

PUBLIC DISCLOSURE

November 13, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bank of Millbrook

RSSD No. 175609

**3263 Franklin Avenue
Millbrook, New York 12545**

FEDERAL RESERVE BANK OF NEW YORK

**33 LIBERTY STREET
NEW YORK, N.Y. 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.

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INSTITUTION'S CRA RATING: Bank of Millbrook is rated “**SATISFACTORY.**”

The satisfactory performance of Bank of Millbrook 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 the bank’s loans were made in the assessment area.
- Lending to borrowers of different income levels, including low-and moderate-income (“LMI”) individuals, and to businesses of different sizes showed reasonable distribution.
- The geographic distribution of loans was excellent.

DESCRIPTION OF INSTITUTION

Established in 1891, Bank of Millbrook (“Millbrook”) is a New York State-chartered bank headquartered in Millbrook, New York with a second branch located in Amenia, New York. Both branches are located in Dutchess County in the Mid-Hudson Valley region of New York State, approximately 90 miles north of New York City. The bank is the sole subsidiary of Millbrook Bank Systems, Inc., a one-bank holding company organized in April 1998.

As of June 30, 2006, the bank had total assets of \$130 million with net loans and leases of \$87 million. Millbrook extends the following types of credit: secured and unsecured consumer installment loans, automobile loans, credit cards, home equity lines of credit, home improvement loans, residential mortgage loans, commercial loans, equipment loans and commercial lines of credit. Loans secured by one-to four-family residential properties represent 69% of all real estate loans and 59% of net loans and leases.

There are no financial or legal factors that would prevent the bank from meeting the credit needs of its assessment area. Millbrook’s previous CRA examination was dated September 16, 2002, and the bank received an overall rating of satisfactory.

DESCRIPTION OF THE BANK’S ASSESSMENT AREA

The assessment area is largely rural and consists primarily of the eastern portion of Dutchess County which is located within Metropolitan Statistical Area (“MSA”) 39100 (Poughkeepsie-Newburg-Middletown, NY). The assessment area contains 18 census tracts consisting of no low-income geographies, two moderate-income census tracts, 15 middle-income census tracts, and one upper income census tract. The assessment area has increased in size since the prior CRA review, when there were a total of ten census tracts. Millbrook expanded its assessment area as a result of opening a second branch in Amenia, New York, in October 2003.

The assessment area does not arbitrarily exclude LMI geographies. A map illustrating Millbrook's assessment area is on page BB10.

SCOPE OF EXAMINATION

Millbrook was examined using the FFIEC small bank examination procedures. The examination covered the period September 16, 2002 through June 30, 2006. A sample of 280 loans originated between January 1, 2004 and June 30, 2006 was analyzed for performance criteria related to lending in the assessment area, borrower income distribution and geographic distribution. The sample included 138 consumer loans, 71 small business loans, and 71 loans reported under the Home Mortgage Disclosures Act ("HMDA"). Loans for analysis were selected using the Board of Governors' sampling procedures and data was verified as part of the onsite examination.

Examiners also conducted interviews with two community development organizations in order to gain an understanding of local credit needs. One community contact focused on economic development while the other promoted affordable housing and economic development.

PERFORMANCE CONTEXT

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

Demographic Characteristics

According to the 2000 Census, the population in the assessment area is 75,540, or 27% of Dutchess County's population of 280,150. Dutchess County is a growing area with the county's total population increasing 8% since the 1990 Census.

According to the 2000 Census, 7% of the assessment area population lives in moderate-income geographies while 88% lives in middle-income geographies and 5% in upper-income geographies.

Income Characteristics

The 2006 HUD median family income was \$73,400 for MSA 39100, and high in comparison to \$49,600 for New York State.

Housing Characteristics

According to the 2000 Census, the assessment area contains 29,789 housing units, of which 67% are owner-occupied, 23% are rental, and 10% are vacant. The assessment area owner-occupied percentage is slightly higher than the MSA percentage of 64%, and considerably higher than the 49% reported by New York State. 7% of all owner-occupied units were located in the two

moderate-income census tracts. Within the two moderate-income census tracts, 58% of the housing units are owner-occupied, 26% are renter-occupied, and 16% are vacant.

Annual Median Home Sales Prices		
Area	2003	2005
Dutchess County	\$273,000	\$342,000

As shown in the table at left, the median sales price of existing single-family homes in Dutchess County increased 25% between 2003 and 2005.

Source: New York State Association of Realtors

Exhibit 1 Assessment Area Demographics								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	3,161	16.5
Moderate-income	2	11.1	1,477	7.7	95	6.4	3,540	18.5
Middle-income	15	83.3	16,757	87.4	667	4.0	5,006	26.1
Upper-income	1	5.6	943	4.9	16	1.7	7,470	39.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	18	100.0	19,177	100.0	778	4.1	19,177	100.0
	Housing Units by Tract	Housing Types by Tract						
		Owner-occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate-income	2,527	1,477	7.4	58.4	657	26.0	393	15.6
Middle-income	26,078	17,469	87.5	67.0	6,081	23.3	2,528	9.7
Upper-income	1,184	1,025	5.1	86.6	124	10.5	35	3.0
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	29,789	19,971	100.0	67.0	6,862	23.0	2,956	9.9
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	282	9.4	251	9.4	17	9.5	14	9.5
Middle-income	2,538	84.5	2,265	84.6	149	83.2	124	84.4
Upper-income	184	6.1	162	6.0	13	7.3	9	6.1
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	3,004	100.0	2,678	100.0	179	100.0	147	100.0
	Percentage of Total Businesses:			89.1		6.0		4.9

Housing costs are high and difficult for LMI individuals to afford. At \$342,000, housing is 9 times what a low-income individual could afford and approximately 6 times what a moderate-income individual could afford. Community contacts noted that there is a significant need for affordable housing given the high costs of housing, including affordable housing for senior citizens due to the high tax burden, high utility costs and senior citizens subsisting on a fixed income.

Labor, Employment and Economic Characteristics

Dutchess County is highly concentrated in high-tech manufacturing. In addition, major employment sectors include services, government, health, wholesale and retail trades and manufacturing. The Dutchess County Economic Development Corporation noted that key employers include IBM, Central Hudson Gas and Electric Corporation, St. Francis Hospital and Health Centers, Vassar Brothers Medical Centers, Dutchess Community College, Marist College, Vassar College, Gap, Inc., the Culinary Institute of America and NXP Corporation.

Community contacts noted that the economic condition of Dutchess County is robust. Unemployment in Dutchess County is low in comparison with the New York State at 3.9% in 2005, down from 4.2% in 2004. The New York State unemployment figures, for the same period, were 5.0% in 2005, and 5.8% in 2004, respectively.

Non-farm business establishments in the assessment area total 3,004, of which 89% have gross annual revenues (“GAR”) of \$1 million or less. The two moderate-income census tracts in Millbrook’s assessment area contain 282 non-farm business establishments, of which 89% have a GAR of \$1 million or less.

Exhibit 1 provides additional assessment area demographics.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Millbrook’s overall satisfactory rating is based on an assessment of the bank’s core performance criteria. Details follow:

Loan-to-deposit Ratio

Millbrook’s loan-to-deposit ratio was reasonable given the bank’s size, financial condition and the credit needs of its assessment area. The bank’s average loan-to-deposit ratio for the sixteen most recent quarters ending June 30, 2006 was 64%, based on information contained in the *Consolidated Report of Condition and Income*. This ratio is comparable to the local peer group’s average loan-to-deposit ratio of 63% representing four similarly sized banks located in the Dutchess County area during the same time period.

Lending in the Assessment Area

Millbrook originated a substantial majority of its loans, 85%, in its assessment area. Specifically, 90% of its HMDA-related loans, 83% of its consumer loans, and 85% of its commercial loans were made within Millbrook’s assessment area.

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

Overall, Millbrook's record of lending to borrowers of different income levels, including LMI individuals, and 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 2			
Distribution of Loans in Assessment Area			
By Income Level of Borrower*			
January 1, 2004 – June 30, 2006			
	HMDA-RELATED	CONSUMER	<u>TOTAL</u>
LOW-INCOME:			
Less than 50% of Median Income			
Number	6	28	34
Percentage	10.2%	28%	21.4%
Amount (\$)	\$992,000	\$222,000	\$1,214,000
Percentage	8.6%	11%	9.0%
MODERATE-INCOME:			
At least 50% & less than 80% of Median Income			
Number	10	28	38
Percentage	16.9%	28%	23.9%
Amount (\$)	\$1,273,000	\$319,000	\$1,592,000
Percentage	11.1%	15.9%	11.8%
MIDDLE-INCOME:			
At least 80% & less than 120% of Median Income			
Number	15	18	33
Percentage	25.4%	18%	20.7%
Amount (\$)	\$2,408,000	\$513,000	\$2,921,000
Percentage	20.9%	25.5%	21.6%
UPPER-INCOME:			
120% or more of Median Income			
Number	28	26	54
Percentage	47.5%	26%	34%
Amount (\$)	\$6,835,000	\$958,000	\$7,793,000
Percentage	59.4%	47.6%	57.6%

* The above table does not include 5 HMDA-related and 15 consumer loans for which the income was unknown.

HMDA-related Loans

HMDA-related lending to borrowers of different income levels was reasonable. As shown in Exhibit 2, 10% of Millbrook’s loans were to low-income borrowers, while 17% of all families in the assessment area are low-income. Performance for low-income borrowers is reasonable considering the high cost of housing relative to income levels as noted in the Performance Context section. In addition, 17% of Millbrook’s HMDA-related lending was to moderate-income borrowers while 19% of all families in the assessment area are moderate-income.

Consumer Loans

Consumer lending to borrowers of different income levels was excellent. Exhibit 2 shows 28% of consumer loans were to low-income borrowers compared to 17% of all families in the assessment area that are low-income. In addition, 28% of consumer loans were to moderate-income borrowers compared to 19% of all families in the assessment area that are moderate-income.

Small Business Loans

Lending to businesses with Gross Annual Revenues (“GAR”) of \$1 million or less was reasonable.

Exhibit 3 Distribution of Loans in Assessment Area By Size of Business* January 1, 2004 – June 30, 2006					
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*
50	37	74%	\$6,917,000	\$3,608,000	52%

*The above table does not include ten small business loans for which the income was unknown.

As shown in Exhibit 3, 74% of Millbrook’s small business loans went to businesses with GAR of \$1 million or less. In comparison, 89% of all business establishments in Millbrook’s assessment area have GAR of \$1 million or less.

In addition 30, or 60%, of loans to small businesses were in amount of \$100,000 or less. The average loan size was \$33,533, an amount reflecting the credit needs of smaller businesses.

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

Geographic Distribution of Loans

Overall, Millbrook's geographic distribution of loans was considered excellent given the demographics of the assessment area. The distribution of lending for each loan category is analyzed as follows:

HMDA-related Loans

The geographic distribution of HMDA-related lending was excellent. Of the 64 HMDA-related loans included in the analysis and within the assessment area, 16 loans or 25% were originated in the two moderate-income census tracts compared to 7% of the owner-occupied housing units located in the moderate-income census tracts.

Consumer Loans

The geographic distribution of consumer loans was reasonable. Of the 115 consumer loans in the assessment area and included in the analysis, 6 loans, 5%, were originated in moderate-income census tracts compared to 8% of all households located in the moderate-income census tracts.

Small Business Loans

The geographic distribution of small business loans was excellent. Of the 60 small business loans in the assessment area and included in the analysis, 6 loans or 10%, were originated in moderate-income census tracts compared to 9% of all businesses located in the moderate-income census tracts.

Response to Complaints

Millbrook 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.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices, including the Equal Credit Opportunity Act and the Fair Housing Act, was identified as being inconsistent with helping to meet community credit needs.

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% 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”): A metropolitan statistical area (“MSA”) or a metropolitan division (“MD”) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

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.

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.

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% of the area median income, or a median family income that is more than 120%, in the case of a geography.

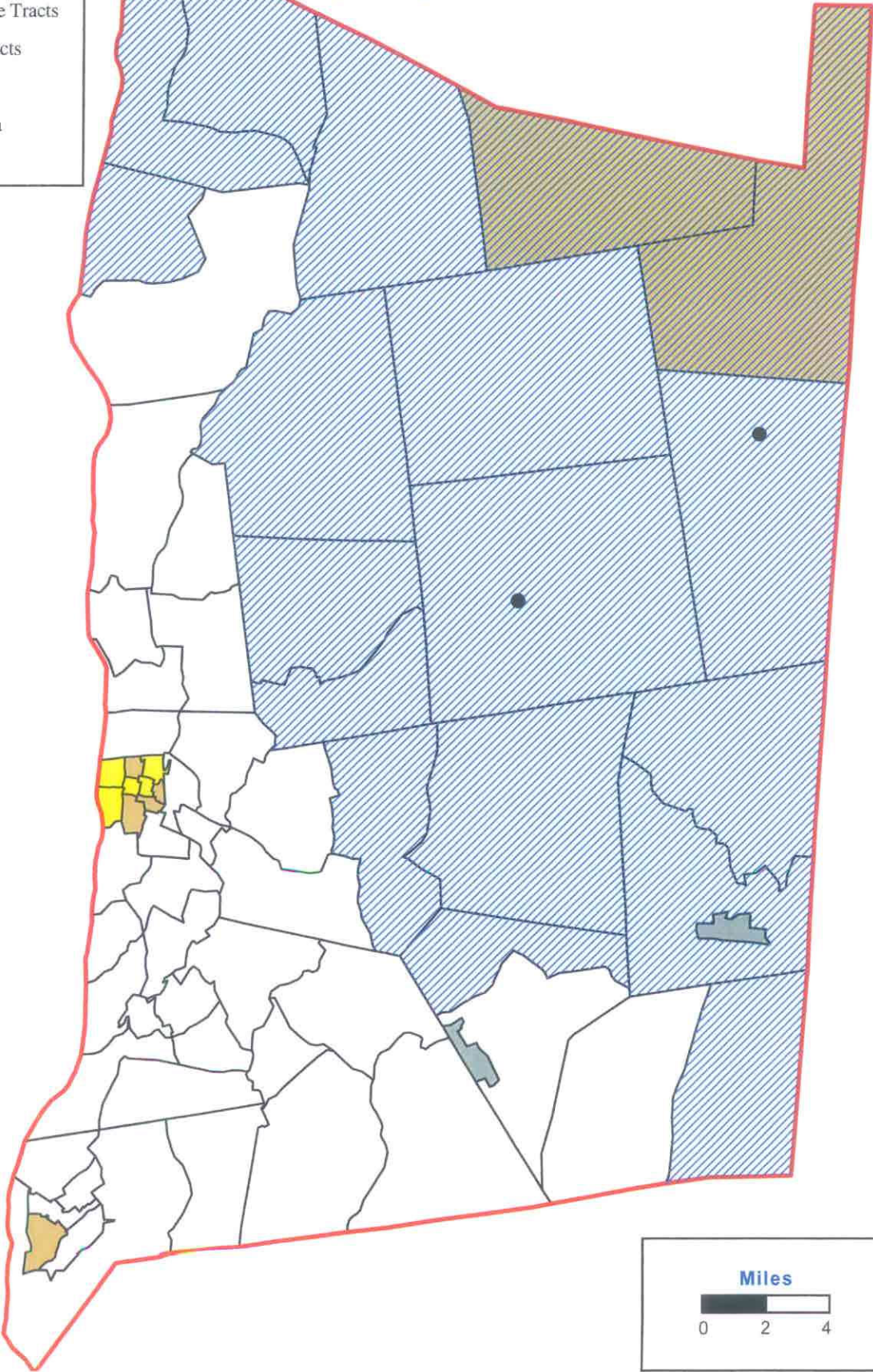
Bank of Millbrook

Assessment Area

January 1, 2004 thru June 30, 2006

Legend

- Zero Income Tracts
- Low Income Tracts
- Moderate Income Tracts
- 2000 Census Tracts
- County
- Assessment Area
- Branch



Dutchess