

PUBLIC DISCLOSURE

August 12, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Bank of Cattaraugus
RSSD No. 92902**

**24 Main Street
Cattaraugus, New York 14719**

Federal Reserve Bank of New York

**33 Liberty Street
New York, New York 10045**

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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INSTITUTION

INSTITUTION'S CRA RATING: Bank of Cattaraugus is rated “**OUTSTANDING.**”

For the examination period of January 1, 2000, through December 31, 2001, the outstanding performance of the Bank of Cattaraugus with regard to the Community Reinvestment Act (“CRA”) is based on the following performance criteria:

- The bank’s loan-to-deposit ratio was more than reasonable.
- Most of the bank’s 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 was more than reasonable.

DESCRIPTION OF INSTITUTION

The Bank of Cattaraugus (“Cattaraugus”) operates out of a single office in the village of Cattaraugus, which is within the municipality of New Albion in Cattaraugus County. Located in western New York State, the county contains 2 cities, 32 towns, 13 villages, and 3 Native American Reservations. The bank recently celebrated its 120th year of operation. Cattaraugus has always been a single-office operation, and it is not part of a holding company or affiliated with any other institution. As of March 31, 2002, the bank had total assets of \$12.1 million and net loans and leases of \$7.4 million.

Cattaraugus extends several types of credit: residential mortgage loans for one- to four-dwelling units and for units of five or more dwellings; housing rehabilitation loans; and home improvement, small business, home equity, consumer and commercial loans. Cattaraugus makes personal loans to individuals for as little as \$50; terms range from a single payment due in 30 days to installments over up to 60 months. Most of Cattaraugus’ loans are consumer loans typically for small amounts. The largest dollar volume of loans are real estate-related. As of March 31, 2002, approximately 76 percent or \$5.7 million of the banks loans were real estate-related.

At its last CRA examination, dated August 18, 1997, Cattaraugus was rated “outstanding.” There are no financial or legal impediments preventing the bank from servicing the credit needs of the consumers and small businesses in its assessment area.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The following demographic and economic information was obtained from publicly available sources that include the U.S. Department of Commerce Bureau of the Census (1990 and 2000), the U.S. Department of Labor and the U.S. Department of Housing and Urban Development ("HUD").

Cattaraugus' assessment area contains three block numbering areas ("BNAs") that the bank can reasonably service. These contiguous BNAs do not arbitrarily exclude any LMI areas, and all three are middle-income. The assessment area borders on a moderate-income BNA in which the city of Salamanca and the Allegany Reservation are located. In light of its distance from the bank (approximately 15 miles) and competition from other banks, this BNA is excluded from the assessment area.

The assessment area includes the towns of New Albion, Leon, East Otto, Ashford, Little Valley and Handsfield. Cattaraugus' primary servicing area has always been the village of Cattaraugus and the area serviced by the Cattaraugus Little Valley Central School District, located primarily in the three BNAs in the assessment area. The school district serves residents of nine towns and two villages in Cattaraugus County.

According to the 1990 Census, the bank's assessment area population totaled 12,797, and Cattaraugus County's population was 84,234. Cattaraugus' assessment area is rural in nature and not part of a metropolitan statistical area ("MSA"). As of 2000, the population of Cattaraugus County totals 83,955, a .3 percent decline since 1990. Like many rural communities in the Northeast U.S., the county's population is aging as economic opportunities diminish.

A map illustrating Cattaraugus' assessment area appears on page BB10.

PERFORMANCE CONTEXT

Demographic Characteristics

The assessment area is made up of three middle-income census tracts. According to the 1990 Census, the population in the assessment area was approximately 15 percent of the population in Cattaraugus County. All the assessment area population resides in middle-income tracts.

Of the 3,370 households in the bank's assessment area that are considered families, 21 percent are low-income, 23 percent are moderate-income, 25 percent are middle-income, and 31 percent are upper-income. Of the 4,357 households in the bank's assessment area, 23 percent are low-income and 20 percent are moderate-income.

According to HUD, the median family incomes in the assessment area are \$37,100 in 2000 and \$38,200 in 2001.

Housing Characteristics

Of the 5,576 housing units in the assessment area, 3,581 (64 percent) are owner-occupied, which is higher than the rate of 48 percent for New York State. Most of the housing stock in the assessment area (81 percent) is made up of one- to four-family residential dwellings. According to the New York State Association of Realtors, the median sales price of a home in Cattaraugus County is \$57 thousand (as of July 2000).

Labor, Employment and Economic Characteristics

Although the manufacturing industry has declined, food processing and plastics companies remain in the area. Olean in Cattaraugus County is the headquarters of Dresser-Rand, a producer of gas turbines for the energy industry. Dresser-Rand also has a plant in Wellsville in Allegany County. Cattaraugus County has several other large machine and fabricated metal product firms as well as productive farming and dairy regions. Tourism is strong throughout the year because of Ellicottville's Holiday Valley, one of the largest ski resorts in the East. Allegany State Park is another major tourist attraction.

The latest recession has not severely impacted employment in Cattaraugus County. As of July 2002, the unemployment rate is 5.9 percent, compared with 6.4 percent the previous year. Like most of Upstate New York, however, the county's economic growth is slow. Between 1990 and 2000, total jobs increased 6.2 percent compared with 7.4 percent in New York State and 20.1 percent nationwide.

The three middle-income census tracts have 433 non-farm business establishments. Of these businesses, 375 or 78 percent have gross annual revenues ("GAR") of \$1 million or less.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The "outstanding" rating is based on an assessment of the bank's core performance criteria. For the performance levels related to lending, income and geographic distribution, a sample of 219 loans originated between January 1, 2000, and September 30, 2001, was analyzed. The sample included 127 consumer loans, 52 loans reported under the Home Mortgage Disclosure Act ("HMDA"), and 40 commercial/agricultural loans.

Loan-to-deposit Ratio

Cattaraugus' loan-to-deposit ratio was more than reasonable given the bank's size, financial condition, and the credit needs of its assessment area. As of March 31, 2002, Cattaraugus had a favorable net loans and leases to deposits ratio when compared with its national peer group of 437 banks. The banks

average loan-to-deposit ratio of 69.5 is above the national peer group average of 62.5 reported in the Uniform Bank Performance Report (“UBPR”).

The bank’s average loan-to-deposit ratio for the four most recent quarters ending March 31, 2002, was 67.4, based on information contained in its Consolidated Report of Condition and Income. The loan-to-deposit ratio exceeds the regional peer group average of 60.2 for banks of similar size.

Lending in the Assessment Area

During the examination review period, Cattaraugus originated a substantial majority of its loans in its assessment area. Classifying the bank’s loans into three major categories shows that a significant majority of housing-related, consumer and business loans were made in the bank’s assessment area.

Of the total loans sampled, 94 percent (205 out of 219) were extended in the bank’s assessment area. Of the loans sampled, 92 percent of housing-related, 98 percent of consumer, and 83 percent of the commercial/agricultural loans were made in the bank’s assessment area.

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

Overall, Cattaraugus’ record of lending to borrowers of different income levels, including LMI individuals, and businesses of different sizes was excellent given the demographics of the bank’s assessment area. An analysis of the lending distribution in each loan category follows:

EXHIBIT 1			
Distribution of Loans in Assessment Area			
By Income Level of Borrower			
January 1, 2000 – December 31, 2001			
	HMDA-RELATED	CONSUMER	TOTAL
LOW-INCOME:			
Less than 50% of Median Income			
Number	10	53	63
Percentage	21%	46%	39%
Amount (\$)	\$354,532	\$159,727	\$514,259
Percentage	23%	28%	24%
MODERATE-INCOME:			
At least 50% & less than 80% of Median Income			
Number	18	37	55
Percentage	37%	32%	34%
Amount (\$)	\$415,041	\$211,644	\$626,685
Percentage	27%	37%	30%
MIDDLE-INCOME:			
At least 80% & less than 120% of Median Income			
Number	10	19	29
Percentage	21%	17%	18%
Amount (\$)	\$423,281	\$121,749	\$545,030
Percentage	27%	21%	26%
UPPER-INCOME:			
120% or more of Median Income			
Number	10	6	16
Percentage	21%	5%	9%
Amount (\$)	\$351,422	\$78,416	\$429,838
Percentage	23%	14%	20%

HMDA-related Loans

The bank's housing-related lending to borrowers of different income levels was excellent. Exhibit 1 indicates that HMDA-related loans to LMI borrowers totaled 58 percent of all loans sampled while LMI families represent 44 percent of all families in the assessment area. Loans to low-income borrowers totaled 21 percent and loans to moderate-income borrowers totaled 37 percent of the loans. The ratio of lending to low-income families compares favorably with the assessment area's demographics, which indicate that 21 percent of the families are low-income. The ratio of lending to moderate-income families is also favorable when compared with the demographics of the assessment area, which show 23 percent of the families are moderate-income.

Consumer Loans

The bank’s consumer lending to borrowers of different income levels was excellent. Exhibit 1 shows that loans to LMI borrowers totaled 78 percent of all loans sampled while LMI families represent 44 percent of all families in the assessment area. Loans to low- and moderate-income borrowers accounted for 46 and 32 percent of the loans sampled, respectively. As noted above, these ratios compare favorably with the demographics of the assessment area.

EXHIBIT 2 Distribution of Loans in Assessment Area By Size of Business January 1, 2000 – December 31, 2001 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*
33	33	100%	\$436,804	\$436,804	100%

Small Business Loans

The bank’s lending to businesses with revenues of \$1 million or less was excellent. As shown in Exhibit 2, 100 percent of the loans sampled were made to such businesses. This ratio compares favorably with the percentage of farm and non-farm businesses (89 percent) in Cattaraugus’ assessment area with GAR of \$1 million or less.

In addition, 100 percent of small business loans originated by Cattaraugus during the examination period were for \$100 thousand or less. The average loan size was \$13.2 thousand, an amount that would meet the credit needs of smaller businesses.

Geographic Distribution of Loans

Cattaraugus’ geographic distribution of loans was not rated as the bank’s assessment area is made up of three middle-income census tracts (BNAs). The assessment area has no LMI tracts. As indicated above, a contiguous BNA is moderate-income; however, the opportunity to lend in this BNA is limited because of competition and distance.

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

Response to Complaints

Cattaraugus 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.

No credit practices violating the substantive provisions of the antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act, were identified that would have an impact on Cattaraugus' CRA rating.

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.

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”): Any primary metropolitan statistical area (“PMSA”), metropolitan statistical area (“MSA”), or consolidated metropolitan area (“CMSA”), as defined by the Office of Management and Budget, with a population of 250,000 or more, and any other area designated as such by the appropriate federal financial supervisory agency.

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.

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

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.

CRA APPENDIX B

INSERT MAP OF ASSESSMENT AREA HERE