



PUBLIC DISCLOSURE

May 18, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The National Union Bank of Kinderhook
Charter Number 929

One Hudson Street Kinderhook, NY 12106

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 this rating are as follows:

- The bank's average loan-to-deposit ratio is more than reasonable when compared to similarly situated institutions.
- Overall, the bank originated a majority of its loans within the assessment area, meeting the standard for satisfactory performance. By number the bank originated a substantial majority of its loans inside its assessment area. By dollar, the bank originated a majority of its loans within the assessment area.
- The distribution of loans to businesses reflects excellent penetration among businesses of different sizes in the bank's assessment area.
- The bank's geographic distribution of loans reflects reasonable dispersion throughout census tracts of different income levels.
- NUBK's community development (CD) performance demonstrates an adequate responsiveness to the CD needs of the AA through CD lending, investments, and services. This meets the standard for satisfactory performance.

Scope of Examination

National Union Bank of Kinderhook (NUBK) was evaluated under the Intermediate Small Bank evaluation procedures, which include a lending test and a community development (CD) test. The lending test evaluates the bank's record of meeting the credit needs of its assessment area (AA) through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AA through CD lending, qualified investments, and community development services. The evaluation period covers May 29, 2012 through May 18, 2015 and represents the time period between the start of the bank's prior and current CRA Performance Evaluation.

The lending test covers the bank's performance of originating covered loans between January 1, 2013 and December 31, 2014, as this is representative of its lending activities since the last CRA examination. NUBK's primary loan product was commercial mortgage loans during this time period. A random sample of commercial mortgage loans originated between January 1, 2013 and December 31, 2014 was selected to conduct our analyses and form conclusions regarding the bank's lending performance.

Description of Institution

The National Union Bank of Kinderhook (NUBK), established in 1853, is a local, community bank headquartered in Kinderhook, New York. Kinderhook lies approximately eighteen miles southeast of Albany, the state capital of New York. The bank is wholly-owned by Kinderhook Bank Corp., a one-bank holding company, and has one affiliate, Kleeber Insurance Services.

NUBK operates eight branch offices. The main office and three others are located in Columbia County, two are located in Albany County, and two are in Rensselaer County. The bank has opened two branches since the last CRA Performance Evaluation. A branch in Albany, Albany County, was opened in October 2014. A second branch was opened in Latham, Albany County in April 2015. The branch opened in Albany is the bank's first branch to be located in a LMI census tract. Branches offer a full line of banking services for both consumer and commercial customers. Branches offer traditional banking hours Monday through Friday with several branches offering extended lobby and drive-thru hours on Fridays. Six of the eight branches offer Saturday hours as well.

NUBK had total assets of \$367 million as of March 31, 2015. Total loans amounted to \$283 million while total deposits accounted for \$325 million. The bank's loan portfolio is primarily commercial real estate, \$180 million, \$89 million in residential real estate loans, \$33 million in commercial and industrial, and \$4 million in consumer and other loans. Of the \$180 million in commercial real estate loans, \$65 million is in multifamily lending. NUBK operates as a traditional commercial bank offering a variety of loan products for individuals and businesses. A majority of the bank's loan originations were commercial mortgage loans. Additionally, the bank continued to originate Small Business Administration loans.

NUBK operates in a competitive financial services market in the Albany area with multi-national, regional, and local institutions. There are no financial or legal impediments to hinder NUBK's ability to help meet the credit needs of the communities it serves. The bank received a "Satisfactory" rating on its prior CRA Performance Evaluation dated May 29, 2012.

Description of Assessment Area(S)

NUBK has one assessment area that consists of three contiguous counties within New York State. Two of the counties, Albany and Rensselaer, are located within the Albany-Schenectady-Troy Metropolitan Statistical Area (MSA). The third county, Columbia, is not in an MSA. It is part of the Hudson, NY Micropolitan Statistical Area. NUBK's assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. As the MSA area and the non-MSA area, however, have separate and distinct median family income values that are used to identify borrowers and census tracts that are low- or moderate-income, the bank has two assessment areas for analytical purposes of the lending test. The two assessment areas are described below:

Albany and Rensselaer Counties within the Albany-Schenectady-Troy MSA

Demographic Information for Full Scope Area: Kinderhook - Albany and Rensselaer AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	117	13.68	18.80	43.59	23.93	0.00
Population by Geography	463,633	12.16	17.94	42.30	27.60	0.00
Owner-Occupied Housing by Geography	114,605	5.47	13.73	49.00	31.80	0.00
Business by Geography	37,648	9.46	20.88	40.66	29.00	0.00
Farms by Geography	943	2.86	10.92	59.60	26.62	0.00
Family Distribution by Income Level	110,729	22.10	17.92	20.57	39.41	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	44,321	19.05	25.74	38.68	16.53	0.00
Median Family Income		74,739	Median Housing Value		184,240	
HUD Adjusted Median Family Income for 2014		74,739	Unemployment Rate (2010 US Census)		3.49%	
Households Below Poverty Level		12%				

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

Source: 2010 US Census and 2014 HUD updated MFI

The 2010 U.S. Census reported the total population of this assessment area at 463,633 living within 117 census tracts. Of the 117 census tracts, 13.68 percent are low-income geographies, 18.80 percent are moderate-income geographies, 43.59 percent are middle-income geographies, and 23.93 percent are upper-income geographies.

The 2011 HUD adjusted median family income for this assessment area was \$74,739. Within this assessment area, 22.10 percent of the families were low-income, earning a median income of \$37,370 or less; 17.92 percent were moderate-income, earning a median income of no more than \$59,791; and 12 percent of all households had incomes below the poverty level.

There are a total of 37,648 businesses in the assessment area. A majority of the businesses, 68.29 percent, reported revenues of \$1 million or less while the remaining 31.71 percent of businesses generated revenues greater than \$1 million or did not have revenue information available. Of the 37,648 businesses, 9.46 percent are located in low-income geographies, 20.88 percent in moderate-income geographies, 40.66 percent in middle-income geographies, and 29.00 percent in upper-income geographies.

The assessment area's principal city is Albany, the state capital of New York. Albany is known for its extensive history, culture, architecture, and institutions of higher education. Its economy is heavily dependent on the government, health care and education sectors, which are typically steady economic bases. Albany's economic base has grown increasingly dependent on the technology industry as jobs in the state government have decreased while technology jobs are on the rise. Albany is increasingly seen as a leader in nanotechnology, with the University at Albany's College of Nanoscale Science and Engineering being recognized as a national leader in the field. According to the Tech Valley Times, the research jobs generated by the start-up of research and development facilities will lead to spin-off of high tech industries that will remain in the area.

As of December 2014, the Bureau of Labor Statistics reported the unemployment rate in the Albany-Schenectady-Troy, NY MSA as 4.4 percent, compared to the state rate of 5.8 percent and the national rate of 5.6 percent.

During the evaluation period, OCC representatives met with several community development organizations operating in the assessment area. The organizations identified multiple items as community development needs including redevelopment of blighted areas in the Albany MSA; lending in low income neighborhoods; and financial literacy for both consumers and businesses.

Columbia County within the Hudson, NY Micropolitan Statistical Area

Demographic Information for Full Scope Area: Kinderhook - Columbia Non MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	21	0.00	0.00	42.86	57.14	0.00
Population by Geography	63,096	0.00	0.00	39.35	60.65	0.00
Owner-Occupied Housing by Geography	18,804	0.00	0.00	35.58	64.42	0.00
Business by Geography	5,248	0.00	0.00	39.88	60.12	0.00
Farms by Geography	395	0.00	0.00	40.51	59.49	0.00
Family Distribution by Income Level	16,799	13.81	15.75	17.47	52.97	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	4,966	0.00	0.00	50.60	49.40	0.00
Median Family Income		54,386	Median Housing Value		224,323	
HUD Adjusted Median Family Income for 2014		54,386	Unemployment Rate (2010 US Census)		3.48%	
Households Below Poverty Level		9%				

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

Source: 2010 US Census and 2014 HUD updated MFI

The 2010 U.S. Census reported the total population of this assessment area at 63,096 living within 21 census tracts. Of the 21 census tracts, none are low-income geographies, none are moderate-income geographies, 42.86 percent are middle-income geographies, and 57.14 percent are upper-income geographies.

The 2014 HUD adjusted median family income for this assessment area was \$54,386. Within this assessment area, 13.81 percent of the families were low-income, earning a median income of \$27,193 or less; 15.75 percent were moderate-income, earning a median income of no more than \$43,509; 9 percent of all households had incomes below the poverty level.

There are a total of 5,248 businesses in the assessment area. A majority of the businesses, 73.69 percent, reported revenues of \$1 million or less. The remaining 26.31 percent of business generated revenues greater than \$1 million or revenue information was not available. More than half of the businesses, 60.12 percent, are located in upper-income geographies followed by 39.88 percent in middle-income geographies.

As of December 2014, the Bureau of Labor Statistics reported the unemployment rate in the Hudson, NY Micropolitan Statistical Area as 4.7 percent, compared to the state rate of 5.8 percent and the national rate of 5.6 percent.

Conclusions with Respect to Performance Tests

LENDING TEST

NUBK met the standard for satisfactory performance under the lending test. The evaluation period for the lending test covered loans originated between January 1, 2013 and December 31, 2014. Based on the number and dollar amount of loans originated, it was determined that commercial mortgage loans were the bank's primary loan product over the evaluation period. A random sample of commercial loans originated in the bank's assessment area within the evaluation period was selected. This sample was used to conduct our analysis and form conclusions regarding the bank's lending performance.

Loan-to-Deposit Ratio

NUBK's quarterly average loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and the credit needs of the assessment area. This meets the standard for outstanding performance. The bank's average loan-to-deposit ratio over the last 12 quarters from 1Q12 to 4Q14 was 78.67 percent. During this period, NUBK's performance ranged from a low of 73.62 percent in 2Q12 to a high of 88.2 percent in 4Q14.

The bank's net loan-to-deposit ratio exceeds ratios of other community banks of similar size, location, and product offerings. Given the limited number of banks in bank's immediate assessment area, the peer group consists of three other banks. NUBK ranks first among the three banks in the peer group. The aggregate average net loan-to-deposit ratio of the other institutions was 62.51 percent, ranging from a low of 47.25 percent to a high of 75.63 percent over the 12 quarters from 1Q12 to 4Q14.

Lending in Assessment Area

NUBK, by number and dollar amount, originated a majority of its loans inside its assessment area. The following table details the bank's lending in the assessment area by number and dollar amount of loans. Based on our sample, 82.50 percent of the loans by number and 74.96 percent by dollar volume were within the bank's assessment area. Based on the number and dollar amount of loans originated in the assessment area, the bank met the standard for satisfactory performance under this criterion.

Table 1 -Lending in NUBK's Assessment Area										
Type of Loan	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial Mortgage Loans	33	82.50%	7	17.50%	40	\$21,093	74.96%	\$7,047	25.04%	\$28,141
Totals	33	82.50%	7	17.50%	40	\$21,093	74.96%	\$7,047	25.04%	\$28,141

Source: Commercial Mortgage Loan Sample Jan. 1, 2013 – Dec. 31, 2014

Lending to Businesses of Different Sizes

Conclusion for Albany and Rensselaer Counties

NUBK’s distribution of loans to businesses reflects excellent penetration among businesses of different sizes. 88.00% by number and 91.00% by dollar of NUBK’s originations were made to small businesses, those with less than \$1 million in annual revenues. This penetration significantly exceeds the percentage of small businesses in this portion of the AA. Only 68.29% of businesses in Albany and Rensselaer counties were considered small.

Borrower Distribution to Businesses in Albany and Rensselaer Counties				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Businesses	68.29%			100.00%
% of Bank Loans in AA by #	88.00%	12.00%	0.00%	100.00%
% of Bank Loans in AA by \$	91.00%	9.00%	0.00%	100.00%

Source: Commercial Mortgage Loan Sample Jan. 1, 2013 – Dec. 31, 2014; 2014 Business Geodemographic Data

Conclusion for Columbia County

NUBK’s distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. 80.00% by number and 74.24% by dollar of the bank’s loans were originated to small businesses. This is reasonable compared to the demographic comparator of 73.69%.

Borrower Distribution to Businesses in Columbia County				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Businesses	73.69%			100.00%
% of Bank Loans in AA by #	80.00%	20.00%	0.00%	100.00%
% of Bank Loans in AA by \$	74.24%	25.76%	0.00%	100.00%

Source: Commercial Mortgage Loan Sample Jan. 1, 2013 – Dec. 31, 2014; 2014 Business Geodemographic Data

Geographic Distribution of Loans

Conclusion for Albany and Rensselaer Counties

The bank’s geographic distribution of loans reflects reasonable dispersion throughout census tracts of different income levels, meeting the standard for satisfactory performance. NUBK made 20.00 percent of its commercial mortgages to businesses in low income tracts, which significantly exceeds the percent of businesses in low income tracts. The percentage of loans to businesses in moderate income tracts was reasonable compared to the percentage of businesses in moderate tracts. Taken together, the bank had reasonable dispersion for low and moderate income tracts, exceeding the percent of businesses in those geographies.

Geographic Distribution of Commercial Loans in Albany and Rensselaer Counties								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Commercial Mortgage Loans	% 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
% of Total	9.46%	20.00%	20.88%	20.00%	40.66%	48.00%	29.00%	12.00%

Source: Commercial Mortgage Loan Sample Jan. 1, 2013 – Dec. 31, 2014; 2014 Business Geodemographic Data

Conclusion for Columbia County

NUBK’s geographic distribution of loans reflects reasonable dispersion throughout census tracts of varying income levels. There were no low or moderate income census tracts in Columbia County over the evaluation period. This is considered reasonable as there were no low or moderate income tracts for the bank to make loans within.

Geographic Distribution of Commercial Loans in Columbia County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Commercial Mortgage Loans	% 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
% of Total	0.00%	0.00%	0.00%	0.00%	39.88%	30.00%	60.12%	70.00%

Source: Commercial Mortgage Loan Sample Jan. 1, 2013 – Dec. 31, 2014; 2014 Business Geodemographic Data

Responses to Complaints

NUBK did not receive any CRA complaints during this evaluation period.

COMMUNITY DEVELOPMENT TEST

NUBK’s CD performance represents adequate responsiveness to the CD needs of its AA, meeting the standard for satisfactory performance.

Number and Amount of Community Development Loans

NUBK CD lending met the standard for satisfactory performance. Despite significant competition from multi-national, regional, and local financial institutions, NUBK found opportunities within its assessment area and broader regional area to originate community development loans. Overall, the CD loans originated within both of the bank’s assessments areas total \$13.4 million, and represent 36.6 percent of net tier one capital of \$36.6 million, as of March 31, 2015. The bank met the needs of its assessment area and made additional community development loans outside of the AA. The bank originated twenty-three (23) loans totaling \$19.2 million in neighboring counties, which included LMI job creation and affordable housing.

Conclusions for the Albany and Rensselaer Counties

National Union Bank of Kinderhook's community development lending reflected adequate responsiveness to the needs of the community and met the standard for satisfactory performance. NUBK originated twenty nine (29) CD loans totaling \$11,053,253 within the MSA during the evaluation period. Community development loans were responsive and met a wide range of community needs including affordable housing, revitalization and stabilization, and economic development. CD loans originated by NUBK that would not otherwise be identified as a small business loan are described below.

- \$558 thousand in loans to a developer that provides affordable housing in low and moderate income geographies. The rental units are offered at below market rates that provide affordable housing for low and moderate income individuals.
- \$571 thousand in loans to a developer to acquire abandoned buildings that were subject to fire damage in LMI census tracts. The lots were revitalized and used for rental units that provide affordable housing for the area.
- \$3.75 million to finance construction of a large hotel that acts as part of revitalization and stabilization efforts in low and moderate income geographies.
- \$130 thousand for a multifamily apartment complex that provides affordable housing within a low income tract.
- \$236 thousand to finance 8 rental units in a moderate income tract that have subsidized rental rates through HUD, providing affordable housing for the area.
- \$856 for revitalization and stabilization efforts in low and moderate income areas that provided rehabilitation of blighted properties.
- \$525 thousand to finance a property in a moderate income census tract. The property was renovated and aids in the stabilization efforts in the census tract and broader area.

Conclusions for Columbia County

The bank's record of originating CD loans in Columbia County represented adequate responsiveness to the needs of the community and met the standard for satisfactory performance. NUBK originated nine (9) loans totaling \$2,353,000 within Columbia County during the evaluation period. Community development loans were limited to loans to small businesses within the county. This is largely a result of the county not having any low or moderate income census tracts, limiting the bank's ability to originate CD loans.

Number and Amount of Qualified Investments

Over the evaluation period, and within its AA, NUBK's qualified investments were limited to thirty-nine (39) CD donations totaling \$27,471. This represents adequate responsiveness to the needs of the community and meets the standard for satisfactory performance.

Conclusions for Albany and Rensselaer Counties

The bank made twenty-five (25) donations totaling \$22,359.40 within these counties. Some of the largest donations, \$10,500 went to Excelsior College's lifetime learning program which provides scholarships to adults who have experienced financial hardships, with funds used to pursue additional education and training. \$2,500 was donated to Capitalize Albany Corporation. Capitalize Albany Corporation is a registered 501(c) (3) not-for-profit organization implementing programs and resources to create retain and attract business in the City of Albany. To obtain assistance, applicants must satisfy eligibility requirements and demonstrate a need for assistance.

Conclusions for Columbia County

NUBK made sixteen (16) qualifying donations totaling \$4,512.40 within the county. Notable donations include \$2,500 to the Food Bank of the Hudson Valley which is a not-for-profit organization. Its mission is to alleviate hunger and prevent food waste. The organization also actively participates in increasing hunger and poverty awareness. NUBK also donated to various other groups to support economic development and community services targeted to low- and moderate-income individuals.

Extent to which the Bank Provides Community Development Services

The bank demonstrates a satisfactory responsiveness to the CD services needs of the AA. CD development services were evaluated across both the MSA and non-MSA portions of the bank's AA as many organizations serve both parts of the AA, including the counties within the bank's MSA and non-MSA. NUBK participated in various CD services, which included board and committee meetings related to the financial needs of organizations and other financial-related committee work. Across all bank employees, NUBK volunteers approximately 500 hours annually to organizations that provide community development services in the bank's AA. Several of the CD services in which NUBK representatives participated are described below.

- The NUBK President serves as a Board Member & Treasurer for Columbia County Economic Development Corp which serves to promote economic development and small business growth in Columbia County.
- A NUBK Senior Vice President serves on the Financial Advisory Counsel for a non-profit organization that offers services to individuals, including homeless teens and those in LMI geographies.
- A NUBK Senior Vice President serves on the Executive Committee for a local University located in an LMI geography which provides financial assistance to local students.
- NUBK opened an additional branch in a low income census track within Albany County. This branch allows the bank to better serve LMI individuals located within the Albany MSA portion of its AA.

Responsiveness to Community Development Needs

NUBK's community development activities, as a whole, demonstrate adequate responsiveness to the needs and opportunities in both of its AAs. As identified above, needs include financial literacy, increased lending in LMI areas, and development of blighted areas. Many of the bank's CD loans addressed the need for affordable housing. Additionally, the bank made numerous donations to organizations providing community services and employees participated on multiple organizations and initiatives that provide community development services to the LMI population.

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.