

# **PUBLIC DISCLOSURE**

**March 10, 2008**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Tioga State Bank  
RSSD No. 910118**

**1 Main Street  
P.O. Box 386  
Spencer, NY 14883**

**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:** Tioga State Bank (“TSB”) is rated “**SATISFACTORY.**”

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

<b>PERFORMANCE LEVELS</b>	<b>TIOGA STATE BANK PERFORMANCE TESTS</b>	
	<b>Lending Test</b>	<b>Community Development Test</b>
Outstanding		
Satisfactory	<b>X</b>	<b>X</b>
Needs to Improve		
Substantial Noncompliance		

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

- A substantial majority of loans were made in the assessment areas.
- The bank’s loan-to-deposit ratio was reasonable.
- The overall distribution of loans to individuals of different incomes and businesses of different sizes was reasonable.
- The level of community development loans, qualified investments and community development services demonstrates adequate responsiveness to the community development needs in the assessment areas.
- The overall geographic distribution of loans reflects reasonable dispersion throughout the assessment areas when considering performance context issues.

## DESCRIPTION OF INSTITUTION

TSB is a retail commercial bank, wholly owned by TSB Services Inc., a one-bank holding company. The bank operates in the southwestern portion of upstate New York, with the majority of its branches located in Tioga and Broome Counties.

As of December 31, 2007, the bank's total assets were \$301 million, with total net loans and leases of \$188 million and deposits of \$239 million. Most of the loans, \$135 million or 72 percent, are real estate-related. Commercial and industrial loans total \$45 million, or 24 percent, and consumer loans total \$9 million, or 5 percent, of all loans.

As of December 31, 2007, TSB had 11 full-service branch offices. Five branches are located in Tioga County, 4 are located in Broome County, one branch is located in Chemung County and one branch is in Tompkins County. TSB offers various deposit and loan products and services to consumers and small- to medium-sized businesses. TSB had an 8 percent combined deposit market share in Broome and Tioga Counties as of June 30, 2007.

TSB's previous CRA examination was dated February 27, 2006, and the bank received an overall rating of "satisfactory" under the intermediate-small CRA evaluation method. There are no financial or legal impediments preventing TSB from servicing the credit needs of consumers and small businesses in its assessment areas.

## DESCRIPTION OF ASSESSMENT AREA

TSB's assessment area is located within 3 Metropolitan Statistical Areas ("MSAs") as follows:

- MSA 13780 (Binghamton, NY) consisting of Tioga County and portions of Broome County
- MSA 21300 (Chemung, NY) consisting of a small portion of Chemung County
- MSA 27060 (Ithaca, NY) consisting of a small portion of Tompkins County

The assessment area is in compliance with the requirements of Section 228.41 of Regulation BB and does not arbitrarily exclude low- and moderate-income ("LMI") geographies. A map illustrating TSB's assessment area is on page BB15.

## SCOPE OF EXAMINATION

TSB was examined using the FFIEC CRA intermediate-small bank examination procedures consisting of the lending and community development tests. The examination covered the period of October 1, 2005 through December 31, 2007.

A sample of HMDA-related, consumer, and small business loans originated during this time period was analyzed. Loans for analysis were selected using the Board of Governors' sampling procedures and data was verified as part of the onsite exam. The loan sample included 346 HMDA-related loans, 144 small business loans, and 179 consumer loans. Community

development activities occurring between October 1, 2005 and December 31, 2007 were considered.

A full scope review was conducted of MSA 13780 (Binghamton, NY). Limited scope reviews were conducted of MSA 21300 (Chemung, NY) and MSA 27060 (Ithaca, NY). MSA 13780 (Binghamton, NY) was selected for a full-scope review because it contains 82% of the bank's branches, 84% of the bank's retail deposits and 83% of the bank's retail lending activity.

Examiners also conducted interviews with two community development groups in order to gain an understanding of local credit needs. One community group focused on affordable housing for LMI individuals and the other group promoted economic development through lending programs for small businesses.

## **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 MSA 13780 (Binghamton, NY) totals 227,714. The MSA is comprised of Broome and Tioga Counties, with Broome County representing 88% of the MSA's population. The City of Binghamton is the largest city in the MSA and is located within Broome County. Tioga State Bank has historically operated primarily within Tioga County but has expanded into Broome County over the last few years. Of the 58 census tracts located in MSA 13780, 17 or 29% are LMI. All of the LMI census tracts are located in Broome County.

### Income Characteristics

The HUD-adjusted median family income for MSA 13780 was \$54,100 in 2006 and \$52,800 in 2007. These income levels are low in comparison to New York State's 2007 HUD-adjusted median family income of \$67,867.

### Housing Characteristics

The relatively lower levels of owner-occupancy in LMI census tracts limit opportunities for homeownership. The median annual sales price of existing single-family homes in Broome County was \$85,000 in 2006 and increased to \$92,000 in 2007. In Tioga County, the median annual sales prices of existing single-family homes were slightly higher at \$87,250 in 2006 and \$100,000 in 2007.

MSA 13780's housing costs are low in comparison to New York State's median annual sales price of \$260,000 for existing single-family homes in 2007. Although housing costs are comparatively low in the MSA, housing affordability remains difficult for low-income borrowers, which represent 19% of all borrowers in the assessment area. According to community groups, down payment assistance, reduced rate mortgages and specialized mortgage products designed to further home ownership opportunities, particularly for lower-income individuals, are needed in the area.

*Labor, Employment and Economic Characteristics*

The MSA 13780 assessment area contains 7,329 business establishments, of which 86% had gross annual revenues ("GAR") less than or equal to \$1 million. Community groups noted that small business financing is an important assessment area credit need. The unemployment rate was 4.5% in MSA 13780 for both 2006 and 2007, which was generally comparable with the State's 2007 unemployment rate of 4.6%. Exhibit 1 on the following page contains additional demographic details for MSA 13780.

**Assessment Area Demographics\***

Assessment Area: MSA 13780 (Binghamton NY)

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	4	6.9	1,366	2.3	437	32.0	10,767	18.5
Moderate-income	13	22.4	8,302	14.2	1,587	19.1	10,804	18.5
Middle-income	27	46.6	31,484	54.0	2,092	6.6	13,357	22.9
Upper-income	14	24.1	17,151	29.4	605	3.5	23,375	40.1
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>58</b>	<b>100.0</b>	<b>58,303</b>	<b>100.0</b>	<b>4,721</b>	<b>8.1</b>	<b>58,303</b>	<b>100.0</b>
	<b>Housing Units by Tract</b>	<b>Housing Types by Tract</b>						
		<b>Owner-Occupied</b>			<b>Rental</b>		<b>Vacant</b>	
		#	%	%	#	%	#	%
Low-income	4,299	657	1.1	15.3	2,931	68.2	711	16.5
Moderate-income	19,144	6,158	10.2	32.2	10,623	55.5	2,363	12.3
Middle-income	51,199	34,477	57.1	67.3	12,767	24.9	3,955	7.7
Upper-income	24,946	19,135	31.7	76.7	4,736	19.0	1,075	4.3
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>99,588</b>	<b>60,427</b>	<b>100.0</b>	<b>60.7</b>	<b>31,057</b>	<b>31.2</b>	<b>8,104</b>	<b>8.1</b>
	<b>Total Businesses by Tract</b>	<b>Businesses by Tract &amp; Revenue Size</b>						
		<b>Less Than or = \$1 Million</b>		<b>Over \$1 Million</b>		<b>Revenue Not Reported</b>		
		#	%	#	%	#	%	#
Low-income	662	9.0	509	8.1	106	15.4	47	13.5
Moderate-income	1,473	20.1	1,264	20.1	149	21.7	60	17.3
Middle-income	3,562	48.6	3,113	49.5	275	40.0	174	50.1
Upper-income	1,632	22.3	1,408	22.4	158	23.0	66	19.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>7,329</b>	<b>100.0</b>	<b>6,294</b>	<b>100.0</b>	<b>688</b>	<b>100.0</b>	<b>347</b>	<b>100.0</b>
	<b>Percentage of Total Businesses:</b>			<b>85.9</b>		<b>9.4</b>		<b>4.7</b>

\*Based on 2000 Census Data.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

### LENDING TEST

TSB's record of meeting the credit needs of its assessment areas through its lending performance is rated satisfactory. TSB 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 to borrowers of different incomes and businesses of different sizes was also reasonable. The geographic distribution of loans reflects reasonable penetration throughout the bank's assessment areas.

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

TSB's loan-to-deposit ratio was reasonable given the bank's size, financial condition and the credit needs of its assessment areas. The bank's average loan-to-deposit ratio for the eight most recent quarters ending December 31, 2007, was 71%, based on information contained in its *Consolidated Report of Condition and Income*. This ratio was below the national peer average of 83% for similarly sized banks, but generally comparable to an average of 76% for 4 similarly-sized banks located in a similar geographic area of New York State.

#### *Lending in the Assessment Area*

TSB originated a substantial majority of its loans in its assessment areas. Overall, 87% of the sampled loans were originated in the assessment areas. Of the 144 small business loans, 179 consumer loans and 346 HMDA-related loans sampled in the review period, 135 or 94% of the small business loans, 157 or 88% of consumer loans and 297 or 86% of the HMDA-related loans were extended to businesses and individuals located in the bank's assessment area.

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

Overall, TSB's record of lending in MSA 13780 to borrowers of different income levels, including LMI individuals, and businesses of different sizes was reasonable given the demographics of the assessment areas. Overall performance within MSA 21300 and MSA 27060 was consistent with the MSA 13780 conclusion. Exhibit 2 depicts MSA 13780 lending distribution in each loan category.



<b>EXHIBIT 2</b>			
<b>Distribution of Loans by Income Level of Borrower*</b>			
<b>MSA 13780 –(Binghamton, NY)</b>			
<b>October 1, 2005 – December 31, 2007</b>			
	<b>HMDA-RELATED</b>	<b>CONSUMER</b>	<b>TOTAL</b>
<b>LOW-INCOME:</b> <b>Less than 50% of Median Income</b>			
Number	21	48	69
Percentage	9%	40%	20%
Amount (\$)	\$403,000	\$397,000	\$800,000
Percentage	2%	24%	4%
<b>MODERATE-INCOME:</b> <b>At least 50% &amp; less than 80% of Median Income</b>			
Number	54	19	73
Percentage	23%	16%	21%
Amount (\$)	\$3,077,000	\$175,000	\$3,252,000
Percentage	16%	10%	16%
<b>MIDDLE-INCOME:</b> <b>At least 80% &amp; less than 120% of Median Income</b>			
Number	65	31	96
Percentage	28%	26%	27%
Amount (\$)	\$3,614,000	\$400,000	\$4,014,000
Percentage	19%	24%	20%
<b>UPPER-INCOME:</b> <b>120% or more of Median Income</b>			
Number	91	23	114
Percentage	39%	19%	32%
Amount (\$)	\$11,577,000	\$649,000	\$12,226,000
Percentage	62%	39%	60%

\* Does not include 12 HMDA-Related and 5 Consumer loans where borrower income was not available.

### HMDA-related Loans

As detailed in Exhibit 2, the distribution of HMDA-related lending to borrowers of different income levels was reasonable. The proportion of lending to LMI borrowers was 32% and was similar to the proportion of LMI families (37%) in the assessment area. While TSB's lending to moderate-income borrowers exceeded the 19% of families in the assessment area with moderate income, lending to low-income borrowers was not as strong, and reflected the housing affordability issues noted in the performance context section of this evaluation.

Consumer Loans

Consumer lending distribution was excellent and exceeded the proportion of LMI families in the assessment area. LMI families account for 37% of families in the assessment area and 56% of consumer loans were originated to LMI borrowers.

Small Business Loans

Lending to businesses with gross annual revenues (GAR) of \$1 million or less was reasonable. As shown in Exhibit 3, Tioga extended 69% of its loans to businesses with GAR of \$1 million or less. In comparison, 86% of businesses in the assessment area have GAR of \$1 million or less.

<b>EXHIBIT 3</b>					
<b>Distribution of Loans by Size of Business</b>					
<b>MSA 13780 – (Binghamton, NY)</b>					
<b>October 1, 2005 – December 31, 2007</b>					
<b>SMALL BUSINESS LENDING SUMMARY</b>					
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*
111	77	69%	\$16,963,000	\$6,410,000	38%

Geographic Distribution of Loans

Overall, the geographic distribution of HMDA-related, consumer, and small business loans across geographies of different income levels in MSA 13780 (Binghamton, NY) continues to be weak but is considered reasonable in relation to performance context issues. TSB competes with 5 other large banks operating in Broome County. These banks have a larger presence and have been established in the county for a longer time period, thus making lending opportunities highly competitive. TSB's geographic distribution should improve with length of presence in the market.

MSA 27060 and MSA 21300 contain only a small number (3 in MSA 27060 and 2 in MSA 21300) of middle-income census tracts and no LMI census tracts. As a result, a geographic distribution analysis was not performed in these MSAs.

The distribution of lending for each loan category in the MSA 13780 assessment area is detailed below.

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

### HMDA-related Loans

The level of HMDA-related lending in LMI census tracts was weak with 1% of loans extended in low-income tracts and 2% of loans extended in moderate-income tracts. In comparison, 1% and 10% of owner-occupied housing units were located in LMI tracts, respectively.

### Consumer Loans

The geographic distribution of the bank's consumer loans was weak with no consumer loans originated in low-income census tracts compared to 4% of households located in low-income tracts and 2% of loans (three loans) originated in moderate-income tracts compared with 18% of households located in moderate-income tracts.

### Small Business Loans

The geographic distribution of the bank's small business loans was weak. In low-income census tracts, 4% of loans were originated in comparison with 8% of businesses located in such tracts. In addition, 5% of small business loans were originated in moderate-income census tracts compared with 19% of businesses located in those tracts.

### Response to Complaints

TSB 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.

## **COMMUNITY DEVELOPMENT TEST**

TSB's community development performance demonstrates adequate responsiveness to the community development needs of its assessment area through community development loans, investments and services. This assessment considers TSB's capacity and the need and availability of such opportunities for community development in its assessment areas.

### Community Development Loans

TSB originated 8 community development loans totaling \$5.9 million, compared to 10 loans totaling \$5.1 million at the prior examination. Of this total, 35% targeted economic development initiatives, 34% financed affordable housing, 25% targeted community development service activities, and 6% assisted in revitalizing and stabilizing parts of the assessment area. Community development lending was generally comparable with the community development lending volume of similarly-situated peer institutions in the assessment area.

Examples of TSB's community development loans follow:

- A line of credit to fund construction of apartments for low-income seniors and physically handicapped people.
- A line of credit to finance a local business that provided 200 new LMI jobs.

- A line of credit to provide interim financing for the construction of housing in accordance with plans and specifications approved by the US Department of Agriculture and Rural Development and the State of New York Housing Trust Fund.

### **Qualified Investments**

TSB's qualified investments and grants totaled \$236 thousand, compared with \$135 thousand at the prior examination, with the investment dollars primarily targeted toward economic development through the financing of small businesses. TSB invested in loan funds established to finance small businesses in the assessment areas as well as throughout the state and regional area. Qualified grants to community development organizations totaled \$1,350. TSB's level of qualified investments was generally comparable with the volume of similarly-situated peer institutions in the assessment area.

### **Community Development Services**

TSB's employees participated in a reasonable amount of community development service activities. Examples of these activities follow.

- Ten employees participated as board or committee members of 12 community development groups.
- Twenty-six financial education seminars were conducted on various topics, including understanding credit, accessing affordable housing and programs targeted to first-time homebuyers.
- Branch offices were used as collection centers for a community program to collect and distribute new and used coats to needy children.

### **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 credit needs of the assessment area.

## CRA APPENDIX A

### GLOSSARY

**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.

**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.

**Limited-scope review:** Performance is analyzed using only quantitative factors.

**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.

**Metropolitan Division:** A county or group of counties within a **Metropolitan Statistical Area** that contains a population of at least 2.5 million and represents an employment center(s) associated through commuting ties.

**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.

# Tioga State Bank

## Assessment Area

October 1, 2005 - December 31, 2007

**Legend**

- Zero Income Tracts
- Low Income Tracts
- Moderate Income Tracts
- 2000 Census Tracts
- Counties
- Branch
- Assessment Area

