



PUBLIC DISCLOSURE

December 02, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Upstate National Bank
Charter Number 12018

729 Proctor Avenue
Ogdensburg, NY 13669

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 had a reasonable average loan-to-deposit ratio during the evaluation period.
- A substantial majority of loans originated during the evaluation period were within the bank's assessment areas (AA).
- The bank demonstrated excellent dispersion in its geographic distribution of loans.
- The bank did not receive any CRA-related complaints during the evaluation period.

SCOPE OF EXAMINATION

The evaluation period covers the time period from September 17, 2007, through December 1, 2013. We reviewed lending activity during the period of January 1, 2010, through December 31, 2011. This period was representative of lending activity that occurred during the entire evaluation period. Lending performance results are based on data maintained by the bank, the accuracy of which was verified prior to use in evaluating the bank's performance.

The bank has two separate AAs. The Rochester AA is Monroe County in the Rochester Metropolitan Statistical Area (MSA). The Non-MSA AA includes contiguous census tracts in portions of St. Lawrence and Jefferson Counties. The bank's primary product in the Rochester AA is business loans. The bank's primary product in the Non-MSA AA is consumer loans. The vast majority of the bank's lending activity takes place in the Rochester AA. However, approximately 37% of the bank's total deposits were derived from the Non-MSA AA branch locations. As a result, we evaluated performance in each AA for this report and presented results accordingly. Performance in the Rochester AA was weighted more heavily in determining overall performance due to the percentage of the bank's lending activity occurring in this AA.

DESCRIPTION OF INSTITUTION

The Upstate National Bank (UNB) is a \$90 million community bank. 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 (NY) State until the mid-1990s when a change in management and ownership expanded the bank's footprint to the Rochester MSA. In December 2011, the bank closed the Lisbon office and moved the bank headquarters to the Ogdensburg, NY, location. In addition to the full service office in Ogdensburg, the bank continues to operate a full service office in Philadelphia, NY. For the Rochester MSA, UNB operates a full service office in downtown Rochester, NY.

The Brighton, NY, office was closed in May 2009. Branch locations are easily accessible to residents in the two AAs. The downtown Rochester branch is located in a low-income census tract, and the Philadelphia branch is located in a distressed middle-income non-MSA area census tract.

As of September 30, 2013, UNB had \$62 million in gross loans and \$72 million in deposits. The loan portfolio primarily consists of \$48 million (77%) in commercial and commercial real estate loans and \$13 million (21%) in residential real estate loans. UNB purchased the majority of the residential mortgage loans from a mortgage company located in Rochester, NY, in 2013. This transaction was not indicative of overall lending during the evaluation period and not indicative of a significant strategic change in lending activity.

During the evaluation period, the bank experienced various management and staff turnover, which impacted loan originations during 2010 and 2011. However, the current management team has been successful in establishing effective strategies to significantly grow lending activity in the bank's assessment area. Management continues to focus on small business lending, including hiring a commercial business development officer.

UNB has no legal, financial, or other impediments that would impede its ability to help meet the credit needs in its AAs. At the last CRA examination dated September 17, 2007, UNB received a rating of "Satisfactory" CRA performance.

DESCRIPTION OF THE ROCHESTER ASSESSMENT AREA

UNB's Rochester AA consists of all 186 census tracts in Monroe County within the Rochester MSA. Monroe County includes the City of Rochester, the third largest city in NY State behind New York City and Buffalo. Of the 186 census tracts, 37 (20%) are designated low-income, 32 (17%) are moderate-income, 63 (34%) are middle-income, 51 (27%) are upper-income, and three (2%) do not have an income designation.

The AA has a total population of 735,353 people living in 286,820 households and 185,818 families. There are 304,388 housing units located in the AA, with 61% of them owner-occupied and 33% renter-occupied. Just under 6% of the AA housing units are vacant. The distribution of families by income level is 19.73% low-income, 17.14% moderate-income, 21.71% middle-income, and 41.41% upper-income. Approximately 11% of the households in the AA are living below the poverty level. The 2011 Updated MSA Median Family Income of \$67,800 is used to determine the income designation of the borrower.

Unemployment rates in the AA increased during the evaluation period from 4.6% in November 2007 to 6.3% in November 2013. The unemployment rate increased most significantly between 2008 and 2010. Overall economic conditions have improved since this peak in 2010. The Monroe County unemployment rate compares favorably to that

of NY State and the United States at 6.9% and 6.6%, respectively. Major employers in the area include the University of Rochester/Strong Health, Wegman's Food Markets, Rochester General Health System, Eastman Kodak, and Xerox.

UNB faces numerous competitors in the AA, with 15 national and regional institutions listed on the Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report for Monroe County. In terms of deposit market share, top institutions include M&T Bank (32%), JP Morgan Chase Bank, N.A. (17%), RBS Citizens Bank (12%), First Niagara Bank, N.A. (10%), KeyBank N.A. (8%), Canandaigua National Bank and Trust (8%), and Bank of America, N.A. (5%). UNB is 13th in market share at 0.39%.

During the examination, we contacted a local non-profit organization that provides assistance to small businesses in the Rochester MSA. The contact mentioned that small business lending opportunities are increasing due to the recent loss of jobs at large employers in the Rochester market. The downtown Rochester area was specifically identified as in need of economic development funds.

DESCRIPTION OF THE NON-MSA ASSESSMENT AREA

UNB's Non-MSA AA consists of 22 census tracts in St. Lawrence and Jefferson Counties. St. Lawrence and Jefferson Counties are not part of a MSA and are located in northern NY State bordering Canada's Ontario Province. UNB currently maintains one full service office in each county. Of the 22 census tracts in St. Lawrence County, one (5%) is designated as low-income, four (18%) are moderate-income, 15 (68%) are middle-income, one (5%) is upper-income, and one (5%) does not have an income designation. Of the four tracts located in Jefferson County, one is a moderate-income census tract and the other three are designated as distressed middle-income non-metropolitan census tracts due to population loss.

The AA has a total population of 94,457 people living in 30,483 households and 21,035 families. There are 38,188 housing units located in the AA, with 49% of them owner-occupied and 31% renter-occupied. Just over 20% of the housing units are vacant. The distribution of families by income level is 22.50% low-income, 21.26% moderate-income, 23.14% middle-income, and 33.09% upper-income. The distribution of households by income level, used to evaluate borrower distribution of consumer loans, is 25.66% low-income, 18.67% moderate-income, 20.78% middle-income, and 34.89% upper-income. Almost 16% of the households in the AA are living below the poverty level. The 2011 Updated MSA Median Family Income of \$56,100 is used to determine the income designation of the borrower.

Seasonal unemployment rates peak in January for both Jefferson and St. Lawrence Counties. As was the case with the Rochester AA, economic conditions worsened during the evaluation period. Unemployment rates increased from approximately 5.7% for both counties in November 2007 to 8.3% for St. Lawrence County and 9.0% for Jefferson County in November 2013. Both counties compare unfavorably to the state

and national unemployment rates. The November 2013 Jefferson County unemployment rate is the second highest in NY State, behind only Bronx County. Major employers include Fort Drum and ALCOA.

UNB faces a competitive market in the Non-MSA AA. Unlike the Rochester AA, the competition is more from regional and local financial institutions. In terms of deposit market share, Community Bank N.A. leads the market at 30%, followed by Watertown Savings Bank (17%), KeyBank, N.A. (15%), North County Savings Bank (7%), and Carthage Federal Savings & Loan (6%). UNB is 12th in market share at 1%.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

UNB's average loan-to-deposit ratio during the evaluation period was reasonable. The bank's average quarterly loan-to-deposit ratio since the last examination through September 30, 2013, was 75.86%. In comparison, five similarly situated institutions had average quarterly loan-to-deposit ratios ranging from 57.00% to 106.58% during the same time period.

Lending in Assessment Areas

A substantial majority of loans originated during the evaluation period were inside the bank's AAs. By both number and dollar amount, approximately 80% of the loans were originated within the bank's AAs. Refer to the following table for more information.

Lending in the Assessment Areas										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business & Consumer	123	79.87	31	20.13	154	24,220	80.12	6,008	19.88	30,228

Source: Internal bank report of loans originated from January 1, 2010, to December 31, 2011.

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

The bank demonstrated relatively weak penetration in lending to borrowers of different income levels and business of different sizes during the evaluation period. The penetration of business loans to businesses of different sizes within the Rochester AA was relatively weak. As noted in the following table, the percentage of business loans to borrowers with revenue of \$1 million or less was well below the percentage of businesses reporting such revenues in the AA.

Distribution of Business Loans in the Rochester AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	66.88	3.78	29.34	100%
% of Bank Loans in AA by #	37.08	62.92	0.00	100%
% of Bank Loans in AA by \$	19.59	80.41	0.00	100%

Source: Business loans originated from January 1, 2010, to December 31, 2011; Dun and Bradstreet data.

UNB had excellent penetration of consumer loans to borrowers of different income levels within the Non-MSA AA. Lending to low-income borrowers was very strong, with the bank significantly exceeding the demographic comparator. Although there were no loans made to moderate-income borrowers, the combined percentage of loans to low- and moderate-income borrowers was above the combined percentage of low- and moderate-income households in the AA.

Borrower Distribution of Consumer Loans in Non-MSA AA								
Borrower 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	25.66	46.15	18.67	0.00	20.78	23.08	34.89	30.77

Source: Consumer loans originated from January 1, 2010, to December 31, 2011; 2000 U.S. Census data.

Geographic Distribution of Loans

The bank demonstrated excellent dispersion in its geographic distribution of loans during the evaluation period. The bank had excellent dispersion of business loans within the Rochester AA. The dispersion of consumer loans in the Non-MSA AA was relatively poor.

The percentage of business loans to businesses located in low- and moderate-income census tracts significantly exceeded the percentage of AA businesses located in both the low- and moderate-income census tracts. Refer to the following table for more information.

Geographic Distribution of Loans to Businesses in Rochester AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	10.40	22.73	12.69	26.14	38.66	20.45	38.17	30.68

Source: Business loans originated from January 1, 2010, to December 31, 2011; 2000 U.S. Census data.

The percentage of consumer loans to borrowers located in low- and moderate-income census tracts was below the percentage of AA households located in both the low- and moderate-income census tracts. However, it is noted that approximately 72% of the consumer loans originated during the period were to borrowers located in the distressed middle-income census tracts in the AA. Refer to the following table for more information.

Geographic Distribution of Consumer Loans in Non-MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% 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	5.56	78.21	94.44	0.06	0.00

Source: Consumer loans originated from January 1, 2010, to December 31, 2011; 2000 U.S. Census data.

Responses to Complaints

UNB 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), in determining a national bank’s CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s lending performance.

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