

EXAMINER'S COMMENTS (Cont.)

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **First State Bank** ("First State") prepared by the **Federal Reserve Bank of New York** on behalf of the Board of Governors of the Federal Reserve System, the institution's supervisory agency, as of November 3, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

INSTITUTION'S CRA RATING: This institution is rated "outstanding."

Over the examination review period of April 2, 1996 through August 31, 1997, First State Bank's performance with regard to the CRA is rated "outstanding." This determination is based on the following performance criteria: 1) a reasonable loan-to-deposit ratio given the economic conditions and demographics of the assessment area; 2) a substantial majority of its loans in its assessment area; 3) an excellent distribution of loans to borrowers of different income levels (including low- and moderate-income individuals) and businesses and farms of different sizes; and 4) an excellent geographic distribution of loans within the bank's assessment area.

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DESCRIPTION OF INSTITUTION

First State Bank ("First State") was established in 1897 and operates three full-service, retail-oriented offices in the southwestern corner of Steuben County. Steuben County is situated in the Southern Tier of Western New York State. First State is not part of a holding company and is not affiliated with any other institutions. There are no financial or legal impediments preventing First State from meeting the credit needs of its assessment area.

As of June 30, 1997, the bank had total assets of \$36.7 million with total loans of \$12.9 million. Types of credit offered by the bank include mortgage loans, home improvement loans, student loans, overdraft checking, credit cards, commercial loans, automobile loans, installment loans, time loans, and demand loans. Loans secured by 1-4 family residential properties represent the majority (58 percent) of the loan portfolio. In addition, single payment loans and commercial loans represent 25 percent and 9 percent of the total loan portfolio, respectively.

DESCRIPTION OF FIRST STATE BANK'S ASSESSMENT AREA

The following demographic and economic information was obtained from publicly available sources that include the United States Department of Commerce's Bureau of the Census, 1990, the United States Department of Labor, and the Department of Housing and Urban Development.

First State's assessment area is rural in nature and is not part of a Metropolitan Statistical Area. The assessment area is bounded to the south by the Pennsylvania state line, to the southwest by the Township of West Union in the southwest corner of Steuben County, to the north by the Townships of Danville, Fremont, Howard and Avoca, and to the east by the Townships of Troupsburg, Jasper, Canisteo, and Howard.

The bank's assessment area consists of eight whole block numbering areas ("BNAs") found within the western half of Steuben County, New York. Based on the 1990 United States Census, two BNAs are classified as moderate-income and the other six BNAs are classified as middle-income. The two moderate-income BNAs encompass the townships of Greenwood, Jasper, Troupsburg, West Union and part of the city of Hornell. The assessment area's eight BNAs contain the towns of Avoca, Canisteo, Dansville, Fremont, Greenwood, Hartsville, Hornellsville, Jasper, Troupsburg, and West Union, the villages of Arkport, Avoca, Canisteo, and North Hornell, and the city of Hornell.

The bank's assessment area is generally a rural farm community with a total population of 28,070. The percentage of individuals living in the moderate-income BNAs within the assessment area is 25 percent (or 7,013 out of 28,070). There has been 0.6 percent decline in Steuben County's population over the period of 1990 through 1996, according to a Steuben County community organization contacted in 1997.

The 1996 United States Department of Housing and Urban Development's estimated median family income for New York State's non metropolitan statistical areas is \$35,600. According to the 1990 census, the percentage and number of families in the assessment area with low, moderate, middle, and upper-income consists of 23 percent or 1,725 low-income families, 21 percent or 1,603 moderate-income families, 25 percent or 1,844 middle-income families, and 31 percent or 2,332 upper-income families.

As of 1990, the assessment area's median family income was \$27,570. This compares to median family income of \$30,214 for Steuben County, \$31,473 for the non metropolitan statistical areas of New York State, and \$39,741 for the entire State of New York.

Housing units in the assessment area total 11,959, of which 7,541 or 63 percent are owner-occupied and 24 percent are rental units. The two moderate-income BNAs contain 22 percent (or 1,681) owner-

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occupied units, while the other six middle-income BNAs contain 5,860 owner-occupied units. The majority (65 percent) of the housing stock in the assessment area is single family. The 1990 median housing value in the assessment area is \$37,266.

The labor force in the assessment area consists of 13,024 persons as of the 1990 census. In 1993, the primary types of employers in the assessment area were manufacturing (36 percent), services (29 percent), retail trade (21 percent). The Steuben County unemployment rate increased from 4.8 percent in October 1996 to 6.0 percent in October 1997 according to the New York State Department of Labor. In addition, for counties of New York State outside of MSAs, the unemployment rate increased from 4.9 percent to 5.3 percent during the same period. Declines in employment are attributed to job losses in the manufacturing sector which have not been offset by increases in the trade and services sector.

EXAMINER'S COMMENTS (Cont.)

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The CRA examination of First State covered the period of April 2, 1996, through August 31, 1997. During this time period the bank originated 537 consumer loans, 93 small business and farm loans and 41 housing related loans. For the lending, income, and geographic distribution performance levels, the following number of loans were reviewed for the period February 1, 1996 through August 31, 1997: 63 housing related, 147 consumer, and 34 business and farm loans.

The "outstanding" rating is based on the favorable assessment of the bank's core performance criteria.

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition and credit needs of the assessment area. The bank's loan-to-deposit ratio of 41%, which is based on information contained in the Consolidated Report of Condition and Income for the four most recent quarters ended June 30, 1997, has declined from the 52% ratio existing at the last examination. In addition, the ratio is well below both the national peer group average of 69% reported in the June 30, 1997 Uniform Bank Performance Report and the four quarter average of 62% achieved by a peer group of institutions with a similar size and location in New York State. However, despite this decline, the ratio continues to be considered reasonable due to some mitigating factors. Since last examination, the bank's loan portfolio has absorbed declines due to the fact that a number of large commercial loans were paid off and a sluggish local economy has hampered the bank's ability to originate additional loans of this size.

The bank has committed up to a total of \$130 thousand with respect to two revolving credits and three collateral trust notes to a for-profit community development organization that finances low- and moderate-income housing throughout New York State. As of November 15, 1997, \$55 thousand was outstanding to this organization.

Lending in Assessment Area

During the examination review period, First State originated a substantial majority of its loans within its assessment area. Classifying the bank's loans into three major product categories shows that a majority of housing-related, consumer, and business and farm loans were made within its assessment area.

Of the total loans sampled, 83 percent (or 203 out of 244) were originated within the bank's assessment area. Of the housing-related, consumer, and business and farm loans, 84 percent (or 53 out of 63), 84 percent (or 124 out of 147), and 76 percent (or 26 out of 34), respectively, were made within the bank's assessment area.

EXAMINER'S COMMENTS (Cont.)

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

First State's record of lending to borrowers of different income levels (including low- and moderate-income individuals) and businesses and farms of different sizes is excellent given the demographics of its assessment area. In particular, consumer loans represent a large majority of the bank's loan originations during the review period, and a significant percentage of these loans are made to low- and moderate-income individuals. In addition, all of the business loans sampled were made to small businesses and farms. An analysis of the distribution of loans across income levels for each loan category is as follows:

TABLE A

**Distribution of Loans Within Assessment Area By Income Level of Borrower
 February 1, 1996 through August 31, 1997**

	Housing Related	Consumer	TOTAL
LOW INCOME: <i>Less Than 50% of Median Income</i>			
Number	10	62	72
Percentage	19%	50%	41%
Amount(\$)	\$187,461	\$208,625	\$396,086
Percentage	10%	26%	15%
MODERATE INCOME: <i>At least 50% and less than 80% of Median Income</i>			
Number	9	32	41
Percentage	17%	26%	23%
Amount(\$)	\$103,822	\$181,850	\$285,672
Percentage	6%	23%	11%
MIDDLE INCOME: <i>At least 80% and less than 120% of Median Income</i>			
Number	12	21	33
Percentage	23%	17%	19%
Amount(\$)	\$588,732	\$151,519	\$740,251
Percentage	31%	19%	28%
UPPER INCOME: <i>120% or more of Median Income</i>			
Number	22	9	31
Percentage	41%	7%	17%
Amount(\$)	\$983,632	\$253,254	\$1,236,886
Percentage	53%	32%	46%

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TABLE B

**Distribution of Loans Within Assessment Area By Size of Business and Farm
 February 1, 1996 through August 31, 1997**

Small Business and Farm Lending Summary					
Number of loans to businesses and farms	Number of loans to small businesses and farms*	% of loans to small businesses and farms	\$ amount of loans to businesses and farms	\$ amount of loans to small businesses and farms*	% of \$ amount to small businesses and farms
26	26	100%	\$449,971	\$449,971	100%

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

Housing Related

First State's housing-related lending to borrowers of different income levels is reasonable and the level of loans made to low-income borrowers has improved since last examination. Table A shows that loans to low- and moderate-income borrowers comprised 36 percent of the loans sampled with loans to low-income borrowers representing 19 percent of the loans made (14% at last examination). This performance is adequate in comparison to the demographics of the assessment area where 23 percent of the families are low-income and 21% are moderate-income.

Consumer

The bank's consumer lending to borrowers of different income levels is excellent. Table A shows that loans to low- and moderate-income borrowers comprised 76 percent of the loans sampled, with loans to low-income borrowers representing 50 percent of the loans made.

Small Business and Farm

The bank's lending to small businesses and farms with revenues of \$1 million or less is excellent. Table B shows that all loans were made to such businesses and farms. Furthermore, all of the loans sampled were made to small businesses and farms with gross annual revenues of \$100 thousand or less.

EXAMINER'S COMMENTS (Cont.)

Geographic Distribution of Loans

First State's geographic distribution of loans given the bank's assessment area is excellent.

Overall, the bank is lending in most areas of its assessment area, including the two moderate-income BNAs encompassing the towns of Greenwood, Troupsburg, Jasper and West Union and part of the city of Hornell. An analysis of the dispersion of lending for each loan category is as follows:

Housing Related

An analysis of the sample of housing-related loans shows the bank is lending throughout its assessment area, including its moderate-income BNAs. When lending in the assessment area is adjusted to reflect the number of owner-occupied units, the demand-adjusted level of housing-related lending in its moderate-income BNAs is equal to lending in its middle-income BNAs.

Consumer

An analysis of the sample of consumer loans shows the bank is lending throughout its assessment area, including its moderate-income BNAs. In addition, during the review period, 38 percent of the sampled loans were made within the bank's moderate-income BNAs.

Small Business and Farm

An analysis of the sample of small business and farm loans shows that the bank is lending in most of its assessment area, including the two moderate-income BNAs. Lending in the moderate-income BNAs is exceptionally strong with a majority (14 of 26) of the loans made within these two BNAs. However, no small business loans were originated in the middle-income BNA containing the towns of Avoca and Howard. Management stated that the BNA containing the towns of Avoca and Howard is primarily a farm community and is an area where the bank competes with a branch of Fleet Bank and the Bank of Avoca.

Response to Complaints

No complaints relating to First State's CRA performance were received by First State and none have been filed with the Federal Reserve Bank of New York since the last examination.

No discriminatory or illegal practices were identified during this examination that are inconsistent with the substantive provisions of antidiscrimination laws and regulations including the Equal Credit Opportunity (Regulation B) and the Fair Housing Act. However, technical violations of Regulation B were noted. Management has initiated corrective action.

Other Services

First State offers extended banking hours on Thursday evenings at all offices and on Friday evenings at two of three offices for the convenience of consumers that often travel significant distances for banking service. The main office in Canisteo and the Hornell branch are open until 6 pm on Thursdays and 7 pm on Fridays.

