



**SMALL BANK**

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

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## **PUBLIC DISCLOSURE**

**October 17, 2005**

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

**Community Bank of Orange, N.A.  
Charter Number 24177**

**643 Route 211 East  
Town of Wallkill, NY 10941**

**Comptroller of the Currency  
New York Metro West  
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.**

## 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.

**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.

**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.

## 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 **Community Bank of Orange, National Association, Town of Wallkill, New York (“CBO”)** as prepared by **The Office of the Comptroller of the Currency (“OCC”)**, the institution's supervisory agency, as of **October 17, 2005**. 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.**

The primary factors supporting the overall rating are:

- Community Bank of Orange’s average loan-to-deposit (LTD) ratio for the evaluation period was reasonable in light of the bank’s size, competition, and market loan demand.
- A majority of the bank’s loans are made within the bank’s assessment area.
- The distribution of lending among borrowers reflects a reasonable penetration of loans to small businesses and consumers.
- The geographic distribution of loans within the bank’s assessment area is reasonable given the bank’s performance context.

## DESCRIPTION OF INSTITUTION

Community Bank of Orange (“CBO”) is a \$45 million intra-state community bank headquartered in the Town of Wallkill, Orange County, New York. The bank currently conducts all of its banking operations at its main office location in the Town of Wallkill. CBO began its operations in October of 2002 and operates as a commercial bank, offering a range of services that are tailored to meet the credit needs of small businesses and professionals. In addition, retail services are also offered to address the needs of local community residents. The types of services offered by the bank include personal checking, interest-bearing checking, money market accounts, savings accounts, holiday accounts, business banking, certificates of deposits and telephone banking. Drive-up services are also available at the main office location.

As of December 31, 2005, the bank reported total assets of \$45 million that is primarily supported by \$22.6 million in gross loans and \$13.3 million in investments. Real estate lending at CBO accounts for 66% of the entire loan portfolio that is sustained by a heavy concentration

in commercial real estate lending (41%). In total, commercial lending at the bank represents 72% of all lending activity while consumer lending accounts for 18%.

The market in which the bank operates is highly competitive with more established institutions controlling a significant share of the market. Located within CBO's assessment area are numerous community banks, thrift institutions and banking offices of several large regional and multinational financial institutions. As of June 30, 2005, there are 22 established institutions within Orange County with a total of 124 offices. Collectively, these banking entities compete for the same local customer base, offering similar products and services. According to the June 30, 2005 Federal Deposit Insurance Corporation's Deposit Market Share Report, KeyBank, National Association holds 14% of the market share, followed by Provident Bank at 13%, Bank of New York at 12% and Hudson United Bank at 12%. Community Bank of Orange owns 0.54% of the market share and ranks 18 out of 22 institutions with offices in the assessment area. Competition for banking customers has further intensified by the entrance of out-of-state rivals, which has increased from 23% to 35%, during the past year.

Community Bank of Orange is not subject to any financial, legal or regulatory restrictions that could impede its ability to meet the credit needs of its assessment area. This is the first CRA examination of the bank since its inception in October of 2002.

## **DESCRIPTION OF ASSESSMENT AREA**

### **Orange County**

There were no physical changes to the bank's assessment area because of changes in MSA boundaries and definitions in 2004, eliminating the need for separate analyses of the bank's CRA performance in 2003.

CBO's designated assessment area consists of 67 census tracts located in the Poughkeepsie-Newburgh-Middletown, NY MSA, 39100, which is part of the Hudson Valley Region of New York State. The entire designated area reflects the geographies contiguous to CBO's Middletown Office, which is located in Orange County. Of the 67 census tracts, 7% are low-income tracts, 21% are moderate-income tracts, 52% are middle-income tracts and 19% are upper income tracts.

The 2000 census median family income is \$61,313. The HUD updated 2005 median family income is \$71,650. An analysis of this assessment area reflects that 21% of the families are low-income families, 18% are moderate-income families, 24% are middle-income families and 37% are upper-income families. Table 1 and Table 1A provide the breakdowns of families by income level and tracts in the Orange County assessment area.

<b>Table 1-Percentage of Families by Income Level of Tract</b>								
<b>Total Families</b>	<b>Low Income</b>		<b>Moderate Income</b>		<b>Middle Income</b>		<b>Upper Income</b>	
	<b>Count</b>	<b>%</b>	<b>Count</b>	<b>%</b>	<b>Count</b>	<b>%</b>	<b>Count</b>	<b>%</b>
<b>Low Income</b>	3,737	21%	1,011	7%	705	3%	384	1%
<b>Moderate Income</b>	4,271	24%	2,842	18%	2,795	14%	2,206	7%
<b>Middle Income</b>	8,025	46%	9,283	60%	13,217	65%	19,176	61%
<b>Upper Income</b>	1,577	9%	2,329	15%	3,758	18%	9,712	31%
<b>Total</b>	<b>17,610</b>	<b>100%</b>	<b>15,465</b>	<b>100%</b>	<b>20,475</b>	<b>100%</b>	<b>31,478</b>	<b>100%</b>

Source: 2000 US Census

<b>Table 1A- Percentage of Families Within Each Tract Category</b>					
<b>Population</b>	<b>Low Income</b>	<b>Moderate Income</b>	<b>Middle Income</b>	<b>Upper Income</b>	<b>Total</b>
<b>Low Income Tracts</b>	64%	17%	12%	7%	100%
<b>Moderate Income Tracts</b>	35%	23%	23%	19%	100%
<b>Middle Income Tracts</b>	16%	19%	27%	38%	100%
<b>Upper Income Tracts</b>	9%	13%	22%	56%	100%
<b>Total</b>	<b>21%</b>	<b>18%</b>	<b>24%</b>	<b>37%</b>	<b>100%</b>

Source: 2000 US Census

According to the 2000 US Census Data, there are a total of 341,367 persons within the Orange County assessment area. Within the 67 census tracts, there are 122,754 housing units and 114,809 households. Of the 122,754 housing units, 63% are owner occupied units and 85% are 1-4 family units. The vacancy rate within this assessment area is 6%. Of the total number of households, 9% live at or below the poverty level. The median housing value of owner occupied units is \$146,546 and the median age of the homes is 40 years.

Business Demographic Summary Data for 2005 indicates that businesses established within the community are primarily service oriented (37%) followed by retail trade (17%), construction (10%) and finance, insurance and real estate businesses (8%). Nearly 12% of the business establishments were identified as non-classifiable. Sixty seven percent of all businesses in the assessment area generated revenues of less than \$1 million (16,798) and of this figure, 96% (16,059) are commercially based (non-farm).

County demographics have changed over the last several years since 2001 with a steady in-migration of households into areas that are within commuting distance of New York City. As a result, housing costs have appreciated significantly, reflecting a 33% increase over a three-year period from 2002 to 2004 in the Hudson Valley Region. On a more macro geographic level, the state experienced a 17% decrease in housing affordability as families migrate further north in search of more moderately priced housing.

The bank's assessment area complies with the requirements of the regulation and does not arbitrarily exclude low- or moderate-income areas.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

This CRA evaluation of Community Bank of Orange, NA covers the period January 1, 2003 to December 31, 2005. Our review covered all loans originated and purchased during this period. All loan information was derived from bank records. CBO is not required to collect or report HMDA information or any small business information. The primary lending products extended by the bank are commercial loans (40% in commercial real estate and 31% in general commercial loans) and consumer loans (20% in home equity lines of credit).

### **Data Integrity**

The bank is not required by regulation to report any loan information due to its asset size. All analyses performed were completed through a statistical sampling of the primary lending products, with a precision level of 5% for home equities and 10% for small business. Our loan sample size was 35 home equity lines of credit and 30 small business loans.

### **Community Contact**

During our evaluation period, we held discussions with a local housing agency to help us determine the community credit and development needs in the bank's assessment area. This group is primarily dedicated to providing housing development programs to low- and moderate-income people and senior citizens within surrounding communities. Credit needs of the communities are determined by an annual evaluation hosted by local municipalities. Based on our assessment, there is an identified need for small business administration (SBA) lending and low rent housing within the Orange County community.

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

- Community Bank of Orange's loan to deposit ratio is reasonable given the bank's size, financial condition and identified credit needs of its assessment area.

The average loan-to-deposit (LTD) ratio was calculated using information derived from the bank's Reports of Condition from March 31, 2003 through December 31, 2005. For the period reviewed, the bank's average LTD ratio was 55.3%. Quarterly ratio performances have ranged from a low of 46.3% as of June 30, 2003 to a high of 62.5% for September 30, 2004. The most recent LTD ratio was 60.3% as of December 31, 2005, which is slightly below the bank's peer group ratio of 62.5%

Competition for loans and deposits from a wide variety of financial service institutions has impacted the bank’s loan-to-deposit ratio. In addition to other banks, which include several very large financial institutions, the bank competes with finance companies, brokerage firms, credit unions, and insurance companies. Similarly situated institutions could not be identified due to the bank’s de novo status, asset sizes, product lines, and areas served. Based upon the information noted above, the bank’s loan-to-deposit ratio indicates an adequate responsiveness to community credit needs and meets the standards for satisfactory performance.

**Lending in Assessment Area**

- The bank’s level of lending reflects a satisfactory responsiveness to the assessment areas’ credit needs based on the size of the bank, its financial condition and local competition.

Based on a statistical sample of the bank’s small business and home equity originations, 81% of the loans were made inside of the bank’s assessment area. The bank’s lending performance in their assessment area is more than reasonable given the bank’s performance context. Table 2 shows the distribution within and outside the assessment area for small business and consumer loans.

<b>Table 2 - Lending in the Assessment Area</b>								
	<b>Number of Loans</b>				<b>Dollars of Loans</b>			
	<b>Inside</b>	<b>Outside</b>	<b>Total</b>	<b>% in AA</b>	<b>Inside</b>	<b>Outside</b>	<b>Total</b>	<b>% in AA</b>
<b>Small Business Loans</b>	<b>15</b>	<b>6</b>	<b>21</b>	<b>71%</b>	<b>\$3,377,914</b>	<b>\$846,500</b>	<b>\$4,224,414</b>	<b>80%</b>
<b>Home Equity Lines of Credit*</b>	<b>27</b>	<b>4</b>	<b>31</b>	<b>87%</b>	<b>\$2,581,000</b>	<b>\$333,600</b>	<b>\$2,914,600</b>	<b>89%</b>
<b>Total</b>	<b>42</b>	<b>10</b>	<b>52</b>	<b>81%</b>	<b>\$5,958,914</b>	<b>\$1,180,100</b>	<b>\$7,139,014</b>	<b>83%</b>

*\*.Our analysis of consumer loans was based on a statistical sampling of 34 home equity lines of credit, three of which were omitted from our review, as we were unable to properly geo-code the addresses.*

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

- The distribution of lending among borrowers reflects a reasonable penetration of loans to small businesses and consumers.

**Small Business Lending**

Table 3 provides the breakdown of loans to businesses by revenue. In determining borrower distribution to small businesses by loan size, a sample of 21 loans was used. It shows that Community Bank of Orange has a good penetration of loans to businesses within its assessment area. Seventy one percent of their small business loans were made to businesses with revenues of \$1 million or less and accounts for 80% of the total dollar volume of small business lending.

This distribution is more than reasonable when compared to 66% of the businesses in the bank’s assessment area with reported revenues of \$1 million or less.

<b>Table 3 - Borrower Distribution of Small Business Loans</b>		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	66%	5%
% of Bank Loans in AA by #	71%	29%
% of Bank Loans in AA by \$	81%	19%

Source: Dun and Bradstreet data and loan sample; \* 29% of AA businesses did not report revenue data

Table 3A provides a breakdown of small business lending by loan size, reflecting a significant portion of its loans are smaller business loans of less than \$100,000.

<b>Table 3A - Borrower Distribution of Loans to Small Businesses by Loan Size in the AA</b>				
Loan Size (000’s)	Number of Loans	Percent of Number	Dollar Volume of Loans (000’s)	Percent of Dollar Volume
\$0 - \$100,000	14	66.7%	\$853	25.3%
\$100,001 - \$250,000	2	9.5%	\$350	10.4%
\$250,001 - \$500,000	4	19%	\$1,425	42.2%
\$500,001 - \$1,000,000	1	4.8%	\$750	22.1%
<b>Totals</b>	<b>21</b>	<b>100%</b>	<b>\$3,378</b>	<b>100%</b>

Source: Loan sample and U.S. Census data.

### Consumer Lending

As Table 4 shows, there is a good penetration of loans to low- and moderate-income households over the evaluation period. The bank’s lending performances to low- and moderate-income levels have well exceeded the percentage of households within the bank’s assessment area.

<b>Table 4 - Borrower Distribution of Consumer Loans in Orange County</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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	7%	11%	16%	22%	58%	22%	19%	44%

Source: Loan sample.

## Geographic Distribution of Loans

The bank's assessment area is primarily comprised of middle- and upper-income level tracts. Of the 67 census tracts within their assessment area, 5 tracts are designated low-income level tracts and 14 are designated moderate-income level tracts. The bank made four loans to moderate-income tract levels during our evaluation period. Tables 5A and 5B provides the geographic breakdown of loans to businesses and consumers, respectively. Significant market competition faced by the bank from more established regional institutions contributed to the low volume performance.

Table 5A - Geographic Distribution of Loans to Businesses								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Small Business	6.43%	0%	17.18%	6.67%	57.28%	73.33%	19.11%	20.00%

Source: Loan sample and U.S. Census data.

Table 5B - Geographic Distribution of Consumer Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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	6.85%	0%	16.28%	6.45%	58.27%	64.52%	18.59%	29.03%

Source: Loan sample and U.S. Census data.

## Responses to Complaints

CBO has not received any CRA-related performance complaints during the review period.

## Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.