



**SMALL BANK**

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

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## **PUBLIC DISCLOSURE**

**June 18, 2007**

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

**National Union Bank of Kinderhook  
Charter Number 929**

**One Hudson Street  
Kinderhook, NY 12106**

**Comptroller of the Currency  
New York Metro Field Office  
343 Thornall Street, Suite 610  
Edison, NY 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 **The National Union Bank of Kinderhook, Kinderhook, 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.**

National Union Bank of Kinderhook (NUBK) satisfactorily meets the credit needs within its community. This assessment is based upon the following lending conclusions:

- NUBK's average loan to deposit ratio is reasonable. The bank's average of 61.58% during the evaluation period is consistent with bank's historical levels.
- Lending in the assessment area meets the standard for satisfactory performance. A large number, over 90%, of lending occurs in the bank's assessment area.
- Lending to different income levels and to small businesses meets the standard for satisfactory performance.
- Geographic distribution of lending is reasonable given the make up and competition of the assessment area (AA).

## DESCRIPTION OF INSTITUTION

National Union Bank of Kinderhook ("NUBK") is a \$176 million intrastate community bank, headquartered in Kinderhook, New York, in Columbia County. Kinderhook lies approximately 18 miles southeast of Albany, the state capital. NUBK is the only subsidiary of Kinderhook Bank Corp. The last CRA examination for the bank was in November 2001 and it received a satisfactory rating.

NUBK has four branch offices all located in Columbia County. In addition, NUBK has seven ATMs that only serve as cash dispensers and are not deposit taking. In October 2007, NUBK

plans to open its first branch outside Columbia County in East Greenbush, NY in southern Rensselaer County. The bank's current AA includes southern Rensselaer County. NUBK does not have legal or financial restrictions that would impede its ability to help meet the credit needs of its community.

Total loans as of the March 31, 2007 Call Report were \$103 million with \$161 million in total deposits. The breakdown of lending activities is commercial loans (47%), residential real estate loans (46%), multi-family (5%), and consumer loans/credit cards (2%). NUBK does not purchase loans but has established a relationship with a mortgage association and acts as a broker.

<b>Table 1</b>		
<b>Loan Type</b>	<b>Dollar Amount \$(000)</b>	<b>% of Total \$ Amount</b>
Residential (1-4 family)	47,496	46%
Commercial Real Estate	35,946	35%
Multi Family	4,870	5%
Commercial & Industrial	12,670	12%
Consumer	2,135	2%
Other	33	-
<b>Total</b>	<b>\$103,150</b>	<b>100%</b>

Source: Call Report 3/31/07

The primary focus of NUBK's business plan is to sustain controlled growth through increased lending and possible expansion of its branch network to bring the best banking experience to the working families, homeowners and businesses in the region.

Competition is strong. Large multi-state and regional banks have branch offices within the county, and aggressively contend for business. Per the June 30, 2006 FDIC/OTS Summary of Deposit Data, NUBK ranks third in the deposit market share in the AA, out of eleven banks. The table below lists the top five banks in the deposit market. First Niagara Bank ranks first with 44.94%, followed by KeyBank with 19.82%. All eleven banks in the AA have offices outside of the market area, except NUBK. NUBK markets itself as a small community bank and uses personalized service as a competitive advantage.

<b>Table 1 – Summary of Deposit Data</b>		
<b>Bank</b>	<b># Offices in AA</b>	<b>% Deposit in AA</b>
First Niagara Bank	12	44.94%
KeyBank National Assn	6	19.82%
National Union Bank Kinderhook	4	9.54%
Bank of America, NA	5	7.00%
TrustCo Bank	3	6.68%

Source: June 30, 2006 FDIC/OTS Summary of Deposit Data

## DESCRIPTION OF ASSESSMENT AREA

NUBK has delineated all of Columbia County and Southern Rensselaer County as its assessment area (“AA”). Columbia is a non-MSA county designated as part of the Hudson Micropolitan Statistical Area. Rensselaer County, on the other hand, is in the Albany-Schenectady-Troy Metropolitan Statistical Area. A total of thirty three census tracts form NUBK’s AA. It includes all twenty tracts in Columbia County and thirteen of forty tracts in Rensselaer County. The assessment area meets regulatory requirements and does not arbitrarily exclude any low or moderate-income areas.

The 2000 census show a population of 118,854 persons in the AA. The 2000 census median family income, which is used to categorize the income level of the census tracts in the MSA, was \$46,954 but the HUD updated 2006 median family income is \$56,139. As depicted in the table below, 12% of the families are defined as low income, 17% as moderate, 23% as middle and 48% as upper.

<b>Table 2 - Family Income Categories</b>			
Low	Moderate	Middle	Upper
Below \$28,069	\$28,069 - \$44,911	\$44,911- \$67,366	Above \$67,366
12%	17%	23%	48%

*Source: 2000 census*

The economy of the AA is intertwined with the Capital District of New York. NUBK's AA serves as a "bedroom community" to Albany. A May 2007 economic report by Moody’s shows the Albany economy to be stagnating. The report mentioned that payrolls have remained flat and that outside of leisure/hospitality and education/healthcare, most industries are either shedding jobs or holding employment levels steady. Income growth is also lagging state and national trends, and industrial production growth is slowing much faster than the national average. General Electric’s string of divestitures in the area have hurt the region’s economy but International Sematech will create five research centers across the state and add additional jobs at Albany’s NanoTech campus. This will provide a boost to the economy.

As of April 2007, Columbia County's unemployment rate was 3.6%, down from 3.7% a year earlier. Rensselaer County’s unemployment rate was 3.8%, down from 4.0% a year earlier. The current unemployment rates are better than the overall state rate of 4.0%

One community contact interview was conducted during the examination. Housing Resources of Columbia County is a full service housing organization. The contact stressed that affordable housing is a community need and lamented that huge increases in housing costs have caused home ownership to remain beyond the reach of more and more people in the community. The proximity to New York City has contributed to the increase in housing cost as the area has seen an increase in “weekend” houses. In addition, the lack of good jobs for young adults has caused young educated people to the leave the area.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

This CRA examination evaluation period is from January 1, 2005 to March 31, 2007. Our review covered all loans originated and purchased during this period. NUBK is not required to collect or report HMDA information. All analyses performed were completed through a statistical sampling of the bank's primary lending products, with loan information derived from bank records. Our review covered commercial mortgage loans, residential mortgage loans and commercial and industrial loans originated during the evaluation period. A random sample of twenty residential mortgage loans and thirty five commercial loans consisting of commercial mortgages and commercial and industrial loans was selected to test the lending in and out ratio. Further, a randomly selected sample of twenty-five mortgage loans and twenty commercial loans made in the AA were used to test geographic distribution of loans.

### LOAN-TO-DEPOSIT RATIO

NUBK's average loan-to-deposit (LTD) ratio is reasonable given the bank's size, capacity to lend, and the credit needs in its assessment area. NUBK's quarterly average loan-to-deposit ratio for the nine quarters reviewed (January 1, 2005 to March 31, 2007) was 61.58%. LTD reached a high of 67.39% at December 31, 2006 and a low of 51.07% at March 31, 2005. NUBK's LTD is below a custom peer consisting of well-established institutions of similar size and proximity. That custom peer nine quarter average was 72.95%. A continued strong deposit growth has kept NUBK's LTD levels low relative to peer banks.

### LENDING IN THE ASSESSMENT AREA

NUBK meets the standard for satisfactory performance for lending within its assessment area. In our random sample of fifty-five residential and commercial loans, ninety-three percent were in the AA. Of the twenty residential mortgage loans sampled, nineteen or ninety-five percent were made in the AA. Similarly, of the thirty-five commercial loans sampled, thirty-two or ninety-one percent were in the AA. By dollar, seventy-two percent of our total sampled was in the AA.

Table 3 - Lending in the Assessment Area										
	Number of Loans					Dollars of Loans (000's)				
	Total	Inside		Outside		Total	Inside		Outside	
		#	%	#	%		\$	%	\$	%
Residential Mortgages	20	19	95%	1	5%	\$2,992	\$2,492	83%	\$500	17%
Commercial Loans	35	32	91%	3	9%	\$10,025	\$6,870	58%	\$3,154	42%
Total	55	51	93%	4	7%	\$13,017	\$9,362	72%	\$3,654	28%

Source: Internal Bank records

## LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

NUBK's record of lending to borrowers of different income levels and to businesses of different sizes meets the standards for satisfactory performance.

### Mortgage Lending

The level of lending to low to moderate income families is satisfactory but slightly below percentages in the AA. This is due to the difficulty of the low to moderate income borrower, to always meet basic underwriting criteria and to afford housing cost with a median housing value of \$113,409 within the AA. This is consistent with the observations of our community contact, who indicated that more and more people in the community are unable to afford the rising cost of housing. NUBK does not have a myriad of loan products for which low-moderate income individuals can qualify under its underwriting requirements. However, the bank, through its partnership with PHH Mortgage Services Corporation, is able to help low to moderate income individuals who are first time homebuyers with affordable mortgage loan programs. As of the first quarter 2007, NUBK has made two referrals totaling \$425,000. In addition, NUBK is planning to offer SONYMA (State of New York Mortgage Association) programs aimed at low income individuals.

<b>Table 4 – Borrower Distribution of Sampled Mortgage Loans</b>					
<b>Borrower Income Level</b>	<b># Loans</b>	<b>%</b>	<b>\$ Amt (000)</b>	<b>%</b>	<b>% of Families at Income Level in AA</b>
Low	2	8%	\$223	7%	12%
Moderate	3	12%	\$336	11%	17%
Middle	4	16%	\$719	23%	23%
Upper	16	64%	\$1,873	59%	48%
<b>Totals</b>	<b>25</b>	<b>100%</b>	<b>\$3,151</b>	<b>100%</b>	<b>100%</b>

Sources: Internal Bank records and 1990 US Census Data

### Commercial Loans

NUBK's lending to businesses of different sizes is reasonable. Based upon our sample of twenty commercial loans originated within the bank's AA, fifteen or seventy five percent were loans made to businesses with revenues of \$1 million or less. Dun and Bradstreet business demographic information indicates that 66% of the businesses within the AA have reported annual revenues of \$1 million or less. Such credits assist numerous small businesses in job creation and allow these businesses to flourish. However, by dollar, only twenty eight percent were to small businesses. This is due to the fact that the mid to large businesses are closer to the Capital District in Albany and NUBK has to lend outside of the AA for its financial well-being.

<b>Table 5a - Borrower Distribution of Sampled Loans and AA</b>		
<b>Business Revenues (or Sales)</b>	<b>Less than or equal to \$1,000,000</b>	<b>Greater than \$1,000,000</b>
% of AA Businesses	66%	34%
% of Sample Loans in AA by #	75%	25%
% of Sample Loans in AA by \$	28%	62%

Source: Dun and Bradstreet data and Internal bank records

<b>Table 5b - Distribution of Sampled Commercial Loans by Business Size</b>					
<b>Total \$ Amt Commercial Loan Sample in AA (000)</b>	<b># Loans</b>	<b># Business \$1MM or less Revenues</b>	<b>% of #</b>	<b>\$ Amt (000) to Business \$1MM or less Revenues</b>	<b>% of \$ Amt</b>
<b>\$16,041</b>	<b>20</b>	<b>15</b>	<b>75%</b>	<b>\$4,431</b>	<b>28%</b>

Source: Internal bank records

## **GEOGRAPHIC DISTRIBUTION OF LOANS**

NUBK's geographic distribution of loans meets the standards for satisfactory performance. Overall geographic distribution of mortgage and commercial loans, based upon our samples, reflects a reasonable dispersion throughout the AA given office locations and demographic data.

An analysis of lending in low-income geographies is not applicable since there are none within the AA and only two are designated as moderate tracts. Our sample had no mortgage loans and only one commercial loan made in moderate income tracts due to competition from much larger banks situated in the city of Hudson, NY where those tracts are located. First Niagara Bank, which acquired Hudson River Bank & Trust Company, inherited a stronghold on business in that location.

<b>Table 6 - Geographic Distribution of Sampled Mortgage Loans in AA</b>					
<b>Tract Income Level</b>	<b># Loans</b>	<b>%</b>	<b>\$ Amt (000)</b>	<b>%</b>	<b>% Owner Occupied Housing</b>
<b>Moderate</b>	0	0	0	0	3%
<b>Middle</b>	4	20	\$719	28%	50%
<b>Upper</b>	16	80	\$1,873	72%	47%
<b>TOTALS</b>	<b>20</b>	<b>100</b>	<b>\$2,592</b>	<b>100%</b>	<b>100%</b>

Sources: 2000 internal bank records and US census data.

Due to the absence of any low-income geography, an analysis of activity in such an area is not applicable.

<b>Table 7 - Geographic Distribution of Sampled Commercial Loans 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>Moderate</b>	1	5%	\$ 80	2%	10%
<b>Middle</b>	2	10%	\$ 548	12%	44%
<b>Upper</b>	17	85%	\$ 3,866	86%	46%
<b>TOTALS</b>	<b>20</b>	<b>100%</b>	<b>\$ 4,494</b>	<b>100%</b>	<b>100%</b>

*Sources: Internal bank records and Dun & Bradstreet*

*Due to the absence of any low-income geography, an analysis of activity in such an area is not applicable.*

### **RESPONSES TO COMPLAINTS**

There were no complaints with respect to NUBK'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.