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Comptroller of the Currency  
Administrator of National Banks

**SMALL BANK**

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## **PUBLIC DISCLOSURE**

**January 31, 2011**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Empire National Bank  
Charter Number 24777**

**1707 Veterans Memorial Highway  
Islandia, NY 11749**

**Comptroller of the Currency  
New York Metro East  
343 Thornall Steet, Suite 610  
Edison, NJ 08837**

**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.**

This rating is supported by the following factors:

- The quarterly average loan-to-deposit ratio is reasonable;
- A substantial majority of business loans were originated within the bank's assessment area;
- The bank's distribution of loans to businesses reflects reasonable dispersion throughout geographies of different income levels; and
- The bank had no consumer complaints regarding its community reinvestment performance during the evaluation period.

## **SCOPE OF EXAMINATION**

This Small Bank Community Reinvestment Act (CRA) examination assesses the Empire National Bank's (ENB) performance under the lending test. The lending test evaluates the bank's record of meeting the credit needs of its assessment area (AA) through its lending activities. The evaluation period for the lending test is February 25, 2008 through December 31, 2010. The bank's primary loan product is business loans, which is representative of the bank's lending strategy. To evaluate the bank's performance, we collected data from a random sample of 60 business loans originated by the bank during the evaluation period.

ENB is a de novo bank that commenced operations on February 25, 2008. This is the first performance evaluation issued for ENB.

## **DESCRIPTION OF INSTITUTION**

ENB is an intrastate community bank headquartered in Islandia, New York. The bank has no holding company, affiliated organizations or subsidiaries. ENB operates in the Nassau-Suffolk NY Metropolitan Division (MD), which is a highly competitive geographic area. There are no financial or legal impediments to hinder the bank's ability to meet the credit needs of its AA.

During the evaluation period, the bank grew the loan portfolio rapidly, which provided the bank with opportunities to meet the needs of the AA. As of December 31, 2010, the bank's assets totaled \$329 million, comprised of \$219 million in loans representing 67% of assets, deposits totaled \$252 million, and tier-one capital totaled \$31 million. The bank's loan portfolio mix as of December 31, 2010 was: non-farm non-residential (48%), commercial and industrial (24%), multi-family (23%), construction and development (3%), 1-4 family residential (2%), and consumer and other loans (<1%). Additional information regarding the products and services offered by ENB are available in the bank's Public File, which is available by request at any branch location.

ENB operates three branches (with an ATM at each location) in the towns of Islandia, Shirley,

and Port Jefferson Station, which are located in Suffolk County, New York. All three branches were opened during the evaluation period and offer traditional banking services. The branches are located within 15 to 30 miles from Nassau County, New York, and the bank offers remote deposit capture to all customers. The main branch located in Islandia is in a middle-income geographic area and is open Monday through Friday. The Shirley branch is located in a moderate-income geographic area and has extended hours on Monday and Friday, and is open on Saturday. The Port Jefferson Station branch is located in a middle-income geographic area and has similar operating hours to the Shirley branch.

## **DESCRIPTION OF NASSAU-SUFFOLK ASSESSMENT AREA**

Nassau and Suffolk are contiguous counties on Long Island, in the New York-Northern New Jersey-Long Island, NY-NJ-PA Metropolitan Statistical Area (MSA), and in the Nassau-Suffolk MD. ENB designates all census tracts within Nassau and Suffolk counties as its AA. There are a total of 597 census tracts; four (0.67%) are designated as low-income geographies, 84 (14.07%) are designated as moderate-income geographies, 375 (62.81%) are designated as middle-income geographies, 118 (19.77%) upper-income geographies, and 16 (2.68%) are unknown geographies per the 2000 U.S. Census data.

Based on 2000 census data, the overall population of the AA is 2,753,913. Of this population, 20,835 (0.76%) reside in low-income geographies, 441,242 (16.02%) reside in moderate-income geographies, 1,772,373 (64.36%) reside in middle-income geographies, 519,274 (18.86%) reside in upper-income geographies, and 189 (0.01%) reside in unknown geographies. The average median family income in 2000 was \$80,000, and the 2010 adjusted HUD median family income was \$103,600.

Long Island is home to large regional banks as well as local mortgage bankers and brokers. As a newly chartered banking institution, ENB faces strong loan and deposit competition in the AA. ENB's primary competitors for small business lending include: American Express Bank (38% market share), JPMorgan Chase Bank (18% market share), and Citibank (9% market share). ENB's primary depository competitors include JPMorgan Chase Bank (20% market share), Capital One Financial Corporation (15% market share), and Citigroup Inc. (12% market share). ENB has three branches and a 0.29% deposit market share in the Nassau-Suffolk AA.

The AA is experiencing a slow recovery in employment, income growth, and housing according to Moody's Analytics. As of April 2010, the unemployment rate in the AA is 6.6%, an improvement from 6.7% in April 2009, according to the Bureau of Labor Statistics data. This figure compares favorably to the April 2010 state and national unemployment rate of 8.1% and 9.5%, respectively. The largest employment sectors in Nassau and Suffolk counties include: education and health services, government, professional and business services, and retail trade. Major employers include the North Shore-Long Island Jewish Health System, Cablevision Systems, Diocese of Rockeville Centre, SUNY at Stony Brook, and Waldbaum's Supermarkets.

In assessing the bank's performance within its AA, we contacted the regional director of a statewide government agency whose primary mission is to facilitate business growth and job creation in New York. The contact described Nassau and Suffolk counties as generally affluent areas with pockets of lower-income neighborhoods. The contact also described the economic

conditions as improving slightly. However, it was noted that costs continue to rise (rent, electricity, etc.) and the cost of doing business has become increasingly critical. The contact stated that the extension of credit has loosened but it is in the form of smaller loans, intended for covering working capital expenditures. The larger loans, needed to make significant capital expenditures, are still only available to businesses with near-perfect credit. Thus, the small-business community has credit needs that provide opportunities for community reinvestment.

The following table outlines basic demographic data for ENB's AA:

<b>Demographic Information for the Nassau-Suffolk MD</b>						
Demographic Characteristics	#	% Low Income Tract	% Moderate Income Tract	% Middle Income Tract	% Upper Income Tract	Unknown Income Tract*
Geographies (Census Tracts)	597	0.67	14.07	62.81	19.77	2.68
Population by Geography	2,753,913	0.76	16.02	64.36	18.86	0.01
Owner-Occupied Housing by Geography	980,474	0.22	12.21	66.17	21.40	0.00
Median Family Income		80,000	Median Housing Value		205,805	
HUD Adjusted Median Family Income for 2010		103,600	Unemployment Rate (2000 US Census)		3.33%	
Households Below Poverty Level		5.45%				

(\*) This category consists of geographies that have not been assigned an income classification.

Source: 2000 US Census and 2010 HUD updated MFI

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

ENB's lending test performance is satisfactory. The bank's loan-to-deposit ratio is reasonable and a substantial majority of business loans were originated in the AA. Also, the geographic distribution of business loans reflects reasonable dispersion throughout geographies of different income levels. The borrower distribution of loans reflects adequate penetration among businesses of different sizes.

### **Loan-to-Deposit Ratio**

ENB's quarterly average loan-to-deposit ratio is reasonable and meets the standard for satisfactory performance. In the twelve quarters since ENB commenced operations, the bank's average loan-to-deposit ratio was 76.96%. From the first quarter of 2008 through the fourth quarter of 2010, the bank's loan-to-deposit ratio fluctuated from a low of 4.59% (March 31, 2008) to a high of 116.70% (December 31, 2008). The low ratio reported at March 31, 2008 is not unreasonable given the time needed to originate loans upon commencing operations on February 25, 2008.

The quarterly average loan-to-deposit ratio for ENB is comparable to other local financial institutions of similar size, location, and product offerings. We compared ENB's loan-to-deposit ratio with 12 comparable banks within the Nassau-Suffolk AA. The average loan-to-deposit ratio for the peer banks was 77.30%, ranging from a low of 34.11% to a high of 103.96%.

## Lending in Assessment Area

ENB originated a substantial majority of its business loans inside the AA, which meets the standard for outstanding performance. ENB originated 77% of loans by number, and 64% of loans by dollar inside the AA during the evaluation period.

The following table details the bank's lending within the AA by number and dollar amount of loans.

<b>Table 1 - Lending in Nassau-Suffolk Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business Loans	46	77%	14	23%	60	\$22,357	64%	\$12,627	36%	\$34,984
<b>Totals</b>	<b>46</b>	<b>77%</b>	<b>14</b>	<b>23%</b>	<b>60</b>	<b>\$22,357</b>	<b>64%</b>	<b>\$12,627</b>	<b>36%</b>	<b>\$34,984</b>

Source: Business Loan Sample 2008-2010.

## Lending to Businesses of Different Sizes

ENB's distribution of loans to businesses of different sizes reflects adequate penetration. During the evaluation period, the bank originated 55% of loans by number and 43% of loans by dollar to small businesses. Such performance is lower than the demographic data, which indicates that approximately 81% of businesses in the AA are small businesses. Taking into account the bank's performance context, which includes the bank's de novo status, a highly competitive market for business loans, and weak economic conditions, the bank's performance is adequate.

The following table details the bank's performance in lending to businesses of different sizes.

<b>Table 2A - Borrower Distribution of Loans to Businesses in Nassau-Suffolk Assessment Area</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	80.65%	5.23%	14.12%	100%
% of Bank Loans in AA by #	55.00%	45.00%	0%	100%
% of Bank Loans in AA by \$	43.25%	56.75%	0%	100%

Source: Business Loan Sample 2008-2010 and 2010 CRA Data.

## Geographic Distribution of Loans

ENB's geographic distribution of loans reflects reasonable dispersion throughout the census income tracts in the AA, which meets the standard for satisfactory performance. The percentage of loans made to businesses in moderate-income census tracts exceeded the demographic data for moderate-income census tracts. The bank did not originate any loans to low-income census tracts, which is reasonable given less than 1% of businesses are located in low-income census tracts within the AA.

The following table details the bank's performance as compared to the percentage of businesses

in each census tract income level.

<b>Table 3A - Geographic Distribution of Loans to Businesses in Nassau-Suffolk Assessment Area</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businessess/Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Business Loans	0.66%	0%	13.28%	15.00%	65.89%	61.67%	16.48%	23.33%

Source: Business Loan Sample 2008-2010; 2000 U.S. Census data.

### **Responses to Complaints**

ENB did not receive any complaints about its performance in helping to meet the credit needs in the bank's AA 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.