

PUBLIC DISCLOSURE

November 1, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Solvay Bank
RSSD No. 722816
1537 Milton Avenue**

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 **Solvay Bank** 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 **November 1, 1999**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include 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: Solvay Bank is rated **“OUTSTANDING.”**

Over the examination review period of February 3, 1997, through November 1, 1999, Solvay Bank's performance with regard to the CRA is rated “outstanding.” This determination is based on the following performance criteria:

- an excellent loan-to-deposit ratio with consideration given to the bank's community development lending;
- a substantial majority of loans in the assessment area;
- a reasonable geographic distribution of loans within the bank's assessment area; and
- an excellent distribution of loans to borrowers of different income levels, including low- and moderate-income (“LMI”) individuals, and to businesses of different sizes.

The following table summarizes the performance levels of Solvay Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	SOLVAY BANK		
	PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-deposit Ratio	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the previous examination		

DESCRIPTION OF INSTITUTION

Solvay Bank (“Solvay”), established in 1917, is a community bank and the sole subsidiary of Solvay Bank Corporation, a bank holding company. In addition to its main office in Solvay, New York, the bank operates four full-service branches throughout Onondaga County in New York State. As of September 30, 1999, the bank reported total assets of \$313.7 million with total loans of \$231 million. There are no financial or legal impediments preventing Solvay from meeting the credit needs of its assessment area.

Solvay offers a variety of commercial and consumer loan products. The loans secured by real estate dominate the loan portfolio with 72 percent of total loans. Loans secured by one- to four-family residential properties represent approximately 75 percent of the total loans secured by real estate. In addition, commercial and industrial loans and loans to individuals represent 21 percent and 7 percent of the loan portfolio, respectively.

DESCRIPTION OF ASSESSMENT AREA

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, 1990, the U. S. Department of Labor, and the U. S. Department of Housing and Urban Development (“HUD”).

Solvay’s assessment area includes the entire county of Onondaga which is part of Metropolitan Statistical Area (“MSA”) 8160 (Syracuse, NY).

The following map illustrates the bank’s assessment area:

INSERT MAP

PERFORMANCE CONTEXT

Demographic Characteristics

According to the 1990 Census, the population of the assessment area is 468,973, which is 63 percent of the MSA population. The city of Syracuse has a population of 163,836, or 35 percent of the assessment area population. The U.S. Census Bureau estimates that the city population in 1998 was 152,215, representing a 7.1 percent decline since the census.

Income Characteristics

The 1990 median family income for the assessment area is \$38,816, slightly higher than the MSA median of \$36,672 and significantly higher than the city of Syracuse's median of \$28,018. The HUD-adjusted median family income for the MSA was \$43,600 in 1997 and \$44,500 in 1998. Of the 143 census tracts in the assessment area, 18, or 12.6 percent, are low-income tracts; 22, or 15.4 percent, are moderate-income; 65, or 45.4 percent, are middle-income; and 38, or 26.6 percent, are upper-income tracts. Of the 40 LMI census tracts, all but two are located in the city of Syracuse. Forty-three percent of the 92 LMI census tracts in MSA 8160 (Syracuse, NY) are located in Onondaga County.

There are 119,206 households in the assessment area classified as families. Seventeen percent of these families are low-income, 17 percent are moderate-income, 24 percent are middle-income and 42 percent are upper-income families. Forty-five percent of the LMI families in the county live in the city of Syracuse.

Housing Characteristics

The assessment area contains 190,878 housing units of which 59.2 percent are owner-occupied, 34 percent are rental, and 6.8 percent are vacant. Within LMI census tracts, rental units represent 65.7 percent of the housing units while owner-occupied units represent 22.8 percent. The level of owner-occupancy in LMI census tracts in Syracuse is slightly higher with a rate of 23.1 percent. Approximately 78 percent of the housing units in the assessment area are one- to four-family units; 19.8 percent are multifamily units. In LMI census tracts, multifamily units represent a greater percentage of the housing units with a rate of 40.6 percent. According to community contacts, high housing vacancy rates in Syracuse have led to blighted neighborhoods in need of stabilization. As a result, affordable multifamily rehabilitation loans for owners and investors are critical community needs.

Based on the 1990 Census, the median housing value for a one- to four-family unit home in the assessment area is \$80,578 and \$74,935 in the MSA. The New York State Association of Realtors has reported that the median sales price of existing single-family homes in the greater Syracuse/Onondaga County area was \$79,610 in 1997 and increased to \$82,390 in 1998. These prices are 63 percent and 61 percent of the state median figures for 1997 and 1998, respectively. Community contacts spoke of low-cost housing opportunities in Syracuse; prices

range from \$30 thousand to \$50 thousand. A lack of local jobs and inadequate income, however, combine to prevent families from becoming home buyers.

Labor, Employment and Economic Characteristics

MSA 8160 (Syracuse, NY) experienced economic decline for much of the 1990s as a result of lost manufacturing jobs. Factory jobs totaled approximately 60 thousand at the end of 1988 but declined to fewer than 49 thousand by the end of 1995, reducing manufacturing's share of local private jobs from 21 percent to approximately 17.5 percent. Over the past three years, however, the total number of jobs began a gradual increase, particularly in the service sector and even in the manufacturing sector, where manufacturers of industrial machinery, electronic equipment and automobile parts resumed hiring. Between 1997 and 1998, the number of jobs in the Syracuse area increased approximately 1.2 percent from 335,850 to 339,790. Although such growth is below state and national rates, it represents important gains for the area.

Unemployment rates also have declined in the MSA. The overall unemployment rate in the MSA for 1997 and 1998 was 4.7 percent and 4.1 percent, respectively. These rates are generally consistent with national rates and lower than the state unemployment rate, which declined to 5.6 percent for 1998. The unemployment rate in the Syracuse MSA has generally fallen in recent years, but this may be a result of population decline rather than increased job opportunities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-deposit Ratio

Solvay's loan-to-deposit ratio was excellent given the bank's size, financial condition and the credit needs of its assessment area. The bank's average loan-to-deposit ratio was 78 percent based on its Consolidated Report of Condition and Income for the four most recent quarters ended September 30, 1999. Solvay's ratio exceeds the national peer group average of 77 percent and the local peer group average of 74 percent for banks of similar size.

The bank's community development loans as of November 1, 1999, totaled \$1.5 million and consisted of the following:

- \$400 thousand loan to a nonprofit organization to purchase and rehabilitate 33 LMI properties, to be rented to LMI individuals.
- \$129 thousand loan to a nonprofit organization to purchase and rehabilitate 33 LMI properties, to be rented to LMI individuals.
- \$398 thousand loan to a nonprofit organization to purchase and rehabilitate 33 LMI properties, to be rented to LMI individuals.
- \$74 thousand line of credit to a nonprofit organization, to purchase and rehabilitate real estate. Properties are rented to LMI individuals.
- \$480 thousand line of credit to a nonprofit financial intermediary that finances affordable housing projects throughout New York State. The nonprofit organization specializes in the development, rehabilitation, and preservation of affordable housing throughout the state.

Lending in the Assessment Area

Solvay originated a substantial majority of its loans within its assessment area during the review period. The following table shows that a significant majority of the bank's consumer loans, business loans, and loans reported pursuant to the Home Mortgage Disclosure Act ("HMDA") were made within the assessment area.

Loan Type	Loans Made Within Assessment Area	Total Loans	% of Loans Within Assessment Area
HMDA-related	915	983	93%
Consumer	160	166	96%
Small Business	167	168	99%
TOTALS	1,242	1,317	94%

Geographic Distribution of Loans

Given the demographics of the bank’s assessment area, Solvay’s geographic distribution of loans was satisfactory. Overall, the bank is lending in all areas of its assessment area, including LMI tracts. Ten percent of the consumer loans and 9 percent of the HMDA-related loans were extended in LMI census tracts. In addition, 28 percent of the commercial loans were extended in LMI census tracts.

HMDA-related Loans

An analysis of the sample of HMDA-related loans shows that the bank’s lending performance in both low- and moderate-income census tracts was satisfactory. When HMDA-related lending is adjusted to reflect the number of owner-occupied housing units, 2 percent of the HMDA reportable loans were in low-income census tracts compared with 2 percent of the owner-occupied housing units. Performance was also satisfactory in moderate-income census tracts where 6 percent of the loans were in moderate-income census tracts compared with 7 percent of the owner-occupied housing units.

Consumer Loans

An analysis of the sample of consumer loans shows that lending in low-income census tracts was weak while lending in moderate-income census tracts was satisfactory. Of the consumer loans originated in the assessment area, 1 percent were in low-income census tracts while 13 percent of the population resides in low-income census tracts. Nine percent of the consumer loans were originated in moderate-income census tracts while 16 percent of the population resides in moderate-income census tracts. The weak performance in low-income census tracts appears to be due to the borrowers’ distance from Solvay’s branch offices.

Small Business and Small Farm Loans

An analysis of the sample of small business loans shows that they were well dispersed throughout the assessment area. Fourteen percent of the small business loans were in low-income census tracts while 14 percent of the business establishments were located in low-income census tracts. Performance in moderate-income tracts was outstanding as 14 percent of the loans were in moderate-income census tracts while 12 percent of the business establishments were located in moderate-income census tracts.

Lending to Borrowers of Different Income Levels and to Businesses and Farms of Different Sizes

Solvay's record of lending to borrowers of different income levels (including LMI individuals) and small businesses was excellent given the demographics of the assessment area.

Of all assessment area consumer loans sampled, 56 percent (or 90 of 160) were made to LMI individuals. Thirty-one percent (or 282 of 915) of HMDA-related loans were made to LMI individuals. Seventy-four percent of all business loan originations within the assessment area (107 of 150) were to small businesses with gross annual revenues of \$1 million or less. For details, see the following exhibit.

Analysis of Loans in the Assessment Area Across Borrower Income Levels			
	HMDA-related	Consumer	TOTALS
LOW INCOME Less than 50% of median income			
Number	106	42	148
Percentage	12%	26%	14%
Amount	\$3,583,000	\$331,892	\$3,914,892
Percentage	6%	24%	6%
MODERATE INCOME At least 50% & less than 80% of median income			
Number	176	48	224
Percentage	19%	30%	21%
Amount	\$6,888,000	\$321,948	\$7,209,948
Percentage	11%	23%	11%
MIDDLE INCOME At least 80% & less than 120% of median income			
Number	194	33	227
Percentage	21%	21%	21%
Amount	\$10,068,000	\$254,353	\$10,322,353
Percentage	16%	18%	16%
UPPER INCOME 120% or more of median income			
Number	439	37	476
Percentage	48%	23%	44%
Amount	\$41,631,000	\$501,241	\$42,132,241
Percentage	70%	35%	66%

**Analysis of Small Business Loans in the Assessment Area
 March 1997 - September 1999**

Small Business Lending Summary					
Number of loans to businesses	Number of loans to <i>small</i> businesses*	Percentage of loans to <i>small</i> businesses	Dollar amount of loans to businesses	\$ amount of loans to <i>small</i> businesses*	% of \$ amount of loans to <i>small</i> businesses*
150	111	74%	\$7,161,632	\$5,210,508	73%

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

HMDA-related Loans

The bank’s HMDA-related lending to borrowers of different income levels was reasonable. The level of loans to moderate-income borrowers represented 19 percent of the HMDA-related loans sampled. Some weakness, however, was noted in lending to low-income borrowers. Twelve percent of the HMDA-related loans sampled were to low-income borrowers. Seventeen percent of the families within the assessment area are low-income and 17 percent are of moderate-income.

Consumer Loans

The bank’s consumer lending to borrowers of different income level was excellent. Loans to low-income and moderate-income borrowers total 26 percent and 30 percent of the consumer loans sampled, respectively. These ratios compare favorably with the demographics of the assessment area indicating that 17 percent of the families are of low-income and 17 percent are of moderate-income.

Small Business and Farm Loans

The bank’s lending to small businesses and farms with revenues of \$1 million or less was excellent. Seventy-four percent of the loans sampled were made to such borrowers.

Response to Complaints

Solvay received no complaints relating to its CRA performance, and none were filed with the Federal Reserve Bank of New York.

Solvay Bank is in compliance with the substantive provisions of the anti-discrimination laws and regulations, including the Equal Credit Opportunity Act, the Fair Housing Act, and relevant agency regulations pertaining to nondiscriminatory treatment of credit applicants.

CRA APPENDIX

GLOSSARY

AREA MEDIAN INCOME: (1) The median family income for the MSA, 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.

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

CRA: Community Reinvestment Act.

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

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.

LTV: Loan-to-value ratio is the relationship, expressed as a percent, between the principal amount of a loan and the appraised value of the asset securing the financing. In a residential mortgage loan, this is the percentage value of the property the lender is willing to finance with a mortgage (Dictionary of Banking Terms, 3rd Edition, by Thomas Fitch).

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.

PEERS: Similarly situated banks.

PERFORMANCE CONTEXT: The economic and demographic characteristics of a bank's assessment area(s). The following information is considered to help understand the context in which an institution's performance should be evaluated: (1) the economic and demographic characteristics of the assessment area(s); (2) lending, investment, and service opportunities in the assessment area(s); (3) the institution's product offerings and business strategy; (4) the institution's capacity and constraints; (5) the prior performance of the institution, and in appropriate circumstance, the performance of similarly situated institutions; and (6) other relevant information.

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.

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.