



Comptroller of the Currency
Administrator of National Banks

LARGE BANK

Public Disclosure

September 21, 1998

Community Reinvestment Act Performance Evaluation

**Canandaigua National Bank and Trust Company
Charter Number: 3817**

**72 South Main St.
Canandaigua, New York 14424**

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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.

TABLE OF CONTENTS

| | |
|--|----|
| Definitions | 3 |
| General Information | 4 |
| Description of Institution and Assessment Areas | 5 |
| Conclusions with Respect to Performance Tests | |
| Lending Test | |
| Assessment Area Concentration of Lending Activity | 7 |
| Level of Lending Activity | 8 |
| Borrower Characteristics | 9 |
| Geographic Distribution | 11 |
| Community Development Lending | 14 |
| Innovative or Flexible Lending Practices | 15 |
| Investment Test | 16 |
| Service Test | |
| Retail Banking Services | 17 |
| Community Development Services | 19 |
| Fair Lending Results | 20 |
| Appendix | |
| Scope of Examination | 21 |

Definitions

Community development - affordable housing or community services targeted to low or moderate income individuals, activities that promote economic development by financing small businesses or farms, and activities that revitalize or stabilize low or moderate income geographies.

Community development loan - a loan that has its primary purpose in community development, benefits the AA, and has not been reported or collected by the bank for consideration as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling.

Community development service - a service that has its primary purpose in community development, is related to the provision of financial services, and has not been considered in the evaluation of the bank's retail banking services.

Geography - a census tract or block numbering area.

HMDA loan - a "home improvement loan", "refinance loan" or "home purchase loan" that is reported on the Home Mortgage Disclosure Act Report.

Home improvement loan - any loan that is for the purpose in whole or in part of repairing, rehabilitating, remodeling, or improving a dwelling or the real property on which it is located and is classified by the financial institution as a home improvement loan.

Home purchase loan - any loan secured by and made for the purpose of purchasing a dwelling.

Low Income - an individual income that is less than 50% of the area median income, or a median family income (MFI) that is less than 50%, in the case of a geography.

Middle Income - an individual income that is at least 80% and less than 120% of the area median income, or a MFI that is at least 80% and less than 120%, in the case of a geography.

Moderate Income - an individual income that is at least 50% and less than 80% of the area median income, or a MFI that is at least 50% and less than 80%, in the case of a geography.

Upper Income - an individual income that is 120% or more of the area median income, or a MFI that is 120% or more, in the case of a geography.

Qualified investment - a lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Refinance loan - any loan in which the existing obligation, involving either a home purchase or a home improvement loan, is satisfied and replaced by a new obligation.

Small Business Loan - a business loan for \$1 million or less.

Small Farm Loan - A farm loan for \$500 thousand or less.

Small Business or Small Farm - A business or farm with annual revenues of \$1 million or less.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **Canandaigua National Bank and Trust Company (CNBT)** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **September 21, 1998**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

Institution's CRA Rating: This institution is rated **"Outstanding."**

The primary factors supporting the overall rating are:

- A high percentage (76%) of loans made in the bank's assessment area;
- An excellent distribution of home loans to borrowers of different income levels;
- A good distribution of loans to small size businesses and farms, as well as small size loans (loans for \$100,000 or less);
- A good geographic distribution of home loans and an adequate geographic distribution of small business loans;
- An excellent level of qualified community development investments, including a significant involvement in the formation of a Small Business Investment Corporation (SBIC). The formation of the SBIC is considered a complex activity.
- Service delivery systems that are readily accessible to all portions of the bank's assessment area and business hours that are tailored to the convenience and needs of the assessment area.
- A high level of community development services.

The following chart indicates the performance level of CNBT with respect to the lending, investment, and service tests:

| CNBT Performance Tests | | | |
|-----------------------------------|----------------------|------------------------|---------------------|
| | Lending Test* | Investment Test | Service Test |
| Outstanding | | X | X |
| High Satisfactory | X | | |
| Low Satisfactory | | | |
| Needs to Improve | | | |
| Substantial noncompliance | | | |

* The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

Description of Institution

Canandaigua National Bank and Trust Company (CNBT) is the principal subsidiary of Canandaigua National Corporation (CNC), headquartered in Canandaigua, New York. CNC is a one bank holding company with total assets of \$419 million. CNC also has two wholly owned mortgage subsidiaries, Greater Funding - The Mortgage Company and Hometown Funding, Inc. CNC is also a founding principal investor of Cephias Capital, a \$40 million Small Business Investment Corporation (SBIC) which provides financing for emerging companies.

CNBT formed an operating subsidiary, CNB Operating Subsidiary #1, to obtain a license to sell insurance. The operating subsidiary subsequently acquired the Burlingham Agency, a life insurance agency in April 1996. The operating subsidiary was not reviewed in conjunction with this examination.

CNBT engages in full service commercial/retail banking and trust services through 10 branch offices in Southeastern Monroe County and Western Ontario County. CNBT reported total assets of \$416 million as of June 30, 1998. Gross loans were \$307 million or 74% of total assets. The loan portfolio consists of 52% real estate loans, 17% commercial loans, 29% individual loans, and 2% other loans. CNBT is not subject to any known financial, legal or regulatory restrictions which would impede its ability to help meet the credit needs of its assessment area.

Competition is considered strong. CNBT competes with a large credit union, mortgage companies, and branches of community, regional, and global banking institutions.

Description of Assessment Area (AA)

The AA is located entirely within the Rochester, New York Metropolitan Statistical Area (MSA) and consists of portions of Monroe and Ontario Counties. The AA is in the Finger Lakes area of New York State and has a population of approximately 107,000. The income characteristics of the 22 geographies comprising the AA are: two moderate income, thirteen middle income, and seven upper income. There are no low income geographies in the AA. No low or moderate income geographies were arbitrarily excluded from the AA. Eighty-two percent of the housing is 1-4 family units, 7% multifamily units, 8% mobile homes, and 3% condominiums. The 1998 Updated Median Family Income for the Rochester, N.Y. MSA, used to categorize the income level of home loan borrowers, is \$48,800. The Updated Median Family Income is based on information from the Department of Housing and Urban Development (HUD). The 1990 Rochester N.Y. MSA U.S. Census Median Family Income, used to categorize the geographies in the MSA, is \$40,519.

Business demographics for 1998 show 4,427 businesses, including 167 farms in the AA. Small businesses represent 90% of the businesses reporting revenues. Approximately 85% of the businesses employ less than ten people. The major employers in the AA include the Veteran's Administration Hospital, Canandaigua Brands Inc., Xerox Corporation, the Canandaigua City School District, Tenneco Inc., and the Ontario County government.

Economic conditions are fairly stable with favorable unemployment rates. Unemployment rates for Monroe and Ontario Counties were 3.9% and 3.4% for September 1998, respectively, and compare favorably to the statewide unemployment rate of 5.2%. However, the area was not a significant beneficiary in the nation's economic growth over the last several years. Rochester was the only metropolitan area in New York State, and one of only 21 in the nation to record a net loss of jobs in the past year. According to a recent newspaper article discussing new business creations, the Rochester Metropolitan Area ranked 49 out of the 50 largest metropolitan areas in the country for business startups and job creation. The business study discussed in the article cited the weather and airport service as the main causes of the low rating.

Our community contacts confirmed that the credit needs of the community are small business financing, home loans, and various retail credit such as automobile financing. The credit needs are being met well by the many financial institutions operating in the area, local government, and nonprofit organizations.

Conclusions with Respect to Performance Tests

Scope of Review

This review covers the calendar years 1996 and 1997, and the first half of 1998. The market share and peer lender comparisons contained in the Lending Test are based on information contained in the aggregate Home Mortgage Disclosure Act (HMDA) and Small Business/Small Farm Reports for 1996 and 1997. This information will not be available for 1998 activities until mid-year 1999. The aggregate HMDA and Small Business/Small Farm Reports are available for public review. The 1998 information is based on the bank's HMDA LAR and Small Business/Small Farm Registers. The bank's 1996 small business/small farm submission did not contain several of the loans the bank originated that year due to technical reporting difficulties. We included the corrected numbers in this report.

The peer comparisons in this report include only lenders who were required to file HMDA and Small Business and Small Farm lending reports for 1996 or 1997. While virtually all lenders operating in CNBT's AA would have been required to file HMDA information, several financial institutions would not have been required to report small business/farm data. Small business/farm reporting is only required of bank and thrift institutions with assets of \$250 million or greater as of December 31st of the prior two calendar years preceding the reporting year, or an affiliate of a holding company with \$1 billion or more in assets during the same time periods.

We also included mortgage lending information on two of the bank's mortgage company affiliates, Greater Funding - The Mortgage Company (GF) and HomeTown Funding (HTF). Unlike GF, HTF has not been a bank affiliate for the entire examination period. HTF was acquired by the Bank Holding Company in October 1997. Consequently, this report contains HTF mortgage loan data for 1998 only. GF mortgage data covers the entire examination period. The Affiliate lending data is not included in the calculation of the bank's ratio of loans made inside its assessment area, but is included in all other aspects of the Lending Test. The Investment Test section of this report includes CNC's investment in the SBIC.

From this point forward, all information presented represents activities which occurred in the bank's AA unless otherwise note

Lending Test

Assessment Area Concentration of Lending Activity

CNBT's lending levels show good responsiveness to meeting the community's credit needs for home, small business, and small farm loans. CNBT originated 589 home loans, 974 small business loans, and 43 small farm loans during the time period between January 1, 1996 and June 30, 1998.

Table I below shows the number and dollar amount of HMDA, small business, and small farm loans originated during this time period. A high percentage of these loans (76%) are inside the bank's AA.

| Table I | | | | |
|---|-------------|-----------------------|-------------------|--------------|
| Ratio of Loans Originated Inside the Assessment Area - January 1, 1996-June 30, 1998 | | | | |
| | HMDA | Small Business | Small Farm | Total |
| Number | | | | |
| Number of loans inside the AA | 472 | 710 | 33 | 1,215 |
| Total number of Loans | 589 | 974 | 43 | 1,606 |
| % of Loans Inside/Total # of Loans | 80% | 73% | 77% | 76% |
| Dollars (in 000's) | | | | |
| \$ of Loans Inside the AA | 34,964 | 51,255 | 1,686 | 87,905 |
| Total \$ of Loans | 47,643 | 90,595 | 1,878 | 140,116 |
| % of Loans Inside/Total \$ of Loans | 73% | 57% | 90% | 63% |

Level of Lending Activity

The bank's number of HMDA loans for the examination period increases to 650, a 38% increase, in the AA (\$14.2 million or 41% dollar increase), when considering the mortgage loans made by GF and HTF. When combined with GF, CNBT holds the largest market share of the HMDA loans in both 1996 and 1997 at 7.6% and 6.7%, respectively.

Within the HMDA loan group, the bank ranked second for home purchase loans in both 1996 and 1997, first for refinance loans in 1996 and fourth in 1997, and seventh for home improvement loans in 1996 and fourth in 1997.

CNBT's HMDA lending for the first six months of 1998 is strong with 172 loans for \$12.7 million made within the AA. This represents 27% of the number of HMDA loans for the entire examination period. The 1998 time period represents only 20% of the examination period. The volume increase is mainly attributable to the addition of HTF mortgage loans.

CNBT is also a market leader in the small business and small farm markets. The bank ranked first for small business loan market share amongst its peers in 1996, and finished second in 1997. CNBT ranked second in both 1996 and 1997 for market share of small farm loans. The bank's 1998 small business and small farm loan activity has been strong. An annualization of the bank's lending activity for the first half of 1998 results in lending volume 81% greater than the lending volume realized in 1996, and 15% greater than the 1997 lending volume.

Borrower Characteristics

Home Loans

CNBT has a very strong distribution of HMDA loans to borrowers with low or moderate income. Table II below shows the bank's distribution of HMDA loans to low income borrowers significantly exceeded the average for all lenders in both 1996 and 1997. CNBT's distribution of loans to moderate income borrowers significantly exceeded the average lender distribution and also significantly exceeded the distribution of moderate income families in both 1996 and 1997.

| <p align="center">Table II Borrower Distribution of HMDA Loans - 1996 & 1997 Originations Average Lender Distribution compared to CNBT Distribution</p> | | | |
|--|--------------------------------------|---|--|
| Income Level of Families | % of Families by Income Level | Average % Distribution by all Lenders /CNBT 1996 | Average % Distribution by all Lenders/CNBT 1997 |
| Low | 13 | 4/7 | 5/9 |
| Moderate | 17 | 15/22 | 16/23 |
| Middle | 23 | 26/30 | 26/29 |
| Upper | 47 | 55/41 | 53/38 |
| Total | 100 | 100 | 100 |

The table below provides a comparison between CNBT and the average for all lenders in the operating in the area, for the distribution of the three HMDA products to low and moderate income individuals. CNBT outperformed the average in its distribution of each of the HMDA products to low income borrowers. The bank was especially strong in its distribution of home improvement loans, with a 2.4 to one ratio over the average lender in 1996. CNBT also outperformed the average in its distribution of HMDA products to moderate income individuals. As was the case with low income borrowers, the bank was especially strong in its distribution of home improvement loans to in 1996.

The trends varied between products in the first six months of 1998. The distribution of home purchase loans was at 7% to low income borrowers and 29% to moderate income borrowers, both ratios exceeding the ratios achieved in 1996 and 1997. Home improvement loans to both low and moderate income individuals were 14%, slightly lower than the ratios for low income borrowers, and considerably lower than the ratio for moderate income borrowers in 1996 and 1997. Refinance loans were at 4% to low income borrowers and 19% to moderate income borrowers. These ratios are below the ratios for 1996 and 1997, with the exception of the distribution to moderate income individuals in 1997.

| Table III Percentage Distribution of HMDA Loan Products to Low and Moderate Income Borrowers Average Lender vs. CNBT | | | |
|---|--|---|--|
| Year & Borrower Income Level | Home Purchase Loans Average Lender/CNBT % | Home Improvement Loans Average Lender/CNBT % | Refinance Loans Average Lender/CNBT % |
| 1996 Low Income Borrowers | 3/5 | 7/17 | 3/7 |
| 1997 Low Income Borrowers | 5/6 | 10/16 | 3/10 |
| 1996 Moderate Income Borrowers | 14/20 | 17/29 | 16/24 |
| 1997 Moderate Income Borrowers | 16/28 | 22/21 | 15/16 |

Small Business and Small Farm Lending

In 1996, 100% of CNBT's small business and 67% of the small farm loans were made to small businesses and farms. CNBT ranked first for market share, making more loans to small businesses than any other lender reporting loans in the bank's market in 1996. The bank ranked second for market share for loans to small farms. The percentage of loans to small businesses remained high at 85% in 1997, and 87% for small farms, resulting in the bank capturing the second largest market share of loans to both small businesses and small farms for the year. Lending to small businesses and farms continued to be strong in the first half of 1998 with 87% of the small business loans and 100% of the small farm loans made to small businesses and farms. Small businesses represent 90% of the 3,680 businesses operating in the AA who reported annual revenues. Small farms represent 96% of the farms in the AA who reported annual revenues. A total of 580 or 14% of the businesses and six or 4% of the farms did not report annual revenues.

The majority of CNBT's small business and small farm loans are for amounts less than \$100,000. These smaller loans are often needed by small businesses and farms. Tables IV and V show the percentage distribution of CNBT's small business and small farm loans in three monetary categories. In 1996, the bank ranked second in market share for small business and small farm loans for \$100,000 or less. CNBT retained its second place market position in 1997 for small business loans, while dropping to third place for small farm loans. The bank's percentage of small business loans for \$100,000 or less has increased each year in the exam period.

| Table IV Small Business Loan Originations by Dollar Loan Size | | | |
|--|--------------------------------|--------------------------------|--|
| Origination Amount \$ | CNBT 1996 Distribution % | CNBT 1997 Distribution % | CNBT 1/1/98 - 6/30/98 Distribution % |
| Less Than 100,000 | 70 | 85 | 91 |
| 100,000 - 250,000 | 19 | 9 | 6 |
| 250,000- 1,000,000 | 6 | 6 | 3 |
| Total | 100 | 100 | 100 |

| Table V Small Farm Originations By Dollar Loan Size | | | |
|--|-----------------------------|-----------------------------|-------------------------------------|
| Origination \$ Amount | CNBT 1996 Distribution % | CNBT 1997 Distribution % | CNBT 1/1 -6/30/98 Distribution % |
| Less Than 100,000 | 85 | 73 | 60 |
| 100,000-250,000 | 15 | 27 | 40 |
| 250,000-500,000 | 0 | 0 | 0 |
| Total | 100 | 100 | 100 |

Geographic Distribution

Home Loans

Table VI below shows CNBT's distribution of HMDA loans to moderate income geographies is strong, especially in 1996 when the bank made 6% of its HMDA loans in moderate income tracts compared to 3% on average for all lenders in the market.

Although CNBT did not achieve another two to one ratio in 1997, it still outperformed the average lender with a 5% distribution compared to the average lender distribution of 4%. The bank's distribution of HMDA lending is also favorable compared to the distribution of owner occupied housing in the area, with the bank making a greater percentage of its loans in these geographies than the percentage of owner occupied housing located in the same geographies (6% & 5% versus 4%).

| Table VI Geographic Distribution of HMDA Loans - 1996 & 1997 Originations All Lenders in the AA compared to CNBT | | | | |
|---|-----------------------------------|--|---|---|
| Geography Income Level | % of Total Geographies | % of Owner Occupied Housing | 1996 Average % Distribution all Lenders/CNBT | 1997 Average % Distribution all Lenders/CNBT |
| Low | 0 | 0 | 0/0 | 0/0 |
| Moderate | 9 | 4 | 3/6 | 4/5 |
| Middle | 59 | 58 | 53/80 | 53/74 |
| Upper | 32 | 38 | 44/14 | 43/21 |
| Total | 100 | 100 | 100/100 | 100/100 |

The table below compares CNBT's distribution of each HMDA loan product to the average lender distribution in the moderate income geographies. CNBT far exceeds the average lender for home purchase and home improvement loans in 1996, and also outpaces the average lender for refinances. The same is not true for 1997, when the bank only has a strong showing in home purchase loans. The bank was well below the average lender for the distribution of home improvement and refinance loans in these geographies in 1997.

The decline in home improvement loans in 1997 and 1998 is attributed to the following. The City of Canandaigua introduced a home improvement program involving grants and low cost loans in 1997. The program, which is for lower income residents of the City, supplanted some of the demand for lender home improvement financing in the City's moderate income geography. In fact, only eight home improvement loans were made by lenders in this geography in 1997. Another factor is the intense competition from other financial institutions for loans in the Town and Village of Naples, the other moderate income geography in the banks AA. Naples is located on the outer boundary of CNBT's AA, with CNBT's closest office located 12 miles away. The two banks with offices in Naples, made 50% of the home improvement loans in the geography in 1997. The bank with the largest volume of activity (30% of the loans made), did not report its HMDA loans in 1996. Lastly, CNBT has not actively promoted a home improvement loan. Instead, it has promoted its home equity line of credit product as a multiple purpose product, including for home improvement usage.

| Table VII Percentage Distribution of HMDA Loan Products in Moderate Income Geographies Average Lender vs. CNBT | | | |
|---|--|---|--|
| Year | Home Purchase Loans Average Lender/CNBT % | Home Improvement Loans Average Lender/CNBT % | Refinance Loans Average Lender/CNBT % |
| 1996 | 3/7 | 4/8 | 2/3 |
| 1997 | 3/7 | 7/2 | 4/2 |

For the first half of 1998, CNBT's distribution of loans in moderate income geographies is 5%, the same as 1997. By product it remained very strong in home purchase loans with a 7% distribution, while increasing its distribution of home improvement loans to 5% versus 2% in 1997, and 3% for refinances compared to 2% in 1997.

Small Business and Farm Loans

Tables VII and VIII show the average lender and CNBT's geographic distribution of small business and small farm loans for 1996 and 1997 compared to the distribution of small businesses and small farms in the AA. CNBT's distribution of small business loans in moderate income geographies is significantly below the distribution of small businesses located in these geographies and the average lender distribution. However, despite its comparatively low distribution percentages, CNBT had the second largest market share of small business loans in the moderate income geographies in both 1996 and 1997.

CNBT's distribution of small farm loans in moderate income geographies is also significantly below the distribution of small farms operating in the AA. The bank is significantly below the average lender for 1996, but at the same level as the average lender for 1997. The bank's falling below the average lender in 1996 is not considered significant since only two loans were reported in moderate income geographies.

| Table VIII Geographic Distribution of Small Business Loans - 1996 & 1997 Originations | | | | |
|--|-------------------------------|--------------------------------------|---------------------------------------|------------------------------|
| Geography Income Level | % of total geographies | % of Average Lender/CNBT 1996 | % of Average Lender/ CNBT 1997 | % of Small Businesses |
| Low | 0 | 0 | 0 | 0 |
| Moderate | 9 | 11/8 | 12/7 | 11 |
| Middle | 59 | 65/75 | 66/69 | 42 |
| Upper | 32 | 24/17 | 22/24 | 47 |
| Total | 100 | 100/100 | 100/100 | 100 |

| Table IX Geographic Distribution of Small Farm Loans - 1996 & 1997 Originations | | | | |
|--|-------------------------------|--------------------------------------|--------------------------------------|-------------------------|
| Geography Income Level | % of total geographies | % of Average lender/CNBT 1996 | % of Average Lender/CNBT 1997 | % of Small Farms |
| Low | 0 | 0 | 0 | 0 |
| Moderate | 9 | 6/0 | 0/0 | 8 |
| Middle | 59 | 88/92 | 98/80 | 60 |
| Upper | 32 | 6/8 | 2/20 | 32 |
| Total | 100 | 100 | 100 | 100 |

The bank's distribution of small business loans to moderate income geographies is at 4% through June 30, 1998, a decrease compared to the 7% level for 1997. None of the five small farm loans made in the first half of 1998 are in moderate income geographies.

Community Development Lending

CNBT does not have any loans which are separately distinguished as community development loans. We do not view this negatively since the vast majority of the bank's commercial loans are included within the small business and small farm loan data, and therefore are not separately distinguished as community development loans. Several of the bank's small business loans have a community development purpose.

Innovative or Flexible Lending Practices

CNBT and its mortgage company affiliates HTF and GF offer several flexible loan products which are of benefit to small businesses and low and moderate income home buyers.

Small Business Administration Loans (SBA) - CNBT is active in several SBA loan programs, including the LowDoc program which features a one page quick turnaround application for loans of \$150,000 or less. The bank is a Certified SBA Lender, a designation which is rewarded with quicker loan processing of CNBT loans by the SBA. The bank ranked seventh out of 23 banks in the six county Rochester region for lending volume (LowDoc and Regular Loan Programs only) through August 1998. CNBT ranked higher than several large regional banks. The bank is actively involved in a pilot program for a new SBA Express loan. The program allows the bank to make certain SBA loans without SBA approval, thus reducing loan processing time.

Business Improvement District Loan Program - CNBT offers a discounted rate over a six-year period for the financing of building improvements in the Canandaigua business district, as well as other business districts where CNBT has a branch office. The loan is originated at the prime rate, and increases .25% per year until the rate caps at 1.5% above prime. The term of the loan is dependent on the purpose of the financing.

City of Canandaigua Home Ownership Assistance Program - CNBT is a lender in this home ownership program for low income first time home buyers. The program is administered for the City by Rural Opportunities Inc. (ROI). Potential home buyers must complete ROI's Home Buyer Education Program before they are referred to a bank for a loan. The program provides the borrower with a grant that can be used for a down payment and to cover closing costs. All or a portion of the grant must be repaid if the borrower sells the home prior to completing the holding period called for under the agreement with ROI.

Private Mortgage Insurance (PMI) CNBT offers PMI to customers who cannot afford the normal 20% down payment for a conventional mortgage. The bank will lend the customer up to 90% of the value of the property with PMI, and will also finance the PMI costs resulting in a loan to property value ratio as high as 93%.

State of New York Mortgage Agency (SONYMA) - The bank's mortgage company affiliate HTF offers mortgages under several of the home ownership programs sponsored by SONYMA. Among the programs HTF participates in is a 100% conventional financing loan for first time home buyers. Borrowers can finance the full value of a single family home with Private Mortgage Insurance (PMI). Low down payment requirements of 2% for a two-family home and 5% for a three or four family home are also available.

A low interest rate program is available to potential buyers of 1-4 family homes who meet specific income guidelines. The income guidelines vary by county, and are most beneficial if the home is located in a SONYMA targeted area. Target areas are neighborhoods so designated by the

Federal government, for which SONYMA has made a special commitment to rebuilding. Other program benefits include down payments as low as 3% with PMI and fixed terms of 20, 25, or 30 years. Applicants who are not first time home buyers can also qualify if they are purchasing a home in SONYMA target areas.

HTF also participates in SONYMA's Construction Incentive program. Like the Low Interest Rate loan program, the program is restricted to first time home buyers, unless the home is located in a targeted area. The loan features a significantly discounted rate for the first four years of the required 30 year term. After the fourth year, the rate increases to a fixed rate that is below the conventional rates prevailing at the time the loan was originated.

Federal Housing Administration Loans (FHA) - The bank's mortgage company affiliate HTF participates in FHA loan programs. One program, the 203k program allows a borrower to obtain one mortgage that can be used to cover both rehabilitation costs and permanent financing. The benefit to the customer is realized through a lower interest rate and longer repayment terms for the rehabilitation costs than the customer would realize if they had obtained separate construction or home improvement financing. To provide funds for the rehabilitation, the mortgage amount is based on the projected value of the property with the work completed, taking into account the cost of the work.

Investment Test

CNBT's \$2.75 million of qualified community development investments is excellent in relationship to its size and resources. CNBT's most significant qualified investment is CNC's \$1.98 million investment in the Cephaz Capital Partners, Limited Partnership, a small business investment company (SBIC) which began operations in May 1997. The bank is one of six area community banks who are investors in Cephaz. CNC has the third largest investment of the six community banks, representing a 19.8% interest in the total \$9.9 million invested by the banks. The bank's investment was twice the investment of some other bank's of approximately the same asset size. CNBT management devoted a significant amount of time and effort helping Cephaz get started.

The idea for Cephaz came from two former bankers (not employed by the investing banks) who felt the area could benefit from an SBIC. The gentlemen approached the banks in 1996 with the idea. After six to seven months of meetings and discussions, six banks committed to invest in the SBIC. The formation of the SBIC is considered a complex activity, and would have not come to fruition without the commitment of the bank. Cephaz concentrates its lending to companies that are not normally considered by banks. It plans on making most of its loans in western and central New York, which includes all of CNBT's AA.

Service Test

Retail Banking Services

CNBT operates 10 full service banking offices, and one full service Customer Call Center. The bank has a network of 17 Automatic Teller Machines (ATMs), including at least one located at each branch office. Five of the ATMs are located at nonbank locations such as Eastview Mall and Rank's Grocery Store. Twelve of the ATMs have 24 hour service. The other five ATMs are available for a substantial portion of the day (at least 14 hours), and in many cases mirror the business hours of the establishment where the machine is located, e.g., the Eastview Mall operating hours. Customers may also use their CNBT card to obtain cash at nonbank ATMs throughout the world, which bear the PLUS, NYCE, AND CIRRUS logos. CNBT did not open or close any branch offices during the examination period.

The Table below shows the distribution of branches and ATMs by the income level of the area geographies. The bank's distribution of branches and ATMs is proportionate to the income level of the geographies.

| Income Level of Geography | # of Branches | % of Total Branches | # of ATMs | % of Total ATMs | % of Total Geographies |
|----------------------------------|----------------------|----------------------------|------------------|------------------------|-------------------------------|
| Low | 0 | 0 | 0 | 0 | 0 |
| Moderate | 1 | 10 | 1 | 6 | 9 |
| Middle | 6 | 60 | 11 | 65 | 59 |
| Upper | 3 | 30 | 5 | 29 | 32 |
| Total | 10 | 100 | 17 | 100 | 100 |

The bank's office hours are tailored to meet the needs of the community. The bank's office hours are based on the results of a focus study conducted by the bank. The six offices with the longest hours of service are open from 8:30 A.M. until 5 P.M. Monday through Wednesday, and until 6 P.M. on Thursday and Friday. The Lakeshore Office, the one office located in a moderate income geography, is one of the six offices with the longest hours of service. It is also one of the five offices which are open from 9 A.M. until 1 P.M. on Saturday. All offices but one open at 8:30 A.M. Monday through Friday, and are open until 6 P.M. on Thursday and Friday (except the Main Office which closes at 3 P.M. on Thursday). The Pittsford Office, which is located in an upper income geography, is open from 9 A.M. until 4:30 P.M. Monday through Friday.

All but two of the offices have drive-up teller services. The Lakeshore Office has a drive-up teller service. The drive-ups operate on the same hours as the branch offices, with the exception of the Mendon office (located in an upper income geography) drive-up which is closed on Saturdays.

Although the Main Office branch is located in a middle income geography, the office is very convenient to residents of the moderate income geography in the City of Canandaigua. The Main Office is located on South Main Street in the heart of the city. The moderate income geography, known as Ward 2, is located across the street from the Main Office. The Main Office is a convenient walk for most residents of Ward 2, and for some residents of Ward 2 it may be more convenient than the office located in Lakeshore Plaza. The Main office offers an additional two 24 hour ATMs for local residents to use. In addition, the ATM at Rank's Grocery Store, which is located in a middle income geography, is convenient to residents of Ward 2. Rank's is the only grocery store located in the City, and is within walking distance for many City residents.

CNBT offers a wide range of products and services. This includes six checking account options and seven savings plan options. One of the savings plans is a youth savings account, a service charge free account available to individuals under the age of 21. The account also pays interest on any balance. The Convenience Checking Account is the bank's low cost checking option. The account, which requires no minimum balance, costs \$3 per month plus \$.20 per check used. The bank does not charge service fees for its Regular Checking account to customers who are 55 or older or customers with direct deposit. CNBT also offers mutual funds, trust services, insurance and annuity products, and safe deposit services. Safe deposit services are available at eight of the bank's offices, including the Lakeshore office.

The bank offers a wide range of services via telephone. A customer can apply for a consumer loan via the telephone by calling the bank's Customer Call Center. The Center does not take applications for home equity loans/lines, residential mortgage loans or commercial loans. The representative takes basic information from these customers and refers the information to the appropriate lending officer. The Call Center, a full service remote banking center, is open from 8 A.M. until 5 P.M. Monday through Wednesday, until 6 P.M. on Thursday and Friday, and from 9 A.M. until 1 P.M. on Saturdays. Customers can also call the bank's 24 hour computerized

telephone service to transfers funds, determine if a specific check has cleared, and obtain account balance and recent deposit and withdrawal information. The hearing impaired are offered 24 hour service through a Text Teletypewriter.

Customers with access to a computer can visit the bank's Internet Branch at <http://www.cnbank.com>. The Internet Site offers a loan calculator for customers to use to calculate loan payments. The website also contains information on the bank's deposit and loan interest rates, a loan application request feature, and product information. A bank customer can make fund transfers between accounts, make a payment on a CNBT loan, review deposit and loan account balances, and search for specific check information.

CNBT operates a Student Financial Center at the school district's high school, Canandaigua Academy. The Center was developed by the bank as an educational tool for high school students and is incorporated into the business classes taught at the school. Students volunteer to work at the Center and are trained by CNBT's Training Department. Upon completion of their training, they work as tellers at the Center. Services available to the students include: opening new accounts, check cashing, purchase of money orders, and purchase of travelers checks.

Community Development Services

CNBT employees provide a high level of community development services through their participation in several organizations and programs. The following describe the organizations, programs, and the participation of bank employees.

Downtown Canandaigua Business Management Association (BID) One of CNBT's senior vice presidents is a board member and treasurer for this organization whose mission is to improve the business climate in downtown Canandaigua. The downtown business district is comprised of mostly small retail businesses. One-half of the downtown area is included in a moderate income geography.

Canandaigua Area Development Corporation (CADC) The bank's president serves as president of this organization whose purpose is to provide funding for project feasibility studies. These projects often involve small business and startup businesses. A recent example is the BID organization requesting funds from CADC to conduct a feasibility study to determine if a vacant building, located in the City's moderate income geography, could be used as a wine museum. The bank is located in the Finger Lakes wine country region.

Ontario County Economic Development Agency - The bank's president serves as a board member of this organization which makes low rate loans from a revolving loan fund to existing businesses which wish to come to Ontario County or to startup businesses.

Rural Opportunities Economic Development Advisory Council (EDAC) - A bank officer serves as a voting member of the council. The purpose of the council is make loans to startup businesses which will create new employment opportunities in the area. Rural Opportunities Inc. provides technical assistance to these borrowers.

Cornell Cooperative Extension - A bank officer provided credit counseling to a low income individual through her role as a family budget counselor with this organization. The officer spent about 16 hours counseling the individual whose income consisted of public assistance and social security. This was the only case she handled for this organization.

New York State Business Development Corporation - A bank officer chairs the Rochester Regional Loan Committee of this organization. The loan committee reviews and approves loan requests up to \$1 million to small businesses located in the Greater Rochester Area, which includes the bank's AA.

Jewish Family Service of Rochester (JFS) - A bank officer serves as chairman of the Finance Committee of this organization. JFS provides noninterest bearing loans and grants to low and moderate income families, primarily to assist in strengthening or developing economic or vocational skills. The bank officer is involved in the underwriting, collection and settlement of loans made by the organization. He is also involved in investing the funds that will be used to make loans.

Camp Seneca Lake Committee of the Jewish Community Center of Rochester (CSL) - a bank officer serves on the finance committee of this organization which raises funds for summer camping trips for low income children. The organization raises about \$10,000 annually for this purpose.

Small Business Access to Capital Conference - A bank representative participated in a conference sponsored by an area Member of Congress. The conference was designed to allow small business owners to meet lenders and representatives from the Small Business Administration (SBA). The lending officer was available to discuss financing options with small business owners who visited the bank's table during the event.

Homebuyer Counseling - CNBT's affiliate HTF conducts periodic first time homebuyer seminars where lenders review available affordable home loan products. Many of the attendees have low or moderate incomes. HTF also provides homeownership counseling to low and moderate income individuals through its participation in the GE Community Homebuyers Program. This educational program includes a comprehensive 159 page study guide that covers topics ranging from renting versus buying, to home maintenance after the home is purchased.

Ontario Pathways - A bank officer serves as Treasurer and Board Member of this organization which is dedicated to this local walking and biking trail. The trail, a former abandoned rail bed, begins in Ward 2 of the City, a moderate income geography, and runs southeast to Yates County. The trail has helped revitalize and stabilize Ward 2 through its attraction of people to the area, and the maintenance of the pathway property. Several of the businesses located in Ward 2 are benefitting from the business activity created by the trail.

Fair Lending Review

No violations of the substantive provisions of the antidiscrimination laws and regulations were identified.

Appendix

Scope of Examination

The table below lists the scope of the examination. Specifically, it lists the lending products reviewed, the branches visited, and the time period covered in the review.

| Scope of Examination | | | |
|---|---|-----------------------------|--------------------------------------|
| Time Period Reviewed | 1996 - June 30, 1998 | | |
| Financial institution Canandaigua National Bank and Trust Company Canandaigua, NY | Products Reviewed Home purchase, home improvement and refinance loans reported on the HMDA LAR, and small business and small farm loans. | | |
| List of Assessment Areas and Type of Examination | | | |
| Assessment Area | Type of Exam | Branches Visited | Other Information |
| The assessment area falls entirely within the Rochester NY MSA 6840. It consists of a significant portion of Ontario County and a small portion of Monroe County. | On-site | Main Office | See "Description of Assessment Area" |