



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

Public Disclosure

September 10, 1998

Community Reinvestment Act Performance Evaluation

The Upstate National Bank
Charter Number: 12018

201 Highbridge Street
Fayetteville, New York 13066

Office of the Comptroller of the Currency
Syracuse Field Office
100 Elwood Davis Road
North Syracuse, New York 13212

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 Upstate National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of September 10, 1998. 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 average loan to deposit ratio is very high at 96%.
- The distribution of loans to businesses of different sizes is reasonable.
- The geographic distribution of small business loans in moderate income areas is reasonable.

The following table shows the performance level of The Upstate National Bank with respect to each of the five performance criteria.

Small Institution Assessment Criteria	The Upstate National Bank Performance Levels		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-deposit ratio	X		
Lending in assessment area			X
Lending to borrowers of different incomes and to businesses of different sizes		X	
Geographic distribution of loans		X	
Response to complaints	No Complaints received since the prior examination		

DESCRIPTION OF INSTITUTION

The Upstate National Bank (Upstate) is a \$72 million community bank with its head office in Ogdensburg, New York. Upstate has two branch offices located in Lisbon and Philadelphia, New York. The main office and branches are in rural sections of northern New York State. The Ogdensburg and Lisbon offices border the St. Lawrence River. The banking offices offer a limited range of deposit and loan services. There are no automatic teller machines (ATM). No branches have been opened or closed since the August 1995 CRA Examination.

Upstate's loan portfolio represents 86% of total assets. The loan portfolio is comprised of 71% commercial loans, 24% residential real estate secured loans, 3% consumer loans, and 2% agriculture loans.

Despite the exit from the assessment area by large institutions such as Key Bank and Fleet Bank in recent years, competition is considered strong. Financial institutions include branches of larger regional banks such as Community Bank N.A. and smaller institutions such as North Country Savings Bank, Ogdensburg Savings and Loan, and the St. Lawrence Federal Credit Union. Competition for residential mortgage loans is also provided by various mortgage brokers.

Upstate National Bank (formerly The First National Bank of Lisbon) became an independent \$14 million institution in 1994. Management has successfully implemented a growth oriented business plan, primarily through opening loan production offices (LPOs) in markets outside the assessment area. Senior managers reside and work in two of these markets, Syracuse and Rochester, New York. Another LPO in Highland, New York, which served the Mid-Hudson Region of New York State, was closed during the third quarter of 1997. Management's primary strategy during the evaluation period was to originate small business loans and leases. Management also placed some emphasis on residential mortgage lending during the evaluation period. Management sold its leasing operation in September 1998. Management views the bank as a financial intermediary with established correspondent relationships that facilitate origination, purchase, sale, and brokerage of a variety of loans.

Upstate National Bank has grown significantly over the evaluation period, from \$14 million in total assets as of September 30, 1995, to \$72 million as of June 30, 1998. A significant portion of the growth has been funded with deposits from outside the assessment area and borrowed funds. Approximately \$30 million, or 67%, of Upstate's time deposits are from outside the assessment area, and borrowings totaled \$13.2 million at June 30, 1998.

Upstate has one operating subsidiary, Integrated Financial Services (IFS) - Lisbon Asset Advisory Service LLC. This subsidiary was organized in September 1996 to pool originated and purchased loans and subsequently sell participations in the loan pools. IFS - Lisbon Advisory Service LLC is 90% owned by the bank.

The bank has no legal impediments that would hinder its ability to help meet the credit needs of its assessment area. Upstate's loan to deposit ratio was 122% at June 30, 1998. Upstate's ratio of loans to deposits plus borrowed funds was 96% at June 30, 1998. The high loan to deposit ratio has not hindered efforts to originate, broker, or purchase loans. The bank's capital position limited its ability to originate loans at times during the evaluation period. Management was very successful in overcoming capital limitations by brokering significant volumes of loans, primarily loans from outside the assessment area.

DESCRIPTION OF ASSESSMENT AREA

Upstate's assessment area is comprised of 26 Block Numbering Areas (BNAs). The 26 BNA's include three low income areas, six moderate income areas, fifteen middle income areas, and one upper income area. One BNA had no income reported and is categorized as N/A. The assessment area encompasses the western portion of St. Lawrence County and most of the northern portion of Jefferson County. The assessment area does not arbitrarily exclude low or moderate income areas.

Upstate's assessment area has a total population of approximately 110,000 residents. The 1998 statewide non-metropolitan median family income is \$37,700. The housing stock consists of 78% one to four family residential housing units, 8% multifamily units, and 14% mobile homes. The 1990 census data reports the owner occupancy level at 48%, rental 31%, and vacant 21%. Most of the vacant housing units are summer homes located in the Alexandria Bay and Clayton areas. The median cost of a house in the assessment area is \$52,200. Economic conditions in the area are stagnant but stable. Major employers include local school districts and municipalities, four state and federal correctional facilities, four paper manufacturing plants, two aluminum processors, and three colleges. The August 1998 unemployment rates for St. Lawrence and Jefferson Counties were 5.9% and 6.6%, respectively, compared to the New York State average of 5.1%. Historically, unemployment rates for these two counties have remained higher than the state average.

The credit needs of the community have not changed since the last examination. There are credit needs for housing, small business, and consumer loans. Commercial development opportunities remain limited due to the lack of a significant population center and the distance from major markets.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The scope of the CRA review covered the period from October 1, 1995 through June 30, 1998. We placed more emphasis on the bank's small business lending since management has targeted this type of lending in their business plans.

Loan to Deposit Ratio

The bank's loan to deposit ratio is very high. The average loan to deposit ratio over the last twelve calendar quarters is 96%. The national peer average over the same period of time was 70%. A bank management report indicates loan and deposit outstandings from the local area total \$16.2 million and \$23.2 million, respectively. From the perspective of outstandings, the local loan to deposit ratio is 70%. As previously indicated, the funding growth of the bank has occurred through acquiring non-local deposits and borrowings.

Lending in the Assessment Area

Upstate originated or purchased a majority of loans outside of the bank's assessment area. Small business lending inside the assessment area represented 23% and 12% of the number and dollar volume of small business loans originated during the evaluation period, respectively. Management's strategy to focus on lending opportunities outside the assessment area resulted from the stagnant economic climate and the competition offered by other lenders. Community contacts indicated the credit needs of the community are being met by the financial institutions operating in the area.

The bank originated or purchased 1,226 loans and leases totaling \$99.8 million during the evaluation period. Of these, we identified 522 loans (including consumer loans) totaling \$17.4 million that were originated within the assessment area. The number and dollar amount of loans made within the assessment area for the assessment period represent 42% and 17% of the total number of loans and dollar volume of loans, respectively. Brokerage activity resulted in an additional seven mortgage loans totaling \$423 thousand being originated in the assessment area.

The following chart depicts the bank's small business lending during the evaluation period. Upstate made 140 of the 612 small business loans inside the assessment area. The chart shows a decline in the number of small business loan originations in the assessment area between 1996 and 1997. The dollar volume was relatively unchanged as four of the small business loans totaling \$1.3 million were purchased from another institution.

Small Business Loans Originated Inside/Outside of the Assessment Area during the Evaluation Period						
Period of Time	Loans Inside A/A		Loans Outside A/A		Total Loan Originations	
	#	\$	#	\$	#	\$
Oct-1-95 - Dec-31-95	10	461	10	1,003	20	1,464
1996	84	3,673	254	14,617	338	18,290
1997	35	3,197	147	24,223	182	27,420
Jan-1-98 - Jun-30-98	11	1,149	61	18,755	72	19,904
Total	140	8,480	472	58,598	612	67,078

The following chart depicts the volume of small farm lending during the evaluation period. The number and dollar volume of small farm loans made in the assessment represented 86% and 80% of the total number and dollar volume of small farm loans made during the assessment period.

Small Farm Loans Originated Inside/Outside of the Assessment Area during the Evaluation Period						
Period of Time	Loans Inside A/A		Loans Outside A/A		Total Loan Originations	
	#	\$	#	\$	#	\$
Oct-1-95 - Dec-31-95	3	152	0	0	3	152
1996	25	1,308	4	346	29	1,654
1997	12	377	3	110	15	487
Jan-1-98 - Jun-30-98	3	33	0	0	3	33
Total	43	1,870	7	456	50	2,326

The following chart depicts the number and dollar amount of loans secured by one to four family

residential houses during the evaluation period. The number and dollar volume of loans secured by one to four family dwellings made within the assessment area represent 33% and 19% of the number and dollar volume of loans secured by one to four family residences during the evaluation period, respectively. The chart shows a significant decline in loans secured by one to four family residences between 1996 and 1997 inside the assessment area. The overall decrease in mortgage lending is attributed to management's decision to discontinue a relationship with a broker and the closing of the Highland, New York LPO and in 1997.

Loans Secured by 1 - 4 family residential properties						
Period of Time	Loans inside A/A		Loans Outside A/A		Total Loans Originated	
	#	\$	#	\$	#	\$
Oct-1-95 - Dec-31-95	16	664	5	415	21	1,079
1996	43	2,173	79	7,641	122	9,814
1997	14	1,018	59	6,842	73	7,860
Jan-1-98 - Jun-30-98	2	138	9	1,014	11	1,152
Total	75	3,993	152	15,912	227	19,905

The demand for small business loans inside the assessment area has not changed significantly. Institutions subject to the small business reporting requirements of the Community Reinvestment Act reported 1,901 loan originations totaling \$116.4 million in 1996 and 1,780 loan originations totaling \$120.8 million in 1997 in St. Lawrence and Jefferson Counties. Additionally, institutions subject to the Home Mortgage Disclosure Act (HMDA) reported 1,306 HMDA loan originations totaling \$37.5 million in 1996 and 1,136 loan originations totaling \$36.3 million in 1997 in the bank's assessment area.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The distribution of assessment area loans to borrowers of different income levels (depicted below) is reasonable. We reviewed a sample of eleven consumer loans and two mortgage loans representing 25% of the 52 consumer loans and residential mortgages made within the assessment area between January 1, 1997 and June 30, 1998. The table below details the results of our sample.

Distribution of loans to borrowers of different incomes			
Income level	% of families	# of Loans	% of loans
Low Income	22%	3	23%
Moderate Income	20%	2	15%
Middle Income	24%	6	47%
Upper Income	34%	2	15%
Total	100%	13	100%

The distribution of loans to businesses of different sizes is reasonable considering the bank's size and the demographics of the assessment area. The vast majority of business loans are to small businesses (businesses with annual gross revenues of \$1 million or less) based on our sample of 51 business loans and leases representing 36% of the 140 small business loans and leases originated in the assessment area during the evaluation period. Eighty-six percent of the loans sampled were extended to small businesses. Demographic data indicates 92% of all businesses in the assessment area that report revenues meet the definition of small businesses.

We also sampled eight, or 19%, of the forty-three farm loans originated in the assessment area during the evaluation period. All eight of the loans, or 100%, were to farms with annual gross revenues of \$1 million or less.

The majority of Upstate'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. Eighty-five percent of the small business loans originated in the assessment area were in amounts under \$100 thousand, 10% were in amounts ranging from \$100 thousand to \$250 thousand, and 5% were in amounts greater than \$250 thousand. The size distribution of farm loans was similar, with 86% in amounts under \$100 thousand, 12% in amounts ranging from \$100 thousand to \$250 thousand, and 2% in amounts greater than \$250 thousand.

Geographic Distribution of Loans

The geographic distribution of loans is reasonable. Upstate National Bank originated 13% of its assessment area loans collateralized by residential first mortgages in moderate income areas while the moderate income areas contain 21% of all assessment area owner occupied households. By comparison, the institutions subject to the Home Mortgage Disclosure Act (HMDA) reported a much higher penetration in the moderate income areas. Those banks reported 22% and 18% of their HMDA loans were originated in the moderate income tracts of the assessment area in 1996 and 1997, respectively. Although no loans were made in the low income tracts, this is considered reasonable since less than 1% of the owner occupied housing units are in the low income areas.

Geographic Distribution of Loans Collateralized by Residential First Mortgages Inside the Assessment Area Oct-1-1995 to Jun-30-1998					
Income Characteristics	BNA#	BNA%	Loans Originated #	Loans Originated %	Owner Occupied Households %
Low Income	3	12%	0	0%	0%
Moderate Income	6	23%	10	13%	21%
Middle Income	15	57%	65	87%	76%
Upper Income	1	4%	0	0%	3%
N/A	1	4%	0	0%	0%
Total	26	100%	75	100%	100%

The distribution of Upstate’s small business loans within the assessment area is reasonable. Upstate originated 10% of its small business loans in the moderate income areas of the assessment area. The demographics for the assessment area show 24% of the small businesses are in the moderate income tracts. See the table below for Upstate’s geographic distribution of small business loans.

By comparison, institutions subject to the small business and small farm loan reporting requirements reported 5% and 6% of their small business loans were originated in low income areas in 1996 and 1997 of St. Lawrence and Jefferson Counties, respectively. The reporting institutions reported 18% of their small business loans were in moderate income areas of St. Lawrence and Jefferson Counties for both 1996 and 1997. The low and moderate income areas represent 7% and 19% of the block number areas of St. Lawrence and Jefferson Counties, respectively.

Geographic Distribution of Small Business Loans Originated Inside the Assessment Area Oct-1-1995 to Jun-30-1998					
Income Characteristics	BNAs		Loans Originated		Businesses %
	#	%	#	%	
Low Income	3	12%	0	0%	0%
Moderate Income	6	23%	14	10%	24%
Middle Income	15	57%	126	90%	69%
Upper Income	1	4%	0	0%	7%
N/A	1	4%	0	0%	0%
Total	26	100%	140	100%	100%

Compliance with Antidiscrimination Laws and Regulations

We did not identify any violations of the substantive provisions of anti-discrimination or fair lending laws and regulations during the concurrent fair lending examination.