PUBLIC DISCLOSURE

October 21, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

FIRST STATE BANK

RSSD No. 284408
3 MAIN STREET
CANISTEO, NEW YORK 14823

FEDERAL RESERVE BANK OF NEW YORK

33 LIBERTY STREET
NEW YORK, N.Y. 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: First State Bank is rated "**SATISFACTORY**."

For the examination period of January 1, 2000, through June 30, 2002, the satisfactory performance of First State Bank 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.
- A majority of loans were originated in the bank's 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 showed reasonable penetration.
- The geographic distribution of loans in the assessment area was excellent.
- There were no complaints against the bank.

DESCRIPTION OF INSTITUTION

First State Bank ("First State") is a retail community bank located in Canisteo, New York, in Steuben County. First State has two branches: the main branch is located in Canisteo, and the other branch is approximately four miles away in Hornell, New York. The bank has a representative office in Wellsville, New York, where business is conducted by appointment. Established in 1897, the bank is not part of a holding company or affiliated with any other institution. As of June 30, 2002, First State had total assets of $45.5 million and gross loans and leases of $32.0 million.

First State extends the following types of credit: residential mortgage loans for one- to four-dwelling units, residential mortgage loans for units of five or more dwellings, housing rehabilitation loans, home improvement loans, small business loans, home equity loans, consumer loans, and commercial loans. As of June 30, 2002, real estate loans of approximately $17.7 million (55 percent) made up the largest percentage of the bank's loan portfolio, followed by commercial loans at $10.7 million (33 percent) and consumer loans of $3.5 million (11 percent). The rest of the loan portfolio is made up of farm loans and other loans and leases.

There are no financial or legal impediments preventing First State 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, the U.S. Department of Housing and Urban Development ("HUD"), and economic reports by the Federal Reserve Bank of New York.

First State's assessment area contains eight census tracts and does not arbitrarily exclude any LMI geographies. Two of the census tracts are defined as moderate-income, and the other six are middle-income. In addition to Canisteo and Hornell, the assessment area includes the towns of Dansville, Fremont, Arkport, North Hornell, Hornellsville, Hartsville, Greenwood, Jasper, West Union and Troupsburg.

A map illustrating First State's assessment area is on page BB10.

PERFORMANCE CONTEXT

Demographic Characteristics

First State's assessment area is rural in nature and not part of any metropolitan statistical area ("MSA"). According to the 1990 Census, the bank's assessment area has a total population of 28,070. This is less than 2 percent of the entire population for non-MSA Steuben County (1,475,170). Twenty-five percent of the assessment area population resides in moderate-income tracts while the remainder resides in middle-income tracts.

Of the 7,504 households that are considered families in this assessment area, 23 percent are low-income, 21 percent moderate-income, 25 percent middle-income, and 31 percent are upper-income. Of the 10,456 households in this assessment area, 27 percent are low-income, 18 percent moderate-income, 22 percent middle-income, and 33 percent are upper-income.

According to the 1990 Census, the median family income in the assessment area was $27,771, compared with $30,214 for Steuben County. The 2002 HUD-estimated median family income for Steuben County is $46,100.

Housing Characteristics

Of the 11,959 housing units in the assessment area, 63 percent are owner-occupied, 24 percent are rental, and 13 percent are vacant. This percentage of owner-occupied housing in the assessment area exceeds the New York State owner-occupied rate of 48 percent. Most of the housing stock in the assessment area (81 percent) includes one- to four-family residential dwellings. According to the New York State Association of Realtors, the median sales price of a home in Steuben County in September 2002 is $68,900.

Labor, Employment and Economic Characteristics

Despite Steuben County's rural character, manufacturing is the most important industry in the county. In 2000, about 25 percent of non-farm jobs and 57 percent of non-farm earnings stemmed from manufacturing. Steuben County's major employer is Corning Inc., the glass products and fiber optics manufacturer. The multinational corporation, headquartered in the city of Corning, employed about 5,700 workers in the mid-1990s.

Other major employers include Dresser-Rand (780 employees), a manufacturer of gas compressors, and Phillips Lighting Company (640 employees). Dairy farming is still an important part of employment in the county but has declined overall. Farming is now responsible for less than 1 percent of the county's earnings. The wine industry near Keuka Lake, one of the Finger Lakes, is doing well, and Keuka's recreational opportunities attract visitors to the region, as does the well-known Corning Glass Museum. The largest employer in Canisteo is the public school system.

Steuben County's economic growth has been slow as a result of the recent economic downturn. Between 1990 and 2000, the county's total number of jobs increased 10.7 percent compared with a 7.4 percent statewide increase and a 20.5 percent nationwide increase. By September 2002, however, the unemployment rate in Steuben County reached 7.2 percent, compared with the national jobless rate of 5.6 percent. Non-farm employment declined 6.6 percent over the past year in contrast to an overall slight decline nationwide of 0.7 percent. These conditions are similar to those in much of upstate New York.

The bank's assessment area has 872 non-farm business establishments. Of these businesses, 768 or 88 percent, have gross annual revenues ("GAR") of $1 million or less.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The "satisfactory" rating is based on an assessment of the bank's core performance criteria. For performance levels related to lending in the assessment area, borrower income, and geographic distribution, a sample of 230 loans originated between January 1, 2000, and September 30, 2002, was analyzed. The sample includes 121 consumer loans, 67 loans reported under the Home Mortgage Disclosure Act ("HMDA"), and 42 small business loans.

Loan-to-deposit Ratio

First State's loan-to-deposit ratio was more than reasonable given the bank's size, financial condition, and the credit needs of the assessment area. The bank's loan-to-deposit ratio of 76 percent was more favorable than that of the national peer group of 73 percent. As of June 30, 2002, the peer group included 423 banks.

Based on information contained in the *Consolidated Report of Condition and Income*, the bank's average loan-to-deposit ratio for the four most recent quarters ending June 30, 2002, was 79 percent. The loan-to-deposit ratio exceeds the regional peer group average of 67 percent for four quarters.

Lending in Assessment Area

During the examination period, the bank originated 383 total loans. First State originated a majority of its loans (65 percent) in the assessment area. At the prior examination, the bank originated 87 percent of its loans in the assessment area. A significant majority of housing-related and consumer loans were made in the bank's assessment area. However, much of the small business credit was extended outside the assessment area. In 2000, First State entered into a leasing arrangement with a leasing company in Rochester, New York. The majority of the loans that the company brought to the bank were from Rochester and other areas outside the bank's assessment area.

Of the loans analyzed, 65 percent (132 out of 204) were extended within the bank's assessment area. Of these loans, 66 percent were housing-related, 87 percent consumer-related, and 28 percent were related to small business.

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

Overall, First State's record of lending to borrowers of different income levels, including LMI individuals, and to businesses of different sizes, was reasonable 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 – June 30, 2002			
	HMDA-RELATED	CONSUMER	TOTAL
LOW-INCOME: **Less than 50% of Median Income**			
Number	5	29	34
Percentage	21%	35%	31%
Amount ($)	$316,400	$76,053	$392,453
Percentage	30%	15%	25%
MODERATE-INCOME: **At least 50% & less than 80% of Median Income**			
Number	5	23	28
Percentage	21%	27%	26%
Amount ($)	$153,100	$145,039	$298,139
Percentage	15%	28%	19%
MIDDLE-INCOME: **At least 80% & less than 120% of Median Income**			
Number	8	19	27
Percentage	33%	23%	25%
Amount ($)	$325,700	$121,274	$446,974
Percentage	31%	24%	29%
UPPER-INCOME: **120% or more of Median Income**			
Number	6	13	19
Percentage	25%	15%	18%
Amount ($)	$251,397	$171,394	$422,791
Percentage	24%	33%	27%

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 families totaled 42 percent of all loans analyzed while LMI families represent 44 percent of all families in the assessment area. Loans to low-income families totaled 21 percent, and loans to moderate-income families also totaled 21 percent of the loans. The ratio of lending to low-income families compares well with the assessment area's demographics, which indicate that 23 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 that 21 percent of the families are moderate-income.

Consumer Loans

The bank's level of consumer lending to borrowers of different incomes was excellent. Exhibit 1 shows that loans to LMI families totaled 62 percent of all loans analyzed while LMI families represent 45 percent of all families in the assessment area. Loans to low- and moderate-income borrowers accounted for 35 percent and 27 percent of the loans analyzed, respectively. These ratios compare well with the demographics of the assessment area as noted above.

Small Business Loans

The bank's level of lending to businesses with revenues of $1 million or less was also excellent. As shown in Exhibit 2, 85 percent of the loans analyzed were made to such businesses. This ratio compared favorably with the percentage of non-farm business establishments (88 percent) in First State's assessment area that have GAR of $1 million or less.

In addition, 100 percent of small business loans First State originated during the examination period were for $100 thousand or less. The average loan size was $34 thousand, an amount reflecting the credit needs of smaller businesses.

[redacted]

SMALL BUSINESS LENDING SUMMARY					
Number of loans to businesses	Number of loans to small businesses*	% of loans to small businesses	$ amount of loans to businesses	$ amount of loans to small businesses*	% of $ amount of loans to small businesses*
13	11	85%	$429,694	$369,669	86%

Geographic Distribution of Loans

Overall, First State's geographic distribution of loans was considered excellent given the demographics of the bank's assessment area. The assessment area is made up of two moderate-income census tracts and six middle-income census tracts. The distribution of lending for each loan category is discussed below.

HMDA-related Loans

The geographic distribution of the bank's HMDA-related lending was outstanding. A significant percentage of loans (66 percent) were originated in the bank's assessment area. Of the 25 loans

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

included in the analysis and originated in the bank's assessment area, 36 percent (9 loans) were originated in moderate-income census tracts.

Consumer Loans

The geographic distribution of the bank's consumer loans was outstanding. Of the 88 analyzed consumer loans, 47 percent (41 loans) were originated in moderate-income census tracts.

Small Business Loans

The geographic distribution of the bank's small business loans was outstanding. Of the 18 analyzed loans, 33 percent (6 loans) were originated in moderate-income census tracts.

Response to Complaints

First State 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 as having a potential impact on First State's 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 applicants, 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 statistical 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.

First State Bank

Assessment Area

As of June 30, 2002