

# **PUBLIC DISCLOSURE**

**December 4, 2006**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**ALDEN STATE BANK  
RSSD No. 414102**

**13216 Broadway  
Alden, New York 14004**

**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.

## TABLE OF CONTENTS

Institution's CRA Rating .....	BB2
Description of Institution .....	BB2
Description of the Bank's Assessment Area.....	BB2
Scope of Examination .....	BB3
Performance Context .....	BB3
Conclusions With Respect to Performance Criteria .....	BB5
Loan-to-deposit Ratio .....	BB5
Lending in the Assessment Area.....	BB5
Lending to Borrowers of Different Income Levels and Businesses of Different Sizes. ....	BB5
Geographic Distribution of Loans in the Assessment Area.....	BB7
Response to Complaints.....	BB8
Fair Lending or Other Illegal Credit Practices Review.....	BB8
Exhibits	
Exhibit 1 - Assessment Area Demographics.....	BB4
Exhibit 2 - Distribution of Loans in Assessment Area by Borrower Income Levels .....	BB6
Exhibit 3 - Distribution of Loans in Assessment Area by Size of Business.....	BB7
Appendices	
CRA Appendix A: Glossary .....	BB9
CRA Appendix B: Map of Assessment Area.....	BB12

## INSTITUTION

**INSTITUTION'S CRA RATING:** Alden State Bank is rated “**SATISFACTORY.**”

The satisfactory performance of Alden State Bank with regard to the Community Reinvestment Act (“CRA”) is based on the following performance characteristics:

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

### DESCRIPTION OF INSTITUTION

Alden State Bank (“ASB”) is a two-branch bank with its main office in the town of Alden, located in Erie County, New York. The bank is not part of a holding company and is not affiliated with any other institution. As of September 30, 2006, ASB had total assets of \$182 million and net loans and leases of \$120 million.

ASB is a retail bank providing consumer and business loans in the following categories: residential and commercial construction loans, mortgage loans, mobile home loans, home improvement loans, home equity loans, consumer loans, commercial and small business loans, and small farm loans. The bank’s loan portfolio includes real estate loans totaling \$101 million, commercial loans totaling \$11 million, consumer loans totaling \$7 million, and other loans totaling less than \$1 million. As of June 30, 2006, approximately 84 percent of the bank’s loans were real estate secured.

There are no financial or legal issues that would prevent ASB from servicing the credit needs of the consumers and small businesses in its assessment area. ASB received a satisfactory rating at the prior CRA examination dated December 2, 2002, conducted by the Federal Reserve Bank of New York.

### DESCRIPTION OF THE BANK’S ASSESSMENT AREA

The bank’s assessment area is located within the Erie County portion of MSA 15380 (Buffalo-Niagara Falls, New York) and Non-MSA portions of Genesee and Wyoming Counties. The assessment area consists of 14 census tracts and does not arbitrarily exclude any LMI geography. One of the census tracts is defined as moderate-income, seven are middle-income, five are upper-

income, and one is not defined. There are no low-income census tracts in the assessment area. The portion of the bank's assessment area in the Buffalo-Niagara Falls MSA includes the towns of Alden, Elma, Lancaster and Marilla, and the villages of Alden, Depew and Lancaster. Both Genessee and Wyoming County have one upper-income census tract. A map illustrating ASB's assessment area is on page BB12.

### SCOPE OF EXAMINATION

ASB was examined using the FFIEC small bank examination procedures. The examination covers the period January 1, 2002 to June 30, 2006. A sample of 438 loans originated between January 1, 2004 and June 30, 2006, were analyzed for the performance criteria related to lending in the assessment area, borrower income and geographic distribution. The sample included 193 consumer loans, 118 small business loans, and 127 loans reported under the Home Mortgage Disclosure Act ("HMDA").

Examiners also conducted interviews with two community development organizations in order to gain an understanding of local credit needs. One community contact focused on economic development as well as small business lending and housing for LMI individuals while the other promoted affordable housing and home ownership counseling.

### PERFORMANCE CONTEXT

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

#### Demographic Characteristics

According to the 2000 Census, the assessment area has a small population of 70,137. Only 4% of the population resides in the one moderate-income census tract.

#### Income Characteristics

The table at right lists HUD figures for median family income during the examination period. Of the families residing in the assessment area, 10% are of low-income, 16% are moderate-income, 24% are middle-income, and 50%

HUD MEDIAN FAMILY INCOMES		
AREA	2005	2006
MSA 15380-Erie Cty	\$56,950	\$58,300
Genessee Cty	\$62,100	\$55,400
Wyoming Cty	\$52,450	\$53,800

are upper-income. Only 3% of all families in the assessment area have incomes below the poverty level.

#### Housing Characteristics

Of the 26,725 housing units in the bank's assessment area, 20,934 (78%) are owner-occupied, 4,816 (18%) are rental, and 975 (4%) are vacant. The percentage of owner-occupied housing in

the assessment area is much higher than the owner-occupied rate of 48% for New York State. Most of the housing stock in the assessment area (94%) represents one- to four-family residential dwellings. The median age of the housing stock is 37 years. Exhibit 1 below provides additional assessment area demographic information.

<b>EXHIBIT 1</b>								
<b>Assessment Area Demographics</b>								
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	1,832	9.6
Moderate-income	1	7.1	627	3.3	59	9.4	3,046	16.0
Middle-income	7	50.0	8,288	43.6	261	3.1	4,572	24.1
Upper-income	5	35.7	10,074	53.1	214	2.1	9,539	50.2
Unknown-income	1	7.1	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>14</b>	<b>100.0</b>	<b>18,989</b>	<b>100.0</b>	<b>534</b>	<b>2.8</b>	<b>18,989</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	0	0	0.0	0.0	0	0.0	0	0.0
Moderate-income	1,259	533	2.5	42.3	616	48.9	110	8.7
Middle-income	11,932	9,050	43.2	75.8	2,430	20.4	452	3.8
Upper-income	13,524	11,351	54.2	83.9	1,760	13.0	413	3.1
Unknown-income	10	0	0.0	0.0	10	100.0	0	0.0
<b>Total Assessment Area</b>	<b>26,725</b>	<b>20,934</b>	<b>100.0</b>	<b>78.3</b>	<b>4,816</b>	<b>18.0</b>	<b>975</b>	<b>3.6</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	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	155	6.9	131	6.8	15	6.8	9	8.1
Middle-income	989	43.9	843	43.9	98	44.7	48	43.2
Upper-income	1,104	49.0	945	49.2	106	48.4	53	47.7
Unknown-income	3	0.1	2	0.1	0	0.0	1	0.9
<b>Total Assessment Area</b>	<b>2,251</b>	<b>100.0</b>	<b>1,921</b>	<b>100.0</b>	<b>219</b>	<b>100.0</b>	<b>111</b>	<b>100.0</b>
	<b>Percentage of Total Businesses:</b>			<b>85.3</b>		<b>9.7</b>		<b>4.9</b>

### Labor, Employment and Economic Characteristics

According to a community contact most of Alden’s residents are commuters within the greater Buffalo-Niagara Falls region. The Buffalo-Niagara Falls region has been facing declining incomes and economic restructuring brought about by the shift from a manufacturing to a service-oriented environment. Large, unionized manufacturing concerns such as Bethlehem Steel and General Motors (“GM”) once dominated the region, but much of this manufacturing base has been lost, along with a significant number of high-paying jobs. The region has attracted service sector employment, but the wages are relatively low.

Between 1991 and 2001, the region lost manufacturing jobs with average annual earnings of \$51 thousand. Service employment rose but earnings averaged only \$27 thousand. Overall, the region's economic growth has been slow, and job growth stagnated between 1990 and 2000. The region has had only a 2% rise in employment over that decade compared with a 5% increase statewide and a 20% rise nationwide.

Historically, the automobile industry has been a source of a large percentage of high-paying employment in the area. The transportation equipment industry has suffered significant job losses, but a substantial number of jobs have been retained in automobile parts manufacturing at the area's large GM engine plant, a Ford Motor Company stamping plant, and several other major auto parts makers. In addition, the Buffalo-Niagara Falls region is still a significant producer of industrial chemicals and fabricated metal products.

During the examination period, average annual unemployment rates in the Buffalo-Niagara Falls MSA decreased from 6.8% in 2002 to 5.3% in 2006. Trends in 2006 indicate further improvement as average unemployment reached 4.5%.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The satisfactory rating is based on an evaluation of Alden's core performance criteria as follows:

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

ASB'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 eighteen quarters ending June 30, 2006, was 68%, based on information contained in its *Consolidated Report of Condition and Income*. This ratio was comparable to a national peer average of 70% for similarly sized banks and slightly below a local peer bank average ratio of 71% for six similarly sized banks located in Western New York during the same time period.

### **Lending in the Assessment Area**

ASB originated a majority of its loans in its assessment area. Classifying the bank's loans into three major categories shows that a majority of housing-related, consumer and business loans were made in the bank's assessment area. Of the number of loans included in the analysis, 70% were extended in the bank's assessment area. Of the loans analyzed 68% of the HMDA-related, 74% of the consumer loans, and 65% of the small business loans were made in the bank's assessment area.

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

Overall, ASB's record of lending to borrowers of different income levels and businesses of different sizes reflected excellent penetration given the demographics of the bank's assessment area. The analysis of the lending distribution in each loan category follows:

*HMDA-related Loans*

The level of HMDA-related lending to borrowers of different income levels was excellent. Exhibit 2 indicates that HMDA-related loans to low-income borrowers totaled 35% of all loans analyzed while low-income families represent 10% of all families in the assessment area. Loans to moderate-income borrowers totaled 22% of all HMDA-related loans while 16% of all families in the assessment area were of moderate-income.

<b>EXHIBIT 2</b>			
<b>Distribution of Loans in Assessment Area By Income Level of Borrower*</b>			
<i>January 1, 2004 – June 30, 2006</i>			
<b>INCOME LEVEL</b>	<b>HMDA-RELATED</b>	<b>CONSUMER</b>	<b>TOTAL</b>
<b>LOW-INCOME: Less than 50% of Median Income</b>			
Number	29	47	76
Percentage	35.4%	33.3%	34.1%
Amount (\$)	\$298,000	\$339,000	\$637,000
Percentage	7.5%	16%	10.4%
<b>MODERATE-INCOME: At least 50% &amp; less than 80% of Median Income</b>			
Number	18	33	51
Percentage	21.9%	23.4%	22.9%
Amount (\$)	\$736,000	\$365,000	\$1,101,000
Percentage	18.5%	17.2%	18%
<b>MIDDLE-INCOME: At least 80% &amp; less than 120% of Median Income</b>			
Number	15	27	42
Percentage	18.3%	19.1%	18.8%
Amount (\$)	\$640,000	\$516,000	\$1,156,000
Percentage	16%	24.3%	18.9%
<b>UPPER-INCOME: 120% or more of Median Income</b>			
Number	20	34	54
Percentage	24.4%	24.1%	24.2%
Amount (\$)	\$2,316,000	\$902,000	\$3,218,000
Percentage	58%	42.5%	52.7%
<b>TOTALS:</b>			
Number	82	141	223
Amount (\$)	\$3,990,000	\$2,112,000	\$6,112,000

\*Does not include 1 consumer and 4 HMDA-related loans which did not report income.

*Consumer Loans*

The level of consumer lending to borrowers of different income was excellent. Exhibit 2 shows that loans to low-income borrowers totaled 33% of all loans analyzed while low-income families represent 10% of all families in the assessment area. Loans to moderate-income borrowers represented 23% of all loans analyzed while 16% of all families in the assessment area are moderate-income. These ratios compare well with the demographics of the assessment area as noted above.

*Small Business Loans*

The level of lending to businesses with gross annual revenues (GAR) of \$1 million or less was reasonable. As Exhibit 3 shows, 74% of the loans analyzed were made to such businesses. This ratio was somewhat below the percentage business establishments (85%) in Alden’s assessment area that have GAR of \$1 million or less.

In addition, 70% of the small business loans originated during the examination period were in amounts of \$100 thousand or less. The average loan size was \$35,222, an amount that would meet the credit needs of smaller businesses.

EXHIBIT 3 Distribution of Loans in Assessment Area By Size of Business January 1, 2004 – June 30, 2006					
SMALL BUSINESS LENDING SUMMARY					
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*
77	57	74%	\$7,810,000	\$6,591,000	84%

**Geographic Distribution of Loans in the Assessment Area**

Overall, ASB’s geographic distribution of loans was considered reasonable given the demographics of the assessment area. The distribution of lending for each loan category is analyzed as follows:

*HMDA-related Loans*

The geographic distribution of the HMDA-related lending was reasonable. Of the 86 HMDA-related loans included in the analysis and within the bank’s assessment area, no loans were located in the one moderate-income census tract in the bank’s assessment area. Opportunities for

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



lending within LMI census tracts are limited as only 533 or 2.5% of all owner-occupied housing units are in the one moderate-income census tract.

#### *Consumer Loans*

The geographic distribution of the consumer loans was reasonable. Of the 142 consumer loans in the bank's assessment area included in the analysis, 33 loans or 23% were in the moderate-income census tract compared to 7% of all households located in the moderate-income census tract.

#### *Small Business Loans*

The geographic distribution of the small business loans was reasonable. While the bank did not make any small business loans in the moderate-income census tract, opportunities to do so are limited. Of the 2,251 business establishments in ASB's assessment area only 155 business establishments or 7% are in the moderate-income census tract.

#### **Response to Complaints**

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

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

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

## CRA APPENDIX A

### GLOSSARY

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

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

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

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

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

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

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

**Metropolitan area (MA):** A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

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

**Moderate-income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, 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 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.

# Alden State Bank

## Assessment Area

January 1, 2004 - June 30, 2006

**Legend**

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

