



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

February 18, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The National Bank of Vernon
Charter Number 1264
5238 West Seneca Street
Vernon, NY 13476**

**Comptroller of the Currency
Syracuse Field Office
231 Salina Meadows Parkway Suite 105
Syracuse, NY 13212**

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.

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 Community Reinvestment Act (CRA) performance of The National Bank of Vernon prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency, as of February 18, 2004. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A of 12 CFR Part 25.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The primary reasons supporting this rating are:

- The average loan-to-deposit ratio at 60% meets the standards for satisfactory performance.
- The National Bank of Vernon meets the standards for satisfactory performance for loans originated within the bank's assessment area.
- Borrower distribution meets the standards for satisfactory performance based on the distribution of credit to borrowers of different income levels and to businesses of different sizes.
- The National Bank of Vernon has not received any CRA-related complaints during the evaluation period.

DESCRIPTION OF INSTITUTION

The National Bank of Vernon (NBV) is a \$66 million community bank wholly owned by Vernon Bank Corp., a one-bank holding company. NBV's main office is located in Vernon, New York. There are two branches located in nearby Oriskany Falls and Westmoreland. NBV is located in a primarily rural area approximately 20 miles west of Utica, New York and 40 miles east of Syracuse, New York.

As of December 31, 2003, total assets were \$66 million consisting mainly of \$35 million (53%) in loans and \$27 million (41%) in investments. The bank's deposits totaled \$58 million. The loan portfolio consisted of \$19 million in residential real estate loans, \$14 million in commercial and commercial real estate loans and \$2 million in consumer loans. During the majority of the

evaluation period, management focused on commercial and residential real estate lending.

NBV has three locations serving the Utica-Rome, New York region and a small portion of Madison County, New York. NBV offers a range of banking products and services. NBV maintains traditional banking hours with extended hours on Thursday and Friday. Drive-in facilities are available at the Vernon and Westmoreland branches and open one hour before bank lobby hours. Drive-up automated teller machines (ATMs) are also available at these locations. Additionally, NBV offers telephone-banking services.

NBV does not have any legal, financial or other factors that would impede its ability to help meet the credit needs in its defined assessment area. A longstanding lawsuit by the Oneida Indians against New York State includes individual property owners on over 200,000 acres of land within the assessment area. This lawsuit has hindered the real estate market. At the last CRA examination dated February 22, 1999, NBV demonstrated a satisfactory level of performance meeting the credit needs of the community.

DESCRIPTION OF ASSESSMENT AREA

NBV's assessment area (AA) consists of two geographies in Madison County and fourteen geographies in Oneida County. Madison County is part of the Syracuse Metropolitan Statistical Area (MSA 8160) and Oneida County is part of the Utica-Rome MSA (MSA 8680). The bank designates only one AA since the two geographies in the Syracuse MSA represent only 1% and 2% of the geographies in the Syracuse MSA and Madison County, respectively. All offices are located in the Utica-Rome MSA. Nine geographies are designated middle-income and seven are upper-income. There are no low- or moderate-income geographies. The AA meets regulatory guidelines and does not arbitrarily exclude any low- or moderate-income geographies.

The assessment area has a total population of approximately 66,429 in 17,733 families and 23,461 households. The table below further describes the distribution of the population, families and households based on geographic income categories. The AA consists of 12.18% low-income, 17.99% moderate-income, 24.12% middle-income and 45.71% upper-income families. Of the 25,013 housing units in the AA, 73% are owner-occupied, 20% are rental-occupied and 7% are vacant. The median housing value in the AA is \$75,961 with a median housing age of 50 years.

Selected Characteristics by Income Category of the Geography					
Geographic Income Category	Census Tracts as a %	Population as a %	Families as a %	Households as a %	Owner-Occupied Units as a %
Middle	56.25	57.70	58.42	58.76	58.94
Upper	43.75	42.30	41.58	41.24	41.06
Total	100.00	100.00	100.00	100.00	100.00

Source: 1990 U.S. Census

The 1990 U.S. Census Median Family Income for the AA is \$32,323. This figure is used to determine the income designation of the geographies. The 2002 Updated Median Family

Income for the AA is \$43,475. This figure is used to evaluate borrower income distribution in this AA. The Updated Median Family Income is based on information from the Department of Housing and Urban Development (HUD).

The New York State unemployment rate for December 2003 was 6.1% and the unemployment rate for the Utica-Rome MSA was 6.1%. Major employers are Oneida Limited, the Oneida Indian Nation Casino, local school districts, and small businesses. The local economy is stable, however, it has not fully recovered from the closing of Griffis Air Force Base in Rome.

In Oneida County, NBV faces competition from 13 commercial banks and three savings institutions with a total of 70 offices.

During the examination, we contacted three agencies involved in the local development of the NBV AA. All three contacts mentioned that the area has evolved from providing high paying manufacturing jobs to lower paying service industry jobs, creating underemployment. The area has an overabundance of low quality, low rent housing. However, larger companies considering moving to the area cannot find adequate housing for their middle-income employees.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

This evaluation of The National Bank of Vernon (NBV) performance covers the period from February 22, 1999 to December 31, 2002. The evaluation includes an analysis of all of the geographies within the AA.

Based on a discussion with management and a review of the new loan reports for 2001 and 2002, we determined the bank's primary products to be residential real estate loans and commercial loans. Our analysis and conclusions are based on all Home Mortgage Disclosure Act (HMDA) reportable loan originations (110) and all the commercial loans (66) originated or purchased by NBV during that time period.

Loan-to-Deposit Ratio

NBV's loan-to-deposit ratio meets the standard for satisfactory performance for similarly situated banks headquartered in the AA. Since the last CRA examination, dated February 22, 1999, NBV's average loan-to-deposit ratio was 60%. NBV's average loan-to-deposit ratio is in the mid-range of similar-size rural banks, which had average loan-to-deposit ratios ranging from 49% to 86%.

Lending in Assessment Area

Lending within the AA meets the standard for satisfactory performance. NBV originated 32 home purchase loans totaling \$2,668,000. Of the total originated, 18 loans (56.3%) totaling \$1,036,000 (38.8%) were within the bank's AA. During 2001 and 2002, NBV originated 76 refinances totaling \$3,662,000. Of the total originated, 68 loans (89.5%) totaling \$3,152,000 (86.1%) were within the bank's AA.

We chose to analyze all 66 commercial loans, totaling \$6,606,046, that the bank originated during the evaluation period. Of the loans originated, 47 loans (71.2%) totaling \$3,168,456 (48.0%) were within the bank's AA.

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

NBV's record of lending to borrowers of different incomes and to businesses of different sizes meets the standard for satisfactory performance.

Borrower distribution

Income Designation of Borrower	<i>Home Purchases</i>				<i>Refinances</i>				Family Distribution (%)
	Cnt	Count Total (%)	Amt \$ (000)	Amt (%)	Cnt	Count Total (%)	Amt \$ (000)	Amt (%)	
Low	2	11.11	18	1.74	6	8.82	94	2.98	12.18
Moderate	2	11.11	12	1.16	17	25.00	544	17.26	17.99
Middle	8	44.44	384	37.07	11	16.18	634	20.11	24.12
Upper	6	33.34	622	60.03	34	50.00	1,880	59.65	45.71
Totals	18	100.00	1,036	100.00	68	100.00	3,152	100.00	100.00

The borrower distribution of home purchase and refinance mortgages to low-income borrowers in the AA is good.

The borrower distribution of home purchase and refinance mortgages to moderate-income borrowers in the AA is good.

Business Loans

	Count	Count Total (%)	Amount \$	Amt/Total (%)	2002 Biz Data (%)
Loans with Revenue <=\$1MM	30	63.83	1,502,958	47.44	92.84
Loans with Revenue \$1MM+	17	36.17	1,665,498	52.56	7.17
Totals	47	100.00	3,168,456	100.00	100.00

Lending to businesses of different sizes in the AA is adequate. All of the business loans originated within the AA for the evaluation period were used for this analysis.

Geographic Distribution of Loans

No analysis was done for geographic distribution in the NBV AA as it would not be meaningful given the absence of either low- or moderate-income geographies.

Responses to Complaints

NBV has not received any complaints regarding its CRA performance since the prior examination.

Fair Lending Review

We found no evidence of illegal discrimination or other illegal credit practices.