

**PUBLIC DISCLOSURE**

September 8, 1998

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

**Orange County Trust Company  
02-36-4400**

**75 North Street  
Middletown , New York 10940**

**Federal Reserve Bank of New York**

**33 Liberty Street  
New York, New York 10045-0001**

**NOTE:** 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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## GENERAL INFORMATION

*The Community Reinvestment Act ("CRA") requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the CRA performance of **Orange County Trust Company** prepared by the **Federal Reserve Bank of New York** on behalf of the Board of Governors of the Federal Reserve System, the institution's supervisory agency, as of **September 8, 1998**. The agency evaluates performance in assessment area(s) as they are delineated by the institution rather than by individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

## INSTITUTION

***INSTITUTION'S CRA RATING:*** Orange County Trust Company is rated "**OUTSTANDING.**"

Over the examination period of December 2, 1996, through September 8, 1998, the performance of Orange County Trust Company with regard to the CRA is rated "outstanding." This determination is based on the following performance criteria: 1) a reasonable loan-to-deposit ratio with consideration given to the bank's community development lending; 2) a substantial majority of loans in its assessment areas; 3) an excellent distribution of loans to borrowers of different income levels (including low- and moderate-income individuals) and to businesses of different sizes; and 4) a reasonable geographic distribution of loans within the bank's assessment areas.

## **DESCRIPTION OF INSTITUTION**

Orange County Trust Company ("OCTC") is a full-service, retail-oriented bank headquartered in Middletown, New York. As of March 31, 1998, the bank had total deposits of \$132.8 million, total assets of \$185 million, and total loans of \$72.8 million. Consumer loans constituted 58 percent of the bank's loan portfolio and business loans 42 percent. The bank originates a wide variety of consumer and business loans, including home purchase and refinance mortgages, home equity loans, overdraft lines of credit, consumer installment loans, and credit card facilities. OCTC also originates loans guaranteed by the Small Business Administration ("SBA").

OCTC operates five branch offices. Four branch offices including the main office are located in Middletown while the fifth is in Montgomery, New York. Automated teller machines ("ATMs") are available at three Middletown branches as well as the Montgomery branch. OCTC's branch closing policy is adequate and conforms to the guidelines provided in the Interagency Policy Statement Regarding Branch Closings.

OCTC received an "outstanding" rating at the last CRA examination on December 2, 1996. There are no financial or legal impediments that would prevent the bank from helping to meet the credit needs of its assessment areas.

## **DESCRIPTION OF ASSESSMENT AREAS**

In July 1998, the bank expanded its assessment areas to incorporate Block Numbering Area ("BNA") 9512, which includes the township of Mamakating in Sullivan County. Mamakating borders Orange County, and the bank extended its assessment area to include the township because of its close proximity to OCTC's Trustway Branch. The rest of OCTC's assessment area -- located in central Orange County, which is part of Primary Metropolitan Statistical Area ("PMSA") 5660 (Newburgh, NY-PA) -- remains unchanged. This portion of the assessment area includes the townships of Greenville, Hamptonburg, Minisink, Montgomery, Mount Hope, Wallkill (which contains the city of Middletown) and Wawayanda.

The following map represents the delineation of OCTC's assessment areas:

**MAP**  
**OF ASSESSMENT AREA**  
**HERE**

### **PMSA 5660 (ORANGE COUNTY)**

The following demographic and economic information was obtained from publicly available sources that include the United States Department of Commerce's Bureau of the Census, the U.S. Department of Labor, the U.S. Department of Housing and Urban Development ("HUD") and the New York State Department of Labor.

Of the 19 census tracts in the Orange County portion of the assessment area, 13 census tracts (or 69 percent) are middle-income, 5 census tracts (26 percent) are moderate-income, and 1 tract (5 percent) is upper-income. There are no low-income census tracts in OCTC's assessment areas. All five moderate-income census tracts are located in the city of Middletown where 20 percent (or 17,238) of the assessment area's population resides. This portion of the assessment area's population is 87,185 and represents 26 percent of the entire PMSA's population.

#### **Income Characteristics**

According to the 1990 Census, the PMSA's median family income is \$42,859. The 1998 HUD adjusted median family income for PMSA 5660 is \$52,500. Based on the 1990 Census, 4,251 families (or 18 percent) living in the assessment area are low-income, 4,755 (20 percent) are moderate-income, 6,220 (26 percent) are middle-income, and 8,735 families (36 percent) are upper-income.

#### **Housing Characteristics**

Of the 31,474 housing units in this portion of the assessment area, 61.6 percent are owner-occupied. Orange County's owner-occupancy rate is higher than the rate for both the PMSA and the state. Unlike the assessment area overall, most of the housing units in Middletown's moderate-income census tracts are not owner-occupied. Of the 6,584 units located in the moderate-income tracts, only 39 percent (or 2,580) are owner-occupied. Middle-income census tracts contain 23,621 housing units, of which 67 percent (or 15,794) are owner-occupied. There are 1,269 housing units in the upper-income census tract of which 79 percent (or 999) are owner-occupied. According to a community contact, a large percentage of Middletown's housing units are older homes, and many are deteriorated.

A local realtor placed the 1998 median housing value in Orange County at \$135 thousand with housing in Middletown ranging from \$90 thousand to \$130 thousand. The 1990 median housing value in the assessment area was \$129,215.

Single-family housing units dominate the housing market in Orange County. Of all housing units in the county, 83.6 percent are single-family units and 11.3 percent have five units or more. In addition, 29.8 percent of the units are rental and 8.4 percent are vacant. Between 1980 and 1990, the population in Orange County grew by 18.5 percent, but housing development did not sufficiently meet demand. According to a contact at a local community development office, there is a significant need for home improvement loans and first-time home mortgages in the city of Middletown. The community contact also indicated that there is a strong need for rehabilitation of both rental and owner-occupied housing.

### **Labor, Employment and Economic Characteristics**

According to the American Business Institute (“ABI”), this portion of the assessment area had a total of 4,076 business establishments in 1997; 3,522 of them classified as small businesses. There are 1,280 small business establishments located in the moderate-income census tracts in Middletown. Community contacts at local economic development organizations indicated that small business financing is one of the most significant credit needs in the bank’s assessment areas.

Economic conditions in the assessment area are diverse. Middletown is a city undergoing economic revitalization. Communities surrounding the city are suburban and rural in nature, and their population is growing at a rate of approximately 19 percent every ten years. The migration of businesses from the city to the suburban portions of the assessment area served by major highways has led to vacancies in the downtown central business district.

Orange County’s primary employment sectors are trade, retail and services. Major employers include Orange County Community College, Horton Hospital, the Middletown Psychiatric Center, and a state correctional facility. As of August 1998, Orange County’s unemployment rate was 3.4 percent, which is lower than the 4.3 percent rate of August 1997.



## **NON-MSA PORTION OF THE ASSESSMENT AREAS**

The non-MSA portion of OCTC's assessment areas is predominantly rural. It includes BNA 9512 where the township of Mamakating is located. Mamakating includes the villages of Bloomingburg and Wurtsboro. This portion of the assessment areas is classified as an upper-income BNA. According to a community contact at a local economic development organization, however, there are poorer areas in Mamakating in need of revitalization. The population in this BNA is 6,537. Sullivan County has a year-round population of 75 thousand while the summer population rises to 300 thousand.

### **Income Characteristics**

According to the 1990 Census, the BNA's median family income is \$41,161, which is higher than the county median family income of \$33,884 and higher than the state median figure of \$39,741. Based on the 1990 Census, 92 families (or 5.1 percent) living in this portion of the assessment area are low-income, 297 (16.5 percent) are moderate-income, 393 (21.9 percent) middle-income, and 1,013 (56.4 percent) are upper-income. The 1998 HUD estimated median family income for New York State's non-MSAs is \$37,700.

### **Housing Characteristics**

Of the 2,763 housing units in the non-MSA portion of the assessment area, 70.6 percent are owner-occupied. This portion of the assessment area's owner-occupancy rate is higher than the rate for both Sullivan County and New York State.

### **Labor, Employment and Economic Characteristics**

Most Mamakating residents commute to the nearby town of Thompson or Orange County for work. According to ABI, there were a total of 150 business establishments in this portion of the assessment area in 1997 of which 138 were classified as small businesses. The estimated workforce in Sullivan County is 25 thousand. The major employers in the area are Sullivan County, the school districts, and Frontier Insurance Corporation, which employs over 700 people.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

OCTC's CRA rating of "outstanding" is based on a favorable assessment of the bank's core performance criteria for the examination period of December 2, 1996, through September 8, 1998.

For the criteria on lending, borrower income, and geographic distribution, 125 loans reported pursuant to Regulation C--Home Mortgage Disclosure Act ("HMDA") were analyzed. These loans included 57 home improvement loans, 23 conventional mortgages and 45 mortgage refinance originations. In addition, a sample of 141 consumer loans and 117 small business loans were included in the evaluation.

### **Loan-to-Deposit Ratio**

OCTC's loan-to-deposit ratio is reasonable considering the bank's financial condition and the lending opportunities within its assessment areas. Based on the bank's *Consolidated Reports of Condition and Income* for the most recent four quarters (ended March 31, 1998), OCTC's average loan-to-deposit ratio was 54 percent. This exceeds the 48 percent loan-to-deposit ratio average for similarly situated local banks during the same period. OCTC's ratio, however, does not compare as favorably with the National Peer Group average of 70 percent. OCTC's ratio has increased by 1 percent since the last examination. For the most recent four quarters, total lending increased by \$3.2 million.

The bank's community development lending enhances the bank's performance in this category. During the examination period, OCTC originated community development loans to three businesses totaling \$932 thousand. All of the community development financing was to businesses located in moderate-income tracts in downtown Middletown. The loan arrangements had SBA participation, and one loan was made in conjunction with the City of Middletown Economic Development Office. This financing is expected to result in economic stabilization and increased employment in the moderate-income tracts. The loans will help rehabilitate two buildings, which will also contribute to the area's economic stability and create entry-level jobs. As previously mentioned, small business lending was identified as a significant need in the bank's assessment area.

### **Lending Activity**

During the examination period, OCTC originated most of its loans within its assessment areas. Of the total number of loans sampled, 80 percent (306 of 383 sampled loans) were originated within the bank's assessment areas. Of 125 sampled HMDA-related loans, 100, or 80 percent, were extended within the assessment areas. Of the 141 sampled consumer loans, 113 (80 percent) were extended within the assessment areas. Of 117 small business loans, 93 (80 percent) were originated in the assessment areas.

## **Lending to Borrowers of Different Income Levels & to Businesses of Different Sizes**

OCTC's record of lending to borrowers of different income levels, including low- and moderate-income ("LMI") individuals and businesses of different sizes, is excellent, given assessment area demographics. A loan distribution analysis by income level for OCTC's PMSA 5660 assessment area is shown in Exhibits 1 and 2. Eighteen percent of the area is composed of low-income families, 20 percent moderate-income families, 26 percent middle-income families, and 36 percent upper-income families.

Of the nine loans originated in OCTC's BNA 9512, six were to consumers and three were to small businesses. Of the six consumer loans extended, one was to a moderate-income borrower, three loans were to middle-income borrowers and two loans were to upper-income borrowers.

### **HMDA-related Lending**

HMDA-related lending to borrowers of different income levels in the PMSA 5660 portion of the assessment area is excellent. Of the 100 HMDA reportable loans originated during the examination period, 14 loans or 14 percent were made to low-income borrowers and 24 loans or 24 percent were to borrowers of moderate-income. All HMDA-related loans were extended to borrowers residing in Orange County. This compares favorably to the demographics in the assessment area. There were no HMDA-related loans originated in BNA 9512. This geographic area, however, was incorporated into the assessment areas in July 1998.

### **Consumer Lending**

Consumer lending to borrowers of different income levels is excellent. Of the 107 consumer loans originated in PMSA 5660 (Orange County), 40 or 37 percent were originated to low-income borrowers and 45 loans or 42 percent were originated to moderate-income borrowers. This high level of lending to LMI borrowers substantially exceeds the LMI borrower demographics. Six loans or 5 percent of the 113 consumer loans sampled were originated to borrowers residing in Sullivan County. Of the six loans extended to borrowers in the Sullivan County BNA, one loan or 17 percent was extended to a moderate-income borrower, and three loans or 50 percent were made to middle-income borrowers.

### **Lending to Small Businesses**

Lending to small businesses with gross annual revenues ("GAR") of \$1 million or less is excellent. Of the 90 business loans originated in PMSA 5660 (Orange County), all were extended to businesses with GAR of less than \$1 million. As previously mentioned, there are 3,522 small businesses located in the Orange County portion of the assessment area and 138 small businesses located in BNA 9512. Three business loans totaling \$68 thousand were extended in BNA 9512 were to businesses with GAR of less than \$1 million.

EXHIBIT 1

**Distribution of Loans in  
 PMSA 5660 (Orange County)  
 Across Borrower Income Levels**

**December 2, 1996 – September 8, 1998**

	HMDA-RELATED LOANS	CONSUMER LOANS	TOTAL LOANS
<b>Low-income Level</b>			
<i>Less than 50% of median income</i>			
<b>Number</b>	14	40	54
<b>Percentage</b>	14%	37%	26%
<b>Dollar Amount</b>	\$681,000	\$211,036	\$892,036
<b>Percentage</b>	16%	22%	17%
<b>Moderate-income Level</b>			
<i>At least 50% and less than 80% of median income</i>			
<b>Number</b>	24	45	69
<b>Percentage</b>	24%	42%	33%
<b>Dollar Amount</b>	\$561,000	\$469,764	\$1,030,764
<b>Percentage</b>	13%	49%	19%
<b>Middle-income Level</b>			
<i>More than 80% but less than 120%</i>			
<b>Number</b>	33	13	46
<b>Percentage</b>	33%	12%	22%
<b>Dollar Amount</b>	\$1,218,000	\$169,424	\$1,387,424
<b>Percentage</b>	28%	17%	26%
<b>Upper-income Level</b>			
<i>120% or more of median income</i>			
<b>Number</b>	29	9	38
<b>Percentage</b>	29%	9%	18%
<b>Dollar Amount</b>	\$1,884,000	\$113,813	\$1,997,813
<b>Percentage</b>	43%	12%	38%
<b>Total Lending In Assessment Area</b>			
<b>Number</b>	100	107	207
<b>Percentage</b>	100%	100%	100%
<b>Dollar Amount</b>	\$4,344,000	\$964,037	\$5,308,037
<b>Percentage</b>	100%	100%	100%

EXHIBIT 2

**Distribution of Small Business &  
Small Farm Loans in  
PMSA 5660 (Orange County)**

**December 2, 1996 – September 8, 1998**

<b># of loans to businesses &amp; farms</b>	<b># of loans to <u>small</u> businesses &amp; farms*</b>	<b>% of loans to <u>small</u> businesses &amp; farms</b>	<b>\$ amt. of loans to businesses &amp; farms</b>	<b>\$ amt. of loans to <u>small</u> businesses &amp; farms*</b>	<b>% of \$ amt. to <u>small</u> businesses &amp; farms</b>
<b>90</b>	<b>90</b>	<b>100%</b>	<b>\$2,650,355</b>	<b>\$2,650,355</b>	<b>100%</b>

\* Businesses with gross annual revenues of \$1 million or less.

### **Geographic Distribution of Lending**

The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas. OCTC's assessment area includes 19 census tracts in PMSA 5660 (Orange County) and one BNA located in Sullivan County. In Orange County, five tracts or 26 percent are moderate-income, 13 tracts or 68 percent are middle-income and one tract is upper-income. The BNA 9512 portion of the assessment in Sullivan County is considered upper-income. There are no low-income census tracts within the bank's assessment areas. Except for HMDA-related lending, lending patterns reflect the geographic makeup of the assessment areas.

#### *HMDA-related Lending*

Geocoding analysis of the HMDA loan sample indicates a reasonable loan dispersion in the assessment areas, including moderate-income census tracts. HMDA-related lending in the moderate-income census tracts consisted of nine loans. When adjusted for demand, based on the number of owner-occupied housing units in the PMSA, HMDA-related lending in the moderate-income census tracts is moderately weaker than in the non-moderate-income census tracts. Overall weak demand, an older and deteriorated housing stock, and a large population over the age of 65 (165 percent), however, make it difficult to originate home purchase loans. OCTC has attempted to address the concern with respect to deteriorated housing conditions. Six of the nine loans were for the purpose of home improvement, and lending for home improvement purposes is equivalent in moderate-income and non-moderate-income census tracts on a demand-adjusted basis.

#### *Consumer Lending*

Geocoding analysis of the consumer loan sample indicates an excellent loan dispersion in the assessment areas, including moderate-income census tracts. Nineteen percent of consumer loans (20 out of 107) were extended in the moderate-income tracts in the bank's assessment areas. Lending was concentrated in the middle-income tracts where 86 loans or 76 percent of the consumer loans sampled were originated. The bank extended six consumer loans in the upper-income BNA in Sullivan County.

#### *Lending to Small Businesses*

Geocoding analysis of small business loans indicates a reasonable loan dispersion in the assessment areas. Eighteen percent of small business loans (16 of 90) were extended in the moderate-income tracts in the Orange County portion of the bank's assessment areas. Lending was concentrated in the middle income tracts where 74 loans or 82 percent of the sampled loans were originated. As mentioned previously, there are 1,280 small business establishments located in the moderate-income census tracts in Middletown. These constitute 36 percent of all small business establishments in the Orange County portion of

the bank's assessment areas. Three small business loans were originated in the BNA portion of the bank's assessment areas.

**Response to Complaints**

No complaints relating to OCTC's CRA performance were received by OCTC, and none have been filed with the Federal Reserve Bank of New York since the last examination.

**COMPLIANCE WITH FAIR LENDING LAWS**

No credit practices were identified that violated the substantive provisions of the antidiscrimination laws and regulations including the Equal Credit Opportunity Act (Regulation B), the Fair Housing Act, and all relevant agency regulations pertaining to nondiscriminatory treatment of credit applicants. Management has developed adequate policies, procedures and training programs supporting nondiscrimination in lending and credit practices.

## CRA APPENDIX

### GLOSSARY

**AREA MEDIAN INCOME:** (1) The median family income for the Metropolitan Statistical Area, if a person or geography (block numbering area or census tract) is located in an MSA; or (2), if a person or geography (census tract or block numbering area) is located outside an MSA, the statewide non-metropolitan median family income.

**ATM:** Automated teller machine.

**BNA:** Block numbering area.

**COMMUNITY DEVELOPMENT:** (1) Affordable housing including multifamily rental housing for low- or moderate-income individuals; (2) community services targeted to low- or moderate-income individuals; (3) activities that promote economic development by financing businesses or farms that meet the size eligibility standards of 13 CFR 121.802 (a)(2) or have gross annual revenues of \$1 million or less; or (4) activities that revitalize or stabilize low- or moderate-income geographies.

**CONSUMER LOANS:** Loans made to one or more individuals for household, family, or other personal expenditures. Consumer loans do not include HMDA loans.

**CRA:** Community Reinvestment Act.

**GAR:** Gross annual revenues.

**GEOGRAPHY:** A census tract or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial census (1990).

**HMDA:** Home Mortgage Disclosure Act.

**HMDA-RELATED LOANS:** Loans reported by the bank under Regulation C, Home Mortgage Disclosure Act. They include home purchase mortgage loans, home improvement loans, and refinancings of such loans.

**HUD:** The United States Department of Housing and Urban Development.

**LMI:** Low- and moderate-income, as in LMI census tracts.

**LOW-INCOME:** An individual income that is less than 50 percent of the area median income (i.e., of the median family income for the MSA, if the individual is located in an MSA, or, if the individual is located outside an MSA, of the statewide non-metropolitan median family income), or a BNA or census tract median family income that is less than 50



percent of the area median income. Accordingly, a low-income census tract is one in which the median family income is less than 50 percent of the area median income.

**MIDDLE-INCOME:** An individual income that is at least 80 percent and less than 120 percent of the area median income, or a BNA or census tract median family income that is at least 80 percent and less than 120 percent of the area median income.

**MODERATE-INCOME:** An individual income that is at least 50 percent and less than 80 percent of the area median income, or a BNA or census tract median family income that is at least 50 percent and less than 80 percent of the area median income.

**MSA:** A metropolitan statistical area as defined by the director of the Office of Management and Budget.

**PMSA:** A primary metropolitan statistical area as defined by the director of the Office of Management and Budget.

**REFINANCINGS:** Refinancings of HMDA-reportable home purchase and/or home improvement loans.

**SBA:** Small Business Administration.

**SMALL BUSINESS LOANS:** Such loans are defined in Regulation BB, Section 228.12 (u) with reference to the definition of such loans in the instructions for preparation of the Consolidated Report of Condition and Income. These instructions define small business loans as loans with original amounts of \$1 million or less that have been reported in Schedule RC-C, Part 1, (1.e)(4) of the report.

**SMALL FARM LOANS:** A loan for agricultural purposes with an origination amount of \$100 thousand or less; with respect to loans originated subsequent to December 31, 1995, a loan with an origination amount of \$500 thousand or less made to a farm with gross annual revenues of \$1 million or less.

**UPPER-INCOME:** An individual income that is 120 percent or more of the median family income in an MSA or a census tract in which the median family income is 120 percent or more of the median family income in an MSA.