



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

Public Disclosure

April 16, 2001

Community Reinvestment Act Performance Evaluation

**The Lyons National Bank
Charter Number: 1027
35 William Street
Lyons, New York 14489**

**Office of the Comptroller of the Currency
Syracuse Field Office
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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.

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 **The Lyons National Bank (LNB)** prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of **April 16, 2001**. 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 "**Satisfactory.**"

The primary factors supporting the overall rating are:

- LNB's average loan-to-deposit ratio since the last examination is reasonable.
- A majority of LNB's loans are originated in its assessment area.
- The distribution of purchase money mortgages among borrowers of different income levels is reasonable, and the distribution of consumer loans is very good.
- Lending to small businesses in the assessment area is reasonable.
- The geographic distribution of purchase money mortgages, consumer loans and business loans within the assessment area is excellent.

DESCRIPTION OF INSTITUTION

LNB is a \$113 million community bank with its main office and one branch located in Lyons, New York. There are four other branches located in Wolcott, Newark, Macedon and Ontario, New York. The Ontario branch opened in November 1999, subsequent to the last CRA examination. The bank is wholly owned by Lyons Bancorp, Inc. As of December 31, 2000, LNB had \$72 million in loans and total deposits of \$104 million. Approximately 69% of the loan portfolio is secured by either residential or commercial real estate. Business loans total \$9.5 million, or 13% of the loan portfolio, consumer loans total \$8.8 million, or 12% of the loan portfolio, and agricultural loans total \$3.9 million, or 5% of the loan portfolio. Tier 1 Capital for the same period was approximately \$8.6 million, or 7.4% of total assets. LNB's primary business lines during the evaluation period were commercial loans, home purchase loans and regular consumer loans. However, management has also begun to focus on agricultural loans

since the last CRA examination. LNB primarily targets small- to medium-sized businesses in its market area.

LNB offers a variety of loan and deposit products at all its offices. Regular banking hours are maintained at all branches, with extended hours on Thursdays and/or Fridays. The Macedon office is located in a grocery store and offers nontraditional hours from 10:00 A.M. to 7:00 P.M. during the week, and 9:00 A.M. to 2:30 P.M. on Saturdays and holidays, except Thanksgiving and Christmas. Drive-up service, offering slightly extended hours every day, is available at the Lyons, Wolcott, Newark and Ontario branches. All branches, except the main office, are open Saturday mornings. Automated Teller Machines (ATM) with 24-hour access are located at the Lyons, Wolcott and Newark branches. The Macedon branch has an ATM with access from 6:00 A.M. to midnight. LNB also has several off-site ATMs at various locations throughout the assessment area. Additionally, LNB offers a free telephone banking system, the LNB Express Line, available 24 hours a day.

LNB is reasonably positioned to help meet the credit needs of the community. Competition primarily arises from an area credit union and branches of other community banks and regional institutions. There is no direct competition in Lyons. The bank has no legal or financial impediments hindering its ability to help meet the credit needs of the community.

We last evaluated LNB's performance under the CRA as of December 31, 1996, which resulted in a "Satisfactory" rating. The time period for this public evaluation spans from January 1, 1997, through December 31, 2000.

DESCRIPTION OF THE ASSESSMENT AREA

LNB's assessment area (AA) is Wayne County, consisting of twenty census tracts in the Rochester Metropolitan Statistical Area (MSA). There are no low-income census tracts in the AA. Six census tracts are designated moderate-income, twelve are middle-income, one is upper-income and one is not designated for income purposes. The AA complies with the regulation and does not arbitrarily exclude any low- or moderate-income areas.

There is a total population of 89,123 persons in the AA. This population represents 24,093 families with the following family income distribution: 21% low-income, 20% moderate-income, 27% middle-income, and 31% upper-income. Approximately 8% of the households in the AA are below poverty level, and the average housing cost in the AA is approximately \$71 thousand. The 1990 U.S. Census median family income used to determine the income designation of geographies is \$40,519. The Housing and Urban Development (HUD) updated median family income for 2000, used to determine borrower income distribution, is \$52,400. Owner-occupied units are 70% of total housing units, 21% of total housing units are rental units and 9% are vacant.

The local economy is relatively stable. Employment is primarily in the service and manufacturing sectors. Parker-Hannifan and JL Hammett are two major employers in Lyons, along with Cadbury Beverages located along Route 104, northwest of Lyons. Local school districts and the county are also large employers in the AA. Additionally, Wayne County

contains many farms and fruit orchards, and is home to a rather large migrant population during the summer months. Various small businesses and firms also reside in the AA. Management indicated there is a need for all types of lending in the community, but indicated that more recently there have been requests for commercial loans, residential construction loans and indirect loans.

During the examination, a contact was made with a local economic development corporation. The contact stated that the county is economically stable with some slow growth, mainly in the western portion of the county. The contact did not feel qualified to identify specific credit needs in the community. However, much of the organization's involvement is with area businesses, helping to meet "gap financing" between what the business needs and what they are able to borrow from financial institutions, as well as funding to help start-up businesses. The contact did not mention any complaints regarding the involvement of local lending institutions, but indicated that it has been easier to work with the smaller institutions.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Our examination focused on loans originated between January 1, 1997, and December 31, 2000. Home purchase mortgage loans, commercial loans and consumer loans (various purposes) were the primary loan products originated during the evaluation period. In order to complete the examination, we included all 201 home purchase loans reported on the Home Mortgage Disclosure Act-Loan Application Registers (HMDA-LAR) during this time period, totaling approximately \$15.1 million. We also reviewed a sample of twenty business loans totaling approximately \$1.5 million and twenty consumer loans totaling approximately \$204 thousand. During this time period, 36% of the dollar amount of all loan originations were commercial loans, 18% were home purchase mortgages and 18% were consumer loans.

Loan to Deposit Ratio

LNB's average loan-to-deposit ratio since the last examination is 54%. This is within the range of average loan-to-deposit ratios of a group of similarly situated banks, which ranged from 45% to 74%. Similarly situated banks include sixteen banks considered by management to be LNB's peers due to their location, size, and/or business activities. LNB's average loan-to-deposit ratio is skewed by very low ratios in 1997 and 1998, which had resulted from conservative and noncompetitive lending policies of prior management. The current management team has been successfully increasing the loan-to-deposit ratio over this evaluation period, more than doubling it from a low of 34% in March 1998 to a high of 71% in September 2000. The bank's loan-to-deposit ratio as of December 31, 2000, was 68%, which is in line with its peer group average of 69%.

Lending in the Assessment Area

LNB meets the standard for satisfactory performance with respect to lending in the AA. Our review of mortgage loans indicated 159 loans (79%) totaling \$11.4 million (75%) were made to borrowers in the AA. Our sample of commercial loans revealed seventeen loans (85%), totaling \$1.3 million (81%), were originated in the AA. And lastly, our sample of consumer loans revealed fourteen loans (70%), totaling \$153 thousand (74%), were originated in the AA.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

LNB's record of lending to borrowers of different incomes and to businesses of different sizes meets the standard for satisfactory performance. Mortgage lending to borrowers of different income levels is reasonable. Furthermore, consumer lending to borrowers of different income levels is very good, particularly with respect to low- and moderate-income individuals. Please refer to the following tables.

Borrower Distribution of Mortgage Loans

Income Level	# of Loans	%	\$ of Loans	%	Income Level of Families in AA
Low	14	9%	\$501,000	5%	21% *
Moderate	29	18%	\$1,350,000	12%	20%
Middle	51	32%	\$3,266,000	28%	27%
Upper	64	40%	\$6,216,000	54%	31%
NA	1	1%	\$48,000	1%	1%
Total	159	100%	\$11,381,000	100%	100%

Borrower Distribution of Consumer Loans

Income Level	# of Loans	%	\$ of Loans	%	Income Level of Families in AA
Low	8	40%	\$60,000	29%	21% *
Moderate	5	25%	\$50,000	24%	20%
Middle	5	25%	\$66,000	33%	27%
Upper	2	10%	\$28,000	14%	31%
NA	0	0%	\$0	0%	1%
Total	20	100%	\$204,000	100%	100%

* When adjusted for the number of households below poverty level (8%), the distribution of low-income families in the AA is approximately 13%.

Mortgage lending to low-income borrowers is reasonable, especially when the poverty level is considered. One would expect performance to be somewhat lower than the family distribution due to the difficulty a low-income borrower, with a **maximum** income of \$26,200, would have meeting basic underwriting criteria (28% housing debt/total income and 20% downpayment), based on the median housing value of approximately \$71,000. A borrower earning \$26,200 financing a \$71,000 house for 30 years at 7.375% with \$2000 in property and school taxes would have a housing debt ratio of 26%, provided they were able to make a 20% downpayment. LNB offers private mortgage insurance (PMI), allowing a downpayment as low as 5%. Under this scenario, and with all other factors the same as in the previous example, the borrower would then have a housing debt ratio greater than 29%. Mortgage lending to moderate-income borrowers is relatively consistent with the distribution of families in the AA.

LNB offers an affordable housing program, which allows a minimum downpayment of 3% and an expanded housing debt/income ratio of up to 31%. The bank also participates in homeownership programs with two local organizations allowing a minimum of 3% of the sales

price contributed by the borrower and the remainder of the closing costs and downpayment provided by grant money or gifts.

LNB's lending to businesses of different sizes is reasonable. Based on our sample of twenty commercial loans originated in the AA, sixteen, or 80% of the number of commercial loans originated, and \$993 thousand, or 67% of the dollar amount, are to small businesses (businesses with annual revenues equal to or less than \$1 million). Dun and Bradstreet business demographic information indicates 88% of the businesses in the AA that reported revenues were small businesses.

Geographic Distribution of Loans

The geographic distribution of loans in the assessment area exceeds the standard for satisfactory performance. Lending activity throughout the assessment area, including the moderate-income census tracts is excellent. Additionally, three of the bank's six branches are located in moderate-income census tracts. Please refer to the following tables.

Geographic Distribution of Home Mortgage Loans

Tract Designation	# of Loans	%	\$ of Loans	%	Tract Breakdown in the AA
Moderate	59	37%	\$3,495,000	31%	30%
Middle	96	61%	\$7,561,000	66%	60%
Upper	2	1%	\$ 155,000	1%	5%
NA	2	1%	\$ 170,000	2%	5%
Total	159	100%	\$11,381,000	100%	100%

Geographic Distribution of Consumer Loans

Tract Designation	# of Loans	%	\$ of Loans	%	Tract Breakdown in the AA
Moderate	10	50%	\$104,000	51%	30%
Middle	9	45%	\$ 97,000	47%	60%
Upper	1	5%	\$ 3,000	2%	5%
NA	0	0%	\$ 0	0%	5%
Total	20	100%	\$204,000	100%	100%

Geographic Distribution of Commercial Loans

Tract Designation	# of Loans	%	\$ of Loans	%	Tract Breakdown in the AA
Moderate	10	50%	\$582,000	39%	30%
Middle	10	50%	\$910,000	61%	60%
Upper	0	5%	\$ 0	2%	5%
NA	0	0%	\$ 0	0%	5%
Total	20	100%	\$1,492,000	100%	100%

Response to Complaints

LNB has not received any CRA related consumer complaints with respect to the bank's lending performance since the last CRA examination.

Results of the Fair Lending Examination

An analysis of 1999 public comments and consumer complaint information was performed according to the OCC's risk-based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed December 1996.