



PUBLIC DISCLOSURE

October 21, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Carthage Federal Savings & Loan Association
Charter Number 702657

313 State Street
Carthage, NY 13619

Office of the Comptroller of the Currency

5000 Brittonfield Parkway
Suite 102B
East Syracuse, NY 13057

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 Lending Test is rated: Satisfactory.

The primary factors supporting the CRA rating are:

- The bank's average loan-to-deposit ratio during the evaluation period was reasonable.
- A substantial majority of home mortgage loans originated during the evaluation period were in the bank's assessment area (AA).
- The bank met the standard for satisfactory performance for the distribution of home mortgage loans to borrowers of different income levels within its AA.

SCOPE OF EXAMINATION

The evaluation period covers the time period from February 26, 2008, through October 18, 2013. The loans included in the review were originated between January 1, 2010 and December 31, 2011. This time period was representative of the entire evaluation period, as no strategic changes or changes in lending standards took place. We determined that home mortgage loans remain the bank's primary product. For this evaluation, home mortgage loans are loans originated for the purpose of home purchase, home refinance, and home improvement reported pursuant to the Home Mortgage Disclosure Act (HMDA). The bank was not required to file the HMDA Loan Application Register during the evaluation period. As part of the examination, we validated the accuracy of the bank's internally generated information used to track loan origination data.

DESCRIPTION OF INSTITUTION

Carthage Federal Savings & Loan Association (Carthage) is a federally chartered thrift institution headquartered in Jefferson County, in the town of Carthage, New York (NY). The bank is a wholly owned subsidiary of Riverbank Financial, MHC. The bank has retail branches in Carthage, Watertown, and Clayton, NY. The previous loan office in Clayton, NY was converted into a full-service branch since the last examination. The Carthage and Clayton branches are located in middle-income tracts, and the Watertown branch is located in a moderate-income tract. The Carthage and Watertown branches have drive-up service available. The bank does not maintain any off-site ATMs.

Carthage offers a variety of residential mortgage loan products including residential construction loans, fixed and adjustable rate residential mortgages, and home equity lines of credit and loans. The bank also offers mortgages through the VA, FHA, and USDA Rural Development programs. Consumer loan offerings include personal secured and unsecured loans, recreational vehicle and boat loans, automobile loans, and deposit secured loans. Carthage offers commercial loans on a limited basis and

these loans tend to be non-owner occupied residential real estate loans for existing customers. On the deposit side, the bank offers a variety of checking, savings, money market and time deposit products. Additional services offered to meet the needs of the community include electronic banking, electronic bill payment, mobile banking, debit cards, and Saturday hours at two branches.

As of June 30, 2013, Carthage had total assets of approximately \$171 million and a total loan portfolio of approximately \$146 million. Cash and investments comprise the bulk of the remaining total assets. Since the prior evaluation, assets increased \$29.6 million, or 17.3%, while loan balances increased by approximately \$27.5 million, or 18.8%. Table 1 shows the dollar amount, percentage to total loans, and percentage to total assets of each loan category.

Table 1 - Carthage's Investment in Loans (June 30, 2013 Call Report)			
Loan Category	Amount (\$000's)	Percent of Total Loans	Percent of Total Assets
Residential Mortgage	\$125,417	85.7%	73.3%
Nonresidential Mortgage	2,185	1.5%	1.3%
Commercial Nonmortgage	0	0.0%	0.0%
Consumer	18,786	12.8%	11.0%
Total	\$146,388	100.0%	85.6%

Carthage has no legal, financial, or other factors that would impede its ability to help meet the credit needs in its AA. At the last CRA evaluation dated June 3, 2008, Carthage received a rating of "Satisfactory" CRA performance from The Office of Thrift Supervision (OTS).

DESCRIPTION OF ASSESSMENT AREA (AA)

Carthage's AA consists of Jefferson and Lewis Counties. The area, which is located in the northern central portion of NY State, is primarily rural in nature and the two counties are contiguous. Table 2 illustrates demographic data on population, families, and housing units within the AA.

Table 2 - Demographic Data (Based on 2000 U.S. Census Data)	
Demographic Data	2000 Census
Population	138,682
Total Families	35,564
1-4 Family Units	63,715
Multi-family Units	5,489
% Owner-Occupied Units	45.8%
% Rental-Occupied Units	26.6%
% Vacant Housing Units	27.6%
Weighted Average Median Housing	\$64,629

Tables 3 indicates the number of census tracts designated in each income level compared to the distribution of families living in those census tracts and to 1-4 family dwellings located within those census tracts.

Table 3 - Distribution of Census Tracts, Families and Housing Units in the AA						
Tract Inc Level	Census Tracts		Total Area Families		1-4 Family Dwellings	
2000 Census:	#	%	#	%	#	%
Low	0	0.0%	0	0.0%	0	0.0%
Moderate	6	20.0%	6,709	18.9%	8,620	16.1%
Middle	23	76.7%	27,983	78.7%	43,659	81.6%
Upper	1	3.3%	872	2.4%	1,254	2.3%
Total	30	100.0%	35,564	100.0%	53,533	100.0%

According to 2000 census data, 40.7% of the families in the AA are designated low- or moderate-income, with 13.35% of the households reporting income below the poverty level. The six moderate-income census tracts and one upper-income census tract are located in the city of Watertown, NY.

The Department of Housing and Urban Development (HUD) annually updates the median family income levels, which are used in the Lending to Borrowers of Different Incomes section of this evaluation. Table 3(a) indicates the median family income ranges of each income category in the AA, based on the 2011 HUD adjustment. Table 3(b) reflects the updated HUD median family income from 2007 to 2011 and Table 3(c) shows the distribution of families in each income range of the AA.

Table 3(a) - Median Family Income Ranges (*)		
Income Category (As a % of MSA Median)	Income Ranges	
	From	To
Middle (80% - 119%)	\$44,320	\$67,319
Upper (>= 120%)	\$67,320	+

Table 3(b) - Annual HUD Median Family Income	
Year	Amount
2009	\$54,900
2010	\$55,300
2011	\$56,100

* Based on HUD 2011 Median Family Income of the MSA

Table 3(c) - Distribution of Families		
Family Income Category (As a % of MSA Median)	2000 Census Data	
	Number	Percent
Low (< 50%)	7,344	20.65%
Moderate (50% - 79%)	7,125	20.03%
Middle (80% - 119%)	8,656	24.34%
Upper (>= 120%)	12,439	34.98%
Total	29,600	100.00%

The Fort Drum Army Garrison (Fort Drum), home of the 10th Mountain Division, is the largest employer in northern NY, providing employment for 19,605 soldiers and 4,739

civilians in 2012. The area is experiencing an economic boom as a result of the expansion at Fort Drum. Primarily due to Fort Drum, government employment accounts for 24% of all jobs in the bank's AA. Other major industries in the AA include retail trade, agriculture, construction, and healthcare. The largest employer in Lewis County is the county hospital. The unemployment rates for Jefferson and Lewis Counties as of August 2013 are 8.3% and 8.2%, respectively. Both remain above the NY State unemployment rate of 7.5%.

Carthage faces strong competition for deposits and loans from larger national and regional banks that have multiple branch offices in the AA. There are also many active credit unions in the AA, primarily clustered in Watertown, NY.

We contacted a director of a Jefferson County housing organization, which is a non-profit organization focused on providing housing opportunities for low- and moderate-income people. The organization is funded through grants and loans and is familiar with the lenders in Jefferson County. The contact reported there is ample housing available; however, the condition of many homes (energy efficiency, general repair, lead) requires the buyer to invest funds to keep the cost of home ownership down. The contact was aware of Carthage and generally positive about its presence in Watertown, and acknowledged there is very strong competition for mortgage lending in the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The institution's average loan-to-deposit ratio during the evaluation period was reasonable. Since the last evaluation through June 30, 2013, the bank's quarterly average loan-to-deposit ratio was 99%. Other commercial banks whose lending activity is in this bank's AA or similar Upstate NY areas showed average loan-to-deposit ratios ranging between 56% and 126%, with an average of 98%.

Lending in Assessment Area

A substantial majority of home mortgage loans originated during the evaluation period were inside the bank's AA. Approximately 86% of the number and 84% of the dollar amount of loans originated were in the AA. Refer to Table 4 below.

Table 4 - Concentration of Home Mortgage Loans					
1/1/2010 – 12/31/2011					
(Dollars in thousands)					
Year	In AA		Outside AA		Total
By Number:	#	%	#	%	#
2010	418	87.1%	62	12.9%	480
2011	328	84.8%	59	15.2%	387
Total	746	86.0%	121	14.0%	867
By \$ Amount:	\$ Amt	%	\$ Amt	%	\$ Amt
2010	\$43,833	86.3%	\$6,975	13.7%	\$50,808
2011	\$30,679	80.6%	\$7,387	19.4%	\$38,066
Total	\$74,512	83.8%	\$14,362	16.2%	\$88,874

Lending to Borrowers of Different Incomes

Carthage met the standard for satisfactory performance during the evaluation period for the distribution of home mortgage loans to borrowers of different income levels in the AA. Table 5 illustrates loan originations, categorized by borrower income level, during the review period, and compares this activity to the 2010 and 2011 aggregate lenders. The percentage of home mortgage loans made to low-income borrowers is in line with the aggregate industry percentage in 2010 and 2011 for both number and dollar amount of loans. Regarding moderate-income borrowers, the percentage of home mortgage loans made by the bank exceeded the aggregate industry percentage in 2010 and 2011 based on both number and dollar amount of loans.

Table 5 - Distribution of Home Mortgage Loans by Borrower Income Level in the AA								
(Dollars in thousands)								
Borrower					Review Period		Industry Aggregate	
	2010		2011		1/1/10 – 12/31/11		2010	2011
Income	#	%	#	%	#	%	% by #	% by #
By Number:	#	%	#	%	#	%	% by #	% by #
Low	15	3.6%	14	4.3%	29	3.9%	3.9%	4.3%
Moderate	68	16.3%	50	15.2%	118	15.8%	14.9%	12.1%
Middle	81	19.4%	97	29.6%	178	23.9%	27.2%	25.3%
Upper	171	40.9%	141	43.0%	312	41.8%	40.3%	44.5%
Income NA	83	19.8%	26	7.9%	109	14.6%	13.7%	13.8%
Total	418	100.0%	328	100.0%	746	100.0%	100.0%	100.0%
By \$ Amt:	\$	%	\$	%	\$	%	% by \$	% by \$
Low	\$725	1.7%	\$633	2.1%	\$1,358	1.8%	1.5%	1.6%
Moderate	4,015	9.2%	3,317	10.8%	7,332	9.9%	8.8%	7.1%
Middle	7,531	17.1%	7,769	25.3%	15,300	20.5%	21.8%	21.8%
Upper	22,797	52.0%	15,346	50.0%	38,143	51.2%	43.6%	50.5%
Income NA	8,765	20.0%	3,614	11.8%	12,379	16.6%	24.3%	19.0%
Total	\$43,833	100.0%	\$30,679	100.0%	\$74,512	100.0%	100.0%	100.0%

Geographic Distribution of Loans

Carthage did not meet the standard for satisfactory performance during the evaluation period for the distribution of home mortgage loans among census tracts of different income levels in the AA. Table 6 illustrates loan originations, categorized by census tract income designation, and compares the percentage of home mortgage loans made by the bank in each census tract designation to the respective aggregate industry percentage. The bank's lending in moderate-income census tracts is below the aggregate industry level in both 2010 and 2011, based on both number and dollar amount of loans. However, while performance is below the aggregate industry level, as it was at the last CRA examination, it is closer to the aggregate industry level than at the last examination, and notably improved between 2010 and 2011.

Table 6 - Distribution of Home Mortgage Loans by Census Tract Income Level in the AA <i>(Dollars in thousands)</i>								
Tract Income	2010		2011		Review Period 1/1/10 – 12/31/11		Industry Aggregate	
	#	%	#	%	#	%	2010 % by #	2011 % by #
By Number:								
Moderate	17	4.1%	19	5.8%	36	4.9%	11.1%	8.3%
Middle	392	93.8%	305	93.0%	697	93.4%	84.8%	88.3%
Upper	9	2.1%	4	1.2%	13	1.7%	4.1%	3.4%
Total	418	100.0%	328	100.0%	746	100.0%	100.0%	100.0%
By \$ Amt:								
Moderate	\$ 1,522	3.5%	\$ 1,396	4.6%	\$ 2,918	3.9%	8.2%	6.3%
Middle	\$ 41,144	93.8%	\$ 28,864	94.1%	\$ 70,008	94.0%	87.0%	89.9%
Upper	\$ 1,167	2.7%	\$ 419	1.3%	\$ 1,586	2.1%	4.8%	3.8%
Total	\$ 43,833	100.0%	\$ 30,679	100.0%	\$ 74,512	100.0%	100.0%	100.0%

Responses to Complaints

Carthage did not receive any CRA related complaints during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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