



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

May 23, 2012

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

ADC-SYRACUSE Field Office
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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 substantial 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

The evaluation period covers the time period from November 1, 2006, through May 23, 2012. However, the sampled loans were originated during the period of January 1, 2010, through December 31, 2011. This sample period was representative of the entire evaluation period, as no strategic changes or changes in lending standards took place. We determined that home mortgage loans and HELOCs were the bank's primary products after evaluating originations during the period by both number and dollar amount. 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 40 HELOCs as management does not report these on the HMDA-LAR.

DESCRIPTION OF INSTITUTION

The Delaware National Bank of Delhi (DNBD) is a \$248 million community bank, which is wholly-owned by Delhi Bank Corp (DWNX), a one-bank holding company. The main office is located in Delhi, New York (NY), a town in the northern Catskill Mountain region in central NY State, and is the oldest corporation in the community of Delhi. The bank's operations center and a drive-up facility are directly across the street from the main office. The bank has three branches within the AA in Margaretville, Davenport and Hobart, NY. The Davenport branch opened in 2007 and the Hobart branch opened in 2010. All locations have drive-up facilities to complement lobby services, and offer automated teller machines (ATM) with 24-hour access. The bank also has two stand-alone ATMs with 24-hour access in Delhi, located at the Price Chopper Plaza and Farrell Hall, SUNY at Delhi. DNBD offers traditional banking products and services, including online banking and bill pay, and has a small trust department. The bank's business strategy is that of a community-minded bank, to gather deposits locally and

reinvest them back into the community. Management did not close any offices, and was not involved in any merger or acquisition activity during the evaluation period.

As of March 31, 2012, DNBD had total assets of \$248 million consisting mainly of loans (34%) and investments (56%). Bank management continues to focus on residential mortgages and HELOCs as the bank's primary loan products. Residential real estate loans amount to \$36 million, or 42% of gross loans, and HELOCs amount to \$17 million, or 20% of gross loans. Commercial loans totaled \$6.7 million (8%) with another \$21 million (25%) in commercial real estate. Consumer loans totaled \$4.2 million (5%). As of June 30, 2011, according to the Federal Deposit Insurance Corporation's website, DNBD's network of offices represented 22% of all bank deposits and 20% of bank branches in 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. In November 2007, the National Bank of Delaware County (NBDC) acquired the National Bank of Stamford. The consolidated entity, NBDC, is the only other national bank headquartered in Delaware County. In 2011, a regional bank, Community Bank, NA (CBNA), headquartered in Onondaga County, purchased Wilber National Bank, a larger community bank headquartered in nearby Otsego County. The bank's other main competition comes from NBT Bank, a regional bank headquartered in nearby Chenango County. Although Wells Fargo and Bank of America do not have any branches in the AA, they do have a presence with respect to lending. There is also competition from two credit unions, including Sidney Federal Credit Union, which has three branches in the AA, and another smaller credit union located in the AA. DNBD offers no closing costs on all residential refinanced mortgages with a 15% downpayment, which is more lenient than its counterparts, and the bank offers up to a 30-year term mortgage.

At the last CRA evaluation dated October 31, 2006, 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

The assessment area (AA) consists of the 14 census tracts in Delaware County. 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 upper-income tract (7%). There are no low- or moderate-income tracts in the AA. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

According to 2000 U.S. Census data, the AA has a total population of 48,055, with 12,791 families and 19,245 households. The distribution of families in the AA is 19.31% low-income, 21.85% moderate-income, 23.02% middle-income and 35.81% upper-income. Of the 28,952 housing units in the AA, 50.42% are owner-occupied, 16.14% are rental-occupied and 33.44% are vacant. The median housing value in the AA is \$74,913, with a median housing age of 37 years based on the 2000 census data. The

Department of Housing and Urban Development (HUD) Updated Median Family Income for 2011 was \$56,100. A total of 12.47% of the households in the AA are living below the poverty level.

As is the case throughout the nation, economic conditions deteriorated in the AA during the evaluation period. The AA unemployment rate increased from 3.8% as of the last CRA exam to 9.1% as of March 2012. In comparison, the New York State unemployment rate increased from 4.2% to 8.7% during the same time period. A total of 4,886 businesses, which includes 274 farms, were located within the AA as of 2011, with 67.77% earning less than \$500 thousand per year. Major employers in Delaware County include local governments and school districts, hospitals, SUNY at Delhi, and some industrial employers such as Kraft Foods in Walton, Morning Star Ultra Dairy in Delhi, Tyco Healthcare in Hobart, and Amphenol Aerospace in Sidney.

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. It is New York's fifth most rural county with a population density of only 32 persons per square mile. The Catskill/Delaware Watershed, due to its regulations and size, limits the economic development of the county, which puts constraints on new businesses that could bring additional employment opportunities.

During our examination, we contacted a local economic development organization that offers a variety of programs to support business owners and entrepreneurs in growing their businesses. The economic development community contact identified the need for flexible terms for small business loans and assistance with financial planning for entrepreneurs. Our contact felt there was very little risk taking with businesses by the banking community. Our contact did indicate the Catskill/Delaware Watershed program makes development difficult in Delaware County.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Based on a review of the bank's new loan report for loans originated between January 1, 2010, and December 31, 2011, we determined the bank's primary products to be home mortgages, as reported on the HMDA-LAR, and HELOCs. Lending during these two years 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 account for 22% of the number of loans originated, but 40% of the dollar amount of loans originated. HELOCs account for 22% of the number of loans originated, and 30% of the dollar amount of loans originated. Together, these products account for 44% of total loans originated and 70% of the dollar amount of loans originated in the time period reviewed.

Conclusions are based on a review of all home mortgage loans as reported on the HMDA-LAR and a sample of 40 HELOCs.

Loan-to-Deposit Ratio

DNBD's average loan-to-deposit ratio during the evaluation period was reasonable. Since the last CRA examination, DNBD's quarterly average loan-to-deposit ratio was 47.45%. DNBD is the only bank headquartered in the AA with assets less than \$250 million. In comparison, four similarly situated banks operating in similar markets or competing directly with DNBD had average quarterly loan-to-deposit ratios ranging from 38.76% to 61.47%. Following the economic downturn in 2008, management indicated applications for first and second mortgages for homeowners have dropped considerably. Although home prices have leveled off, updated appraisals indicate a reduction in home owner equity which impacts the available funds for HELOCs. Furthermore, the restrictions by the Catskill/Delaware Watershed significantly impacts land use, affecting existing commercial and residential land owners, and impedes attracting new business and residents to the area.

Lending in Assessment Area

Lending within the AA exceeds the standard for satisfactory performance, with a substantial majority of originations inside the AA. Overall, 91% of the number and 92% 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 (HMDA)	172	90.53%	18	9.47%	190	\$11,377	92.41%	\$935	7.59%	\$12,312
HELOC (Sample)	38	95.00%	2	5.00%	40	\$2,673	88.42%	\$350	11.58%	\$3,023
TOTALS	210	91.30%	20	8.70%	230	\$14,050	91.62%	\$1,285	8.38%	\$15,335

Source: % of Home Mortgage Loans is from the Aggregate HMDA Data for 2010 and 2011; % of HELOCs is from the loan sample.

Lending to Borrowers of Different Incomes

DNBD has reasonable penetration in lending to borrowers of different incomes. DNBD’s record of lending to low-income borrowers is lower than the standard for both home mortgage loans and HELOCs. DNBD’s record of lending to moderate-income borrowers exceeds the standard for both home mortgage and HELOCs. Management’s ability to lend to low-income borrowers is somewhat impacted by the 12.17% of households living below the poverty level, as these households typically do not have an income which would support purchasing a home.

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	10.47%	19.31%	27.91%	21.84%	26.74%	23.02%	33.72%	35.83%
HELOCs	7.89%	19.31%	23.68%	21.84%	23.02%	23.02%	36.84%	35.83%

Source: % of Home Mortgage Loans is from the Aggregate HMDA Data for 2010 and 2011; % of HELOCs is from the loan sample; % of AA Family Distribution is from the 2000 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

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

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.