

PUBLIC DISCLOSURE

February 2, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**State Bank of Chittenango
12940**

**101 Falls Boulevard
Chittenango, New York 13037**

Federal Deposit Insurance Corporation

**452 Fifth Avenue
New York, New York 10018**

NOTE: 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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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 **State Bank of Chittenango, Chittenango, New York**, prepared by the Federal Deposit Insurance Corporation, the institution's supervisory agency, as of **February 2, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

A majority of the bank's loans were originated within the assessment area, with a reasonable distribution of residential loans among the middle- and upper-income tracts located there. Residential and consumer loans were extended generally among all income groups of applicants, and commercial loans were extended to businesses of all revenue sizes under \$1 million. Overall, the bank's record of lending, the services provided to customers, and the contributions made to community groups represent a satisfactory level of performance.

DESCRIPTION OF INSTITUTION

State Bank of Chittenango is a \$50 million unit bank located in Chittenango, New York, in Madison County. As of September 30, 1997, the bank had 55% of assets invested in gross loans. The loan mix was comprised of 47% 1-4 family residential loans, 18% multifamily and commercial real estate loans, 1% construction loans, 14% commercial loans, and 20% consumer and credit card loans

DESCRIPTION OF MADISON COUNTY

The bank's assessment area comprises eight census tracts in Madison County, contained in the Syracuse MSA #8160. Seven of the tracts are middle-income tracts, and the remaining tract is upper-income. There are no low- and moderate-income tracts contiguous to the assessment area. The closest moderate-income area is approximately four miles from the area, in the City of Oneida, where two banks are headquartered, and two other banks have branch offices. The income levels are defined as follows: low-income: less than 50% of the median family income (MFI) of the MSA; moderate-income, 50-79% of the MFI; middle-income: 80-119% of the MFI; and upper-income: 120% and more of the MFI.

The area is contiguous to Onondaga County to the west, borders Oneida Lake to the north, and other tracts of Madison County to the south and east. The area is characterized as a bedroom community to residents commuting to employers primarily in Syracuse to the west. Other small businesses and sole proprietorships are located within the area. As of 1993, approximately 96% of all business establishments within all of Madison County employed fewer than 50 people.

The assessment area contains 36,126 people, including 9,708 families, with a median family income of \$36,089, as of the 1990 Census. The 1996 and 1997 HUD-adjusted median family income levels were \$41,800, and \$43,600, respectively. Major employment areas include services, retail, and government. Within the area are 13,879 housing units, of which 72% are owner-occupied, 19% are rental units, and 9% are vacant units. Additionally, of the total housing units, 72% are single family, 11% are 2-4 family, 5% are multifamily, 11% are mobile homes, and 1% are other types. There is a college located in Cazenovia, and 2% of the population reside in dormitories.

The 9,708 families in the area are in the following income groups: low-income, 18%; moderate-income, 20%; middle-income, 26%; and upper-income, 36%. The income groups are determined using the median family income of the MSA, as follows: low, less than 50%; moderate, 50-79%; middle, 80-119%; and upper, 120% and more.

The assessment area meets the requirements of the Community Reinvestment regulation.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The following analyses encompass residential mortgage loans reported on the Home Mortgage Disclosure (HMDA) Loan Application Register (LAR), consumer loans, and business loans. The dollar volume of each product type represented the following percentages of total lending for 1996 and 1997, respectively: mortgage loans, 16% and 20%; consumer loans, 40% and 50%; and business loans, 36% and 30%. Loans to small farms represented 8% of loan volume in 1996, and less than 1% in 1997; therefore, these loans were not analyzed.

Loan-to-Deposit Analysis

The bank's average net loan-to-deposit ratio from March 1995 through September 1997 was 62%. The average for the bank's peer group was 65%; the bank's peer group is comprised of commercial banks with assets between \$25 million and \$50 million, with a single office in a metropolitan area. Approximately \$2.9 million in public funds were deposited into the bank in March 1996, and were withdrawn the following month. The bank's loan-to-deposit ratio for the period ending March 31, 1996 was 59%, and would have been 62% without this large deposit. The bank periodically monitors various financial ratios of 40 New York State banks with assets less than \$100 million. The bank's loan-to-deposit ratio was just under the 40-bank peer level in 1996 and 1997, and slightly over the peer level in 1995.

Bank management does not consider any local financial institutions to be similarly situated. However, all local banks and credit unions represent significant competition for all loan products. Bank management indicated that because of local competitive pressures, the size of the bank, and liquidity concerns, the bank's opportunity for lending is somewhat diminished, and is reflected in the loan-to-deposit level. Given these considerations, the ratio level meets standards.

Lending in Assessment Area

The bank's internal reports aggregate all loan types, including business, farm, residential, and consumer loans to determine the percentage of loans extended within the assessment area. The percentages of all approved loans extended within the assessment area were 84% in 1996, and 82% in 1997. The following tables reflect just residential loans, and were generated using HMDA data. As shown below, the majority of purchase loans were made within the assessment area each year, and a high majority of refinance and home improvement loans were extended within the area each year. In the following tables, "M" represents dollar volumes expressed in thousands.

Number	1995		1996		1997	
	#	%	#	%	#	%
Purchase	9	60%	4	57%	6	100%
Refinance	17	94%	20	80%	11	73%
HIL	38	95%	40	89%	35	97%

Amount	1995		1996		1997	
	\$	%	\$	%	\$	%
Purchase	558M	56%	209M	49%	298M	100%
Refinance	595M	96%	738M	82%	288M	58%
HIL	227M	97%	355M	91%	333M	93%

Lending to Borrowers of Different Incomes

The data presented in the following tables entitled "HMDA Loans" was derived from the bank's HMDA Disclosure Reports and the Aggregate Tables. Within each loan category, the percentages represent the bank's level of lending among all income categories of applicants. The proportion of families within each income group in the bank's assessment area is shown in the last column of each table, and serves as an indication of potential demand for credit. The rows in the following tables labeled "NA" represent those borrowers who did not disclose income data as part of the application process.

1995 - HMDA Loans

Applicant Income - 1995	Purchase		Refinance		HIL		% Families
	#	%	#	%	#	%	
Low	2	22%	3	18%	9	24%	18%
Moderate	0	0	4	24%	10	26%	20%
Middle	3	33%	5	29%	11	29%	26%
Upper	4	45%	5	29%	8	21%	36%

Applicant Income -1995	Purchase		Refinance		HIL		% Families
	\$	%	\$	%	\$	%	
Low	36M	6%	71M	12%	17M	8%	18%
Moderate	0	0	26M	4%	48M	21%	20%
Middle	173M	31%	204M	34%	102M	45%	26%
Upper	349M	63%	294M	50%	60M	26%	36%

1996 - HMDA Loans

Applicant Income - 1996	Purchase		Refinance		HIL		% Families
	#	%	#	%	#	%	
Low	0	0	3	15%	4	10%	18%
Moderate	0	0	2	10%	10	25%	20%
Middle	1	25%	9	45%	14	35%	26%
Upper	3	75%	6	30%	10	25%	36%
NA					2	5%	

Applicant Income - 1996	Purchase		Refinance		HIL		% Families
	\$	%	\$	%	\$	%	
Low	0	0	13M	2%	19M	5%	18%
Moderate	0	0	8M	1%	65M	18%	20%
Middle	30M	14%	379M	51%	106M	30%	26%
Upper	179M	86%	338M	46%	160M	45%	36%
NA					5M	2%	

1997 - HMDA Loans

Applicant Income - 1997	Purchase		Refinance		HIL		% Families
	#	%	#	%	#	%	
Low	0	0	1	9%	14	40%	18%
Moderate	4	66%	5	46%	2	6%	20%
Middle	1	17%	3	27%	13	37%	26%
Upper	1	17%	1	9%	6	17%	36%
NA			1	9%			

Applicant Income - 1997	Purchase		Refinance		HIL		% Families
	\$	%	\$	%	\$	%	
Low	0	0	1M	1%	67M	20%	18%
Moderate	197M	66%	116M	40%	10M	3%	20%
Middle	37M	12%	126M	44%	204M	61%	26%
Upper	64M	22%	44M	15%	52M	16%	36%
NA			1M	<1%			

Summary of HMDA Loans

As shown in the tables above, the bank made no purchase loans to moderate-income applicants in 1995, no purchase loans to low-income applicants in 1996 and 1997, and no purchase loans to moderate-income applicants in 1996. However, it should be noted that in each year, the bank made fewer than 10 purchase loans. The bank offers mortgage loans with a maximum of 80% financing, whereas many other competing institutions offer 100% financing programs, which are more attractive to low- and moderate-income applicants, who typically have fewer funds available for a down payment.

Other than the above exceptions, the percentages of loans to low- and moderate-income applicants is close to, and in some instances higher than, the proportion those income groups within the assessment area. For example, in 1995, 22% of the bank's purchase loans were originated to low-income applicants, yet only 18% of the families in the assessment area are considered low-income.

Overall, the bank extends credit among all income groups of applicants, with significant percentages of refinance and home improvement loans originated to low- and moderate-income applicants.

Consumer Loans

The following tables were derived from internal bank reports for loans originated both within and outside the assessment area; it was not considered practical to attempt to identify the loans outside of the assessment area, since more than 80% of all loans are made within the assessment area. The bank began collecting and reporting the data on applicant income for consumer loans in 1996, therefore, the data was not readily available for 1995. However, the results for 1996 and 1997 adequately portray the bank's record of lending among all income groups. The proportion of families within each income group in the bank's assessment area are shown in the last column of each table, and serve as an indication of potential demand for credit.

1996

Applicant Income - 1996	Number		Dollar		% Families
	#	%	\$	%	
Low	173	33%	691M	22%	18%
Moderate	107	20%	606M	19%	20%
Middle	113	22%	563M	18%	26%
Upper	131	25%	1,280M	41%	36%

1997

Applicant Income - 1997	Number		Dollar		% Families
	#	%	\$	%	
Low	166	34%	648M	24%	18%
Moderate	131	27%	513M	19%	20%
Middle	94	19%	561M	20%	26%
Upper	103	20%	1,027M	37%	36%

Summary of Consumer Loans

The bank made a substantial proportion of consumer loans in each year to low- and moderate-income borrowers. The proportions were greater than the proportions those families represent in the assessment area. For example, in 1996, 33% of the consumer loans were made to low-income borrowers, however, only 18% of the families in the assessment area are considered low-income. The tables reflect that the bank has met a significant portion of consumer credit demand.

Business Loans

Internal bank reports indicated that for all business loans originated, more than 90% in 1996 and 1997 were made to businesses with annual revenue levels less than \$1 million. A sample of 33 business loans from within the assessment area was analyzed for 1996 and 1997, to determine the revenue of each business applicant. This sample size represents a statistical sample with a 90% confidence level. The tables entitled “Business Loans” below represent the income groups of the sample of loans for each year. All sampled loans had revenues less than \$1 million.

1996

Business Revenue	<\$100,000	\$100-250M	\$250-500M	\$500-1,000M	NA
Number	13	6	4	2	8
Percent	40%	18%	12%	6%	24%
Dollar	\$111M	\$42M	\$76M	\$128M	\$64M
Percent	26%	10%	18%	31%	15%

1997

Business Revenue	<\$100,000	\$100-250M	\$250-500M	\$500-1,000M	NA
Number	5	9	3	3	13
Percent	15%	27%	9%	9%	40%
Dollar	226M	159M	37M	35M	\$417M
Percent	26%	18%	4%	4%	48%

Summary of Business Loans

As shown in the above tables, all of the sampled business loans were made to small businesses, those with annual revenues less than \$1 million. Additionally, a good portion of the loans were made to the smallest businesses, those with annual revenues less than \$100,000. Of the sampled loans, those for amounts of \$5,000 or under represented 42%, and 36%, of the number of loans in 1996 and 1997, respectively. Many of these loans represent time notes with maturities under one year. The results reflect the bank’s willingness to lend to businesses of all sizes, and to grant even the smallest loans that larger banks may reject.

Geographic Distribution of Loans

Information for the geographic distribution of consumer and business loans was not readily available; furthermore, since the bank's assessment area is comprised of only seven middle-income tracts and one upper-income tract, it was determined that the analysis would not be meaningful. The following tables represent the geographic distribution of HMDA loans among the middle- and upper-income tracts within the assessment area. The bank's market share among all lenders is shown for each type of loan in 1995 and 1996; aggregate date is not available for 1997.

1995

Census Tract Type - 1995	Purchase		Refinance		HIL	
	#	%	#	%	#	%
Middle	9	100%	17	100%	37	97%
Upper	0	0	0	0	1	3%
Market Share	2.80%		9.77%		15.97%	

Census Tract Type - 1995	Purchase		Refinance		HIL	
	\$	%	\$	%	\$	%
Middle	558M	100%	595M	100%	197M	87%
Upper	0	0	0	0	30M	13%
Aggr. Number	2.48%		5.09%		11.92%	

1996

Census Tract Type - 1996	Purchase		Refinance		HIL	
	#	%	#	%	#	%
Middle	4	100%	18	94%	39	98%
Upper	0	0	2	6%	1	2%
Aggr. Number	1.22%		6.64%		15.38%	

Census Tract Type - 1996	Purchase		Refinance		HIL	
	\$	%	\$	%	\$	%
Middle	209M	100%	692M	94%	335M	94%
Upper	0	0	46M	6%	20M	6%
Aggr. Number	1%		3.60%		16.78%	

1997

Census Tract Type - 1997	Purchase		Refinance		HIL	
	#	%	#	%	#	%
Middle	6	100%	11	100%	34	97%
Upper	0	0	0	0	1	3%

Census Tract Type - 1997	Purchase		Refinance		HIL	
	\$	%	\$	%	\$	%
Middle	298M	100%	288M	100%	298M	89%
Upper	0	0	0	0	35M	11%

Summary

The majority of the bank's residential mortgage loans were originated within the middle-income tracts, since seven of the eight tracts in the assessment area are middle-income. The bank has a satisfactory market share among all loan types, especially given the bank's small size and the high level of competing institutions.

Community Development Loans

The bank is a member of a consortium of approximately 130 New York banks which originate loans to small businesses throughout the state to encourage existing and new industry. The consortium works in conjunction with other state agencies, including the Urban Development Corporation, Job Development Authority, and the Department of Economic Development. None of the projects have specifically benefited the bank's assessment area. The bank committed a \$68,000 line of credit to this organization, of which \$10,000 is outstanding.

Compliance with Antidiscrimination Laws

The bank is in material compliance with all antidiscrimination and civil rights regulations.

Response to Complaints

The bank did not receive any consumer complaints related to CRA performance.

Innovative or Flexible Lending Programs

The bank has 7 loans totaling \$897,000 that are guaranteed by the Small Business Administration (SBA). Each loan was used by a local small business for expansion or development purposes, and to stabilize or increase employment.

The bank has six outstanding loans totaling \$434,000, made through a program where the bank purchases customer's receivables on a discounted basis and does all billing and collecting. For small businesses, this product provides a consistent cash flow, which allows for additional investments in inventory.

The bank developed a loan product to encourage customers to purchase locally made goods or services. Each loan offers a one-half of one percentage point reduction on the interest rate. Although loans have been made through this program, the number and dollar volume of loans extended were not tracked.

Other

Bank management requested that the services and investments be reviewed by the examiners for consideration of an overall Outstanding rating. However, during a preliminary review of both areas, it was determined that their inclusion would not improve the overall rating to an Outstanding level. Services and investments are discussed below.

Services:

The banking office is open from 9am to 4pm Monday through Wednesday; 9am to 5pm on Thursday and Friday; and from 8:30am to 12pm on Saturday. Drive-through hours are Monday to Friday 7am to 5pm. The ATM provides 24 hour service, and is part of the MAC and CIRRUS networks; the card also acts as a debit card at merchant locations which are on the MAC network. Other services offered by the bank include safe deposit boxes, bank by mail, wire transfers, and merchant food stamp deposits.

The bank has established funeral director trust accounts with several local funeral homes. Customers can establish an interest bearing deposit, with the bank and the funeral director as co-trustees, payable upon the customer's death to cover funeral expenses.

The bank's controller was on the board of a local town economic development agency, which promoted local business and development. The bank officer left the bank's employment in 1998. A director serves on a local sewer planning committee, which is planning sewage infrastructure improvements within the community.

Investments:

On an annual basis, the bank donates checking account training kits to the local high school to teach students the mechanics and use of bank checking accounts. The annual amount of the donation is approximately \$250.

In 1997, the bank donated \$250 to a local organization that provides services to retarded citizens, for a building campaign.