



PUBLIC DISCLOSURE

December 02, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Lyons National Bank
Charter Number 1027

35 William Street, Lyons, NY 14489

Office of the Comptroller of the Currency

5000 Brittonfield Parkway, Suite 102B, East Syracuse, NY 13057

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:

- The bank had a reasonable average loan-to-deposit ratio during the evaluation period.
- A majority of the home mortgage loans originated during the evaluation period were within the bank's assessment areas (AA).
- The bank had reasonable dispersion of home mortgage loans among census tracts of different income designations within the AAs.
- The bank had reasonable penetration of home mortgage loans to borrowers of different income levels within the AAs.
- The bank's community development performance demonstrated adequate responsiveness to community development needs through qualified lending, investments, and services.

Scope of Evaluation

The evaluation period covers the time period between October 12, 2010 and December 2, 2013. We reviewed loans originated between October 12, 2010 and December 31, 2011. This review period was representative of the entire evaluation period. We determined that home mortgage loans, consisting of loans reported on the bank's Home Mortgage Disclosure Act Loan Application Register (HMDA-LAR) were the bank's primary product. Loans reported on the HMDA-LAR include home purchase, home improvement, and home refinance loans. We confirmed the accuracy of the information reported on the bank's HMDA-LAR as part of the evaluation. Community development data was reviewed from the date of the last performance evaluation, October 12, 2010, through the start of this examination, December 2, 2013.

The bank has three AAs for purposes of CRA. The Rochester MSA AA includes portions of Wayne and Ontario Counties in the Rochester Metropolitan Statistical Area (MSA). The Non-MSA AA consists of portions of Cayuga, Seneca, and Yates Counties. The Syracuse MSA AA consists of one census tract in Onondaga County in the Syracuse MSA. Refer to the **Description of Assessment Areas** section for additional information on the bank's AAs. We weighted performance in the Rochester MSA and Non-MSA AAs more heavily, considering the level of lending activity, number of branches, and other resources, which were more concentrated in these AAs. Performance in the Syracuse MSA AA received the least amount of weight in our evaluation.

Description of Institution

The Lyons National Bank (LNB) is a \$720 million community bank headquartered in Lyons, New York (NY). Lyons is located midway between Rochester and Syracuse, NY. LNB is the only subsidiary of Lyons Bancorp, Inc., a one-bank holding company. LNB maintains 12 offices located in five NY State counties including Wayne, Ontario, Yates, Seneca, and Onondaga. In 2013, the bank opened a new branch in Canandaigua, NY.

As of September 30, 2013, LNB's loan portfolio totaled \$488 million and deposits were \$623 million. Total loans represented approximately 67% of the bank's total assets. Lending activity is centered in retail lending, primarily residential real estate mortgage loans, as well as, consumer loans. The bank also continues to target lending to small- and mid-sized businesses.

The bank has no legal or financial impediments that would hinder its ability to help meet the credit needs of its community. LNB's performance at the last CRA evaluation dated October 12, 2010 was rated "Satisfactory."

We contacted a local a non-profit low-income housing advocacy organization in Ontario County, which is part of the Rochester MSA AA. The community contact identified a need for better paying jobs and also more flexible loan programs to reduce the costs associated with purchasing a home.

Description of Assessment Areas

The bank has three contiguous AAs. The Rochester MSA AA consists of 31 census tracts including all of Wayne County and portions of Ontario County located in the Rochester MSA (40380). In 2013, the bank added an additional 14 census tracts in Ontario County to this AA with the opening of the branch in Canandaigua, NY on April 1, 2013. The 14 new census tracts are not included in our lending test evaluation, as they post-date the lending analysis period. The Non-MSA AA consists of 14 census tracts in portions of Yates, Seneca, and Cayuga Counties, which are not located in a MSA. In 2012, the bank added an additional two census tracts in Seneca County to the Non-MSA AA. These census tracts are not included in our lending test evaluation as they also post-date the lending analysis period. The Syracuse MSA AA consists of one census tract in Onondaga County located in the Syracuse MSA (45060).

Rochester MSA AA

The Rochester MSA AA consists of 31 census tracts in Wayne and Ontario Counties, including one low-income, four moderate-income, 24 middle-income, and two upper-income census tracts. Total population of the AA is 136,799 consisting of 36,181 families and 51,275 households. Of these families, 20.6% are low-income, 20.4% moderate-income, 25.7% middle-income, and 33.3% upper-income. There are 56,769 housing units in the AA, of which 68.3% are owner-occupied, 21.9% renter-occupied, and 9.8% vacant. Approximately 9% of the households are below the poverty level.

The median housing value in the AA is \$81,279. The table below further describes the distribution of the population, families, and households based on geographic income categories.

Selected Characteristics by Income Category of the Census Tract					
<i>Geographic Income Category</i>	<i>Census Tracts</i>	<i>Population</i>	<i>Families</i>	<i>Households</i>	<i>Owner-Occupied Units</i>
<i>Low</i>	3.23%	1.96%	1.59%	2.23%	1.05%
<i>Moderate</i>	12.90%	10.14%	9.55%	10.35%	8.43%
<i>Middle</i>	77.42%	78.32%	78.71%	78.69%	79.88%
<i>Upper</i>	6.45%	9.58%	10.15%	8.73%	10.64%
<i>Total</i>	100.00%	100.00%	100.00%	100.00%	100.00%

The 2000 US Census Median Family Income for the Rochester MSA is \$53,852. This figure is used to determine the income designation of the MSA's census tracts. The 2011 Updated Median Family Income for the MSA is \$67,800. This figure is used to evaluate the income level of borrowers. The Updated Median Family Income is based on information from the Department of Housing and Urban Development (HUD).

Nine of the bank's 12 branches are located in the Rochester MSA AA, with seven located in Wayne County. LNB originated approximately 57% of its AA HMDA loans in this AA. The bank was the 3rd largest originator of HMDA loans in this AA with an 8.19% market share behind a multinational bank and a local credit union. According to the FDIC's Deposit Market Share Report as of June 30, 2013, LNB's 46.98% market share in Wayne County ranked 1st among financial institutions. In Ontario County, LNB's deposit market share ranked 2nd at 17.27%.

Larger employers in Ontario and Wayne Counties are Finger Lakes Health Care, Hobart and William Smith College, Garlock Sealing Technology, and local county government offices and school districts. Agriculture, primarily dairy farming, remains an important part of the local economy.

Wayne and Ontario Counties had unemployment rates of 6.5% and 5.7%, respectively, as of August 31, 2013, compared to the state and national unemployment rates of 7.6% and 7.2%, respectively. During the evaluation period, the unemployment rates in Ontario County ranged from 6.7% to 7.8% and in Wayne County from 8.5% to 8.2%.

Non-MSA AA

The Non-MSA AA consists of 14 census tracts in Cayuga, Seneca, and Yates Counties. There are no low- or moderate-income census tracts in this AA. The AA contains 13 middle-income tracts and one upper-income tract. Total population of the AA is 56,886 consisting of 14,953 families and 21,496 households. Of these families, 17.5% are low-income, 19.2% moderate-income, 22.8% middle-income, and 40.5% upper-income. There are 25,895 housing units in the AA, of which 62% are owner-occupied, 20.5% renter-occupied, and 17.5% vacant. Approximately 11% of the households are below the poverty level. The median housing value in the AA is \$71,981. The table below

further describes the geographic distribution of the population, families, and households based on geographic income categories.

Selected Characteristics by Income Category of the Census Tract					
<i>Geographic Income Category</i>	<i>Census Tracts</i>	<i>Population</i>	<i>Families</i>	<i>Households</i>	<i>Owner-Occupied Units</i>
<i>Low</i>	0%	0%	0%	0%	0%
<i>Moderate</i>	0%	0%	0%	0%	0%
<i>Middle</i>	92.86%	93.6%	93.24%	93.64%	92.97%
<i>Upper</i>	7.14%	6.4%	6.76%	6.36%	7.03%
<i>Total</i>	100%	100%	100%	100%	100%

The 2000 US Census Median Family Income for the Non-MSA portions of NY State is \$41,761. The 2011 Updated Median Family Income for the Non-MSA is \$56,100.

Two of the bank's 12 branches (Waterloo and Penn Yan) are located in the Non-MSA AA. LNB originated approximately 37% of its AA HMDA loans in this AA. In 2011, LNB was the largest originator of HMDA loans in this AA, with a market share of 14.03%. According to the FDIC's Deposit Market Share Report as of June 30, 2013, LNB's 17.79% share of deposits in Yates County ranked it 3rd among financial institutions. In Seneca County, LNB's June 30, 2013 deposit market share ranked 4th at 8.66%. LNB did not rank in Cayuga County.

The largest employers in the Non-MSA AA are Gould Pumps/ITT, Waterloo Premium Outlets, Geneva General/Taylor Brown Hospital, Keuka College, and local county government offices and school districts. The local economy is similar to the Rochester MSA AA with a steady agricultural base, a declining manufacturing sector, and movement towards service and retail type industries.

Seneca, Yates, and Cayuga Counties have unemployment rates of 6.1%, 5.4%, and 6.7%, respectively, as of August 31, 2013, compared to the state and national unemployment rates of 7.6% and 7.2%, respectively. During the evaluation period, the unemployment rates in Yates County ranged from 6.0% to 7.5%, Seneca County from 7.5% to 7.9%, and Cayuga County from 7.5% to 8.1%

Syracuse MSA AA

The Syracuse MSA AA consists of one middle-income census tract in Onondaga County. Total population of the AA is 6,091 consisting of 1,681 families and 2,326 households. Of these families, 17.6% are low-income, 20.7% moderate-income, 22.3% middle-income, and 39.5% upper-income. There are 2,513 housing units in the AA, of which 76% are owner-occupied, 17% are renter-occupied, and 8% are vacant. Approximately 8% of the households are below the poverty level. The median housing value in the AA is \$81,400. The 2000 US Census Median Family Income for the Syracuse MSA is \$49,907. The 2011 Updated Median Family Income for the MSA is \$65,700.

The bank has one branch in the Syracuse MSA AA. LNB originated approximately 3% of its AA HMDA loans in this AA. According to the FDIC’s June 30, 2013 Deposit Market Share Report, LNB had a 0.29% share of deposits in the Syracuse MSA AA. LNB’s June 30, 2013 deposit market share in Onondaga County was 0.36%.

Onondaga County had an unemployment rate of 7.1%, as of August 30, 2013, compared to the 7.6% for the state and 7.2% for the nation. During the evaluation period, the unemployment rate trended downward from 9.9% to 7.8%.

Conclusions with Respect to Performance Tests

We focused our evaluation on borrower distribution of HMDA lending activity in the Rochester MSA and the Non-MSA AAs, as the vast majority of the bank’s HMDA loan originations were in these AAs. Our evaluation of geographic distribution was limited to the Rochester MSA AA, as the others do not have any low- and moderate-income census tracts. We placed the greatest emphasis on performance in the Rochester MSA AA, as this AA has the highest number of loan originations, the largest portion of bank deposits and most of the bank’s branches. We gave the least amount of weight to the Syracuse MSA AA.

LENDING TEST

Loan-to-Deposit Ratio

LNB’s average loan-to-deposit ratio during the evaluation period was reasonable. The bank’s average quarterly loan-to-deposit ratio since the last examination through September 30, 2013, was 71.49%. In comparison, six similarly situated institutions had average quarterly loan-to-deposit ratios ranging from 67.16% to 81.54% during the same period. The institutions used for comparison were headquartered in Central and Western NY, of similar size to LNB, and serve markets with characteristics similar to those served by LNB.

Lending in Assessment Areas (AA)

LNB originated a majority of its HMDA loans within the bank’s AAs. As noted in the table below, 80% of the number and 71% of the dollar amount of loans originated are within the AAs.

Lending in Assessment Areas										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
HMDA	907	80	229	20	1,136	86,347	71	34,595	29	121,033

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

The bank had reasonable penetration of HMDA loans to borrowers of different income levels during the evaluation period.

Rochester MSA AA

The borrower distribution of HMDA loans reflects reasonable penetration among borrowers of different income levels in the Rochester MSA AA. Lending to moderate-income borrowers exceeded the level of moderate-income families in the AA for home improvement and home purchase loans, and was slightly below the level for refinance loans. Home improvement loans to low-income individuals was in line with the level of low-income families in the AA. While lower than the level of low-income families in the AA, lending for home purchase and refinance loans to low-income borrowers was reasonable, considering the fact that 9% of the households in the AA were below the poverty level and unlikely to qualify for a home mortgage loan. The average house price in the AA is \$81 thousand, and with the low-income borrower earning at most \$34 thousand per year, affordability can negatively affect qualification. Despite these factors, LNB still ranked 3rd of 41 lenders who made home purchase loans to low-income borrowers in 2011. LNB ranked 11th of 27 lenders who made refinance loans to low-income borrowers in 2011 and was grouped with other local banks in the rankings. Larger savings banks, mortgage companies, and credit unions took a 62% market share of the low-income borrower refinance loans. Refer to the following table.

Borrower Distribution of HMDA Loans in the Rochester MSA AA								
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	20.6	12.5	20.4	26.7	25.7	21.0	33.3	39.8
Home Improvement	20.6	20.7	20.4	21.3	25.7	25.3	33.3	32.7
Refinance	20.6	5.9	20.4	17.7	25.7	25.1	33.3	51.3
Total	20.6	12.5	20.4	21.8	25.7	23.8	33.3	41.9

Non-MSA AA

The borrower distribution of HMDA loans reflects reasonable penetration among borrowers of different income levels in the Non-MSA AA. Lending to moderate-income borrowers exceeded the level of moderate-income families in the AA for home refinance loans and was somewhat below the level for home purchase and home improvement loans. However, in 2011 there were only 12 lenders who made loans to moderate-income borrowers in the AA; the top three, two regional banks and a credit union accounted 74% of these loans. This and the bank's limited number of branches in the AA made market penetration more difficult. Lending to low-income borrowers was well below the level of low-income families in the AA for home purchase, home refinance and home improvement loans. However, performance is reasonable considering the affordability of area housing and the 11% level of households below the poverty level. The average housing price in the AA is \$72 thousand, which makes affordability difficult

for the low-income borrower who is earning at most \$28 thousand per year. While these factors make qualifying borrowers more difficult, LNB still ranked 3rd (17% of loans for home improvement and 10% of loans for refinances) amongst nine low-income home improvement and nine refinancing lenders in 2011. The top two lenders were larger regional banks that booked 60% of home improvement loans and 55% of the refinance loans in 2011. LNB was 3rd amongst 18 low-income home purchase lenders. Two banks, a regional and large bank, accounted for 29% of the low-income home purchase loans. Refer to the following table.

Borrower Distribution of HMDA Loans in the Non-MSA AA								
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	17.5	6.9	19.2	16.2	22.8	26.2	40.5	50.8
Home Improvement	17.5	9.2	19.2	10.8	22.8	27.7	40.5	52.3
Refinance	17.5	5.6	19.2	21.0	22.8	18.2	40.5	55.2
Total	17.5	6.8	19.2	17.1	22.8	23.1	40.5	53.0

Syracuse MSA AA

The borrower distribution of HMDA loans reflects reasonable penetration to borrowers of different income levels in the Syracuse MSA AA. The percentage of home improvement and refinance loans to moderate-income borrowers well exceeded the percentage of moderate-income families in the AA. The percentage of home improvement loans to low-income borrowers also well exceeded the percentage of low-income families in the AA, although there were no refinance loans to low-income borrowers. The bank did not make any home purchase loans to low- or moderate-income borrowers; however, of the 25 residential real estate loans made in this AA during the lending evaluation period, only two were for home purchase. As part of our evaluation, we also considered the 8% level of households below the poverty level. Please refer to the following table.

Borrower Distribution of Residential Real Estate Loans in the Syracuse MSA AA								
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	17.5	0.0	20.7	0.0	22.3	0.0	39.5	100.0
Home Improvement	17.5	25.0	20.7	25.0	22.3	12.5	39.5	37.5
Refinance	17.5	0.0	20.7	33.3	22.3	6.67	39.5	60.0
Total	17.5	11.4	20.7	20.6	22.3	8.1	39.5	56.0

Geographic Distribution of Loans

The bank's geographic distribution of HMDA loans indicates reasonable dispersion across census tracts of different income levels. The geographic distribution of loans is based solely on lending in the Rochester MSA AA, as it is the only AA that has low- and moderate-income census tracts. This analysis would not be meaningful for the other two AAs due to the absence of low- and moderate-income census tracts in these AAs.

The percentage of HMDA loan originations for all loan types in both low- and moderate-income census tracts exceeded or was near the percentage of owner-occupied housing in the respective census tracts in the AA. Please refer to the following table.

Geographic Distribution of HMDA Loans in the Rochester MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	1.0	1.1	8.4	7.2	79.9	90.6	10.7	1.1
Home Improvement	1.0	0.6	8.4	11.3	79.9	84.9	10.7	3.1
Refinance	1.0	0.5	8.4	6.6	79.9	87.2	10.7	5.6
Total	1.0	0.7	8.4	8.2	79.9	87.7	10.7	3.4

Responses to Complaints

LNB did not receive any CRA-related complaints during the evaluation period.

COMMUNITY DEVELOPMENT TEST

LNB's community development (CD) performance is rated satisfactory. The bank's CD performance in the bank's AAs demonstrates adequate responsiveness to CD needs through CD loans, qualified investments, and services, as appropriate, considering the bank's capacity and the need and availability of such opportunities for CD in the bank's AAs. We gave performance in the Rochester MSA AA the most weight since the majority of the bank's resources, deposits, and branches, as well as, the only low- and moderate-income geographies are located in this AA. The bank's performance in the Syracuse MSA AA is of limited consequence given the size and nature of the AA, which is limited to one middle-income census tract.

Number and Amount of Community Development Loans

LNB demonstrates adequate responsiveness through its level of CD lending activity.

Rochester MSA AA

During the evaluation period, LNB originated or renewed nine CD loans totaling \$4.3 million. The largest loan is a line of credit for \$950,000, renewed annually during the evaluation period for programs and housing for developmentally challenged lower-income adults Wayne County. A majority of this organization's funding is from Medicaid and NY State. The bank also renewed a \$250,000 loan for an organization, which is 76% funded by NY State and Medicaid, and provides job training, human services and transitional housing for persons with physical disabilities. There was also a \$300,000 loan provided to a low-income housing authority and a \$300,000 loan provided to an anti-poverty organization. Finally, there was a \$375,000 loan to an entity that provides medical services to low-income migrant workers.

Non-MSA AA

During the evaluation period, LNB originated seven CD loans totaling \$1.2 million. The largest loan is a \$750,000 line of credit used for operations by an organization that works with low-income developmentally challenged individuals providing assistance with employment and housing.

Syracuse MSA AA

During the evaluation period, LNB did not originate any CD loans in the Syracuse MSA AA.

Number and Amount of Qualified Investments

LNB demonstrates adequate responsiveness through its level of CD investment activity.

Rochester MSA AA

During the evaluation period, LNB originated or renewed eight qualified investments totaling \$1.9 million. The largest was a one-year bond anticipation note to the moderate-income census tract of the Village of Lyons for \$750,000 for water system improvements and equipment purchases, which helped revitalize and stabilize the moderate-income census tract. In May 2013, the bank purchased \$685,000 of this bond and extended its maturity to 2027.

LNB provided donations of approximately \$8.6 thousand to various CD organizations, which support affordable housing and provide community services or employment training for low- and moderate-income people and/or geographies.

Non-MSA AA

During the evaluation period, LNB did not make any direct CD investments in Non-MSA AA.

Syracuse MSA AA

During the evaluation period, the bank did not make any direct CD investments in the Syracuse MSA AA.

Extent to Which the Bank Provides Community Development Services

LNB provides an adequate level of CD services through its office locations, banking products and services. LNB's overall involvement with CD organizations in the three AAs is adequate.

Throughout the evaluation period, the bank has appropriately provided banking services to low- and moderate-income census tracts. All of the bank's branches, with the exception of the main office branch, offer Saturday hours. The Penn Yan, Geneva and Seneca branches have community rooms, which are used by various community groups. The bank also maintains nine off-site ATMs, three of which are located in moderate-income census tracts.

Management is actively involved in many CD organizations. Four senior officers are actively involved as Board members, officers, or committee members in 11 CD organizations serving the bank's AAs. Other employees are likewise involved with various organizations.

Rochester MSA AA

A senior executive officer serves as a Board member to two organizations whose missions are to advance economic development, encourage business investment, and create jobs through small business loans and available tax credits. This executive also serves on the Board of a non-profit organization providing job training, housing and employment guidance to low-income disabled individuals. Approximately 76% of its revenue comes from the state and Medicaid.

A senior executive officer serves as a Board member of a local nonprofit organization that provides skill development and rehabilitation services to adults with disabilities. It also provides services for children with special needs at no cost with a significant amount of the clients from low- and moderate-income families, participates in a welfare-to-work program, and offers other essential services for the local community. He also is on the Board of an economic development organization serving a moderate-income census tract, as well as, a community center servicing a moderate-income tract.

An employee serves on the Board of an organization that promotes economic development by helping young business owners connect with the community in and around a moderate-income census tract.

An employee is on the Board of non-profit organization, which promotes business development in and around a moderate-income census tract.

An employee has served as the Treasurer of an organization that provides early education and child development skills for the families of migrant and seasonal workers.

An employee is the Treasurer of an economic development entity serving a moderate-income census tract.

An employee is a Board member and Treasurer of an organization, which provides services to persons with disabilities. The organization supports low-income people as approximately 76% of its funding comes from the state government and Medicaid. This employee is also board member of a childcare facility, which provides feeding programs for low-income children. Management reports the majority of children served here are low-income.

Non-MSA AA

A senior executive officer serves as a Board member of three organizations that promote economic development and business investment and create jobs through small business loans and available tax credits. He also serves on a Board of an organization that provides assistance and housing to persons with severe mental health issues.

Syracuse MSA AA

There were no services reported that qualified for CRA reporting. The bank has one branch serving the one census tract in this AA. While employees are active in this community, the activities do not qualify for CRA CD credit.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.