

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 April 1, 1996. 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 "Satisfactory."

Over the examination review period of November 1994 through April 1996, First State's performance with regard to the CRA is rated "Satisfactory." This determination was based on the following performance criteria: 1) a reasonable loan-to-deposit ratio of 50 percent taking into account the bank's lending to a community development project; 2) a substantial majority of its loans in its assessment area; 3) a reasonable 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.

The following table indicates the performance level of First State with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	FIRST STATE PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different sizes		X	
Geographic Distribution of Loans	X		
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

There are no financial or legal impediments preventing First State from meeting the credit needs

of its assessment area.

As of December 31, 1995, the bank had total assets of \$36.1 million with total loans of \$16.9 million. The bank is a small retail-oriented bank that operates three full service branches.

DESCRIPTION OF FIRST STATE'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 not part of a Metropolitan Statistical Area. In January 1996, as a result of the new CRA regulation, the bank adjusted its assessment area to reflect whole geographies. The adjustments changed the bank's assessment area by adding the town and village of Avoca and excluding the townships of Alfred, Almond, and Cameron. 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, of the eight BNAs that encompass the bank's assessment area, two 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 two moderate-income BNAs contain 1,681 owner-occupied units, while the other six middle-income BNAs contain 5,860 owner-occupied units. Of the total owner-occupied units, 22 percent (or 1,681 out of 7,541) are located in the moderate-income BNAs. The percentage of individuals living in the moderate-income BNAs within the assessment area is 25 percent (or 7,013 out of 28,070).

In 1990, the percentage and number of families in the assessment area with low, moderate, middle, and upper income consists of 23 percent or 1,724 low-income families, 21 percent or 1,605 moderate-income families, 25 percent or 1,842 middle-income families, and 31 percent or 2,333 upper-income families.

The 1996 United States Census and the Department of Housing and Urban Development's estimated median family income for New York State's non metropolitan statistical areas is \$35,600.

The bank's assessment area is generally a rural farm community with a total population of 28,070 and a labor force of 13,024 persons. There has been 0.6 percent growth in the assessment area's population over the period of 1990 through 1993. The median housing value of the assessment area in 1990 was \$37,266. 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 New York State.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The examination of First State covered the period of November 7, 1995, through April 1, 1996. The "Satisfactory" rating is based on the favorable assessment of the bank's core performance criteria.

For the lending, income, and geographic distribution performance levels, the following number of loans were reviewed for the period November 1994 through January 1996: 42 housing related, 164 consumer, and 67 business and farm loans.

Loan to Deposit Ratio

First State's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and the credit needs of its assessment area. The bank's loan-to-deposit ratio adjusted for seasonal variations and based on information contained in its Consolidated Report of Condition and Income for the four most recent quarters ending December 31, 1995, was 50 percent. This is below the peer group average of 65 percent in the December 31, 1995 Uniform Bank Performance Report.

The bank has one community development loan on its books as of January 31, 1996 that totaled \$11 thousand. This loan was outstanding at the last examination and was made to a for-profit community development organization that finances low- and moderate-income housing throughout New York State.

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, 87 percent (or 237 out of 273) were found within the bank's assessment area. Of the housing-related, consumer, and business and farm loans, 86 percent (or 36 out of 42), 87 percent (or 143 out of 164), and 87 percent (or 58 out of 67), respectively, were made within the bank's assessment area.

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 reasonable given the demographics of its assessment area. 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
 November 1994 through January 1996**

	Housing Related	Consumer	TOTAL
LOW INCOME: <i>Less Than 50% of Median Income</i>			
Number	5	48	53
Percentage	14%	34%	30%
Amount(\$)	\$142,000	\$116,789	\$258,789
Percentage	11%	19%	14%
MODERATE INCOME: <i>At least 50% and less than 80% of Median Income</i>			
Number	4	34	38
Percentage	11%	24%	21%
Amount(\$)	\$98,900	\$172,462	\$271,362
Percentage	8%	27%	15%
MIDDLE INCOME: <i>At least 80% and less than 120% of Median Income</i>			
Number	14	42	56
Percentage	39%	29%	31%
Amount(\$)	\$410,212	\$203,119	\$613,331
Percentage	33%	32%	32%
UPPER INCOME: <i>120% or more of Median Income</i>			
Number	13	19	32
Percentage	36%	13%	18%
Amount(\$)	\$606,000	\$138,327	\$744,327
Percentage	48%	22%	39%

TABLE B

**Distribution of Loans Within Assessment Area By Size of Business and Farm
 November 1994 through January 1996**

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
58	51	88%	\$818,772	\$565,817	69%

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

Housing Related

The bank's housing-related lending to borrowers of different income levels is reasonable. However, some weakness in lending to low- and moderate-income borrowers was evident. Table A shows that loans to low- and moderate-income borrowers comprised 25 percent of the loans sampled, with loans to low-income borrowers representing 14 percent of the loans made. This does not compare favorably to the demographics of the assessment area where 23 percent of the population is low-income and 21 percent of the population is 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 58 percent of the loans sampled, with loans to low-income borrowers representing 34 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 a substantial majority of loans were made to such businesses and farms. Further, of the loans sampled, 88 percent were made to small businesses and farms with gross annual revenues of \$100 thousand or less.

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, 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 in most of 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 7.1 loans per 1,000 owner-occupied units and is greater than the 4.1 loans per 1,000 owner-occupied units in its middle-income BNAs.

One middle-income BNA containing the towns of Avoca and Howard had no housing-related lending. Management stated that this area was primarily a farm community and was an area where the bank had to compete with a branch of Fleet Bank and the Bank of Avoca. However, demographic information shows that housing opportunities exist in this middle-income BNA which contains 979 owner-occupied units.

Consumer

An analysis of the sample of consumer loans shows that the geographic distribution within the bank's assessment area is reasonable. With the exception of one middle-income BNA containing the towns of Dansville and Fremont, the bank originated consumer loans throughout its assessment area. In addition, during the review period, 34 percent of the sampled loans were made within the bank's moderate-income BNAs.

Small Business and Farm

Analysis of the sample of small business loans shows that with the exception of one middle-income BNA containing the towns of Avoca and Howard, small business loans were made throughout the assessment area.

Analysis of the sample of small farm loans shows that small farm loans were made throughout the assessment area with the exception of four BNAs encompassing the city of Hornell and the two BNAs encompassing the towns of Dansville, Fremont, and Hornellsville.

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.

First State is in compliance with the substantive provisions of the antidiscrimination laws and regulations, including the Equal Credit Opportunity Act, the Fair Housing Act, and any agency regulations pertaining to nondiscriminatory treatment of credit applications. Management has developed adequate policies, procedures, and training programs supporting nondiscrimination in lending and credit practices.