assets of the Federal Deposit Insurance Company ("FDIC") banks in the State, they provide nearly 55% of all small business loans and approximately 90% of small farm loans in the State. Smaller community banks—those with assets of $1 billion or less—hold only about 6% of all FDIC insured banking assets in New York yet make almost 28% of all small business loans, including 43% of small farm loans in the State.

Yet New York's community banks have faced some difficult trends in the past 20 years, including a decline in their total number from 299 in 1992 to 169 in 2011 and reductions in total loan assets and deposits. These decreases were the result of greater competition from large banks, as well as more recent macroeconomic factors, such as high unemployment, historically low interest rates, and the housing crisis, which caused credit and asset quality to deteriorate.

This notwithstanding, New York's remaining community banks have exhibited impressive resilience. In fact, since 2001, New York's community banks have increased their total banking assets. These banks have succeeded by relying on their established strengths: personalized customer relationships, local knowledge, and an ability to extend loans to small businesses to which large banks have often been unwilling to lend. Many of New York's community banks also continue to enhance their market share, especially in areas such as small business, commercial real estate, and farm lending. In sum, New York's community banks have and will continue to play a critical role in the State's local and regional economies.

Undoubtedly, significant challenges remain. The ever-changing regulatory environment, new banking technologies, and rising interest rates promise to test New York's community banks for years to come. Complex and costly regulations, such as those proposed by Basel III, would impose additional capital requirements on community banks. These rules, which some banks believe could lead to compliance costs as high as 10% of operating expenses, would disadvantage the smaller community banks that may lack the necessary staff or resources to support increasing compliance requirements. Similarly, keeping pace with new banking technologies, such as mobile payments, will require significant investments in infrastructure and staff. These regulatory and technological cost burdens could compel community banks to merge or consolidate with other banks. Finally, as interest rates rise in the coming years, community

banks holding significant numbers of historically-low fixed-rate loans could experience losses in core lending, depending on the speed at which rates rise and the extent to which banks have planned for, or hedged against, such increases.

The New York State Department of Financial Services ("DFS") understands the challenges facing New York's community banks and will continue to support initiatives that ensure the viability of the community banking business model. Most recently, DFS proposed that federal regulators exempt community banks from certain aspects of new capital requirements under the proposed Basel III rules. DFS also supported the 2012 CDARS[5] legislation that encourages municipalities to deposit funds into smaller community banks rather than the large banks that currently hold the majority of such funds. DFS is also monitoring trends following the expiration at the end of last year of the FDIC's Transaction Account Guarantee Program, which helped slow capital flows out of community banks in the aftermath of the financial crisis. DFS will continue to engage with New York's community banks on these and other issues to ensure they have opportunities to succeed in the near and long term.

II. Significance of Community Banks to the New York State Economy

New York is the nation's third largest economy, with a gross state product totaling $1.16 trillion.[6] The State's total exports reached nearly $85 billion in 2011,[7] with small- and medium-sized businesses—many of which are serviced by community banks—generating more than half of that figure. New York is also home to one of the country's most diverse state economies. Not surprisingly, the State's community banks and their customer base reflect that variation, serving consumers and small businesses in urban, suburban, and rural areas in different ways.

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[5] Certificate of Deposit Account Registry Service.®

[6] GDP of New York State, 1997-2011, Empire State Development, *available at* http://esd.ny.gov/NYSDataCenter/Data/EconomicData/GrossDomesticProduct/NYSGDPNAICS1997-2011.pdf.

[7] State Exports for New York, U.S. Census Bureau, *available at* http://www.census.gov/foreign-trade/statistics/state/data/ny.html; New York Business First, *available at* http://www.nyfirst.ny.gov/ExploreNY/NYS_Economy.html.

A significant number of New York's community banks are headquartered in and around metropolitan areas both upstate and downstate. In neighborhoods within and surrounding New York City, community banks fill an important gap by serving consumers and small businesses that may not garner the attention of large banks, whose business model tends to center principally on the banking needs of large Fortune 500 companies. A select group of community banks also specialize in serving ethnic-based and immigrant communities in and around New York City, serving such communities by providing multilingual banking services and facilitating commercial development between their home countries and the United States.

In upstate metropolitan areas such as Albany, Buffalo, Rochester and Syracuse, community banks service established small businesses in manufacturing and technology, as well as the many start-ups drawn to business incubator programs in those areas. This trend is likely to continue as the State's already substantial investment in high-tech continues to grow.[8] New York's community banks also have a strong presence in suburbs and small towns throughout the State, especially in the Finger Lakes, Western, and Central New York regions. Community banks in those areas serve the diverse needs of small- to medium-sized businesses concentrated in light industry and industrial parks.

Finally, in rural areas throughout the State, community banks play a vital role in supporting New York's many farms, which are largely small, family-run businesses that collectively have a substantial impact on the State's economy. New York is a major agricultural producer, generating total sales of $4.7 billion in 2010,[9] and is ranked among the top five states for agricultural products such as apples, cherries, cabbage, onions, dairy, and maple syrup.[10] New York's farms, which have little or no access to large banks, rely heavily on community banks for loans and other financial services.

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[8] *See* "Where the World Innovates," New York Loves Nano, *available at* http://www.nylovesnano.com; New York State Business First, High Tech Electronics & Software, *available at* http://www.nyfirst.ny.gov/ResourceCenter/IndustryResources/HighTechElectronics.html.

[9] *Id.*

[10] AG Facts, New York State Department of Agriculture & Markets, *available at* http://www.agriculture.ny.gov/agfacts.html.

III. State of Community Banks in New York

New York's community banks, like those across the country, have faced significant challenges in the past 20 years. Most notably, widespread industry consolidation—driven by deregulation and economic conditions—has diminished the number of community banks in urban, rural, and isolated areas alike. From 1992 to 2011, the number of community banks in New York has dropped from 299 to 169. Over the same time period, New York's community banks also have experienced a notable decrease in their asset and deposit shares.

This section analyzes banking trends, based on the data available to DFS. Again, for purposes of this analysis, "community banks" are defined as those banking organizations with less than $10 billion in assets and include both state and federally chartered institutions. "Large banks" are defined as state and federally chartered banking organizations with assets of greater than or equal to $10 billion. This report only compares data for community banks headquartered in New York with data for large banks headquartered in New York. It does not account for data regarding large banks whose New York presence consists solely of branch locations. Given their number and total asset base, the inclusion of non-New York headquartered operations in the data pool would make it difficult to extrapolate meaningful trends about New York's community banks.

A. Number of Community Banks

From 1992 to 2002, New York lost a total of 100 community banks, dropping from 299 to 199—a decline of almost 33%. From 2002 to 2011, the reduction of community banks has been somewhat slower—from 199 to 169, representing a decrease of approximately 15%. This indicates that, while the trend toward bank consolidation continues, the rate of decline has slowed. This slowdown likely reflects the end of the impact of branching deregulation, which began with the 1994 Riegle-Neal Interstate Banking and Branching Efficiency Act ("IBBEA"), and was an impetus for the many mergers and acquisitions in the subsequent decade. Since 1992, 83 of New York's community banks have ceased to exist as a result of mergers.

Notably, the number of banks with assets of less than $100 million has declined most significantly. These banks have experienced a nearly 78% decrease in number in the last 20 years, from 99 in 1992, to 22 at the end of 2011. The reduction in the number of smaller asset

banks accounts for nearly 60% of the total decline in the number of community banks in the State over the last 20 years. This decline can be attributed in part to consolidation but also to an increase in the value of the asset holdings of many small banks over time.

Total Number of Community Banks in New York State by Asset Size

Banks (By Asset Size)	1992	2001	2011
Less than $100mm	99	49	22
Greater than $100mm, Less than $500mm	114	101	76
Greater than $500mm, Less than $1B	31	25	35
Greater than $1B, Less than $5B	41	24	28
Greater than $5B, Less than $10B	14	10	8
Greater than $10B	10	11	9
Less than $10B	**299**	**209**	**169**
Less than $1B	244	175	133
Total for New York State	**309**	**220**	**178**

A review of the decline in the number of banks over the various local markets in New York (*i.e.*, rural, suburban and urban), as well as areas of population growth or decline, does not demonstrate significantly differing trends. In addition, a review of bank headquarters across urban and rural areas in the State reveals that community banks continue to serve and be located in large, small, and even isolated rural areas of the State that large banks tend not to service. The chart below shows the current distribution of community banks across various markets of New York State.

Bank Headquarters Locations in New York State in 2011[11]

	Isolated Rural	Small Rural	Large Rural	Urban	Grand Total
Less than $100mm	3	2	4	13	22
Greater than $100mm, Less than $500mm	6	6	10	54	76
Greater than $500mm, Less than $1B	1	2	1	31	35
Greater than $1B, Less than $5B		1		27	28
Greater than $5B, Less than $10B		2		6	8
Greater than $10B				9	9
Less than $10B	**10**	**13**	**15**	**131**	**169**
Less than $1B	10	10	15	98	133
Total for New York State	**10**	**13**	**15**	**140**	**178**

[11] For the purposes of this report, the terms "urban," "large rural," "small rural," and "isolated rural" follow the criteria established in the Rural-Urban Commuting Area ("RUCA") Codes, which classify U.S. census tracts using measures of population density, urbanization, and daily commuting, *available at* http://www.ers.usda.gov/datafiles/RuralUrban_Commuting_Area_Codes/ruca00.xls.

Generally, New York's rural areas experienced fewer mergers and *de novo* bank creations, while urban areas and areas of growing population experienced more of both. The chart below shows the decline of community banks across various markets of New York State from 1992 to 2011.

Distribution of Community Bank Headquarters (From 1992 To 2011)

	1992	2001	2011
Urban	225	148	131
Large Rural	37	30	15
Small Rural	21	18	13
Isolated Rural	16	13	10
Grand Total	299	209	169

Following an extended period of relative inactivity, interest in the establishment of *de novo* community banks resurfaced in the years leading up to the 2008 financial crisis. Since 1992, 65 new community banks were formed in New York. Citing the dearth of banking services tailored to the needs of "unbanked" or "underbanked" populations, as well as robust economic growth in certain geographic areas, New York's *de novo* banks aimed to fill existing gaps in certain underserved markets.

New community banks typically face heightened risk during their first years of operation. This is due to the length of time it takes to: (1) establish lasting customer relationships, (2) grow deposits, and (3) build a well-diversified quality loan portfolio. Such challenges are exacerbated during periods of general economic decline. Despite these challenges, most of New York's state-chartered *de novo* banks survived the recent financial crisis intact. As shown below, only 3 of the 13 state-chartered *de novo* community banks established from 2005 to 2009 have failed.[12] Many of the other 10 new community banks continue to grow and prosper.

[12] There have been 6 failures of state-chartered banks in New York since 1992. Of those, 4 occurred in the aftermath of the 2008 financial crisis. Of those, 3 were *de novo* community banks.

State-Chartered *De Novo* Community Banks[13] (2005–2009)

Name of Community Bank	Date Established	Location
Hanover Community Bank	January 21, 2009	Garden City Park
The Westchester Bank	June 18, 2008	Yonkers
Gold Coast Bank	March 10, 2008	Islandia
Savoy Bank	January 15, 2008	New York
CheckSpring Bank	October 26, 2007	The Bronx
Alma Bank	September 12, 2007	Astoria
USNY Bank	July 31, 2007	Geneva
Global Bank	March 12, 2007	New York
Waterford Village Bank (closed 7/24/09)*	February 26, 2007	Williamsville
NewBank	September 29, 2006	Flushing
United International Bank	February 28, 2006	Flushing
USA Bank (closed 7/9/10)*	December 22, 2005	Port Chester
Liberty Pointe Bank (closed 3/11/10)*	October 3, 2005	New York

B. Assets of Community Banks

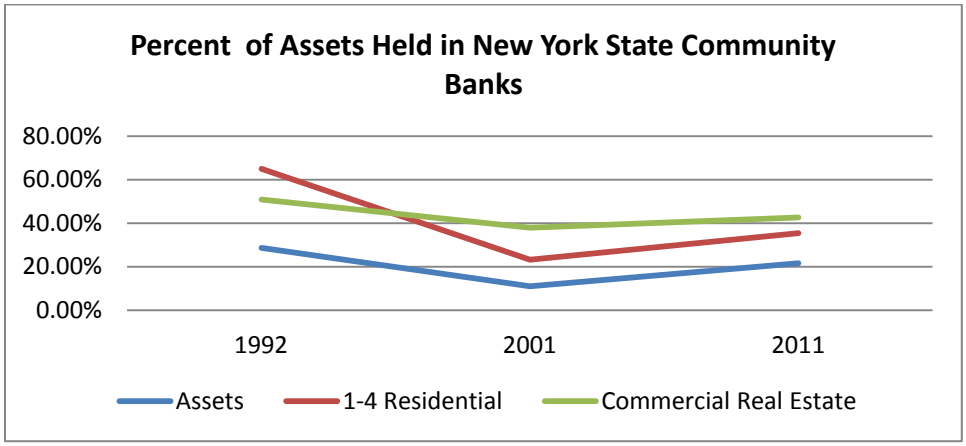
Most of a bank's income is typically derived from the interest the bank earns from its loans. However, banks also hold investments, which may include investment securities, such as obligations of the United States, general obligations of a state or any political subdivision thereof, revenue bonds issued by municipalities, corporate bonds and mortgage-backed securities. In the past two decades, community banks across the country have experienced a dramatic decrease in their share of industry assets relative to large banks, which have become substantially bigger since the 1980s and 1990s and today hold well over one-half of industry assets.

Like community banks nationally, New York's community banks have seen a decline in total assets in the past 20 years. In 1992, New York's community banks held total assets of about $237 billion. In 2011, they held total assets of approximately $166 billion, a decline of 30%. New York's community banks' share of assets as a percentage of total assets also has

[13] Newly chartered banks excluded from the list of *de novo* community banks include:

- FDIC-insured banks created specifically for the limited purpose of accepting municipal deposits and providing banking services to municipal and government entities only;
- newly chartered banks created largely from an existing banking organization or by charter conversion;
- newly-formed interim banks that were never intended to be operational but were established for a brief period of time only to facilitate another transaction such as a merger or other combination; and
- non-insured limited purpose trust companies.

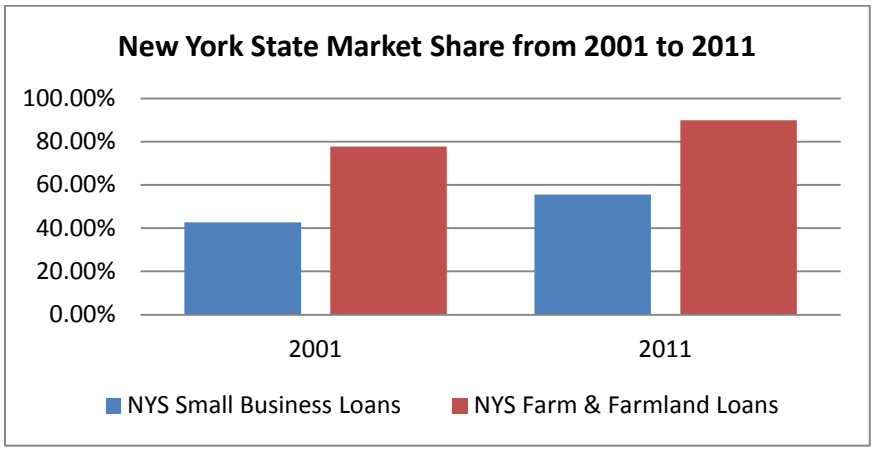
decreased over the years. In 1992, New York's community banks held close to 29% of all banking assets in New York, while in 2011 they held just over 21%. This is a significant trend especially considering that community banks hold roughly 94% of all State bank charters in New York.



Although New York's community banks experienced a significant decline in loan assets from 30% to 13% from 1992 to 2001, loan assets actually increased in the subsequent decade. In 2011, New York's community banks held 38% of all loan assets in the State. This is a remarkable share considering that large banks in New York account for a much larger proportion of banks statewide than in other states—5% of the total number of banks in New York as compared to 1.5% nationally.

The increase in total loan assets held by New York's community banks has been largely driven by an increase in commercial and residential real estate lending. Although commercial and residential real estate loans held by New York's community banks, respectively, fell from 51% to 38% and from 65% to 23% from 1992 to 2001, they actually increased in the subsequent decade. From 2001 to 2011, commercial and residential real estate loan assets held by New York's community banks, respectively, grew from 38% to 43% and from 23% to 35%. The increase in real estate loan assets held by New York's community banks can be attributed, in part, to community banks in New York State holding onto and servicing loans rather than merely originating them for sale. In addition, this trend shows that community banks in New York State have a willingness to extend loans to support local economic growth where large banks have retracted.

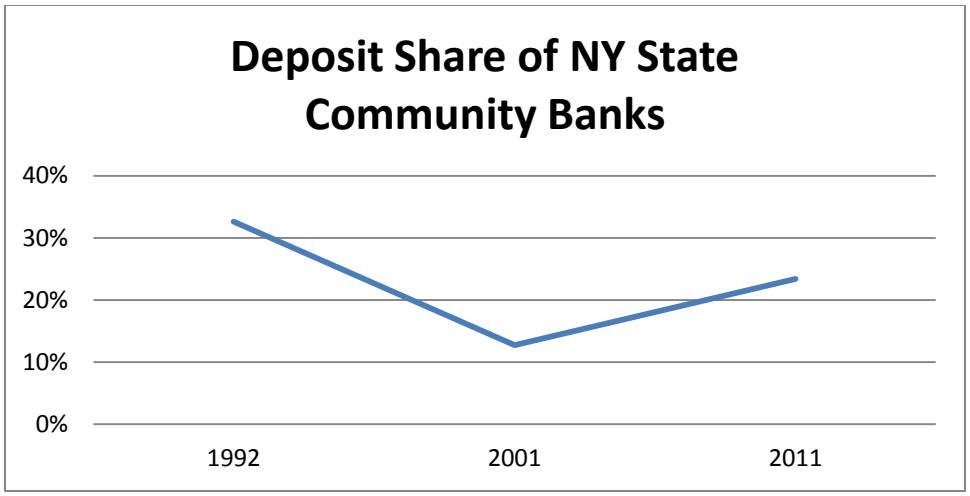
New York's community banks also have continued to retain—and even gain—a significant market share in small business lending. From 2001 to 2011 (the period for which data is available), assets held in small business loans increased from about 43% to roughly 56%. For the same period, assets held in small farm loans also increased from around 78% to just below 90%. The chart below illustrates these trends.



C. Deposit Share of Community Banks

Deposits are critical to the community banking business model. As noted above, community banks take in deposits from the communities they serve and typically recycle the deposits back into the communities in the form of loans. Banks therefore rely heavily on their ability to attract retail deposits to generate earnings from interest on loans.

In 2011, New York's community banks held $130.4 billion in deposits, which represented 23% of the deposit share in the State. By comparison, in 1992, New York's community banks held approximately $188.5 billion in deposits, which represented an almost 33% deposit share in the State. This 10% decline in deposit share over the 20-year period was consistent across all markets in the State.



Notwithstanding the overall decline in deposit shares since 1992, the existing New York community banks have, in many cases, experienced an increase in their deposit shares. This increase in deposit share has offset some of the deposit share declines caused by bank consolidations. Notably, aggregate deposits of New York's community banks increased to $130.4 billion, or 23% deposit share, in 2011 from $116.3 billion, or 13% deposit share, in 2001. Further, some of New York's community banks seem to have maintained an advantage over large banks by operating in isolated rural locations that large banks may not wish—or are not permitted[14]—to service.

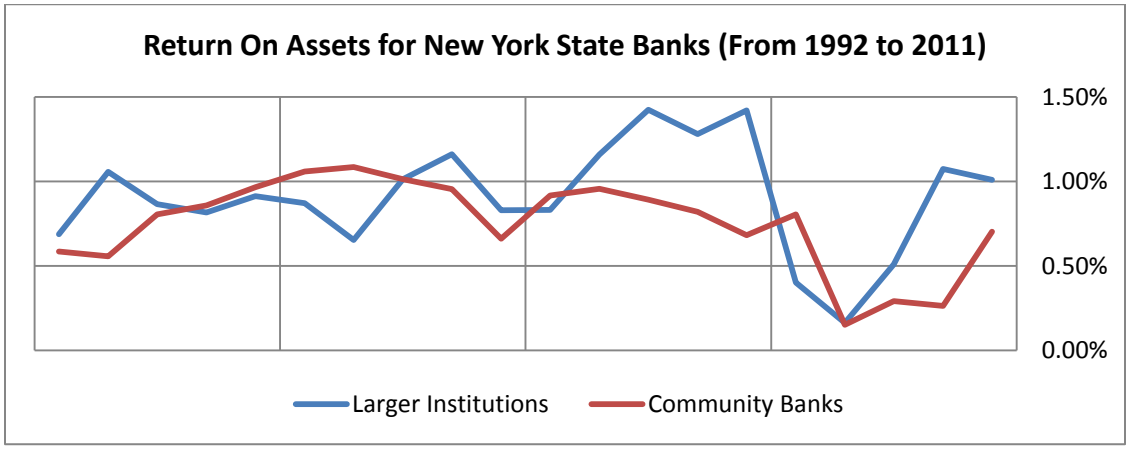
D. Performance of Community Banks

The performance and profitability of New York's community banks is measured in this section through the analysis of four basic ratios: (1) the return on assets ("ROA"), which is the ratio of the net income over assets; (2) the return on equity ("ROE"), which is the ratio of net income over shareholder equity; (3) the net interest margin ("NIM"), which is the ratio of interest income over interest bearing assets; and (4) the efficiency ratio, which is the ratio of non-interest expenses over revenue.

Notwithstanding the drop in the number of New York's community banks, as well as the overall decline in their asset and deposit shares over time, community banks that have withstood

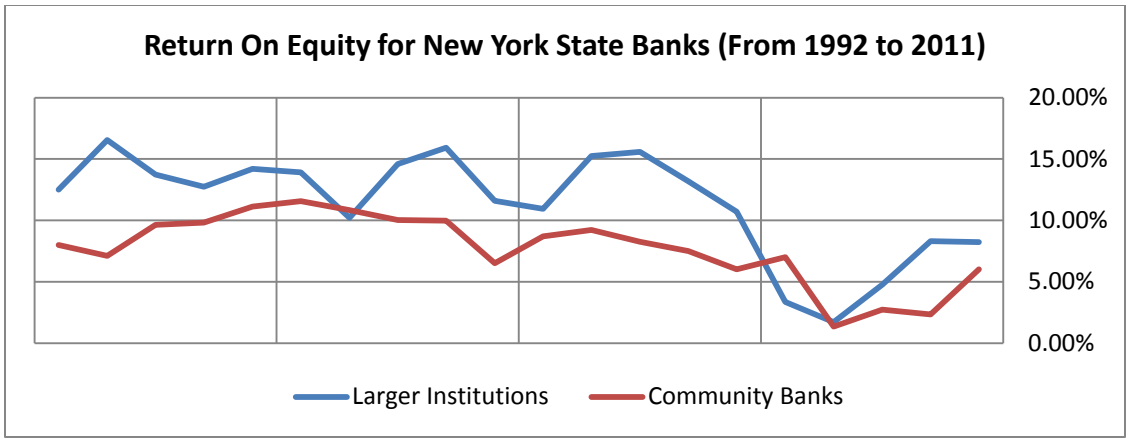
[14] New York Banking Law prevents certain financial institutions from opening branch offices in cities or villages with populations of less than 50,000 if another bank already has its principal office there. *See* NYBL 105.1(a)(ii).

the consolidations of the last 20 years continue to have a robust market share of assets and deposits and perform well. In particular, the average ROA of New York's community banks in 2011 was .7%—as compared to the average New York large bank ROA of 1%—and is considered satisfactory.[15] While the ROA of New York's community banks in 2011 remained lower than the high of roughly 1.2% achieved in 1998, it is still remarkably strong and significantly higher than the post-financial crisis low of almost .3% reached in 2009 to 2010. The ROA of all of New York's banks—large banks or community banks—have been on the rise since 2010.

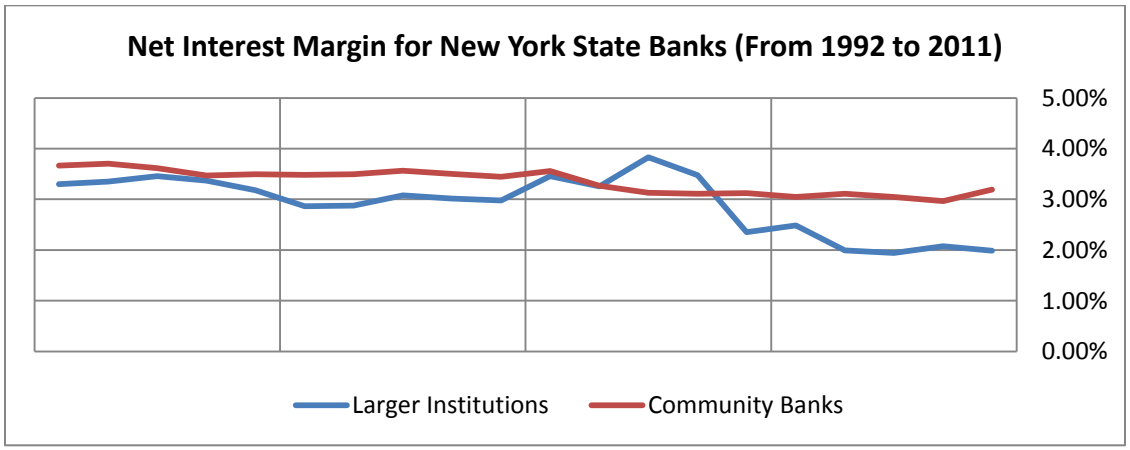


In 2011, the ROE of New York's community banks was over 6%, which was comparable to the New York large bank ROE of 8%. The high of 13.7% was reached during the "dot com" boom in 1997 to 1998, while the low of approximately 1.8% was reached in 2008 in the midst of the financial crisis. It should be noted, however, that community banks have higher capital ratios that tend to result in lower ROEs when compared to large banks. This also may put pressure on smaller banks to merge in order to maximize returns for shareholders.

[15] An ROA of more than .5% is generally considered to be strong.

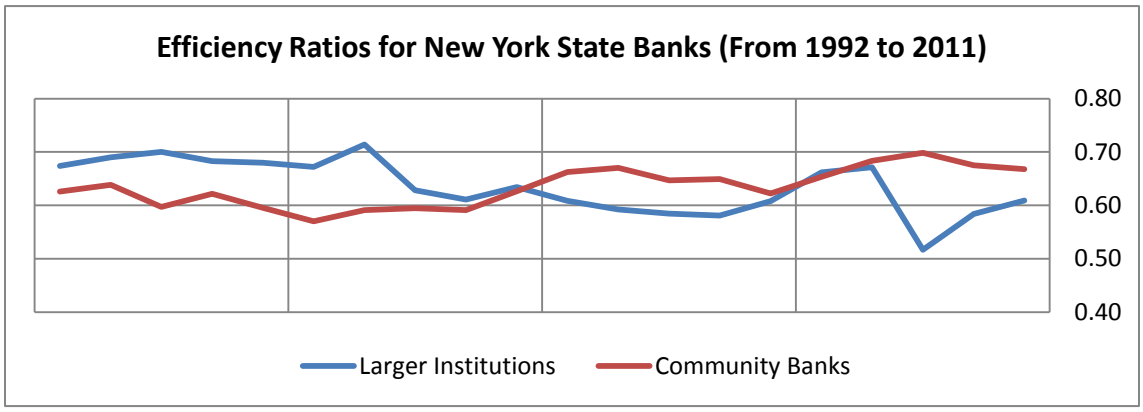


In 2011, the NIM for New York's community banks was almost 3.6%, higher than the New York large bank NIM of approximately 2%. By contrast, this is the lowest it has been for New York's large banks in 20 years. Historically, the NIM for community banks has remained strong, at least in part, because community banks provide credit at a higher interest rate to borrowers who, for various reasons, would not have access to credit from large banks. As a result of historically low interest rates, the NIM for large banks is at its lowest levels. Nevertheless, the peak NIM for New York's large banks, almost 3.8%, was reached in 2004 and is still higher than the peak the State's community banks are experiencing today.



The efficiency ratio for community banks tends to be higher because of higher overhead expenses. This is especially true for small community banks—those with assets below $100 million—that lack the economies of scale to keep expenses at the same level as large banks. The efficiency ratio for New York's community banks in 2011 was just under 67%, which was higher than the New York large bank efficiency ratio of below 61%. While banks in areas of greater

growth tend to have higher ROAs and NIMs, they also have greater expenses relative to income and thus higher efficiency ratios relative to their large bank counterparts.



IV. Continuing Challenges for Community Banks in New York

Community banks will continue to be tested in the coming years. Changes in the interest rate environment, technological advances in banking services, increased capital and liquidity rules, and new compliance requirements will force community banks to adapt to new realities in order to survive in a highly competitive market.

A. Rising Interest Rates

New York's community banks, with their relatively high average net interest margin of approximately 3.3%, weathered the low-interest rate environment of recent years better than community banks in many other states. However, as the economy improves and interest rates rise New York's community banks will likely face new financial challenges.

With interest rates at historical lows in recent years, many large banks have been reluctant to make loans that would yield low profit margins. Community banks stepped in to fill the void left by large banks, providing a large number of fixed longer-term low-interest loans to small businesses and farms. As rates rise but interest income from historically-low fixed-rate loans remains stagnant, interest payments on deposits will necessarily have to increase. The extent to which community banks are affected will depend on the speed at which rates rise and

whether community banks have effectively planned for or hedged against such increases through mechanisms such as interest rate swaps.

Unlike large banks, many community banks may not be able to compensate for the difference in interest income by trading on capital markets or engaging in asset servicing and fiduciary (trust) activities. Nor may they be able to generate sufficiently sizable income from the broad array of fees typically charged by large banks. Consequently, community banks will have to find new and creative ways to reduce costs and diversify their income streams.

B. New Banking Technologies

The rapidly evolving trends in payment technology and mobile banking create both challenges and opportunities for community banks. Although customers continue to place high value on personalized banking interactions (as reflected by continuing growth in the number of branch offices of state-chartered community banks through New York[16]), banking convenience will continue to be a major focus for small businesses and consumers, who depend on electronic and mobile communication for most of their transactional needs.[17] In order to remain competitive, community banks will need to capitalize on both their strong customer relationships[18] and new banking trends.

Keeping pace with ever changing technologies could prove costly. Banks will be required to invest substantially in computer infrastructure and third-party services. They will

[16] The opening of new branches by New York state-chartered community banks has outpaced the closing of branches by these banks. During the 30-month period from the beginning of 2010 to the middle of 2012, New York's community banks opened a total of 46 new branches, with 17 branches closing during the same period.

[17] According to a recent Federal Reserve survey, approximately 20% of U.S. consumers utilized mobile banking in the period between January 2011 and January 2012, while another 11% said they would probably use it within the next year. Of individuals considered to be "under banked," 29% used mobile banking for the same period. *See* Federal Reserve Board Report on Consumer and Mobile Financial Services (March 2012), *available at* http://www.federalreserve.gov/econresdata/mobile-devices/files/mobile-device-report-201203.pdf.

[18] Public trust in local banks rose to 55% in June 2012, a remarkable figure considering that public confidence in the banking industry has declined dramatically since the onset of the financial crisis in 2008. By comparison, trust in larger banks for the same period fell to 23%. *See* Chicago Booth/Kellogg School Financial Trust Index (June 2012 Quarterly Survey), *available at* http://www.chicagobooth.edu/newsmedia/releases/2012-07-24-trust.aspx.

also bear expenses associated with the assessment of the legal, compliance, reputational, and security risks for each new delivery system. This is already the case with respect to the increasingly popular Remote Deposit Capture ("RDC") systems being implemented by many banks.[19] Because community banks do not always enjoy the economies of scale of large banks, technology costs could represent a significant portion of their overhead.

C. Legislative and Regulatory Developments

The ever-changing regulatory and legislative landscape will continue to challenge community banks in the near and long-term future. Increasingly complex federal regulations, new capital requirements, and the end of certain government guarantees will require community bankers to remain vigilant, especially with respect to compliance and its related costs.

One of the biggest regulatory challenges facing community banks in the immediate future is the implementation of new capital requirements under the Dodd-Frank Act and the impending international Basel III framework. Although virtually all of New York's community banks will be able to meet the new capital requirements at the outset, retaining and attracting capital investments over the longer term may prove difficult. Certain capital instruments involving subordinated debt, most notably trust-preferred securities, will be phased out as Tier 1 capital under the Dodd-Frank Act.

In addition, certain aspects of the proposed Basel III rules will disproportionately burden the State's smaller banks because they hold a higher proportion of assets for which certain new risk weightings are required.[20] The new risk weightings, which will be used to calculate capital ratios, are expected to lead to greater compliance costs that may be difficult for many community banks to shoulder. Without the necessary resources to allocate towards compliance, some smaller community banks may be compelled to merge or consolidate. Many small upstate banks

[19] *See, for example*, "Risk Management of Remote Deposit Capture," Federal Financial Institutions Examination Council (January 14, 2009), *available at* http://www.ffiec.gov/pdf/pr011409_rdc_guidance.pdf.

[20] Real estate loans, for example, make up a larger percentage of the total assets at smaller banks than their larger counterparts. In New York, over 56% of the assets held by banks with total assets of less than $10 billion are lending-related, as compared to less than 31% for banks with assets greater than or equal to $10 billion. Furthermore, New York's community banks hold over 10% more in residential loans and roughly 15% more in commercial real estate loans than they did 10 years ago.

may also be challenged to allocate a sufficient number of employees to comply with the proposed regulations and lack the resources, as well the pool of applicants, to hire for compliance purposes.

The termination of the FDIC's Transaction Account Guarantee Program ("TAGP")[21] at the end of last year could reduce deposits of community banks in the months ahead, though the extent of the impact remains to be seen. The program was established as a temporary measure in the wake of the 2008 financial crisis to prevent local companies from moving funds out of local banks, thereby preserving safe capital reserves. The program also provided for unlimited deposit insurance on certain non-interest bearing transaction accounts. Now that TAGP has expired, non-interest bearing accounts typically used by businesses as operating accounts are insured only up to the FDIC's customary level of $250,000. Some community bankers have expressed concerns that the program's expiration will result in large capital transfers from community banks to large banks perceived to be "too big to fail." Others have been less apprehensive, noting that some customers might move TAGP deposit funds into more profitable fee-bearing accounts and financial products.

Finally, one legislative bright spot for community banks in New York is the passage this summer of the so-called CDARS legislation (Chapter 128 of the Laws of 2012), which could lead to increased municipal deposits at the State's community banks. The law, which was signed by Governor Cuomo in August, enables local government entities in New York to utilize deposit placement services that re-allocate municipal deposits to smaller institutions, each of which maintains a share of the deposit equal to the $250,000 FDIC limit. The program represents an opportunity for New York's community banks to receive a greater share of the State's approximately $20 billion in municipal deposits. Municipal deposits provide critical lending capital to community banks, enabling them to recycle local tax dollars back into the same community from which they came and bolstering the banks' balance sheets in the process.

[21] TAGP was established pursuant to Section 323 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The total value of TAGP deposits nationally is $1.4 trillion, representing approximately 20% of total domestic deposits. Banks with assets less than $10 billion hold approximately 13% of those deposits, totaling $180 billion. *See* FDIC Quarterly Banking Profile (2012 Vol. 6 No. 3), *available at* http://www2.fdic.gov/qbp/2012jun/qbp.pdf.

V. DFS: Advocating for New York's Community Banks

Since its inception in October 2011, DFS has allocated significant resources to understanding the challenges community banks face throughout the various regions of the State. In this endeavor, DFS has conducted forums with senior management of community banks located in the various regions of New York, including Buffalo, Rochester, Albany, Long Island, and New York City to better understand the challenges community banks face and to find ways to facilitate their business, where possible, and ease unnecessary regulatory burdens.

In addition to the forums, DFS has also established the State Charter Advisory Board ("Board") as required by Chapter 62 of the Laws of 2011. The Board is composed of 9 members representing the leadership of community banks throughout the State as well as a consumer representative and a foreign bank. The purpose of the Board is to recommend ways to make the State charter more attractive. The Board meets regularly to discuss ways to accomplish its purpose and to promote the State charter.

These meetings and the formation of the Board have been invaluable and have crystallized many of the issues contained in this report. DFS plans to leverage the valuable insight it has gained in these conversations to help address challenges for banking organizations in the State, wherever possible, to make the State charter even more attractive, not only to federally chartered community banks in the State, but also for those banks that currently hold a State charter. As a result of these invaluable conversations with the community banking leaders in New York State, DFS has played—and will continue to play—an essential role in identifying and working to resolve issues of significance to community banks, including the following:

- DFS proposed, most recently in an October 22, 2012 comment letter to the Office of the Comptroller, the FDIC, and the Federal Reserve, that community banks be exempted from Basel III's complex risk weightings. Federal regulators have since announced that the implementation of the new rules will be delayed indefinitely while they further study their impact. DFS will continue to advocate on behalf of community banks with respect to the challenges surrounding the new capital requirements.

- DFS plans to monitor the impact of TAGP's expiration on New York's community banks and will contain a dialogue with the State's community bankers about any potential repercussions on deposits and capital flows.

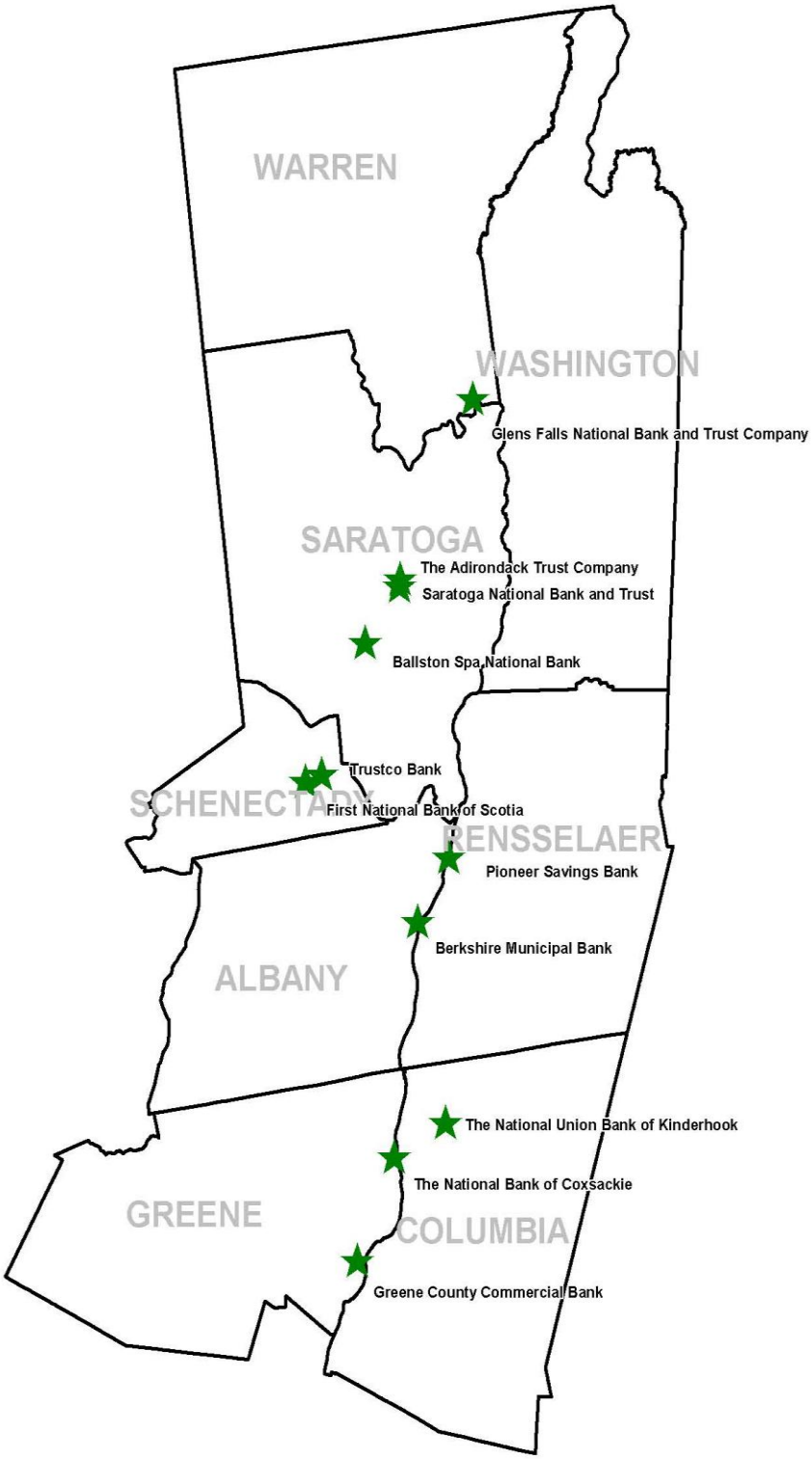
- DFS will engage with community banks to ensure they take advantage of the benefits provided by the CDARS program and will seek ways to encourage local governments and agencies to transfer municipal deposits from larger institutions into community banks through the CDARS program.

DFS recognizes that the community banking model in New York remains alive and well. Through these and other initiatives, DFS will continue to seek ways to ensure that New York's community banks have opportunities to thrive and can sustain their critical role in the State economy for many years to come.

APPENDIX

New York State
Community Bank Headquarters (2011)

CAPITAL REGION



The Capital Region is located in the eastern part of mid-New York State, covering 5,199 square miles and includes the Albany, Troy, Schenectady, and Saratoga areas. The region is comprised of eight counties and is known for its large and vibrant economy with a particular focus in biotech life sciences and nanotechnology.

Population (2009):1,065,402

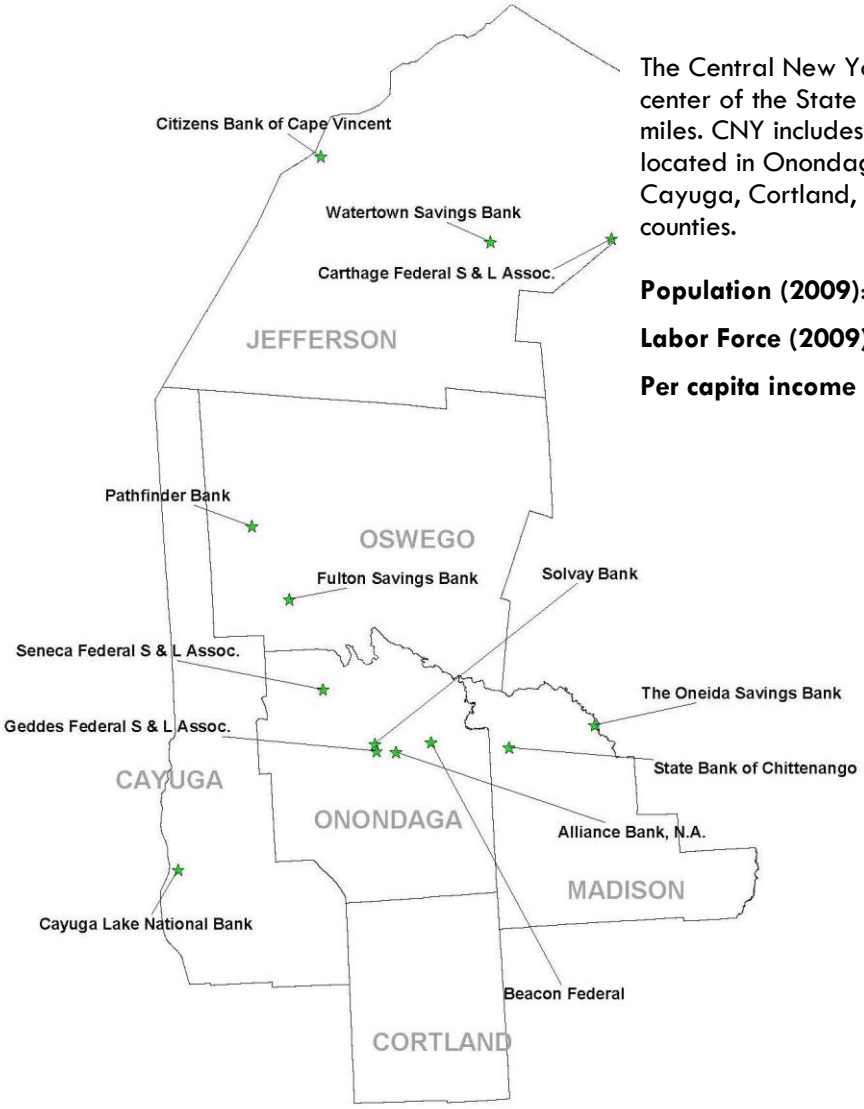
Labor Force (2009): 568,600

Per capita income (2009): $28,644

Community banks headquartered in the Capital Region experienced significant declines in the past 20 years, both in total number and aggregate assets. The number of community banks dropped 44% from 1992 to 2011, while aggregate assets decreased 50% from $20 billion to $9.9 billion. Loan assets dropped 52% from $12 billion to $5.7 billion for the same period.

NYS Community Bank Headquarters

CENTRAL REGION



The Central New York region is located in the center of the State and covers 3,582 square miles. CNY includes the Syracuse Metro area located in Onondaga County, and also includes Cayuga, Cortland, Madison, and Oswego counties.

Population (2009): 773,606

Labor Force (2009): 398,500

Per capita income (2009): $25,063

NYS Community Bank Headquarters

Although the number of community banks headquartered in Central Region has declined 35% over the past 20 years, the banks' aggregate assets have remained steady at $5.5 billion. Loan assets have increased by 23% from $2.7 billion in 1992 to $3.4 billion in 2011. The increase was driven largely by growth in commercial loan assets, which rose 64% from $303 million in 1992 to $496 million in 2011.

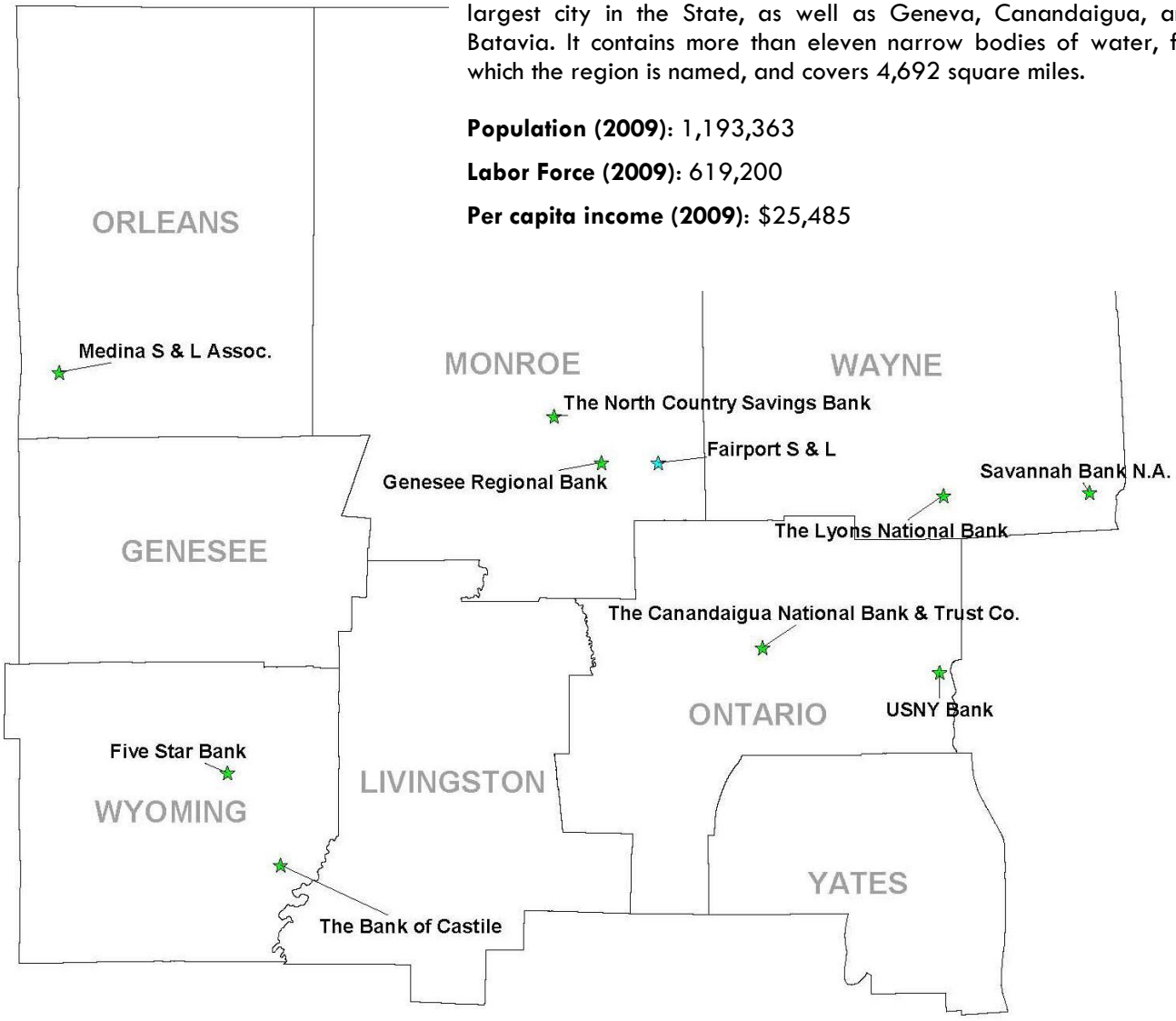
FINGER LAKES

The Finger Lakes region is comprised of nine counties: Monroe, Wayne, Seneca, Ontario, Yates, Livingston, Wyoming, Genesee, and Orleans. There are four major cities including Rochester, the third largest city in the State, as well as Geneva, Canandaigua, and Batavia. It contains more than eleven narrow bodies of water, for which the region is named, and covers 4,692 square miles.

Population (2009): 1,193,363

Labor Force (2009): 619,200

Per capita income (2009): $25,485



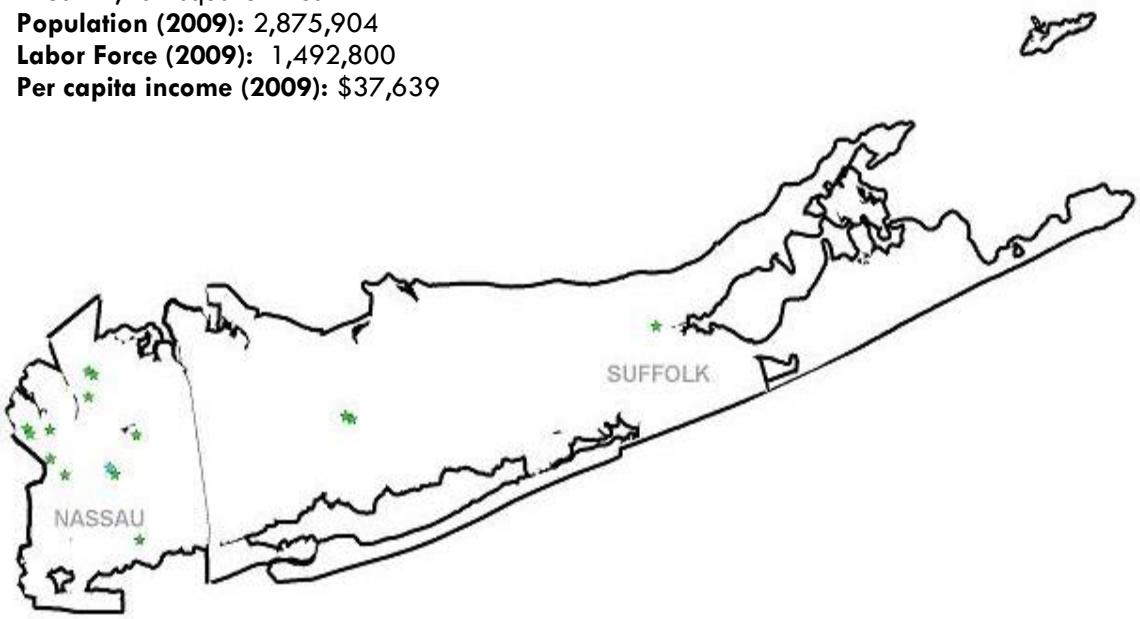
NYS Community Bank Headquarters

The number of community banks headquartered in the Finger Lakes region has declined by half in the past 20 years. Aggregate community bank assets decreased by 70% from $21.8 billion to $6.6 billion. Although loan assets declined significantly from $14.9 billion in 1992, they have increased in the past 10 years, growing 52% from $2.8 billion in 2001 to $4.4 billion in 2011.

LONG ISLAND

Long Island is located at the southern tip of New York State, just east of New York City. It stretches approximately 120 miles east and is surrounded by the Long Island Sound and the Atlantic Ocean. The region is comprised of Nassau and Suffolk counties.

Area: 1,202 square miles
Population (2009): 2,875,904
Labor Force (2009): 1,492,800
Per capita income (2009): $37,639



NYS Community Bank Headquarters

Nassau County Headquartered Banks

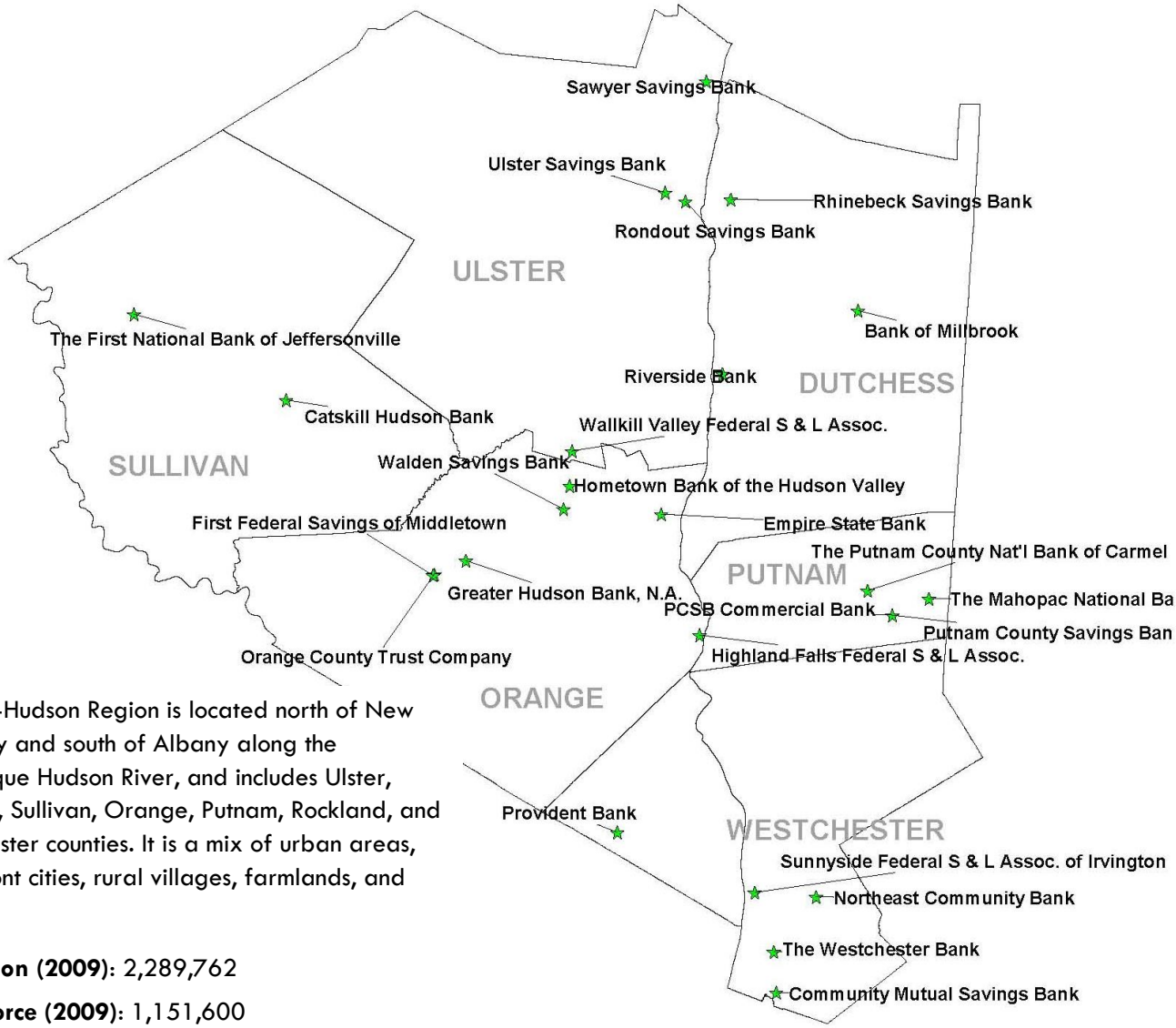
Apple Bank of Savings
New York Commercial Bank
The First National Bank of Long Island
State Bank of Long Island
Flushing Commercial Bank
First Central Savings Bank
Emigrant Savings Bank- Long Island
Community National Bank

Suffolk County Headquartered Banks

The Suffolk County National Bank of Riverhead
Empire National Bank
Gold Coast Bank

Community banks headquartered on Long Island experienced a 25% decline in loan assets over the past 20 years—from $33.8 billion in 1992 to $20 billion in 2011. Since 2001, however, these figures have remained fairly stable, supported by an upswing in commercial loan assets. Commercial loan assets totaled $3.8 billion in 2011, as compared to $2.4 billion in 1992.

MID-HUDSON REGION



The Mid-Hudson Region is located north of New York City and south of Albany along the picturesque Hudson River, and includes Ulster, Dutchess, Sullivan, Orange, Putnam, Rockland, and Westchester counties. It is a mix of urban areas, waterfront cities, rural villages, farmlands, and forests.

Population (2009): 2,289,762

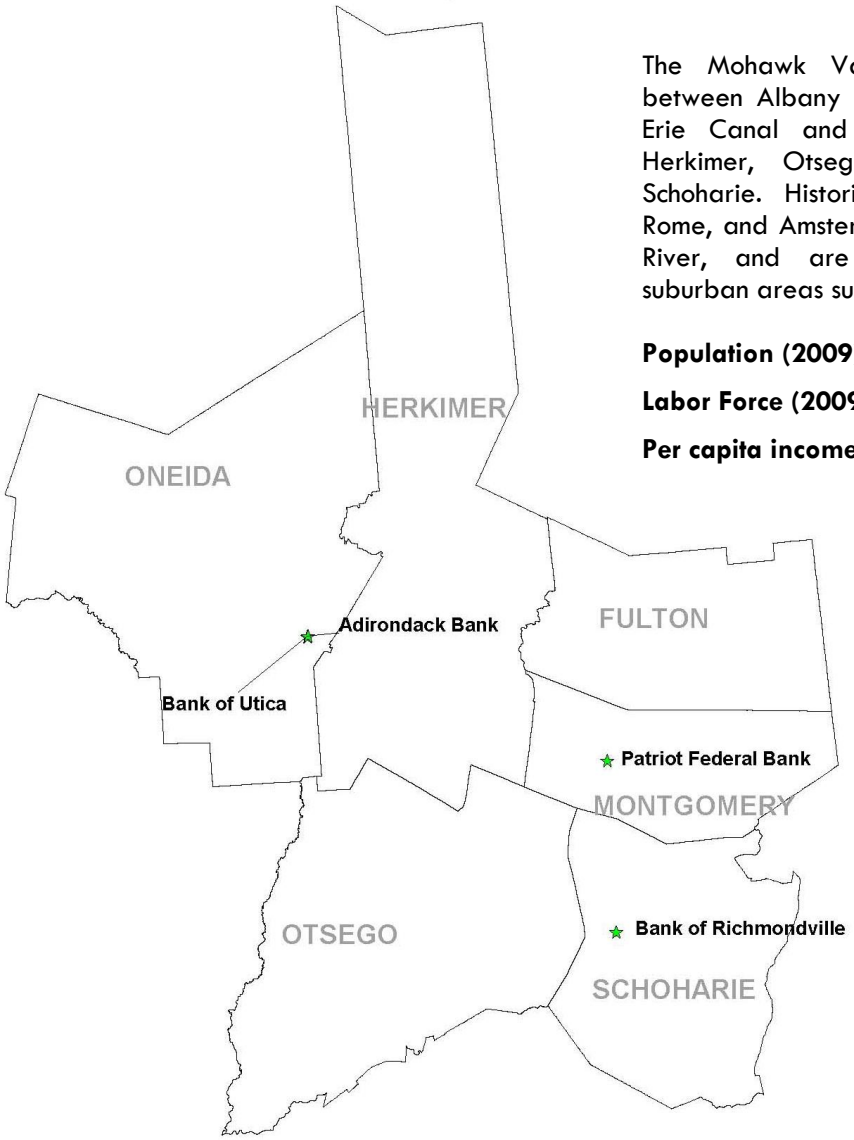
Labor Force (2009): 1,151,600

Per capita income (2009): $37,478

★ **NYS Community Bank Headquarters**

The Mid-Hudson Region had the highest number of community bank headquarters for any region outside of New York City in 2011. Although loan assets increased from $7.6 billion in 1992 to $8.5 billion in 2001, they subsequently declined to $6.8 billion in 2011. While 1-4 Family Residential loan assets decreased from $4.1 billion in 1992 to $2.6 billion in 2011, commercial loan assets increased from $1.5 billion to $2.2 billion for the same period.

MOHAWK VALLEY



The Mohawk Valley is strategically located between Albany and Syracuse along the scenic Erie Canal and spans six counties—Oneida, Herkimer, Otsego, Fulton, Montgomery and Schoharie. Historic urban centers such as Utica, Rome, and Amsterdam stretch along the Mohawk River, and are complemented by growing suburban areas such as New Hartford and Marcy.

Population (2009): 490,080

Labor Force (2009): 242,600

Per capita income (2009): $22,730

★ **NYS Community Bank Headquarters**

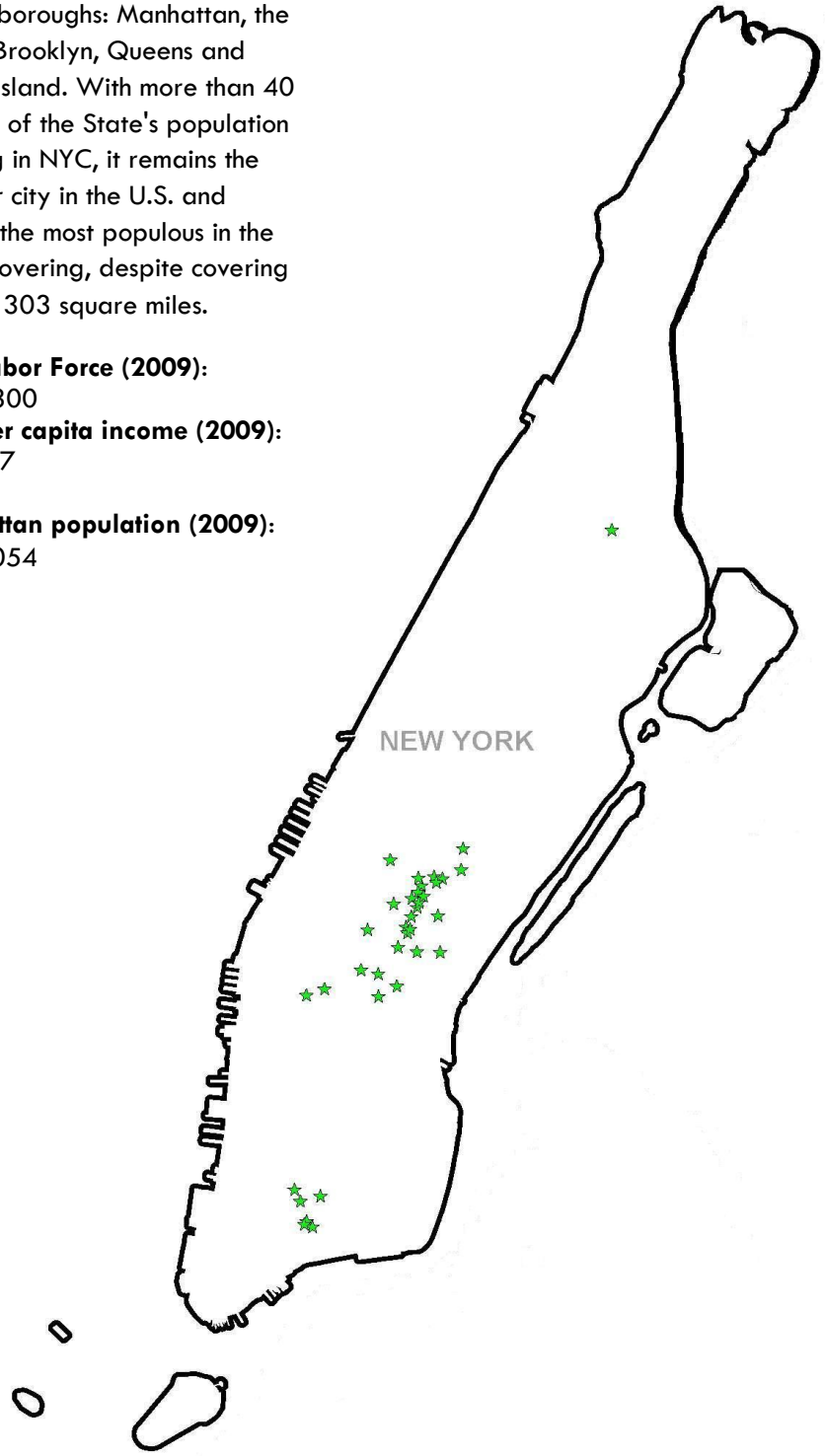
Community banks headquartered in Mohawk Valley experienced an increase in loan assets from 1992 to 2001, but have since seen a decline. Loan assets in 2011 totaled $456 million, as compared to $1.6 billion in 2001 and $1.4 billion in 1992. This reflects the impact of a large decrease in 1-4 Family Residential loan assets to $188 million in 2011, as compared to $794 million in 2001 and $641million in 1992.

NEW YORK CITY: MANHATTAN

New York City (NYC) is composed of five boroughs: Manhattan, the Bronx, Brooklyn, Queens and Staten Island. With more than 40 percent of the State's population residing in NYC, it remains the premier city in the U.S. and among the most populous in the world covering, despite covering a mere 303 square miles.

NYC Labor Force (2009):
3,984,300
NYC per capita income (2009):
$30,337

Manhattan population (2009):
1,629,054



★ **NYS Community Bank Headquarters**

Manhattan Headquartered Banks:

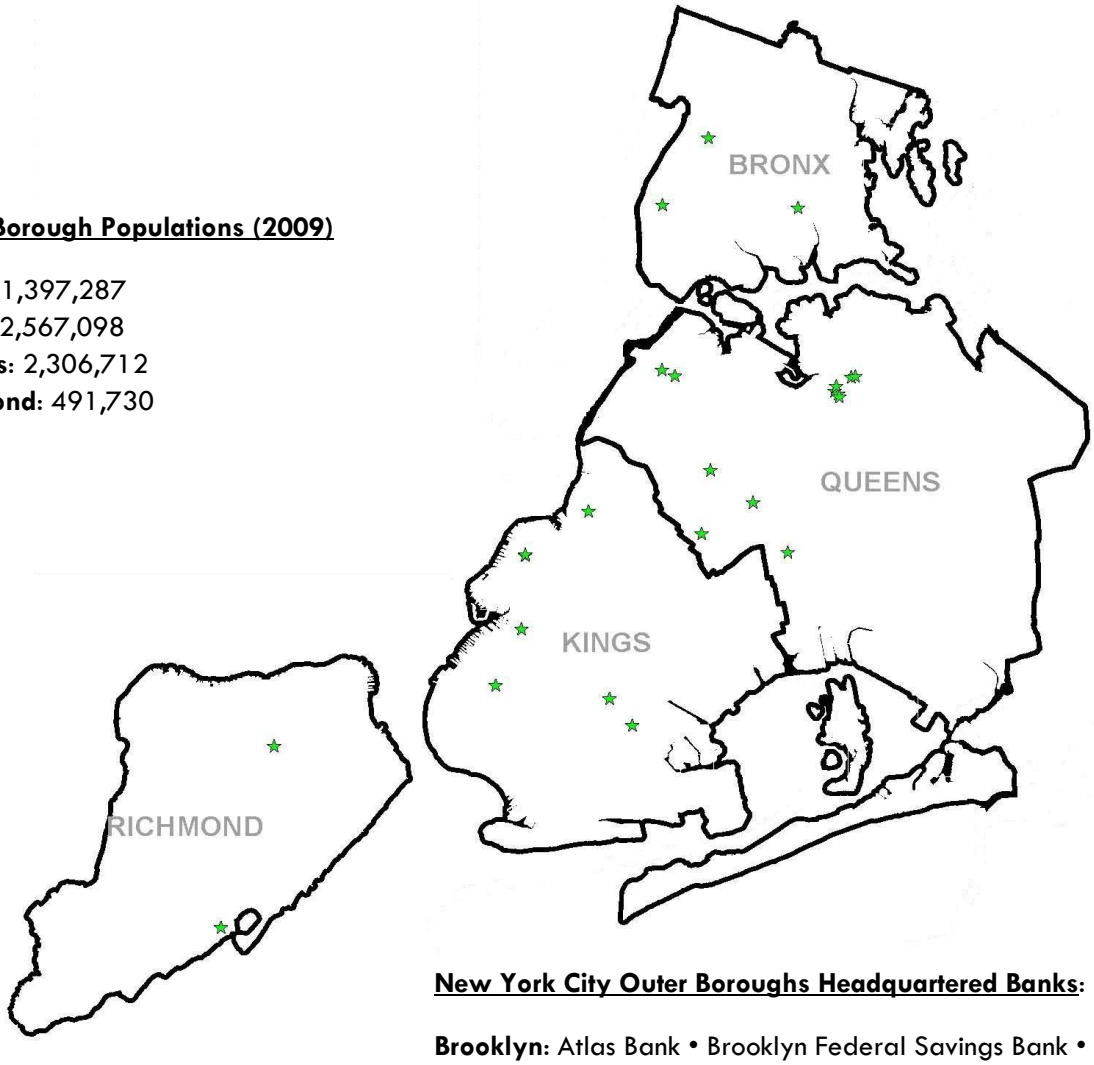
• Abacus Federal Savings Bank • Alpine Capital Bank • Amalgamated Bank • Banco Popular North American • Bank Hapoalim B.M. • Bank Leumi USA • Bank of Baroda • Bank of India • Bessemer Trust Company, N.A. • Carver Federal Savings Bank • Chinatown Federal Savings Bank • Country Bank • Delta National Bank and Trust Company • Eastbank, N.A. • Emigrant Bank • Emigrant Mercantile Bank • Emigrant Savings Bank • Fiduciary Trust Company International • Global Bank • Gotham Bank of New York • Habib American Bank • Herald National Bank • Interaudi Bank • Intervest National Bank • Isreal Discount Bank of New York • Metropolitan Bank and Trust Company • Metropolitan National Bank, Modern Bank, N.A. • Sterling National Bank • Safra National Bank of New York • Savoy Bank • Shinhan Bank American • State Bank of India • The Bank of East Asia (USA), N.A., The Bank of East Asia Ltd. • The Berkshire Bank • United Orient Bank • Woori America Bank

New York City has the highest number of community bank headquarters in the State, serving consumer and small businesses throughout the five boroughs. Although the aggregate assets of New York City's community banks dropped significantly from 1992 to 2001 (from $124 billion to $86 billion), assets have remained steady in the past ten years, totaling $89 billion in 2011. Similarly, while commercial loan assets declined from 1992 to 2001 (from $7.9 billion to $5.8 billion), they have since grown to $13 billion in 2011.

NEW YORK CITY: OUTER BOROUGHS

Outer Borough Populations (2009)

Bronx: 1,397,287
Kings: 2,567,098
Queens: 2,306,712
Richmond: 491,730



★ **NYS Community Bank Headquarters**

New York City Outer Boroughs Headquartered Banks:

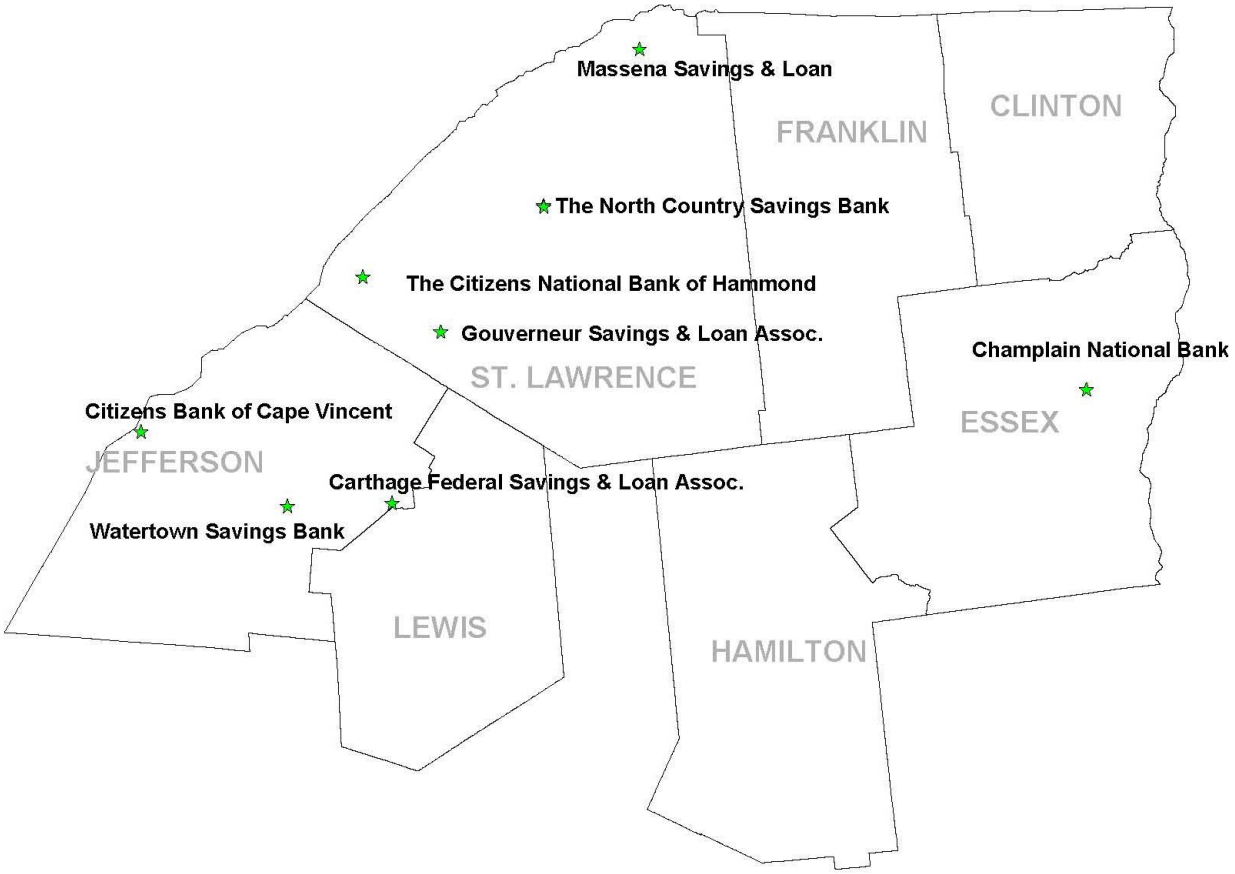
Brooklyn: Atlas Bank • Brooklyn Federal Savings Bank • Emigrant Savings Bank – Brooklyn/ Queens • Esquire Bank • First American International Bank • Flatbush Federal Savings and Loan Association

Bronx: Spring Bank • Emigrant Savings Bank- Bronx/ Westchester • Ponce De Leon Federal Bank

Queens: Alma Bank • Amerasian Bank • Asia Bank, N.A. • Community Federal Savings Bank • Cross County Federal Savings Bank • Flushing Savings Bank • Marathon National Bank of New York • Maspeth Federal Savings and Loan Association • National Bank of New York City • Newbank • Ridgewood Savings Bank • United International Bank

Staten Island: Northfield Bank • Victory State Bank

NORTH COUNTRY



NYS Community Bank Headquarters

The North Country is a large, rural region that spans from the eastern shores of Lake Ontario to the western shores of Lake Champlain and the northern part of the region adjacent to the Canadian border. It includes 7 counties and is anchored by two modest-sized cities: Watertown in the west and Plattsburgh in the east.

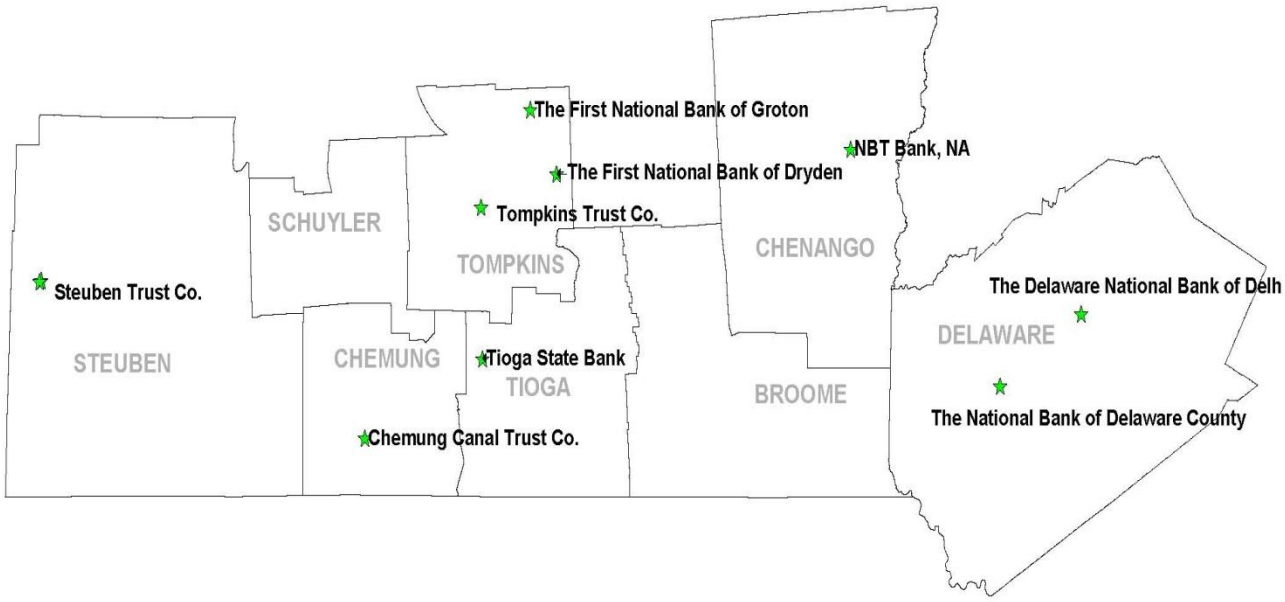
Population (2009): 429,092

Labor Force (2009): 197,100

Per capita income (2009): $21,211

Although the number of community banks headquartered in North Country has declined, loan assets held by these banks have increased significantly from $1.3 billion in 1992 to $4.4 billion in 2011. This growth has been driven by increased activity for both residential and commercial loans. Commercial loan assets increased by 442% from $152 million in 1992 to $824 million in 2011, while 1-4 Family Residential loan assets rose by 202% from $749 million to $2.3 billion for the same period.

SOUTHERN TIER



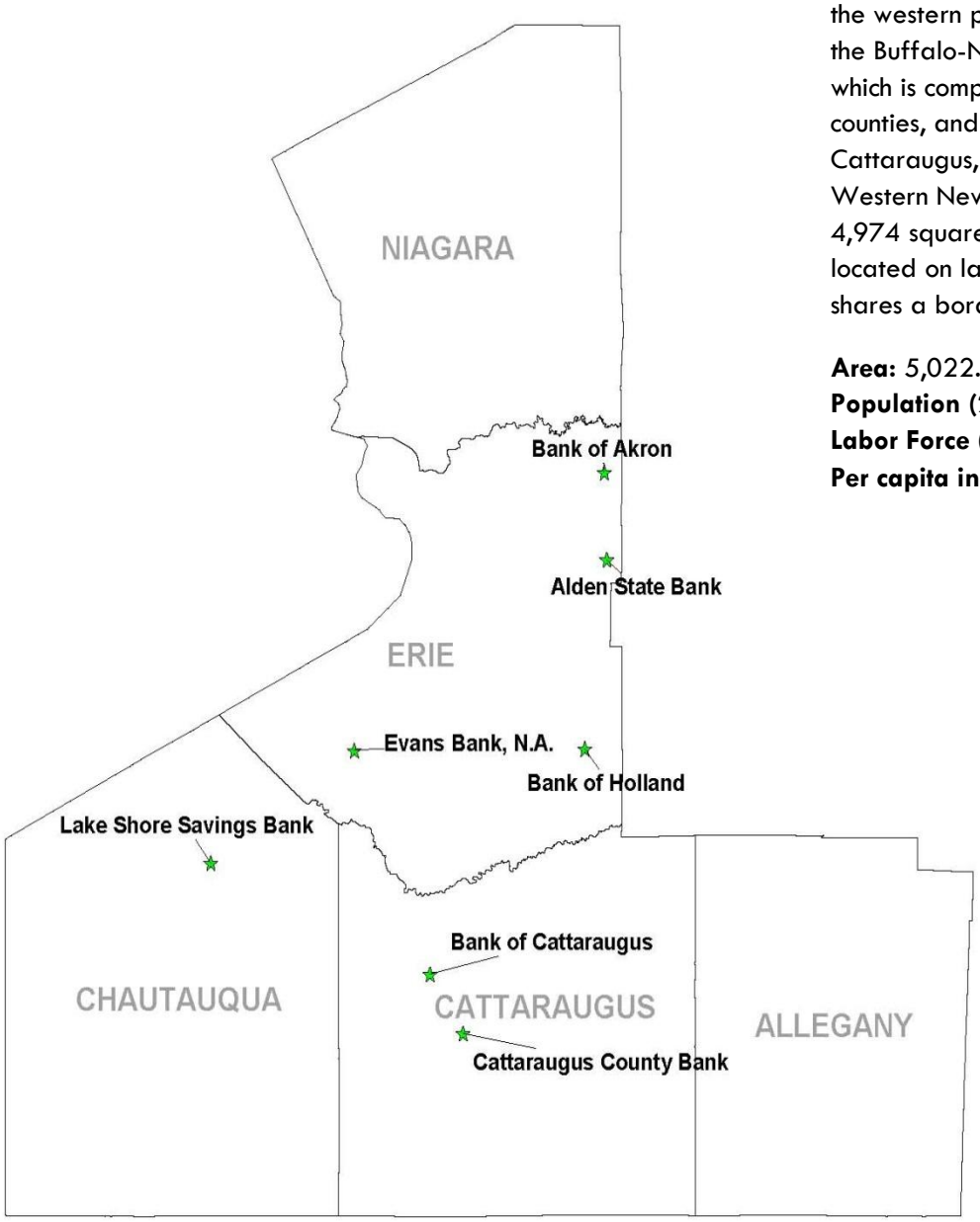
NYS Community Bank Headquarters

The Southern Tier is located on the Pennsylvanian border of New York State, lying northwest of New York City and southwest of Albany. Containing Broome, Chemung, Chenango, Delaware, Schuyler, Steuben, Tioga, and Tompkins counties, the region boasts some of the state's finest natural resources and agriculture, as well as significant educational institutions and manufacturing companies.

Population (2009): 646,210
Labor Force (2009): 325,200
Per capita income (2009): $23,516

Community banks headquartered in the Southern Tier have seen their total loan assets rise over the past 20 years. Loan assets grew 121% from $2.9 billion in 1992 to $6.4 billion in 2011. This reflects sizable growth in the number of residential and commercial loans. Commercial loan assets increased by 250% from $420 million in 1992 to $1.47 billion in 2011, while 1-4 Family Residential loan assets rose by 89% from $1.3 billion to $2.4 billion for the same period.

WESTERN NEW YORK



The Western New York Region is located in the western part of the State and includes the Buffalo-Niagara Metropolitan area, which is compromised of Erie and Niagara counties, and also includes Allegany, Cattaraugus, and Chautauqua counties. The Western New York (WNY) region covers 4,974 square miles. It is strategically located on lakes Eric and Ontario, and shares a border with Canada.

Area: 5,022.18 square miles
Population (2009): 1,396,153
Labor Force (2009): 719,500
Per capita income (2009): $24,837

Although total loan assets for community banks headquartered in Western New York have declined since 1992, commercial loan assets have remained steady in the past decade. Loan assets in 2011 totaled $1.9 billion, representing an 80% drop from $9.5 billion in 1992. Commercial loan assets dropped to $400 million in 2001 from $1.3 billion in 1992, but have since remained at that level, totaling $435 million in 2011.

★ **NYS Community Bank Headquarters**