



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

Public Disclosure

December 6, 1999

Community Reinvestment Act Performance Evaluation

**Redwood National Bank
Charter Number: 10374
6 Market Street
Alexandria Bay, New York 13607**

**Office of the Comptroller of the Currency
Syracuse Field Office
231 Salina Meadows Parkway, Suite 105
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.

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 **Redwood National Bank (RNB)** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **December 6, 1999**. 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 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:

- RNB's average loan-to-deposit ratio since the last examination is 64%.
- A substantial majority of all loans originated are within the bank's assessment area.
- The distribution of mortgage loans among borrowers of different income levels is good.
- The geographic distribution of mortgage and commercial loans is reasonable.
- A majority of commercial loan originations are to small businesses and small farms.

DESCRIPTION OF INSTITUTION

RNB is a \$63 million community bank with its main office located in Alexandria Bay, New York, approximately 35 miles north of Watertown, New York. RNB is wholly owned by Northern New York Bancorp, Inc., a one-bank holding company. RNB has six branch offices located within a 50 mile radius of the main office. RNB opened its full-service Watertown branch in 1998 which also houses the loan operations center. At September 30, 1999, RNB had \$38 million in loans and \$59 million in deposits. Real estate loans (consumer and commercial) total \$31 million, or 82% of the loan portfolio. Commercial and consumer loans each total \$3.6 million, or 9% of the loan portfolio. RNB focuses primarily on real estate and commercial lending.

RNB provides a full range of loan and deposit products at all branch offices. Banking hours at four of the branches are 9:00 a.m. to 4:00 p.m. Monday through Thursday, and 9:00 a.m. to 5:00 or 6:00 p.m. on Friday. The Clayton office is open 8:30 a.m. to 5:00 p.m. Monday through Thursday, and 8:30 a.m. to 6:00 p.m. on Friday. The Watertown office hours are 8:30 a.m. to 4:00 p.m. Monday through Wednesday, and 8:30 a.m. to 6:00 p.m. Thursday and Friday. All branches are open on Saturday from 9:00 a.m. to Noon. The main office and two branches (Adams and Watertown) have drive-up facilities which are open slightly extended hours. Automated teller machines (ATM) are accessible 24 hours a day at three locations.

RNB is reasonably positioned to help meet the credit needs of the community. Competition stems from other large bank branches, but the strongest competition is from local credit unions and savings and loan institutions. The bank has no legal or financial impediments that would hinder its ability to help meet the credit needs of the community.

We last evaluated RNB's performance under the CRA as of October 10, 1995 which resulted in a "Satisfactory" rating. The time period for this public evaluation spans from October 1, 1995, through December 6, 1999.

DESCRIPTION OF THE ASSESSMENT AREA

RNB's assessment area (AA) consists of the 53 geographies in Jefferson and St. Lawrence counties. The geographies are designated as follows: four (8%) low-income, ten (19%) moderate-income, thirty-five (66%) middle-income, and three (5%) upper-income. One (2%) geography, housing primarily St. Lawrence University, is not designated for income purposes. All offices are located in Jefferson County. RNB includes St. Lawrence County in its AA since lending activity has begun to spread in this direction. However, the vast majority of RNB's lending occurs in Jefferson County nearest to its branch locations. RNB closed its Philadelphia branch in late 1998. However, this did not affect the bank's AA. The AA complies with the regulation and does not arbitrarily exclude any low- or moderate-income areas.

Two of the four low-income geographies house Clarkson University and State University of New York (SUNY) Potsdam. Housing in these geographies is primarily student rental housing. One

low-income tract is in the Village of Canton and contains only two housing units that are both rental properties. The remaining low-income geography is in the City of Watertown and also houses RNB's Watertown branch. Housing is also limited in this geography, and property is primarily store fronts and parking lots for downtown merchants and customers.

Four of the ten moderate-income tracts are located in Jefferson County. Three are in the City of Watertown and one houses the Fort Drum military base. The remaining six moderate-income geographies are in St. Lawrence County, a greater distance from RNB's branch network.

The AA's 223 thousand residents represent 55 thousand families with the following family income distribution: 22% low-income, 19% moderate-income, 24% middle-income, and 34% upper-income. The 1990 U. S. Census median family income, used to determine the distribution of geographies, is \$31,473. The Housing and Urban Development (HUD) updated median family income for 1999, used to determine borrower income distribution, is \$39,300. Owner-occupied units are 49% of total housing units, 28% of total housing units are rental occupied and 23% are vacant. The average housing cost in the AA is \$53 thousand.

Local economic conditions are relatively good and stable. Alexandria Bay remains a seasonal resort area, attracting tourists during the summer months. The Clayton and Watertown branches provide more stability to the bank's business. Businesses are primarily in the services and retail trade sectors. The area is highly dependent on the Fort Drum military base. Other major employers include: Watertown and Cape Vincent correctional facilities and Crowley Foods. There is also a large shopping mall and various shopping plazas in the Watertown vicinity. Unemployment rates for New York State, Jefferson County and St. Lawrence County are 5.1%, 7.0%, and 7.6%, respectively as of September 30, 1999. Community credit needs include mortgages and small business loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Our examination focused on loans originated between October 1, 1995 and December 6, 1999. We relied on a sample of 30 mortgage related loans totaling \$1.4 million and a sample of 30 commercial loans totaling \$2.1 million to determine the bank's lending performance.

Loan to Deposit Ratio

RNB's loan-to-deposit ratio meets the standard for satisfactory performance. RNB's average loan-to-deposit ratio for the last thirteen quarters is 64%. This is consistent with similarly situated banks whose average ratios range from 40% to 74%. Similarly situated banks include nine banks considered by management to be RNB's peers due to their location and/or asset size.

Lending in the Assessment Area

RNB exceeds the standard for satisfactory performance for lending in the AA. Our random sample of 30 mortgage loans disclosed 100% were originated in the AA. Likewise, our sample of 30 commercial loans disclosed 28 loans (93%) totaling \$2.1 million (99%) were in the AA.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

RNB's record of lending to borrowers of different incomes and to businesses of different sizes meets the standard for satisfactory performance. RNB has a good record of lending to borrowers of different incomes. Please refer to the following table. Mortgage lending to low-income borrowers is lower than the distribution of the families due to the difficulty a low-income borrower, with a maximum income of \$19,650, would have meeting basic underwriting criteria based on the median housing value of \$52,930. RNB offers a first-time homebuyer's program, which allows for reduced closing costs and associated fees, and has only a 5% downpayment requirement. However, borrowers must still meet reasonable debt/income ratio requirements and other underwriting criteria. Even under this program, a borrower earning the maximum of \$19,650 and financing a \$53,000 house for 25 years at 8.25% with \$2000 in property and school taxes would have a rather high housing debt ratio, which does not include other debt payments, of 34%. RNB's performance with respect to moderate-income borrowers is very good.

Borrower Distribution of Sampled Mortgage Loans

Income Level	# of Loans	%	\$ of Loans	%	Income Level of Families in AA
Low	3	10%	110,850	8%	22%
Moderate	9	30%	356,850	26%	19%
Middle	12	40%	641,600	47%	25%
Upper	6	20%	263,500	19%	34%
Total	30	100%	1,372,800	100%	100%

RNB's lending to businesses of different sizes is reasonable. Based on our sample of the 28 commercial loans originated in the bank's AA, 25, or 89% of the number of commercial loans originated, and \$1.8 million, or 84% of the dollar amount, are to businesses and farms with revenues of \$1 million or less. Dun and Bradstreet business demographic information indicates 91% of the businesses and farms within the AA that reported revenues have revenues of \$1 million or less.

Geographic Distribution of Loans

RNB's geographic distribution of originated loans meets the standard for satisfactory performance. The geographic distribution of mortgage and commercial loans reflects a reasonable dispersion throughout the AA given branch locations and demographic information. The geographic distribution of mortgage and commercial loans in moderate-income geographies is low because six of the ten moderate-income tracts are located in St. Lawrence County and not in close proximity to RNB branches. RNB does not have any branches in St. Lawrence County. Additionally, one of the four moderate-income tracts in Jefferson County, where the majority of lending occurs, consists of the Fort Drum military base, again limiting the opportunity for mortgage and small business lending. Despite these restrictions, our sample still revealed reasonable penetration in the three remaining moderate-income tracts. Please refer to the following tables.

Geographic Distribution of Sampled Mortgage Loans

Tract Designation	# of Loans	%	\$ of Loans	%	Owner-Occupied Housing
Low	0	0%	0	0%	<1%
Moderate	2	7%	61,000	4%	14%
Middle	28	93%	1,311,800	96%	80%
Upper	0	0%	0	0%	6%
NA	0	0%	0	0%	0%
Total	30	100%	1,372,800	100%	100%

Geographic Distribution of Sampled Commercial Loans

Tract Designation	# of Loans	%	\$ of Loans	%	Distribution of Businesses
Low	2	7%	140,000	7%	8%
Moderate	2	7%	96,997	5%	17%
Middle	24	86%	1,868,000	89%	70%
Upper	0	0%	0	0%	5%
NA	0	0%	0	0%	<1%
Total	28	100%	2,104,997	100%	100%

Response to Complaints

RNB has not received any CRA related consumer complaints with respect to the bank’s lending performance since the last CRA examination. The majority of comments received during the examination period focused on the closing of the Philadelphia office, and were service related. We did not review bank services as part of this examination. However, management appropriately responded to each complaint or concern, and offered various compensating factors to Philadelphia branch customers. Management’s subsequent analysis does not reveal any substantial deposit or loan run-off due to the branch closing.

Results of the Fair Lending Examination

During the concurrent Fair Lending Examination, we did not identify any violations of the substantive provisions of anti-discrimination or fair lending laws and regulations. The scope of our Fair Lending Examination focused on the loan terms of home purchase mortgages originated between September 30, 1998 and September 30, 1999.