

PUBLIC DISCLOSURE

AUGUST 28, 2000

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

BANK OF SMITHTOWN

RSSD ID NO. 475215

ONE EAST MAIN STREET

SMITHTOWN, NEW YORK 11787

FEDERAL RESERVE BANK OF NEW YORK

33 LIBERTY STREET

NEW YORK, N.Y. 10045

NOTE: This document is an evaluation of this 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. 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.

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RSSD No.

475215

INSTITUTION

INSTITUTION'S CRA RATING: Bank of Smithtown is rated “**SATISFACTORY.**”

The satisfactory performance of Bank of Smithtown (“Smithtown”) with regard to the CRA and for the examination period of July 1, 1997, through June 30, 2000, is based on the following performance criteria:

- an excellent loan-to-deposit ratio;
- a majority of loans in the assessment area;
- a reasonable distribution of loans to borrowers of different income levels, including low- and moderate-income (“LMI”) individuals, and to businesses of different sizes; and
- poor geographic distribution of loans in the assessment area.

DESCRIPTION OF INSTITUTION

Bank of Smithtown is the sole subsidiary of Smithtown Bancorp, a bank holding company. It operates seven full-service branches in the township of Smithtown in Suffolk County, which is in the western part of Long Island, New York. As of June 30, 2000, the bank had total assets of \$303 million with total loans of \$209 million.

Smithtown offers various commercial and consumer products, but the largest concentration of loans (\$176 million or 84 percent) is real estate-related. That total includes \$50 million in residential property mortgages (24 percent of all loans) and \$126 million in commercial mortgages (60 percent). Commercial loans not secured by real estate totaled \$32 million (or 15 percent of all loans). Consumer loans totaled \$3 million (or 1.4 percent of all loans).

There are no financial or legal impediments preventing Smithtown from servicing the credit needs of the consumers and small businesses in its assessment area.

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DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The following demographic and economic information was obtained from publicly available sources that include the U.S. Department of Commerce's Bureau of Census, 1990, the Department of Labor, and the Department of Housing and Urban Development ("HUD").

Smithtown's assessment area is suburban in nature, and it is part of Primary Metropolitan Statistical Area ("PMSA") 5380 (Nassau-Suffolk, NY). The assessment area boundaries are marked by Smithtown Bay to the north, Brookhaven township to the east, Islip township to the south, and the township of Huntington to the west.

The assessment area consists of 75 census tracts located in Smithtown and portions of Brookhaven, Islip, and Huntington. Of the 75 tracts in the bank's assessment area, 2 tracts (or 3 percent) are classified as low-income, 7 (9 percent) are classified as moderate-income, 53 (71 percent) are classified as middle-income, and 13 (17 percent) are classified as upper-income tracts. Smithtown added two moderate-income census tracts to its assessment area since the previous examination.

The following map illustrates the bank's assessment area:

MAP OF ASSESSMENT AREA

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PERFORMANCE CONTEXT

Demographic Characteristics

According to the 1990 Census, the population in Smithtown's assessment area is 318,203, which is 12 percent of the PMSA population. The 1990 median family income for the assessment area is \$58,754. The 1999 HUD-adjusted median family income for Suffolk County is \$73,300. There are 82,470 families in the assessment area. Of the total number of families, 13.4 percent are low-income, 18.9 percent are moderate-income, 28.2 percent are middle-income, and 39.4 percent are upper-income. Two percent of the families in the assessment area have incomes below the poverty level.

Housing Characteristics

The assessment area contains 101,100 housing units of which 82 percent are owner-occupied. This is higher than the PMSA rate of 74 percent and the New York State owner-occupied housing rate of 48 percent. In LMI census tracts, 70 percent of the housing units are owner-occupied. Based on the 1990 Census, the median housing value is \$179,178 for the assessment area and \$186,209 for the PMSA. According to the National Association of Realtors, the 1999 median sales price of homes in Nassau and Suffolk Counties is \$190 thousand. The median housing age is 46 years in the PMSA and 34 years for the assessment area based on 1990 Census data.

Labor, Employment and Economic Characteristics

In Suffolk County, 32 percent of all businesses are service establishments, 16 percent are retail and 11 percent are involved in manufacturing. From 1990-1995, employment in the county's manufacturing sector declined 16 percent, while employment in the service sector increased 20 percent. According to Bureau of Labor Statistics data, the unemployment rate is 3.4 percent as of September 30, 2000, which is lower than the New York State jobless rate of 4.4 percent. There are 705 small business establishments in the nine LMI census tracts, which are in Smithtown's assessment area. The bank's assessment area contains 10,375 small businesses.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's satisfactory rating is based on an assessment of Smithtown's core performance criteria. For the lending, income, and geographic distribution performance levels, a sample of 457 loans originated during the review period (July 1, 1997 - June 30, 2000) were analyzed. The sample included 179 loans reported pursuant to the Home Mortgage Disclosure Act ("HMDA"), as well as 150 consumer loans and 128 business loans. Details of Smithtown's performance follow:

Loan-to-deposit Ratio

Smithtown's loan-to-deposit ratio was excellent given the bank's size, financial condition, and the credit needs of its assessment area. The bank's average loan-to-deposit ratio, based on its Consolidated Report of Condition and Income for the four most recent quarters ended June 30, 2000, is 81 percent. This ratio is in line with the national peer average of 81 percent and exceeds the local peer group average of 51 percent for banks of similar size as of June 30, 2000.

Lending in the Assessment Area

Smithtown originated a majority of its loans within its assessment area. Of the total number of loans sampled, 55 percent (252 of 457) were found in the bank's assessment area. While most of the bank's consumer loans were made within its assessment area, most of its business and HMDA-related loans were outside of its assessment area. Of the consumer loans, 71 percent (107 of 150) were made within the bank's assessment area. However, only 43 percent of the business loans (55 of 128) and 48 percent of the HMDA-related loans (86 of 179) were made in the bank's assessment area.

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

Overall, Smithtown's record of lending to borrowers of different income levels (including LMI individuals) and businesses of different sizes was reasonable given the demographics of its assessment area.

An analysis of the lending distribution in each loan category follows:

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EXHIBIT 1

Distribution of Loans in Assessment Area By Borrower Income Levels

July 1, 1997 – June 30, 2000

	HMDA- RELAT ED	CONSU MER	TOTAL S
LOW INCOME			
Less than 50% of Median Income			
Number	15	40	55
Percentage	17%	37%	28%
Amount (\$)	\$896,000	\$258,390	\$1,154,390
Percentage	9%	22%	10%
MODERATE INCOME			
At least 50% and less than 80% of Median Income			
Number	13	30	43
Percentage	15%	28%	22%
Amount (\$)	\$575,000	\$443,167	\$1,018,167
Percentage	6%	37%	9%
MIDDLE INCOME			
At least 80% and less than 120% of Median Income			
Number	22	17	39
Percentage	26%	16%	20%
Amount (\$)	\$1,767,000	\$230,233	\$1,997,233
Percentage	17%	19%	18%
UPPER INCOME			
120% or more of Median Income			
Number	36	20	56
Percentage	42%	19%	29%
Amount (\$)	\$6,868,000	\$251,020	\$7,119,020
Percentage	68%	21%	63%

EXHIBIT 2

Distribution of Loans in Assessment Area By Size of Business

July 1, 1997 – June 30, 2000

Small Business Lending Summary

Number of loans to businesses	Number of loans to <u>small</u> businesses*	% of loans to small businesses	\$ amount of loans to businesses	\$ amount of loans to <u>small</u> businesses*	% of \$ amount of loans to small businesses*
55	16	29%	\$8,912,326	\$1,889,745	21%

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

HMDA-related Loans

The bank's HMDA-related lending to borrowers of different income levels was good. Exhibit 1 shows that loans to LMI borrowers accounted for 32 percent of the loans sampled (28 of 86) while LMI families represent 32 percent of all families in the assessment area. Loans to low- and moderate-income borrowers totaled 17 and 15 percent of the loans sampled, respectively. The ratio of lending to low-income families closely reflected the demographics of the assessment area where 13 percent of all families are of low-income. The ratio of lending to moderate-income families was reasonably comparable to the demographics of the assessment area where 19 percent of families are of moderate income.

Consumer Loans

The bank's consumer lending to borrowers of different income levels was excellent. Exhibit 1 shows that loans to LMI borrowers accounted for 65 percent of the loans sampled (70 of 107) while LMI families represent 32 percent of all families in the assessment area. Loans to low- and moderate-income borrowers accounted for 37 and 28 percent of the loans sampled, respectively. These ratios compare favorably with the demographics of the assessment area where 13 percent of all families are low-income and 19 percent of families are moderate-income.

Small Business Loans

The bank's lending to businesses and farms with revenues of \$1 million or less was weak. As Exhibit 2 indicates, 29 percent of the loans sampled (16 of 55) were made to such businesses. There are 10,375 small business establishments in Smithtown's assessment area with gross annual revenues of \$1 million or less. This represents 88 percent of all business establishments in the bank's assessment area.

Approximately 51 percent of small business loans originated by Smithtown during the examination period were for amounts less than or equal to \$100 thousand. The average loan size was \$33 thousand, an amount that would meet the credit needs of smaller businesses.

Geographic Distribution of Loans

Overall, Smithtown's geographic distribution of loans was poor given the demographics of its assessment area. An analysis of the distribution of lending for each loan category follows:

HMDA-related Loans

The geographic distribution of the bank's HMDA-related lending was poor. Of the 86 sampled HMDA-related loans originated in the bank's assessment area, only 1 home improvement loan (1 percent) was originated in an LMI census tract. In comparison, 8 percent of owner-occupied housing units in the assessment area are located in LMI census tracts.

Consumer Loans

The geographic distribution of the bank's consumer loans was poor. Of the sampled consumer loans originated in the bank's assessment area, 5 percent were originated in LMI census tracts. In comparison, 11 percent of the assessment area population resides in LMI census tracts.

Small Business Loans

The geographic distribution of small business loans was excellent. Of the sampled small business loans originated in the bank's assessment area, 7 percent were originated in LMI census tracts. This ratio is in line with small business establishments located in LMI census tracts that comprise 7 percent of the business establishments in the assessment area. No loans were originated in low-income census tracts, but only three businesses operate in low-income census tracts.

Response to Complaints

Smithtown received no complaints relating to Smithtown's CRA performance, and no complaints have been filed with the Federal Reserve Bank of New York since the previous examination.

Smithtown is in compliance with the substantive provisions of the anti-discrimination 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.

CRA APPENDIX**GLOSSARY**

AREA MEDIAN INCOME: (1) The median family income for the MSA, if a person or geography (block numbering area or census tract) is located in an MSA; or (2), if a person or geography (census tract or block numbering area) is located outside an MSA, the statewide non-metropolitan median family income.

CONSUMER LOANS: Loans made to one or more individuals for household, family, or other personal expenditures. Consumer loans do not include loans reported under the Home Mortgage Disclosure Act.

CRA: Community Reinvestment Act.

HMDA: Home Mortgage Disclosure Act.

HMDA-RELATED LOANS: Loans reported by the bank under Regulation C, Home Mortgage Disclosure Act. They include home purchase mortgage loans, home improvement loans, and refinancings of such loans.

HUD: The United States Department of Housing and Urban Development.

LMI: Low- and moderate-income, as in LMI census tracts.

LOW-INCOME: An individual income that is less than 50 percent of the area median income (i.e., of the median family income for the MSA, if the individual is located in an MSA, or, if the individual is located outside an MSA, of the statewide non-metropolitan median family income), or a block number area (“BNA”) or census tract median family income that is less than 50 percent of the area median income. Accordingly, a low-income census tract is one in which the median family income is less than 50 percent of the area median income.

MIDDLE-INCOME: An individual income that is at least 80 percent and less than 120 percent of the area median income, or a BNA or census tract median family income that is at least 80 percent and less than 120 percent of the area median income.

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MODERATE-INCOME: An individual income that is at least 50 percent and less than 80 percent of the area median income, or a BNA or census tract median family income that is at least 50 percent and less than 80 percent of the area median income.

MSA: A metropolitan statistical area as defined by the director of the Office of Management and Budget.

PERFORMANCE CONTEXT: The economic and demographic characteristics of a bank's assessment area(s). The following information is considered to help understand the context in which an institution's performance should be evaluated: (1) the economic and demographic characteristics of the assessment area(s); (2) lending, investment, and service opportunities in the assessment area(s); (3) the institution's product offerings and business strategy; (4) the institution's capacity and constraints; (5) the prior performance of the institution, and in appropriate circumstance, the performance of similarly situated institutions; and (6) other relevant information.

PMSA: A primary metropolitan statistical area as defined by the director of the Office of Management and Budget.

SMALL BUSINESS LOANS: Such loans are defined in Regulation BB, Section 228.12 (u) with reference to the definition of such loans in the instructions for preparation of the Consolidated Report of Condition and Income. These instructions define small business loans as loans with original amounts of \$1 million or less that have been reported in Schedule RC-C, Part 1, (1.e)(4) of the report.

UPPER-INCOME: An individual income that is 120 percent or more of the median family income in an MSA or a census tract in which the median family income is 120 percent or more of the median family income in an MSA.

