



## **PUBLIC DISCLOSURE**

January 21, 2014

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

Empire National Bank  
Charter Number 24777

1707 Veterans Memorial Highway,  
Islandia, NY 11749

Office of the Comptroller of the Currency

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.

**INSTITUTION'S CRA RATING: This institution is rated Satisfactory.**

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

The primary factors supporting the overall rating are:

- Empire National Bank's (ENB's) quarterly average net loan-to-deposit ratio is reasonable given the size and financial condition of the institution, as well as the assessment areas' (AAs) credit needs, and relevant competitive factors;
- The bank originated a substantial majority of its loans within the bank's AAs;
- The distribution of loans reflects reasonable penetration among borrowers of different incomes and businesses of different sizes;
- The geographic distribution of loans reflects excellent dispersion among geographies of different incomes, and
- The bank's level of community development (CD) activities demonstrates adequate responsiveness to the CD needs in the AAs given the bank's capacity and CD opportunities within the AAs.

## **Scope of Examination**

Empire National Bank's (ENB's) Community Reinvestment Act (CRA) performance was evaluated under the Intermediate Small Bank examination procedures, which include a lending test and a CD test. The lending test evaluates the bank's record of meeting the credit needs of its AAs through its lending activities. Business loan data from January 1, 2011 to December 31, 2013 was used to determine the bank's lending performance. The CD test evaluates the bank's responsiveness to CD needs in its AAs through CD loans, investments, and services. The assessment period for CD activities is January 31, 2011 to January 21, 2014.

ENB's primary loan product is business loans, which is in line with the bank's lending strategy. To evaluate the bank's performance, we collected data from a random sample of 80 business loans originated by the bank during the evaluation period.

ENB does not report CRA data on business loans. The bank reports home mortgage loan data under requirements of the Home Mortgage Disclosure Act (HMDA); however, home mortgage loans are not the bank's primary product and were not tested during the data integrity examination. Therefore, home mortgage and consumer loans were excluded from the CRA examination. CD loans, investments, and services submitted by bank management were verified to ensure they met the regulatory definition of community development.

## Description of Institution

ENB is an intrastate community bank headquartered in Islandia, New York. The bank has a holding company, Empire Bancorp Inc., and no affiliated organizations or subsidiaries. ENB operates all of its branches in the Nassau-Suffolk NY Metropolitan Division (MD), which is a highly competitive geographic area. There are no financial or legal impediments to hinder the bank's ability to meet the credit needs of its AAs. The previous CRA examination, as of January 31, 2011 assigned an overall "Satisfactory" rating.

During the evaluation period, the bank grew the loan portfolio, which provided the bank with opportunities to meet the needs of its AAs. As of December 31, 2013, the bank's assets totaled \$467 million, comprised of \$294 million in loans representing 63 percent of assets, deposits totaled \$391 million, and Tier 1 capital totaled \$41.9 million. The bank's loan portfolio mix, as of December 31, 2013, consisted of commercial real estate (43 percent), multi-family (34 percent), commercial and industrial (19 percent), taxi medallion (1 percent), construction and development (1 percent), and consumer and other loans (2 percent). Additional information regarding the products and services offered by ENB can be found in the bank's Public File, which is available by request at any branch location.

ENB operates four branches (with an ATM at each location) in the towns of Islandia, Shirley, Port Jefferson Station, and Mineola, which are located in Nassau and Suffolk County, New York. The Mineola branch was opened during the evaluation period in October of 2013, while the other three branches were established during the prior evaluation period. The bank offers traditional banking services with a focus on serving the needs of small-and medium-sized businesses, professionals, nonprofit organizations, real estate investors, and consumers. The main branch located in Islandia is in a middle-income geographic area and is open Monday through Friday. The Shirley branch is located in a middle-income geographic area and has extended hours on Monday and Friday, and is open on Saturday. The Port Jefferson Station branch is located in a middle-income geographic area and has similar operating hours to the Shirley branch. The Mineola branch is located in a moderate-income geographic area and is open Monday through Friday.

The bank offers traditional products and services such as retail deposit accounts and commercial loans, to small-and medium-sized businesses, professionals, municipalities, nonprofit organizations, real estate investors, and consumers. ENB's primary focus is on small-and medium sized businesses and the bank offers small business loan products through Next Generation Small Business Loan, which is designed as a limited underwriting line of credit or loans targeted to small businesses. The product permits loans up to \$25 thousand based on an application and credit score.

Competition for loans and depositors within ENB's two AAs is aggressive. The bank competes with nationwide mortgage and business lenders, large regional banks, and a number of community banks. According to June 30, 2013 FDIC Summary of Deposit

data, ENB ranked 113 out of 236 institutions competing within the New York-Northern New Jersey-Long Island, NY-NJ-PA Metropolitan Statistical Area (MSA), and in the Nassau-Suffolk MD, with a deposit market share of 0.03 percent.

## **Description of Assessment Area(s)**

ENB defines its assessment area as all of Nassau County and Suffolk County in Long Island, New York and the areas of Kings, Queens, and New York in New York County. The assessment area contains two MSAs; both exist only within New York State. Only whole census tracts are covered.

Both of the bank's AAs were included in the region designated as a disaster area after Hurricane Sandy hit the New York and New Jersey coasts on October 29, 2012. Relief efforts to provide individuals and businesses with financial assistance and community services were included in this assessment period.

As part of our CRA examination, we contacted two senior executives from local small business development organizations to discuss local economic conditions, community credit needs, CD opportunities, and the level of participation of financial institutions within the AAs. The organizations' primary missions are to lend to small businesses on Long Island, provide technical assistance, and hold seminars on various business topics. The contacts described the economic conditions of Nassau and Suffolk as improving, albeit at a slow pace. Despite the improving economy, the contacts indicated that it remains difficult for small businesses to obtain financing given increased regulations for banks. This is particularly challenging for small businesses on Long Island in light of the high living expenses and costs of doing businesses. Overall, the small business community continues to have credit needs that provide opportunities for community reinvestment. In particular, small community banks such as ENB have an opportunity to capitalize on the competitive advantages presented by their ability to build close relationships and provide more customized solutions to small businesses. Both of our contacts noted that ENB's perception in the small business community is positive as the institution is involved in various community development projects.

### Description of the Nassau-Suffolk County MSA - 35004

The Long Island, New York assessment area consists of all of Nassau and Suffolk Counties. The Long Island assessment area is also known as the Nassau-Suffolk, NY MSA (35004). The Long Island assessment area consists of 607 census tracts. Within the geography, 13 tracts or 2.14 percent are low income; 96 tracts or 15.82 percent are moderate income; 354 or 58.32 percent are middle income; and 135 tracts or 22.24 percent are upper income tracts. There are also 9 tracts or 1.48 percent listed as unknown by the US Census Bureau. Total population within the assessment area is 2,832,882. The weighted average median family income is \$101,543. The assessment area consists of 715,052 families, of which 127,660 or 17.85 percent are low-to-moderate income families.

According to the US Bureau of Labor Statistics, the 2013 unemployment rate for Long Island was 6.1 percent, which was below the national unemployment rate of 6.7 percent. Major employers in Long Island include North Shore-Long Island Jewish-Health Systems, Cablevision Systems, Diocese of Rockville Centre, SUNY at Stony Brook, Waldbaum's, Sparrow Inc., Winthrop South Nassau University Health System, Verizon Communications, The Home Depot Inc., and Pathmark Stores. Top industry sectors are education and health services (18.8 percent); government (15.8 percent); professional and business services (12.9 percent); and retail trade (12.5 percent).

The Following Table outlines basic demographic data for ENB's AA:

<b>Demographic Information for the Nassau-Suffolk MSA</b>						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	607	2.14	15.82	58.32	22.24	1.48
Population by Geography	2,832,882	2.32	17.95	58.87	20.71	0.15
Owner-Occupied Housing by Geography	766,459	1.02	14.16	61.25	23.57	0.00
Business by Geography	288,832	1.49	14.77	58.86	24.87	0.00
Farms by Geography	6,069	1.85	19.06	61.76	17.33	0.00
Family Distribution by Income Level	715,052	19.01	18.46	23.77	38.76	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	267,894	3.16	24.95	58.84	13.05	0.00
Median Family Income		101,543	Median Housing Value		501,660	
HUD Adjusted Median Family Income for 2013		105,900	Unemployment Rate (2010 US Census)		3.00%	
Households Below Poverty Level		6%				

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2010 US Census and 2013 HUD updated MFI

### Description of the New York County MSA– 35644

The New York County assessment area consists of all of Kings, Queens, and New York Counties. The New York County AA is also known as the New York-White Plains-Wayne, NY-NJ MSA (35644). The New York County assessment area consists of 1,718 census tracts. Within the geography, 161 tracts or 9.37 percent are low income; 468 or 27.24 percent are moderate income; 560 or 32.60 percent are middle income; and 478 or 27.82 percent are in upper income tracts. There are also 51 tracts or 2.97 percent listed as unknown by the US Census Bureau. Total population within the assessment is 6,321,295. The weighted average median family income is \$64,171. The assessment area consists of 1,409,000 families of which 633,871 or 44.99 percent are low-to-moderate income families.

According to the US Bureau of Labor Statistics, the 2013 unemployment rate was 7.8 percent, which was higher the national unemployment rate of 6.7 percent. Major employers in New York County include Metropolitan Transportation Authority, New York

City Health and Hospital, JPMorgan Chase, North-Shore Long Island Jewish Health System, Mount Sinai Medical Center, Continuum Health Partners Inc., NYU Langore Medical Center, Macy’s Inc., and Columbia University. Top industry sectors are education and health services (19.7 percent); professional and business services (15.1 percent); government (14.1 percent); and financial activities (10.2 percent).

The Following Table outlines basic demographic data for ENB’s AA:

Demographic Information for Kings-Queens-New York MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	1,718	9.37	27.24	32.60	27.82	2.97
Population by Geography	6,321,295	11.62	31.30	29.04	27.96	0.09
Owner-Occupied Housing by Geography	793,344	3.06	18.05	34.19	44.70	0.00
Business by Geography	554,454	6.89	20.01	22.66	46.63	3.81
Farms by Geography	2,134	3.98	17.53	26.05	50.23	2.20
Family Distribution by Income Level	1,409,002	28.18	16.81	16.73	38.28	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	633,871	19.68	41.62	26.95	11.74	0.00
Median Family Income HUD Adjusted Median Family Income for 2013 Households Below Poverty Level		64,171 66,000 17%	Median Housing Value Unemployment Rate (2010 US Census)		571,093 4.30%	

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2010 US Census and 2013 HUD updated MFI

## Conclusions with Respect to Performance Tests

### LENDING TEST

The bank’s performance under the lending test in the Nassau-Suffolk County and New York County AAs is rated “Satisfactory.” ENB’s quarterly average net loan-to-deposit ratio is reasonable and the bank originated a substantial majority of its loans within the bank’s AAs. The distribution of loans reflects reasonable penetration among businesses of different sizes. The geographic distribution of loans reflects excellent dispersion among geographies of different incomes.

### Loan-to-Deposit Ratio

ENB’s net loan-to-deposit (LTD) ratio is reasonable given the institution’s size, financial condition, and credit needs of the AAs. The bank’s net LTD ratio averaged 70.33 percent over the eleven quarters since the last CRA examination, with a quarterly low of 60.31 percent (June 30, 2012) and a quarterly high of 81.23 percent (June 30, 2011).

The quarterly average LTD ratio compares reasonably with other financial institutions of

similar size and assessment areas. Specifically, ENB ranks seventh among a total of eleven community banks located in Nassau, Suffolk, and Queens Counties. This analysis is based on a peer group of eleven similar situated institutions of comparable asset size and branch network. The average LTD ratio for these institutions was 75.48 percent, ranging from a low of 53.61 percent to a high of 88.99 percent.

### Lending in Assessment Area

ENB originated a substantial majority of its loans inside the AAs and meets the standard for satisfactory performance. ENB originated 92.50 percent by number and 88.82 percent by dollar inside the AAs during the evaluation period.

<b>Table 1 - Lending in Nassau-Suffolk &amp; New York County Assessment Areas</b>										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business Loans	74	92.50%	6	7.50%	80	42,543	88.82%	5,353	11.18%	47,896
Total	74	92.50%	6	7.50%	80	42,543	88.82%	5,353	11.18%	47,896

Source: Business Loan Sample 2011-2013.

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

ENB's lending to borrowers of different sizes meets the standard for satisfactory performance. Borrower distribution reflects reasonable penetration among business loans originated in the Nassau-Suffolk AA and the Kings-Queens-New York AA. Small businesses are defined as businesses with gross annual revenues of \$1 million or less.

#### Performance in the Nassau-Suffolk County AA

The distribution of loans reflects reasonable penetration among businesses of different sizes in the Nassau-Suffolk County AA. During the loan sampling period (2011-2013), the bank originated 59 percent of loans by number and 47 percent of loans by dollar to small businesses in this AA. ENB's performance is considered reasonable compared to demographic data, which indicates that approximately 76 percent of businesses in the AA are small businesses. Although the bank's performance is lower than demographic data, this is deemed adequate given ENB's performance context, which includes a highly competitive market for business loans.

The following table shows the distribution of commercial loans among different sized businesses in the AA:

<b>Table 2A - Borrower Distribution of Loans to Businesses in Nassau-Suffolk Assessment Area</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	76.32%	5.37%	18.31%	100%
% of Bank Loans in AA by #	59.18%	38.78%	2.04%	100%
% of Bank Loans in AA by \$	46.89%	52.93%	0.18%	100%

Source: Business Loan Sample 2011-2013 and 2013 Business Geodemographic Data.

### Performance in the New York County AA

The distribution of loans reflects reasonable penetration among businesses of different sizes in the Kings, Queens, and New York AA. During the loan sampling period, the bank originated 65 percent of loans by number and 72 percent loans by dollar to small businesses in this AA. ENB's performance is considered reasonable compared to demographic data, which indicates that approximately 71 percent of businesses in the AA are small businesses. In particular, the bank's percentage of loans by dollar exceeded the demographic comparator for this AA.

The following table shows the distribution of commercial loans among different sized businesses in the AA:

<b>Table 2B - Borrower Distribution of Loans to Businesses in Kings-Queens-NY Assessment Area</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	71.19%	6.11%	22.70%	100%
% of Bank Loans in AA by #	64.52%	19.35%	16.13%	100%
% of Bank Loans in AA by \$	72.45%	10.93%	16.62%	100%

Source: Business Loan Sample 2011-2013 and 2013 Business Geodemographic Data.

### **Geographic Distribution of Loans**

ENB's geographic distribution of loans represents excellent dispersion. This assessment is based on the excellent overall performance in both AAs (Nassau-Suffolk and Kings-Queens-NY). The percentage of loans made to businesses in low- and moderate-income census tracts exceeded the demographic data for these tracts.

### Performance in the Nassau-Suffolk County AA

The bank's performance in the Nassau-Suffolk County AA represents excellent dispersion throughout various income census tracts. During the loan sampling period, the bank originated 2.04 percent of loans in low-income census tracts and 14.29 percent of loans in moderate-income tracts. ENB's performance is considered excellent

when compared to the demographic data, which indicates 1.50 percent of all businesses in this AA are located in low-income census tracts and 14.85 percent are located in moderate-income census tracts.

The following table details the bank’s performance as compared to the percentage of businesses in each census tract income level.

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
Business Loans	1.50%	2.04%	14.85%	14.29%	58.92%	65.31%	24.72%	18.36%

Source: 2013 Business Demographic Data by Income of Tract

### Performance in the New York County AA

The bank’s performance in the Kings, Queens, and New York AA represents excellent dispersion throughout various income census tracts. During the loan sampling period, the bank originated 25.81 percent of loans in low-income census tracts and 32.26 percent of loans in moderate-income tracts. ENB’s geographic distribution of loans far exceeds the demographic data, which indicates approximately 6.88 percent of businesses in this AA are located in low-income census tracts and 20.00 percent are located in moderate-income census tracts.

The following table details the bank’s performance as compared to the percentage of businesses in each census tract income level.

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
Business Loans	6.88%	25.81%	20.00%	32.26%	22.67%	19.35%	46.64%	22.58%

Source: 2013 Business Demographic Data by Income of Tract

### **Responses to Complaints**

ENB has not received any CRA-related complaints in relation to its performance during the review period.

## **COMMUNITY DEVELOPMENT TEST**

ENB's performance under the community development (CD) test is rated "Satisfactory." The originated loans, investments and services demonstrate adequate responsiveness to the needs of the AAs.

### **Number and Amount of Community Development Loans**

The amount of CD loans originated is adequately responsive to the community needs. The total number and amount of qualified CD loans originated is 22 loans totaling \$9.79 million. All of the CD loans were originated in the Nassau-Suffolk County AA and benefit low- and moderate-income (LMI) individuals in the AA or the broader New York State. Proceeds of loans were primarily used to provide community services such as shelters for victims of domestic violence and the homeless, healthcare, and youth programs for LMI individuals. The bank also made two loans through the New York Bankers Association Small Business Emergency Loan Program to help finance a fund to assist small businesses impacted by the devastating effects of Hurricane Sandy.

There were no CD loans originated in the New York County AA and indicates poor responsiveness in this AA, but several of the CD loans originated in this evaluation period benefit the broader New York State or help small businesses in the New York area impacted by Hurricane Sandy. Given the bank's limited presence with no branches and the limited amount of LMI geographies and individuals in the New York County AA, the overall amount of CD loans originated in both AAs meets the standard for adequate performance.

### **Number and Amount of Qualified Investments**

The level of qualified investments is adequately responsive to the community needs of the Nassau-Suffolk and New York County AAs. ENB made four qualified investments during the evaluation period, totaling \$8.6 million. The investments met the criteria outlined in the interagency guidance and supported affordable housing and community services targeted to LMI individuals. Two were purchases of mortgage backed securities (MBS) where the underlying properties were located in FEMA designated disaster areas in the Nassau-Suffolk AA. One was an MBS where the underlying collateral was loans to LMI borrowers in the Nassau-Suffolk AA. The last was an investment in a minority-owned financial institution that serves LMI individuals in the New York County AA.

ENB made 78 donations during the evaluation period totaling \$217 thousand. The donations were responsive to the CD needs of the community and benefited the bank's AAs. They supported local organizations focusing on various CD initiatives, which included serving the needs of LMI individuals in the Nassau-Suffolk AA and broader New York State.

### **Extent to Which the Bank Provides Community Development Services**

The level of CD services offered in the bank's AAs is adequate. One out of the bank's four branches is located in a moderate-income tract of the Nassau-Suffolk AA. In addition, the bank offered a total of 33 CD services during the evaluation period that meet the definitions outlined in interagency guidance. The majority or 31 of the CD services benefit the Nassau-Suffolk County AA. CD services include providing financial services to individuals rebuilding after Hurricane Sandy, fund raising and technical assistance to organizations, which provide community services that benefit LMI individuals.

The remaining two CD services benefit the New York County AA. CD services include participation in affordable housing services for disabled LMI individuals and mentoring youth. CD services relate to the provision of financial services to LMI individuals directly through educational and financial literacy programs benefiting LMI individuals, and indirectly through education and technical assistance provided to CD organizations. CD services offered in each AA meets the standard for adequate performance.

### **Responsiveness to Community Development Needs**

The bank's offering of qualified CD loans, investments, and services are adequately responsive to CD needs of the AAs. The majority of the CD loans, investments, and services made during the evaluation period addressed affordable housing and community service needs for LMI individuals in the bank's Nassau-Suffolk County AA. There were fewer CD loans, investments, and services made in the New York County AA but based on the bank's limited branch presence and limited LMI geographies and individuals the bank met the standard for overall adequate responsiveness in this AA.

## **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.