



## **PUBLIC DISCLOSURE**

January 03, 2017

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Empire National Bank  
Charter Number 24777

1707 Veterans Memorial Highway, Islandia, NY 11749

Office of the Comptroller of the Currency

340 Madison Avenue, 4th Floor, New York, NY 10173

**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 following indicates the performance level of Empire National Bank (“Empire” or “ENB” or “the Bank”) with respect to the Lending and Investment Tests:

**The Lending Test is rated: Satisfactory.**

**The Community Development (“CD”) Test is rated: Satisfactory.**

Summarize the major factors supporting the institution’s rating.

- A substantial majority of primary loan products are within the Bank’s assessment area (“AA”);
- Empire’s quarterly average net loan-to-deposit (“LTD”) ratio is reasonable given the size and financial condition of the institution;
- ENB’s distribution of loans reflects reasonable penetration to businesses of different sizes;
- Empire’s geographic distribution of loans reflects excellent dispersion throughout geographies of various incomes; and
- Empire’s responsiveness to community development needs and opportunities in its AA is adequate, considering its capacity and opportunities available in the AA.

## **Scope of Examination**

Empire National Bank’s Community Reinvestment Act (“CRA”) performance was evaluated under the Intermediate Small Bank examination procedures, which includes a Lending test and a CD test. The Lending test evaluates the Bank’s record of meeting the credit needs of its AAs through its lending activities. Business loan data from January 1, 2014 to September 30, 2016 was used to determine the Bank’s lending performance. The CD test evaluates the Bank’s responsiveness to the CD needs in its AAs through CD loans, investments, and services. The assessment period for CD activities is from January 24, 2014 to January 3, 2017.

Empire’s primary loan product is business loans, in line with the Bank’s strategic plan. To evaluate the Bank’s performance under the Lending test, we collected data from a random sample of 86 business loans originated by the Bank during the evaluation period.

Empire does not report CRA data on business loans. The Bank reports home mortgage and consumer loan data under the requirements of the Home Mortgage Disclosure Act (“HMDA”). However, as home mortgage and consumer loans are not the Bank’s primary product, they were excluded from the CRA evaluation. CD loans, investments, and services submitted by Bank management were verified to ensure they met the regulatory definition of Community Development.

## Description of Institution

Empire National Bank is an intrastate community bank headquartered in Islandia, New York. Empire Bancorp Inc. is the holding company with no affiliated organizations or subsidiaries. The Bank's primary market includes Nassau, Suffolk, Kings, Queens, and New York counties in the State of New York.

ENB has four branches with on-site automated teller machines ("ATM") operating out of Islandia, Shirley, Port Jefferson Station, and Mineola, which are all within the Nassau-Suffolk NY Metropolitan Division ("MD"). The main office, located in Islandia, New York, is in a middle-income tract and operates Monday through Friday. The Shirley branch is in a middle-income tract and operates Monday through Saturday. The Port Jefferson Station branch is in a middle-income tract and is also opened Monday through Saturday. The Mineola branch is in a moderate-income tract and operates Monday through Friday.

As of September 30, 2016, Empire reported \$467.3 million in net loans, \$638.8 million in total deposits, and \$77.4 million in Tier 1 Capital. Net loans represent approximately 61 percent of total assets. The Bank's loan portfolio mix, as of September 30, 2016, consisted of multi-family loans (41 percent), commercial real estate loans (26 percent), commercial and industrial loans (15 percent), one-to-four family residential loans (13 percent), construction and development loans (four percent), and consumer and other loans (one percent).

The Bank offers a variety of products and services in retail deposit accounts and lending to professionals, municipalities, nonprofit organizations, and consumers. Empire has a focus on commercial real estate, serving small- and medium-sized businesses. In addition to information on branch hours and Bank products, ENB's website offers internet-banking services. Additional information on products and services can be found in the bank's Public File, which is available by request at any branch location.

ENB operates in a highly competitive financial services market with competition from nationwide, large regional, and local financial institutions. According to the June 30, 2016 FDIC Summary of Deposits Market Share Report, ENB ranked 91<sup>st</sup> out of 2,013 institutions in the New York-Newark-Jersey City Metropolitan Statistical Area with a deposit market share of 0.04 percent. J.P. Morgan Chase Bank is ranked number one with 925 offices and 33.26 percent of market share. Other financial institutions include Bank of America, N.A., ranked second with 440 offices and 7.35 percent of deposits, and The Bank of New York Mellon, ranked third with two offices 7.29 percent of deposits.

## Description of Assessment Areas

ENB's AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income ("LMI") geographies. ENB's AA consists of Nassau County and Suffolk County in the Nassau-Suffolk County NY Metropolitan Division #35004, as well as Kings, Queens, and New York Counties located in the New York-Jersey City-White Plains, NY-NJ MD #35614. The combined AA of Kings, Queens, New York, Nassau, and Suffolk counties contain 2,932 census tracts ("CTs" or "geographies"). Since the prior review, ENB has not made any changes to its AA.

As part of the CRA evaluation, we contacted two directors of non-profit community development organizations that predominantly serve small businesses and LMI individuals. One organization, based out of Nassau County, primarily provides temporary and permanent housing and supportive services for LMI individuals. The contact stated that opportunities exist for both affordable housing and community services throughout Long Island. The other organization provides affordable housing projects as well as CD consulting to non-profits and neighborhoods in LMI geographies. The contact stated that affordable housing remains the primary need in the New York boroughs. The contact stated that opportunities exist for banks to provide charitable donations to community development organizations and financing to small businesses. Both contacts stated that Empire has had a strong relationship with their respective organizations for several years.

### Description of the Nassau-Suffolk County MD - #35004

Nassau-Suffolk, NY MSA #35004 refers to the Long Island, New York AA. The Nassau-Suffolk AA consists of 607 census tracts. In 2016, 13 census tracts or 2.14 percent of the AA are low income, 96 tracts or 15.82 percent are moderate income, 354 tracts or 58.32 percent are middle income, and 135 tracts or 22.24 percent are upper income. The AA also has 9 census tracts or 1.48 percent that are unknown. The AA's population totals to 2,832,882, consisting of 886,845 or 31.31 percent minorities. Housing units totals to 1,031,405 with 938,122 or 90.96 percent occupied. The majority of housing units are 1-4 family units which totals to 925,362 or 89.72 percent. The weighted average of census MSA median family income amounts to \$101,543. The number of families totals to 715,052 consisting of 127,660 or 17.85 percent low to moderate-income families.

According to the Bureau of Labor Statistics, the 2016 unemployment rate in the AA was 4.1 percent, slightly below the national unemployment rate of 4.6 percent. Top employers in the AA consist of Northwell Health, Cablevision Systems Corp., Henry Schein Inc., CA Inc., and Pall Corp. Top industry sectors in the AA include Education and Health Services (19 percent), Government (14.9 percent), Professional and Business Services (13.2 percent), and Retail Trade (12.4 percent).

2016 Demographic Information for Nassau-Suffolk AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	607	2.14	15.82	58.32	22.24	1.48
Population by Geography	2,832,882	2.32	17.95	58.87	20.71	0.15
Owner-Occupied Housing by Geography	766,459	1.02	14.16	61.25	23.57	0.00
Business by Geography	231,112	1.48	14.56	58.93	25.01	0.02
Farms by Geography	5,246	1.56	18.70	62.39	17.35	0.00
Family Distribution by Income Level	715,052	19.01	18.46	23.77	38.76	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	267,894	3.16	24.95	58.84	13.05	0.00
Median Family Income FFIEC Adjusted Median Family Income for 2016 Households Below Poverty Level		101,543 106,200 6%	Median Housing Value Unemployment Rate (Jan 2016)	501,660 4.10%		

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2010 US Census and 2016 FFIEC updated MFI

**Description of Kings Queens New York County MD – #35644**

Empire’s AA includes Manhattan, Queens, and Kings Counties. These counties are part of New York-White Plains-Wayne, NY-NJ MD #35644, also referred to as Kings-Queens-NY County AA. The Kings-Queens-NY County AA is comprised of 2,325 census tracts. Within the area, 203 tracts or 8.73 percent are low income; 621 or 26.71 percent are moderate income; 906 or 38.97 percent are middle income; and 535 or 20.01 percent are in upper income tracts. There are 60 tracts or 2.58 percent listed as unknown. Total population of the area is 9,154,177 and the median family income is \$74,485.

As of November 2016 Bureau of Labor Statistics data, unemployment rate for the state of New York was 3.9 percent and the national unemployment rate was 4.6 percent. Major employers in the Kings-Queens-NY County AA include Northwell Health, JPMorgan Chase & Co., Mount Sinai Medical Center, Macy’s Inc., Citibank, New York-Presbyterian Healthcare System, and Bank of America. Top industry sectors are manufacturing, education and health services, professional and business services, government, and retail trade.

The Kings-Queens-NY County AA remains in an expansion phase but is growing at a slower pace. Unemployment rates have minimally changed from a year ago. The housing market has slowed, with permits and prices slumping. Economists expect the Kings-Queens County NY AA to settle into a more sustainable growth path in the near term. Moody’s reports that the AA’s strengths are that it is the financial capital of the world; there is high per capita income, limited exposure to manufacturing, and strong international immigration. However, the AA suffers from high business costs, costly housing, high tax burdens, and overreliance on wealthy overseas buyers to support the real estate market. The main drivers for growth include real estate and finance.

2016 Demographic Information Kings Queens NY AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	2,325	8.73	26.71	38.97	23.01	2.58
Population by Geography	9,154,177	10.16	29.24	37.39	23.11	0.11
Owner-Occupied Housing by Geography	1,559,803	2.41	18.01	48.33	31.24	0.00
Business by Geography	660,243	6.01	19.61	35.25	36.79	2.34
Farms by Geography	7,156	2.52	19.20	52.79	25.08	0.41
Family Distribution by Income Level	2,124,054	26.36	17.59	19.05	37.00	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	933,540	16.79	38.41	34.46	10.34	0.00
Median Family Income FFIEC Adjusted Median Family Income for 2016 Households Below Poverty Level		74,485 79,091 14%	Median Housing Value Unemployment Rate (Jan 2016)	551,682 3.90%		

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2010 US Census and 2016 FFIEC updated MFI

## Conclusions with Respect to Performance Tests

### LENDING TEST

The Bank's performance under the Lending test in the Nassau-Suffolk County and New York County AAs is rated "Satisfactory". Empire's loan-to-deposit ratio is reasonable given the Bank's size, financial condition, and AA credit needs. The Bank originated a substantial majority of its loans inside the AAs. The geographic distribution of loans reflects reasonable dispersion within the Nassau-Suffolk AA and the Kings-Queens-New York AA. ENB has not received any CRA-related complaints in relation to its performance during the review period.

### Loan-to-Deposit Ratio

ENB's net LTD ratio is reasonable given the institution's size and financial condition, as well as the credit needs of the AAs. The Bank's net LTD ratio averaged 81.79 percent over the twelve quarters since the last CRA examination, with a quarterly low of 68.34 percent (September 2016) and quarterly high of 94.82 percent (December 2014).

The quarterly average LTD ratio compares reasonably to that of other similarly situated banks with similar asset sizes. However, we noted that ENB LTD ratio exhibited a downward trend during our evaluation period as deposit growth outpaced loan growth. ENB ranks third of six community banks located in Nassau, Suffolk, and Queens Counties. This analysis is based on a peer group of six similar situated institutions of comparable asset size and branch network. The average LTD ratio for these institutions was 79.89 percent, ranging from a low of 66.10 percent to a high of 101.97 percent.

## Lending in Assessment Area

ENB originated a substantial majority of its loans inside the AAs and met the standard for satisfactory performance. The Bank originated 88.37 percent by number and 79.36 percent by dollar inside the AAs during the evaluation period.

Table 1 - Lending in Nassau-Suffolk & Kings-Queens-New York County Assessment Areas										
Loan Type	Number of Loans					Dollars of Loans (in thousands)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business Loans	76	88.37%	10	11.63%	86	\$49,278	79.36%	\$12,819	20.64%	\$62,097
Total	76	88.37%	10	11.63%	86	\$49,278	79.36%	\$12,819	20.64%	\$62,097

Source: Business Loan Sample 2014-2016

## Lending to Businesses of Different Sizes

ENB's lending to businesses of different sizes meets the standard for satisfactory performance. The distribution of loans to businesses of different incomes reflects reasonable penetration within the Nassau-Suffolk and the Kings-Queens-New York AAs. Small businesses are defined as businesses with gross revenues of \$1 million or less.

### Performance in the Nassau-Suffolk County AA

The distribution of loans reflects reasonable penetration among businesses of different sizes in the Nassau-Suffolk AA. Our loan sample evidenced that the bank originated 61.22 percent of loans by number and 60.28 percent by dollar to small businesses in the Nassau-Suffolk AA. ENB's performance is considered reasonable compared to demographic data, which indicates that 93.16 percent of businesses in the AA are small businesses. While the Bank's distribution of loans is lower than the percent of small businesses in the AA, the performance is considered reasonable given the highly competitive market for business loans in the New York metro area.

Table 2A - Borrower Distribution of Loans to Businesses in Nassau-Suffolk Assessment Area			
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Total
% of AA Businesses	93.16%	6.84%	100.00%
% of Bank Loans in AA by #	61.22%	38.78%	100.00%
% of Bank Loans in AA by \$	60.28%	39.72%	100.00%

Source: Business loan sample 2014-2016 and AA business demographics data

### Performance in the Kings-Queens-New York County AA

The distribution of loans reflects reasonable penetration among businesses of different sizes in the Kings-Queens-NY County AA. The Bank originated 78.13 percent by number and 29.47 percent by dollar, during the evaluation period (2014-2016), to small

businesses in the Kings-Queens-NY County AA. ENB's performance is considered reasonable compared to demographic data, which indicates that 92.10 percent of businesses in the AA are small businesses. While the Bank's distribution of loans is lower than the percent of small businesses in the AA, the performance is considered reasonable given the highly competitive market for business loans in the New York metro area.

Table 2B - Borrower Distribution of Loans to Businesses in Kings-Queens-NY Assessment Area			
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Total
% of AA Businesses	92.10%	7.90%	100.00%
% of Bank Loans in AA by #	78.13%	21.88%	100.00%
% of Bank Loans in AA by \$	29.47%	70.53%	100.00%

Source: Business Loan Sample 2014-2016 and 2016 Business demographic Data.

### Geographic Distribution of Loans

The geographic distribution of loans reflects excellent dispersion. This assessment is based on an excellent dispersion in both the Nassau-Suffolk and Kings-Queens-NY County AAs. There were no conspicuous lending gaps identified ENB's AAs.

#### Performance in the Nassau-Suffolk County AA

The Bank's performance in the Nassau-Suffolk County AA represents excellent dispersion throughout various income census tracts. The Bank originated 2.08 percent of loans in low-income census tracts and 29.17 percent of loans in moderate-income census tracts, during our evaluation period (2014-2016). ENB's performance is considered excellent when compared to the demographic data, which indicates 1.56 percent of businesses in this AA are located in low-income census tracts and 18.70 percent of businesses in this AA are located in moderate-income census tracts.

Table 3A - Geographic Distribution of Loans to Businesses in Nassau-Suffolk Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Loans	% of AA Businesses /Farms	% of Loans	% of AA Businesses /Farms	% of Loans	% of AA Businesses /Farms	% of Loans
Business Loans	1.56%	2.08%	18.70%	29.17%	62.39%	54.17%	17.35%	14.58%

Source: 2016 Business Demographic Data and 2014-2016 Business loan sample

#### Performance in the New York County AA

The Bank's performance in the Kings-Queens-NY County AA represents excellent dispersion throughout various income census tracts. The Bank originated 21.43 percent

of loans in low-income census tracts and 42.86 percent of loans in moderate-income census tracts during our evaluation period (2014-2016). ENB’s performance is considered excellent when compared with demographic data, which indicates 6.01 percent of businesses in this AA are located in low-income census tracts and 19.61 percent of businesses in this AA are located in moderate-income census tracts.

Table 3B - Geographic Distribution of Loans to Businesses in Kings-Queens-NY AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Loans	% of AA Businesses /Farms	% of Loans	% of AA Businesses /Farms	% of Loans	% of AA Businesses /Farms	% of Loans
Business Loans	6.01%	21.43%	19.61%	42.86%	35.25%	28.57%	36.79%	7.14%

Source: 2016 Business Demographic Data and 2014-2016 Business loan sample

### Responses to Complaints

ENB has not received any CRA-related complaints in relation to its performance during the review period.

### COMMUNITY DEVELOPMENT TEST

ENB’s performance under the community development test is “Satisfactory.” ENB has demonstrated adequate responsiveness to the needs of the AAs.

### Number and Amount of Community Development Loans

ENB has provided an adequate level of CD lending within its AAs. The Bank originated 31 loans totaling \$18.9 million during the evaluation period which met the definition of community development. A majority of the CD loans (27) benefit the Nassau-Suffolk County AA totaling \$18 million. The remaining CD loans benefit the Kings-Queens-NY County AA. The Bank originated three loans benefiting Queens County totaling \$682.5 thousand and one loan benefiting the broader New York State at \$230 thousand. Proceeds of the loans were primarily used to support affordable housing, economic development, and community service projects related to childcare, homelessness, and housing.

### Number and Amount of Qualified Investments

The level of qualified investments is adequately responsive to the community needs of the Nassau-Suffolk and Kings-Queens-NY County AAs. The Bank had eight qualified investments totaling \$6.8 million during the evaluation period. The qualified investments provided affordable housing and community services for LMI individuals within the Bank’s AAs. Five, or \$1.3 million, of the qualified CD investments are in minority depository institutions, which mainly serve LMI communities in the Kings-Queens-NY County AA.

One, or \$250 thousand, of the investments is a U.S. Treasury directly benefiting a community development financial institution that provides services within the Kings-Queens-NY County AA. Two, or \$5.3 million, of the investments are outstanding Federal National Mortgage Association (“FNMA”) mortgage backed securities whose primary purpose is to provide affordable housing within the Nassau-Suffolk and Kings-Queens-NY County AAs.

ENB made 171 donations totaling \$512 thousand during the evaluation period. The donations provided benefits in affordable housing, community services, and economic development to LMI individuals and communities inside the Bank’s AAs.

### **Extent to Which the Bank Provides Community Development Services**

Empire provides an adequate level of CD services in the AAs. The Bank has one of four branches located in a moderate-income census tract. The other three branches are located in middle-income census tracts; all four branches are located in the Nassau-Suffolk County AA. The Bank does not have any branches in the Kings-Queens-NY County AA, but participates in the Allpoint ATM Network that includes over 55,000 surcharge-free ATMs.

Bank officers provided services to 39 qualifying community development programs that meet the definitions outlined in interagency guidance. The Board of Directors, management, and staff participate and serve as board members to community development organizations that provide healthcare, educational, economic, and housing opportunities targeted to LMI individuals inside the Bank’s AAs. We found that 98 percent of the CD services benefit only the Nassau-Suffolk County AA. One CD service benefits both the Nassau-Suffolk AA and the Kings-Queens-NY County AA, and one benefits only the Kings-Queens-NY County AA. These two CD services provide educational and housing opportunities, as well as support to food banks, homeless shelters and other services to LMI communities in the AA.

### **Responsiveness to Community Development Needs**

The Bank demonstrates an adequate responsiveness to the credit and development needs of the community. A majority of the qualified CD loans, investments, and services offered during the evaluation period addressed the needs of LMI individuals in the Nassau-Suffolk County AA. Identified needs include affordable housing and community services. There were fewer community development activities in the Kings, Queens and Manhattan counties due to the Bank’s limited branch presence in that AA. The Bank met the standard for overall adequate responsiveness to the AAs.

### **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.

The OCC did not identify evidence of discriminatory or other illegal practices with respect to this institution.