

PUBLIC DISCLOSURE

December 1, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**REDWOOD BANK
RSSD No. 858818**

**1000 COFFEEN STREET
WATERTOWN, NY 13601**

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'S CRA RATING: Redwood Bank is rated “**SATISFACTORY.**”

For the examination period of October 1, 1999, through December 1, 2003, the institution's satisfactory performance with regard to the Community Reinvestment Act (“CRA”) is based on the following performance criteria:

- The bank's loan-to-deposit ratio was reasonable;
- A substantial majority of 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 excellent, and
- The geographic distribution of loans in the assessment area was reasonable.

DESCRIPTION OF INSTITUTION

Established in 1913, Redwood Bank (“Redwood”) is a full-service retail financial institution headquartered in Watertown, New York. As of December 31, 2002, the bank reported \$81 million in assets. Redwood offers various loan and deposit products to both consumers and businesses, but it does not currently offer long-term fixed-rate mortgages because of the low interest rate environment.

Redwood operates eight branch offices, with seven located in Jefferson County (including bank headquarters) and one in Oswego County. With 3.41% of deposits, Redwood has the ninth largest deposit market share in the combined counties where it has branches. HSBC Bank USA, Keybank and Watertown Savings Bank dominate the market, combining for approximately half the local deposit market share.

The bank was originally established as Redwood National Bank, and it converted to a New York State charter on June 30, 2003. The Office of the Comptroller of the Currency (“OCC”) conducted the bank's previous CRA examination, dated December 6, 1999, and assigned Redwood a “satisfactory” CRA rating.

There are no financial or legal impediments preventing Redwood from servicing the credit needs of consumers and small businesses in its assessment area.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

Redwood's assessment area consists of the 53 census tracts that make up Jefferson and Oswego Counties. This area is located in the northern central region of New York State near Canada, bordering Lake Ontario and the St. Lawrence River. Oswego County is part of Metropolitan Statistical Area (“MSA”) 8160 (Syracuse, NY), while Jefferson County is not part of any

metropolitan area (“non-MSA”). For a map illustrating Redwood’s assessment area, see page BB9.

PERFORMANCE CONTEXT

The following demographic and economic information was obtained from publicly available sources that include the U.S. Department of Commerce’s Bureau of Census, the New York State Department of Labor, the U.S. Department of Housing and Urban Development (“HUD”) and the New York Association of Realtors.

Demographic Characteristics

The 2000 Census puts the population in the assessment area at just over 234 thousand, reflecting an increase of only 1% since 1990. The assessment area’s 53 census tracts include 1 low-income tract, 9 moderate-income tracts, 40 middle-income tracts and 3 upper-income tracts. One of the moderate-income census tracts in Jefferson County includes the Fort Drum military base, which limits banks’ opportunities for lending.

Income Characteristics

According to the 1990 U.S. Census, 21% of families are low-income and almost 20% are moderate-income, with 8.8% of families living below the poverty level. As of the 2000 Census, the poverty rate increased to 10% of families in Jefferson County and 9.7% of families in Oswego County.

The table at right lists the median family incomes HUD has reported for non-MSAs in New York State, which incorporates Jefferson County, and the Syracuse, New York, MSA, which incorporates Oswego County.

HUD MEDIAN FAMILY INCOMES		
Area	2002	2001
Non-MSA NYS	\$43,600	\$41,400
Syracuse, NY MSA	\$50,300	\$47,900

Housing Characteristics

The table below displays median housing sales prices for the examination period as reported by the New York Association of Realtors.

MEDIAN HOUSING COSTS		
County	4 th Quarter 2002	4 th Quarter 2001
Jefferson	\$67,000	\$63,600
Oswego	\$73,300	\$74,125

According to the 1990 Census, 54% of housing units are owner-occupied, 27% are rentals, and 19% are vacant. The low-income tract in Jefferson County has only 47 owner-occupied

housing units, substantially limiting banks’ opportunities for mortgage lending.

In Watertown, changes in housing have not been conducive to mortgage lending. According to a local newspaper, the 2000 Census indicates a 9% population decline in the city while the number of owner-occupied housing units decreased and empty rental units increased.

Labor, Employment and Economic Characteristics

The assessment area economy has traditionally relied on manufacturing, specifically paper mills. Companies have closed as manufacturing has gone abroad, eliminating jobs that pay higher wages. As a result, the service industry has become the area’s major employer. A community contact noted that many of the area’s jobs are low-paying with minimal benefits.

Fort Drum in Jefferson County is also a large employer. In addition, small farms, particularly dairy farms, and summer tourism are important to the local economy.

Community contacts indicated the need for lending to farms as well as to small businesses. According to the 2002 New York State Statistical Yearbook, Jefferson County has 1,085 farms.

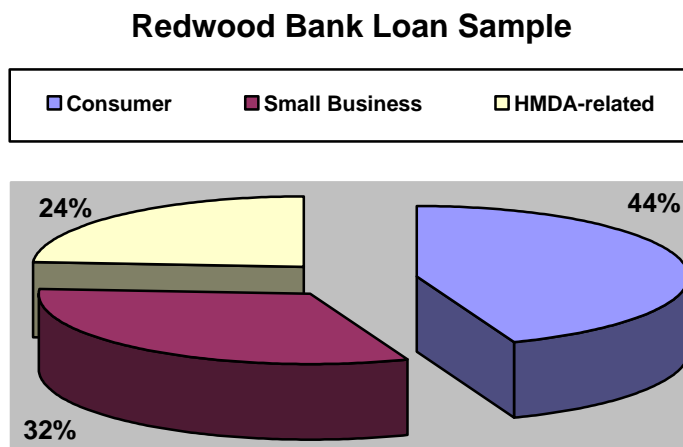
ANNUAL UNEMPLOYMENT RATES		
County	2002	2001
Jefferson	7.8%	8.0%
Oswego	7.5%	6.5%

The chart at left provides the New York State Department of Labor’s average annual unemployment rates during the examination period. These high rates reflect the area’s overall weak economic conditions. Because of the tourism industry, employment levels tend to vary during the

year, peaking in the summer. This can make it difficult for applicants to qualify for loans under traditional credit criteria.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Redwood’s satisfactory CRA rating is based on an assessment of the bank’s core small bank performance criteria. For the performance levels related to lending, income and geographic distribution, a sample of 213 loans originated between January 1, 2001, and December 31, 2002, was analyzed. The sample includes 94 consumer loans, 68 small business loans and 51 loans related to the Home Mortgage Disclosure Act (“HMDA”).



Loan-to-deposit Ratio

Redwood’s loan-to-deposit ratio was reasonable given the bank’s size, financial condition and the credit needs of the bank’s assessment area. Based on information from Redwood’s *Consolidated Report of Condition and Income*, the bank’s average loan-to-deposit ratio was 60%. This represents an average of the loan-to-deposit ratios at the end of each quarter in 2002. The

ratio is the same as the average ratio of 60% for similarly sized local banks during the examination period, but below the average ratio of 75% for Redwood's national peer group of similarly sized banks.

Lending in Assessment Area

Redwood originated a substantial majority of its loans, 95%, in the assessment area. Specifically, 99% of small business loans, 94% of consumer loans and 92% of HMDA-related loans were originated in the bank's assessment area.

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

Overall, Redwood's 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. Exhibit 1 depicts lending distribution in each loan category.

EXHIBIT 1			
Distribution of Loans in Assessment Area			
By Income Level of Borrower			
January 1, 2001 – December 31, 2002			
	HMDA-RELATED	CONSUMER	TOTAL
LOW-INCOME:			
Less than 50% of Median Income			
Number	6	21	27
Percentage	13%	24%	20%
Amount (\$)	\$101,000	\$66,345	\$167,345
Percentage	7%	12%	8%
MODERATE-INCOME:			
At least 50% & less than 80% of Median Income			
Number	14	23	37
Percentage	30%	26%	27%
Amount (\$)	\$413,000	\$129,524	\$542,524
Percentage	27%	24%	26%
MIDDLE-INCOME:			
At least 80% & less than 120% of Median Income			
Number	6	23	29
Percentage	13%	26%	21%
Amount (\$)	\$210,000	\$127,534	\$337,534
Percentage	14%	23%	16%
UPPER-INCOME:			
120% or more of Median Income			
Number	21	21	42
Percentage	45%	24%	31%
Amount (\$)	\$788,000	\$221,608	\$1,009,608
Percentage	52%	41%	49%

HMDA-related Loans

HMDA-related lending patterns to moderate-income families were excellent and exceeded the proportion of moderate-income families, while lending to low-income borrowers was adequate and less than the proportion of these borrowers in the assessment area.

Low- and moderate-income families total 20% and 21% of families in the assessment area, respectively. The difficulty that low-income individuals have in affording housing affects the bank's ability to penetrate this segment of the loan market. For details, see Exhibit 1.

Consumer Loans

Consumer lending patterns to LMI borrowers were excellent and exceeded the proportion of LMI families in the assessment area. Low- and moderate-income families account for 20% and 21% of families in the assessment area, respectively. For details, see Exhibit 1.

Small Business Loans

Lending patterns to businesses with gross annual revenues ("GAR") of \$1 million or less were reasonable. Redwood extended 74% of its loans to these small businesses, while 87% of businesses in the assessment area have GAR of \$1 million or less.

EXHIBIT 2 Distribution of Loans in Assessment Area By Size of Business January 1, 2001 – December 31, 2002					
SMALL BUSINESS LENDING SUMMARY					
Number of loans to businesses	Number of loans to <u>small</u> businesses*	Percentage of loans to <u>small</u> businesses	Dollar amount of loans to businesses	\$ amount of loans to <u>small</u> businesses*	% of \$ amount of loans to <u>small</u> businesses*
66	49	74%	\$5,212,324	\$3,419,466	66%

Geographic Distribution of Loans

Overall, Redwood's geographic distribution of loans was reasonable given the demographics of the bank's assessment area. Conclusions were based primarily on lending in moderate-income census tracts. The one low-income census tract in the assessment area contains only 47 owner-occupied housing units and 239 families, thus severely limiting potential HMDA-related and consumer lending opportunities for all banks.

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

In addition, the presence of the Fort Drum military base in one of the moderate-income census tracts also limits lending opportunities, particularly HMDA-related lending. The distribution of lending for each loan category is analyzed as follows:

HMDA-related Loans

The level of HMDA-related lending in moderate-income census tracts was low but considered reasonable. Just 4% of loans were extended in moderate-income census tracts compared with 12% of owner-occupied housing units located in these tracts. The bank's performance was only slightly below the market aggregate's penetration in moderate-income census tracts. The market aggregate's performance reflects the assessment area's generally weak economy.

Consumer Loans

The level of consumer lending in moderate-income census tracts was poor. The bank extended 7% of its loans in moderate-income geographies while 17% of the households are located in moderate-income areas. No data for the consumer loan market aggregate was available for review.

Small Business Loans

Small business lending in moderate-income geographies was reasonable, with 3% of bank loans originated in low-income geographies compared with 6% of businesses located there. Eight percent of loans were originated in moderate-income areas compared with 15% of businesses located in these areas.

Response to Complaints

Redwood 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 that violated 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 the bank'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 on 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 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. 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 U.S. Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (“HMDA”): This statute 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 data such 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).

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100% tabulations, the count of households always equals the count of occupied housing units.

Low-income: Individual income that is less than 50% of the area median income, or a median family income that is less than 50%, 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 U.S. Office of Management and Budget, with a population of 250 thousand 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% and less than 80% of the area median income, or a median family income that is at least 50% and less than 80%, in the case of a geography.

Middle-income: Individual income that is at least 80% and less than 120% of the area median income, or a median family income that is at least 80% and less than 120%, in the case of a geography.

Multifamily: Refers to a residential structure containing 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% of the area median income, or a median family income that is more than 120%, in the case of a geography.

Redwood Bank

Assessment Area

January 1, 2001 - December 31, 2002

