



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

September 17, 2007

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The Upstate National Bank  
Charter Number: 12018

65 Main Street  
Lisbon, NY 13658

Office of the Comptroller of the Currency

Upstate New York (Syracuse)  
231 Salina Meadows Parkway Suite105  
Syracuse, NY 13212

**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.

## **INSTITUTION'S CRA RATING: This institution is rated Satisfactory.**

The following are the primary factors supporting this rating.

- Upstate National Bank's (UNB) lending inside both of its assessment areas (AAs) meets the standard for satisfactory performance.
- UNB's distribution of loans by borrower income meets the standard for satisfactory performance.
- UNB's distribution of loans by geographic income meets the standards for satisfactory performance.
- UNB originated \$2.5 million in community development loans within its AAs.
- The bank has not received any CRA-related complaints since the last evaluation.

## **SCOPE OF EXAMINATION**

The bank received a Needs to Improve CRA rating at its last examination dated March 1, 2004. The prior evaluation covered the time period August 17, 1998 through December 31, 2003. Lending performance for the prior evaluation was based on a sample of commercial loans originated between January 1, 2001 and December 31, 2003. The Needs to Improve rating resulted from management's failure to meet the standards for lending in the bank's AAs, failure to meet the standards for borrower distribution of loans, lack of product availability in the bank's Non-Metropolitan Statistical Area (MSA) AA, and the inability of the then new management team to overcome the program weaknesses perpetuated by the prior management team. Furthermore, a majority of the bank's deposits were from customers located in the Non-MSA AA or outside of both of the bank's AAs and invested in loans to customers in the Rochester AA or outside of both of the bank's AAs. As a result, the ratio of deposits to loans within the bank's AAs was less than 50% which did not meet the standard.

This evaluation covers the time period from the last examination dated March 1, 2004, through September 18, 2007. However, the lending test portion of the examination only includes loans originated between January 1, 2005 and June 30, 2007, as this is representative of its lending strategy since the last CRA examination. The bank's primary product type in the Rochester AA is commercial loans. The bank's primary product type in the Non-MSA AA is consumer loans. The majority of the bank's lending activity takes place in the Rochester AA and a sizeable portion of the bank's deposits also comes from the Rochester AA. However, the Non-MSA AA continues to provide 48% of the bank's deposits, and as such, we will evaluate the bank's performance in each AA. Loan performance results are based on data maintained by the bank. The accuracy of that data was verified by the examiners through a sampling of loans originated during the evaluation period.

## **DESCRIPTION OF INSTITUTION**

Upstate National Bank (UNB) is a community bank with \$94.8 million in assets as of June 30, 2007. The bank is majority owned by K&Z Company LLC. Founded in 1922 as the National Bank of Lisbon, UNB operated exclusively in Northern New York State until the mid-1990's when a change in management and ownership expanded the company's footprint to metropolitan areas in Upstate New York through loan production offices (LPOs) in Rochester, NY and Syracuse, NY. The Rochester, NY LPO was ultimately replaced by what is now the Rochester, NY full-service office. The Syracuse, NY LPO was closed in 2002, and the location sold in early 2003.

At present, the bank has five full service offices including three in the Northern Region of New York State, one in downtown Rochester, NY and one in Brighton, NY, a suburb of Rochester. The bank is officially headquartered in Lisbon, NY, but all executive staff is located at the facility in Rochester, NY. There are two defined AAs for CRA that are discussed later in this report. The bank's primary focus in the Rochester AA is business loans to small and medium size businesses. The bank's primary focus in the Non-MSA AA is consumer lending. UNB specializes in commercial lending and also offers consumer products including real estate and installment loans. The bank does not have any legal or financial circumstances which would impede the bank's ability to help meet the credit needs in both of the AAs.

UNB's gross loans of \$60.6 million represent 64% of total assets as of June 30, 2007. Real estate secured loans represent the largest portion of loans at 71%, followed by commercial loans at 28% and individual loans 1%. UNB has total deposits of \$77.3 million as of June 30, 2007. Of this total, 48% of the deposits are from the Northern New York area branches, and 52% are from the Rochester area branches.

## **DESCRIPTION OF ROCHESTER ASSESSMENT AREA (AA)**

UNB's Rochester AA consists of all 186 census tracts in Monroe County, which is one of the five counties comprising the Rochester, NY, Metropolitan Statistical Area (MSA 40380). Monroe County includes the City of Rochester, the third largest city in New York State behind New York City and the City of Buffalo. The bank has one office located in the main commercial district of downtown Rochester and a second office in Brighton, NY, a suburb of Rochester. Of the 186 census tracts, 37 (20%) are designated as low-income, 32 (17%) are moderate-income, 63 (34%) are middle-income, 51 (27%) are upper-income, and 3 (2%) do not have an income designation.

The AA is home to 735,343 persons in 185,818 families. The distribution of families by income level is 20% low-income, 17% moderate-income, 22% middle-income, and 41% upper-income. The 2007 Median Family Income of the AA is \$62,000. There are 31,399 businesses in the AA per 2006 demographic data, of which 67% are classified as small size businesses (revenues less than or equal to \$1 million). Only 6% are

classified as large size businesses. Twenty-seven percent of the businesses did not report revenues, and, therefore are not classified for business size.

The community credit needs of the area as suggested by a community contact with a local economic development group includes loans for small businesses and affordable housing.

Economic conditions in the area are stable with minimal impact from the recent downturn in the housing market. The August 2007 unemployment rate for Monroe County was 4.3%, slightly below the New York State average of 4.7% and in line with the unemployment rate for the Rochester MSA of 4.2%.

Monroe County is home to several nationally known employers including Kodak, Bausch and Lomb, Paychex, and Xerox, and a large regional employer, Wegmans Food Markets. Eight colleges operate in and around Monroe County including the University of Rochester and Rochester Institute of Technology.

Competition in the AA is intense with 13 other financial institutions and several credit unions operating in the county including HSBC, Bank of America, M&T Bank, JP Morgan Chase Bank, KeyBank, Citizens Bank and First Niagara Bank.

## **DESCRIPTION OF NON-MSA ASSESSMENT AREA (AA)**

UNB's Non-MSA NY AA consists of 22 census tracts in St. Lawrence and Jefferson Counties, which are not part of a Metropolitan Statistical Area (MSA). St. Lawrence and Jefferson Counties are located in northern New York State and border Canada's Ontario Province. The bank has three offices located in this area. Two are located in the small townships of Philadelphia and Lisbon. The other office is located on the outskirts of the City of Ogdensburg. Of the 22 census tracts, 15 (68%) are classified as middle-income, 4 (18%) are moderate-income, 1 (5%) is low-income, 1 (5%) is upper-income and 1 (5%) does not have an income designation. The 2007 Median Family Income of the AA is \$50,900.

The AA is home to 94,457 persons in 21,035 families. The distribution of the families by income level is 23% low-income, 21% moderate-income, 23% middle-income, and 33% upper-income. There are 5,494 businesses in the AA per 2007 demographic data, of which 54% are classified as small size businesses (gross annual revenues less than or equal to \$1 million). Only 4% are classified as large size businesses (gross annual revenues greater than \$1 million). The remaining 42% of businesses did not report revenue information and are not classified for business size.

The community credit needs of the area as suggested by members of a local housing organization include loans for affordable housing, home improvement, and small businesses.

Economic conditions in the area are stable with minimal impact from the recent downturn in the housing market. The Jefferson County unemployment rate for August

2007 is 4.3%. In St. Lawrence County, the unemployment rate is 5.2%. The unemployment rate for counties outside MSAs is 4.2% and for New York State is 4.7%. Major employers in the area include federal, state and local government, and local school districts. UNB competes with eight other financial institutions and also with credit unions servicing the area. Competitor financial institutions include Community Bank, NBT Bank, KeyBank, HSBC, and North Country Savings Bank.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

Our assessment of this bank's performance under the CRA is based solely on performance under the lending test. Management chose not to submit information for the investment and service tests which are optional tests under the Small Bank criteria.

### **Loan-to-Deposit Ratio**

UNB's loan to deposit ratio meets the standards for satisfactory performance. The bank's average loan to deposit ratio for the 14 quarters beginning March 31, 2004 through June 30, 2007 was 71.01%. This is considered reasonable when compared to the average loan to deposit ratio of the only similarly situated commercial bank operating in the Rochester MSA which had a loan-to-deposit ratio of 83.38%. We did not identify any other similarly situated banks operating in the Non-MSA AA. The bank's loan-to-deposit ratio compares favorably to the average loan-to-deposit of all small commercial banks in New York State which is 63.71% for the same 14 quarters.

### **Lending in Assessment Area**

UNB's lending in its AAs areas meets the standard for satisfactory performance. Between January 1, 2005 and June 30, 2007, management originated 368 loans totaling \$72.5 million. Of the 368 loans originated, 319 loans (87%) totaling \$56.5 million (79%) are located within the bank's defined AAs.

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

UNB's lending to borrowers of different incomes and different sizes meets the standard for satisfactory performance. Commercial and commercial real estate loans originated to small size businesses in the Rochester AA in terms of number and amount of loans is reasonable in comparison to the demographic data which indicates 66.87% of the businesses in the Rochester AA are small size businesses. A small percentage of the bank's loans were to businesses that did not report revenues. These loans represent 11 professional lines of credit in amounts of \$25 thousand or less for professionals with high credit scores. Management also originated 32 consumer loans during the evaluation period totaling \$1.6 million, the distribution of which compared reasonably to the income level of the households in the AA.

<b>Table 1A - Borrower Distribution of Loans to Businesses/Farms in Rochester AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	66.87	6.24	26.89	100%
% of Bank Loans in AA by #	45.54	49.01	5.45	100%
% of Bank Loans in AA by \$	41.88	57.67	0.45	100%

In the Non-MSA AA, management committed to improve consumer loan originations during the evaluation period by offering consumer loan products suited to the demographics in the area, retain a senior level employee with extensive ties to the community, and employing marketing programs in the area to improve the bank’s image with the community. Additionally, management also purchased a consumer loan underwriting software system to support this effort. The level of consumer lending in the Non-MSA AA is low in terms of number and amount of loans originated compared to the number and amount of commercial and commercial real estate loans originated in both AAs. However, management’s commitment to market consumer loan products that are consistent with management’s expertise is a significant improvement from the prior CRA evaluation when management did not offer consumer loan products. The number and amount of consumer loans originated in the Non-MSA AA compare favorably to the demographic data which indicates low- and moderate-income households represent 25.66% and 18.67% of the households in the AA, respectively. Additionally, management originated a significant number of loans without requesting income from the applicant. The majority of these loans represent \$200 overdraft lines of credit on 19 consumer checking accounts originated to meet the needs of the bank’s existing clientele and to attract new customers. During the evaluation period, management also originated 10 commercial loans totaling \$3.2 million, the distribution of which was reasonable when compared to the distribution of small size businesses in the AA.

<b>Table 1B - Borrower Distribution of Consumer Loans in Non-MSA AA</b>									
Borrower Income Level	Low		Moderate		Middle		Upper		Income Not Reported
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of Number of Loans
Consumer Loans	25.66	23.64	18.67	16.36	20.78	12.73	34.89	10.91	36.36

**Geographic Distribution of Loans**

UNB’s distribution of loans by geographic income meets the standards for satisfactory performance. Commercial and commercial real estate loans originated in the Rochester MSA AA are reasonably disbursed among the census tracts, and in terms of the number of loans originated, the bank’s percentage of loans originated in the low-income census tracts exceeds the demographic information. The percentage of loans originated in the moderate-income census tracts is reasonable given the demographic information. Management also originated six community development loans totaling \$2,512,000

including a \$1,312,000 mortgage in a low income census tract to rehabilitate an apartment complex which will revitalize the community and \$1,200,000 in lines of credit to a not-for-profit economic development agency for use in economic development projects in both the Rochester area and Northern New York area. The economic development agency is headquartered in a moderate-income census tract in the bank's Rochester MSA AA. The geographic distribution of consumer loans originated in the AA is low compared to the geographic distribution of the households in the AA which is expected since management's emphasis in this AA is on commercial lending.

Table 2A - Geographic Distribution of Loans to Businesses/Farms in Rochester MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans
Commercial	12.30	19.31	13.39	11.39	38.09	24.26	36.12	45.05

The geographic distribution of consumer loans in the Non-MSA AA does not compare well to the percentage of AA households; however, management originated several loans to borrowers in designated distressed or underserved middle-income census tracts. Twenty-six (26) of the 52 loans originated (50%) were to borrowers in designated distressed or underserved middle-income census tracts in the Non-MSA AA. Management also originated 10 commercial loans in middle-income census tracts in the Non-MSA AA which does not compare favorably to the distribution of businesses; however, management originated 3 of the 10 commercial loans to borrowers in designated distressed or underserved middle-income census tracts.

Table 2B - Geographic Distribution of Consumer Loans in Non-MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0.34	0.00	21.40	5.45	78.21	94.55	0.06	0.00

**Qualified Investments and CD Services**

A bank employee serves as the chairperson of the loan committee for an economic development agency headquartered in a moderate-income geography in the bank's Rochester AA. This agency provides loans at a reasonable cost to small businesses throughout Northern, Central and Western New York.

**Responses to Complaints**

UNB has not received any CRA related consumer complaints since the last CRA examination.

## **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.