



PUBLIC DISCLOSURE

August 29, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Citizens National Bank of Hammond
Charter Number 10216

19 Main Street
Hammond, NY 13646

Office of the Comptroller of the Currency

5000 Brittonfield Parkway
Suite 102
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

- Citizens National Bank of Hammond's (CNBH) average loan-to-deposit ratio during the evaluation period is reasonable and meets the standard for satisfactory performance.
- A majority of the loans originated during the evaluation period were inside the bank's assessment area (AA).
- CNBH had a reasonable penetration of home loans to borrowers of different income levels.
- CNBH had an excellent penetration of consumer loans to borrowers of different income levels.
- CNBH did not receive any CRA-related complaints during the evaluation period.

SCOPE OF EXAMINATION

The evaluation covers the period from January 4, 2010, through August 29, 2016. However, the loans sampled for the lending test portion of the evaluation were originated during the period of January 1, 2014, through June 30, 2016. This sample period is representative of the entire evaluation period, as no strategic changes or changes in lending standards took place. We determined that home loans and consumer loans were the bank's primary products after evaluating originations during that period. To evaluate the bank's lending performance, we sampled loans as the bank is not required and management has chosen not to file a Home Mortgage Disclosure Act Loan Application Register (HMDA-LAR). To complete our testing, we randomly sampled 20 residential mortgages and 60 consumer loans.

DESCRIPTION OF INSTITUTION

The Citizens National Bank of Hammond (CNBH) is a \$22 million community bank. It is not owned by a holding company. The main office is located in Hammond, New York. Hammond is a small, rural community bordering the Thousand Island Region of New York located along New York State Route 37 between Alexandria Bay and Ogdensburg. The bank has one branch, which is located in Morristown, New York. This location is approximately 10 miles east of the main office. Neither the main office, nor the branch have automated teller machines (ATMs) or drive-up banking facilities. CNBH's employees interact with customers through personal service in the bank's offices. CNBH does offer on-line banking services. The bank offers non-complex deposit accounts and basic lending products. Since the last evaluation, CNBH has introduced debit cards that can be used in ATMs or at point-of-sale merchant transactions. Customers are charged fees to use ATMs. Customers more frequently use the debit care for point-of-sale merchant transactions. The bank's business strategy is to meet the needs of the community from which it draws deposits. Management did not close

any offices, and was not involved in any merger or acquisition activity during the evaluation period.

As of June 30, 2016, CNBH reported total assets of \$22 million. Assets primarily consisted of loans (55%) and investments (39%). Bank management continues to focus on residential mortgages and consumer loans as the bank's primary products. At June 30, 2016, the bank reports residential real estate loans totaling \$6.4 million, or 74% of gross loans, and consumer loans \$1.5 million, or 13% of gross loans. Commercial loans totaled \$1.1 million (9%) with another \$0.3 (3%) in commercial real estate loans. Agricultural land loans accounted for \$0.2 million or 1% of total loans.

CNBH's competition is primarily from larger community banks, local savings banks and credit unions. HMDA data shows reporting banks' lending in the AA. Community Bank, N.A. is the largest competitor for residential loans. Northern Federal Credit Union and Carthage Savings and Loan Association are the next largest residential lenders.

At the last CRA evaluation dated January 4, 2010, CNBH received a rating of "Satisfactory" CRA performance. CNBH does not have any legal, financial or other factors that would impede its ability to help meet the credit needs in its AA.

DESCRIPTION OF ASSESSMENT AREA(S)

The assessment area (AA) consists of the two census tracts in St. Lawrence County. St. Lawrence County is the largest county, by area, in New York State and the Northeastern United States. CNBH's AA is in the North Western Corner of St. Lawrence County and has the St. Lawrence River as its Northern Boundary. The St. Lawrence River region is a popular summer destination for vacationers, boaters and seasonal residents who own second homes in the area. The AA also has three small lakes and one moderately large lake, all of which are considered very good for freshwater fishing. Finally, there are four state forests and one state park in the AA. The AA is not located within a Metropolitan Statistical Area (MSA). Both census tracts (CT) are middle income. In 2015, both CTs were reported as distressed and underserved; however, they were not listed as such in 2014 and are not on the 2016 list. The AA meets the requirements of the regulation and does not arbitrarily exclude any low or moderate-income geographies.

According to the 2010 U.S. Census data, the AA has a total population of 4,948 with 1,725 families and 2,234 households. The income distribution of families, the standard measurement for home loans in the AA, is 23.42% low-income, 19.19% moderate-income, 21.91% middle-income and 35.48% upper-income. The income distribution of households, the standard measurement for consumer loans in the AA, is 21.35% low-income, 16.11% moderate-income, 20.14% middle-income and 42.93% upper-income. Of the 4,459 housing units in the AA, 40.26% are owner-occupied, 9.85% are rental-occupied and 49.90% are vacant. The high housing vacancy rate is due in part to the seasonal nature of many of the homes in the AA. The median housing value in the AA

is \$84,600, with a median housing age of 44 years. The Department of Housing and Urban Development (HUD) Updated Median Family Income for 2015 was \$60,000. The Weighted Average of median household income was \$45,648 per the 2010 Census. 14.01% of the households in the AA are living below the poverty level.

St. Lawrence County's unemployment rate has declined since the last evaluation, but still lags the state. The county's unemployment rate in July of 2009 was 9.6%. As of July 2016, it has improved to 6.0%. New York State's unemployment in the same period was 4.7%. The county's employment levels follow a seasonal trend, given businesses that address the increased demand for products and services in the late spring to mid fall. From July 31 2015, to August 1, 2016, unemployment levels in the county were as high as 7.4% (January) and as low as 5.5% (May). Those who are employed seasonally tend to have jobs providing the lowest wages. Major employers in the AA are local and state governments, including schools and prisons. The Healthcare Industry is the next largest employer. In 2015, the AA had 257 businesses, including 44 farms. 80% of the businesses reported having between one and four employees and 86%, including 100% of the farms, reported revenue below \$1 million. Service industries accounted for 37% of these businesses with agriculture/forestry and fishing accounting for 17%, and construction accounting for 12%.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Based on a review of the bank's loan report for loans originated between January 1, 2014, and June 30, 2016, we determined the bank's primary products to be home loans as would be reported according to the Home Mortgage Disclosure Act and consumer loans. The testing period is indicative of lending performance over the entire evaluation period. During the testing period, home loans account for 16% of the number of loans originated, and 53% of the dollars of loans originated. Consumer loans account for 72% of the number of loans originated, and 29% of the dollars of loans originated. Together, these products account for 88% of total loans originated and 82% of the dollars originated in the time period reviewed.

Our conclusions are based on a review of 24 randomly sampled home loans and a random sample of 51 consumer loans.

Loan-to-Deposit Ratio

CNBH's average loan-to-deposit ratio during the evaluation period was reasonable. Since the last CRA evaluation, CNBH's quarterly average loan-to-deposit ratio was 58.17%. CNBH is the only bank headquartered in the AA. Other bank's serving St. Lawrence County are much larger or are Savings Banks with different deposit sources. However, a bank similarly situated along the St. Lawrence River, having three branches and assets below \$100 million provides a reasonable comparison for CNBH. Its loan to deposit ratio is 60.83% for the same measurement period. 2014 Home Mortgage Disclosure Act data from bank's required to file HMDA-LARs revealed that CNBH would have ranked second in the number HMDA reportable loans originated in the AA

Lending in Assessment Area

Lending within the AA meets the standard for satisfactory performance, with a majority of originations inside the AA. Overall, 76% of the number and 71% of the amount of loans were originated within the AA.

Table 1 - Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
					(000's)		(000's)		(000's)	
Home Mortgages	17	70.83%	7	29.17%	24	\$1,039	65.79%	\$541	34.21%	\$1,580
Consumer Loans	40	78.43%	11	21.57%	51	\$389	88.06%	\$53	11.948%	\$441
TOTALS	57	76.00%	18	24.00%	75	\$1,428	70.65%	\$594	29.35%	\$2021

Source: % of Home Loans and Consumer loans; from the loan sample.

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

CNBH had reasonable penetration in lending to home loan borrowers of different incomes and meets the standard for satisfactory home loan distribution. The bank has excellent penetration when compared to the standard for home loans to moderate income borrowers. CNBH’s level of lending to low income borrowers is reasonable given the high household poverty rate in the AA and the affordability of housing. Many lower income residents are unlikely to be able to afford the mortgage payments on a home given the median price of residential properties in the AA.

Table 2: Borrower Distribution of Home Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of Bank Loans	AA Family Distribution	% of Bank Loans	AA Family Distribution	% of Bank Loans	AA Family Distribution	% of Bank Loans	AA Family Distribution
Home loans	11.76%	23.42%	35.29%	19.19%	23.53%	21.91%	28.57%	35.48%

Source: % of Home loans are from the sample, % of AA Family Distribution are from the Updated HUD Median Family Income for 2015.

CNBH is outstanding in lending to borrowers of different incomes. CNBH’s record of lending shows excellent penetration in lending to low- and moderate-income borrowers. This is due the banks willingness to make small dollar consumer installment loans at reasonable rates to its customer base.

Table 3: Borrower Distribution of Consumer Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of Bank Loans	AA Household Distribution	% of Bank Loans	AA Household Distribution	% of Bank Loans	AA Household Distribution	% of Bank Loans	AA Household Distribution
Consumer Loans	27.91%	21.35%	20.93%	16.11%	13.95%	20.14%	37.21%	42.39%

Source: % of Consumer loans are from the sample, % of AA Household Distribution are from the 2010 U.S. Census data.

Geographic Distribution of Loans

We did not complete an analysis of the geographic distribution of loan originations, as the results would not be meaningful since the AA does not contain any low- or moderate-income census tracts.

Responses to Complaints

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

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.