

PUBLIC DISCLOSURE

August 13, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bank of Cattaraugus

RSSD No. 92902

**24 Main Street
Cattaraugus, New York 14719**

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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INSTITUTION'S CRA RATING: Bank of Cattaraugus is rated “**OUTSTANDING.**”

The outstanding performance of Bank of Cattaraugus with regard to the Community Reinvestment Act (“CRA”) is based on the following performance criteria:

- The bank’s loan-to-deposit ratio was reasonable.
- A substantial majority of the bank’s loans were made in the assessment area.
- Lending to borrowers of different income levels, including low-and moderate-income (“LMI”) individuals, and to businesses of different sizes showed excellent distribution.

DESCRIPTION OF INSTITUTION

Established in 1882, the Bank of Cattaraugus (“Cattaraugus”) operates a single office in the village of Cattaraugus, which is located within the municipality of New Albion in Cattaraugus County in southwestern New York State. Cattaraugus has only one office and it is not part of a holding company or affiliated with any other institution.

Cattaraugus extends the following types of credit: residential mortgage loans for one- to four-dwelling units, home improvement, consumer and commercial loans. As of December 31, 2006, the bank had total assets of \$12.4 million and net loans and leases of \$8.4 million. Loans secured by one-to four-family residential properties represent 95% of all real estate loans and 79% of net loans and leases.

There are no financial or legal factors that would prevent the bank from meeting the credit needs of its assessment area. Cattaraugus’ previous CRA examination was dated August 12, 2002, and the bank received an overall rating of outstanding.

DESCRIPTION OF THE ASSESSMENT AREA

The bank’s assessment area consists of three middle-income census tracts in Cattaraugus County, New York. Cattaraugus’ assessment area is rural in nature and not part of a Metropolitan Statistical Area (“MSA”). The assessment area has not increased in size since the prior CRA review. Cattaraugus’ one branch is centrally located within its three census tracts.

In addition, the three middle-income census tracts that comprise the bank’s assessment area have been designated as distressed middle-income tracts due to population loss, consistent with the designation of the majority of the census tracts in Cattaraugus County. A middle-income, nonmetropolitan geography will be designated as distressed if it is in a county that meets one or more of the following triggers: (1) an unemployment rate of at least 1.5 times the national average, (2) a poverty rate of 20 percent or more, or (3) a population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of five percent or more over the five-year period preceding the most recent census.

The assessment area does not arbitrarily exclude LMI geographies. A map illustrating Cattaraugus' assessment area is on page BB10.

SCOPE OF EXAMINATION

Cattaraugus was examined using the FFIEC small bank examination procedures. The examination review period covered August 12, 2002 to August 13, 2006. A sample of 207 loans originated between January 1, 2005 and December 31, 2006 was analyzed. The sample included 115 consumer loans, 48 small business loans, and 44 Home Mortgage Disclosure Act ("HMDA") related loans. Loans for analysis were selected using the Board of Governors' sampling procedures and data was verified as part of the onsite examination.

Examiners also conducted interviews with two community development organizations in order to gain an understanding of local credit needs. Both community organizations focused on economic development.

PERFORMANCE CONTEXT

The following demographic and economic information was obtained from publicly available sources that include U.S. Department of Commerce's Bureau of Census, 2000, the New York State Department of Labor, the U.S. Department of Housing and Urban Development ("HUD"), and the New York State Association of Realtors.

Demographic Characteristics

According to the 2000 census, the assessment area population totaled 13,631 and the population of Cattaraugus County totaled 83,955, a 0.3 percent decline in population for the county since 1990. Like many rural communities in the Northeast U.S., the county's population is aging as economic opportunities diminish.

Income Characteristics

According to HUD, the Non-MSA median family income for New York State was \$48,550 in 2005 and \$49,600 in 2006. Also, according to 2000 census data, the median family income for the assessment area was \$39,953, low in comparison to the median family income of \$51,691 for New York State.

Housing Characteristics

According to the 2000 Census, the assessment area contains 6,169 housing units, of which 65% are owner-occupied, 14% are rental, and 21% are vacant. The assessment area owner-occupied percentage is higher than the Non-MSA percentage of 56%, and considerably higher than the 49% reported by New York State.

Annual Median Home Sales Prices		
Area	2005	2006
Cattaraugus County	\$75,000	\$66,500

As shown in the table at left, the median sales price of existing single-family homes in Cattaraugus County decreased 11% between 2005 and 2006.

Source: New York State Association of Realtors as of July 2005 and July 2006

Exhibit 1 Assessment Area Demographics								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	639	18.0
Moderate-income	0	0.0	0	0.0	0	0.0	775	21.9
Middle-income	3	100.0	3,544	100.0	338	9.5	881	24.9
Upper-income	0	0.0	0	0.0	0	0.0	1,249	35.2
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	3	100.0	3,544	100.0	338	9.5	3,544	100.0
	Housing Units by Tract	Housing Types by Tract						
		Owner-occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate-income	0	0	0.0	0.0	0	0.0	0	0.0
Middle-income	6,169	4,004	100.0	64.9	895	14.5	1,270	20.6
Upper-income	0	0	0.0	0.0	0	0.0	0	0.0
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	6,169	4,004	100.0	64.9	895	14.5	1,270	20.6
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	0	0.0	0	0.0	0	0.0	0	0.0
Middle-income	344	100.0	303	100.0	22	100.0	19	100.0
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	344	100.0	303	100.0	22	100.0	19	100.0
Percentage of Total Businesses:				88.1		6.4		5.5

Labor, Employment and Economic Characteristics

The western New York State employment base has undergone substantial change over the past few decades. The regional economy once centered in manufacturing is now more diverse, with western New York now the second most diverse region in the State according to a recent analysis by the New York State Department of Labor. Service providing industries, excluding government, have added over 10,000 jobs between August 2003 and August 2006. Particularly, leisure and hospitality finance and insurance, and health care have increased. Furthermore, the gaming industry is a major employer in Western New York, with the Seneca Nation opening its second casino in Salamanca. Tourism is strong throughout the year because of Ellicottville's Holiday Valley ski resort and Allegany State Park.

While manufacturing has declined, it is still the largest business sector in Cattaraugus County. Olean in Cattaraugus County is the headquarters of Dresser-Rand, a producer of gas turbines for the energy industry, as well as the international headquarters of CUTCO Cutlery.

Unemployment in Cattaraugus County is slightly above New York State at 5.1% in 2006, down from 5.4% in 2005. The New York State unemployment figures, for the same period, were 4.9% in 2006, and 5.1% in 2005, respectively.

Non-farm business establishments in the assessment area total 344, of which 88% have gross annual revenues of \$1 million or less. Exhibit 1 provides additional assessment area demographic information.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Cattaraugus' overall outstanding rating is based on an assessment of the bank's core performance criteria. Details follow:

Loan-to-deposit Ratio

The loan-to-deposit ratio was reasonable given the bank's size, financial condition and the credit needs of its assessment area. The average loan-to-deposit ratio for the nineteen most recent quarters ending December 31, 2006 was 71%, based on information contained in the Consolidated Report of Condition and Income. This ratio was above the national peer average of 66% for similarly sized banks and comparable to the local peer group's average loan-to-deposit ratio of 71%, representing four similarly sized banks located in the region during the same time period.

Lending in the Assessment Area

Cattaraugus originated a substantial majority of its loans, 96%, in its assessment area. Specifically, 93% of its HMDA-related loans, 96% of its consumer loans, and 100% of its commercial loans were made within Cattaraugus' assessment area.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Overall, Cattaraugus' record of lending to borrowers of different income levels, including LMI individuals, and businesses of different sizes was excellent given the demographics of the assessment area. An analysis of the lending distribution in each loan category follows:

EXHIBIT 2			
DISTRIBUTION OF LOANS IN ASSESSMENT AREA BY INCOME LEVEL OF BORROWER			
January 1, 2005 – December 31, 2006			
	HMDA-RELATED	CONSUMER*	<u>TOTAL</u>
LOW-INCOME: Less than 50% of Median Income			
Number	5	45	50
Percentage	12.2%	41.7%	33.6%
Amount (\$)	\$109,000	\$171,000	\$280,000
Percentage	6.4%	25.6%	11.9%
MODERATE-INCOME: At least 50% & less than 80% of Median Income			
Number	10	27	37
Percentage	24.4%	25%	24.8%
Amount (\$)	\$278,000	\$143,000	\$421,000
Percentage	16.4%	21.4%	17.8%
MIDDLE-INCOME: At least 80% & less than 120% of Median Income			
Number	15	16	31
Percentage	36.6%	14.8%	20.8%
Amount (\$)	\$701,000	\$100,000	\$801,000
Percentage	41.5%	14.9%	33.9%
UPPER-INCOME: 120% or more of Median Income			
Number	11	20	31
Percentage	26.8%	18.5%	20.8%
Amount (\$)	\$604,000	\$255,000	\$859,000
Percentage	35.7%	38.1%	36.4%

* The table does not include 2 consumer loans for which the income was unknown.

HMDA-related Loans

HMDA-related lending to borrowers of different income levels was excellent. As shown in Exhibit 2, 12% of Cattaraugus’ loans were to low-income borrowers compared to 18% of low-income families residing in the assessment area. The aggregate’s performance reflects the challenges due to the limited lending opportunities in the assessment area. In addition, 24% of Cattaraugus’ housing-related lending was to moderate-income borrowers while 22% of all families in the assessment area are moderate-income.

Consumer Loans

Consumer lending to borrowers of different income levels was excellent. Exhibit 2 shows 42% of consumer loans were to low-income borrowers compared to 18% of all families in the assessment area that are low-income. In addition, 25% of consumer loans were to moderate-income borrowers compared to 22% of all families in the assessment area that are moderate-income.

Small Business Loans

Lending to businesses with Gross Annual Revenues (“GAR”) of \$1 million or less was excellent. As shown in Exhibit 3 below, 100% of Cattaraugus’ small business loans went to businesses with GAR of \$1 million or less. In comparison, 88% of all business establishments in Cattaraugus’ assessment area have GAR of \$ 1 million or less.

Exhibit 3 Distribution of Loans in Assessment Area by Size of Business* January 1, 2005 – December 31, 2006					
Number of loans to businesses	Number of loans to <u>small</u> businesses*	% of loans to <u>small</u> businesses	\$ amount of loans to businesses	\$ amount of loans to <u>small</u> businesses*	% of \$ amount of loans to <u>small</u> businesses*
45	45	100%	\$656,000	\$656,000	100%

*The table does not include three small business loans for which the revenue was unknown

In addition 44 or 98% of loans to small businesses were in amount of \$100,000 or less. The average loan size was \$11,000, an amount reflecting the credit needs of smaller businesses.

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

Geographic Distribution of Loans

The geographic distribution of loans was not evaluated as the bank's assessment area is made up of three middle-income census tracts and has no LMI tracts. Loans were originated in all three middle-income census tracts.

Response to Complaints

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

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices, including the Equal Credit Opportunity Act and the Fair Housing Act, was identified as being inconsistent with helping to meet community credit needs.

CRA APPENDIX A

GLOSSARY

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

Geography: A census tract or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (“HMDA”): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and income of applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes, and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100% tabulations, the count of households always equals the count of occupied housing units.

Low-income: Individual income that is less than 50% of the area median income, or a median family income that is less than 50%, in the case of a geography.

Metropolitan area (“MA”): A metropolitan statistical area (“MSA”) or a metropolitan division (“MD”) as defined by the Office of Management and Budget. A MSA is a core area containing

at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

Middle-income: Individual income that is at least 80% and less than 120% of the area median income, or a median family income that is at least 80% and less than 120%, in the case of a geography.

Moderate-income: Individual income that is at least 50% and less than 80% of the area median income, or a median family income that is at least 50% and less than 80%, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

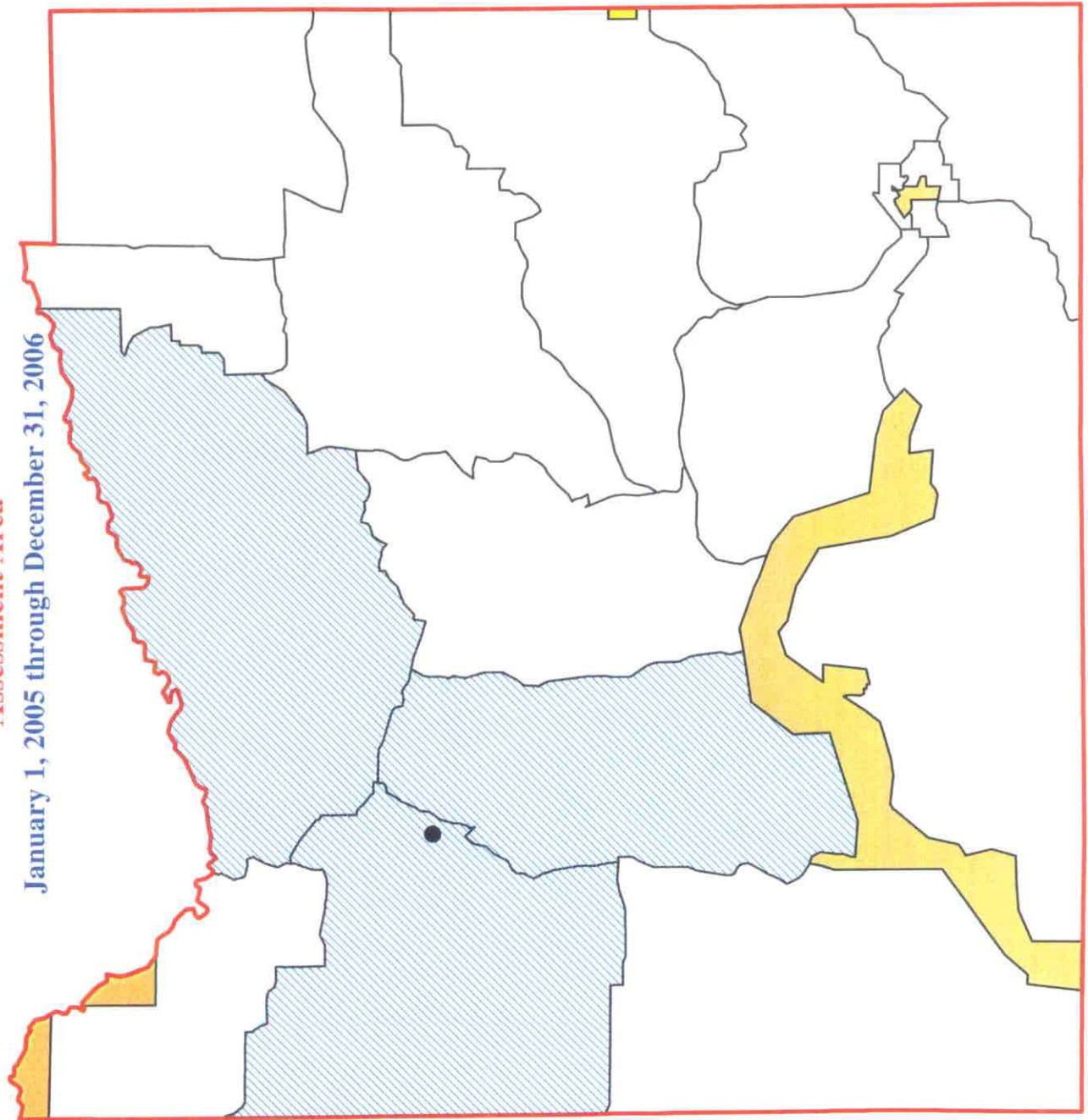
Small loan(s) to business(es): A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income ("Call Report") and the Thrift Financial Reporting ("TFR") instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Upper-income: Individual income that is more than 120% of the area median income, or a median family income that is more than 120%, in the case of a geography.

Bank of Cattaraugus

Assessment Area

January 1, 2005 through December 31, 2006



Legend

- Low Income Tracts
- Moderate Income Tracts
- 2000 Census Tracts
- County
- Assessment Area
- Branch

Cattaraugus

