

# **PUBLIC DISCLOSURE**

March 10, 2008

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**CHEMUNG CANAL TRUST COMPANY  
RSSD No. 884303**

**One Chemung Canal Plaza  
Elmira, NY 14901**

**FEDERAL RESERVE BANK OF NEW YORK**

**33 LIBERTY STREET  
NEW YORK, NY 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:** Chemung Canal Trust Company (“Chemung”) is rated “**OUTSTANDING.**”

The following table indicates the performance level of the institution with respect to the lending and community development tests:

PERFORMANCE LEVELS	PERFORMANCE TESTS	
	Lending Test	Community Development Test
Outstanding		<b>X</b>
Satisfactory	<b>X</b>	
Needs-to-improve		
Substantial Noncompliance		

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

- The bank’s community development performance demonstrates excellent responsiveness to community development needs of its assessment areas through community development loans, qualified investments, and community development services, as appropriate, considering the bank’s capacity and the need and availability of such opportunities for community development in the bank’s assessment areas.
- A substantial majority of loans were made in the assessment areas.
- The overall geographic distribution of loans reflects excellent dispersion throughout the assessment areas.
- The distribution of loans to borrowers of different incomes and businesses of different sizes was reasonable.
- The bank’s loan-to-deposit ratio was reasonable.

**DESCRIPTION OF INSTITUTION**

Chemung is a New York State-chartered bank that is a wholly-owned subsidiary of Chemung Canal Financial Corporation. Established in 1833, Chemung is headquartered in Elmira, New York. Chemung provides full-service banking and trust services to commercial and consumer customers. As of December 31, 2007, the bank reported total assets of \$786 million, with total net loans and leases of \$531 million and total deposits of \$573 million. These deposits were located within 17 full-service branch offices in the Southern Tier of New York State.

Chemung's market is highly competitive with numerous local, regional and multinational banks, mortgage companies, credit unions and other financial institutions operating in its assessment areas. Chemung's primary bank competitors include Manufacturers and Traders Trust Company, HSBC Bank NA, Elmira Savings Bank, Community Bank NA, Five Star Bank and Tioga State Bank.

## **DESCRIPTION OF THE ASSESSMENT AREAS**

Chemung has four assessment areas that consist of the following:

- **MSA 21300 (Elmira, NY)**, consisting of Chemung County, NY.
- **Two Non-MSA Counties**, consisting of Schuyler County and the eastern portion of Steuben County, NY.
- **MSA 13780 (Binghamton, NY)**, consisting of the City of Binghamton located in Broome County, and Tioga County, both in NY.
- **MSA 27060 (Ithaca, NY)**, consisting of Tompkins County, NY.

The assessment area expanded since the previous examination to include three additional census tracts in Southern Steuben County as well as the entire county of Tompkins and the City of Binghamton, NY. Two new branches opened in Tompkins County in November 2005 and June 2006. In addition, a branch opened the City of Binghamton in September 2007.

In reaching a conclusion about the bank's overall performance within an individual assessment area, products were weighted based on their volume in that area. Chemung's performance in MSA 21300 (Elmira, NY) and the two Non-MSA Counties received the most weight in determining the bank's overall rating because of their concentration of branches, branch deposits, and lending. For example, 64% of Chemung's branch deposits are located in MSA 21300, while 23% of Chemung's branch deposits are located in the Non-MSAs. Accordingly, MSA 21300 (Elmira, NY) and the two Non-MSA counties received full-scope reviews, while MSA 13780 (Binghamton, NY) and MSA 27060 (Ithaca, NY) received limited-scope reviews. See Exhibit 1 on the following page for additional details.

<b>EXHIBIT 1: Summary of Key Assessment Area Data</b>					
<b>Key Data</b>	<b>MSA 21300</b>	<b>Non- MSA</b>	<b>MSA 13780</b>	<b>MSA 27060</b>	<b>Totals</b>
<b>Total Population<sup>1</sup></b>	91,070	69,733	99,164	96,501	356,468
Population % of AA population	25%	20%	28%	27%	100%
<b>Families</b>	23,461	31,564	65,057	19,259	139,341
Families % of AA families	17%	22%	47%	14%	100%
<b>Total Census Tracts<sup>1</sup></b>	23	20	26	23	92
Tracts % AA tracts	25%	22%	28%	25%	100%
<b>LMI tracts</b>	6	0	11	5	22
LMI tracts % all AA LMI tracts	27%	0%	50%	23%	100%
<b>Total Owner-Occupied Units<sup>1</sup></b>	24,159	20,365	24,414	19,583	88,521
Units % of AA units	27%	23%	28%	22%	100%
<b>Business Establishments<sup>2</sup></b>	2,693	2,258	3,180	3,428	11,559
Bus. est. % AA bus. est.	23%	20%	27%	30%	100%
<b>Number of Branches<sup>3</sup></b>	7	5	3	2	17
Branches % all branches	41%	29%	18%	12%	100%
<b>Branches in LMI tracts</b>	1	0	1	1	3
LMI branches % AA LMI branches	33%	0%	33%	33%	100%
<b>Branch Deposits (\$'000s)<sup>4</sup></b>	381,327	137,049	60,525	18,837	597,738
Deposits % AA deposits	64%	23%	10%	3%	100%
<b>Deposit Market Share (%) / Rank in Mkt.</b>	30.1/1	14.8/3	2.4/7	1.4/10	22.0/1
<b>Home Purchase Originations<sup>5</sup></b>	306	192	61	157	716
HP originations % AA orig.	43%	27%	8%	22%	100%
<b>Refinance Originations<sup>5</sup></b>	238	134	51	90	513
Refi orig. % AA orig.	46%	26%	10%	18%	100%
<b>Home Improvement Originations<sup>5</sup></b>	443	201	92	25	761
HI orig. % AA orig.	58%	27%	12%	3%	100%
<b>Small Business Originations<sup>5</sup></b>	404	157	56	41	658
SB orig. % AA orig.	61%	24%	9%	6%	100%
<b>Combined Loan Totals<sup>5</sup></b>	1,391	684	260	313	2,648
<b>% of AA Originations</b>	52%	26%	10%	12%	100%

(1) U.S. Census Data for 2000.  
(2) Source: 2006 Dun & Bradstreet  
(3) Number of branches as of 12/31/07  
(4) Source: FDIC summary of deposit data as of 6/30/2007.  
(5) Originations include originations from October 1, 2005 - December 31, 2007

## **SCOPE OF EXAMINATION**

### Procedures

Chemung was examined using the Federal Financial Institutions Examination Council's CRA *Intermediate Small Bank Examination Procedures*. A sample of 618 loans was analyzed for performance criteria related to lending in the assessment areas, borrower income and geographic distribution. The sample included 155 small business loans reported under the CRA and 463 loans reported under the Home Mortgage Disclosure Act ("HMDA"). Loans for analysis were selected using the Board of Governors' sampling procedures and data was verified as part of the onsite examination.

### Products

Home purchase, refinance, home improvement and small business loans were evaluated for purposes of assessing Chemung's CRA performance.

### Examination Period

The evaluation period for HMDA-related and small business loans included originations between October 1, 2005 through December 31, 2007. Examiners also reviewed activities pertaining to the community development test covering the same period.

### Lending Distribution Analysis

In order to evaluate the geographic distribution of HMDA-related loans, the proportion of loan originations in low- and moderate- income ("LMI") geographies was compared with the proportion of owner-occupied units in LMI and non-LMI geographies. Small business loan analysis compared the proportion of lending to businesses in LMI and non-LMI geographies with the proportion of businesses in LMI and non-LMI geographies. Given that the Non-MSA had no low-income tracts and only one moderate-income tract for which the aggregate made only 92 loans, performance was weighted primarily toward activity in MSA 21300.

In order to analyze the borrower distribution of HMDA-related loans, the proportion of originations to LMI borrowers was compared with the proportion of LMI families in the assessment areas. The U.S. Department of Housing and Urban Development ("HUD") adjusted median family income figures for 2006 and 2007 were used to categorize borrower income levels for 2006 and 2007, respectively. The analysis of small business loans compared the proportion of loan originations extended to businesses with gross annual revenues ("GAR") of \$1 million or less with the proportion of businesses with GAR of \$1 million or less. 2006 Dun and Bradstreet data were used for demographic information relating to the proportion of businesses with GAR of less than or equal to \$1 million. The size of the small business loan was also used as a proxy to identify lending to businesses with GAR of \$1 million or less. In addition, for both geographic and borrower distribution, comparisons were made to the most recent performance data available (2006) for the aggregate of all other loan reporters.

Only loans inside the bank's assessment areas were included in the analysis of geographic and borrower distribution. Product weightings within each assessment area were applied to the conclusions for geographic distribution and borrower characteristics. The comparison of a product's volume with total retail lending volume in the assessment area determined the weight of a product's performance in the overall conclusion.

Examiners also met with three community organizations during this examination to obtain information regarding performance context elements in the assessment areas. One organization focused on affordable housing for LMI individuals while the other two promoted economic development through lending programs to small businesses.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS**

### **LENDING TEST**

Chemung's record of meeting the credit needs of its assessment areas through its lending performance is rated satisfactory. Chemung originated a substantial majority of its loans within its assessment areas and its loan-to-deposit ratio was reasonable. The overall distribution of its loans among borrowers of different income levels and businesses of different sizes was reasonable. The geographic distribution of HMDA-related and small business loans reflected excellent penetration throughout the bank's assessment areas.

#### *Loan-to-Deposit Ratio*

Chemung's loan-to-deposit ratio was reasonable given the bank's financial condition, size, and the credit needs of its assessment areas. Chemung's average loan-to-deposit ratio for the nine most recent quarters ending December 31, 2007 was 82%, based on information contained in the *Consolidated Report of Condition and Income*. The bank's ratio was below the national peer average of 87% for similarly-sized banks but above an average of 74% for four similarly-situated banks with branches in Chemung's assessment areas during the same time period.

#### *Lending in the Assessment Areas*

Chemung originated a substantial majority of its loans in its assessment areas. Of the 463 HMDA loans and 155 small business loans in the sample originated during the examination period, 423 or 91% of the HMDA loans and 149 or 96% of the small business loans were extended to individuals and businesses in the bank's assessment areas.

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

The overall distribution among borrowers of different income levels and businesses of different sizes was satisfactory based on excellent performance in MSA 21300 (Elmira, NY) and reasonable performance in the Non-MSA assessment area.

Geographic Distribution of Loans

The overall geographic distribution of loans reflected excellent penetration in LMI geographies throughout Chemung's assessment areas. Performance in MSA 21300 (Elmira, NY) was excellent. Performance in the Non-MSA assessment area reflected reasonable distribution.

Response to Complaints

No complaints were received by Chemung 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.

**COMMUNITY DEVELOPMENT TEST**

Chemung's community development performance demonstrated excellent responsiveness to the community development needs of its assessment areas through community development loans, investments, and services. This assessment considers Chemung's capacity and the availability of such opportunities for community development in the bank's assessment areas.

Community Development Loans and Investments

<b>Community Development Lending &amp; Qualified Investments</b>		
<b>Purpose</b>	<b>#</b>	<b>\$(000s)</b>
Affordable Housing	0	0
Community Services	152	26,540
Economic Development	2	8
Revitalize/Stabilization	3	1,048
<b>Totals</b>	<b>157</b>	<b>27,596</b>

Chemung's overall community development performance was outstanding, totaling approximately \$28 million. Performance was excellent in MSA 21300 (Elmira, NY) and in the Non-MSA assessment area. Community development activities consisted of nearly \$18 million in community development loans and nearly \$10 million in qualified investments. Community development activities were responsive to the assessment areas' credit

needs as identified by community groups. Additionally, Chemung made \$241 thousand in grants and donations to organizations providing community development services that sponsor affordable housing and economic development activities throughout its assessment areas. As noted in the above table, community development efforts primarily targeted community services for LMI individuals. The services were provided by non-profit organizations across the Southern Tier of New York State.

Community Development Services

Chemung is a leader in providing community development services and hosting educational seminars to various organizations that furnish community development services to LMI individuals. Performance was excellent in both full scope assessment areas.



Twenty-five bank officers and staff members and two of the bank's directors serve on the boards and committees of 33 community development organizations. Of these organizations, 14 were in the Elmira MSA (21300), 14 were in the Non-MSA assessment area, 1 was in Binghamton, and 4 targeted wider regional areas, such as the Southern Tier of New York, which includes Chemung's assessment areas.

#### **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

The bank is in compliance with the substantive provisions of the anti-discrimination laws and regulations. No credit practices were identified as being inconsistent with helping to meet the credit needs of the assessment area.

## METROPOLITAN AREA

### FULL SCOPE REVIEW

#### MSA 21300 (ELMIRA, NY)

#### DESCRIPTION OF OPERATIONS

As of December 31, 2007, Chemung operated 7 branches in the Elmira MSA, representing 41% of its total number of branches. These branches contained \$381 million in deposits, or 64% of Chemung's total branch deposits in New York State as of June 30, 2007. In addition, 52% of Chemung's total retail loans were originated in the Elmira MSA during the review period. For additional assessment area data, see Exhibits 1 and 2.

EXHIBIT 2								
Assessment Area Demographics								
Assessment Area: MSA 21300 Elmira, NY								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	2	8.7	438	1.9	167	38.1	4,313	18.4
Moderate-income	4	17.4	3,155	13.4	665	21.1	4,377	18.7
Middle-income	13	56.5	14,210	60.6	1,158	8.1	5,498	23.4
Upper-income	3	13.0	5,658	24.1	152	2.7	9,273	39.5
Unknown-income	1	4.3	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>23</b>	<b>100.0</b>	<b>23,461</b>	<b>100.0</b>	<b>2,142</b>	<b>9.1</b>	<b>23,461</b>	<b>100.0</b>
	Housing Units by Tract	Housing Types by Tract						
		Owner-occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	1,393	107	0.4	7.7	1,035	74.3	251	18.0
Moderate-income	6,366	2,351	9.7	36.9	3,292	51.7	723	11.4
Middle-income	22,153	15,310	63.4	69.1	5,424	24.5	1,419	6.4
Upper-income	7,830	6,391	26.5	81.6	1,136	14.5	303	3.9
Unknown-income	3	0	0.0	0.0	3	100.0	0	0.0
<b>Total Assessment Area</b>	<b>37,745</b>	<b>24,159</b>	<b>100.0</b>	<b>64.0</b>	<b>10,890</b>	<b>28.9</b>	<b>2,696</b>	<b>7.1</b>
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
	#	%	#	%	#	%	#	%
Low-income	354	13.1	291	12.3	55	21.3	8	10.4
Moderate-income	478	17.7	407	17.3	64	24.8	7	9.1
Middle-income	1,262	46.9	1,126	47.8	96	37.2	40	51.9
Upper-income	599	22.2	534	22.6	43	16.7	22	28.6
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>2,693</b>	<b>100.0</b>	<b>2,358</b>	<b>100.0</b>	<b>258</b>	<b>100.0</b>	<b>77</b>	<b>100.0</b>
	Percentage of Total Businesses:			<b>87.6</b>		<b>9.6</b>		<b>2.9</b>

## **PERFORMANCE CONTEXT**

The following demographic and economic information was obtained from publicly available sources that include the U.S. Department of Commerce's Bureau of Census, the New York State Department of Labor, the U.S. Department of Housing and Urban Development, the New York Association of Realtors and the Federal Reserve Bank of New York's August 2006 District Profile.

### Demographic Characteristics

According to the 2000 Census, the population of MSA 21300 (Elmira, NY) totals 91,070. The MSA contains 25% of the bank's combined assessment area population. The percentage of the population 65 and older is 16% in Chemung County compared with 13% in New York State.

### Income Characteristics

The HUD-adjusted median family income for the MSA was \$51,700 in 2007 and \$52,400 in 2006. Of the 23 census tracts in the MSA, 2 or 9% are low-income and 4 or 17% are moderate-income. Most LMI tracts are located in the city of Elmira. Lastly, 9% of all families in the MSA have incomes below the poverty level.

### Housing Characteristics

MSA 21300 (Elmira, NY) contains 37,745 housing units, of which 64% are owner-occupied. Of the total owner-occupied units, 10% were located in LMI census tracts. Demographic information from the 2000 census estimated that the median age of the housing stock throughout the MSA is 49 years. In this market, Chemung's older population is less likely to need home purchase loans, but more likely to need home improvement loans.

<b>Median Home Sales Prices</b>		
<b>Area</b>	<b>2006</b>	<b>2007</b>
MSA 21300 (Elmira, NY)	\$86,800	\$81,600

Source: New York Association of Realtors

As shown in the table at left, the median sales price of existing single-family homes in MSA 21300 (Elmira, NY) totaled \$86,800 as of December 2006 and decreased slightly to \$81,600 in 2007.

As indicated by a median housing price of \$81,600, housing is affordable in comparison to other parts of New York State. Community contacts, however, pointed out that given the age of housing stock, there is a need for more reverse mortgage lending for senior citizens. The higher percentage of older homes also creates a need for more home improvement loans since repair costs limit the ability of low-income individuals to purchase and maintain a home.

### Labor, Employment and Economic Conditions

Long term economic trends in the Elmira MSA indicate a decline in manufacturing and a transition to a service and information-based economy. In addition, during the examination period, the average annual unemployment rates for Chemung County decreased slightly from 4.9% in 2006 to 4.6% in 2007. Furthermore, small business financing remains an important credit need given that small businesses represent a significant portion of the businesses in the MSA.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS**

### **LENDING TEST**

Chemung's overall record of lending in MSA 21300 (Elmira, NY) was excellent. An analysis of lending to borrowers of different income levels and to businesses of different sizes and the geographic distribution of loans follows:

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

The overall borrower distribution of loans reflected excellent performance in HMDA-related lending to low- and moderate- income borrowers. The distribution of loans to businesses of different sizes reflects reasonable performance.

The following table summarizes the bank's performance in lending to low- and moderate-income borrowers within each HMDA product:

<b>HMDA Lending to Low and Moderate-Income Borrowers MSA 21300 (Elmira, NY)</b>				
<b>Loan Product</b>	<b>Lending to Low-Income Borrowers</b>	<b>Aggregate Comparison</b>	<b>Lending to Moderate- Income Borrowers</b>	<b>Aggregate Comparison</b>
Home Purchase	Excellent	Significantly Above	Excellent	Slightly Above
Refinance	Reasonable	Slightly Above	Reasonable	Slightly Below
Home Improvement	Excellent	Significantly Above	Excellent	Significantly Above

#### **Home Purchase Loans**

Chemung's distribution of home purchase loans to moderate-income borrowers was excellent. Chemung extended 25% of loans to moderate-income borrowers compared to 19% of moderate-income families residing in the MSA and 21% of aggregate originations made to moderate-income borrowers.

Chemung also demonstrated excellent distribution of home purchase loans to low-income borrowers. Chemung extended 19% of loans to low-income borrowers compared to 18% of low-income families residing in the MSA and 6% of aggregate originations made to low-income borrowers. The aggregate's performance supported the challenge faced by institutions in lending to low-income individuals, as noted in the performance context section of the evaluation.

#### Refinance Loans

The distribution of refinancings to moderate-income borrowers was reasonable. Chemung originated 15% of its refinance loans to moderate-income borrowers, compared to 19% of moderate-income families residing in the MSA and 19% of aggregate originations made to moderate-income borrowers.

Chemung's distribution of refinancings to low-income borrowers was reasonable. Chemung originated 10% of its refinance loans to low-income borrowers, compared to 18% of low-income families residing in the MSA and 8% of aggregate originations made to low-income borrowers. The overall performance also reflects the challenges faced by institutions in lending to low-income individuals, as noted in the performance context section of the evaluation.

#### Home Improvement Loans

The distribution of home improvement loans to moderate-income borrowers was excellent. Chemung originated 33% of its home improvement loans to moderate-income borrowers, compared to 19% of moderate-income families residing in the MSA and 21% of aggregate originations made to moderate-income borrowers.

Chemung's distribution of home improvement loans to low-income borrowers was also excellent. Chemung originated 20% of its home improvement loans to low-income borrowers, compared to 18% of low-income borrowers residing in the MSA and 11% of aggregate originations made to low-income borrowers. The aggregate's performance supported the challenges faced by institutions in lending to low-income individuals as noted in the performance context section of the evaluation.

#### Small Business Loans

Overall the distribution of loans to businesses of different sizes was reasonable. The proportion of loans to businesses with gross annual revenues ("GAR") of \$1 million or less was 42% compared to 88% of such businesses located in the MSA. Chemung's performance was similar to the aggregate which reported 39% of its loans to such businesses.

Of Chemung’s small business loans, 67% were in amounts of \$100,000 or less, with an average loan size of \$42,000. Chemung underperformed the aggregate which originated 97% of its loans in amounts of \$100,000 or less. Small loans generally reflect the size of the business.

**Geographic Distribution of Loans**

The overall geographic distribution of HMDA-related and small business loans reflected excellent loan penetration in the Elmira MSA. Overall, HMDA-related and small business lending in moderate-income census tracts reflect excellent loan penetration. Performance in this assessment area is based primarily on performance in moderate-income tracts. Low-income tracts have very limited HMDA lending opportunities. Within MSA 21300, only 107 housing units, less than 1% of the housing units in low-income census tracts, are owner-occupied. In addition, the aggregate of all lenders within MSA 21300 made only 15 loans to low-income borrowers. This limits opportunities for HMDA lending. Accordingly, Chemung’s HMDA performance in low-income census tracts was not evaluated with respect to geographic distribution. The following table summarizes Chemung’s performance in moderate-income census tracts with respect to each loan product:

<b>LENDING IN MODERATE-INCOME TRACTS MSA 21300 (Elmira, NY)</b>		
<b>PRODUCT</b>	<b>Moderate-Income Tracts</b>	<b>Aggregate Comparison 2006</b>
Home Purchase	Excellent	Above
Refinance	Reasonable	Similar To
Home Improvement	Excellent	Above
Small Business	Excellent	Significantly Above

**Home Purchase Loans**

The distribution of home purchase loans in moderate-income areas was excellent when compared with the level of owner-occupied housing units as well as the aggregate of all HMDA-reporting lenders in the Elmira MSA. A total of 14% of the bank’s home purchase loans were made in moderate-income geographies compared to 10% of the owner occupied-housing units and 10% of the aggregate’s lending located in moderate-income geographies.

**Refinance Loans**

The distribution of refinancings in moderate-income geographies was reasonable when

compared with both the level of owner-occupied housing units as well as the aggregate of all HMDA-reporting lenders in the Elmira MSA. A total of 8% of Chemung's loans were made in moderate-income geographies compared to 10% of owner-occupied housing units and 9% of the aggregate's lending located in moderate-income geographies.

### Home Improvement Loans

The distribution of home improvement loans in moderate-income geographies was excellent when compared with the level of owner-occupied housing units and the aggregate of all HMDA-reporting lenders in the Elmira MSA. 11% of Chemung's home improvement loans were in moderate-income geographies compared to 10% of owner-occupied housing units and 7% of the aggregate's lending located in moderate-income geographies.

### Small Business Loans

The distribution of small business loans in moderate-income areas was excellent compared with the number of businesses in those geographies as well as the performance of the aggregate of all CRA-reporting lenders. A total of 25% of the bank's small business loans were made in moderate-income geographies compared to 18% of the businesses and 15% of the aggregate's lending to businesses located in moderate-income geographies.

Small business performance in low-income census tracts was reasonable compared with the number of businesses as well as the performance of the aggregate of all CRA-reporting lenders. A total of 10% of the bank's small business loans were made in low-income geographies compared to 13% of the businesses and 7% of the aggregate's lending to businesses located in low-income geographies.

## **COMMUNITY DEVELOPMENT TEST**

Chemung demonstrated excellent responsiveness to the community development needs of the Elmira MSA and compared favorably with similarly situated banks. During the examination period, loans and qualified investments benefiting the Elmira MSA totaled approximately \$18 million, consisting of nearly \$14 million in loans and nearly \$4 million in investments. Total community development loans and investments increased 20% from the last examination. At the last examination, the Elmira MSA contained approximately \$13 million in community development loans and approximately \$2 million in community development investments. The loans and qualified investments primarily involved the funding of community services to LMI individuals. Examples of community development loans and qualified investments include:

- A \$1.6 million line of credit to an organization that provides services to developmentally disabled individuals to provide education and training.
- A \$600,000 line of credit to an organization that provides living arrangements for LMI adolescents. The organization offers alternatives to institutional placement by developing foster homes, provides preventive services for families and respite care in

emergency situations.

- Two municipal bonds from the City of Elmira, totaling \$570,000, to finance improvements in municipal services in a low-income geography located in the same census tract as the bank's main office.
- A \$1,000,000 municipal bond from the City of Elmira to finance infrastructure improvements and provided needed services that benefit LMI individuals.

Community Development Services

Chemung provided an excellent level of community development services and hosts seminars for various organizations that furnish services that benefit LMI individuals in the Elmira MSA. Thirteen bank officers/employees and two directors serve on the boards and committees of various community development organizations in MSA 21300 (Elmira, NY). Examples include:

- Two directors serve on the board of directors, one as Chairman, of an economic development corporation.
- Two officers serve as members of the board/finance committee for a non-profit organization assisting abandoned children and children with mental and emotional health issues.
- One officer serves as a board member for an organization that delivers meals to shut-ins.
- One officer serves as a board member for an organization that assists in the development of affordable housing for LMI individuals.
- Chemung provides the instructors for a required homebuyer's education course, waives the application fee and pays for the appraisal fee for a homebuyer's assistance program offered through Freddie Mac.
- The bank sponsors and attends numerous mortgage fairs and loan workshops throughout each year. Chemung has, in partnership with several local community groups, also provided homebuyer seminars and credit counseling services. Furthermore, the bank participates in several educational presentations and seminars conducted in the assessment areas, most of which focused on financial education and first-time home buying.

The overall branch distribution provides good accessibility to the LMI population and geographies within the assessment areas. One of the seven branches, or 14% of the total number of branches in MSA 21300 (Elmira, NY), is located in an LMI census tract. In comparison, 15% of MSA 21300 (Elmira, NY) families reside in LMI census tracts. This branch is also



Chemung's headquarters, which fosters economic development by bringing additional jobs and financial services to the area.

## NON-METROPOLITAN AREA

### FULL SCOPE REVIEW

#### SCHUYLER AND STEUBEN COUNTIES, NY

#### DESCRIPTION OF OPERATIONS

As of December 31, 2007, Chemung operated five branches in this Non-Metropolitan assessment area (“Non-MSA”), representing 29% of its total number of branches. These branches contained \$137 million in deposits, or 23% of Chemung’s total branch deposits as of June 30, 2007. For additional assessment area data, see Exhibits 1 and 3.

#### PERFORMANCE CONTEXT

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

##### Demographic Characteristics

According to the 2000 Census, the population of Steuben and Schuyler Counties totaled 69,733. These counties contain 20% of Chemung’s combined assessment area population.

##### Income Characteristics

The HUD-adjusted median family income for Steuben County was \$49,200 in 2006 and \$49,800 in 2007. The HUD-adjusted median family income for Schuyler County was \$49,000 and \$50,500 in 2006 and 2007, respectively. There are no low-income census tracts and only one moderate-income census tract in the two counties. In addition, nine percent of all families within the two counties have incomes below the poverty level.

##### Housing Characteristics

The Non-MSA assessment area contains 36,594 housing units, of which 63% are owner-occupied. Demographic information from the 2000 census estimated that the median age of the housing stock throughout the MSA is 43 years. Housing costs in relation to incomes present challenges to home ownership and reduce lending opportunities to low-income individuals.

Median Home Sales Prices		
Area	2006	2008*
Steuben County	\$80,000	\$90,000
Schuyler County	\$124,000	\$119,500

The table to the left denotes the median sales price of existing single-family homes in Steuben and Schuyler Counties.

Source: New York Association of Realtors. \*Based on preliminary February 2008 data.

EXHIBIT 3								
Assessment Area Demographics								
Assessment Area: Non-MSA Steuben and Schuyler Counties								
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	3,759	17.8
Moderate-income	1	4.3	793	3.7	109	13.7	3,876	18.3
Middle-income	18	78.3	16,232	76.8	1,499	9.2	4,692	22.2
Upper-income	4	17.4	4,123	19.5	265	6.4	8,821	41.7
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>20</b>	<b>100.0</b>	<b>21,148</b>	<b>100.0</b>	<b>1,873</b>	<b>8.9</b>	<b>21,148</b>	<b>100.0</b>
	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	1,236	871	3.8	70.5	179	14.5	186	15.0
Middle-income	28,222	17,820	77.7	63.1	5,863	20.8	4,539	16.1
Upper-income	7,136	4,232	18.5	59.3	2,353	33.0	551	7.7
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>36,594</b>	<b>22,923</b>	<b>100.0</b>	<b>62.6</b>	<b>8,395</b>	<b>22.9</b>	<b>5,276</b>	<b>14.4</b>
	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	86	3.5	76	3.5	4	2.3	6	5.5
Middle-income	1,758	72.0	1,551	71.8	121	69.9	86	78.9
Upper-income	597	24.5	532	24.6	48	27.7	17	15.6
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>2,441</b>	<b>100.0</b>	<b>2,159</b>	<b>100.0</b>	<b>173</b>	<b>100.0</b>	<b>109</b>	<b>100.0</b>
	Percentage of Total Businesses:			<b>88.4</b>			<b>7.1</b>	<b>4.5</b>

Labor, Employment and Economic Conditions

During the examination period, average annual unemployment rates in Steuben County were 5.3% in 2006 and 5.2% in 2007. Unemployment rates in Schuyler County were 5.1% in 2006 and 5.0% in 2007. Small business lending represented 88% of total business lending in the Non-MSA. In addition, Corning, Inc., a world leader in specialty glass and ceramics, is a major employer in Steuben County.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS**

**LENDING TEST**

Chemung’s overall record of lending in the Non-MSA was satisfactory. An analysis of lending to borrowers of different income levels and to businesses of different sizes and the geographic distribution of loans follows.

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

The overall borrower distribution of loans was satisfactory based on reasonable performance in HMDA-related lending to low- and moderate- income borrowers and loans to businesses of different sizes. The table below summarizes the bank’s performance in lending to low- and moderate- income borrowers within each HMDA product.

<b>HMDA Lending to Low -and Moderate-Income Borrowers Non-MSA Assessment Area</b>				
<b>Loan Product</b>	<b>Lending to Low -Income Borrowers</b>	<b>Aggregate Comparison</b>	<b>Lending to Moderate-Income Borrowers</b>	<b>Aggregate Comparison</b>
Home Purchase	Reasonable	Significantly Above	Needs-to-improve	Significantly Below
Refinance	Reasonable	Similar To	Excellent	Above
Home Improvement	Reasonable	Below	Reasonable	Below

**Home Purchase Loans**

Chemung’s distribution of home purchase loans to moderate-income borrowers was rated needs-to-improve. Chemung extended 7% of loans to moderate-income borrowers compared to 18% of moderate-income families residing in the Non-MSA and 19% of aggregate originations made to moderate-income borrowers.

Chemung demonstrated reasonable distribution of home purchase loans to low-income borrowers. Chemung extended 11% of loans to low-income borrowers compared to 18% of low-income families residing in the Non-MSA and 6% of aggregate originations made to low-income borrowers. The low aggregate percentage supported the challenge faced by lenders in lending to low-income individuals as noted in the performance context section of the evaluation.

**Refinance Loans**

The distribution of refinancings to moderate-income borrowers was excellent. Chemung originated 25% of its refinance loans to moderate-income borrowers, compared to 18% of moderate-income families residing in the Non-MSA and 20% of aggregate originations made to moderate-income borrowers.

Chemung's distribution of refinancings to low-income borrowers was reasonable. Chemung originated 7% of its refinance loans to low-income borrowers, compared to 18% of low-income families residing in the Non-MSA and 8% of aggregate originations made to low-income borrowers.

### Home Improvement Loans

The distribution of home improvement loans to moderate-income borrowers was reasonable. Chemung originated 14% of its home improvement loans to moderate-income borrowers, compared to 18% of moderate-income families residing in the Non-MSA and 20% of aggregate originations made to moderate-income borrowers.

Chemung's distribution of home improvement loans to low-income borrowers was also reasonable. Chemung originated 11% of its home improvement loans to low-income borrowers, compared to 18% of low-income borrowers residing in the Non-MSA and 17% of aggregate originations made to low-income borrowers.

### Small Business Loans

Lending to businesses of different sizes was reasonable. Of Chemung's small business loans, 48% went to businesses with GAR of \$1,000,000 or less compared to 88% of all business establishments in the Non-MSA with GAR of \$1,000,000 or less. Chemung's performance was slightly above the aggregate which reported 39% of its loans to such businesses. In addition, 69% of Chemung's loans were for amounts of \$100,000 or less in 2006 compared to 98% of the aggregate's loans. Loans in smaller amounts are generally reflective of the size of the business.

### Geographic Distribution of Loans

The overall geographic distribution of HMDA-related and small business loans reflected reasonable loan penetration in the Non-MSA. Performance in this assessment area is based primarily on performance in the one moderate-income tract in Steuben County, which has a limited volume of bank loans. There were no low-income tracts. The following table summarizes Chemung's performance in moderate-income census tracts with respect to each loan product:

<b>LENDING IN MODERATE-INCOME TRACTS</b> <b>Non-MSA (Steuben and Schuyler, NY)</b>		
<b>PRODUCT</b>	<b>Moderate-Income Tracts</b>	<b>Aggregate Comparison 2006</b>
Home Purchase	Excellent	Significantly Above
Refinance	Excellent	Similar To
Home Improvement	Needs-to-improve	Significantly Below
Small Business	Needs-to-improve	Significantly Below

Home Purchase Loans

The distribution of home purchase loans in moderate-income geographies was excellent when compared with the level of owner-occupied housing units as well as the aggregate of all HMDA-reporting lenders in the Non-MSA. A total of 4% of the bank's home purchase loans were made to the moderate-income tract compared to 4% of the owner occupied-housing units and 1% of the aggregate's lending in moderate income geographies.

Refinance Loans

The distribution of refinancings in moderate-income geographies was excellent when compared with both the level of owner-occupied housing units as well as the aggregate of all HMDA-reporting lenders in the Non-MSA. A total of 4% of Chemung's loans were made in moderate-income tract compared to 4% of owner-occupied housing units and 3% of the aggregate's lending located in moderate-income geographies.

Home Improvement Loans

The distribution of home improvement loans in moderate-income geographies was rated needs-to-improve when compared with the level of owner-occupied housing units and the aggregate of all HMDA-reporting lenders in the Non-MSA. Chemung's made no home improvement loans in the moderate-income tract compared to 4% of owner-occupied housing units and 9% of the aggregate's lending located in moderate-income geographies.

Small Business Loans

The distribution of small business loans in moderate-income areas was rated needs-to-improve compared with the number of businesses in those geographies as well as the performance of the aggregate of all CRA-reporting lenders. Chemung made no small business loans in the moderate-income tract compared to 4% of the businesses and 2% of the aggregate's lending to businesses located in moderate-income geographies.

## **COMMUNITY DEVELOPMENT TEST**

Chemung's community development performance was excellent in the Non-MSA and compared favorably with similarly-situated banks. Community development loans and qualified investments benefiting Schuyler and Steuben Counties totaled \$8.3 million, which consisted of \$4.2 million in loans and \$4.1 million in investments. Total community development loans and investments increased 14% from the last examination. At the last examination, the Non-MSA activity consisted of approximately \$5.7 million in community development loans and approximately \$1.6 million in community development investments. The loans primarily involved community services for LMI individuals. Examples of community development loans and qualified investments include:

- A \$125,000 line of credit to assist individuals with disabilities gain access to information and services particular to their needs, provide services for those affected by traumatic brain injury and provide consulting and advocacy support.
- A \$150,000 line of credit to a housing agency to provide major rehabilitation assistance to low-income homeowners and technical housing assistance to local municipalities.
- Five municipal bonds totaling \$1,257,000 to a school district which has a substantial student population from low- and moderate- income families.
- Three municipal bonds totaling \$581,000 to a village to provide services that benefit LMI individuals.

### Community Development Services

Chemung provided an excellent level of community development services in the Non-MSA to various organizations that furnish community development services to LMI individuals.

Fourteen bank officers/employees serve on the boards and committees of various community development organizations. Examples follow:

- One officer serves as member of the finance committee of a non-profit organization located in Steuben County which provides a variety of services to low- and moderate-income individuals throughout the Southern Tier of New York State.
- One officer serves as the chairman of the board for an economic development organization located in Schuyler County.
- One officer serves as a board member of an organization that supports economic development by promoting small businesses in Steuben County.

## **METROPOLITAN AREA**

**(LIMITED REVIEW)**

**MSA 13780 (BINGHAMTON, NY)**  
**MSA 27060 (TOMPKINS COUNTY, NY)**

<b>MSA</b>	<b>Lending Test</b>	<b>Community Development Test</b>
<b>MSA 13780 (Binghamton, NY)</b>	<b>Consistent</b>	<b>Consistent</b>
<b>MSA 27060 (Tompkins County, NY)</b>	<b>Consistent</b>	<b>Below</b>



## CRA APPENDIX A

### GLOSSARY

**Aggregate lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Census tract:** A small, relatively permanent statistical subdivision of a county or statistically equivalent entity delineated for data presentation purposes by a local group of census data users or the geographic staff of a regional census center in accordance with Census Bureau guidelines. Designed to be relatively homogeneous units with respect to population characteristics, economic status, and living conditions at the time they are established, census tracts generally contain between 1,000 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries are delineated with the intention of being stable over many decades, so they generally follow relatively permanent visible features. However, they may follow governmental unit boundaries and other invisible features in some instances; the boundary of a state or county (or statistically equivalent entity) is always a census tract boundary.

**Community development:** Affordable housing (including multifamily rental housing) for low- or moderate- income individuals; community services targeted to low- or moderate- income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
  - a. Rates of poverty, unemployment, and population loss; or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

**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:** A family is a group of two or more people related by birth, marriage, or adoption and residing together; all such people (including related subfamily members) are considered as members of one family.

**Full review:** Performance is analyzed considering performance context, quantitative factors and qualitative factors.

**Geography:** A census tract 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 applicants, 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:** A household consists of all the people who occupy a housing unit. A household includes the related family members and all the unrelated people, if any, such as lodgers, foster children, wards, or employees who share the housing unit. A person living alone in a housing unit, or a group of unrelated people sharing a housing unit such as partners or roomers, is also counted as a household. The count of households excludes group quarters.

**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 Statistical Area (“MSA”):** A geographic entity defined by the federal Office of Management and Budget for use by federal statistical agencies, based on the concept of a core area with a large population nucleus, plus adjacent communities having a high degree of economic and social integration with that core.

**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.

**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.

**Qualified investment:** A qualified investment is defined as any lawful investment, deposit, membership share or grant that has as its primary purpose community development.

**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.

# Chemung Canal Trust Company

## Assessment Area

October 1, 2005 - December 31, 2007

