

# **PUBLIC DISCLOSURE**

August 5, 1996

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Bank of Smithtown  
02-36-7210  
One East Main Street  
Smithtown, New York  
11787**

**Federal Reserve Bank of New York**

**33 Liberty Street**

**New York, New York 10045-0001**

**NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.**

## GENERAL INFORMATION

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Bank of Smithtown** ("Smithtown") prepared by the **Federal Reserve Bank of New York** on behalf of the Board of Governors of the Federal Reserve System, the institution's supervisory agency, as of August 5, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

**INSTITUTION'S CRA RATING:** This institution is rated "Satisfactory."

Over the examination review period of August 1, 1994 through June 30, 1996, Smithtown's performance with regard to the CRA is rated "Satisfactory." This determination was based on the following performance criteria: 1) a reasonable loan-to-deposit ratio of 65.32 percent; 2) a majority of its loans in its assessment area; 3) an excellent distribution of loans to borrowers of different income levels (including low- and moderate-income individuals) and businesses of different sizes given Smithtown's assessment area; and, 4) a reasonable geographic distribution of loans within the bank's assessment area.

The following table indicates the performance level of Smithtown with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	SMITHTOWN PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	No Complaints Were Received		

**DESCRIPTION OF INSTITUTION**

The Bank of Smithtown ("Smithtown") operates seven full service branches located in the Township of Smithtown in Suffolk County. Suffolk County is located in Western Long Island. The bank is part of Smithtown Bancorp., a bank holding company with Bank of Smithtown as its sole subsidiary. As of March 31, 1996, the bank had total assets of \$160.6 million with total loans of \$98.9 million. There are no financial or legal impediments to Smithtown servicing the credit needs of the consumers and small businesses in its assessment area.

Bank of Smithtown offers a wide variety of commercial and consumer products. The largest concentration of loans is in real estate, which include residential and commercial mortgages. As of March 31, 1996, approximately 65 percent or \$65.3 million of the bank's \$99.6 million in loans was for real estate.

### **DESCRIPTION OF SMITHTOWN'S ASSESSMENT AREA**

The following demographic and economic information was obtained from publicly available sources that include the United States Department of Commerce's Bureau of the Census and the United States Department of Labor.

Smithtown's assessment area is suburban in nature and part of the Nassau-Suffolk Metropolitan Statistical Area ("MSA.") The bank's current assessment area is approximately bounded by Smithtown Bay to the north, Brookhaven Township to the east, Islip Township and the Long Island Expressway to the south, and Huntington to the west. Specifically, the area consists of sixty-four census tracts within Smithtown Township and portions of Islip, Brookhaven, and Huntington.

Smithtown's assessment area appears reasonable and consists of the Townships of Smithtown and portions of the surrounding Townships of Huntington, Islip, and Brookhaven. Since last examination, the bank opened a branch in the western portion of Smithtown, which borders on the Township of Huntington, and as result, the bank expanded its assessment area within this township.

Based on the 1990 United States Census, of the sixty-four census tracts that encompass the bank's assessment area, seven are classified as low-and-moderate-income and the other fifty-seven census tracts are classified as middle-and upper-income. The 1996 United States Department of Housing and Urban Development's estimated median family income for Nassau-Suffolk MSA is \$56,726. The median family income for Smithtown's assessment area is \$59,002.

In 1990, the percentage and number of families in the assessment area with low-, moderate-, middle-, and upper-income consists of 13.2 percent or 10,384 low-income families, 18.8 percent or 14,774 moderate-income families, 28.3 percent or 22,293 middle-income families, and 39.7 percent or 31,185 upper-income families.

Families located in low-and moderate-income census tracts total 5,059 or 5.4 percent of all families in Smithtown's assessment area. Of the total 5,059 families residing low-and moderate-income census tracts, 2,690 or 53 percent are low-and moderate-income families.

The seven low-and-moderate-income census tracts contain 4,411 owner-occupied units, while the other fifty-seven census tracts contain 74,102 owner-occupied units. Of the total owner-occupied units, 74.44 percent (or 58,445 out of 78,513) are located in the middle-income census tracts. The percentage of individuals living in the low- and moderate-income census tracts within the assessment area is 8.33 percent (or 25,339 out of 304,208).

The bank's assessment area is generally a suburban community with a total population of 304,208 and a labor force of 166,611 persons. The bank's assessment area has a lower unemployment rate of 4.6 percent than New York State's 6.9 percent rate. There has been one percent growth in the MSA's population over the period of 1990 through 1993. The median housing value of the assessment area in 1990 was \$179,689, and the median housing age is 30 years. Of the 96,243 housing units within Smithtown's assessment area, 81.6 are owner-occupied. The Nassau-Suffolk MSA has a higher owner-occupancy rate of 74.6 percent than New York State's 48 percent rate.

The primary types of employers in the Nassau-Suffolk MSA are: services (36.4 percent); retail trade (20.4 percent); and manufacturing (14.4 percent). From 1990-1993, while there has been a 9.7 percent decline in employment in the manufacturing sector, per capita personal income has increased 5.6 percent. The service sector has shown the largest growth, growing 3.7 percent in the period 1990-1993.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The examination of Smithtown covered the period of August 1, 1994 through June 30, 1996. The "Satisfactory" rating is based on the favorable assessment of the bank's core performance criteria.

For the lending, income, and geographic distribution performance levels, the following number of loans were reviewed for the period August 1994 through June 1996: 69 housing-related, 169 consumer, and 160 small business loans.

### **Loan to Deposit Ratio**

Smithtown's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and the credit needs of its assessment area. The bank's loan-to-deposit ratio, based on information contained in its Consolidated Report of Condition and Income for the four most recent quarters ending March 31, 1996, was 65.32 percent. The national peer average was 68.35 percent in the March 31, 1996 Uniform Bank Performance Report. Although slightly below peer nationally, Smithtown's loan-to-deposit ratio was higher than the four quarter average of 48.54 percent achieved by similarly situated institutions.

### **Lending in Assessment Area**

During the examination review period, Smithtown originated a reasonable majority of its loans within its assessment area. While a majority of the bank's housing-related and consumer loans were made within its assessment area, a slight majority of its small business loans were outside of its assessment area.

Of the total loans sampled, 58.3 percent (or 232 out of 398) were found within the bank's assessment area. Of the housing-related and consumer loans, 68.1 percent (or 47 out of 69) and 67.5 percent (or 114 out of 169), respectively, were made within the bank's assessment area. However, only 44.4 percent (or 71 out of 160) of business and farm loans were made within the bank's assessment area.

**Lending to Borrowers of Different Income Levels and to Small Businesses of Different Sizes**

Smithtown's record of lending to borrowers of different income levels (including low- and moderate-income individuals) and small businesses of different sizes is excellent given the demographics of its assessment area. An analysis of the distribution of loans across income levels for each loan category is as follows:

**TABLE A**

**Distribution of Loans Within Assessment Area By Income Level of Borrower  
 August 1994 through June 1996**

	<b>Housing Related</b>	<b>Consumer</b>	<b>TOTAL</b>
<b>LOW INCOME:</b> <i>Less Than 50% of Median Income</i>			
Number	6	37	43
Percentage	12.8%	32.5%	26.7%
Amount(\$)	\$44,000	\$173,679	\$217,679
Percentage	3.1%	21.2%	9.7%
<b>MODERATE INCOME:</b> <i>At least 50% and less than 80% of Median Income</i>			
Number	15	29	44
Percentage	31.9%	25.4%	27.3%
Amount(\$)	\$326,000	\$231,966	\$557,966
Percentage	22.9%	28.3%	24.9%
<b>MIDDLE INCOME:</b> <i>At least 80% and less than 120% of Median Income</i>			
Number	11	24	35
Percentage	23.4%	21.1%	21.7%
Amount(\$)	\$66,000	\$185,299	\$251,299
Percentage	4.6%	22.6%	11.2%
<b>UPPER INCOME:</b> <i>120% or more of Median Income</i>			
Number	15	24	39
Percentage	31.9%	21.1%	24.2%
Amount(\$)	\$986,000	\$228,716	\$1,214,716
Percentage	69.3%	27.9%	54.2%

**TABLE B**  
**Distribution of Loans Within Assessment Area By Size of Business**  
**August 1994 through June 1996**

<b>Small Business and Farm Lending Summary</b>					
Number of loans to businesses	Number of loans to small businesses *	% of loans to small businesses	\$ amount of loans to businesses	\$ amount of loans to small businesses*	% of \$ amount to small businesses
79	57	72.2%	\$5,912,973	\$4,112,809	69.6%

\* Businesses with gross annual revenues of \$1 million or less.

Housing-Related

The bank's housing-related lending to borrowers of different income levels is excellent. Table A shows that loans to low- and moderate-income borrowers comprised 44.7 percent of the loans sampled, with loans to low-income borrowers representing 12.8 percent of the loans made. The overall proportion of loans originated to low- and moderate-income borrowers compares favorably to the demographics of the assessment area where low- and moderate-income families make up 33 percent of the population, with 13.2 percent of the population comprised of low-income families.

Consumer

The bank's consumer lending to borrowers of different income levels is excellent. Table A shows that loans to low- and moderate-income borrowers comprised 57.9 percent of the loans sampled, with loans to low-income borrowers representing 32.5 percent of the loans made.

Small Business and Farm

The bank's lending to small businesses and farms with revenues of \$1 million or less is excellent. Table B shows that 72.2 percent of the loans sampled were made to such small businesses. Further, of those loans, 86.1 percent were made to small businesses with gross annual revenues of \$100 thousand or less.

**Geographic Distribution of Loans**



Overall, Smithtown's geographic distribution of loans is reasonable. Although the bank delivered consumer and small business loans at a reasonable level in low- and moderate-income census tracts within the bank's assessment area, there were no housing-related loans within the such tracts. As has been previously noted, a majority of low- and moderate-income families live in the bank's middle- and upper-income geographies and the bank has an excellent record of distributing credit to low- and moderate-income borrowers. An analysis of the dispersion of lending for each loan category is as follows:

### Housing Related

With the exception of low- and moderate-income census tracts, there was a reasonable distribution of housing related loans in the bank's assessment area. Of the 47 loans in the bank's assessment area, most of which were for home improvement, none were originated in low- and moderate-income census tracts.

However, five percent of the families in the assessment area reside in low- and moderate-income census tracts with 53 percent of these families being low- and moderate-income.

### Consumer

An analysis of the sample of consumer loans shows that there is a reasonable geographic distribution of consumer loans throughout the bank's assessment area. A review of lending activity reveals that the bank extended consumer credit to a majority of its census tracts with 3 percent of the sampled loans made within the bank's low-and moderate-income census tracts.

### Small Business Loans

Analysis of the sample of small business loans shows that small business loans were made throughout the assessment area. A review of lending activity reveals that the bulk of small business lending was made to businesses located in census tracts near the bank's main branch. Of the small business loans originated in the bank's assessment area, 6.3 percent were made within low- and moderate-income census tracts.

## **Response to Complaints**

No complaints relating to Smithtown's CRA performance were received by Smithtown and no complaints have been filed with the Federal Reserve Bank of New York since the last examination. These complaints were promptly responded to by the bank.

Smithtown is in compliance with the substantive provisions of the antidiscrimination laws and regulations, including the Equal Credit Opportunity Act, the Fair Housing Act, and any agency regulations pertaining to nondiscriminatory treatment of credit applicants. Management has developed adequate policies, procedures, and training programs supporting nondiscrimination in lending and credit practices.