



Comptroller of the Currency
Administrator of National Banks

Large Bank

Washington, DC 20219

Public Disclosure

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Community Reinvestment Act Performance Evaluation

Bath National Bank
Charter Number: 10235

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Bath, New York 14810-0630

Office of the Comptroller of the Currency

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NOTE: This evaluation is not, and should not 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.

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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 CRA performance of **Bath National Bank** prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of May 22, 2000. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this Performance Evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate - Any company that controls, is controlled by, or is under common control by another company. A company is under common control with another company if both companies are directly or indirectly controlled by the same company. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Block Numbering Area (BNA) - Statistical subdivisions of counties in which census tracts have not been established. BNAs have been established by the United States Census Bureau in conjunction with state agencies.

Census Tract (CT) - Small, locally defined statistical areas within metropolitan statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per ten year census and an average population of 4,000.

Community Development (CD) - Affordable housing for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Community Reinvestment Act (CRA) - The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Full-Scope Review - Performance under the Lending, Investment and Service Tests is analyzed considering fully understood performance context, quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution) and qualitative factors (e.g., innovation, complexity).

Geography - A census tract or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA) - The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, and the disposition of the application (e.g., approved, denied, withdrawn).

Home Mortgage Loans - Such loans include home purchase and home improvement loans, as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwellings loans, loans for the purchase of manufactured homes and refinancing of home improvement and home purchase loans.

Limited-Scope Review - Performance under the Lending, Investment and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution).

Low-Income - Income levels that are less than 50% of the median family income.

Median Family Income (MFI) - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Statistical Area (MSA) - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Middle-Income - Income levels that are at least 80% and less than 120% of the MFI.

Moderate-Income - Income levels that are at least 50% and less than 80% of the MFI.

Small Business Loans - Loans with original amounts of \$1 million or less that are: (1) secured by nonfarm nonresidential properties; or (2) commercial and industrial loans to U.S. addresses.

Small Farm Loans - Loans with original amounts of \$500 thousand or less that are: (1) secured by farmland; or (2) to finance agricultural production and other loans to farmers.

Tier 1 Capital - The total of common shareholders' equity, perpetual preferred shareholders' equity with noncumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income - Income levels that are 120% or more of the MFI.

Overall CRA Rating

Institution's CRA Rating: This institution is rated "Satisfactory."

The following table indicates the performance level of **Bath National Bank** with respect to the Lending, Investment and Service Tests:

Performance Levels	(Name of Depository Institution) Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding	X		
High Satisfactory			
Low Satisfactory		X	X
Needs to Improve			
Substantial Noncompliance			

* The Lending Test is weighted more heavily than the Investment and Service Tests when arriving at an overall rating.

The major factors that support this rating include:

- ▶ Lending levels that reflect an excellent responsiveness by BNB to the credit needs of its assessment area (AA).
- ▶ Excellent distribution of BNB's loans among geographies and among borrowers of different income levels throughout its assessment areas.
- ▶ Community development lending and flexible lending practices that had a positive impact on the bank's lending performance in its assessment area.
- ▶ Investments that represent an adequate responsiveness by BNB to the needs of its assessment areas based on the limited opportunities available in the areas.
- ▶ BNB's service delivery systems are reasonably accessible to geographies and individuals of different income levels in its assessment area.
- ▶ Adequate performance in providing community development services.

Description of Institution

Bath National Bank (BNB) is a wholly owned subsidiary of Bath National Corporation (BNC), a \$295.3 million bank holding corporation which is headquartered in Bath, New York. BNC also wholly owns BNC Financial Services, a provider of insurance and security products. BNB is a full-service financial institution offering several loan products including residential and commercial mortgages, commercial and agricultural loans, and a variety of consumer loans. BNB has 12 full-service banking offices located throughout its two AAs, with the main office located in the Village of Bath.

In May 1999, BNB formed a subsidiary corporation, Bath United Home Inc. (the REIT), which was organized to qualify as a real estate investment trust. This is the bank's only operating subsidiary. The REIT became an active subsidiary of the bank on October 1, 1999. The REIT was organized principally to hold certain qualifying loans. This organizational structure provides a favorable income tax situation for the bank. It does not negatively impact the bank's ability to serve the credit needs of its AAs.

BNB is an intrastate bank with all of its offices located in the Finger Lakes Region of New York State. The Village of Bath, where the main office is located, is located approximately 80 miles southeast of the City of Rochester.

BNB's total assets were \$294 million as of March 31, 2000. Net loans represented 65% of total assets. The bank's total assets declined slightly by .3% and net loans grew by 1% over the prior year. The loan portfolio is comprised of 43% real estate loans, 34% commercial loans, 18% loans to individuals, 4% agricultural loans, and 1% other loans. All of the loan categories experienced growth over the last year, except real estate loans which declined by 11%. The bank's tier one capital was \$30.1 million, 1% greater than the prior year.

BNB operates in a very competitive financial services market, receiving strong competition from regional and community banks, mortgage companies and credit unions. The bank is not subject to any known financial, legal or regulatory restrictions that would impede its ability to meet the credit needs of the community.

BNB's last CRA exam was March 9, 1998, at which time the bank's performance was rated "Satisfactory".

Scope of the Evaluation

Evaluation Period/Products Evaluated

The evaluation period covered January 1, 1998 through December 31, 1999 for HMDA, small business and small farm loans. HMDA loans include home purchase, home improvement and refinance loans. The evaluation period for CD loans, investments, and services is March 9, 1998 through May 22, 2000. This represents the time period between the start of the bank's last and current CRA exams. The market share and peer comparisons are based on the information contained in the aggregate Home Mortgage Disclosure Act (HMDA) and Small Business/Farm Registers for 1998. The aggregate HMDA and Small Business/Farm Reports are available for public review. The 1999 information will not be available until midyear 2000.

The peer comparisons in this report include only lenders who were required to file HMDA and Small Business/Farm Reports for 1998. Any lender with significant mortgage loan activity operating in BNB's two AAs would be required to file a HMDA report for 1998. Small business reporting is required only of bank and thrift institutions with assets of \$250 million or more as of December 31 of the prior two calendar years preceding the reporting year, or an affiliate of a holding company with \$1 billion or more in assets for the same time period.

Data Integrity

We performed a data integrity exam of the loan information indicated above. We used a statistical sampling method with 95% reliability and 10% precision. The exam revealed the need to make some adjustments to the 1998 loan data that is made available to the public. The bank provided us corrected data to perform the CRA performance analysis. BNB has placed the corrected data in the bank's public CRA file.

There were 23 small business loans and 16 small farm loans removed that should not have been reported. Revenue codes were changed for 34 small business loans and 14 small farm loans. The majority of these changes involved reporting the revenue size for businesses/farms where revenue size had not been collected. BNB also changed the geography codes for 22 HMDA loans and 40 small business or small farm loans that were incorrectly reported as being made in moderate-income geographies.

Selection of Areas for Full-Scope Review

BNB has two AAs, a large nonmetropolitan area comprised of three whole counties and a portion of another county in Upstate New York, and another that includes small portions of two counties located in the Rochester N.Y. MSA. We chose the nonmetropolitan AA for our full scope review. Ninety-five percent of the bank's deposits are located in this AA. Ninety-one percent of the bank's HMDA, small business and small farm loans, made in its two AAs during the exam period, were made in the nonmetropolitan AA. A limited scope review was performed on the other AA. Please refer to Appendix A for further information.

Ratings

BNB's rating is based primarily on the full scope review of the selected AA. HMDA and small business loans were given approximately equal weight. Small farm loans were given less weight due to the lower volume of activity. In the full scope AA, HMDA loans represented 51% of the number of loans made and 38% of the dollars. Small business loans represented 39% of the number of loans made and 53% of the dollars. Small farm loans represented only 10% of the number of loans and 8% of the dollar amount of loans.

Other

A community contact was made with representatives from a nonprofit organization concerned with the housing needs of low-income people and the mentally ill. The contact occurred at the office of the community organization. The contacts provided a wealth of information on the current state of the housing market for low and moderate-income people in the area, as well as on the general economic condition of the area. They were also of assistance in assessing the opportunities available for community development loans, investments, and services.

The area has a need for additional affordable housing stock. Many lower income residents have been forced to purchase mobile home dues to the shortage of traditional homes. Community organizations such as this organization have coordinated the construction of new affordable homes and apartments. The contacts felt that moderate-income people may have more difficulty qualifying for a mortgage than low-income people. Many of the affordable housing programs that feature grants for down payment and closing costs are only for low-income people.

Fair Lending Review

A fair lending examination was performed concurrently with the CRA examination. The examination consisted of a review of the loan terms given to 47 home improvement loan borrowers from January 1, 2000 through May 2, 2000. The examination specifically tested for differences in the loan terms given to single males versus single females. No violations of the substantive provisions of the antidiscrimination laws or regulations were identified.

Conclusions with Respect to Performance Tests

LENDING TEST

Conclusions for Areas Receiving Full-Scope Reviews

Based on the full scope review of BNB's nonmetropolitan area, the bank's performance under the Lending Test is rated "Outstanding".

Lending Activity

Refer to Table 1 in Appendix C for the facts and data used to evaluate the bank's lending activity.

As mentioned earlier, by number of loans made, HMDA loans were the bank's most dominant loan product. This is followed by small business loans and then by small farm loans. Home improvement loans were the highest volume HMDA loan representing 43% of the number of loans. Refinance loans were slightly under home improvement loans representing 38% of loan volume. Home purchase loans represented 19% of loan volume.

BNB had excellent lending activity. BNB ranked first in market share for small business and home improvement loans. It ranked number two for refinance loans and small farm loans. The bank ranked number four in market share for home purchase loans. This compares favorably to the bank's number three ranking for deposit market share.

BNB's deposit market share was 16.36%. The bank's market share of home improvement, small business and small farm loans is much greater than the deposit market share. BNB's market share of home improvement loans and small business loans were both 26.70%. The bank's market shares of home purchase and refinance loans were much smaller at 5.60% and 10.10% respectively.

The lower market rankings for home purchase and refinance loans still represent strong performance when considering the market conditions. For home purchase loans, BNB was outranked by two large mortgage companies, and one large regional bank. Only the number one ranked lender had a significantly higher market share, with a 18.68% market share. The number two lender had a 6.88% ranking, and the number three lender a 6% share, only slightly above BNB's 5.60% market share. The regional lender has a large branch presence in the AA, and accordingly possesses the largest deposit share in the AA. There were 108 home purchase lenders competing in the market. BNB's market share for refinance loans was exceeded only by a large credit union associated with a major employer in the market. BNB outranked the large regional bank previously discussed. There were 124 refinance lenders competing in the market.

Distribution of Loans by Income Level of the Geography

The geographic distribution of BNB's home mortgage loans and small loans to businesses and farms reflects excellent penetration compared to the demographics of the area. The bank's market share in moderate-income geographies was excellent compared to the bank's overall market share.

Home Mortgage Loans

Refer to Tables 2, 3 and 4 in Appendix C for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases.

BNB's overall geographic distribution of home mortgage loans is excellent.

The bank's geographic distribution of home purchase loans is excellent. The portion of the bank's loans in moderate-income geographies significantly exceeded the percentage of owner occupied housing located in these areas. Its market share in the moderate-income geographies also significantly exceeded its overall market share for the area.

The geographic distribution of home improvement loans is excellent. The bank's portion of loans made in moderate-income geographies exceeded the percentage of owner occupied housing located in these areas. Its market share in moderate-income geographies significantly exceeded its overall market share.

The geographic distribution of refinance loans is excellent. BNB's portion of loans made in moderate-income geographies exceeded the percentage of owner occupied housing located in these areas. BNB's market share in the moderate-income geographies significantly exceeded its overall market share for the area.

Small Loans to Businesses

Refer to Table 5 in Appendix C for the facts and data used to evaluate the geographic distribution of the bank's origination/purchase of small loans to businesses.

The bank's geographic distribution of small business loans is excellent. BNB's portion of loans originated in moderate-income geographies was equal to the percentage of businesses located in these geographies. Its market share in the moderate-income geographies significantly exceeded its overall market share.

Small Loans to Farms

Refer to Table 6 in Appendix C for the facts and data used to evaluate the geographic distribution of the bank's origination/purchase of small loans to farms.

BNB's geographic distribution of small farm loans is excellent. The portion of loans originated

in moderate-income geographies significantly exceeded the percentage of farms located in moderate-income geographies. The bank's market share in the moderate-income geographies far exceeded its overall market share.

Lending Gap Analysis

We did not identify any conspicuous gaps in the geographic distribution of HMDA, small business or small farm loans.

Inside/Outside Ratio

A high percentage of the bank's loans are made in its two AAs. HMDA loans originated in the AAs represented 97% of the number of all HMDA loans made by BNB during the evaluation period. The individual HMDA products were all within 2 percentage points of this ratio. The bank made 94% of its small business loans in the AAs. It made 89% of its small farm loans in its AAs.

Unlike the other analyses performed in this report, this analysis is performed at the bank level, not by each AA. This enables us to show the percentage of loans that are included in any of the bank's AAs. The bank's excellent ratio of loans made in its AAs allows us to place a high degree of reliance on the geographic distribution analysis, since a substantial majority of the bank's loans are included in the analysis.

Distribution of Loans by Income Level of the Borrower

Home Mortgage Loans

Refer to Tables 7, 8 and 9 in Appendix C for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.

The overall borrower distribution of home mortgage loans is excellent.

BNB's home purchase loan borrower distribution is excellent. The portion of loans to moderate-income borrowers significantly exceeded the percentage of families that were of moderate-income. BNB's percentage of loans to low-income borrowers was below the percentage of families with low-income, but good when considering that 12.15% of the households are considered below the poverty level. It is also good when considering the \$48 thousand median housing price, based on 1990 data, compared to less than \$19.7 per year income for a low-income family in this area. Based on normal bank underwriting standards, a low-income person can afford a \$459 monthly mortgage payment. The cost of a \$48 thousand mortgage loan, with taxes and insurance factored in, would be significantly higher than \$459. The bank's market share of low-income borrowers significantly exceeded its overall market share. Its market share of moderate-income borrowers substantially meets its overall market share.

BNB's home improvement loan borrower distribution is excellent. The bank's percentage of loans made to low and moderate-income borrowers significantly exceeded the percentage of low and moderate-income families in the AA. Its market share of low-income borrowers significantly exceeded its overall market share. BNB's market share of moderate-income borrowers exceeded its overall market share.

Refinance loan borrower distribution is excellent. BNB's percentage of loans to moderate-income borrowers exceeded the percentage of moderate-income families. The distribution of loans to low-income borrowers was below the percentage of low-income families, but good when considering the affordability of homeownership for a low-income person, and market conditions.

The difficulty for a low-income person to afford a home, as discussed under home purchase activity above, also affects refinance loans. In 1998, BNB made 7% of its refinance loans to low-income borrowers compared to a 4.48% average for all lenders operating in the AA. BNB made 15 refinance loans to low-income borrowers, the same number as the number one ranked lender. BNB's market share with low and moderate-income borrowers significantly exceeded its overall market share.

Small Loans to Businesses

Refer to Table 10 in Appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to businesses.

BNB's small business loan borrower distribution is excellent. The bank's percentage of loans made to small sized businesses significantly exceeded the percentage of small sized businesses in the AA. BNB's market share of loans to small size businesses exceeded its overall market share.

Small Loans to Farms

Refer to Table 11 in the Appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to farms.

BNB's small farm loan borrower distribution is good. The bank's percentage of loans made to small size farms substantially meets the percentage of small farms in the AA. BNB's market share of loans to small size farms substantially meets its overall market share.

Community Development Lending

Refer to Table 1 in Appendix C for the facts and data used to evaluate the bank's level of community development lending.

BNB's community development lending had a positive impact on the its lending considering the limited opportunities available for a bank the size of BNB.

BNB provided \$1.2 million in construction financing for a 32 unit housing facility for senior citizens with low or moderate-income. All tenants receive government subsidies. The permanent mortgage was provided by Rural Development Opportunities Inc. The housing complex provides safe, convenient and affordable housing options in the Hornell, NY area.

Product Innovation and Flexibility

BNB's flexible lending had a positive impact on its lending performance. The bank is active in three affordable housing loan programs in conjunction with nonprofit organizations.

BNB participates in a program with the Steuben Churchpeople Against Poverty Inc. (SCAP). SCAP received HUD Home grant to help assist lower income people in the purchase of a home. Eligible borrowers are provided grants for 23% of the purchase price of a home for a down payment and 2% for closing costs. The buyer must provide a 2% down payment and pay the balance of the closing costs not covered by the subsidy. BNB offers borrowers the option of a conventional fixed or variable rate mortgage to finance the remaining balance. Terms are available for up to 30 years. The flexible aspect of BNB's financing has been its allowable debt to income ratio (DTI). The industry standard for DTI is 36%. BNB's acceptable DTI is 41%. In addition, throughout the exam period insurance and property taxes were not included by the bank in the DTI calculation. The net result was borrowers with much higher DTIs than 41% were qualifying for mortgages. The mortgage payment included in the industry standard DTI calculation includes insurance and property taxes. As of June 1, 2000, BNB began including insurance and taxes in this calculation. The bank made four loans under the SCAP program.

BNB participates in an affordable housing program with Rural Development Inc. Rural Development guarantees the loans, which may be for up to 100% of the value of the home. There is no private mortgage insurance associated with these loans, but a guarantee fee is charged. The borrowers' income must be 115% or less of the median family income for the county of residence. The interest rate cannot exceed the Fannie Mae 90-day rate plus .6%. BNB made 57 of these loans during the evaluation period.

BNB participated in the Tri-County Housing Council (TCHC) affordable housing program. The program was only for low and moderate-income borrowers. This program featured grants of up to 25% of the purchase price of the home (\$12,100 maximum grant), which was used to cover the down payment, closing costs and escrow costs. BNB made five of the 12 mortgages made under this special program. The program was limited to the financing of 12 homes.

Conclusions for Areas Receiving Limited-Scope Reviews

Based on the limited-scope review, the bank's performance under the Lending Test in the Rochester NY MSA is not inconsistent with the bank's "Outstanding" performance under the Lending Test. Refer to Tables 1 through 11 in Appendix C for the facts and data that support these conclusions.

INVESTMENT TEST

Conclusions for Areas Receiving Full-Scope Reviews

Refer to Table 12 in Appendix C for the facts and data used to evaluate the bank's level of qualified investments.

The bank's performance under the Investment Test is rated Low Satisfactory. BNB has one major qualified investment. The investment covers a broad regional area that includes both its full scope and limited scope AAs.

The investment represents an adequate level of investment activity given the limited investment opportunities in the AA. The limited opportunities were determined through the use of OCC internal resources, bank management and community contacts. There are no HUD Consolidated Plans for the counties making up the AA. There were only two low-income housing tax credits issued in the area during the examination period. These investments were quickly purchased by large corporations.

BNB is a limited partner in a Small Business Investment Corporation (SBIC) along with four other Upstate New York Banks. BNB committed \$990 thousand to the SBIC during the prior exam period. The bank increased its investment by \$110 thousand during the current exam period, as a result of the withdrawal of one of the original six limited partners. To date, BNB has been called upon to fund \$782 thousand, leaving an unfunded commitment of \$318 thousand. The limited partners advance funds whenever the SBIC requests funding to cover new loan originations. The limited partners in the SBIC actively participate in discussions regarding potential loans. The limited partners are present for all loan discussions. Management estimates it commits 25 hours annually to SBIC activities, between the loan discussions and attending the SBIC's annual meeting. BNB has made the maximum investment it is allowed in the SBIC based on the partnership agreement.

There have been no loans made in the bank's AA, to date. There are no pending loans for the bank's AA. The SBIC has primarily made loans in the Rochester area.

BNB made \$150 in grants to an organization that provides services to primarily low and moderate-income people.

Conclusions for Area Receiving Limited-Scope Reviews

Based on the limited scope review, BNB's performance under the investment test in the Rochester NY MSA is not inconsistent with the bank's "Low Satisfactory" performance under the Investment Test.

Refer to Table 12 in Appendix C for the facts and data that support these conclusions.

SERVICE TEST

Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the Service Test is rated "Low Satisfactory".

Retail Banking Services

Refer to Table 13 in Appendix C for the facts and data used to evaluate the distribution of the bank's branch delivery system and branch openings and closings.

BNB's delivery systems are reasonably accessible to geographies and individuals of different

income levels in the AA. Accessibility to bank offices from moderate-income geographies is adequate when considering the specific conditions the bank operates under.

The bank has no branches located in moderate-income areas where 9% of the AA population resides. One of the four moderate-income geographies in the AA, which consists of a portion of the Town and Village of Bath, as well as the Village of Savona, is well served by the bank's two offices located in an adjacent geography. The two offices are located in the geography, which is at the center of Bath, and is the primary business area of the Village and Town of Bath. The Town and Village of Bath are comprised of three adjacent geographies. The distance from the nearest bank office to the Village of Savona is less than four miles. Auto transportation is the norm in the AA since there is no public transportation. BNB servicing of the area is apparent by the amount of deposits it has in the Savona area. The bank has \$3.5 million in deposits located in Savona, representing 2% of its bank's deposits in Steuben County.

There is no office in the moderate-income geography in the City of Hornell, due to the New York State Home Office Protection Rule. Under the State law, banks with main offices located in smaller municipalities are protected against other banks opening branch offices within that municipality. The three-geography City of Hornell is the home of Steuben Trust Company. BNB located its office just outside the city limits. BNB has a large deposit account presence in this area, with \$6.7 million, representing 4% of its deposits in Steuben County.

The other two moderate-income geographies are located in the southwest corner of Steuben County. They consist of the towns of Jasper, Troupsburg, Greenwood, Hartsville, West Union, Woodhull and Tuscarora. BNB has not opened branches in these geographies due to the low population density, and the presence of three branches of two other financial institutions in the area. There are several farms in the area, which are called on by the bank's farm loan representative. The population of these two geographies is 6,979, representing only 7% of the population of Steuben County and 5% of the population of the AA. BNB has only \$538 thousand in deposits from the area, representing .3% of its deposits in Steuben County. The two institutions with offices in the area, have a combined \$30 million in deposits.

BNB's hours and services throughout the AA are good. The office hours are tailored to meet the needs of the local residents. Banking services are available at each office from at least 9AM until 3PM Monday through Wednesday, except for the Wayland-Cohocton office. The Wayland-Cohocton Office, which is located at Wayland-Cohocton High School, is open each Friday for three or four hours only. The regular offices are open later on Thursday and Friday. Five offices have Saturday hours, and one office has Sunday hours. BNB has ATMs located at each of its regular branch offices. The ATMs are always available, except the Watkins Glen office. The Watkins Glen office, which is located in a P&C grocery store, is available during the 7AM until 11PM daily store hours.

BNB offers a basic banking account that requires a \$25 opening deposit, and does not require a minimum balance be maintained. The account provides a low cost checking option for customers, including those with low or moderate-income. There is a flat \$3 monthly maintenance fee, which covers the first eight checks written. A \$.25 per check fee is charged for any checks in excess of eight. A customer is also entitled to unlimited ATM withdrawals.

BNB opened one office during the exam period. The office is located in a middle-income geography. There were no offices closed during the exam period.

Community Development Services

BNB had adequate performance in providing community development services. Bank management and employees are involved in a reasonable number of community development activities based on the opportunities in the area and the size of the bank.

A bank officer is very active with Steuben Churchpeople Against Poverty, an organization concerned with the building and rehabilitation of affordable housing for the low and moderate-income individuals and families in Steuben County. The officer served as President of the Board for two years. He is now Vice-President of the Board, as well as being a member of both the finance and loan committees.

A bank senior officer is a member of the revolving loan committee of the Yates County Industrial Development Authority (IDA). The IDA provides financing to small businesses that employ or will employ low and moderate-income people.

Two bank officers sit on the Board of Directors of the Regional Economic Development Energy Company (REDEC). REDEC provides gap funding at or below market rates to small businesses and expanding businesses in Steuben, Yates, and Schuyler Counties. These businesses primarily employ or will employ low and moderate-income people. REDEC takes second position to any financial institution funding the major portion of the loan.

BNB sponsored and participated in an affordable mortgage seminar in conjunction with the Tri-County Housing Council. The seminar speakers were a Tri-County representative, a Realtor, an attorney, a home inspector, and a representative from BNB. The speakers explained the process of acquiring a home. Tri-County explained its homebuyer grant program. The majority of people attending the seminar were in the moderate-income level.

Conclusions for Areas Receiving Limited-Scope Reviews

BNB's performance in the Rochester NY MSA is stronger than its "Low Satisfactory" performance in the full scope AA. BNB's performance in the limited scope AA is stronger than its performance in the full scope AA. The bank has only one office in the limited scope AA. The office is located in a moderate-income geography, where 37% of the AA population resides. The office also has a 24-hour ATM.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “Full-Scope”) and those that received a less comprehensive review (designated by the term “Limited-Scope”).

Time Period Reviewed	Lending Test (excludes CD Loans): January 1, 1998 to December 31, 1999	
	Investment and Service Tests and CD Loans: March 9, 1998 to May 22, 2000	
Financial Institution	Products Reviewed	
Bath National Bank Bath, New York	Home Purchase, Home Improvement, and Refinance Loans reported on the HMDA LAR, as well as Small Business Loans , Small Farm Loans and CD Loans	
Affiliate(s)	Affiliate Relationship	Products Reviewed
NA		
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Nonmetropolitan area - Steuben, Yates, Schuyler Counties and a portion of Allegheny County in Upstate NY.	Full-Scope	
Portions of Ontario and Livingston Counties in the Rochester NY MSA #6840	Limited Scope	

Appendix B: Market Profiles for Full-Scope Areas

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Market Profiles for Areas Receiving Full-Scope Reviews

Nonmetropolitan AreaB-1

Nonmetropolitan AA

Demographic Information for Full-Scope Area: Nonmetropolitan AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	43	0.00	9.30	83.72	6.98	0.00
Population by Geography	154,213	0.00	8.98	80.58	10.43	0.00
Owner-Occupied Housing by Geography	41,694	0.00	8.45	83.11	8.44	0.00
Businesses by Geography	4,847	0.00	6.66	83.54	9.80	0.00
Farms by Geography	670	0.00	10.00	85.07	4.93	0.00
Family Distribution by Income Level	40,455	19.69	20.52	24.47	35.33	0.00
Distribution of Low- and Moderate- Income Families throughout AA Geographies	16,266	0.00	11.47	83.06	5.47	0.00
Median Family Income	\$31,473	Median Housing Value		= \$48,438		
HUD Adjusted Median Family Income for 1998	\$39,300	Unemployment Rate		= 3.97%		
Households Below the Poverty Level	12.15%					

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 1990 U.S. Census, and 1999 HUD updated MFI.

This AA is comprised of three adjacent counties, Steuben, Schuyler, and Yates and a portion of Allegany County, which is adjacent to Steuben County. All of the counties are part of the nonmetropolitan area of New York State. The two large cities closest to the AA are Rochester, NY, which is northwest, and Elmira, NY, which is east of the AA. The AA encompasses 88% of the population and 90% of the all geographies served by BNB. Ninety-five percent of the bank's deposits are in this AA, and 91% of all loans discussed in this report were made in the AA.

The community contact that we made represented a nonprofit organization concerned with housing. The representatives identified the need for additional affordable housing stock, and stated that low-income residents have been forced to purchase mobile home dues to the shortage of traditional homes. Community organizations such as this organization have coordinated the construction of new affordable homes and apartments. The contacts felt that moderate-income people may have more difficulty qualifying for a mortgage than low-income people. Many of the affordable housing programs that feature grants for down payment and closing costs are only for low-income people.

Steuben County, where the bank is headquartered, is the largest of the AA counties. It encompasses 30 of the 43 geographies in the AA. The cities of Corning and Hornell and the Town of Bath are the largest population centers in the AA.

BNB is a full service lender offering a broad menu of loan products that include business loans, farm loans, home mortgage loans and consumer loans. The competition among financial service providers is very strong. BNB competes with large mortgage companies, large regional banks, community and savings banks, as well as several large credit unions.

The primary employment in the area comes from manufacturing, service, government and the wholesale/retail trade. Corning Incorporated is the largest employer in Steuben County, followed by Dresser Rand Corporation, Phillips Lighting Company, and Gunlocke Co. The largest employer in Yates County is Soldiers and Sailors Hospital. According to State economic data, the AA has experienced record employment gains during the past year. Since January 1999 local businesses added 9,800 jobs. The new hiring was strongest in services, trade, construction, and finance, insurance and real estate. Corning Inc. recently announced plans to hire another 800 people, 700 which are slated for its photonics plant. The 3.1% job growth in this region outpaced the national job growth rate of 2.3%. The area has a low unemployment rate averaging 3.96% for the three primary counties in the AA, as of May 2000. This is about equal to the 4% national average, and better than the 5% state average for the same time period. The AA has limited opportunities for community development lending, investments and services based on what we learned from our community contact, OCC internal resources, bank management and public information. None of the counties have HUD Consolidated Plans.

Appendix C: Tables of Performance Data

Content of Standardized Tables

References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to Appendix A: Scope of the Examination). For purposes of reviewing the Lending Test tables, the following are applicable: purchased loans are treated as originations/purchases; market rank is based on the number of loans originated and purchased by the bank as compared to all other lenders in the MSA/assessment area; and market share is the number of loans originated and purchased by the bank as a percentage of the aggregate number of reportable loans originated and purchased by all lenders in the MSA/assessment area.

The following is a listing and brief description of the tables:

- Table 1. Lending Volume** - Presents the number and dollar amount of reportable loans originated and purchased by the bank over the evaluation period by MSA/assessment area.
- Table 2. Geographic Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle- and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents market rank and market share information based on the most recent aggregate market data available.
- Table 3. Geographic Distribution of Home Improvement Loans** - See Table 2.
- Table 4. Geographic Distribution of Refinance Loans** - See Table 2.
- Table 5. Geographic Distribution of Small Loans to Businesses** - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses originated and purchased by the bank in low-, moderate-, middle- and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) throughout those geographies. The table also presents market rank and market share information based on the most recent aggregate market data available.
- Table 6. Geographic Distribution of Small Loans to Farms** - The percentage distribution of the number of small loans (less than or equal to \$500,000) to farms originated and purchased by the bank in low-, moderate-, middle- and upper-income geographies compared to the percentage distribution of farms (regardless of revenue size) throughout those geographies. The table also presents market rank and market share information based on the most recent aggregate market data available.

- Table 7. Borrower Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle- and upper-income borrowers to the percentage distribution of families by income level in each MSA/assessment area. The table also presents market rank and market share information based on the most recent aggregate market data available.
- Table 8. Borrower Distribution of Home Improvement Loans** - See Table 7.
- Table 9. Borrower Distribution of Refinance Loans** - See Table 7.
- Table 10. Borrower Distribution of Small Loans to Businesses** - Compares the percentage distribution of the number of small loans (less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to the percentage distribution of businesses with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the business. Market share information is presented based on the most recent aggregate market data available.
- Table 11. Borrower Distribution of Small Loans to Farms** - Compares the percentage distribution of the number of small loans (less than or equal to \$500 thousand) originated and purchased by the bank to farms with revenues of \$1 million or less to the percentage distribution of farms with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the farm. Market share information is presented based on the most recent aggregate market data available.
- Table 12. Qualified Investments** - Presents the number and dollar amount of qualified investments made by the bank in each MSA/AA. The table separately presents investments made during prior evaluation periods that are still outstanding and investments made during the current evaluation period. Prior period investments are reflected at their book value as of the end of the evaluation period. Current period investments are reflected at their original investment amount even if that amount is greater than the current book value of the investment. The table also presents the number and dollar amount of unfunded qualified investment commitments. In order to be included, an unfunded commitment must be legally binding and tracked and recorded by the bank's financial reporting system.
- Table 13. Distribution of Branch Delivery System and Branch Openings/Closings** - Compares the percentage distribution of the number of the bank's branches in low-, moderate-, middle- and upper-income geographies to the percentage of the population within each geography in each MSA/AA. The table also presents data on branch openings and closings in each MSA/AA.

Table 14. Geographic and Borrower Distribution of Consumer Loans (OPTIONAL) -
For geographic distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle- and upper-income geographies to the percentage distribution of the population within each geography. For borrower distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle- and upper-income borrowers to the percentage of households by income level in each MSA/assessment area.

Table 2. Geographic Distribution of Home Purchase Loans

Geographic Distribution: HOME PURCHASE												State: New York		Evaluation Period: 1/1/1998 TO 12/31/1999		
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*				Total Home Purchase Loans		
	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total**
Full-Scope:																
Nonmetropolitan NY	0.00	0.00	8.00	12.00	83.00	86.00	8.00	2.00	4	5.60	0.00	16.50	5.40	0.00	175	95
Limited-Scope:																
Rochester NY MSA	0.00	0.00	33.00	80.00	67.00	20.00	0.00	0.00	22	1.50	0.00	3.80	.40	0.00	10	5

(*) Based on 1998 Aggregate HMDA Data only. Market rank is for all income categories combined.
 (***) Home purchase loans originated and purchased in the AA as a percentage of all home purchase loans originated and purchased in the rated area.

Table 3. Geographic Distribution of Home Improvement Loans

Geographic Distribution: HOME IMPROVEMENT													State: New York		Evaluation Period: 1/1/1998 TO 12/31/1999	
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Home Improvement Loans	
	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total**
Full-Scope:																
Nonmetropolitan NY	0.00	0.00	8.00	10.00	83.00	89.00	8.00	1.00	1	26.70	0.00	33.80	26.70	4.20	378	86
Limited-Scope:																
Rochester NY MSA	0.00	0.00	33.00	65.00	67.00	35.00	0.00	0.00	2	17.50	0.00	30.80	7.00	0.00	60	14

(*) Based on 1998 Aggregate HMDA Data only. Market rank is for all income categories combined.
 (***) Home improvement loans originated and purchased in the AA as a percentage of all home improvement loans originated and purchased in the rated area.

Table 5. Geographic Distribution of Small Loans to Businesses

MSA/Assessment Area:		Geographic Distribution: SMALL LOANS TO BUSINESSES										State: New York		Evaluation Period: 1/1/1998 TO 12/31/1999		Total Small Business Loans	
		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*		Market Share by Geography*				#	% of Total**
		% of Businesses	% BANK Loans	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans	Overall	Low	Mod	Mid	Upp			
Full-Scope:																	
Nonmetropolitan NY		0.00	0.00	7.00	7.00	84.00	91.00	10.00	2.00	1	26.70	0.00	56.30	26.50	4.30	701	92
Limited-Scope:																	
Rochester NY MSA		0.00	0.00	61.00	84.00	39.00	16.00	0.00	0.00	13	2.00	0.00	8.80	.80	0.00	63	8

(*) Based on 1998 Aggregate Small Business Data only. Market rank is for all income categories combined.
 (***) Small loans to businesses originated and purchased in the AA as a percentage of all small loans to businesses originated and purchased in the rated area.

Table 6. Geographic Distribution of Small Loans to Farms

MSA/Assessment Area:		Geographic Distribution: SMALL LOANS TO FARMS				State: New York		Evaluation Period: 1/1/1998 TO 12/31/1999				Total Small Farm Loans					
		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*				Market Share by Geography*			
		% of Farms	% BANK Loans	% of Farms	% BANK Loans	% of Farms	% BANK Loans	% of Farms	% BANK Loans	Overall	Low			Mod	Mid	Upp	#
Full-Scope:																	
Nonmetropolitan NY		0.00	0.00	10.00	19.00	85.00	81.00	5.00	0.00	2	28.60	0.00	80.60	23.90	0.00	187	93
Limited-Scope:																	
Rochester NY MSA		0.00	0.00	37.00	100.00	63.00	0.00	0.00	0.00	3	11.70	0.00	51.90	7.00	0.00	7	7

(*) Based on 1998 Aggregate Small Farm Data only. Market rank is for all income categories combined.
 (***) Small loans to farms originated and purchased in the AA as a percentage of all small loans to farms originated and purchased in the rated area.

Table 7. Borrower Distribution of Home Purchase Loans

Borrower Distribution: HOME PURCHASE State: New York Evaluation Period: 1/1/1998 TO 12/31/1999																
MSA/Assessment Area:	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall Market Rank**	Market Share by Borrower Income**				Total Home Purchase Loans		
	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*		Overall	Low	Mod	Mid	Upp	#	% of Total***
Full-Scope:																
Nonmetropolitan NY	20.00	13.00	21.00	28.00	24.00	20.00	35.00	37.00	4	5.60	12.20	5.00	5.50	6.30	175	95
Limited-Scope:																
Rochester NY MSA	20.00	40.00	25.00	10.00	29.00	30.00	26.00	20.00	22	1.50	2.60	1.40	2.60	1.20	10	5

(*) As a percentage of loans with borrower income information available. No information was available for 2% of loans originated and purchased by the bank.
 (**) Based on 1998 Aggregate HMDA Data only. Market rank is for all income categories combined.
 (***) Home purchase loans originated and purchased in the AA as a percentage of all home purchase loans originated and purchased in the rated area.

Table 9. Borrower Distribution of Home Mortgage Refinance Loans

MSA/Assessment Area:		Borrower Distribution: HOME MORTGAGE REFINANCE		State: New York		Evaluation Period: 1/1/1998 TO 12/31/1999		Market Share by Borrower Income**				Total Home Mortgage Refinance Loans		
		Low-Income Borrowers	Moderate-Income Borrowers	Middle-Income Borrowers	Upper-Income Borrowers	Overall Market Rank**	Overall	Low	Mod	Mid	Upp	#	% of Total****	
		% of Families	% of Families	% of Families	% of Families	% BANK Loans*	% BANK Loans*	% BANK Loans*	% BANK Loans*					
Full-Scope:														
Nonmetropolitan NY		20.00	21.00	24.00	35.00	38.00	2	10.10	16.30	16.00	11.80	8.10	348	88
Limited-Scope:														
Rochester NY MSA		20.00	25.00	29.00	26.00	11.00	5	4.30	17.10	8.60	3.30	2.10	46	12

(*) As a percentage of loans with borrower income information available. No information was available for 2% of loans originated and purchased by the bank.

(**) Based on 1998 Aggregate HMDA Data only. Market rank is for all income categories combined.

(***) Home mortgage refinance loans originated and purchased in the AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

Table 10. Borrower Distribution of Small Loans to Businesses

Borrower Distribution: SMALL LOANS TO BUSINESSES		State: New York		Evaluation Period: 1/1/1998 TO 12/31/1999					
MSA/Assessment Area:	Businesses with Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size		Market Share***		Total Small Loans to Businesses		
	% of Businesses*	% BANK Loans**	\$100,000 or Less	> \$100,000 to \$250,000	> \$250,000 to \$1,000,000	All	Rev \$1 million or less	#	% of Total****
Full-Scope:									
Nonmetropolitan NY	72.02	88.02	86.02	9.70	4.28	26.72	28.50	701	92
Limited-Scope:									
Rochester NY MSA	80.62	87.30	80.95	14.29	4.76	1.98	2.21	63	8

(*) Businesses with revenues of \$1 million or less as a percentage of all businesses.
 (**) Small loans to businesses with revenues of \$1 million or less as a percentage of all loans reported as small loans to businesses. No information was available for 5% of small loans to businesses originated and purchased by the bank.
 (***) Based on 1998 Aggregate Small Business Data only.
 (****) Small loans to businesses originated and purchased in the AA as a percentage of all small loans to businesses originated and purchased in the rated area.

