



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

June 16, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Citizens National Bank of Hammond
Charter Number 10216**

**19 Main Street
Hammond, NY 13646**

**Comptroller of the Currency
ADC - Upstate New York (Syracuse)
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.

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INSTITUTION'S CRA RATING

This institution is rated Outstanding.

- The average loan-to-deposit ratio of 62% meets the standard for satisfactory performance based on the bank's financial condition and assessment area credit needs.
- Citizens National Bank (CNB) meets the standard for satisfactory performance for loans originated within the bank's assessment area.
- Borrower distribution exceeds the standard for satisfactory performance based on the distribution of credit to borrowers of different income levels and lending to businesses of different sizes.
- Geographic distribution of loan originations exceeds the standard for satisfactory performance based on the distribution of credit to borrowers and businesses in different geographies.
- CNB has not received any CRA-related complaints during the evaluation period.

DESCRIPTION OF INSTITUTION

CNB is a \$13 million community bank headquartered in Hammond, New York, with two locations serving the St. Lawrence region of New York State. CNB is not part of a holding company. As of December 31, 2002, the bank had total assets of \$13 million consisting mainly of \$8 million (62%) in loans and \$4 million (31%) in investments. The bank's deposits totaled \$12 million. The loan portfolio consists of \$6 million (75%) in residential real estate loans, \$1 million (12.5%) in commercial and commercial real estate loans, and \$1 million (12.5%) in consumer loans.

The bank has one assessment area (AA) in Northern New York bordering the St. Lawrence Seaway and Canada. The AA consists of two (2) geographies in Jefferson County and six (6) geographies in St. Lawrence County. Both counties are outside metropolitan statistical areas (MSAs). The AA is served by two offices. Neither office has an automated teller machine or drive-up facilities. Management has neither opened nor closed any branches during the evaluation period.

CNB 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. However, given the small size of the institution, the legal lending limit to a single borrower is \$158,700 as of March 31, 2003. At the last CRA examination dated February 9, 1998, CNB demonstrated a satisfactory level of performance meeting the credit needs of the community.

DESCRIPTION OF ASSESSMENT AREA

The AA consists of eight (8) geographies – two (2) moderate-income and six (6) middle-income. The AA has a total population of 32,888 in 7,820 families and 10,858 households. The table below further describes the distribution of the population, families and households based on geographic income categories. The AA consists of 21.2% low-income, 19.1% moderate-income, 24.2% middle-income and 35.5% upper-income families. Of the 18,512 housing units in the AA, 41% are owner-occupied, 18% are rental-occupied and 41% are vacant. The median housing value in the AA is \$50,773 with a median housing age of 36 years.

<i>Selected Characteristics by Income Category of the Geography</i>					
<i>Geographic Income Category</i>	<i>Percentage</i>				
	<i>Census Tracts</i>	<i>Population</i>	<i>Families</i>	<i>Households</i>	<i>Owner-Occupied Units</i>
<i>Moderate</i>	25.0	14.8	17.0	16.4	15.9
<i>Middle</i>	75.0	85.2	83.0	83.6	84.1
<i>Total</i>	100.0	100.0	100.0	100.0	100.0

Source: 1990 U. S. Census

The 1990 U. S. Census Median Family Income for the Non Metropolitan Statistical Area (Non-MSA) of New York State is \$31,472. This figure is used to determine the income designation of the Non-MSAs geographies. The 2002 Updated Median Family Income for the Non-MSA is \$43,600. This figure is used to determine the income designation of individuals for real estate loans in this Non-MSA. 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 June 2003 was 5.9%. The unemployment rate for counties outside Non-MSAs was 5.0%. The unemployment rates for Jefferson and St. Lawrence counties were 6.2% and 7.2%, respectively. Major employers in Jefferson and St. Lawrence counties include state and local governments, local school districts, several hospitals and medical facilities, and many small businesses catering to the tourism industry.

CNB does not face any direct competition in the two townships (Hammond and Morristown) within which they are located. The Hammond office is located in a moderate-income geography. Within the AA, CNB faces competition from Community Bank, N. A. and Redwood National Bank, as well as, from branches of larger institutions such as HSBC Bank, Key Bank, and NBT.

During our examination, we contacted a local community official who indicated that the area is rural with very little economic growth. This person indicated that CNB is meeting the credit needs of the community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

This evaluation of The Citizens National Bank's (CNB) performance covers the period from February 9, 1998 through December 31, 2002.

Based on a discussion with management and a review of new loan reports for 2001 and 2002, we determined the bank's primary products to be residential real estate loans and consumer loans. Our analysis and conclusions are based on a sample of 24 residential real estate loans, 25 consumer loans, and 25 commercial loans originated during the evaluation period.

Loan-to-Deposit Ratio

CNB's loan-to-deposit ratio meets the standard for satisfactory performance. Since the last CRA examination, CNB's average loan-to-deposit ratio is 62.4%. CNB is one of three bank's operating in the AA with less than \$100 million in assets. The other two banks, Redwood National Bank and Citizens Bank of Cape Vincent, had average loan-to-deposit ratios of 63.3% and 44.1%, respectively, during the same time period.

Lending in Assessment Area

Lending within the AA meets the standard for satisfactory performance. Overall, 89.2% of the number and 88.9% of the amount of loans were originated within the assessment area.

Loan Type	# in AA	Total # in sample	%	\$ in AA	Total \$ in sample	%
Real Estate	21	24	87.5%	\$928,135	\$1,085,335	85.5%
Consumer	23	25	92.0%	\$174,060	\$187,650	92.8%
Commercial	22	25	88.0%	\$491,048	\$518,299	94.7%
Total	66	74	89.2%	\$1,593,243	\$1,791,284	88.9%

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

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

Residential Real Estate Loans

The overall distribution of residential real estate loans is excellent. CNB's distribution of residential real-estate loans to moderate-income borrowers is excellent with performance that is well above the family distribution in the AA. The distribution of residential real estate loans to low-income borrowers is good. The sample indicates the bank's record of lending to low-income families is well below the family distribution in the AA. However, when considering 12.46% of the population in the AA is living below the poverty level, the distribution would be considered good. It is unlikely that someone with income at or below the poverty level could afford to purchase a home.

Income Level	Count	%	Amount	%	Family Distribution
Low	1	4.76%	\$ 24,000	2.59%	21.21%
Moderate	7	33.33%	\$ 233,689	25.18%	19.14%
Middle	3	14.29%	\$ 136,746	14.73%	24.17%
Upper	10	47.62%	\$ 533,700	57.50%	35.47%
Total	21	100.00%	\$ 928,135	100.00%	99.99%

Consumer Loans

The overall distribution of consumer loans is excellent. The volume of loans originated to moderate-income borrowers is excellent compared to the household distribution in the AA. The volume of loans originated to low-income borrowers is good compared to the household distribution in the AA.

Income Level	Count	%	Amount	%	Household Distribution
Low	5	21.74%	\$ 34,772	19.98%	24.00%
Moderate	9	39.13%	\$ 80,224	46.09%	17.67%
Middle	3	13.04%	\$ 25,595	14.70%	19.98%
Upper	6	26.09%	\$ 33,469	19.23%	38.35%
Total	23	100.00%	\$174,060	100.00%	100.00%

Business Loans

The distribution of loans to businesses and farms is good with 90.9% of the number and 87.1% of the amount of loans originated during the evaluation period to businesses and farms with \$1 million or less in revenues. Also note, that 100% of the loans originated within the AA are in amounts less than \$100 thousand.

Revenues	Count	%	Amount	%	2002 Business Data
Loans with Revenues <=\$1MM	20	90.91%	\$427,464	87.06%	92.40%
Loans with Revenues \$1MM+	2	9.09%	\$63,514	12.94%	7.60%
Totals	22	100.00%	\$490,978	100.00%	100.00%

Geographic Distribution of Loans

CNB's geographic distribution of loans exceeds the standard for satisfactory performance. The geographic distribution of residential real estate loans and consumer loans is excellent. In both cases, the bank's performance in moderate-income geographies far exceeds the standard.

Residential Real Estate Loans

Geography	Count	%	Amount	%	Owner-occupied housing
Moderate	8	38.1%	\$ 425,700	45.9%	15.86%
Middle	13	61.9%	\$ 502,435	54.1%	84.14%
Total	21	100.0%	\$ 928,135	100.0%	100.00%

Consumer Loans

Geography	Count	%	Amount	%	Household Distribution
Moderate	14	60.9%	\$113,810	65.4%	16.38%
Middle	9	39.1%	\$ 60,250	34.6%	83.62%
Total	23	100.0%	\$174,060	100.0%	100.00%

Business Loans

The geographic distribution of business loans is excellent with 45.5% of the number and 38.7% of the amount of originations in moderate-income geographies. In comparison, only 14.1% of the businesses within the assessment area are located in moderate-income geographies.

Geography	Count	%	Amount	%	Business Distribution
Moderate-income geographies	10	45.5%	\$189,940	38.7%	14.1%
Middle-income geographies	12	54.5%	\$301,038	61.3%	85.9%
Total	22	100.0%	\$490,978	100.0%	100.0%

Responses to Complaints

CNB has not received any CRA-related complaints during this evaluation period.

Fair Lending Review

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