

PUBLIC DISCLOSURE

July 25, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Bank of Millbrook
RSSD No. 175609**

**3263 Franklin Avenue
Millbrook, New York 12545**

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 Millbrook ("Millbrook") is rated **Satisfactory**.

The satisfactory performance of Millbrook 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 reasonable distribution.
- The geographic distribution of loans was excellent.

DESCRIPTION OF INSTITUTION

Established in 1891, Millbrook is a New York State-chartered bank headquartered in Millbrook, New York. The bank is the sole subsidiary of Millbrook Bank Systems, Inc., a one-bank holding company organized in April 1998. Millbrook has four branches, which are all located in Dutchess County in the mid-Hudson Valley region of New York State, approximately 90 miles north of New York City.

Millbrook offers a variety of consumer and commercial products such as fixed and adjustable rate residential mortgage loans, home equity loans and lines of credit, refinance and home improvement loans, secured and unsecured consumer installment loans, credit cards, overdraft lines of credit, and small business and farm loans. As of December 31, 2010, Millbrook had total assets of \$184 million, with net loans and leases of \$115 million and total deposits of \$162 million. Loans secured by one- to four-family residential properties represent 72% of all real estate loans and 66% of net loans and leases.

There are no financial or legal factors that would prevent Millbrook from meeting the credit needs of its assessment area. At the previous CRA examination, dated November 13, 2006, Millbrook received an overall rating of satisfactory.

DESCRIPTION OF ASSESSMENT AREA

Millbrook has one assessment area consisting of the eastern portion of Dutchess County, which is located within Metropolitan Statistical Area ("MSA") 39100 (Poughkeepsie-Newburg-Middletown, NY), and the western portion of Columbia County located in a non-MSA. Examiners reviewed the assessment area and determined that the non-MSA portion of Columbia County does not extend substantially beyond the boundaries of MSA 39100. Therefore, the areas were combined into one assessment area for analysis, in accordance with the Federal Financial Institutions Examination Council ("FFIEC") CRA Interagency Examination Procedures for Small Banks ("Interagency CRA small bank procedures").

The assessment area is largely rural. It contains 25 census tracts, consisting of two moderate-income, 17 middle-income, and six upper-income tracts. There are no low-income census tracts in Millbrook's assessment area. Since the prior CRA examination, seven census tracts were added to the assessment area as a result of Millbrook's acquisition of Stissing National Bank of Pine Plains, NY.

The assessment area is in compliance with the requirements of Section 228.41 of Regulation BB and does not arbitrarily exclude LMI geographies. A map illustrating Millbrook's assessment area is located in Appendix B.

SCOPE OF EXAMINATION

Procedures

Millbrook was examined using the FFIEC CRA Interagency CRA small bank procedures. The examination covered the time period from July 1, 2006 through December 31, 2010.

Products

All of the bank's HMDA-related loans (home purchase, refinance and home improvement) and samples of its consumer and small business loans originated during the evaluation period were analyzed. The loan samples were selected using the Board of Governors' sampling procedures. 113 HMDA-related loans, 85 small business loans, and 163 consumer loans were analyzed. The integrity of the HMDA-related, small business, and consumer loan data was verified as part of the onsite examination.

Lending Analysis

In order to analyze the borrower characteristics of HMDA-related lending, the proportion of originations to LMI borrowers was compared with the proportion of LMI families residing in the assessment area. Income estimates from the U.S. Department of Housing and Urban Development ("HUD") were used to categorize borrower income. For consumer loans, the proportion of the bank's originations to LMI borrowers was compared to the proportion of LMI households located in the assessment area. For small business lending, Millbrook's percentage of loans to businesses with gross annual revenues ("GAR") of \$1 million or less was compared to the percentage of all such businesses located in the assessment area. 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.

To evaluate geographic distribution of lending, the proportion of HMDA loan originations was compared to the proportion of owner-occupied housing units located in moderate-income geographies. For consumer loans, the proportion of Millbrook's originations in moderate-income geographies was compared to the proportion of households located in moderate-income geographies. For small business loans, the analysis compared the proportion of loan originations to the proportion of businesses located in moderate-income geographies. The assessment area contains no low-income geographies for analysis.

The average of Millbrook's loan-to-deposit ratio during the evaluation period was compared to the loan-to-deposit ratio of local peer banks. Similarly-sized local peer banks were selected based on their similarity to Millbrook with regard to deposit totals and number of branches, and their location within or near Millbrook's assessment area. Local peer banks included National Union Bank of Kinderhook, Riverside Bank, Mahopac National Bank, Empire State Bank, and Putnam County National Bank of Carmel.

Community Contacts

In order to learn more about community credit needs, examiners conducted two interviews with community contacts.

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, Dun and Bradstreet, HUD, and the New York State Association of Realtors.

Demographic Characteristics

According to the 2000 Census, the assessment area's population is 92,556. The assessment area consists of portions of Dutchess County and Columbia County, with 84% of the assessment area's population residing in Dutchess County. The 2000 Census reports that 7% of the assessment area's population lives in moderate-income tracts, 74% of the population lives in middle-income tracts, and 18% lives in upper-income tracts. Dutchess County experienced modest (6%) population growth from 2000 to 2010.

Income Characteristics

According to the 2000 Census, the assessment area has 23,861 families, of which 3,703 (16%) are low-income families, 4,194 (18%) are moderate-income families, and 4% live below the poverty level. The 2010 HUD-adjusted median family income ("MFI") was \$83,400 for Dutchess County, compared to \$68,500 for the State of New York. The assessment area is relatively affluent, with the Village of Millbrook classified as one of the wealthiest towns in New York State.

Housing Characteristics

According to the 2000 Census, the assessment area has 38,344 housing units, of which 66% are owner-occupied, 21% are rental, and 13% are vacant. Of the owner-occupied housing units, 6% are in moderate-income tracts.

The New York Association of Realtors reports the median annual sales price of existing single-family homes in Dutchess County was \$270,000 in 2010, compared to \$215,000 for the State of New York. The assessment area recently experienced a decline in housing prices as a result of the nationwide housing market crisis. Between 2008 and 2010, the sales price of a single-family

Exhibit I
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	3,703	15.5
Moderate-income	2	8.0	1,477	6.2	95	6.4	4,194	17.6
Middle-income	17	68.0	17,010	71.3	665	3.9	5,800	24.3
Upper-income	6	24.0	5,374	22.5	150	2.8	10,164	42.6
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	25	100.0	23,861	100.0	910	3.8	23,861	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	2,527	1,477	5.8	58.4	657	26.0	393	15.6
Middle-income	28,340	17,992	70.9	63.5	6,461	22.8	3,887	13.7
Upper-income	7,477	5,893	23.2	78.8	904	12.1	680	9.1
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	38,344	25,362	100.0	66.1	8,022	20.9	4,960	12.9
	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	300	6.8	262	6.6	21	7.9	17	10.3
Middle-income	3,146	71.3	2,858	71.8	171	64.5	117	70.9
Upper-income	965	21.9	861	21.6	73	27.5	31	18.8
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	4,411	100.0	3,981	100.0	265	100.0	165	100.0
	Percentage of Total Businesses:			90.3		6.0		3.7

Based on 2000 Census Information.

home in Dutchess County fell by 13%. Housing costs in the area, however, remain relatively high and unaffordable for most LMI individuals. In Dutchess County, housing is about seven times the income of a low-income borrower and four times the income of a moderate-income borrower. Interviews with community contacts noted that the area is in need of affordable

housing, particularly for senior citizens. Community contacts also noted, however, that there are limited development projects in the area as local area residents largely oppose development projects because they prefer the current low population density.

Labor, Employment and Economic Characteristics

The assessment area has 4,411 business establishments, of which 90% had gross annual revenues (“GAR”) of less than or equal to \$1 million. Of the total businesses, 300 (7%) are in moderate-income areas. Since the prior examination, unemployment significantly increased in Dutchess County. In 2010, Dutchess County’s unemployment rate was 7.4%, up from 3.9% at the end of 2005 and compared to 8.6% for the State of New York.

In Dutchess County, major employment sectors include the educational, health care, and social services industries, the retail trade industry, and scientific and waste management services industries. According to the Dutchess County Economic Development Corporation, key employers in the area include IBM, Vassar Brothers Medical Centers, St. Francis Hospital and Health Centers, Central Hudson Gas and Electric Corporation, and the Culinary Institute of America. Community contacts noted that Cardinal Hayes Home for Children in the Village of Millbrook and Integrated Enterprise Solutions, Inc. are also major area employers.

See Exhibit I for additional assessment area demographics.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Millbrook’s satisfactory rating is based on an assessment of Millbrook’s core performance criteria under the FFIEC’s small bank performance test as follows:

Loan-to-Deposit Ratio

Millbrook’s loan-to-deposit ratio was reasonable given the bank’s size, financial condition and the credit needs of its assessment area. The bank’s average loan-to-deposit ratio for the 18 most recent quarters ending December 31, 2010 was 80%, based on information contained in the bank’s *Consolidated Report of Condition and Income*. This ratio was slightly below the national peer group’s average loan-to-deposit of 83% for similarly situated peer banks, but was comparable to the local peer group’s average of 80%.

Lending in the Assessment Area

Millbrook originated a substantial majority of its loans in its assessment area. Overall, 83% of the loans evaluated for this CRA examination were originated in the assessment area. Of the HMDA-related loans, 87% were extended to individuals residing in the assessment area, while 82% of the sample of consumer loans went to assessment area residents. Of the sample of small business loans, 79% were extended to business establishments located in the assessment area.

During the examination period, Millbrook also originated seven community development loans totaling \$881 thousand to a non-profit organization that provides residential care and treatment for developmentally disabled children.

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

Millbrook demonstrated reasonable penetration among individuals of different income levels, including LMI individuals, and businesses of different sizes, given the demographics of the assessment area. An analysis of the lending distribution in each loan category follows:

Home Purchase Loans

Millbrook’s distribution of home purchase loans to LMI borrowers was reasonable. As shown in Exhibit II, during the examination period, the bank originated 6% of its home purchase loans to low-income borrowers, compared to 16% of low-income families residing in the assessment area. The bank originated 8% of its home purchase loans to moderate-income borrowers, compared to 18% of moderate-income families residing in the assessment area. Home purchase lending is reasonable considering the high cost of housing relative to income levels in the assessment area.

Refinance Loans

Millbrook’s distribution of refinance loans to LMI borrowers was reasonable. The bank originated 18% of its refinance loans to low-income borrowers, compared to 16% of low-income families residing in the assessment area. The bank made 15% of its refinance loans to moderate-income borrowers, compared to 18% of moderate-income families residing in the assessment area.

EXHIBIT II Distribution of Loans in Assessment Area <i>By Borrower Income Level</i> July 1, 2006 – December 31, 2010 HMDA and Consumer Loans				
	Number of Loans	Percentage	Number of Loans	Percentage
Loan Products	Low-Income Borrowers		Moderate-Income Borrowers	
Home Purchase	3	6%	4	8%
Refinance	6	18%	5	15%
Home Improvement	1	9%	2	18%
Consumer	32	24%	23	17%

Home Improvement Loans

Millbrook’s distribution of home improvement loans to LMI borrowers was reasonable. The bank originated 9% of its home improvement loans to low-income borrowers, compared to 16% of low-income families residing in the assessment area. The bank made 18% of its home improvement loans to moderate-income borrowers, compared to 18% of moderate-income families residing in the assessment area.

Consumer Loans

Millbrook’s distribution of consumer loans to LMI borrowers was excellent. The bank originated 24% of its consumer loans to low-income borrowers, compared to 20% of households in the assessment area that are low-income. The bank also made 17% of its consumer loans to moderate-income borrowers, compared to 17% of households in the area that are moderate-income.

Lending to Businesses of Different Sizes

The distribution of loans to businesses of different sizes was reasonable. The bank made 60% of its small business loans to businesses with GAR of \$1 million or less, compared to 90% of such businesses located in the assessment area. Of the bank’s small business loans, 72% were in amounts of \$100,000 or less, which are particularly responsive to the credit needs of small businesses.

EXHIBIT III Distribution of Loans in Assessment Area <i>By Size of Business</i> July 1, 2006 – December 31, 2010 Small Business Loans				
	Number of Loans	Percentage	Loans in Amounts less than \$100m	Average Small Business Loan Size (000s)
GAR \$1 million or less	40	60%	72%	\$172

Geographic Distribution of Loans

Millbrook’s geographic distribution of loans reflects excellent dispersion throughout the assessment area. There are no low-income census tracts in the assessment area, so the geographic distribution analysis was based on the bank’s performance in moderate-income areas. The distribution of lending for each loan category is as follows:

Home Purchase Loans

Millbrook’s distribution of home purchase loans in moderate-income geographies was excellent. The bank originated 9% of its home purchase loans in moderate-income census tracts, compared to 6% of owner-occupied housing units located in moderate-income geographies.

Refinance Loans

Millbrook’s distribution of refinance loans in moderate-income geographies was excellent. The bank originated 21% of its refinance loans in moderate-income tracts, compared to 6% of owner-occupied housing units located in moderate-income geographies.

Home Improvement Loans

Millbrook’s distribution of home improvement loans in moderate-income geographies was reasonable. The bank originated 9% of its home improvement loans in moderate-income tracts, compared to 6% of owner-occupied housing units located in moderate-income geographies.

Consumer Loans

Millbrook’s distribution of consumer loans in moderate-income geographies was excellent. The bank made 10% of its consumer loans in moderate-income areas, compared to 6% of households located in moderate-income geographies.

Small Business Loans

Millbrook’s distribution of small business loans in moderate-income geographies was excellent. Millbrook originated 7% of its small business loans in moderate-income census tracts, compared to 7% of businesses in the assessment area located in moderate-income geographies.

Response to Complaints

Millbrook did not receive any complaints relating to its CRA performance during the examination period.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Millbrook is in compliance with the substantive provisions of the antidiscrimination laws and regulations. No evidence of discriminatory or other illegal credit practices was identified as being inconsistent with helping to meet the credit needs of the assessment area.

EXHIBIT IV Distribution of Loans in Assessment Area <i>By Geographic Census Tract</i> July 1, 2006 – December 31, 2010 HMDA, Consumer, and Small Business Loans		
	Number of Loans	Percentage
Loan Products	Moderate-Income Geographies	
Home Purchase	5	9%
Refinance	7	21%
Home Improvement	1	9%
Consumer	13	10%
Small Business	5	7%

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.

Community development: All agencies have adopted the following language. 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 people or more related by birth, marriage, or adoption and residing together; all such people (including related subfamily members) are considered as members of one family.

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 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: A household consists of all persons who occupy a housing unit. Persons not living in households are classified as living in 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.

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.

The Bank of Millbrook

Assessment Area

July 1, 2006 - December 31, 2010

