



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**January 04, 2010**

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

The Citizens National Bank of Hammond  
Charter Number 10216

19 Main Street  
Hammond, NY 13646

Office of the Comptroller of the Currency

UPSTATE NEW YORK (SYRACUSE) Field Office  
231 Salina Meadows Parkway Suite 105  
Syracuse, NY. 13212-4532

**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.

**INSTITUTION'S COMMUNITY REINVESTMENT ACT (CRA) RATING:  
This institution is rated Satisfactory.**

The major factors supporting Citizens National Bank of Hammond's (CNBH) rating are:

- CNBH's record of lending to borrowers of different incomes and to businesses of different sizes meets the standard and demonstrates reasonable penetration.
- CNBH's loan-to-deposit ratio is reasonable. CNBH's average loan-to-deposit ratio for the last 25 quarters was 63.90%. This is reasonable when compared to other peer banks operating in St. Lawrence and Jefferson Counties.
- The majority of CNBH's loans originated within its assessment area (AA) compared to those originated outside the AA. In our sample of 73 loans, we found 87.7% by count and 83.7% by dollars were originated in the AA.
- The geographic distribution of residential RE, consumer and business loans demonstrates reasonable dispersion. The overall performance in the AA's moderate-income geographies exceeds the standard for primary products sampled. However, the vast majority of loans originated in moderate income geographies were concentrated in one of the two moderate income census tracts due to the location of a branch.
- Our review of the bank's complaint files and the Office of the Comptroller of the Currency's (OCC) complaint data base, revealed no CRA related complaints against CNBH.

**SCOPE OF EXAMINATION**

We completed a full scope small bank CRA Examination using Small Bank CRA Examination Procedures. The evaluation period covered the bank's loan originations between March 31, 2003 and September 30, 2009. We identified primary loan products, which are, in order of CRA evaluation rating significance: residential RE loans, consumer loans and business loans. Bank management provided internally generated reports identifying loan originations by product, from which we chose our sample. The bank is not a Home Mortgage Disclosure Act (HMDA) Loan Activity Report (LAR) filer.

CNBH maintained relatively consistent residential RE and consumer loan originations over the six and one-half year evaluation period, thus we limited our sample of these products to originations between January 1, 2007 and September 30, 2009. As the sampling process pertained to business loans, management originated fewer commercial loans in the last two and three quarter years of the evaluation period. Therefore we expanded the business loan sample to the account for the period between January 1, 2006 and September 30, 2009.

## DESCRIPTION OF INSTITUTION

The Citizens National Bank of Hammond (CNBH) is a community bank headquartered in Hammond, New York. CNBH is not part of a holding company. The bank's one other branch is located in Morristown, New York. The headquarters and the branch are located in two contiguous census tracts and primarily serve the northern portions of St. Lawrence and Jefferson Counties in New York State. Neither office has an automated teller machine or drive-up facilities. CNBH did not open or close any branches during the evaluation period.

At September 30, 2009, CNBH had total assets of \$18.8 million, consisting mainly of \$8.7 million (46%) in loans and \$8.8 million (47%) in investments. The bank's deposits totaled \$17.2 million. The loan portfolio consisted of \$6.5 million (75%) in residential real estate loans, \$.9 million (11%) in commercial and commercial real estate loans, and \$1.2 million (14%) in consumer loans. The bank's strategy during the later portion of the evaluation period was to place more focus on residential RE lending while moving away from business loans. The goal has been to replace business loans that pay off with new residential RE loans. In the early portion of the evaluation period, the strategy was overall loan growth.

CNBH does not have any legal, financial or other factors that would impede its ability to help meet the credit needs in its assessment area. As of September 2009, the bank's legal lending limit to an individual borrower was \$248 thousand. Management has occasionally participated out loans. At the last CRA examination, dated June 16, 2003, CNBH's CRA rating was "Outstanding".

## DESCRIPTION OF ASSESSMENT AREA (AA)

The AA consists of a total of eight census tracts. The AA had a total population of 32,950 in 2009 with 7,931 families and 11,697 households. The table below further describes the population, families and households, based on census tract income categories.

| <i>Selected Characteristics by Income Category of the Census Tract</i> |                      |                   |                 |                   |                             |
|--|----------------------|-------------------|-----------------|-------------------|-----------------------------|
|  | <i>Percentage</i>    |                   |                 |                   |                             |
| <i>Income Category</i>   | <i>Census Tracts</i> | <i>Population</i> | <i>Families</i> | <i>Households</i> | <i>Owner-Occupied Units</i> |
| Moderate   | 25.00%               | 13.66%            | 14.95%          | 18.46%            | 14.80%                      |
| Middle   | 75.00%               | 86.34%            | 85.05%          | 81.54%            | 85.20%                      |
| Total  | 100.0%               | 100.0%            | 100.0%          | 100.0%            | 100.0%                      |

CNBH has one defined AA for the purposes of CRA. The AA is located in St. Lawrence County (six tracts) and Jefferson County (two tracts). Neither Jefferson County nor St. Lawrence County is located within a Metropolitan Statistical Area (MSA). The AA does not arbitrarily exclude any low- or moderate-income areas. The two census tracts located in Jefferson County have been designated as distressed and underserved middle-income census tracts since at least 2005.

The AA contains 2 (two) moderate income and 6 (six) middle income census tracts. The AA consists of 14.95% moderate-income families and 85.05% middle-income families. Of the 23,014 housing units, 36.33% are owner-occupied, 14.31% are renter-occupied, 14.95% are mobile homes or trailers and 33.74% are vacant. The median housing value in the AA is \$61,285 and the median housing age is 32 years.

The 2000 Census MSA Median Family Income in the AA is \$41,671. This figure is used to determine the income designation of the Non-MSA geographies. The 2007 and 2008 Weighted Average Housing and Urban Development (HUD) Updated MSA Median Family Income figures of \$50,900 and \$52,700, respectively, were used to determine the income designation of the borrowers of real estate and consumer loans originated during the periods sampled. According to the New York State Bureau of Labor Statistics, the New York State unemployment rate for November 2009 was 9.0%; while the unemployment rate for St. Lawrence County was 9.1% and 8.8% for Jefferson County. The rates have been increasing in both counties since November 2003. Major employers in Jefferson and St. Lawrence Counties include state and local governments, hospitals and medical care facilities, schools and universities and manufacturing companies.

Within the AA, CNBH faces competition from several banks, credit unions and mortgage companies.

During our examination we contacted a local community development organization that provides financial and other services to low income persons residing in St. Lawrence County. The contact indicated that the community is in need of small business loans to help increase job opportunities. The contact also reported that there is a need for stable affordable rental housing, and indicated that it is often difficult to qualify low income persons for mortgage financing.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

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

CNBH's loan-to-deposit (LTD) ratio is reasonable. CNBH's average LTD ratio for the last 25 quarters is 63.90%. This is reasonable when compared to other domestic commercial banks headquartered in St. Lawrence and Jefferson Counties; with average LTD ratios ranging from 44.94% to 104.86%. The three other banks headquartered in these two counties are small commercial banks with asset sizes ranging from \$24 million to \$392 million. CNBH had an average LTD ratio higher than two of the three banks. However, during the last five quarters of the period assessed, CNBH and the bank with the highest LTD ratio have seen this ratio decline. The other two banks have seen either a stable or an increasing LTD ratio during the last five quarters of the period assessed. CNBH's strategy is to maintain loan volume. Deposits have increased over the last five quarters as investors preferred the safety of bank deposits due the economic downturn.

**Lending in Assessment Area (AA)**

Lending in the AA demonstrates a majority of the loans, as shown by the table below, were originated inside the bank’s AA, both in units and dollars volume.

| <b>Lending in Assessment Area of CNBH</b> |                 |        |         |        |         |                 |        |           |        |         |
|---|-----------------|--------|---------|--------|---------|-----------------|--------|-----------|--------|---------|
| Loan Type                                 | Number of Loans |        |         |        |         | Dollar of Loans |        |           |        |         |
|   | Inside          |        | Outside |        | Total   | Inside          |        | Outside   |        | Total   |
|   | #               | %      | #       | %      |         | \$              | %      | \$        | %      |         |
| Residential                               | 23              | 92.00% | 2       | 8.00%  | 100.00% | \$1,372,316     | 81.54% | \$310,600 | 18.46% | 100.00% |
| Consumer                                  | 20              | 90.91% | 2       | 9.09%  | 100.00% | \$ 246,866      | 98.01% | \$5,000   | 1.99%  | 100.00% |
| Commercial                                | 21              | 80.77% | 5       | 19.23% | 100.00% | \$ 566,737      | 83.72% | \$110,207 | 16.28% | 100.00% |
| Totals                                    | 64              | 87.67% | 9       | 12.33% | 100.00% | \$2,185,919     | 83.70% | \$425,807 | 16.30% | 100.00% |

Source: Loan Sample, 2000 U.S. Census Data

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

Overall CNBH’s record of lending to borrowers of different incomes and to businesses of different sizes meets the standard and demonstrates reasonable penetration. Please see the following summary on residential real estate (RE) loans, consumer loans and business loans supporting this conclusion.

**Residential Real Estate (RE) Loans**

The overall distribution of residential RE loans exceeds performance standards and demonstrates excellent penetration.

| <b>Borrower Distribution of Residential Real Estate Loans in CNBH’s AA</b> |                  |                      |                  |                      |                  |                      |                  |                      |
|--|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| Borrower Income Level  | Low              |                      | Moderate         |                      | Middle           |                      | Upper            |                      |
| Loan Type  | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans |
| Residential RE   | 22.96%           | 4.35%                | 19.28%           | 30.43%               | 22.70%           | 13.04%               | 35.06%           | 39.13%               |

Source: Loan Sample of 23 loans, 2000 US Census

CNBH’s distribution of residential RE loans to moderate-income borrowers exceeds the percentage of moderate income families in the AA. The distribution of residential RE loans made to low-income borrowers was significantly lower than the percentage of low income families living in the AA. However, when considering that 14.69% of the population in the AA is living below the poverty level, the distribution is considered reasonable. People living below the poverty level are unlikely to be able to afford a home in the AA.

**Consumer Loans**

The overall distribution of consumer loans meets the standard and demonstrates reasonable penetration.

| Borrower Distribution of Consumer Loans in the CNBH AA |                    |                      |                    |                      |                    |                      |                    |                      |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Borrower Income Level                                  | Low                |                      | Moderate           |                      | Middle             |                      | Upper              |                      |
| Loan Type  | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans |
| Consumer Loans   | 26.38%             | 35.00%               | 18.13%             | 10.00%               | 20.23%             | 20%                  | 35.06%             | 25.00%               |

Source: Loan Sample of 20 loans, 2000 U.S. Census Data

The volume of loans originated to low-income borrowers significantly exceeded the percentage of low income households in the AA. The volume of loans originated to moderate-income borrowers was significantly lower than the percentage of moderate income households in the AA. Four of the six loans, advanced to low income borrowers, were below \$2 thousand dollars. The lowest loan amount in our overall consumer sample was \$500. The bank’s willingness to make such smaller dollar loans meets an important credit need of lower income people in the AA.

**Business Loans**

The distribution of loans to businesses meets the standard and demonstrates reasonable penetration.

| Borrower Distribution of Loans to Businesses in the CNBH AA |              |              |                     |       |
|---|--------------|--------------|---------------------|-------|
| Business Revenues (or Sales)                                | ≤\$1,000,000 | >\$1,000,000 | Unavailable/Unknown | Total |
| % of AA Businesses  | 91.60%       | 8.33%        | 0.07%               | 100%  |
| % of Bank Loans in AA by #                                  | 90.48%       | 9.52%        | 0                   | 100%  |
| % of Bank Loans in AA by \$                                 | 70.00%       | 30.00%       | 0                   | 100%  |

Source: Loan Sample of 21 loans, 2008 Dunn and Bradstreet Business Statistics

Of the number of loans sampled, 90.48% were to small size businesses and near to the percentage of small size businesses in the AA.

**Geographic Distribution of Loans**

The geographic distribution of residential RE, consumer and business loans demonstrates reasonable dispersion. The bank’s performance in moderate-income census tracts exceeds the associated demographic used for comparison. However, most of the loans sampled were in the two census tracts which have branches, one of which is a moderate income census tract and the other is a middle income census tract. The second moderate income census tract in the AA is about 10 miles from the nearest

CNBH branch. This census tract is a more densely populated area where there are more varied and convenient banking opportunities. This fact and management's reliance on word-of mouth marketing contributed to the lower penetration in this census tract. There are no low income census tracts in the AA.

**Residential Real Estate Loans**

| Geographic Distribution of Residential Real Estate in the CNBH AA |                                |                      |                                |                      |                                |                      |                                |                      |
|---|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|
| Census Tract Income Level   | Low                            |                      | Moderate                       |                      | Middle                         |                      | Upper                          |                      |
| Loan Type   | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans |
| Residential RE  | 0.00%                          | 0.00%                | 42.26%                         | 65.22%               | 43.20%                         | 34.78%               | 0.00%                          | 0.00%                |

Source: 23 Loans Sampled, 2000 U.S. Census Data

**Consumer Loans**

| Geographic Distribution of Consumer Loans in the CNBH AA |                    |                      |                    |                      |                    |                      |                    |                      |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level                                | Low                |                      | Moderate           |                      | Middle             |                      | Upper              |                      |
| Loan Type  | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans |
| Consumer   | 0.00%              | 0.00%                | 15.28%             | 60.00%               | 84.82%             | 40.00%               | 0.00%              | 0.00%                |

Source: 20 Loans Sampled, 2000 U.S. Census Data

**Business Loans**

| Geographic Distribution of Loans to Businesses/Farms in the CNBH AA |                    |                      |                    |                      |                    |                      |                    |                      |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level   | Low                |                      | Moderate           |                      | Middle             |                      | Upper              |                      |
| Loan Type   | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans |
| Business  | 0.00%              | 0.00%                | 13.65%             | 57.14%               | 86.35%             | 42.86%               | 0.00%              | 0.00%                |

Source: 21 Loans Sampled, 2000 U.S. Census Data

**Responses to Complaints**

The bank has not received any CRA related consumer complaints with respect to its lending performance since the last CRA evaluation.

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

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