



Public Disclosure

March 9, 1998

Community Reinvestment Act Performance Evaluation

**Bath National Bank
Charter Number: 10235
44 Liberty Street
Bath, New York 14810**

**Office of the Comptroller of the Currency
Syracuse Field Office
100 Elwood Davis Road
North Syracuse, New York 13212**

NOTE: 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.

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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 CRA performance of **Bath National Bank (BNB)** prepared by **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **March 9, 1998**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

Institution's CRA Rating: This institution is rated **"Satisfactory."**

The primary factors supporting the overall rating are:

- BNB's lending levels reflect good responsiveness to assessment area credit needs.
- A substantial majority (98%) of BNB's home mortgages, small business and small farm loans are originated within the assessment area.
- The distribution of loan originations indicates a good penetration of all geographies in the assessment area including moderate-income geographies.
- The distribution of loan originations indicates BNB originated loans to borrowers of all income levels including low- and moderate-income borrowers.
- BNB has a strong record of lending to small businesses and small farms through its own products and SBA guarantees exhibiting a good level of responsiveness to identified credit needs.
- BNB's level of community development investments is good and benefit primarily start-up and growing businesses .
- BNB's branch system, drive-up windows, and ATM's are accessible to all segments of the assessment area. The services offered are adequate to meet the needs of the community.

The following chart indicates the performance level of BNB with respect to the lending, investment, and service tests:

Bath National Bank Performance Tests			
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X	X	
Low Satisfactory			X
Needs to Improve			
Substantial noncompliance			

* the lending test is weighted more heavily than the investment and service tests when arriving at an overall rating

Description of Institution

Bath National Bank (BNB) is a wholly-owned subsidiary of Bath National Corporation, a one-bank holding company headquartered in Bath, New York. BNB is a full-service financial institution offering several loan products including residential and commercial mortgages, commercial and agricultural loans, and a variety of consumer loans. BNB has 12 full-service banking offices throughout its assessment area (AA) with the main office located in Bath.

As of December 31, 1997, BNB's assets totaled \$272 million including \$163 million in loans representing 59% of total assets. The loan portfolio consists mainly of residential (42%) and commercial (10%) real estate mortgages. The remainder of the loan portfolio includes: commercial loans (26%), consumer loans (21%), and municipal loans (1%). There are no financial or legal impediments preventing BNB from meeting the credit needs of its community.

Competition is strong in the larger towns of Bath, Erwin, Penn Yan and Watkins Glen. Primary competitors include Fleet Bank, Chase, Marine Midland, Community Bank, N.A., National Bank of Geneva, Chemung Canal Trust, and Steuben Educators Credit Union. In the smaller towns, such as Dundee, competition is limited.

Description of Assessment Area

BNB has two defined assessment areas (AA) within the state of New York. The first AA includes all geographies in Steuben, Schuyler, and Yates Counties, and three geographies in eastern Allegany County adjacent to Steuben County. The second AA is adjacent to the first AA and includes three geographies in southern Livingston County and two geographies in southern Ontario County. The geographies in Livingston and Ontario Counties fall within the Rochester Metropolitan Statistical Area (MSA 6840). BNB's performance in MSA 6840 is detailed later in this report. Both AA's meet regulatory guidelines and do not arbitrarily exclude any low- or moderate-income (LMI) areas.

The information that follows in this section is combined information for the two AAs. The areas are combined to provide a complete picture of the situation and circumstances in which the bank operates. They are also combined due to their geographic proximity and the fact that there are no

salient characteristics in either AA that would require a separate review.

BNB's combined AA consists of 48 geographies, 42 of which are middle- or upper-income geographies. The six moderate-income geographies are located in the village of Dansville (1), the town of Naples (1), the city of Hornell (1), the villages of Bath and Savona (1), the towns of Jasper and Troupsburg (1), and the towns of Woodhull and Tuscarora (1). Additional information on the AA's demographics can be found in the table below.

ASSESSMENT AREA DEMOGRAPHICS				
Geography Income Level	# of Geographies	% of Total Geographies	% of Owner-Occupied Housing	% of Families in the AA
Low	0	0%	0%	20%
Moderate	6	13%	12%	21%
Middle	39	81%	81%	25%
Upper	3	6%	7%	34%
Total	48	100%	100%	100%

Source: 1990 Census Data, U. S. Bureau of Census

Based on 1990 U. S. Census Data, the population in the bank's AA is 174,602. The Housing and Urban Development's median family income for the entire AA is \$38,152. The Census Median Family Income for the Non-MSA portion of the AA is \$31,473. The 1997 adjusted median family income for the Non-MSA portion of the AA is \$37,100. The Census Median Family Income for the MSA portion of the AA is \$40,519. The 1997 adjusted median family income for MSA 6840 is \$47,200. We used 1997 adjusted median family income levels, both MSA and non-MSA, to assess BNB's performance in the borrower distribution element under the lending test. The median housing value is \$50,148. The median age of housing stock is 43 years. Total occupied housing units are 83%, with owner-occupied housing at 62% and rental occupied housing at 21%. Vacant housing units in the AA are 16%. As reflected in the above table, 12% of owner-occupied housing is located in moderate-income geographies.

There are many small businesses and small farms in the AA. In fact, 84% of the businesses and farms in the AA employ less than ten people; 96% of the employers in the area employ fewer than 50 employees. Area businesses encompass a wide cross-section of employers, including small and large manufacturing and service businesses, wholesale and retail businesses, small farms, and state and county governments. There are several major employers in the AA including the following: the Veterans Administration Medical Center, Philips Lighting, Mercury Aircraft, Clark Specialty, the Steuben County government offices, Corning Incorporated, Dresser-Rand, Polly-O, Haines Equipment Manufacturing, Gunlocke Furniture and GEC Alstrom.

The economic condition of the communities within the AA is generally stable. As of January 1998, unemployment rates in the AA range from a low of 5.3% in Yates County to a high of

10.7% in Allegany County. The January 1998 unemployment rates for the remaining counties in the AA are as follows: Ontario County 5.5%, Livingston County 6.7%, Schuyler County 8.0%, and Steuben County 8.1%. Unemployment rates in the area are highly seasonal, declining in the summer months during tourist and farming seasons. The unemployment for MSA 6840 and New York State unemployment for January 1998 was 4.7% and 6.6% respectively.

The primary credit needs as described by bank management and community contacts are affordable home purchase loans and small business loans.

Conclusions with Respect to Performance Tests

Examination Scope:

This review covered the time period from July 1, 1995 through March 9, 1998. We formulated our conclusions for the lending test based on BNB's originations during calendar years 1996 and 1997. Our conclusions for the lending test in 1996 were formulated based on a statistical sample of home mortgage, home equity, and small business and small farm loans. A statistical sample was necessary as BNB did not file the Home Mortgage Disclosure Act-Loan Application Register (HMDA-LAR) for 1996, and BNB was not required to collect small business and small farm loan data for 1996. For calendar year 1997, we reviewed HMDA reported loans and commercial loans. We also considered motor vehicle loans and consumer loans in our evaluation as management compiled the information for this year. Consumer loan originations for 1996 were not considered since BNB did not compile the relevant information. During our examination, we relied on several reports prepared by the bank. We reviewed all reports provided by management and verified their accuracy.

LENDING TEST

Lending Activity

BNB's lending levels reflect good responsiveness to AA credit needs. During 1997, BNB originated 400 HMDA reportable loans for \$10.9 million in the AA. We could not determine BNB's exact market share for 1996 or 1997 because (1) BNB did not file a HMDA-LAR for 1996 and (2) market share information for 1997 was not available at the time of this report.

BNB is a very active in small business and small farm lending. During 1997, BNB originated 344 loans to businesses and farms for \$20.7 million in the AA. We could not determine BNB's exact market share for 1996 or 1997 because (1) BNB did not compile small business and small farm data for 1996, and (2) market share information for 1997 was not available at the time of this report. During 1997, BNB ranked 11th out of 77 institutions within the Syracuse District's Small Business Administration (SBA) guaranteed loan program. Under this program, BNB originated 18 loans totaling \$2.5 million, far exceeding the number and amount of originations for banks of similar size. Several of those earning higher ranks are very large institutions including Key Bank, Marine Midland, Fleet Bank, and M&T Bank, and large community banks including Binghamton Savings Bank, Community Bank, N. A. and Evergreen Bank, N. A.

BNB's net loan-to-deposit ratio averaged 74.11% between July 1, 1995 and December 31, 1997 varying only three percent from the average with a low of 71.66% at March 31, 1996 and a high of 76.88% at December 31, 1997. BNB's average loan-to-deposit ratio is reasonable given that the average loan-to-deposit ratio during the same time period for three similarly situated banks within the AA area ranged from 62.59% to 81.22%.

Assessment Area Concentration

As indicated in the next table, BNB demonstrates a substantial majority of its originations are within the AA. Analysis of all originations from January 1, 1997 through December 31, 1997, indicates that 98% of the number and 96% of the dollar amounts of all loan originations are inside the AA. The following table details BNB's residential real estate loans, small business and farm loans, and consumer loans originated in 1997. Consumer loans include motor vehicle loans, credit cards, and secured and unsecured loans.

HMDA Reportable, Small Business and Small Farm, and Consumer Loan Originations January 1, 1997 through December 31, 1997						
Loan Type	Total #	# in AA	% by Loan Type	Total \$ (in 000's)	\$ in AA (000's)	% by Loan Type
HMDA Loans	407	400	98%	\$11,227	10,862	97%
Small Business	275	265	96%	\$19,013	18,232	96%
Small Farm	81	79	98%	\$2,524	2,455	97%
Consumer	2,359	2,301	98%	\$12,812	12,324	96%
Totals	3,122	3,045	98%	\$45,576	43,873	96%

Source: 1997 HMDA reports, small business and small farm data collection reports, and CRA data entry software reports.

Based on our sample of 22 home mortgages and 27 home equity loans originated in 1996, 100% of originations are in the AA. Of the 46 commercial loans sampled, we found 44, or 96% of the number, and \$2.2 million, or 97% of the amount of small business and small farm loans originated, are in the AA which is consistent with 1997 results. Based on our sample, we can conclude that a substantial majority of home mortgage, home equity, small business, and small farm loans originated during 1996 are within the AA. In all loan categories sampled, our results are 90% accurate. Please refer to the table on the following page for sample information.

Home Mortgage, Home Equity, and Small Business and Small Farm Loan Originations Sample of originations from January 1, 1996 through December 31, 1996						
	Total # originations	Sample # originations	% of total	Total \$ originations (in 000's)	Sample \$ originations (in 000's)	% of total
Home Mortgage	216	22	10.2%	\$12,733	\$1,038	8.2%

Home Mortgage, Home Equity, and Small Business and Small Farm Loan Originations Sample of originations from January 1, 1996 through December 31, 1996						
Home Equity	266	27	10.2%	\$6,505	\$628	9.7%
Small Business and Small Farm	432	46	10.6%	\$22,070	\$2,263	10.3%
TOTALS	914	95	10.4%	\$41,308	\$3,929	9.5%

Source: Monthly new loan reports for 1996.

Geographic Distribution

Home Mortgage Lending

Our review of BNB's geographic distribution of 1997 HMDA reportable loans, and our sample of 1996 home mortgage and home equity loans reflects good penetration throughout the AA including moderate-income geographies. The geographic distribution of 1997 HMDA reported loans indicates 12% of the number and dollar volume of originations are in moderate-income geographies. This compares favorably to the demographic data for BNB's AA which indicates 12% of owner-occupied housing is in moderate-income geographies and 12% of the geographies in the AA are moderate-income geographies.

Our data indicates that only one moderate-income geography was not penetrated by BNB during 1997 - census tract 9609 in Steuben County. Although we cannot compare 1997 data to loans from other lenders during 1997 as the comparative data is not available, we can use 1996 HMDA data from other lenders to get a general indication of the activity in that geography. During 1996, the top nine lenders originated a total of 12 loans in this area with the number one lender originating two loans. This particular census tract has only 52% owner-occupied housing which is one reason for the low penetration by all lenders in this census tract. The table below details BNB's HMDA reported loans by geography.

Geographic Distribution of HMDA Loan Originations January 1, 1997 through December 31, 1997					
Income Level of Geography	# of Loans	%	\$ (in 000's)	%	% Owner-Occupied Households in the AA
Low	0	0%	0	0%	0%
Moderate	46	12%	\$1,262	12%	12%
Middle	350	87%	\$9,211	85%	81%
Upper	4	1%	\$389	3%	7%
Total	400	100%	\$10,862	100%	100%

Source: 1997 HMDA-LAR.

Based on our sample of home mortgages and home equity loans originated between January 1, 1996 through December 31, 1996, 18% of the total number and 20% of the total dollar amount of loans were originated in moderate-income geographies which compares favorably to the distribution of owner-occupied households in the AA. The remainder of originations were in

middle-income geographies.

Small Business Loans

BNB's geographic distribution of small businesses loans and small farm loans is good. For the calendar year 1997, 21% of the number of originations and 22% of the dollar volume for small business and farm loans are in moderate-income geographies. The table below breaks down the geographic distribution of 1997 business and farm loans even further. Based on our statistical sample of business and farm loan originations for 1996, 27% of the number of originations and 29% of the dollar volume for small business and farm loans are in moderate-income geographies. The percent of originations for both 1996 and 1997 located in moderate-income geographies far exceed the percent of geographies in the AA at 13%.

Geographic Distribution of Business and Farm Loan Originations January 1, 1997 through December 31, 1997									
Income Level of Geographies	Small Business Loans				Small Farm Loans				Distribution of Geographies
	#	%	\$	%	#	%	\$	%	
Low	0	0%	0	0%	0	0%	0	0%	0%
Moderate	61	23%	\$4,192	23%	12	15%	\$361	15%	13%
Middle	199	75%	\$12,415	68%	67	85%	\$2,094	85%	81%
Upper	5	2%	\$1,625	9%	0	0%	0	0%	6%
Total	265	100%	\$18,232	100%	79	100%	\$2,455	100%	100%

Source: 1997 small business and small farm reports. All dollar amounts are in 000's.

Another indication of BNB's strong business and farm lending program is a comparison of business and farm loans to the percent of businesses and farms located in moderate-income geographies within the AA. Of the 4,739 businesses and farms in the AA, 639 or 13% are located in moderate-income geographies. Again, the percent of business and farm loan originations in moderate-income geographies in both 1996 and 1997 far exceed the percent of businesses and farms located in moderate-income geographies. BNB's strong commitment to business and farm lending is evident in its recently enhanced commercial and agricultural business call program. BNB employs an individual with 20+ years of experience as an agricultural lender to identify farmers in need of financing. Additionally, BNB employs a retired banker with 30+ years experience to call upon existing commercial customers, as well as locate new business customers.

Consumer Lending

BNB's lending to consumers in all portions of its AA is good. Based on originations for 1997, 25% of the number and dollar volume of consumer loans are in moderate-income geographies. In comparison, 13% of BNB's AA consists of moderate-income geographies. The table below details BNB's consumer loan distribution by geography.

Geographic Distribution of Consumer Loan Originations January 1, 1997 through December 31, 1997										
	Income Level of Geography								Totals	
	Low		Moderate		Middle		Upper			
	0%		13%		81%		6%			
Loan Type	#	%	#	%	#	%	#	%	#	%
	\$	%	\$	%	\$	%	\$	%	\$	%
Motor Vehicle	0	0%	224	26%	649	74%	3	<1%	876	100%
	0	0%	\$1,716	26%	\$4,768	74%	\$15	<1%	\$6,499	100%
Credit Card	0	0%	60	22%	211	78%	0	0%	271	100%
	0	0%	\$192	25%	\$584	75%	0	0%	\$776	100%
Other Secured Loans	0	0%	69	26%	199	74%	0	0%	268	100%
	0	0%	\$546	24%	\$1,753	76%	0	0%	\$2,299	100%
Other Unsecured Loans	0	0%	225	25%	661	75%	0	0%	886	100%
	0	0%	\$687	25%	\$2,063	75%	0	0%	\$2,750	100%
Totals	0	0%	578	25%	1,720	75%	3	<1%	2,301	100%
	0	0%	\$3,141	25%	\$9,168	74%	\$15	1%	\$12,324	100%

Source: Bank generated CRA data entry software reports. **Bold numbers indicate % of geographies in AA.**

Borrower Characteristics

BNB's lending performance is good for the home purchase, home improvement, and refinancing products to borrowers of all income levels including low- and moderate-income borrowers. BNB's originations to low-income borrowers for home purchase loans and refinances are below the distribution of family incomes in the AA.

The number of home improvement loan originations in 1997 for low- and moderate-income borrowers is 19% and 27% of the total number of originations, respectively. These percentages are in line with the borrower income distribution of low- and moderate-income families in the AA, 20% and 21%, respectively. The table on the following page shows BNB's lending performance to borrowers of different incomes for HMDA loans based upon the number and volume of originations from January 1, 1997 through December 31, 1997. The data for 1997 does not include two multifamily home loans totaling \$61 thousand as income information is not required.

Our sample of 1996 home mortgage loans and home equity loans and lines indicates good distribution of both loan types to moderate-income borrowers. The distribution of home equity loans and lines to low-income borrowers is in line with the distribution of low-income families in

the AA. The distribution of home mortgage loans to low-income borrowers is low similar to 1997.

Home Mortgage Lending - 1997

Borrower Characteristics of HMDA Loans within the AA by Loan Product Originations between January 1, 1997 and December 31, 1997					
Borrower Income Level	# of Loans	%	\$ Amount (in 000's)	%	% of families in the AA
<i>Home Purchase</i>					
Low	8	9%	\$82	2%	20%
Moderate	22	25%	\$466	11%	21%
Middle	21	24%	\$950	23%	25%
Upper	35	39%	\$2,580	62%	34%
Income NA	3	3%	\$89	2%	--
Totals	89	100%	\$4,167	100%	100%
<i>Home Improvement</i>					
Low	38	19%	\$293	11%	20%
Moderate	54	27%	\$569	20%	21%
Middle	59	29%	\$886	32%	25%
Upper	44	22%	\$977	35%	34%
Income NA	6	3%	\$53	2%	--
Totals	201	100%	\$2,778	100%	100%
<i>Refinancing</i>					
Low	7	6%	\$160	4%	20%
Moderate	27	25%	\$827	22%	21%
Middle	31	29%	\$1,007	26%	25%
Upper	41	38%	\$1,783	46%	34%
Income NA	2	2%	\$79	2%	--
Totals	108	100%	\$3,856	100%	100%

Source: 1997 HMDA-LAR.

Home Mortgage Lending - 1996

Borrower Characteristics within the AA by Loan Product					
Sample of Originations between January 1, 1996 and December 31, 1996					
Borrower Income Level	# of Loans	%	\$ Amount (in 000's)	%	% of families in the AA
<i>Home Mortgage</i>					
Low	0	0%	0	0%	20%
Moderate	6	27%	\$224	22%	21%
Middle	3	14%	\$123	12%	25%
Upper	12	55%	\$663	64%	34%
Income N/A	1	4%	\$28	2%	--
Totals	22	100%	\$1,038	100%	100%
<i>Home Equity Loans and Lines</i>					
Low	6	22%	\$120	19%	20%
Moderate	5	19%	\$119	19%	21%
Middle	3	11%	\$62	10%	25%
Upper	12	44%	\$320	51%	34%
Income N/A	1	4%	\$7	1%	--
Totals	27	100%	\$628	100%	100%

Source: OCC Sample from monthly new loan reports.

Small Business Lending

BNB's distribution of lending to small business by revenue size (gross annual sales) reflects good penetration of small businesses in the AA. The demographics of the AA indicate the majority of businesses and farms are very small. The table on the following page shows the distribution of small business and small farm loans by revenue size within the AA. For calendar year 1997, 89% of the number of originations and 76% of the dollar volume were to businesses and farms with revenues less than \$1 million. These statistics compare favorably to AA demographics which indicate 77% of the businesses and farms in the area have revenues of less than \$1 million. Based on our statistical sample of 1996 small business and small farm loans, 95% of the number and 97% of the amount were to businesses and farms with less than \$1 million in revenues.

Distribution of Small Business and Small Farm Loans by Revenue Size Originations from January 1, 1997 through December 31, 1997						
Loan Type	Revenue Size				Totals	
	<\$1 Million		≥\$1 Million			
	#	%	#	%	#	%
	\$	%	\$	%	\$	%
Small Business Loans	231	87%	34	13%	265	100%
	\$13,613	75%	\$4,619	25%	\$18,232	100%
Small Farm Loans	75	95%	4	5%	79	100%
	\$2,210	90%	\$245	10%	\$2,455	100%
Totals	306	89%	38	11%	344	100%
	\$15,823	76%	\$4,864	24%	\$20,687	100%

Source: 1997 small business and small farm reports. Amounts in 000's.

BNB's distribution of lending to small businesses by loan size is good and reflects BNB's responsiveness to the AA credit needs. The loan size generally correlates with business size. The table below shows the distribution of small business and small farm loans by loan size within the AA, based on the number of originations and dollar amounts. For calendar year 1997, 87% of the number of originations and 50% of the dollar volume have loan amounts less than or equal to \$100 thousand. For calendar year 1996, our sample indicates that 91% of the number of originations and 44% of the dollar volume have loan amounts less than or equal to \$100 thousand. The number of originations closely correlates to the distribution of small business and small farm loans by revenue size for the same time period.

Distribution of Small Business and Small Farm Loans by Loan Amount Originations from January 1, 1997 through December 31, 1997								
Loan Type	Loan Size						Totals	
	≤ \$100,000		\$100,001-\$250,000		\$250,000+			
	#	%	#	%	#	%	#	%
	\$	%	\$	%	\$	%	\$	%
Small Business Loans	224	85%	27	10%	14	5%	265	100%
	\$8,325	46%	\$4,685	26%	\$5,222	28%	\$18,232	100%
Small Farm Loans	76	96%	3	4%	0	0%	79	100%
	\$2,025	82%	\$430	18%	0	0%	\$2,455	100%
Totals	300	87%	30	9%	14	4%	344	100%
	\$10,350	50%	\$5,115	25%	\$5,222	25%	\$20,687	100%

Source: 1997 small business and small farm reports. Amounts in 000's.

Consumer Lending

Consumer lending to borrowers of different income levels is good. The table below indicates low- and moderate-income borrowers accounted for 64% of the number and 54% of the amount of consumer loans originated. This compares favorably to the distribution of low- and moderate-income families which account for 41% of the families in the AA.

Borrower Characteristics within the AA										
Consumer Loan Originations between January 1, 1997 and December 31, 1997										
Loan Type	Borrower Income Level								Totals	
	Low		Moderate		Middle		Upper			
	20%		21%		25%		34%			
	#	%	#	%	#	%	#	%	#	%
	\$	%	\$	%	\$	%	\$	%	\$	%
	Motor Vehicle	315	36%	241	28%	200	23%	120	13%	876
\$1,779		27%	\$1,758	27%	\$1,685	26%	\$1,277	20%	\$6,499	100%
Credit Card*	108	40%	66	25%	43	16%	52	19%	271	100%
	\$279	36%	\$184	25%	\$119	15%	\$188	24%	\$776	100%
Other Secured Loans**	58	22%	82	31%	67	25%	59	22%	268	100%
	\$368	16%	\$635	28%	\$587	26%	\$680	30%	\$2,299	100%
Other Unsecured Loans	348	39%	251	28%	177	20%	110	13%	886	100%
	\$814	30%	\$853	31%	\$593	21%	\$490	18%	\$2,750	100%
Totals*/**	829	36%	640	28%	487	21%	341	15%	2,301	100%
	\$3,240	26%	\$3,430	28%	\$2,984	24%	\$2,635	22%	\$12,324	100%

Source: Bank generated 1997 CRA data entry software reports. *Totals include two (2) loans totaling \$6 thousand for which borrower income was not available. **Totals include two (2) loans totaling \$29 thousand for which borrower income was not available. **Bold numbers indicate % of families in AA.**

Community Development Lending

BNB did not originate any loans during the evaluation period that would qualify under the definition of “community development lending.” BNB is located in a rural area of New York State; the opportunity to originate community development loans or participate in community development projects is minimal.

However, the bank did make a HMDA loan that has a community development purpose. The bank in conjunction with a non-profit organization, that provides affordable housing, has

purchased and renovated a property that was sold to a moderate-income borrower. Refer to Innovative and Flexible Lending Practices for complete details. This loan has been given credit under HMDA lending.

Innovative or Flexible Lending Practices

Since 1994 and almost annually thereafter, BNB has been involved in housing renovation projects to make housing available to low- and moderate-income borrowers. In 1994, BNB purchased a piece of property in Dundee, New York requiring major renovations. In a joint effort with Keuka Housing Council (KHC), KHC working as general contractor, the house was completely renovated by the Fall of 1995. KHC is a not-for-profit organization established to assist in providing affordable housing to everyone especially low- and moderate-income families. A moderate-income family purchased the house in May 1996 with a first mortgage from BNB. The KHC provided \$20 thousand in grant money from the New York State Affordable Housing Corporation Principal Reduction Program. The grant money is given to the customer in the form of a second mortgage. The borrower does not have to pay the grant money back unless he/she moves from the property within 10 years of purchase. After 10 years, the debt from the second mortgage is forgiven.

In 1997, BNB foreclosed on a house in the village of Bath. BNB is funding almost \$30 thousand in contractor costs and development fees. Steuben Citizens Against Poverty (SCAP) is acting as the developer and coordinating the renovations. SCAP is also a not-for-profit organization established to assist in providing affordable housing to everyone especially low- and moderate-income families. SCAP will find a low- or moderate-income buyer for the house. SCAP will also provide 20% of the purchase price in a grant through the New York State Affordable Housing Corporation Principal Reduction Program. At the time of this examination, the house was still going through renovations.

On February 25, 1998, BNB received approval to participate in the Rural Housing and Community Development Service's (RHCDS) Rural Housing (RH) loan guarantee program. Prior to BNB originating any eligible loans, the loan must be recognized by the local RHCDS who will allocate funds guaranteeing the loan. To be eligible, the applicant must meet several requirements including having an income less than 115% of the median income for the county and establishing residence in a rural area. Some benefits to the borrower include a loan-to-value ratio up to 100%, no downpayment, closing costs included in the loan amount, no private mortgage insurance, and a thirty year term. As of March 1998, BNB has submitted four loan packages totaling \$210 thousand for approval through Rural Development.

INVESTMENT TEST

BNB has been responsive to community development investment opportunities available in the AA. The bank has investments totaling over \$1million during the evaluation period. BNB was approached to become involved in a small business investment company (SBIC) benefitting companies in the area. On May 15, 1997, BNB's Board of Directors approved an investment in Cephas - SBIC. Cephas-SBIC is a limited partnership with six member financial institutions - BNB, Letchworth Independent Bancshares Corporation, Canandaigua National Bank and Trust

Corporation, Chemung Financial Corporation, the First National Bank of Rochester, and the Tompkins County Trust Company. Cephas-SBIC is the limited partner to the general partnership of Cephas LLC managed by three general partners. The general partners in Cephas LLC committed \$100 thousand in capital; the limited partners committed \$9.9 million including BNB's \$990 thousand. To date, BNB has funded \$350 thousand of its \$990 thousand commitment.

BNB is also a member of the New York Business Development Corporation (NYBDC). NYBDC pools resources with financial institutions, shareholders, and the New York State Common Retirement Fund to provide creative and innovative financing to small- and medium-sized businesses across New York State. Funding packages for borrowers consist of 50% from NYBDC or a financial institution, 40% from the Empire State Certified Development Corporation (ESCDC), and the remaining 10% from the borrower. The ESCDC is a not-for-profit corporation established to provide SBA 504 second mortgage loans to borrowers. BNB's 1997 investment in NYBDC totaled \$18 thousand.

SERVICE TEST

Retail Banking Services

BNB's delivery systems are reasonably accessible throughout the assessment area, as described below. Eleven (92%) of BNB's offices are in middle-income geographies with one office (8%) located in a moderate-income geography (Naples, New York). As a comparison there are six (13%) moderate-income geographies in the AA, thirty-nine (81%) middle-income geographies, and three (6%) upper-income geographies in the AA. Seven of the twelve offices have drive-up facilities including the Naples office. Eleven of twelve offices have 24 hour ATM facilities including the Naples office, however, BNB's ATM's do not take deposits. Only three of the eleven ATM - accessible branches are connected to widespread ATM networks; the remaining eight ATM's are accessible only to BNB customers.

Branch hours are reasonable and convenient to BNB customers. Offices with drive-up facilities open at 8:30 A.M. with lobbies opening at 9 A.M. One branch located in the Wayland-Cohocton Central School is open three to four days per week for two hours each day. The branch is accessible to students, faculty, and the general public. Four offices (Atlanta, West-End, Penn Yan, and Erwin) have Saturday hours from 9 A. M. to 12 P. M. The Watkins Glen office, located in a grocery store, is open 9 A.M. to 7 P.M. during the week, 9 A.M. to 4 P.M. on Saturdays, and 9 A.M. to 2 P.M. on Sundays. Additionally, customers can transact business through the mail and by phone.

The bank's record of opening or closing offices has not affected the public's accessibility to bank services. Since our last examination, BNB opened five offices, (Wayland-Cohocton, Windmill, Penn Yan, Erwin, Watkins Glen) all in middle-income geographies, improving access for some areas. BNB closed one branch located in a middle-income geography. This branch known as "The Windmill" branch closed October 31, 1997. The Windmill branch was a seasonal branch

located in a farming co-operative. The branch was open only Saturday and Sunday between April and December. The branch mainly served the co-operative's vendors. The branch was closed due to lack of profitability and activity. The Penn Yan branch, located less than five miles from The Windmill branch, opened July 9, 1997, to serve these customers.

Community Development Services

An officer of the bank sits on the Board of Directors and the Loan Committee of the Regional Economic Development Energy Company (REDEC). Prior to November 1997, another BNB officer sat on REDEC's Loan Committee. REDEC provides gap funding at or below market rates for small businesses and expanding businesses in Steuben, Yates, and Schuyler Counties. REDEC takes second position to any financial institution funding the major portion of the loan.

A BNB officer serves as Treasurer of the Steuben County Churchpeople Against Poverty (SCAP). SCAP is a housing agency that builds and repairs homes for low income families and develops community residences for the mentally ill. It also operates a program to provide housing to special needs homeless families.

Another BNB officer is a member of the New York State Business Development Corporation's (NYBDC) Elmira Region Loan and Advisory Committee. This committee provides final approvals of NYSBC's loans in the Elmira Region.

BNB conducts home mortgage seminars throughout the year complete with Realtors, attorneys and contractors to educate the community about different aspects of buying a home.

FAIR LENDING EXAMINATION

A concurrent fair lending review did not identify any violations of the various anti-discrimination laws and regulations. However, during our review for compliance with HMDA, we noted that management did not file a HMDA-LAR for 1995 or 1996. Management accurately filed the HMDA-LAR for 1997.

Metropolitan Statistical Areas

Conclusions with Respect to Performance Tests in the Rochester MSA (MSA 6840)

BNB's performance in helping meet the credit needs of its assessment area in the Rochester MSA 6840 is consistent with its overall performance.

Summary of Institution's Operations in MSA 6840

BNB operates only one of its twelve branches in MSA 6840. The sole office is in Naples, New York which is located in a moderate-income geography. This office offers a full range of loan and deposit services and is accessible by ATM and drive-up facilities. BNB's business focus bank-wide, as well as in this MSA, is on small business and small farm lending, mortgage financing, and consumer loans.

Description of Rochester MSA 6840

BNB's AA's include 48 geographies, only five (10%) of which are located in the Rochester MSA. Of the five, two are moderate-income geographies; three are middle-income geographies. Approximately 33% of the owner-occupied households are located in the moderate-income geographies; the remaining 67% are located in the middle-income geographies.

The total population within these five geographies is just over 20 thousand or 2% of the entire Rochester MSA population. The Census Median Family Income for the Rochester MSA is \$40,519. The 1997 adjusted median family income for the Rochester MSA is \$47,200. The median housing value in this portion of BNB's AA is \$63 thousand.

The Rochester MSA includes six counties, the largest being Monroe County which includes the City of Rochester. Unemployment for MSA 6840 was 4.7% during January 1998 which is low compared with the state unemployment rate of 6.6%. However, the Rochester area continues to lose manufacturing jobs as large employers (e.g. Eastman Kodak, Xerox, and Bausch and Lomb) continue to downsize. The MSA has a total population of 1.1 million.

LENDING TEST

Lending Activity in the MSA Compared to the Overall AA

In 1997, BNB originated 400 HMDA reportable loans within the AA totaling \$10.9 million; 49 or 12% of the loans and \$1.3 million or 12% of the volume were within the MSA. During 1997, BNB originated 344 business and farm loans totaling \$20.7 million; 29 or 8% of the loans and \$1.6 million or 8% of the volume were within the MSA. Consumer loans originated in the AA in 1997 numbered 2,301 and totaled \$12,324 thousand. Approximately 13% of the number (310) and 13% of the amount (\$1,560) of loans were originated within the MSA.

Geographic Distribution of Loans

For 1997 HMDA reportable loans and 1996 home mortgage and home equity loans, BNB's penetration of the geographies in the MSA portion of the AA is good. As the table below indicates, 1997 HMDA loan originations in moderate-income geographies far exceeds the portion of owner-occupied households in the MSA portion of the AA. Based on a small sample of home mortgage and home equity loans originated in 1996, 100% of the loans originated fell within moderate-income geographies.

Geographic Distribution of HMDA Loan Originations January 1, 1997 through December 31, 1997					
Income Level of Geography	Number of Loans	%	\$ Amount in (000's)	%	% Owner-Occupied Households in the AA
Low	0	0%	0	0%	0%
Moderate	20	41%	\$571	46%	33%
Middle	29	59%	\$710	54%	67%
Upper	0	0%	0	0%	0%
Total	49	100%	\$1,281	100%	100%

Source: 1997 HMDA-LAR.

Small Business Loans

BNB's geographic distribution of small business and small farm loan originations within the MSA portion of the AA also indicates good penetration of the geographies especially moderate-income geographies. The table that follows details the distribution for both small business and small farm loan originations in 1997; further calculation indicates that 97% of the number of small business and small farm loans originated in 1997 fell within moderate-income geographies. This far exceeds the distribution of moderate-income geographies in the MSA portion of the AA at 40%. Sample data for 1996 also indicates that the majority of business loans originated in the MSA portion of the AA fell within moderate-income geographies.

Geographic Distribution of Small Business and Small Farm Loan Originations January 1, 1997 through December 31, 1997									
Income Level of Geographies	Small Business Loans				Small Farm Loans				Distribution of Geographies
	#	%	\$	%	#	%	\$	%	
Low	0	0%	\$0	0%	0	0%	\$0	0%	0%
Moderate	20	95%	\$1,311	99%	8	100%	\$242	100%	40%
Middle	1	5%	\$9	1%	0	0%	\$0	0%	60%
Upper	0	0%	\$0	0%	0	0%	\$0	0%	0%
Total	21	100%	\$1,320	100%	8	100%	\$242	100%	100%

Source: 1997 small business and small farm loan reports. Dollar amounts are in 000's.

Consumer Lending

BNB's geographic distribution of 1997 consumer loan originations in the MSA portion of the AA indicate 71% of the number and 73% of the amount of consumer loan originations are in moderate-income geographies. This penetration far exceeds the distribution of moderate-income geographies in the MSA portion of the AA which is 40%.

Geographic Distribution of Consumer Loan Originations January 1, 1997 through December 31, 1997										
	Income Level of Geography								Totals	
	Low		Moderate		Middle		Upper			
	0%		40%		60%		0%			
Loan Type	#	%	#	%	#	%	#	%	#	%
	\$	%	\$	%	\$	%	\$	%	\$	%
Motor Vehicle	0	0%	98	74%	35	26%	0	0%	133	100%
	0	0%	\$670	73%	\$249	27%	0	0%	\$919	100%
Credit Card	0	0%	27	75%	9	25%	0	0%	36	100%
	0	0%	\$102	88%	\$14	12%	0	0%	\$116	100%
Other Secured Loans	0	0%	24	71%	10	29%	0	0%	34	100%
	0	0%	\$147	74%	\$51	26%	0	0%	\$198	100%
Other Unsecured Loans	0	0%	72	67%	35	33%	0	0%	107	100%
	0	0%	\$213	65%	\$114	35%	0	0%	\$327	100%
Totals	0	0%	221	71%	89	29%	0	0%	310	100%
	0	0%	\$1,132	73%	\$428	27%	0	0%	\$1,560	100%

Source: 1997 Bank generated CRA data entry software reports. **Bold numbers indicate % of geographies in AA.**

Borrower Characteristics

BNB's 1997 HMDA data indicates a strong level of lending activity to low- and moderate-income borrowers in the MSA portion of the AA. Based on the number of 1997 HMDA loans, 31% of originations were to low-income borrowers and 29% were to moderate-income borrowers. This is very favorable given 20% of the families in this portion of the AA are low-income families and 25% are moderate-income families. Our sample of 1996 home mortgage and home equity loans supports this conclusion.

Home Mortgage Lending - 1997

Borrower Characteristics of HMDA Loans within the AA by Loan Product Originations between January 1, 1997 and December 31, 1997					
Borrower Income Level	# of Loans	%	\$ Amount (in 000's)	%	% of families in the AA
<i>Home Purchase</i>					
Low	1	14%	\$11	3%	20%
Moderate	2	29%	\$63	15%	25%
Middle	3	43%	\$270	67%	29%
Upper	1	14%	\$60	15%	26%
Totals	7	100%	\$404	100%	100%
<i>Home Improvement</i>					
Low	12	40%	\$123	26%	20%
Moderate	5	17%	\$117	25%	25%
Middle	5	17%	\$99	21%	29%
Upper	8	26%	\$128	28%	26%
Totals	30	100%	\$467	100%	100%
<i>Refinancing</i>					
Low	2	20%	\$50	14%	20%
Moderate	7	70%	\$266	76%	25%
Middle	1	10%	\$33	9%	29%
Upper	0	0%	0	0%	26%
Totals	10	100%	\$349	100%	100%

Source: 1997 HMDA-LAR. *Totals do not include two multifamily loans totaling \$61 thousand - income not required.

Small Business Lending

BNB's small business lending within the MSA portion of the AA reflects a good penetration of small businesses. The table below indicates 93% of the number of business loans originated were to businesses with less than \$1 million in revenues. The small sample for 1996 indicates 100% of the loans were to small businesses and small farms.

Distribution of Small Business and Small Farm Loans by Revenue Size Originations from January 1, 1997 through December 31, 1997						
Loan Type	Revenue Size				Totals	
	<\$1 Million		≥\$1 Million			
	#	%	#	%	#	%
	\$	%	\$	%	\$	%
Small Business Loans	20	95%	1	5%	21	100%
	\$1,206	91%	\$114	9%	\$1,320	100%
Small Farm Loans	8	100%	0	0%	8	100%
	\$242	100%	0	0%	\$242	100%
Totals	28	97%	1	3%	29	100%
	\$1,448	93%	\$114	7%	\$1,562	100%

Source: 1997 small business and small farm loan reports. Amounts in 000's.

The distribution of 1997 small business and small farm loans by loan amount indicate 90% of the loans were for amounts less than or equal to \$100 thousand, while the sample for 1996 indicates 100% of the loans were for amounts less than or equal to \$100 thousand.

Distribution of Small Business and Small Farm Loans by Loan Amount Originations from January 1, 1997 through December 31, 1997								
Loan Type	Loan Size						Totals	
	≤ \$100,000		\$100,001-\$250,000		≥ \$250,000+			
	#	%	#	%	#	%	#	%
	\$	%	\$	%	\$	%	\$	%
Small Business Loans	18	86%	1	5%	2	9%	21	100%
	\$447	34%	\$114	9%	\$759	57%	\$1,320	100%
Small Farm Loans	8	100%	0	0%	0	0%	8	100%
	\$242	100%	0	0%	0	0%	\$242	100%
Totals	26	90%	1	3%	2	7%	29	100%
	\$689	44%	\$114	7%	\$759	49%	\$1,562	100%

Source: 1997 small business and small farm loan reports. Amounts in 000's.

Consumer Lending

Consumer lending to borrowers of different income levels is good in the MSA portion of the AA. The data indicates 46% of the number of 1997 consumer loans were to low-income borrowers while 31% were moderate-income borrowers. This compares very favorably to the distribution of low- and moderate-income families in the MSA portion of the AA which is 20% and 25% respectively.

Borrower Characteristics within the AA Consumer Loan Originations between January 1, 1997 and December 31, 1997										
Loan Type	Borrower Income Level								Totals	
	Low		Moderate		Middle		Upper			
	20%		25%		29%		26%			
	#	%	#	%	#	%	#	%	#	%
	\$	%	\$	%	\$	%	\$	%	\$	%
Motor Vehicle	64	48%	36	27%	17	13%	16	12%	133	100%
	\$389	42%	\$251	27%	\$134	15%	\$145	16%	\$919	100%
Credit Card*	17	47%	13	36%	4	11%	2	6%	36	100%
	\$27	23%	\$60	52%	\$14	12%	\$15	13%	\$116	100%
Other Secured Loans**	12	35%	11	32%	7	21%	4	12%	34	100%
	\$45	23%	\$69	35%	\$44	22%	\$40	20%	\$198	100%
Other Unsecured Loans	49	46%	37	35%	14	13%	7	6%	107	100%
	\$113	35%	\$140	43%	\$51	15%	\$23	7%	\$327	100%
Totals*/**	142	46%	97	31%	42	14%	29	9%	310	100%
	\$574	37%	\$520	33%	\$243	16%	\$223	14%	\$1,560	100%

Source: 1997 Bank generated CRA data entry software reports. **Bold numbers indicate % of families in AA.**

Community Development Lending

As noted earlier in the Community Development Lending section, BNB has not originated any loans during the evaluation period that meet the definition of a “community development loan.”

Innovative or Flexible Lending Practices

BNB’s lending practices for the MSA include participation in the RHCDS’s guaranteed loan program. Please refer to the **Innovative or Flexible Lending Practices** section earlier in this report for details.

INVESTMENT TEST

BNB's investments for the MSA do not differ from those for the entire AA. Refer to the **Investment Test** section of this report for details.

SERVICE TEST

BNB has one branch with a drive-up facility and ATM in this MSA. This branch is not opened for business on Saturday or Sunday. BNB's services in the MSA do not differ from those for the entire AA. Please refer to the **Service Test** section of this report for details.

Community Development Services

BNB's Community Development Services for the MSA include conducting home mortgage seminars. Please refer to the **Community Development Services** section of this report for details.

Appendix

Scope of Examination

The table below lists the scope of the examination. Specifically, it lists the lending products reviewed, BNB's branches visited, and the time period covered in the review.

Scope of Examination			
Time Period Reviewed	July 1, 1995 through March 9, 1998		
Financial institution	Products Reviewed		
Bath National Bank, Bath, New York	We reviewed 1997 originations for Real Estate Loans reported on HMDA LAR, Small business and Small farm loans, and Consumer loans. Additionally, we chose a sample of 1996 originations for Home Mortgage loans, Home Equity loans and Commercial loans.		
List of Assessment Areas and Type of Examination			
Assessment Areas	Type of Exam	Branches Visited	Other Information
1. Ontario County - Rochester MSA 2. Allegany, Schuyler, Steuben and Yates Counties, NY	On-site	Main Office, Dundee Office	See "Description of Assessment Area"

Definitions

Low-Income means an individual income that is less than 50% of the area median income, or a median family income (MFI) that is less than 50%, in the case of a geography.

Moderate-Income means an individual income that is at least 50% and less than 80% of the area median income, or a MFI that is at least 50% and less than 80%, in the case of a geography.

Middle-Income means an individual income that is at least 80% and less than 120% of the area median income, or a MFI that is at least 80% and less than 120%, in the case of a geography.

Upper-Income means an individual income that is 120% or more of the area median income, or a MFI that is 120% or more, in the case of a geography.

Geography means a census tract or block numbering area.

HMDA loan means “home improvement loan”, “refinance loan” or “home purchase loan”.

Home purchase loan means any loan secured by and made for the purpose of purchasing a dwelling.

Home improvement loan means any loan that is for the purpose of repairing, rehabilitating, remodeling, or improving a dwelling or the real property on which it is located.

Refinance loan means any loan in which the existing obligation, involving either a home purchase or a home improvement loan, that is satisfied and replaced by a new obligation.

Community development means affordable housing and community services targeted to LMI individuals, activities that promote economic development by financing small businesses or farms, and activities that revitalize or stabilize LMI geographies.

Community development loan means a loan that has its primary purpose in community development, benefits the AA, and has not been reported or collected by the bank for consideration as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling.

Qualified investment means a lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Community development service means a service that has its primary purpose in community development, is related to the provision of financial services, and has not been considered in the evaluation of the bank’s retail banking services.