



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

April 23, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Lyons National Bank
Charter Number 1027**

**35 William Street
Lyons, NY 14489**

**Comptroller of the Currency
Upstate New York (Syracuse)
231 Salina Meadows Parkway Suite 105
Syracuse, NY 13212**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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 **The Lyons National Bank (LNB)** prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of **April 23, 2007**. The agency evaluates performance in assessment areas, as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include 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 C.F.R. Part 25.

INSTITUTION'S CRA RATING: This institution is rated **“Outstanding”**.

The primary factors supporting the overall rating are:

- The average loan-to-deposit ratio since the last examination meets the standard for satisfactory performance.
- A substantial majority of commercial and home mortgage loans originated are within the bank's assessment area (AA).
- An excellent distribution of loans among borrowers of different income levels and businesses of different sizes.
- A good distribution of loans among census tracts of different income levels throughout the AA.
- The level of community development activities conducted by the institution is excellent.

SCOPE OF EXAMINATION

The evaluation period for this examination covers the period of April 1, 2001 through December 31, 2006. However, the lending test portion of the examination included only loans originated from January 1, 2004 through December 31, 2006. We verified that the loans originated during this period were representative of the entire evaluation period. Home mortgage loans and commercial loans were the primary loan products selected for review. All loans originated during the period were included in our analysis. A data integrity exam conducted in February

2007 verified the accuracy of the loan data used in this examination. We last evaluated the bank's CRA performance as of April 16, 2001, which resulted in a "Satisfactory" rating. The previous report used lending data through March 31, 2001.

DESCRIPTION OF INSTITUTION

The Lyons National Bank (LNB) is a \$332 million community bank headquartered in Lyons, New York; a small city located midway between Rochester and Syracuse in Central New York State. LNB is the only subsidiary of Lyons Bancorp, a one-bank holding company. LNB is an intrastate bank with ten offices located in six counties: Wayne, Ontario, Yates, Seneca, Cayuga, and Onondaga. LNB has opened full service branch offices in Geneva, Clyde, Jordan, and Penn Yan since the last evaluation. As of December 31, 2006, LNB had \$203 million in gross loans (60% of total assets), and \$298 million in deposits. The loan portfolio consists of \$47 million in residential real estate loans (23% of gross loans), \$119 million in commercial and commercial real estate loans, including farm and farm real estate loans (58% of gross loans), \$16 million in home equity lines of credit (8% of gross loans), and \$22 million in consumer loans (11% of gross loans). The bank's net Tier I capital was approximately \$29 million as of December 31, 2006.

LNB is reasonably positioned to help meet the credit needs of the community. The bank has no legal or financial impediments that would hinder its ability to help meet the credit needs of the community in a safe and sound manner.

LNB competes directly with multiple branches from multinational banks, two regional community banks, a savings bank, and a local credit union.

During our examination, we contacted a local non-profit organization that assists low- and moderate-income individuals, families, and senior citizens with housing, training, and social services. The community contact indicated that affordable residential loans and banking accounts, coupled with supportive training on home ownership would benefit the low- to moderate-income community.

The area has seen a decline in manufacturing and a move to service and retail type industries. Many of the communities are attracting new mid-sized and small businesses through the use of the NY State Empire Zone tax credits. Each town or county in the assessment area has an Industrial Development Agency (IDA) or business development corporation to help relocating businesses, start-ups, and existing businesses increase or retain employment. The bank's management is active in many of these organizations.

DESCRIPTION OF THE ASSESSMENT AREAS

The bank currently has three AAs for the purposes of CRA. The first AA consists of 31 census tracts in Wayne and portions of Ontario County located in the Rochester Metropolitan Statistical Area (MSA 40380). The second AA consists of 14 census tracts in portions of Yates, Seneca,

and Cayuga Counties that are not located in a defined MSA. The third AA consists of one census tract in Onondaga County located in the Syracuse MSA (45060).

The AAs consist of contiguous census tracts that are serviced by the bank's branches and deposit taking ATMs. The AAs meet legal requirements as we found no evidence of arbitrary exclusion of low- or moderate-income areas.

Assessment Area I

Assessment Area I (AAI) consists of 31 census tracts in Wayne and Ontario Counties. The AA contains one low-income, four moderate-income, 24 middle-income, and two upper-income tracts. Total population for the AA is 136,799 consisting of 36,181 families and 51,275 households. Of these families, 20.6% are designated as low-income, 20.4% moderate-income, 25.7% middle-income, and 33.3% upper-income. There are 56,769 housing units in the AA, of which 68.3% are owner-occupied, 21.9% are renter-occupied, and 9.8% are vacant. Approximately 9% of the households are below the poverty level. The median housing value in the AA is \$81,279. The table below further describes the distribution of the population, families, and households based on geographic income categories.

Selected Characteristics by Income Category of the Census Tract					
<i>Geographic Income Category</i>	<i>Census Tracts</i>	<i>Population</i>	<i>Families</i>	<i>Households</i>	<i>Owner-Occupied Units</i>
<i>Low</i>	3.23%	1.96%	1.59%	2.23%	1.05%
<i>Moderate</i>	12.90%	10.14%	9.55%	10.35%	8.43%
<i>Middle</i>	77.42%	78.32%	78.71%	78.69%	79.88%
<i>Upper</i>	6.45%	9.58%	10.15%	8.73%	10.64%
<i>NA</i>	0%	0%	0%	0%	0%
<i>Total</i>	100%	100%	100%	100%	100%

The 2000 U.S. Census Median Family Income for the Rochester MSA is \$53,852. This figure is used to determine the income designation of the MSA's census tracts. The 2007 Updated Median Family Income for the MSA is \$64,100. This figure is used to evaluate the income level of borrowers. The Updated Median Family Income is based on information from the Department of Housing and Urban Development (HUD).

Assessment Area II

Assessment Area II (AAII) consists of 14 census tracts in Cayuga, Seneca, and Yates Counties. The AA contains thirteen middle-income tracts, and one upper-income tract. Total population for the AA is 56,886 consisting of 14,953 families and 21,496 households. Of these families, 17.5% are designated as low-income, 19.2% moderate-income, 22.8% middle-income, and 40.5% upper-income. There are 25,895 housing units in the AA, of which 62% are owner-occupied, 20.5% are renter-occupied, and 17.5% are vacant. Approximately 11% of the households are below the poverty level. The median housing value in the AA is \$71,981. The table on the following page further describes the distribution of the population, families, and households based on geographic income categories.

Selected Characteristics by Income Category of the Census Tract					
<i>Geographic Income Category</i>	<i>Census Tracts</i>	<i>Population</i>	<i>Families</i>	<i>Households</i>	<i>Owner-Occupied Units</i>
<i>Low</i>	0%	0%	0%	0%	0%
<i>Moderate</i>	0%	0%	0%	0%	0%
<i>Middle</i>	92.86%	93.6%	93.24%	93.64%	92.97%
<i>Upper</i>	7.14%	6.4%	6.76%	6.36%	7.03%
<i>NA</i>	0%	0%	0%	0%	0%
<i>Total</i>	100%	100%	100%	100%	100%

The 2000 U.S. Census Median Family Income for the Non-MSA portions of New York State is \$41,761. The 2007 Updated Median Family Income for the Non-MSA is \$49,600.

Assessment Area III

Assessment Area III (AAIII) consists of one census tract in Onondaga County. The sole census tract in this AA is designated as middle-income. Total population for the AA is 6,091 consisting of 1,681 families and 2,326 households. Of these families, 17.55% are designated as low-income, 20.7% moderate-income, 22.3% middle-income, and 39.5% upper-income. There are 2,513 housing units in the AA, of which 76% are owner-occupied, 17% are renter-occupied, and 8% are vacant. Approximately 8% of the households are below the poverty level. The median housing value in the AA is \$81,400.

The 2000 U.S. Census Median Family Income for the Syracuse MSA is \$49,907. The 2007 Updated Median Family Income for the MSA is \$59,500.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

We evaluated loans originated between January 1, 2004 and December 31, 2006, a time period that we believe is representative of the entire time period under evaluation. An evaluation of the bank's lending data and discussions with management indicated LNB's primary products to be home mortgage loans and commercial loans. We refined our evaluation of borrower distribution to focus on lending activity in AAI and AAI due to a limited amount of activity in AAIII. Further, we limited our evaluation of geographic distribution to AAI because it is the only AA with a geographic distribution that would be meaningful as it is the only AA with low- and moderate-income tracts. A limited review of home mortgage loans and commercial loans in AAIII indicate performance similar to AAI and AAI.

Loan-to-Deposit Ratio

LNB's average loan-to-deposit ratio meets the standard of satisfactory performance. The bank's average loan-to-deposit ratio since the last examination is 66.11%. This is consistent with the average loan-to-deposit ratios of a group of similarly situated banks, which range from 57% to 121%. Similarly situated banks include ten banks considered to be peers due to their location, size, and business activities. The average of these peer banks is 74.25%. However, if the outlier bank with the loan-to-deposit ratio of 121% is removed, the peer bank average of 69.61% is more in-line with LNB's average loan-to-deposit ratio. The outlier can be considered as such

because the next highest peer bank's average is 85.57%.

Lending in Assessment Areas

LNB exceeds the standard for satisfactory performance for lending in the assessment area. A majority of home mortgage loans and commercial loans originated during the assessment period are in the bank's AAs. By count, 86% are within the boundaries. The percentage is slightly lower (79%) for the total dollar amount of loans originated during the period. Please refer to the following table.

Loan Type	# in AA	% in AA	Dollar Amount in AA (in 000s)	% in AA	Total # Originated	Total Amount Originated (in 000s)
Home Loans	837	87%	\$60,732	84%	959	\$72,284
Commercial Loans	926	85%	\$105,644	77%	1084	\$137,710
Total	1763	86%	\$166,376	79%	2043	\$209,994

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

LNB's record of lending to borrowers of different incomes and to businesses of different sizes exceeds the standard for satisfactory performance. For our review of mortgage lending to borrowers of different incomes, we considered the fact that 9% of households in AAI, and 11% of the households in AAI are below the poverty level. It is unlikely that a person with income below the poverty level could afford a home loan.

For AAI, almost 24% of the home mortgage loans were to families designated as low-income. This represents an excellent penetration of the low-income borrowers since only 20.63% of the families in AAI are designated as low-income. Additionally, mortgage lending to families of moderate-income exceeds the actual percentage of families designated as such in the AA. Please refer to the following table.

Income Level	# of Loans	%	\$ of Loans	%	Income Level of Families in AA
Low	130	23.90%	\$3,895,000	11.31%	20.63%
Moderate	147	27.02%	\$6,920,000	20.09%	20.43%
Middle	113	20.77%	\$6,247,000	18.14%	25.66%
Upper	131	24.08%	\$14,625,000	42.46%	33.28%
NA	23	4.23%	\$2,757,000	8.00%	0.00%
Total	544	100%	\$34,444,000	100%	100%

LNB's mortgage lending to families of low- and moderate-income in AAI is good. Of all the loans originated during the period, 12.77% of the loans went to families designated as low-income. Approximately 17.5% of the families in the AA are low-income, and 11% of the households are living below the poverty level. Another 17% of the loans were to moderate-income borrowers compared to 19.2% of the families designated as such. Please refer to the following table.

Income Level	# of Loans	%	\$ of Loans	%	Income Level of Families in AA
Low	18	12.77%	\$854,000	6.93%	17.53%
Moderate	24	17.02%	\$1,050,000	8.51%	19.20%
Middle	40	28.37%	\$2,752,000	22.32%	22.81%
Upper	55	39.00%	\$7,409,000	60.09%	40.46%
NA	4	2.84%	\$265,000	2.15%	0.00%
Total	141	100%	\$12,330,000	100%	100%

The percentage of commercial loans to small businesses (revenues less than or equal to \$1 million) in AAI is excellent. Approximately 62% of the businesses in the AA reported revenues of less than or equal to \$1 million. By count, 77% of the bank's commercial loans were made to small businesses. Please refer to the following table.

Revenues	Count	%	Amount	%	Revenue Distribution
<=\$1MM	623	77.39%	\$34,285,000	40.70%	61.81%
\$1MM +	182	22.61%	\$49,952,000	59.30%	4.53%
Not Reported	0	0%	0	0%	33.66%
Total	805	100%	\$84,237,000	100%	100%

The percentage of commercial loans to small businesses in AAI is excellent. Approximately 59.5% of the businesses in the AA reported revenues of less than or equal to \$1 million. By count, 83% of the bank's commercial loans were made to small businesses. Please refer to the following table.

Revenues	Count	%	Amount	%	Revenue Distribution
<=\$1MM	543	82.52%	\$41,190,000	71.23%	59.53%
\$1MM +	112	17.02%	\$16,475,000	28.49%	3.90%
Not Reported	3	0.46%	\$160,000	0.28%	36.57%
Total	658	100%	\$57,825,000	100%	100%

Geographic Distribution of Loans

The bank's geographic distribution of lending throughout AAI meets the standard for satisfactory performance. The geographic distribution of home loans in low- and moderate-income census tracts is excellent compared to the level of owner-occupied housing in the respective census tracts. Commercial lending to businesses located in low- and moderate-income census tracts is good. The geographic distribution of consumer lending receives more weight due to the volume of activity compared to that of home mortgage lending. Please refer to the following tables.

Geographic Distribution of Home Mortgage Loans

Tract Designation	# Of Loans	%	\$ of Loans	%	Owner-Occupied Housing
Low	10	1.84%	\$935,000	2.71%	1.05%

Moderate	86	15.81%	\$3,420,000	9.93%	8.43%
Middle	435	79.96%	\$29,355,000	85.22%	79.88%
Upper	13	2.39%	\$734,000	2.14%	10.64%
NA	0	0.00%	\$0	0%	0.00%
Total	544	100%	\$34,444,000	100%	100%

Geographic Distribution of Commercial Loans

Tract Designation	# Of Loans	%	\$ of Loans	%	Geographic Distribution of Businesses
Low	23	2.86%	1,789	2.12%	3.59%
Moderate	81	10.06%	9,957	11.82%	10.16%
Middle	682	84.72%	70,561	83.76%	78.29%
Upper	19	2.36%	1,931	2.30%	7.96%
NA	0	0	0	0	0
Total	805	100%	84,238	100%	100%

Community Development Performance

LNB's community development exceeds the standard for satisfactory performance. The bank's community development performance in both AAs demonstrate excellent responsiveness to community development needs through qualified development lending, investments, and services.

Community Development Lending

During the evaluation period, LNB originated three loans in AAI providing \$1.8 million in funding for the construction of low- to moderate-income housing for families and senior citizens. The bank also lent \$2.1 million for a hotel project in AAI which created approximately 40 jobs requiring primarily unskilled workers. These four loans totaling \$3.9 million clearly support community development needs.

Community Development Investments

LNB's community development investments during the evaluation period totaled nearly \$10 thousand and benefited six organizations which support affordable housing and provide community services or employment for low- and moderate-income people and/or geographies.

Community Development Services

With the bank's expansion during the evaluation period, four new branches were added. One of the branches was opened in the only low-income census tract in the bank's combined AA. Another branch was opened in one of the four moderate-income census tracts the bank serves. The bank has also maintained another branch in a moderate-income tract. Of the bank's 14 off-site ATMs, more than a quarter are located in moderate-income tracts. The bank is appropriately providing banking services to low- and moderate-income geographies.

From a community involvement perspective, management is actively involved in many community development organizations. Five senior employees are actively involved as board

members, officers, or committee members in nine community development organizations serving the bank's assessment area.

Response to Complaints

LNB has not received any CRA-related consumer complaints since the last CRA examination.

Results of the Fair Lending Examination

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