

# **PUBLIC DISCLOSURE**

January 30, 2006

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**CHEMUNG CANAL TRUST COMPANY  
RSSD No. 884303**

**One Chemung Canal Plaza  
Elmira, NY 14901**

**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:** Chemung Canal Trust Company is rated “**OUTSTANDING.**”

The following table indicates the performance level of the institution with respect to the lending and community development tests.

PERFORMANCE LEVELS	PERFORMANCE TESTS	
	Lending Test	Community Development Test
Outstanding		<b>X</b>
Satisfactory	<b>X</b>	
Needs to Improve		
Substantial Noncompliance		

The outstanding performance of Chemung Canal Trust Company (“Chemung”) with regard to the Community Reinvestment Act (“CRA”) is based on the following performance criteria:

- The level of community development loans, qualified investments, and community development services demonstrates excellent responsiveness to community development credit needs in the assessment areas.
- A substantial majority of loans were made in the assessment areas.
- The bank’s loan-to-deposit ratio was reasonable.
- The geographic distribution of loans reflects excellent dispersion throughout the assessment areas.
- The distribution of loans to borrowers of different incomes and businesses of different sizes was reasonable.

## DESCRIPTION OF INSTITUTION

Established in 1833, Chemung is a New York State-chartered banking corporation headquartered in Elmira, New York. It is a wholly owned subsidiary of Chemung Canal Financial Corporation. Chemung provides full-service banking and trust services to commercial and consumer customers. As of September 30, 2005, the bank reported total assets of \$727 million, with total net loans and leases of \$405 million and total deposits of \$552 million. These deposits were located within 14 full-service branch offices in the Southern Tier of New York State.

The bank's market is highly competitive with branches of numerous local, regional and multinational banks, mortgage companies, credit unions and other financial institutions operating in the bank's assessment areas. Chemung's primary bank competitors include Manufacturers and Traders Trust Company, HSBC Bank NA, Elmira Savings Bank, Community Bank NA, Five Star Bank, and Tioga State Bank.

## DESCRIPTION OF BANK'S ASSESSMENT AREAS

Chemung has three assessment areas that consist of the following:

- **MSA 21300 (Elmira, NY)**, consisting of Chemung County.
- **Two Non-MSA Counties**, consisting of Schuyler County and the eastern portion of Steuben County.
- **MSA 13780 (Binghamton, NY)**, consisting of Tioga County.

The assessment areas are unchanged since the previous examination and do not arbitrarily exclude low- or moderate-income ("LMI") geographies. A map illustrating Chemung's assessment areas is on page BB25.

Chemung's previous CRA examination was dated February 2, 2004, and the bank received an overall rating of "outstanding." There are no financial or legal factors preventing Chemung from serving credit needs of its assessment areas.

## SCOPE OF EXAMINATION

### Procedures

Chemung's assessment areas were reviewed using the Federal Financial Institutions Examination Council's *Intermediate Small Bank Examination Procedures*.

### Products

Retail loan products evaluated include home purchase, refinance, home improvement and small business loans. The mortgage loans included in the evaluation were reported under HMDA, and small business loans evaluated were reported under CRA. Examiners verified the integrity of HMDA-related and small business loan data reported for 2004 and 2005; both were found to have acceptable data integrity. Multifamily loans qualifying as community development loans were considered in the evaluation of community development.

### Examination Period

The evaluation period for HMDA-related and small business loans includes originations between October 1, 2003, and September 30, 2005. Examiners also reviewed activities pertaining to the community development test covering the same period.

### Lending Distribution Analysis

Analysis focused on 2004 and 2005 activity due to reporting requirement changes. In accordance with the reporting requirements, loans originated from January 1, 2004, through September 30, 2005, were reported and analyzed using the new Office of Management and Budget (“OMB”) assessment area definitions. Loans from October 1, 2003, through December 31, 2003, were reported and evaluated using the assessment area definitions issued by the OMB through December 31, 2003.

To evaluate the geographic distribution of HMDA-related loans, the proportion of loan originations was compared with the proportion of owner-occupied housing units located in LMI and non-LMI geographies. For small business loans, the analysis compared the proportion of loan originations with the proportion of businesses located in LMI and non-LMI geographies. Comparisons were made to the most recent performance data available (2004) for the aggregate of all other loan reporters.

In order to analyze the borrower characteristics of HMDA-related loans, the proportion of originations to LMI borrowers was compared with the proportion of LMI families in the assessment areas. Income estimates from the U.S. Department of Housing and Urban Development (“HUD”) were used to categorize borrower income. HUD-adjusted median family income figures for 2004 were used to categorize borrower income level for 2004 loans and 2005 HUD-adjusted median family income data were used to categorize 2005 loans. The size of the small business loan was also used as a proxy to identify lending to businesses with gross annual revenues of \$1 million or less. Comparisons were made to the most recent performance data available (2004) for the aggregate of all other loan reporters.

Only loans inside the assessment area were included in the analysis of geographic and borrower distribution. Before reaching a conclusion about the bank’s overall performance regarding geographic distribution and borrower characteristics in each assessment area, examiners gave greater weight to certain loan products. The comparison of a product’s volume with total retail lending volume in the assessment area determined the weight of a product’s performance in an

overall conclusion.

Chemung's performance in MSA 21300 (Elmira, NY) received the most weight in determining the bank's overall rating because of its concentration of deposits, lending and demographics in comparison with the other assessment areas. See Exhibit 1 on the following page for additional details.

Examiners met with three community organizations during this examination. One community organization contacted focused on affordable housing for LMI individuals while the other two promoted economic development through lending programs to small businesses.

**EXHIBIT 1: Summary of Key Assessment Area Data**

Key Data	MSA 21300	NON-MSAs	MSA 13780	Totals
	Elmira NY	Steuben & Schuyler Counties, NY	Binghamton NY	
Total Population <sup>1</sup>	91,070	69,733	51,784	212,587
Population % of AA population	43%	33%	24%	100%
Families	23,461	18,744	14,369	56,574
Families % of AA families	41%	33%	25%	100%
Total Census Tracts <sup>1</sup>	23	20	10	53
Tracts % AA tracts	43%	38%	19%	100%
LMI tracts	6	0	0	6
LMI tracts % all AA LMI tracts	100%	0%	0%	100%
Total Owner-Occupied Units <sup>1</sup>	24,159	20,365	15,347	59,871
Units % of AA units	40%	34%	26%	100%
Business Establishments <sup>2</sup>	2,742	1,520	2,279	6,541
Bus. est. % AA bus. est.	42%	23%	35%	100%
Number of Branches <sup>3</sup>	7	5	2	14
Branches % all branches	50%	36%	14%	100%
Branches in LMI tracts	1	0	0	1
LMI branches % AA LMI branches	100%	0%	0%	100%
Branch Deposits (\$'000s) <sup>4</sup>	336,244	131,292	58,175	525,711
Deposits % AA deposits	64%	25%	11%	100%
Deposit Market Share (%)/ Rank in Mkt.	29.0/1	14.7/3	17.1/2	22.0/1
Home Purchase Originations <sup>5</sup>	193	78	24	295
HP originations % AA orig.	65%	26%	8%	100%
Refinance Originations <sup>5</sup>	152	67	22	241
Refi orig. % AA orig.	63%	28%	9%	100%
Home Improvement Originations <sup>5</sup>	388	107	49	544
HI orig. % AA orig.	71%	20%	9%	100%
Small Business Originations <sup>5</sup>	374	100	24	498
SB orig. % AA orig.	75%	20%	5%	100%
Combined Loan Totals <sup>5</sup>	1,107	352	119	1,578
% of AA Originations	70%	22%	8%	100%

(1) U.S. Census Data for 2000.

(2) Source: 2004 Dun & Bradstreet

(3) Number of branches as of 12/31/04

(4) Source: FDIC summary of deposit data as of 6/30/2005.

(5) Originations include originations from January 1, 2004 - September 30, 2005

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

### LENDING TEST

Chemung's record of meeting the credit needs of its assessment areas through its lending performance is rated satisfactory. Chemung originated a substantial majority of its loans within its assessment areas and its loan-to-deposit ratio was reasonable. The overall distribution of its loans among borrowers of different income levels and businesses of different sizes was reasonable. The geographic distribution of HMDA-related and small business loans reflected excellent penetration throughout the bank's assessment areas.

#### Loan-to-Deposit Ratio

Chemung's loan-to-deposit ratio was reasonable given the bank's size, financial condition, and the credit needs of its assessment areas. The bank's average loan-to-deposit ratio for the eight most recent quarters ending September 30, 2005, was 72%, based on information contained in its *Consolidated Report of Condition and Income*. This ratio was below the national peer average of 84% for similarly sized banks but slightly above an average of 69% for 5 similarly sized banks with branches in Chemung's assessment areas during the same time period.

#### Lending in Assessment Areas

Chemung originated a substantial majority of its loans in its assessment areas. Of the 567 small business loans and 1,219 HMDA loans originated in 2004 and 2005, 535 or 94% of the small business loans and 1,080 or 89% of the HMDA loans were extended to businesses and individuals located in the bank's assessment areas.

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

The overall distribution among borrowers of different income levels and businesses of different sizes was satisfactory based on good performance in MSA 21300 (Elmira, NY) and in the Non-MSA assessment area.

#### Geographic Distribution of Loans

The overall geographic distribution of loans reflected excellent penetration in LMI geographies throughout Chemung's assessment areas. Performance in MSA 21300 (Elmira, NY) was excellent while performance in the Non MSA assessment area reflected reasonable distribution across census tracts of different income levels considering that no low- or moderate-income geographies were in the Non MSA assessment area.

#### Response to Complaints

No complaints were received by Chemung 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.



## COMMUNITY DEVELOPMENT TEST

Chemung's community development performance demonstrates excellent responsiveness to the community development needs of its assessment areas through community development loans, qualified investments, and community development services, as appropriate, considering Chemung's capacity and the need and availability of such opportunities for community development in Chemung's assessment areas.

### Community Development Loans and Investments

<b>Community Development Lending &amp; Qualified Investments</b>		
<b>Purpose</b>	<b>#</b>	<b>\$(000s)</b>
Affordable Housing	4	303
Community Services	184	22,272
Economic Development	3	2,496
Revitalize/Stabilization	7	1,405
<b>Totals</b>	<b>198</b>	<b>26,476</b>

Chemung's community development performance overall was outstanding, totaling \$26 million. Performance was excellent in MSA 21300 and in the Non-MSA assessment area. Chemung's community development efforts consisted of \$18 million in community development loans and \$8 million in qualified investments. Chemung's performance was responsive to the credit needs identified by community contacts. As shown in the table

above, the bank's community development efforts primarily targeted community services for LMI individuals through non-profit organizations that provided these services across the Southern Tier of New York State.

Qualified investments were primarily municipal bonds for infrastructure improvements to LMI areas in Elmira and school district bonds for districts that had a substantial number of LMI students and an investment in an Small Business Investment Corporation which makes loans to small businesses in upstate New York. Additionally, Chemung made \$364 thousand in grants and donations to organizations providing community services and sponsor affordable housing and economic development activities throughout its assessment areas.

### Community Development Services

Chemung is a leader in providing community development services, hosting educational seminars and offering technical assistance to various organizations that furnish community development services to LMI individuals. Performance was excellent in both full scope assessment areas.

Thirty-four bank officers and staff members and 9 of Chemung's directors serve on the boards and committees of various community development organizations. Of these organizations, 26 were in the Elmira MSA 21300, 9 were in the Non MSA assessment area, and 4 targeted wider regional areas, such as the southern tier of New York, which includes Chemung's assessment areas.

In addition, Chemung's officers and employees were proactive in providing technical assistance for the support of community development activities. Examples include:

- Chemung provides training courses and financial products with an organization that focuses on affordable housing related issues throughout Chemung, Steuben, and Schuyler counties.
- Chemung administers a grant from the Federal Home Loan Bank to a not-for-profit corporation, in the amount of \$100,000 to provide rehabilitation assistance to 20 LMI households. Chemung processes applications, and administers the funds.
- The bank administers the Federal Home Loan Bank's First Home Club with two community development organizations whereby first time home buyers are able to save funds for a down payment or closing costs and receive a 3:1 matching grant from the Federal Home Loan Bank.
- One officer serves as a member of the finance committee for a not-for-profit organization which provides a variety of services to LMI individuals throughout the southern tier of New York State.

#### **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.

## METROPOLITAN AREA MSA 21300 (ELMIRA, NY)

### DESCRIPTION OF OPERATIONS

As of September 30, 2005, Chemung operated 7 branches in this MSA, representing half of its total number of branches. These branches contained \$336 million in deposits, or 64% of the bank's total branch deposits in New York State as of June 30, 2005. Of Chemung's total retail loans, 70% were originated in this MSA during 2004 and the first nine months of 2005. For additional assessment area data, see Exhibits 1 and 2.

### 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.

<b>EXHIBIT 2</b>								
<b>Assessment Area Demographics</b>								
Assessment Area: MSA 21300 Elmira, NY								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	2	8.7	438	1.9	167	38.1	4,313	18.4
Moderate-income	4	17.4	3,155	13.4	665	21.1	4,377	18.7
Middle-income	13	56.5	14,210	60.6	1,158	8.1	5,498	23.4
Upper-income	3	13.0	5,658	24.1	152	2.7	9,273	39.5
Unknown-income	1	4.3	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>23</b>	<b>100.0</b>	<b>23,461</b>	<b>100.0</b>	<b>2,142</b>	<b>9.1</b>	<b>23,461</b>	<b>100.0</b>
	<b>Housing Units by Tract</b>	<b>Housing Types by Tract</b>						
		<b>Owner-occupied</b>			<b>Rental</b>		<b>Vacant</b>	
		#	%	%	#	%	#	%
Low-income	1,393	107	0.4	7.7	1,035	74.3	251	18.0
Moderate-income	6,366	2,351	9.7	36.9	3,292	51.7	723	11.4
Middle-income	22,153	15,310	63.4	69.1	5,424	24.5	1,419	6.4
Upper-income	7,830	6,391	26.5	81.6	1,136	14.5	303	3.9
Unknown-income	3	0	0.0	0.0	3	100.0	0	0.0
<b>Total Assessment Area</b>	<b>37,745</b>	<b>24,159</b>	<b>100.0</b>	<b>64.0</b>	<b>10,890</b>	<b>28.9</b>	<b>2,696</b>	<b>7.1</b>
	<b>Total Businesses by Tract</b>	<b>Businesses by Tract &amp; Revenue Size</b>						
		<b>Less Than or = \$1 Million</b>		<b>Over \$1 Million</b>		<b>Revenue Not Reported</b>		
	#	%	#	%	#	%	#	%
Low-income	350	12.8	270	11.5	52	19.4	28	23.5
Moderate-income	495	18.1	402	17.1	74	27.6	19	16.0
Middle-income	1,297	47.3	1,154	49.0	94	35.1	49	41.2
Upper-income	598	21.8	527	22.4	48	17.9	23	19.3
Unknown-income	2	0.1	2	0.1	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>2,742</b>	<b>100.0</b>	<b>2,355</b>	<b>100.0</b>	<b>268</b>	<b>100.0</b>	<b>119</b>	<b>100.0</b>
	<b>Percentage of Total Businesses:</b>			<b>85.9</b>		<b>9.8</b>		<b>4.3</b>

Demographic Characteristics

According to the 2000 Census, MSA 21300 (Elmira, NY) population totals 91,070, which is a four percent decline since 1990. The MSA contains 43% of the bank's combined assessment area population.

Income Characteristics

The HUD-adjusted median family income for the MSA was \$49,100 in 2004 and \$51,150 in 2005. Of the 23 census tracts in the assessment area, 2 or 9% are low-income and 4 or 17% are moderate-income. Most LMI tracts are located in the city of Elmira. Nine percent of all families within the MSA have incomes below the poverty level.

Housing Characteristics

The assessment area contains 37,745 housing units, of which 64% are owner-occupied. Of the total owner-occupied units, 10% were located in LMI census tracts. Demographic information from the 2000 census estimated that the median age of the housing stock throughout the MSA is 50 years.

Median Home Sales Prices		
Area	2004	3 <sup>rd</sup> Qtr. 2005
Chemung County.	\$78,000	\$76,000

Source: New York Association of Realtors

As shown in the table at left, the median sales price of existing single-family homes in Chemung County totaled \$78,000 as of December 2004 and decreased slightly to \$76,000 in the third quarter of 2005.

As indicated by a median housing price of \$76,000, housing is affordable in comparison to other parts of New York State. Community contacts however pointed out that in Chemung, Steuben and Schuyler Counties down payment and closing cost assistance is still needed and that while housing is generally affordable it is not affordable for some individuals, particularly of low-income. The contacts also pointed out that considering the age of the housing stock there is a need for home improvement and home rehabilitation loans since repair costs also limit the ability of low-income individuals to purchase and maintain a home.

Labor, Employment and Economic Characteristics

Long term economic trends in MSA 21300 (Elmira, NY) indicate a decline in manufacturing and a transition to a service and a more information-based economy. During the examination period, average annual unemployment rates decreased slightly from 6.5% in 2003 to 6.1% in 2004. Trends in 2005 indicate further improvement as the average unemployment rate reached 5.4%. As small businesses represent a significant amount of the businesses in the MSA, financing for these businesses is an important credit need.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS**

**LENDING TEST**

Chemung’s overall record of lending in MSA 21300 (Elmira, NY) was good. An analysis of lending to borrowers of different income levels and to businesses of different sizes and the geographic distribution of loans follows:

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

The overall borrower distribution of loans reflected satisfactory performance based on excellent performance in HMDA-related lending to moderate-income borrowers and good performance in HMDA-related lending to low-income borrowers. The distribution of loans to businesses of different sizes reflected good performance.

Performance overall in HMDA-lending to low-income borrowers was good considering the number of low-income families and housing costs in relation to the low-incomes. In 2004, housing costs in Chemung County were approximately 3.0 times the income of low-income individuals. Housing affordability therefore may be difficult for low-income individuals.

The following table summarizes the bank’s performance in lending to low- and moderate-income borrowers within each HMDA product:

<b>HMDA Lending to Low and Moderate-Income Borrowers MSA 21300</b>				
<b>Loan Product</b>	<b>Lending to Low-Income Borrowers</b>	<b>Aggregate Comparison</b>	<b>Lending to Moderate-Income Borrowers</b>	<b>Aggregate Comparison</b>
Home Purchase	Reasonable	Above	Excellent	Similar To
Refinance	Reasonable	Above	Excellent	Slightly Above
Home Improvement	Reasonable	Slightly Above	Excellent	Similar To

**Home Purchase Loans**

Chemung’s distribution of home purchase loans to moderate-income borrowers was excellent. Chemung extended 24.9% of loans to moderate-income borrowers compared with 18.7% of moderate-income families residing in the assessment area and 25.9% of aggregate originations made to moderate-income borrowers.

Chemung's distribution of home purchase loans to low-income borrowers was reasonable. Chemung extended 13.5% of loans to low-income borrowers compared with 18.4% of low-income families residing in the assessment area and 9.8% of aggregate originations made to low-income borrowers. The aggregate's performance supported the challenges in lending to low-income individuals as noted in the performance context section of this evaluation.

#### Refinance Loans

The distribution of refinancings to moderate-income borrowers was excellent. Chemung originated 19.8% of its refinance loans to moderate-income borrowers, compared with 18.7% of moderate-income families residing in the assessment area and 16.9% of aggregate originations made to moderate-income borrowers.

The distribution of refinancings to low-income borrowers was reasonable. Chemung originated 10.5% of its refinance loans to low-income borrowers, compared with 18.4% of low-income families residing in the assessment area and 7.4% of aggregate originations made to low-income borrowers. The aggregate's performance supported the challenges in lending to low-income individuals as noted in the performance context section.

#### Home Improvement Loans

The distribution of home improvement loans to moderate-income borrowers was excellent. Chemung originated 24.7% of its home improvement loans to moderate-income borrowers, compared with 18.7% of moderate-income families residing in the assessment area and 22.9% of aggregate originations made to moderate-income borrowers.

The distribution of home improvement loans to low-income borrowers was good. Chemung originated 14.1% of its home improvement loans to low-income borrowers, compared to 18.4% of low-income borrowers residing in the assessment area and 11.3% of aggregate originations made to low-income borrowers. The aggregate's performance supported the challenges in lending to low-income individuals as noted in the performance context section.

#### Businesses Loans

Overall the distribution of loans to businesses of different sizes was reasonable. The proportion of loans to businesses with gross annual revenues ("GAR") of \$1 million or less was 34.2% compared to 85.9% of such businesses located in the assessment area. Chemung's performance was above the aggregate which reported 25.3% of its loans to such businesses. In addition, 72% of the loan amounts were for \$100 thousand or less and the average loan size was \$39,106. Chemung underperformed the aggregate which originated 89.9% of its loans in amounts of \$100,000 or less. Small loan amounts generally reflect the size of the business.

**Geographic Distribution of Loans**

The overall geographic distribution of HMDA-related and small business loans reflected excellent loan penetration. HMDA-related and small business lending in moderate-income census tracts reflect excellent loan penetration. Performance in this assessment area is based primarily on performance in moderate-income tracts. Low-income tracts have very limited HMDA lending opportunities because of the low (107) number of owner-occupied units located there. Chemung’s performance in lending to small businesses in low-income census tracts was good and slightly above the aggregate of other lenders. The following table summarizes Chemung’s performance in moderate-income census tracts with respect to each loan product:

<b>Lending in Moderate-Income Tracts</b>		
<b>MSA 21300 (Elmira, NY)</b>		
<b>Product</b>	<b>Moderate-Income Tracts</b>	<b>Aggregate Comparison 2004</b>
Home Purchase	Excellent	Similar To
Refinance	Reasonable	Slightly Below
Home Improvement	Excellent	Similar To
Small Business	Excellent	Above

**Home Purchase Loans**

Chemung’s distribution of home purchase loans in moderate-income areas was excellent when compared with the level of owner-occupied housing units as well as the aggregate of all HMDA-reporting lenders. 9.3% percent of the bank’s home purchase loans were in moderate-income geographies compared to 9.7% of the owner occupied-housing units and 9.4% of the aggregate’s lending located in moderate-income geographies. Comparisons to peer banks indicated Chemung was among the leading lenders within moderate-income census tracts.

**Refinance Loans**

The distribution of refinancings in moderate-income geographies was good when compared with both the level of owner-occupied housing units as well as the aggregate of all HMDA-reporting lenders. 6.6% of Chemung’s loans were in moderate-income geographies compared to 9.7% of owner-occupied housing units and 8.2% of the aggregate’s lending was located in moderate-income geographies. Comparisons to peer bank indicated Chemung was among the leading lenders within moderate-income census tracts.

### Home Improvement Loans

The distribution of home improvement loans in moderate-income geographies was excellent when compared with the level of owner-occupied housing units and the aggregate of all HMDA-reporting lenders. 10.8 percent of Chemung's home improvement loans were in moderate-income geographies compared to 9.7% of owner-occupied housing units and 10% of the aggregate's lending located in moderate-income geographies.

### Small Business Loans

Chemung's distribution of small business loans in moderate-income areas was excellent compared with the level of businesses as well as the aggregate of all CRA-reporting lenders. 31.2% percent of the bank's small business loans were in moderate-income geographies compared to 18.1% of the businesses and 22.0% of the aggregate's lending located in moderate-income geographies.

Small business performance in low-income census tracts was good compared with the level of businesses as well as the aggregate of all CRA-reporting lenders. 11.9% of the bank's small business loans were in low-income geographies compared to 12.8% of the businesses and 10.1% of the aggregate's lending located in low-income geographies.

## **COMMUNITY DEVELOPMENT TEST**

Chemung's community development performance was excellent in this assessment area and compared favorably with similarly situated banks. During the examination period, loans and qualified investments benefiting the MSA assessment area totaled \$15.1 million. The bank also provided an excellent level of community development services. The loans primarily involved community services for LMI individuals. Examples of community development loans and qualified investments include:

- A \$1.1 million line of credit to a non-profit association that provides services and group homes to handicapped children. The line of credit supports collection of accounts receivable until funding is received from governmental agencies.
- A \$400,000 line of credit to an organization that provides alternative living arrangements for adolescent's home environments. It offers alternatives to institutional placement by developing foster homes, provides preventive services for families at early stages and provides respite care in emergency situations.
- Four municipal bonds totaling \$288,000 to a school district which has a substantial student population from families of low- and moderate-income.



Chemung also provided an excellent level of community development services, hosting seminars and offering technical assistance to various organizations that furnish community development services to LMI individuals.

Twenty-six bank officers/employees and nine of the bank's directors serve on the boards and committees of various community development organizations. Examples follow:

- Chemung has one director who serves as the Chairman of the Board of Directors and three other directors also serve as directors of an economic development corporation.
- One officer serves as treasurer and another is a member of the corporate compliance committee of a not-for-profit organization assisting developmentally disabled persons.
- One officer is president of an organization providing meals to the elderly and low-income individuals.
- One officer serves as president of a not-for-profit organization that assists in the development of affordable housing for low- and moderate-income individuals.

The overall branch distribution provides good accessibility to the LMI population and geographies within the assessment areas. Within the Elmira assessment area, one of seven branches or 14% were located in LMI census tracts providing needed financial services to these areas. In comparison, 15% of the assessment area families reside in LMI census tracts. In the two other assessment areas there are no LMI census tracts. The LMI branch in the Elmira assessment area was also Chemung's headquarters, which brings additional jobs and fosters economic development to the low-income area.

## NON METROPOLITAN AREA

(SCHUYLER AND STEUBEN COUNTIES, NY)

### DESCRIPTION OF INSTITUTION'S OPERATIONS

As of September 30, 2005, Chemung operated five branches in this MSA, representing 36% of its total number of branches. These branches contained \$131 million in deposits, or 25% of the bank's total branch deposits in New York State as of June 30, 2005. For additional assessment area data, see Exhibits 1 and 3.

### 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

According to the 2000 Census, the population of Schuyler and Steuben counties totaled 69,733. These counties contain 33% of the bank's combined assessment area population.

#### Income Characteristics

The HUD-adjusted median family income for Schuyler County was \$45,400 in 2004 and \$48,050 in 2005. The HUD-adjusted median family income for Steuben County was \$54,900 in both 2004 and 2005. There are no low- or moderate-income census tracts in the two counties. Eight percent of all families within the two counties have incomes below the poverty level.

#### Housing Characteristics

The assessment area contains 32,683 housing units, of which 62% are owner-occupied. Demographic information from the 2000 census estimated that the median age of the housing stock throughout the MSA to be 44 years.

The median sales price of existing single-family homes in Steuben and Schuyler Counties totaled \$73,000 and \$86,750 respectively as of December 2004 and increased to \$86,500 and \$117,000 in the third quarter of 2005. Housing costs in relation to incomes present challenges to home ownership and reduce lending opportunities to low-income individuals.

#### Labor, Employment and Economic Characteristics

During the examination period, average annual unemployment rates in Steuben County were 6.2% in 2004 and 5.7% in 2005 and in Schuyler County were 5.9% in 2004 and 5.6% in 2005.

EXHIBIT # 3								
Assessment Area Demographics								
Assessment Area: Non MSA Steuben and Schuyler Counties								
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	3,178	17.0
Moderate-income	0	0.0	0	0.0	0	0.0	3,359	17.9
Middle-income	16	80.0	14,621	78.0	1,290	8.8	4,124	22.0
Upper-income	4	20.0	4,123	22.0	265	6.4	8,083	43.1
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>20</b>	<b>100.0</b>	<b>18,744</b>	<b>100.0</b>	<b>1,555</b>	<b>8.3</b>	<b>18,744</b>	<b>100.0</b>
	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	0	0	0.0	0.0	0	0.0	0	0.0
Middle-income	25,547	16,133	79.2	63.2	5,333	20.9	4,081	16.0
Upper-income	7,136	4,232	20.8	59.3	2,353	33.0	551	7.7
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>32,683</b>	<b>20,365</b>	<b>100.0</b>	<b>62.3</b>	<b>7,686</b>	<b>23.5</b>	<b>4,632</b>	<b>14.2</b>
	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	0	0.0	0	0.0	0	0.0	0	0.0
Middle-income	1,672	73.4	1,439	73.3	116	72.5	117	75.5
Upper-income	607	26.6	525	26.7	44	27.5	38	24.5
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>2,279</b>	<b>100.0</b>	<b>1,964</b>	<b>100.0</b>	<b>160</b>	<b>100.0</b>	<b>155</b>	<b>100.0</b>
	Percentage of Total Businesses:			<b>86.2</b>		<b>7.0</b>		<b>6.8</b>

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CONTEXT

### LENDING TEST

Chemung's overall record of lending in the Non MSA assessment area was good. An analysis of lending to borrowers of different income levels and to businesses of different sizes and the geographic distribution of loans follows:

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

The overall borrower distribution of loans reflected reasonable performance based on excellent performance in HMDA-related lending to moderate-income borrowers and reasonable performance in HMDA-related lending to low-income borrowers and lending to businesses of different sizes.

The following table summarizes the bank's performance in lending to low- and moderate-income borrowers within each HMDA product:

<b>HMDA Lending to Low and Moderate-Income Borrowers Non-MSA Assessment Area</b>				
<b>Loan Product</b>	Lending to Low-Income Borrowers	Aggregate Comparison	Lending to Moderate-Income Borrowers	Aggregate Comparison
Home Purchase	Poor	Below	Excellent	Similar To
Refinance	Poor	Below	Reasonable	Slightly Below
Home Improvement	Reasonable	Similar To	Excellent	Similar To

Home Purchase Loans

Chemung's distribution of home purchase loans to moderate-income borrowers was excellent. Chemung extended 19.2% of loans to moderate-income borrowers compared with 17.9% of moderate-income families residing in the assessment area and 21.3% of aggregate originations made to moderate-income borrowers.

Chemung's distribution of home purchase loans to low-income borrowers was poor. Chemung extended 3.6% of loans to low-income borrowers compared with 17% of low-income families residing in the assessment area and 5.9% of aggregate originations made to low-income borrowers. The aggregate's performance supported the challenges in lending to low-income individuals as noted in the performance context section.

Refinance Loans

The distribution of refinancings to moderate-income borrowers was reasonable. Chemung originated 14.7% of its refinance loans to moderate-income borrowers, compared with 17.9% of moderate-income families residing in the assessment area and 19% of aggregate originations made to moderate-income borrowers.

The distribution of refinancings to low-income borrowers was poor. Chemung originated 2.9% of its refinance loans to low-income borrowers, compared with 17% of low-income families residing in the assessment area and 4.7% of aggregate originations made to low-income borrowers. The aggregate's performance supported the challenges in lending to low-income individuals as noted in the performance context section.

### Home Improvement Loans

The distribution of home improvement loans to moderate-income borrowers was excellent. Chemung originated 23.4% of its home improvement loans to moderate-income borrowers, compared with 17.9% of moderate-income families residing in the assessment area and 25.5% of aggregate originations made to moderate-income borrowers.

The distribution of home improvement loans to low-income borrowers was reasonable. Chemung originated 14% of its home improvement loans to low-income borrowers, compared to 17% of low-income families residing in the assessment area and 14.7% of aggregate originations made to low-income borrowers.

### Businesses Loans

Lending to businesses of different sizes was reasonable. Of Chemung's small business loans, 52.6% went to businesses with GAR of less than \$1,000,000 compared to 86.2% of all business establishments in assessment area with GAR of less than \$1,000,000. Chemung's performance significantly exceeded the aggregate which reported 33.8% of its loans to such businesses. In addition, 71.6% of loans were for amounts of \$100,000 or less in 2004 compared to 95.3% of the aggregate's loans.

### Geographic Distribution of Loans

Performance in the Non-MSA assessment area was considered reasonable but there are no low- or moderate-census tracts within this assessment area. A map review of the distribution of loans throughout the Non-MSA assessment area indicates the loans are well disbursed throughout the assessment area.

## **COMMUNITY DEVELOPMENT TEST**

Chemung's community development performance was excellent in this assessment area and compared favorably with similarly situated banks. Loans and qualified investments benefiting Schuyler and Steuben Counties totaled \$8 million. The bank also provided an excellent level of community development services. The loans primarily involved community services for LMI individuals. Examples of community development loans and qualified investments include:

- A \$500,000 line of credit to a non-profit organization provides services to individuals with developmental disabilities. The line of credit supports collection of accounts receivable until funding is received from governmental agencies.
- A \$150,000 line of credit to a housing agency provides major rehabilitation assistance to low-income homeowners and technical housing assistance to local municipalities.

**Community Development Services:** Chemung provided an excellent level of community development services, hosting seminars and offering technical assistance to various organizations that furnish community development services to LMI individuals.

Nine bank officers/employees serve on the boards and committees of various community development organizations. Examples follow:

- One officer serves as Treasurer of a Steuben County based organization dedicated to the development of affordable housing.
- One officer serves as a member of the planning board for a local economic development organization.

## METROPOLITAN AREA

(LIMITED REVIEW)

MSA 13780 (BINGHAMTON, NY)

Conclusions regarding performance in this limited-review assessment area are related to the bank's overall performance. HMDA and small business volume was low but generally reflective of the bank's limited presence in this assessment area. Performance under the lending and community development tests follow:

Lending Test	Community Development Test
Below	Consistent

## CRA APPENDIX A

### GLOSSARY

**Aggregate lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Census tract:** A small, relatively permanent statistical subdivision of a county or statistically equivalent entity delineated for data presentation purposes by a local group of census data users or the geographic staff of a regional census center in accordance with Census Bureau guidelines. Designed to be relatively homogeneous units with respect to population characteristics, economic status, and living conditions at the time they are established, census tracts generally contain between 1,000 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries are delineated with the intention of being stable over many decades, so they generally follow relatively permanent visible features. However, they may follow governmental unit boundaries and other invisible features in some instances; the boundary of a state or county (or statistically equivalent entity) is always a census tract boundary.

**Community development:** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
  - a. Rates of poverty, unemployment, and population loss; or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.



**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:** A family is a group of two or more people related by birth, marriage, or adoption and residing together; all such people (including related subfamily members) are considered as members of one family.

**Full review:** Performance is analyzed considering performance context, quantitative factors and qualitative factors.

**Geography:** A census tract 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:** A household consists of all the people who occupy a housing unit. A household includes the related family members and all the unrelated people, if any, such as lodgers, foster children, wards, or employees who share the housing unit. A person living alone in a housing unit, or a group of unrelated people sharing a housing unit such as partners or roomers, is also counted as a household. The count of households excludes group quarters.

**Limited-scope review:** Performance is analyzed using only quantitative factors.

**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 Statistical Area (“MSA”):** A geographic entity defined by the federal Office of Management and Budget for use by federal statistical agencies, based on the concept of a core area with a large population nucleus, plus adjacent communities having a high degree of economic and social integration with that core.

**Metropolitan Division:** A county or group of counties within a **Metropolitan Statistical Area** that contains a population of at least 2.5 million and represents an employment center(s) associated through commuting ties.

**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.

**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.

**Qualified investment:** A qualified investment is defined as any lawful investment, deposit, membership share or grant that has as its primary purpose community development.

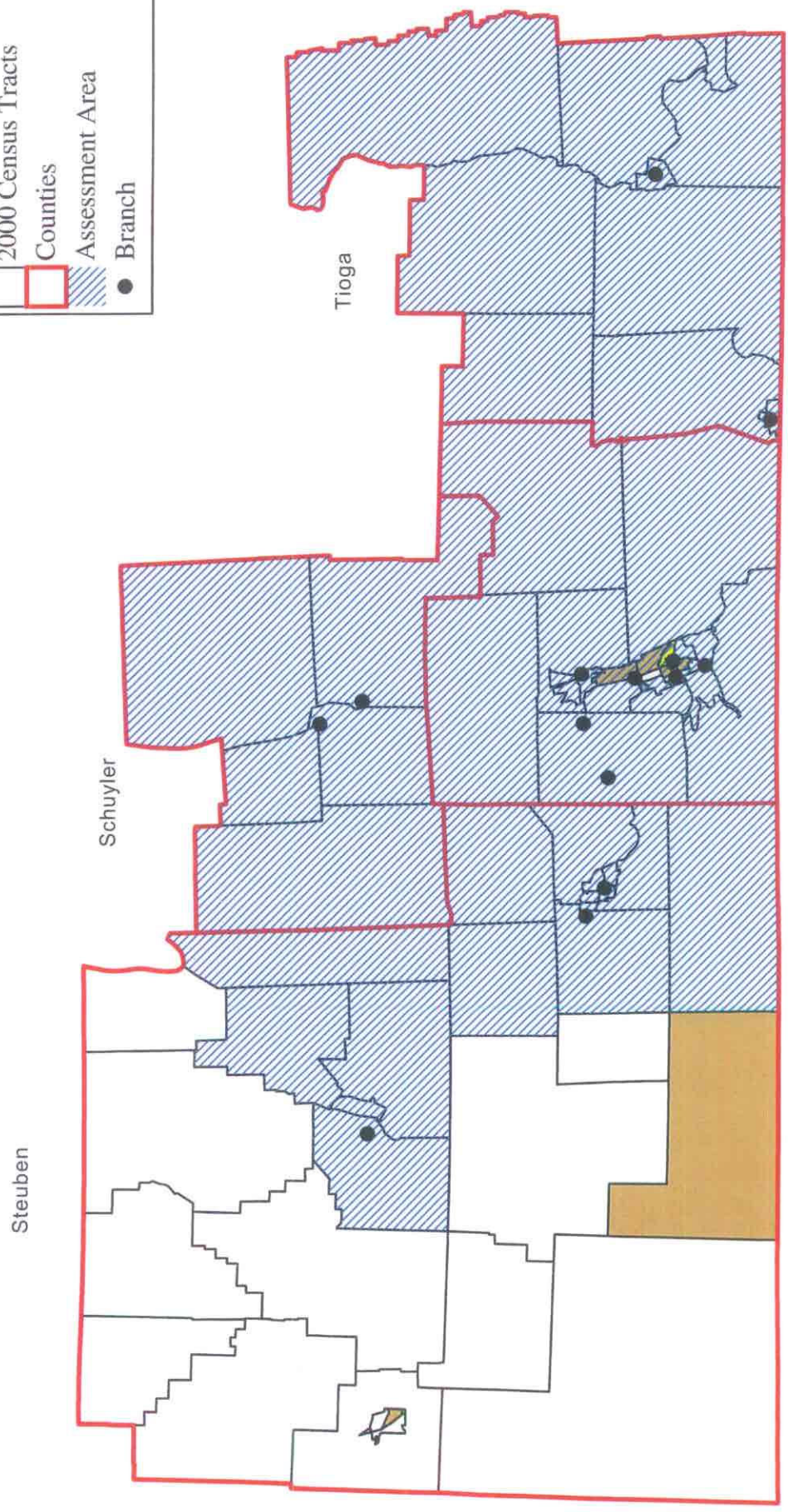
**Small loan(s) to business(es):** A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income ("Call Report") and the Thrift Financial Reporting ("TFR") instructions. These loans have original amounts of \$1 million or less and typically are either secured 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.

# Chemung Canal Trust Company Assessment Area 2004-2005

**Legend**

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



**Miles**

0 5 10