



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

August 02, 2011

COMMUNITY REINVESTMENT ACT (CRA) PERFORMANCE EVALUATION

The First National Bank of Dryden
Charter Number 6487

7 W. Main Street
Dryden, NY 13053

Office of the Comptroller of the Currency

ADC-SYRACUSE Field Office
5000 Brittonfield Parkway Suite 102
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 First National Bank of Dryden (FNBD) meets the standard for satisfactory performance for originating loans within its combined assessment area (AA).
- FNBD's average loan-to-deposit ratio is reasonable and meets the standard for satisfactory performance in light of the bank's financial condition, performance context, and AA credit needs.
- FNBD's overall distribution of loans by borrower income level meets the standard for satisfactory performance. The distribution of loans by borrower income level meets the standard for satisfactory performance in the non-MSA AA and exceeds the standard for satisfactory performance in the Ithaca MSA AA based on the level of lending penetration for both primary loan products.
- An analysis of the geographic distribution of loans would not be meaningful as all geographies in both AAs are designated middle- or upper-income.
- FNBD did not receive any CRA-related complaints during this evaluation period.

SCOPE OF EXAMINATION

We completed a review of the bank's lending activities for the time period since the last CRA examination, June 29, 2005 through June 30, 2011. The bank's primary products, considering both number and dollar amount of originated loans, are Home Mortgage Disclosure Act (HMDA) reportable loans, including home purchase, home improvement, and refinance loans, and consumer loans. Our determination of the bank's primary products was also consistent with information obtained through internal management reports, management discussions, and the bank's overall business strategy.

Conclusions are based on the bank's 2009-2011 year-to-date June 30, 2011 HMDA-LAR (Loan Application Register) data, and a sample of consumer loans originated between January 1, 2009 and June 30, 2011. Lending within this time period is consistent with performance throughout the full evaluation period.

DESCRIPTION OF INSTITUTION

FNBD is a \$111 million community bank with its main office located in Dryden, New York. Dryden is a small rural community approximately forty miles north of Binghamton, New York, forty-five miles south of Syracuse, New York, and within approximately ten miles of Cortland and Ithaca, New York. FNBD has two branch offices. The North Street office opened in 1987, and is also located in Dryden, within one mile of the main office. The Cortland Office opened in June 2004, and is located in Cortland. All three locations have a drive-up facility and a non-deposit taking automated teller machine (ATM). FNBD offers a traditional selection of banking products and services, including online banking and bill pay. Management did not close any

offices during the evaluation period.

As of June 30, 2011, the bank's asset base included \$37.7 million (34%) in loans and \$64.2 million (58%) in investments. Total deposits were \$96.6 million. Real estate loans, both consumer and commercial, total \$23.1 million, or 60% of the loan portfolio. The remainder of the portfolio consists of \$4.5 million (11%) in commercial loans, \$10.5 million (28%) in consumer loans, and \$166 thousand (<1%) in farm loans.

FNBD's primary mission is to provide high quality customer service, serve its customers as efficiently as possible, and operate in its community to the best of its ability. The bank enjoys a good reputation in its market area, and strives to maintain its high quality image, experienced staff, level of public confidence, and customer loyalty. Products and services are designed, updated, and changed, as appropriate, to meet the needs of customers. The Board and management are committed to ensuring the integrity and soundness of the institution with prudent growth and good financial performance. Overall asset growth, as well as loan growth, has been relatively modest during the evaluation period.

There are no legal, financial, or other factors that would impede the bank's ability to help meet the credit needs in its AAs. At the last CRA examination, dated June 29, 2005, FNBD received a "Satisfactory" CRA rating.

DESCRIPTION OF ASSESSMENT AREAS (AAs)

FNBD's combined AA consists of eighteen contiguous census tracts in Tompkins, Cortland and Tioga counties. Sixteen census tracts are designated middle-income and two are designated upper-income. There are no low- or moderate-income census tracts in the bank's combined AA.

Since the combined AA contains census tracts in a metropolitan statistical area (MSA) of New York State, and there is a branch located in this MSA, the combined AA actually consists of two smaller AAs. These two smaller AAs are evaluated individually under the CRA with respect to borrower distribution. The first AA (Ithaca MSA) consists of six census tracts in Tompkins County in the Ithaca MSA (MSA 27060). The main and the North Street offices are located in this AA. The second AA (non-MSA) consists of eleven census tracts in Cortland County, which is in a non-MSA of New York State and where the Cortland office is located, and one census tract in Tioga County, which is in the Binghamton MSA (MSA 13780). There are no branches located in the Binghamton MSA; therefore, it does not need to be evaluated as a separate AA under the CRA. Approximately two-thirds of the Binghamton MSA census tract is adjacent to boundaries of the Ithaca AA and the non-MSA AA. It is reasonable for the bank to include this census tract in its AA based on the level of lending in the census tract, its proximity to the main office, and minimal presence of other financial institutions in the northern portion of the census tract. For purposes of our evaluation, we included this census tract as part of the non-MSA AA since the demographics of the Binghamton MSA were more similar to the demographics of the non-MSA.

Although the AAs do not consist of complete political subdivisions, they include whole census tracts in portions of political subdivisions in which the bank has its main office and branches, as well as, surrounding census tracts in which the bank has originated a substantial portion of its

loans. The AAs include portions of political subdivisions that the bank can reasonably be expected to serve based on lending patterns, geographical barriers, and the presence of other financial institutions. The AAs meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income census tracts or extend substantially beyond an MSA boundary.

The New York State unemployment rate as of June 30, 2011, was 8.0%; the Ithaca MSA and the non-MSA rates were 6.4% and 8.5%, respectively. Unemployment rates for Tompkins and Cortland Counties were 6.4% and 8.5%, respectively. General local economic conditions are relatively stable, however, they reflect the challenges and pressures resulting from current national economic conditions. The economy of FNBD's market area is primarily reliant on education, light manufacturing, tourism, and agriculture. Major employers include Cornell University, Ithaca College, SUNY College at Cortland, and area medical facilities, school districts, manufacturers, utilities, and municipalities. Competition is generally strong and includes various other financial institutions with offices in and around FNBD's combined AA.

During our examination, we contacted a local community-based organization which focuses its efforts and programs on addressing local needs and conditions which foster poverty. The organization offers many and varied services and programs to low-income families and individuals in its service area. The contact indicated that there is ample opportunity for participation by local financial institutions in various ways, and overall lending performance of local financial institutions is satisfactory.

Ithaca MSA Assessment Area

This AA has a total population of 27,148 in 7,053 families and 10,607 households. The AA consists of 17% low-income, 19% moderate-income, 26% middle-income, and 38% upper-income families. Of the 11,283 housing units in the AA, 68% are owner-occupied, 26% are rental units, and 6% are vacant. The median housing value in the AA is \$91,746 with a median housing age of 46 years. The 2000 U.S. Census Median Family Income for the MSA is \$53,160, which is used to determine the income designation of the MSA census tracts (all are middle-income). The 2010 Updated Median Family Income for the MSA is \$71,100. This figure is used to determine the income designation of individuals residing in the MSA and to evaluate the distribution by borrower income in the AA. The updated median family income is based on information from the Department of Housing and Urban Development (HUD).

Non-MSA Assessment Area

This AA has a total population of 51,363 in 12,436 families and 19,311 households. The AA consists of 19% low-income, 18% moderate-income, 23% middle-income, and 40% upper-income families. Of the 21,217 housing units, 59% are owner-occupied, 31% are rental units, and 9% are vacant. The median housing value in the AA is \$74,659 with a median housing age of 59 years. The 2000 U.S. Census Median Family Income for the non-MSA is \$43,029, which is used to determine the income designation of the non-MSA census tracts (all are middle- or upper-income). The 2010 Updated Median Family Income for the non-MSA is \$55,300. This figure is used to determine the income designation of individuals residing in the non-MSA and to evaluate the distribution by borrower income in the AA.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Conclusions are based on 2009-2011 year-to-date June 30, 2011 HMDA-LAR data and a random sample of consumer loans. All loans were originated between January 1, 2009 and June 30, 2011.

HMDA Loans

The evaluation included all HMDA loans originated in 2009-2011 year-to-date, or 172 loans totaling \$12.4 million.

Consumer Loans

The evaluation included a random sample of consumer loans. For purposes of evaluating the bank's performance of lending within the combined AA, we chose a sample of 20 consumer loans totaling approximately \$120 thousand. In order to evaluate the distribution of loans by borrower income in each AA, we sampled 20 consumer loans in each AA, or 40 loans totaling approximately \$294 thousand.

Loan-to-Deposit Ratio

FNBD's loan-to-deposit ratio is reasonable in light of the bank's financial condition, performance context, and AA credit needs. Since the last CRA examination, the bank's quarterly average loan-to-deposit ratio was 38%. Two other banks operating in or near the AA with less than \$250 million in total assets had an average loan-to-deposit ratio of 62%. FNBD's loan-to-deposit ratio demonstrates an overall increasing trend during the evaluation period. FNBD's loan-to-deposit ratio was 42% as of December 31, 2010.

Lending in the Assessment Area

FNBD originates a majority of loans inside its AA, as indicated by the table below.

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
HMDA	152	88%	20	12%	172	10,971,000	89%	1,381,000	11%	12,352,000
Consumer	16	80%	4	20%	20	84,799	71%	35,211	29%	120,011
Totals	168	88%	24	12%	192	11,055,799	89%	1,416,211	11%	12,472,011

Source: Data reported under HMDA, random loan samples.

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

In the evaluation of borrower distribution of HMDA loans, we considered the relatively high portion of households living below the poverty level, which was 8.5% for the Ithaca MSA AA and 15.6% for the non-MSA AA. Due to reasons of affordability, it is unlikely that those with incomes below the poverty level would be involved in home mortgage financing. Accordingly,

this was considered in our evaluation of the bank's HMDA lending distribution to low-income borrowers.

FNBD's lending to borrowers of different incomes within the Ithaca MSA AA shows excellent penetration. The distribution of HMDA loans was excellent when considering the household poverty level in the AA. The distribution of consumer loans was excellent, with the bank's percentage of consumer loans made to low- and moderate-income households significantly exceeding the percentage of low- and moderate-income households in the AA.

FNBD's lending to borrowers of different incomes in the non-MSA AA shows reasonable penetration. The distribution of HMDA loans was reasonable when considering the household poverty level in the AA. The distribution of consumer loans was also reasonable. The percentage of consumer loans made to moderate-income households significantly exceeded the percentage of moderate-income households in the AA, while the percentage of consumer loans made to low-income households was somewhat lower than the percentage of low-income households in the AA.

Refer to the following tables for the facts and data supporting the conclusions.

Borrower Distribution in the Ithaca MSA AA

Borrower Distribution of Residential Real Estate Loans in the Ithaca MSA AA								
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
Home Purchase	17.41%	20.00%	19.24%	20.00%	25.82%	25.00%	37.53%	35.00%
Home Improvement	17.41%	7.14%	19.24%	28.57%	25.82%	57.14%	37.53%	7.14%
Refinance	17.41%	9.09%	19.24%	18.18%	25.82%	45.45%	37.53%	27.27%
TOTAL HMDA	17.41%	11.43%	19.24%	22.86%	25.82%	44.29%	37.53%	21.43%

Source: Data reported under HMDA; U.S. Census data.

Borrower Distribution of Consumer Loans in the Ithaca 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	16.70%	45.00%	14.59%	30.00%	17.45%	15.00%	51.26%	10.00%

Source: Loan sample; U.S. Census data.

Borrower Distribution in the Non-MSA AA

Borrower Distribution of Residential Real Estate Loans in the Non-MSA AA								
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
Home Purchase	18.67%	0.00%	17.83%	33.33%	23.49%	19.05%	40.02%	47.62%
Home Improvement	18.67%	3.70%	17.83%	18.52%	23.49%	48.15%	40.02%	29.63%
Refinance	18.67%	0.00%	17.83%	12.50%	23.49%	41.67%	40.02%	45.83%
TOTAL HMDA	18.67%	1.39%	17.83%	20.83%	23.49%	37.50%	40.02%	40.28%

Source: Data reported under HMDA; U.S. Census data.

Borrower Distribution of Consumer Loans in the 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	25.91%	25.00%	16.65%	25.00%	18.91%	35.00%	38.53%	15.00%

Source: Loan sample; U.S. Census data.

Geographic Distribution of Loans

This criterion is not applicable. All geographies in both AAs are designated either middle- or upper-income. Therefore, an analysis of the geographic distribution of loans would not be meaningful.

Responses to Complaints

FNBD 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.