PUBLIC DISCLOSURE

April 30, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bank of Avoca
02-36-0480
18 North Main Street
Avoca, New York, 14809

Federal Reserve Bank of New York

33 Liberty Street, New York, NY 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

INSTITUTION'S CRA RATING: Bank of Avoca is rated "**SATISFACTORY**."

For the examination period of May 12, 1997, through April 30, 2001, the satisfactory performance of the Bank of Avoca ("Avoca") with regard to the Community Reinvestment Act ("CRA") is based on the following performance criteria:

- a satisfactory loan-to-deposit ratio of 69.11 percent;
- a substantial majority of the bank's loans (95.6 percent) in its assessment area;
- an excellent distribution of loans to individuals of different income levels, including low- and moderate-income ("LMI") individuals and businesses and farms of different sizes; and
- poor geographic distribution of loans within the bank's assessment area.

DESCRIPTION OF INSTITUTION

Established in 1901, Avoca is a small retail-oriented institution which maintains two full-service branches and a remote drive-through facility. At the main branch in Avoca and the other branch in Cohocton, the bank operates automatic teller machines ("ATMs") which are connected to a nationwide ATM electronic network. The bank has no plans to open another office in the immediate future. Avoca is a family-owned bank whose stock is not publicly traded, and it is not part of a holding company or affiliated with any other financial institution.

As of December 31, 2000, the bank had total assets of $17.3 million, total deposits of a $15.7 million and total loans of $10.5 million. Approximately 79 percent of Avoca's loans are secured by real estate, 13 percent are loans to consumers for automobiles and other personal expenditures, and 8 percent are commercial and agricultural loans. At the previous examination, conducted as of May 12, 1997, Avoca's CRA performance was also assessed as satisfactory. There are no financial impediments that would prevent the bank from meeting the credit needs of its assessment area.

The bank offers various loan and deposit products, including home mortgage loans, home equity loans, business and farm loans, Small Business Administration ("SBA") loans, personal loans, credit card loans, automobile loans and other consumer loan products. Avoca's deposit products include checking accounts, savings accounts, certificates of deposit, money market accounts, Christmas club accounts, and vacation club accounts.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The demographic and economic information in this report was obtained from publicly available sources including the U.S. Department of Commerce's Bureau of the Census (1990), the U.S. Department of Labor, and the U.S. Department of Housing and Urban Development ("HUD").

Avoca's assessment area is entirely rural and not part of a metropolitan statistical area ("MSA"). The assessment area includes the towns of Avoca, Bath, Cohocton, Dansville, Fremont, Howard, Prattsburgh, Pulteney, Urbana, Wayland and Wheeler, and the villages of Avoca, Bath, Cohocton, Savona and Wayland. The assessment area, which has not changed since the previous examination, consists of ten block numbering areas ("BNAs") in the northern half of Steuben County, New York. Based on the 1990 U.S. Census, of the ten BNAs in the bank's assessment area, only one is classified as moderate-income and the other nine are classified as middle-income. None of the BNAs are classified as low- or upper-income. The single moderate-income area includes the village of Savona, located in the town of Bath.

The following map illustrates the bank's assessment area:

INSERT MAP OF ASSESSMENT AREA HERE

PERFORMANCE CONTEXT

Demographic Characteristics

According to the 1990 Census, 33.4 percent of Steuben County's total population (33,080 of 99,088) resides in the bank's assessment area. Twelve percent of the population in the assessment area resides in the moderate-income BNA and 88 percent in the middle-income BNAs. Of the 8,658 families in the bank's assessment area, 20 percent (1,737) are low-income, 21.6 percent (1,867) are moderate-income, 24.4 percent (2,116) are middle-income, and 33.9 percent (2,938) are upper-income.

Of the 12,012 households in the bank's assessment area, 2,769 or 23 percent are low-income, 2,155 or 18 percent are moderate-income, 2,637 or 22 percent are middle-income, and 4,451 or 37 percent are upper-income. A further breakdown of the bank's demographics shows that 7,669 of the 8,658 families in the assessment area reside in middle-income BNAs and 989 in moderate-income BNAs.

Housing Characteristics

Of the 14,451 housing units in the assessment area, 63.4 percent or 9,162 are owner-occupied, 19.7 percent or 2,849 are rental units, while 16.9 percent or 2,440 are vacant. Most of the BNAs in the assessment area are classified as middle-income. There are nine such BNAs in the assessment area, which represent 90 percent of the assessment area BNAs. There are 13,006 (90 percent) housing units in middle-income BNAs of which 8,089 or 62.2 percent are owner-occupied. The single moderate-income BNA contains 1,445 housing units with 1,073 or approximately 74.3 percent owner-occupied.

In 1990, the median value of a house in the assessment area was $45,784, and the median housing value for Steuben County was $45,715.

Labor, Employment and Economic Characteristics

According to the 1990 Census, the median family income for the bank's assessment area is $29,619, consistent with the median family income of $30,214 for Steuben County and $31,472 for New York State's non-MSAs. However, the median family income of $39,741 for the state is somewhat higher.

According to 1997 data from the U.S. Census Bureau, the labor force in Steuben County totals 18,635 persons. The primary employers include manufacturing companies, which number 8,070 or 43 percent of the work force, 4,526 retailers (24 percent), 2,332 accommodation and food service concerns (13 percent), 1,282 health care and social services companies (7 percent), 843 administrative support and waste management services (5 percent), 550 professional, scientific and technical service entities (3 percent), 366 wholesalers (2 percent), 261 real estate firms (1 percent), and 405 other types of employers (2 percent).

Economic conditions in Steuben County are stable. According to the U.S. Bureau of Labor Statistics, the average unemployment rate there is 4.9 percent for the year 2000, 5.8 percent in 1999, 6 percent in 1998, and 6.6 percent in 1997. The decline in Steuben County's unemployment rate since the previous examination reflects improved economic conditions which most of the country experienced in the 1990s. The average unemployment rate for the first three months of 2001 is 5.3 percent, an increase of about 0.4 percent from the 2000 figure. The unemployment rate increase in 2001 is in line with the rest of the country as the U.S. economy slows down.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The CRA examination of Avoca covered the period of May 12, 1997, through April 30, 2001. The bank's "satisfactory" CRA performance is based on the favorable assessment of the bank's five core performance criteria.

Loan-to-deposit Ratio

Avoca's loan-to-deposit ratio was satisfactory given the bank's size, financial condition and the credit needs of its assessment area. At this examination, the bank's loan-to-deposit ratio is 69.11 percent, based on the bank's *Consolidated Report of Condition and Income* for the four most recent quarters ending December 31, 2000. This ratio is clearly higher than the four-quarter average of 59.49 percent posted by similarly situated local financial institutions, and it is slightly higher than the national peer group average of 64.78 percent reported in the December 31, 2000, *Uniform Bank Performance Report*.

Lending in the Assessment Area

The bank's loans fall into three major product categories: housing-related loans, consumer loans and commercial/agricultural loans. The examiners sampled the following number of loans: 77 residential/housing-related loans, 94 consumer loans, and 32 commercial/agricultural loans. Of the 203 loans sampled, a substantial majority, 95.6 percent (194 out of 203) were originated within Avoca's assessment area. Specifically, 95 percent (89 of 94) consumer loans, 94 percent (30 of 32) commercial/agricultural loans, and 97 percent (75 of 77) residential/housing-related loans were made in the bank's assessment area.

It should be noted that income information was unavailable for 12 of the 89 consumer loans in the assessment area. In addition, income data was unavailable for 1 of the 75 residential/housing-related loans in the assessment area. Therefore, these loans were not included in the borrower income analysis that follows:

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

Avoca's record of lending to individuals of different income levels (including LMI individuals) and businesses and farms of different sizes was excellent given the demographics of the assessment area. The distribution of loans across income levels is analyzed in the following exhibit:

EXHIBIT 1

Distribution of Loans in Assessment Area By Borrower Income Levels

May 12, 1997 – April 30, 2001

	HOUSING-RELATED	CONSUMER	TOTALS
LOW INCOME Less than 50% of Median Income			
Number	17	37	54
Percentage	23%	48%	36%
Amount ($)	$643,324	$239,483	$882,807
Percentage	21%	31%	23%
MODERATE INCOME At least 50% and less than 80% of Median Income			
Number	23	21	44
Percentage	31%	27%	29%
Amount ($)	$794,199	$222,227	$1,016,426
Percentage	26%	28%	26%
MIDDLE INCOME At least 80% and less than 120% of Median Income			
Number	8	9	17
Percentage	11%	12%	11%
Amount ($)	$384,476	$109,192	$493,668
Percentage	12%	14%	13%
UPPER INCOME 120% or more of Median Income			
Number	26	10	36
Percentage	35%	13%	24%
Amount ($)	$1,255,057	$209,292	$1,464,349
Percentage	41%	27%	38%

Housing-related Loans

The bank's housing-related lending to borrowers of different income levels was very good. Exhibit 1 shows that loans to LMI borrowers totaled 54 percent of the loans sampled. Low-income borrowers received 23 percent or 17 loans, and moderate-income borrowers received 31 percent or 23 loans for a total of 54 percent or 40 loans. On the other hand, 11 percent or 8 loans were made to middle-income borrowers, and 35 percent or 26 loans were made to upper-income borrowers. These ratios exceed the demographics of the assessment area where 20 percent of the families are classified as low-income and 21.6 percent are classified as moderate-income.

Consumer Loans

The bank's consumer loan originations to individuals of different income levels was excellent. Exhibit 1 shows that of the sample of 77 consumer loans reviewed, 75 percent were made to LMI borrowers. Low-income borrowers received 48 percent or 37 loans, while 27 percent or 21 loans were made to moderate-income borrowers, 12 percent or 9 loans to middle-income borrowers, and 13 percent or 10 loans to upper-income borrowers. These ratios far exceed the demographics of the assessment area where 20 percent of the families are classified as low-income and 21.6 percent moderate-income.

Small Business and Farm Loans

Lending to small businesses and farms with revenues of less than $1 million was also excellent. The following exhibit shows that a substantial majority of the loans sampled were made to such businesses. Of the 30 loans in the sample within the bank's assessment area, all were for amounts of less than $100 thousand and to businesses with less than $1 million in revenues.

EXHIBIT 2

Distribution of Loans in Assessment Area By Size of Business

May 1, 1997 – April 30, 2001

SMALL BUSINESS LENDING SUMMARY

Number of loans to businesses & farms	Number of loans to small businesses & farms*	% of loans to small businesses & farms	$ amount of loans to businesses & farms	$ amount of loans to small businesses & farms*	% of $ amount of loans to small businesses & farms*
30	30	100	$1,446,057	$1,446,057	100

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

Geographic Distribution of Loans in the Assessment Area

Overall, the geographic distribution of loans in Avoca's assessment area was poor. Lending in the moderate-income BNA was nominal and consisted of only four loans, one commercial and three residential loans. This was 1.97 percent out of the sample of 203 loans reviewed during the examination period, while the moderate-income BNA represented 10 percent of the bank's assessment area BNAs. In addition, some of the middle-income BNAs in the assessment area had little or no lending activity. These areas include Dansville (BNA No. 9605) and Wayland (BNA No. 9604) in the western part of the assessment area, and Pulteney (BNA No. 9601) in the eastern portion of the assessment area. Similar concerns were noted at the previous examination, and Avoca's lending has improved slightly since then.

Management stated that the potential to increase lending in Pulteney is limited because of the town's considerable distance from either bank branch, and other competing banks with a more aggressive pricing structure maintain a branch presence in the community. Wayland and Dansville are in a similar competitive situation with competing banks operating branches in those towns.

Distribution of lending in each loan category is analyzed below.

Housing-related Loans

An analysis of the sample of housing-related loans shows that the bank is lending in eight of the ten BNAs in its assessment area. This is an improvement since the previous examination when lending was found in only five BNAs (and none in the single moderate-income BNA). Still, the lending penetration in the moderate-income BNA is considered weak. Of the 77 housing-related loans reviewed, only 4 percent (3 of 77) were in the moderate-income BNA. This figure indicates weakness since 10 percent (1 of 10) of BNAs in the assessment area are designated moderate-income and 11.4 percent of the assessment area's families resides in such BNAs. As discussed above, management cites location and competition as the reasons for the low volume of lending in the moderate-income BNA.

Consumer Loans

An analysis of the sample of consumer loans shows the bank is lending in seven of the ten BNAs in its assessment area. This is a decline from the previous examination where lending was found in all but one BNA. At this examination, there were no consumer loans in the village of Savona the one moderate-income BNA and in the towns of Dansville and Pulteney in the two middle-income BNAs. This is a decline in performance since the previous examination in which geographic distribution of consumer lending was assessed as excellent. This is also inconsistent with the demographics of the assessment area in which 10 percent of the BNAs are moderate-income and 11.4 percent of the families reside in such BNAs. Management cited location and other banks' more competitive pricing structure as reasons for the low volume of lending in the moderate-income BNA.

Small Business and Farm Loans

Analysis of the sample of small business loans shows that while the level of distribution increased slightly since the previous examination, it is still poor. Small business originations were made in five of the assessment area's ten BNAs compared with four at the previous examination. Little or no penetration was noted in Wayland, Dansville, Prattsberg, Pulteney, Savona and Urbana. Of the 30 small business loans originated by the bank within its assessment area, only 3 percent (1 of 30) were in moderate-income BNAs. This figure indicates weakness because 7.6 percent (70 of 927) of the small businesses are located in the moderate-income BNA. Management cited location and competition as the reasons for the low volume of small business lending in these communities.

Response to Complaints

No complaints have been filed with the Federal Reserve Bank of New York since the previous examination, and there were no written complaints in Avoca's public file.

Avoca is in compliance with the substantive provisions of the antidiscrimination laws and regulations, including the Equal Credit Opportunity Act (Regulation B), the Fair Housing Act, and 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.

CRA APPENDIX

GLOSSARY

BNA: A block numbering area as defined by the Office of Management and Budget.

CONSUMER LOANS: Loans made to one or more individuals for household, family or other personal expenditures. Consumer loans do not include loans reported under the Home Mortgage Disclosure Act.

LMI: Low- and moderate-income, as in LMI census tracts.

LOW-INCOME: An individual income that is less than 50 percent of the area median income (i.e., of the median family income for the MSA, if the individual is located in an MSA, or, if the individual is located outside an MSA, of the statewide non-metropolitan median family income), or a block number area ("BNA") or census tract median family income that is less than 50 percent of the area median income. Accordingly, a low-income census tract is one in which the median family income is less than 50 percent of the area median income.

MIDDLE-INCOME: An individual income that is at least 80 percent and less than 120 percent of the area median income, or a BNA or census tract median family income that is at least 80 percent and less than 120 percent of the area median income.

MODERATE-INCOME: An individual income that is at least 50 percent and less than 80 percent of the area median income, or a BNA or census tract median family income that is at least 50 percent and less than 80 percent of the area median income.

PERFORMANCE CONTEXT: The economic and demographic characteristics of a bank's assessment area(s). The following information is considered to help understand the context in which an institution's performance should be evaluated: (1) the economic and demographic characteristics of the assessment area(s); (2) lending, investment and service opportunities in the assessment area(s); (3) the institution's product offerings and business strategy; (4) the institution's capacity and constraints; (5) the prior performance of the institution, and in appropriate circumstance, the performance of similarly situated institutions; and (6) other relevant information.

SMALL BUSINESS LOANS: Such loans are defined in Regulation BB, Section 228.12 (u) with reference to the definition of such loans in the instructions for preparation of the *Consolidated Report of Condition and Income.* These instructions define small business loans as loans with original amounts of $1 million or less that have been reported in Schedule RC-C, Part 1, (1.e)(4) of the report.

UPPER-INCOME: An individual income that is 120 percent or more of the median family income in an MSA or a census tract in which the median family income is 120 percent or more of the median family income in an MSA.