



PUBLIC DISCLOSURE

July 05, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Delaware National Bank of Delhi
Charter Number 1323

124 Main Street
Delhi, NY 13753

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 major factors supporting the institution's rating are as follows:

- Delaware National Bank of Delhi's (DNBD) 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).
- DNBD had a reasonable penetration of home mortgage loans and home equity lines of credit (HELOC) to borrowers of different income levels.
- DNBD did not receive any CRA-related complaints during the evaluation period.

SCOPE OF EXAMINATION

This evaluation covers the period from May 23, 2012, through July 5, 2016. However, sampled loans were originated during the period of January 1, 2014, through March 31, 2016. Management confirmed that this sample period is representative of the entire evaluation period, as no strategic changes or changes in lending standards took place. We evaluated originations by number and dollar amount and determined that loans secured by one to four family residential property are the bank's primary product. To evaluate the bank's lending performance, we relied on home mortgage loan originations as reported on the Home Mortgage Disclosure Act – Loan Application Register (HMDA-LAR), the accuracy of which was verified during this evaluation. We also chose a sample of 60 Home Equity Lines of Credit (HELOCs) as management does not report these on the HMDA-LAR.

DESCRIPTION OF INSTITUTION

The Delaware National Bank of Delhi (DNBD) is a \$294 million community bank, wholly-owned by Delhi Bank Corp (DWNX), a one-bank holding company. The main office is located in Delhi, New York (NY). The bank is in the community of Delhi, a town located in the Northern Catskill Mountain region in Central New York State. The bank's operations center and a drive-up facility are directly across the street from the main office. Recently management moved the bank's free standing inquiry and withdrawal only ATM, from a local shopping plaza one mile away, to a drive through at the operations center. The bank has three branches within the AA, located in Margaretville, Davenport and Hobart, NY. The bank also has a loan production office (LPO) in Oneonta, NY. The LPO does not take deposits. All branch locations have drive-up facilities to complement lobby services, and offer automated teller machines (ATM) with 24-hour access. The bank has one stand-alone ATM with 24-hour access in Delhi at Farrell Hall, on the campus of the State University of New York at Delhi (SUNY Delhi).

DNBD offers traditional banking products and services, including online banking and bill pay, and has a small trust department. Since the 2012 Performance Evaluation, the bank has added a mobile banking service and remote deposit capture. The bank's business strategy is that of a community-minded bank, to gather deposits locally and reinvest them back into the community where possible. Management did not close any offices, and was not involved in any merger or acquisition activity during the evaluation period.

As of March 31, 2016, DNBD reported total assets of \$294 million. Assets primarily consisted of loans (37%), investments (42%) and interest bearing bank balances of (16%). Bank management continues to focus on residential mortgages as the bank's primary loan products. At March 31, 2016, the bank reports residential real estate loans totaling \$43 million, or 38% of gross loans, and HELOCs of \$22 million, or 19% of gross loans. Commercial loans totaled \$3.3 million (3%) with another \$26 million (23%) in commercial real estate loans. Agricultural land loans accounted for \$13MM or 12% of total loans. Consumer loans totaled \$2.3 million (2%). In the first quarter of 2016 real estate loans grew by almost 14%.

As of June 30, 2015, the Federal Deposit Insurance Corporation (FDIC) reports, DNBD's network of offices serviced 26% of all FDIC insured bank deposits through 20% of bank branches in the AA of Delaware County.

DNBD faces increasing competition from regional and local financial institutions operating in the AA, as well as, national institutions with considerable lending market share. Community Bank, NA (CBNA), a larger regional bank, headquartered in Onondaga County, has become a greater competitor for deposit and loans since its 2011 acquisition of Wilber National Bank. Wilber was a larger community bank headquartered in Otsego County (Oneonta), bordering the bank's assessment area. The bank's other main competition comes from NBT Bank, NA, another much larger regional bank headquartered in nearby Chenango County. Wells Fargo Bank, NA, Quicken Loans and Ulster Savings Bank round out the main competition for residential mortgages in the AA. There is also competition from two credit unions. Sidney Federal Credit Union (SFCU) opened an office in Delhi in 2013, and offers commercial loans and services to small businesses. SFCU now has four branches in the AA. A smaller credit union Chen-Del-O Federal Credit Union, in Franklin, NY, offers residential mortgages and consumer loans. In March of 2016, the holding company for the slightly larger and only other national bank headquartered in Delaware County, The National Bank of Delaware County, Walton, announced its intention to merge into Wayne Bank of Pennsylvania's holding company and merge the respective banks.

DNBD retains all mortgages it originates and offers no closing costs on residential mortgages. Recently, in an effort to better compete for local small business loans, DNBD began to offer no closing cost commercial loans. DNBD maintains a loan officer call program to develop commercial loan business within the assessment area.

At the last CRA evaluation dated May 23, 2012, DNBD received a rating of "Satisfactory" CRA performance. DNBD 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 Bank's assessment area (AA) is the whole of Delaware County. Delaware County holds 14 census tracts (CTs). The AA is very rural and is not located within a Metropolitan Statistical Area (MSA). The AA consists of 13 middle-income tracts (93%) and one tract (CT 9709) which had not been assigned an income level (7%). This CT encompasses the SUNY Delhi campus. There are no low- or moderate-income tracts in the AA. Management did not arbitrarily exclude any low- or moderate-income tracts from the AA.

According to 2010 U.S. Census Data, the total population of the AA is 47,980. There are 13,172 families and 20,110 households. The distribution of families in the AA is 18.78% low-income, 19.87% moderate-income, 23.35% middle-income and 38.10% upper-income. Of the 30,890 housing units in the AA, 49.39% are owner-occupied, 15.71% are rental-occupied and 34.90% are vacant. The weighted average median housing value in the AA is \$137,167 with a median housing age of 53 years, based on the 2010 census data. The Department of Housing and Urban Development (HUD) Updated Median Family Income for 2015 was \$60,000. A total of 13.65% of the households in the AA are living below the poverty level.

The AA's economic condition has improved since the 2008 financial crisis. The AA's unemployment rate has decreased from 9.1% as of the last CRA exam to 4.9% as of May 2016. The unemployment rate compares well to that of New York State, which decreased from 8.7% to 4.7% during the same time period. According to Dun and Bradstreet, in 2015 there were a total of 3,006 non-farm businesses and 264 farms in the AA. This is a large decline from 2011, which showed 4,612 non-farm businesses in the AA. The largest decline (26% or 852 businesses) between the two census periods is in the number of businesses having one to four employees. In 2015, businesses with one to four employees made up 2,407 of all business reported. The decline can be attributed to the 2008 financial crisis. 73.61% of the businesses earned less than \$500 thousand per year. Major public employers in Delaware County include local governments, school districts, and SUNY Delhi. Major employers in the AA are Amphenol Corp and ACCO Brands, both in Sidney, Mallinckrodt Pharmaceuticals in Hobart, Kraft Heinz Foods in Walton, Saputo Dairy Foods (Morningstar Foods) in Delhi. The management of Kraft Heinz, a primary employer in Walton, NY, had considered closing the plant there, but will be kept open for at least the next five years as a result of negotiations with the federal and state government.

Delaware County is located in Central New York State on the western edge of the Catskill Mountain region. The county covers 1,446 square miles. It contains the largest

unfiltered water supply in the United States, supplying water to New York City and parts of Westchester, Putnam, Orange, and Ulster Counties. Population density is low within the AA with a population density of only 32 persons per square mile. The regulatory limitations on development within the Catskill/Delaware Watershed, limits the economic development opportunities and employment within the county.

During our examination, we contacted a local community action agency that focuses on providing a variety of services to low- and moderate-income families including housing assistance. The community action agency contact identified the need for better paying jobs and lower credit scores of persons assisted by his agency as barriers to home purchases. The contact also mentioned the regulatory restrictions on development within the watershed as a major issue limiting the entrance of new employers to the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Based on a review of the bank's new loan report for loans originated between January 1, 2014, and March 31, 2016, we determined the bank's primary products to be home mortgages, as reported on the HMDA-LAR and HELOCs. Lending during this period is indicative of lending performance over the entire evaluation period as management's strategy and lending philosophy has remained the same. During this time period, home mortgages and HELOCs accounted for 30% of the number of loans and 41% of the dollars of loan originated.

Conclusions are based on a review of all home mortgage loans as reported on the HMDA-LAR and a sample of 60 HELOCs.

Loan-to-Deposit Ratio

During the evaluation period, DNBD's average loan-to-deposit ratio has been reasonable. Since the last CRA examination, DNBD's quarterly average loan-to-deposit (LTD) ratio was 37.5%. This is consistent with another bank, headquartered in Delaware County, which had an average LTD ratio of 37.95% and a third bank, situated in a similar rural AA within 100 miles of DNBD, which had a LTD ratio of 35.24%. Another group of peer banks had LTD ratios ranging from 50% to 56%; however, these peers are located in areas with higher economic growth rates and more active lending markets. Another group of competitors have LTD ratios of 80% to 101%; however, they are less comparable larger institution and two savings banks.

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 73% 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)	%	
Home Mortgages (HMDA)	175	74.79%	59	25.21%	234	\$13,420	71.40%	\$5,375	28.60%	\$18,795
HELOC (Sample)	48	82.76%	10	17.24%	58*	\$3,720	80.34%	\$912	19.66%	\$4,632
TOTALS	223	76.34%	69	23.66%	292	\$17,140	73.16%	\$6,287	26.84%	\$23,427

**Source: % of Home Mortgage Loans are from the Aggregate HMDA Data for 2014 and 2015; % of HELOCs are from the loan sample. Two loans were dropped from the random sample as they repeated due to account number changes.*

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

DNBD has reasonable penetration in lending to borrowers of different incomes. DNBD’s record of lending to moderate-income borrowers exceeds the standard for both home mortgage and HELOCs. While DNBD’s level of lending to low-income borrowers does not meet the standard for both home mortgage loans and HELOCs, the bank’s performance is reasonable when considering the affordability of residential properties in the AA. 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 Residential Real Estate 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 Mortgage	9.14%	18.78%	23.43%	19.87%	26.32%	23.35%	38.29%	38.10%
HELOCs	10.20%	18.78%	20.41%	19.87%	22.45%	23.35%	44.90%	38.10%

**Source: % of Home Mortgage Loans are from the Aggregate HMDA Data for 2014 through 2015, HELOCs are from the loan sample; % of AA Family 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. The AA does not contain any low- or moderate-income census tracts.

Responses to Complaints

DNBD 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.