

PUBLIC DISCLOSURE

December 19, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Cortland
Charter Number 2272
65 Main Street
Cortland, New York 13045

Comptroller of the Currency
Syracuse Duty Station
Interstate Place
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 Community Reinvestment Act (CRA) performance of the First National Bank of Cortland prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency, as of December 19, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

INSTITUTION'S CRA RATING: This institution is rated satisfactory.

- . The two year average loan to deposit ratio is 60%.
- . A substantial majority of lending is within the bank's assessment area.
- . The distribution of lending activity to borrowers of different income levels and small businesses is reasonable.
- . The geographic distribution of loans is reasonable.

The following table indicates the performance level of First National Bank of Cortland with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>FIRST NATIONAL BANK OF CORTLAND</u> 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 Since	Complaints the Prior	Received Examination

DESCRIPTION OF INSTITUTION

The First National Bank of Cortland (FNBC) is headquartered in Cortland, New York. Cortland is located in a rural section of central New York State, approximately 30 miles south of Syracuse, New York. The bank is well positioned to help meet the credit needs of its community. As of September 30, 1996, total assets were \$215 million, total loans \$117 million and total deposits \$189 million. Real estate loans (commercial and consumer) represent 55% of the total loan portfolio, while consumer credit represents 23% and commercial loans 16%. The bank's primary business focus is consumer lending. Strong competition in the area is from other community banks, branch offices of larger regional banks, credit unions and representatives of mortgage companies.

FNBC operates seven banking offices, all of which provide a full range of deposit and loan services. Automated Teller Machines (ATM's) are located at five banking offices and three non-proprietary sites. All offices have extended banking hours.

The bank has no legal impediments that would hinder the offering of banking services.

DESCRIPTION OF ASSESSMENT AREA

The assessment area includes all of Cortland County and small portions of southern Onondaga County (Syracuse Metropolitan Statistical Area (MSA)) and northern Broome County (Binghamton (MSA)). The assessment area defined by FNBC includes 10 census tracts and 12 block numbering areas (bna's). The assessment area includes one moderate income census tract, 20 middle income census tracts/bna's and one upper income census tract. Five offices are located in Cortland County. One branch is located in each of Onondaga and Broome Counties. The assessment area has a total population of approximately 79 thousand residents. The 1996 HUD median family incomes for Cortland County, the Syracuse MSA, and the Binghamton MSA are \$35,600 (non-MSA medium family income for New York State), \$41,800 and \$40,100, respectively. Residential housing is principally owner occupied. Credit needs include real estate loans for home purchase or improvement, consumer loans and small business loans.

The assessment area is rural in nature. Economic conditions in the area are stable but stagnant. Employment is primarily in the service, manufacturing and higher education sectors. Management estimates the unemployment rate exceeds 7% as of September 30, 1996. Major employers are the State University College at Cortland, Cortland County, Buckbee-Mears, Paul Corporation and local school districts. A community contact stated area banks and regional bank branch offices have in general been helpful in meeting community credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

FNBC's loan to deposit ratio is reasonable and indicates an adequate effort and commitment to meet the credit needs of the community. For the prior eight calendar quarters preceding this CRA examination, FNBC's average loan-to-deposit ratio is 60%. The bank's loan to deposit ratio is moderately below both the national peer group average of 72% and the average of similarly situated institutions of 69% due primarily to its conservative lending philosophy.

A substantial majority of loan originations are within the bank's assessment area, reflecting a very good response to community credit needs. Bank reports indicate that 87% of all loans were made within the assessment area between January 1995 and September 1996. Management reports indicate 96% and 98% of all Home Mortgage Disclosure Act (HMDA) related loans were made within the assessment area for 1995 and through September 30, 1996, respectively. The information gathered from our sample of loans supports the accuracy of the management reports.

The distribution of loans to borrowers of different income levels and businesses of different size shows reasonable penetration. Low and moderate income families represent 17% and 19% of the total families in the assessment area, respectively. Relative to mortgage lending, our analysis of the 1996 HMDA Loan Application Register (LAR) through December 16 shows 10% of loan originations are to low income borrowers and 14% are to moderate income borrowers. The bank originated 332 commercial loans and advances under lines of credit totaling \$11 million in 1995 and 587 loans and advances under lines of credit for \$16.8 million through December 16, 1996, respectively. The number of loans to businesses with revenues less than \$1 million were estimated to be 80% and 76% for 1995 and year to date 1996, respectively. The dollar volume of loans extended to businesses with revenues less than \$1 million was estimated at 57% for both periods under evaluation.

A review of the geographic distribution of loans granted shows reasonable penetration throughout the bank's assessment area, including the one moderate income tract. Approximately 3% of the HMDA loans and 1% of the dollar volume of HMDA loans were granted in the one moderate income tract during 1995 and 1996. The moderate tract represents 4.5% of the tracts in the assessment area.

During the concurrent Consumer Compliance Examination no violations of the substantive provisions of antidiscrimination laws, fair lending laws and regulations were identified.

METROPOLITAN STATISTICAL AREAS

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MSA 8160

Performance in MSA 8160 is consistent with the bank's overall performance. There are five census tracts in this MSA that are part of the assessment area. All of the census tracts are designated middle income. There is one branch located in Tully, New York. The population of the five census tracts in the assessment area is approximately 13,000. Management reports indicate loans and deposits in MSA 8160 represent approximately 11% of total loans and 10% of total deposits, respectively. Approximately 90% of the loans in MSA 8160 are within the assessment area. FNB Cortland originated 31 HMDA related loans totaling \$1,336 thousand in 1995. This activity represented 11% and 18% of the number and dollar volume of the bank's HMDA activity in 1995, respectively. The bank generated 39 HMDA loans totaling \$1,556 thousand through December 16, 1996.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MSA 0960

Performance in MSA 0960 is consistent with the bank's overall performance. The bank expanded into this MSA when the Whitney Point branch opened in 1994. There are five census tracts in this MSA that are part of the assessment area. Four tracts are designated middle income and one tract is designated moderate income. The population of the five census tracts in the assessment area is approximately 17,000. Management reports indicate loans and deposits within MSA 0960 represent 2.7% and 3% of total loans and deposits, respectively. Approximately 96% of the loans in MSA 0960 are within the assessment area. FNB Cortland originated 23 HMDA loans totaling \$268 thousand in 1995 in MSA 0960. This activity represented 8% and 4% of the number and dollar volume of the bank's HMDA activity in 1995, respectively. The bank originated 29 HMDA loans totaling \$482 thousand through December 16, 1996 in MSA 0960.