



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**February 22, 2010**

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

The First National Bank of Groton  
Charter Number 1083

161 Main Street  
Groton, NY 13073-0038

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 CRA RATING: This institution is rated Outstanding.**

- The First National Bank of Groton (FNBG) meets the standard for satisfactory performance for originating loans within its combined assessment area (AA).
- FNBG's average loan-to-deposit ratio is more than reasonable and exceeds the standard for satisfactory performance based on the bank's financial condition, performance context, and AA credit needs.
- FNBG's distribution of loans by borrower income level and business size shows excellent penetration for all primary loan products in both AAs, and exceeds the standard for satisfactory performance.
- An analysis of the geographic distribution of loans would not be meaningful as all geographies (census tracts) in both AAs are designated middle-income.
- FNBG did not receive any CRA-related complaints during this evaluation period.

**SCOPE OF EXAMINATION**

We completed a review of the bank's lending activities for the time period since the last CRA examination, April 28, 2003 through December 31, 2009. The bank's primary products, considering both number and dollar amount of originated loans, included Home Mortgage Disclosure Act (HMDA) reportable loans, consumer loans, and business loans. Our determination of the bank's primary products was also consistent with information obtained through management discussions and the bank's business strategy.

Conclusions are based on the bank's 2007-2009 HMDA-LAR (Loan Application Register) data, and a sample of consumer loans and business loans originated between January 1, 2007 and December 31, 2009. Lending within this time period is consistent with performance throughout the full evaluation period.

**DESCRIPTION OF INSTITUTION**

FNBG is a \$116 million community bank with its main office located in Groton, New York. One branch office opened in February 1999, and is located in Moravia, New York, approximately ten miles from the main office. Both offices have a drive-up facility and an automated teller machine (ATM). There is also an off-site ATM at a convenience store in Moravia. The bank offers a traditional array of banking products and services, including telephone banking and online banking. Management did not close any offices during the evaluation period.

Groton and Moravia, New York, are rural communities approximately fifty miles north of Binghamton, New York, forty-five miles south of Syracuse, New York, and within fifteen miles

of Cortland and Ithaca, New York. Since 1984, when a primary employer in the area closed its manufacturing facility and eliminated approximately 1,200 jobs, Groton has become more of a bedroom community with many residents traveling to Ithaca or Cortland for work, shopping and services.

As of December 31, 2009, the bank's asset base included \$65.6 million (54%) in loans and \$47.7 million (41%) in investments. Total deposits were \$101.3 million. Real estate loans, both consumer and commercial, total \$42.7 million, or 65% of the loan portfolio. The remainder of the portfolio consists of \$7.3 million in commercial loans, \$14.9 million in consumer loans, and \$600 thousand in farm loans.

FNBG's business strategy is to deliver quality products and services at a reasonable cost in order to build long lasting customer relationships. The bank takes pride in its community involvement and responding to the needs of the individuals and businesses in the areas it serves. FNBG strives to ensure its products and services are consistent with the needs and desires of the community. The bank's business strategy does not focus on a particular type of lending, but rather being able to provide credit consistent with the nature and type of loans requested by its customers, and consistent with the credit-worthiness of the borrower. FNBG does not require a minimum loan amount for any loan product. The bank maintains a good reputation as a community leader and is active in community organizations. Management and the Board are committed to prudent growth and good financial performance.

There are no legal, financial, or other factors that would impede the bank's ability to help meet the credit needs in its AA. At the last CRA examination, dated April 28, 2003, FNBG received an "Outstanding" CRA rating.

## **DESCRIPTION OF ASSESSMENT AREAS**

FNBG's combined assessment area (AA) consists of six contiguous geographies (census tracts) in Cayuga, Tompkins, and Cortland counties. All geographies are designated middle-income. Since the combined AA contains geographies in a metropolitan statistical area (MSA) of New York State, and there is a branch located in this MSA, the combined AA actually consists of two smaller AAs. These two smaller AAs are evaluated individually under the CRA with respect to borrower distribution. The first AA (Ithaca MSA) consists of three census tracts in Tompkins County in the Ithaca MSA (MSA 27060). The main office is located in this AA. The second AA (non-MSA) consists of two census tracts in Cayuga County and one census tract in Cortland County, which are in a non-MSA area of New York State. The Moravia branch and the off-site ATM are located in this AA. The AAs meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income geographies.

The New York State unemployment rate for December 2009 was 8.8%; the Ithaca MSA (Tompkins County) and the non-MSA rates were 5.5% and 8.5%, respectively. Unemployment rates for Cayuga and Cortland Counties were 9.3% and 8.4%, respectively. General economic conditions are relatively stable however, they reflect the challenges and pressures resulting from current national economic conditions. Competition is relatively strong from various other financial institutions with offices in and around FBNG's combined AA.

During our examination, we contacted a local community development organization that focuses on affordable housing needs of low- to moderate-income families residing in an area included in the bank's AA. The organization also participates on projects with local businesses in conjunction with "Main Street" restoration initiatives. The organization is primarily reliant on grant funding through various state and federal programs. With respect to banking and credit needs, the contact indicated a continued need for home financing for first-time homebuyers and housing rehabilitation, especially in view of current economic conditions. The contact indicated that there is ample opportunity for participation by local financial institutions, and overall lending performance of local financial institutions is satisfactory.

#### Ithaca MSA Assessment Area

This AA has a total population of 14,235 in 3,752 families and 5,293 households. The AA consists of 18% low-income, 20% moderate-income, 27% middle-income, and 37% upper-income families. Of the 6,682 housing units in the AA, 60% are owner-occupied, 19% are rental units, and 5% are vacant. The median housing value in the AA is \$81,086 with a median housing age of 59 years. The 2000 U.S. Census Median Family Income for the MSA is \$52,980, which is used to determine the income designation of the MSAs geographies (all are middle-income). The 2009 Updated Median Family Income for the MSA is \$71,300. This figure is used to determine the income designation of individuals residing in this MSA and to evaluate the distribution by borrower income in the MSA AA. The updated median family income is based on information from the Department of Housing and Urban Development (HUD).

#### Non-MSA Assessment Area

This AA has a total population of 14,214 in 3,529 families and 4,991 households. The AA consists of 16% low-income, 18% moderate-income, 25% middle-income, and 42% upper-income families. Of the 7,001 housing units, 54% are owner-occupied, 20% are rental units, and 13% are vacant. The median housing value in the AA is \$79,375 with a median housing age of 58 years. The 2000 U.S. Census Median Family Income for non-MSA is \$41,761, which is used to determine the income designation of the non-MSA geographies (all are middle-income). The 2009 Updated Median Family Income for the non-MSA is \$54,900. This figure is used to determine the income designation of individuals residing in the non-MSA and to evaluate the distribution by borrower income in the non-MSA AA.

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

Conclusions are based on 2007-2009 HMDA-LAR data, a random sample of consumer loans, and a random sample of business loans. All loans were originated between January 1, 2007 and December 31, 2009.

#### HMDA Loans

The evaluation included all HMDA loans originated in 2007-2009, or 636 loans totaling \$21.3 million.

#### Consumer and Business Loans

For purposes of evaluating the bank's performance of lending within the combined AA, we chose a random sample of 20 loans for each product type, or 40 loans totaling approximately \$1.029 million. In order to evaluate the distribution of loans by borrower income and business

size in each AA we sampled 20 loans in each AA for each product type, or 80 loans totaling approximately \$1.674 million.

### Loan-to-Deposit Ratio

FNBG's loan-to-deposit ratio is more than reasonable. Since the last CRA examination, the bank's quarterly average loan-to-deposit ratio was 63%. FBNG is one of three banks operating in the AA with less than \$250 million in total assets. The other banks had an average loan-to-deposit ratio of 48% for the same time period.

### Lending in Assessment Area

FNBG originates a majority of loans inside its AA, as indicated by the table below.

<b>Table 1 - Lending in Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
HMDA	500	79%	136	21%	636	17,147,000	81%	4,134,000	19%	21,281,000
Consumer	18	90%	2	10%	20	168,740	96%	9,593	5%	178,333
Business	17	85%	3	15%	20	748,307	88%	102,077	12%	850,384
Totals	535	79%	141	21%	676	18,064,047	81%	4,245,616	19%	22,309,717

Source: Data reported under HMDA, random loan samples.

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

FNBG's lending to borrowers of different incomes and to businesses of different sizes within the Ithaca MSA AA shows excellent penetration for all primary loan products. Likewise, FBNG's lending to borrowers of different incomes and to businesses of different sizes in the Non-MSA AA also shows excellent penetration for all primary loan products. In the evaluation of borrower distribution of HMDA loans, we considered the portion of households living below the poverty level, which was 6.99% for the Ithaca MSA AA and 9.78% for the Non-MSA AA. Due to reasons of affordability, it is unlikely that those with incomes below the poverty level would be involved in home mortgage financing. Accordingly, this was considered in our evaluation of the bank's lending distribution to low-income borrowers. With respect to business lending, the demographic data indicates a high percentage of businesses with unknown or unreported revenue data. Therefore, less reliance was placed on results of the distribution of business loans than the distribution of HMDA and consumer loans. Discussions with management and other performance context information indicate that the vast majority of the businesses operating in the bank's AA are businesses with less than \$1 million in revenue. Refer to the following tables for the facts and data supporting the conclusions.

#### Borrower Distribution in the Ithaca MSA AA

<b>Borrower Distribution of Residential Real Estate Loans in the Ithaca 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
Home Purchase	18.47%	29.63%	20.12%	24.07%	26.76%	25.93%	34.65%	16.67%
Home Improvement	18.47%	36.26%	20.12%	24.73%	26.76%	23.08%	34.65%	15.38%
Refinance	18.47%	21.21%	20.12%	30.30%	26.76%	24.24%	34.65%	24.24%
TOTAL HMDA	18.47%	31.79%	20.12%	25.83%	26.76%	23.84%	34.65%	17.55%

Source: Data reported under HMDA; U.S. Census data.

<b>Borrower Distribution of Consumer Loans in the Ithaca AA</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	15.34%	45.00%	14.11%	35.00%	18.69%	10.00%	51.86%	10.00%

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

<b>Borrower Distribution of Loans to Businesses in the Ithaca AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	51%	2%	47%	100%
% of Bank Loans in AA by #	90%	10%	---	100%
% of Bank Loans in AA by \$	65%	35%	---	100%

Source: Loan sample; Dun and Bradstreet data

Borrower Distribution in the Non-MSA AA

<b>Borrower Distribution of Residential Real Estate Loans in the Non-MSA 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
Home Purchase	16.01%	15.00%	17.80%	17.50%	24.68%	40.00%	41.51%	27.50%
Home Improvement	16.01%	17.36%	17.80%	25.62%	24.68%	24.79%	41.51%	32.23%
Refinance	16.01%	10.81%	17.80%	27.03%	24.68%	21.62%	41.51%	40.54%
TOTAL HMDA	16.01%	15.66%	17.80%	24.24%	24.68%	27.27%	41.51%	32.83%

Source: Data reported under HMDA; U.S. Census data.

<b>Borrower Distribution of Consumer Loans in the Non-MSA AA</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	21.50%	35.00%	17.53%	40.00%	22.96%	10.00%	38.01%	15.00%

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

<b>Borrower Distribution of Loans to Businesses in the Non-MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	51%	2%	47%	100%
% of Bank Loans in AA by #	90%	10%	---	100%
% of Bank Loans in AA by \$	94%	6%	---	100%

Source: Loan sample; Dun and Bradstreet data

**Geographic Distribution of Loans**

This criterion is not applicable. All geographies in both AAs are designated middle-income. Therefore, an analysis of the geographic distribution of loans would not be meaningful.

**Responses to Complaints**

This criterion is not applicable. FNBG has not received any CRA-related complaints during this evaluation period.

**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.