



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

February 5, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The National Bank of Delaware County
Charter Number 4495

131-135 Delaware Street
Walton, NY 13856

Office of the Comptroller of the Currency

Upstate New York (Syracuse)
231 Salina Meadows Parkway, Suite 105
Syracuse, NY 13212

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 National Bank of Delaware County (NBDC) meets the standard for satisfactory performance for lending within the bank's assessment area (AA).
- NBDC's average loan-to-deposit ratio is reasonable and meets the standard for satisfactory performance based on the bank's financial condition and AA credit needs.
- NBDC's distribution of loans by borrower incomes meets the standard for satisfactory performance. In addition, NBDC's community development lending helped provide needed services and housing to lower-income residents of the AA.
- NBDC did not receive any CRA-related complaints during the evaluation period.

SCOPE OF EXAMINATION

We completed a review of the bank's lending activities for the time period since the last CRA examination, July 16, 2003 through September 30, 2008. The primary products reviewed included residential real estate loans and consumer loans, which include home equity loans. Conclusions are based on a sample of residential real estate loans and consumer loans originated between January 1, 2006 and September 30, 2008. Lending within this time period is consistent with performance throughout the full evaluation period.

DESCRIPTION OF INSTITUTION

NBDC is a \$239 million community bank headquartered in Walton, New York, with six offices serving the Leather Stocking and Catskill regions of New York State. NBDC is part of a one-bank holding company, Delaware Bancshares, Inc. In November 2007, the holding company acquired the National Bank of Stamford, also located in Delaware County. As of September 30, 2008, total assets consisted of \$101 million (42%) in investments and \$105 million (44%) in loans. The bank's deposits totaled \$194 million. The loan portfolio consists of \$51 million (49%) in residential real estate loans, \$29 million (28%) in commercial and commercial real estate loans, \$24 million (23%) in consumer loans (including home equity products), and \$1 million (2%) in other loans.

The bank's six offices are located in Walton, Franklin, Andes, Hamden, Stamford, and Roxbury, New York. Two were added as a result of the merger with National Bank of Stamford. All locations, with the exception of Hamden, have drive-up services. The bank has automated teller machines (ATM) at the Big M Market in Walton, Stamford, and Roxbury offices, and also has a cash-only ATM at Tyco, a major employer in the county, in Hobart, New York. NBDC offers telephone

banking, online banking, and has a small trust department. Management did not close any offices during the evaluation period.

NBDC does not have any legal, financial or other factors that would impede its ability to help meet the credit needs in its AA. At the last CRA examination dated July 16, 2003, NBDC received a “Satisfactory” CRA rating.

DESCRIPTION OF ASSESSMENT AREA (AA)

The AA consists of 14 census tracts in Delaware County including 13 middle-income and one upper-income. The AA is reasonable and conforms to regulatory requirements. The AA had a total population of 48,055 in 2008, with 12,791 families and 19,245 households. The table below further describes the population, families, and households, based on geographic income categories. The distribution of families in the AA is 19.31% low-income, 21.85% moderate-income, 23.03% middle-income and 35.81% upper-income. Of the 27,974 housing units in the AA, 50.42% are owner-occupied, 16.14% are rental-occupied, and 33.44% are vacant. The median housing value in the AA is \$74,913, with a median housing age of 45 years.

<i>Selected Characteristics by Income Category of the Geography</i>					
<i>Geographic Income Category</i>	<i>Percentage</i>				
	<i>Census Tracts</i>	<i>Population</i>	<i>Families</i>	<i>Households</i>	<i>Owner-Occupied Units</i>
Middle	92.86	97.95	99.98	100.00	99.99
Upper	7.14	2.05	0.02	0	0.01
Total	100.00	100.00	100.00	100.00	100.00

The 2000 U. S. Census Median Family Income for the Non-Metropolitan Statistical Area (Non-MSA) of New York State is \$39,779. This figure is used to determine the income designation of the geographies in the AA. The 2008 Updated Median Family Income is \$52,700. This figure is used to determine the income designation of individuals for real estate loans in this AA. The Updated Median Family Income is based on information from the Department of Housing and Urban Development (HUD).

Unemployment rates for New York State and Delaware County for December 2008 were 6.6% and 5.9%, respectively. Major employers in Delaware County include local governments and school districts, hospitals, and some industrial employers such as Kraft Foods in Walton, Morningstar /Ultra-dairy in Hamden, Tyco in Hobart, and Amphenol in Sidney.

NBDC faces a large amount of competition from a variety of institutions, including credit unions and other banks. Competitors include small institutions such as Sidney Federal Credit Union and The Delaware National Bank of Delhi, as well as, branches of larger institutions such as NBT Bank and Wilber National Bank. Based on discussions with a community contact, M&T Bank is also active in originating residential mortgage loans in the county. The same contact also noted that

mortgage brokers continue to compete within the bank's lending area. As of June 30, 2008, according to the Federal Deposit Insurance Corporation's website, NBDC's network of offices represented 32% of all bank branches and 24% of all deposits in Delaware County. All NBDC's offices are located in middle-income geographies.

During our examination, we contacted a local community development organization and a local realtor. Both contacts reported the credit needs of the community include home mortgages, home equity loans and lines, home improvement loans, and senior housing. Both parties indicated that the banks in the area are doing a good job meeting these credit needs. One noted that there is a heavy dependence on grant money to assist low-income home buyers. The other noted the continued need for low-cost housing loans and concerns over the present tightness of credit. One contact specifically mentioned NBDC as being active in supporting low-income housing needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Based on a discussion with management and a review of the bank's new loan report for loans originated between January 1, 2006 and September 30, 2008, we determined the bank's primary products to be residential real estate loans and consumer loans. During this time period, residential real estate loans account for 16% of the number of loans originated, but 37% of the dollar amount of loans originated. Consumer loans account for 73% of the number of loans originated, but only 26% of the dollar amount of loans originated. Together, these products account for 89% of total loans originated and 63% of the dollar amount of loans originated in the time period reviewed.

Conclusions are based on a sample of 72 residential real estate loans (approximately 23% of total residential real estate loans originated in the sample period), and 72 consumer loans (approximately 5% of total consumer loans originated in the sample period) originated between January 1, 2006 and September 30, 2008.

Loan-to-Deposit Ratio

NBDC's loan-to-deposit ratio meets the standard for satisfactory performance. Since the last CRA examination, NBDC's quarterly average loan-to-deposit ratio was 48.90%. NBDC is one of two banks operating in the AA with assets less than \$250 million. The other bank had an average loan-to-deposit ratio of 50.88% for the same time period.

Lending in Assessment Area

Lending within the AA exceeds the standard for satisfactory performance. Overall, 77.08% of the number and 78.88% of the amount of loans were originated within the AA.

Lending in Assessment Area										
Loan Type	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Real Estate	54	75%	18	25%	72	4,566,851	79%	1,246,276	21%	5,813,127
Consumer	57	79%	15	21%	72	563,045	82%	127,442	18%	690,487
Totals	111	77%	33	23%	144	5,129,896	79%	1,373,718	21%	1,373,718

Lending to Borrowers of Different Incomes

Overall, NBDC’s record of lending to borrowers of different incomes meets the standard for satisfactory performance.

Residential Real Estate Loans

The overall borrower distribution of residential real estate loans meets the standard for satisfactory performance. In the evaluation of borrower distribution of residential real estate loans, we considered the portion of households living below the poverty level. According to the 2000 U.S. Census data, 12.47% of households within the AA are below the poverty level. Due to reasons of affordability, it is unlikely that those with incomes below the poverty level would be involved in home mortgage financing. Accordingly, we considered this in evaluating the bank’s lending distribution to low-income borrowers. Refer to the following table for the facts and data used to evaluate the borrower distribution of the bank’s residential real estate loan originations.

NBDC participates in a first-time home buyer program with Delaware Opportunities. Home purchasers must be considered low- or moderate-income to qualify for this program. Under the program, purchasers can obtain up to \$25,000 in grant money with the balance of the purchase price of the home from institutional financing. NBDC originated four loans totaling approximately \$268 thousand in conjunction with this program, during the evaluation period.

Borrower Distribution for Residential Real Loans in Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential	19.31%	1.85%	21.85%	14.81%	23.02%	25.93%	57.41%	35.81%

Consumer Loans

The distribution of consumer loan originations to low-income borrowers is below the standard for satisfactory performance while the distribution of consumer loan originations to moderate-income borrowers meets the standard for satisfactory performance. Refer to the following table.

Borrower Distribution for Consumer Loans in Assessment Area								
Borrower 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	24.48%	10.53%	18.40%	17.54%	20.95%	38.60%	36.17%	33.33%

Community Development Lending

During the evaluation period, the bank provided funding of approximately \$2.69 million dollars to Delaware County Chapter-NYSARC. This organization owns residential properties and, amongst other services, provides residential living assistance to developmentally challenged adults in Delaware County. Funding includes a \$1.26 million commercial mortgage on its main facility, a \$1 million working capital line of credit, and a \$432 thousand construction mortgage for a new residential living facility consisting of four residential units.

Geographic Distribution of Loans

We did not complete an analysis of the geographic distribution of loan originations as the results would not be meaningful since the AA does not contain any low- or moderate-income census tracts.

Responses to Complaints

NBDC has not received any CRA-related complaints during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

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