



Comptroller of the Currency
Administrator of National Banks

Northeastern District
1114 Avenue of the Americas, Suite 3900
New York, New York 10036

PUBLIC DISCLOSURE

February 9, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The National Bank of Delaware County
Charter Number: 4495
Post Office Box 389
131-135 Delaware Street
Walton, New York 13856

Comptroller of the Currency
Syracuse Field Office
Interstate Place II
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 National Bank of Delaware County** prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency, as of February 9, 1998. 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 average loan-to-deposit ratio since the last CRA examination is reasonable at 50%.
- A majority of all loan originations are within the assessment area.
- Lending to borrowers of different income levels and to businesses of different sizes is reasonable.

The following table indicates the performance level of *The National Bank of Delaware County* with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>THE NATIONAL BANK OF DELAWARE COUNTY</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	Analysis	is not	meaningful.
Response to Complaints	No Since	Complaints the Prior	Received Examination

DESCRIPTION OF INSTITUTION

The National Bank of Delaware County (NBDC) is located in Walton, New York, situated 45 miles east of Binghamton, New York. NBDC is wholly owned by Delaware Bancshares, Inc., a one-bank holding company. As of December 31, 1997, assets total \$121 million with \$60 million in loans. Composition of the loan portfolio is 60% residential and commercial real estate, 34% consumer, and 6% commercial loans. Competition from other financial institutions and financial service corporations is strong in the assessment area.

NBDC has three branches located in Franklin, Andes, and Hamden, New York. The Walton, Franklin, and Andes locations have drive-up facilities. An ATM is accessible at the Walton office. The Hamden office was an established branch purchased from another large local bank and opened as part of NBDC in July 1997.

There are no legal or financial factors impeding the bank's ability to help meet the credit needs in its assessment area.

DESCRIPTION OF ASSESSMENT AREA

The assessment area consists of 17 block numbering areas (BNA's) encompassing all of Delaware County and a small part of southwestern Otsego County. No part of the assessment area is in a metropolitan statistical area (MSA). The assessment area does not arbitrarily exclude any low or moderate income BNA's. Sixteen of the BNA's are middle income, while the sole moderate income BNA consists entirely of the State University of New York at Delhi (SUNY Delhi). The non-MSA median family income for 1997 is \$37,100. The median family income for the assessment area is \$29,493. The total population of the assessment area is 62,008. Major employers within the assessment area include Kraft Foods, Mastercraft, the hospital, local school districts and governments, and several other small employers. Area unemployment is approximately five percent. The local economy is stagnant with very little growth expected. The primary credit needs of the community as indicated by management and the community contact are: affordable home mortgages, small business and consumer (mostly auto) loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

The average **loan-to-deposit** ratio since the last CRA examination as of February 1995 is reasonable at 50%. During 1997, the loan-to-deposit ratio steadily increased from 47% as of December 31, 1996, to 58% as of December 31, 1997. The dramatic increase is attributable to management's 1997 lending philosophy focusing on indirect lending. Indirect lending accounted for over 50% of the number and amount of originations in 1997. The average loan-to-deposit ratios since February 1995 for ten similarly situated banks range from 38% to 71%.

Lending in the Assessment Area

A majority of loans originated in 1997 were within the assessment area. Based on verified management information and a sample of indirect loans, 56% of the total number of loans and 52% of the total dollar amount of loans are within the assessment area. The table below summarizes the number and amount of lending by loan type within the assessment area.

Management prepared information for loan distribution for all loan categories except indirect loans. We verified management's prepared information using loan samples of home mortgage, business loan, and farm loan originations. We made minor adjustments to management's information to enhance its accuracy. For indirect loans, we sampled 291 or 19% of indirect loans totaling just over \$2.9 million or 17% of the total indirect originations. Based on this sample, we concluded 25% of the number of indirect loans and 28% of the amount of indirect loans are within the assessment area.

1997 Distribution Loans Inside the Assessment Area						
Loan Type	Total originations	# in area	% of Loans by Loan Type	Total originations (000's)	Amount in area (000's)	% of Loans by Loan Type
Indirect Loans	1506	376	25%	\$17,076	\$4,781	28%
Home Mortgages	144	137	95%	\$3,936	\$3,725	95%
Business/Farm	129	126	98%	\$3,517	\$2,840	81%
Consumer	894	852	95%	\$3,582	\$3,360	94%
Totals	2,673	1,491	56%	\$28,111	\$14,706	52%

Lending to borrowers of different income levels is reasonable. Our conclusion is based on management reports verified with a sampling of home mortgage and indirect loans originated in 1997. The distribution of home mortgages differs from the family distribution based on 1990 census data for several reasons. First, home mortgage originations to low income borrowers are low mainly due to the conservative real estate mortgages products currently available through NBDC. According to our contact in the community, this segment of the market is being serviced by larger funding companies who have a greater appetite for risk. Management at NBDC is currently exploring a product which would add an element of flexibility to their current products.

Second, home mortgage loan originations to middle and upper income families is high because borrowers, mainly from the New York metropolitan area, are buying houses in the area. The early 1980's housing market in Delaware County was heavily influenced by people looking for a peaceful environment to retire, vacation, and/or relocate. In the late 1980's and early 1990's, the housing market experienced a significant downturn. According to our community contact, Delaware County is experiencing a mild resurgence in the secondary housing market and relocation. Borrower income for these new home owners far exceeds those of a typical borrower residing in the assessment area. For these two reasons, NBDC's distribution of mortgage loans to all borrowers does not resemble the family distribution based on 1990 census data.

We sampled 17 home mortgages originated within the assessment area in 1997 or 12% of the number originated. The home mortgages sampled totaled \$501 thousand or 13% of the amount of home mortgages originated within the assessment area in 1997. We sampled 20 indirect loans originated within the assessment area in 1997 or approximately 5% of the number originated. The indirect loans sampled totaled \$212 thousand or approximately 4% of the amount of indirect loans originated within the assessment area in 1997.

1997 Originations for Home Mortgages in the Assessment Area									
Income Level	Sample distribution				NBDC's distribution*				Family Census Data
	#	%	Amount in (000's)	%	#	%	Amount in (000's)	%	
Low	1	5.9%	\$2	.4%	14	10%	\$154	4%	19.57%
Moderate	4	23.5%	120	24.0%	34	25%	709	19%	21.55%
Middle	5	29.4%	132	26.3%	47	34%	1,237	33%	24.17%
Upper	7	41.2%	247	49.3%	42	31%	1,625	44%	34.17%
Totals	17	100%	\$501	100%	137	100%	\$3,725	100%	100%

*NBDC's distribution used 1996 non-MSA median family income of \$35,600 rather than the 1997 non-MSA median family income of \$37,100 in its analysis.

1997 Originations for Indirect Loans					
Income Level	Sample				Family Census Data
	#	%	Amount in (000's)	%	
Low	5	25%	\$43	20%	19.57%
Moderate	3	15%	34	16%	21.55%
Middle	9	45%	107	51%	24.17%
Upper	3	15%	28	13%	34.17%
Totals	20	100%	\$212	100%	100%

Lending to businesses of different sizes is reasonable. A small business or small farm loan is defined as a loan to a business or farm with annual gross revenues of less than \$1 million. Based on the bank's statistics (revised during OCC verification), 121 or 96% of the total number and \$1.9 million or 68% of the amount were originated to small business and farm loans within the assessment area.

Another way to determine the number and amount of small business and small farm loans is to rely on the size of the loan. Generally, there is a correlation between the loan size and the size of a business or farm. We presume that loans originated for less than \$100 thousand will be used by businesses and farms with revenues less than \$1 million. Thus, loans originated for less than \$100 thousand will be used by small business and small farms.

We randomly sampled 40 business and farm loans originated within the assessment area in 1997 or 32% of the number originated to verify the information provided by management. The business and farm loans sampled totaled \$1.3 million or 46% of the total amount originated within the assessment area in 1997. Based on information provided by management and verified by our sample, 96% of the number and 62% of the amount of loans originated were for less than \$100 thousand. Therefore, in this case, loan size data for business and farm lending is a reliable indicator for small business and small farm loans when compared with data compiled using business and farm revenues.

1997 Originations for Business and Farm Loans		
	Sample distribution	NBDC's distribution

1997 Originations for Business and Farm Loans								
Loan amount in (000's)	#	%	Amount in (000's)	%	#	%	Amount in (000's)	%
<\$100	40	100%	\$1,310	100%	121	96%	\$1,768	62%
\$100-\$250	-	-	-	-	4	3%	685	24%
\$250+	-	-	-	-	1	1%	387	14%
Totals	40	100%	\$1,310	100%	126	100%	\$2,840	100%

Geographic Distribution of Loans

There are 17 block numbering areas (BNA) in the assessment area including only one moderate income BNA. This single BNA consists entirely of the SUNY at Delhi. Therefore, a review of the **geographic distribution of loan** originations within the assessment area would not be meaningful.

Responses to Complaints

NBDC has not received any CRA related **complaints** since the last examination.

Fair Lending Examination Results

We did not identify any instances of discrimination on a prohibited basis during our **fair lending examination**.