



**SMALL BANK**

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

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## **PUBLIC DISCLOSURE**

**June 13, 2007**

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

**Empire State Bank, National Association  
Charter Number 24445**

**68 North Plank Road  
Newburgh, NY 12550**

**Comptroller of the Currency  
New York Metro Field Office  
343 Thornall Street 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.**

## 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 **Empire State Bank, National Association, Newburgh, New York** as prepared by **The Comptroller of the Currency**, the institution's supervisory agency, as of **March 31, 2007**. 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.**

Empire State Bank, National Association (ESBNA) satisfactorily meets the credit needs within its community. This assessment is based upon the following lending conclusions:

- The loan-to-deposit ratio is reasonable and meets the standard for satisfactory performance.
- The geographic distribution of loans meets the standard for satisfactory performance.
- Lending to businesses of different incomes meets the standard for satisfactory performance
- The volume of loans made in the assessment area does not meet the standard for satisfactory performance.

## DESCRIPTION OF INSTITUTION

Empire State Bank, National Association (ESBNA) is a relatively new bank headquartered in Newburgh, New York. ESBNA is an intrastate community bank with an asset size of \$93 million as of March 2007. It operates two full service branches at Newburgh and New Paltz, NY. ESBNA operates a non-cash deposit taking "courier" in the city of Fishkill, NY. In addition, the bank operates Loan Office Centers in Staten Island and Long Island. The bank has no deposit-taking ATMs outside the two branch locations. The bank faces financial challenges as a new bank but its ability to serve the credit needs of its community is not hampered. This is the first CRA examination for ESBNA.

Competition within bank's assessment area (AA) is aggressive. Several branches of national, regional and statewide banks compete for the same local customer base. ESBNA ranks 25<sup>th</sup> out of

34 FDIC-insured financial institutions having a market presence within the area. Per the June 30, 2006 FDIC Summary of Deposit data, ESBNA's share of the deposits in its assessment area is 0.60%. The deposit share is dominated by Manufacturers & Traders Trust and Co with 12.46%, Key Bank National Association with 12%, Citizens Bank NA with 9.38%, Bank of New York with 8.97%, and TD Banknorth with 7.99%.

An interview with an Orange County Chamber of Commerce contact revealed the community needs credit to small businesses and affordable housing. Orange County Chamber of Commerce gets its funding from member dues, events, fund raisers and contract for services. The organization looks at business needs in the cities and also at the interests of the minority communities from a business perspective. ESBNA is an active member of the Orange County Chamber of Commerce. ESBNA participates in the Chamber's programs and activities through its membership and supporting events and activities that help promote small business owners.

The bank's primary lending products, commercial real estate and commercial loans as shown by the table below, attend to the needs of the community. ESBNA acts as a broker for residential home loans or it packages and sells these loans in the secondary market. The bank's loan portfolio was \$66 million on the March 31, 2007 Call Report.

<b>Loan Type</b>	<b>Dollar Amount \$(000)</b>	<b>% of Total \$ Amount</b>
Residential (1-4 family)	\$7,419	11.2
Commercial Real Estate	28,651	43.4
Multi Family	5,251	8
Construction	11,077	16.8
Commercial and Industrial	13,170	26
Consumer	477	0.7
<b>Total</b>	<b>\$66,045</b>	<b>100</b>

*Source: Call Report March 31, 2007*

## **DESCRIPTION OF ASSESSMENT AREA**

ESBNA's assessment area meets the requirements of the regulation and does not arbitrarily exclude low or moderate income areas. Tracts with no population or those with large areas of lakes and the airport have been excluded. ESBNA's AA falls within Poughkeepsie-Newburgh-Middletown MSA and Kingston MSA. The AA is comprised of thirty four census tracts within Orange, Ulster, and Dutchess Counties in the state of New York. Seventeen out of the sixty seven tracts are in Orange County; Sixteen out of forty nine tracts in Ulster County and one tract are in Dutchess County accounting for the courier branch. The bank's AA includes two of five low income level tracts in Orange County. Ulster County does not have low income tracts. The one tract served in Dutchess County is middle income.

According to the 2000 U.S. Census information, the overall population of the AA is 158,190. A total of 13,706 business and 412 farms is recorded in the AA. The median housing value is \$131,009 and

the median family income is \$58,987. The HUD adjusted median family income for 2006 is \$70,169. Ten percent of households are below the poverty level and unemployment is 2.71%. The area is served by Stewart International Airport and is approximately 65 miles north of Manhattan.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Scope of Examination**

Our review focused on loans originated from bank's inception in June 2004 to March 2007. As ESBNA only started reporting HMDA in the fourth quarter of 2006, we selected a sample of loans from ESBNA's primary products of commercial real estate and commercial loans. Our loan sample consisted of 20 commercial loans and 20 commercial real estate loans. In February 2007, a data integrity examination was conducted and recommendations were made to improve the process. These were addressed by management. We reviewed various community grants, services, CD loans and other investments by the bank. The loan-to-deposit ratio, degree of lending to small businesses, and geographical dispersion weighed heavily in our evaluation.

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

ESBNA's average loan-to-deposit (LTD) ratio is reasonable given the bank's size, period of de Novo status, financial condition and the credit needs in its assessment area. ESBNA's quarterly average loan-to-deposit ratio for the period from June 2004 to December 31, 2006, was 60.4%. LTD reached a high of 82.2% on June 30, 2006 and a low of 16.2% on September 30, 2004. The quarterly LTD for the bank's custom peer group, which consisted of well-established institutions of similar size and proximity, was 60.5%. ESBNA's quarterly average improves to 74.8% when March 31, 2007 data is taken into consideration.

### **Lending in Assessment Area**

Lending in the AA does not meet the standard for satisfactory performance. As depicted in the table below, our random sample of 40 commercial real estate and commercial loans resulted in 15 originations within the AA during the period under evaluation, or 38%. However, the majority of the C&I loans (70% of the sample) were made in the AA. The bank's less than satisfactory performance is partly due to the fact that the loan offices in Staten Island and Long Island are outside the AA. According to bank management, the decision to lend in areas outside the AA was based on competition and financial consideration as a new bank, and the time it takes to establish a presence in the community. The bank plans to open a branch or place a deposit taking ATM on Staten Island in the foreseeable future and will create another AA at that time. Since 2006, the bank's record of originating commercial loans in the assessment area has shown improvement.

<b>Lending in the Assessment Area</b>										
	<b>Number of Loans</b>					<b>Dollars of Loans (000's)</b>				
	Total	Inside		Outside		Total	Inside		Outside	
		#	%	#	%		\$	%	\$	%
Commercial Real Estate	20	1	5%	19	95%	13659	720	5%	12939	95%
Commercial and Industrial	20	14	70%	6	30%	3526	2824	80%	702	20%
<b>Total</b>	<b>40</b>	<b>15</b>	<b>38%</b>	<b>25</b>	<b>63%</b>	<b>17185</b>	<b>3544</b>	<b>21%</b>	<b>13641</b>	<b>79%</b>

Source: Internal bank records

<b>Borrower Distribution of Sampled Loans and AA</b>		
Business Revenues (or Sales)	Less than or equal to \$1,000,000	Greater than \$1,000,000
% of AA Businesses *	69%	5%
% of Sample Loans in AA by #	85%	15%
% of Sample Loans in AA by \$	80%	20%

### Lending to Borrowers of Different Income and Businesses of Different Sizes

The distribution of loans reflects a reasonable penetration to businesses with revenues of less than \$1 million. The table shows that of the thirty four sampled loans in the AA, twenty nine or eighty five percent were to small businesses. By dollar, eighty percent were to small businesses. These percentages far exceed the 69% of the reporting businesses with revenues of less than a \$1 million.

\*26% did not report their revenues

Source: Dunn and Bradstreet data and Internal bank records

<b>Distribution of Commercial Real Estate and Commercial Loans by Business Size in AA</b>			
Total \$ Amt Commercial & C&I Loan Sample in AA (000)	\$ Amt (000) to Business \$1MM or less Revenues	Total #Loans Commercial Loan sample in AA	# Business \$1MM or less Revenues
<b>\$9,110</b>	<b>\$7,325</b>	<b>34</b>	<b>29</b>

Source: Internal bank records

### Geographic Distribution of Loans to Businesses

The bank's loan dispersion to business in the AA is satisfactory.

### Commercial Real Estate

In assessing Commercial RE loans in the AA there were only 14 loans made in the assessment area, therefore our sample for Commercial RE only included 14 loans. As depicted in the table below,

during the evaluation period, fourteen percent of the number and twelve percent of the dollars of the Commercial Real Estate in the AA were distributed to low-to-moderate income tracts.

<b>Geographic Distribution of Commercial Real Estate in the AA</b>					
<b>Tract Income Level</b>	<b># Loans</b>	<b>%</b>	<b>\$ Amt (000)</b>	<b>%</b>	<b>% of Businesses in Tract</b>
<b>Low</b>	2	14	715	12	5
<b>Moderate</b>	0	0	0	0	13
<b>Middle</b>	11	79	4960	83	61
<b>Upper</b>	1	7	296	5	21
<b>TOTALS</b>	<b>14</b>	<b>100</b>	<b>5971</b>	<b>100</b>	<b>100</b>

Source: Dun and Bradstreet data and Internal bank records

### **Commercial and Industrial**

As shown in the table below, fifteen of the number and approximately forty eight percent of the dollars of 20 sampled Commercial & Industrial loans in the AA were distributed to low-to-moderate income tracts.

<b>Geographic Distribution of Sampled Commercial &amp; Industrial in the AA</b>					
<b>Tract Income Level</b>	<b># Loans</b>	<b>%</b>	<b>\$ Amt (000)</b>	<b>%</b>	<b>% of Businesses in Tract</b>
<b>Low</b>	1	5	10	0.3	5
<b>Moderate</b>	2	10	1516	48.3	13
<b>Middle</b>	15	75	1592	50.7	61
<b>Upper</b>	2	10	22	0.7	21
<b>TOTALS</b>	<b>20</b>	<b>100</b>	<b>3139</b>	<b>100</b>	<b>100</b>

Source: Dun and Bradstreet data and Internal bank records

Although the percentage of number of loans made is slightly below the percentage of businesses in low-to-moderate income tracts in the AA, the percentage of dollars loaned materially exceeds the percentage of businesses in low-to-moderate income tracts in the AA.

### **Responses to Complaints**

There were no complaints with respect to ESBNA's lending activities during the review period.

### **Fair Lending or Other Illegal Credit Practices Review**

No evidence of illegal credit practices inconsistent with helping to meet community credit needs was identified.