

PUBLIC DISCLOSURE

December 2, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Alden State Bank
RSSD No. 414102**

**13216 Broadway
Alden, New York 14004**

Federal Reserve Bank of New York

**33 Liberty Street
New York, N.Y. 10045**

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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INSTITUTION

INSTITUTION'S CRA RATING: Alden State Bank is rated “**SATISFACTORY.**”

For the examination period of January 1, 2000, through December 31, 2001, the satisfactory performance of Alden State Bank with regard to the Community Reinvestment Act (“CRA”) is based on the following performance characteristics:

- The bank’s loan-to-deposit ratio was reasonable.
- The substantial majority of loans were made in the assessment area.
- The distribution of loans to borrowers of different income levels, including low- and moderate-income (“LMI”) individuals, and to businesses of different sizes was more than reasonable.

DESCRIPTION OF INSTITUTION

Alden State Bank (“Alden”) is a two-branch bank with its main office in the town of Alden, located in Erie County. The bank is not part of a holding company and is not affiliated with any other institution. As of June 30, 2002, Alden had total assets of \$179.7 million and net loans and leases of \$92.7 million.

Alden is a retail-oriented bank providing consumer and business loans in the following categories: residential and commercial construction and mortgage loans, mobile home, home improvement, home equity, commercial, and small business loans and small farm loans for various purposes. The bank’s loan portfolio includes real estate loans totaling \$77.6 million, commercial loans totaling \$9.1 million, consumer loans totaling \$5.6 million, and other loans totaling less than \$1 million. As of June 30, 2002, approximately 84 percent of the bank’s loans were real estate-related.

There are no financial or legal issues that would prevent Alden from servicing the credit needs of the consumers and small businesses in its assessment area.

DESCRIPTION OF THE BANK’S ASSESSMENT AREA

Alden’s assessment area contains parts of two metropolitan statistical areas (“MSAs”), MSA 1280 (Buffalo-Niagara Falls, NY) and MSA 6840 (Rochester, NY), and part of one Non-MSA that includes a portion of Wyoming County. The bank’s assessment area has ten middle-income tracts and four upper-income tracts, but no LMI tracts. A map illustrating Alden’s assessment area is on page BB9. Other assessment area details follow:

MSA 1280: Niagara Falls (Erie County)

Alden's assessment area has 12 census tracts in part of the Buffalo-Niagara Falls MSA, which includes 9 middle-income tracts and 3 upper-income tracts. As mentioned, the bank's assessment area has no LMI tracts.

The portion of the bank's assessment area in the Buffalo-Niagara Falls MSA includes the towns of Alden, Elma, Lancaster and Marilla, and the villages of Alden, Depew and Lancaster.

MSA 6840: Rochester (Genesee County)

Rochester has one middle-income census tract, which includes the towns of Darien and Alexander as well as the villages of Alexander and Attica.

Non-MSA: Wyoming County

Wyoming County has one upper-income census tract that consists of the town of Bennington.

PERFORMANCE CONTEXT

The following demographic and economic information was obtained from publicly available sources that include the U.S. Department of Commerce Bureau of the Census (1990 and 2000), the U.S. Department of Labor and the U.S. Department of Housing and Urban Development ("HUD").

Demographic Characteristics

According to the 1990 Census, the population in the bank's assessment area is 61,960, or 2 percent of the total population of 3.8 million in the two MSAs and one non-MSA. Sixty-seven percent of the assessment area population resides in middle-income tracts while the other 33 percent resides in upper-income tracts.

Of the 16,793 families in the bank's assessment area, 12 percent are low-income, 17 percent moderate-income, 26 percent middle-income, and 45 percent are upper-income. Of the 21,588 households in the bank's assessment area, 16 percent are low-income households, 13 percent are moderate-income, 20 percent middle-income, and 51 percent are upper-income households.

According to the 1990 Census, the median family income of the assessment area is \$39,700.

Housing Characteristics

Of the 22,632 housing units in the assessment area, 17,413 (77 percent) are owner-occupied, 4,239 (19 percent) are rental, and 980 (4 percent) are vacant. The percentage of owner-occupied housing in the assessment area is higher than the owner-occupied rate of 48 percent for New York State. Most of the housing stock in the assessment area (91 percent) includes one- to four-

family residential dwellings, with a median age 34 years old. According to the 1990 Census, the median housing value in Alden's assessment area is \$75,571.

Labor, Employment and Economic Characteristics

The Buffalo-Niagara Falls region has been facing declining incomes and economic restructuring brought about by the shift from a manufacturing to a service-oriented environment. Large, unionized manufacturing concerns such as Bethlehem Steel and General Motors ("GM") once dominated the region, but much of this manufacturing base has been lost, along with a significant number of high-paying jobs. The region has attracted service sector employment, but the wages are relatively low.

Between 1991 and 2001, the region lost 11 thousand manufacturing jobs with average annual earnings of \$51 thousand, while service employment rose by 30 thousand, but earnings averaged only \$27 thousand. Overall, the region's economic growth has been slow, and job growth stagnated between 1990 and 2000. The region has had only a 1.9 percent rise in employment over that decade compared with a 5.4 percent increase statewide and a 20.4 percent rise nationwide.

Historically, the automobile industry has been a source of a large percentage of high-paying employment in the area. The transportation equipment industry has suffered significant job losses, but a substantial number of jobs have been retained in automobile parts manufacturing at the area's large GM engine plant, a Ford Motor Company stamping plant, and several other major auto parts makers. In addition, the Buffalo-Niagara Falls region is still a significant producer of industrial chemicals and fabricated metal products.

In Buffalo, additional bad economic news emerged with the bankruptcy of Adelphia Communications and its subsequent investigation by the Securities and Exchange Commission. The company had a sizeable operations center in Buffalo, and its plans for a \$125 million building downtown have been scrapped. A number of Adelphia's 1,200 local jobs are now in jeopardy.

Compared with most of upstate New York, the latest recession has not severely impacted employment in Alden County. In July 2002, the unemployment rate in the county was 5.9 percent, compared with 6.4 percent the year before. However, economic growth in Alden County is slow. Between 1990 and 2000, total jobs increased 6.2 percent compared with 7.4 percent in New York State and 20.1 percent in the nation as a whole.

The assessment area census tracts have 2,164 small business establishments. Of these businesses, 1,805 or 83 percent have gross annual revenues ("GAR") of \$1 million or less.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The satisfactory rating is based on an evaluation of Alden's core performance criteria. For the performance levels related to lending, income and geographic distribution, 366 loans originated between January 1, 2000, and December 31, 2001, were analyzed. The analysis included 176 consumer loans, 102 small business loans, and 88 loans reported under the Home Mortgage Disclosure Act ("HMDA").

Loan-to-deposit Ratio

Alden's loan-to-deposit ratio was reasonable given the bank's size, financial condition, and credit needs of its assessment area. As of June 30, 2002, the bank had a lower "net loans and leases to deposits" when compared with its national peer group of 437 banks. The bank's average loan-to-deposit ratio of 60 percent is below the national peer group's average of 79 percent reported in the *Uniform Bank Performance Report* ("UBPR").

The bank's average loan-to-deposit ratio for the four most recent quarters ending June 30, 2002, was 60 percent, based on information contained in its *Consolidated Report of Condition and Income*. The loan-to-deposit ratio is below the regional peer group average of 75 percent for banks of similar size.

Lending in the Assessment Area

During the examination period, Alden originated a significant majority of its loans in its assessment area. Classifying the bank's loans into three major categories shows that a significant majority of housing-related, consumer and business loans were made in the bank's assessment area.

Of the number of loans included in the analysis, 75 percent (275 of 366) were extended in the bank's assessment area. Of the loans analyzed, 73 percent of the housing-related, 74 percent of the consumer loans, and 79 percent of the small business loans were made in the bank's assessment area.

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

Overall, Alden's record of lending to borrowers of different income levels (including LMI individuals) and businesses of different sizes was reasonable given the demographics of the bank's assessment area. Exhibit 1 contains an analysis of the loans made during the examination period and with income used in the credit decision. The analysis of the lending distribution in each loan category follows:

	HMDA-RELATED	CONSUMER	TOTAL
LOW-INCOME: Less than 50% of Median Income			
Number	13	57	70
Percentage	21%	51%	41%
Amount (\$)	292,600	716,380	1,008,980
Percentage	12%	44%	25%
MODERATE-INCOME: At least 50% & less than 80% of Median Income			
Number	20	30	50
Percentage	33%	27%	29%
Amount (\$)	462,000	278,307	740,307
Percentage	19%	17%	18%
MIDDLE-INCOME: At least 80% & less than 120% of Median Income			
Number	16	15	31
Percentage	26%	14%	18%
Amount (\$)	881,000	293,088	1,174,088
Percentage	37%	18%	29%
UPPER-INCOME: 120% or more of Median Income			
Number	12	9	21
Percentage	20%	8%	12%
Amount (\$)	762,840	351,181	1,114,021
Percentage	32%	21%	28%
Total number of loans with income used in decision	61	111	172

HMDA-related Loans

The bank's level of housing-related lending to borrowers of different income levels was excellent. Exhibit 1 indicates that HMDA-related loans to LMI borrowers totaled 54 percent of all loans analyzed while LMI families represent 29 percent of all families in the assessment area. Loans to low-income borrowers totaled 21 percent and loans to moderate-income borrowers totaled 33 percent of the loans. The ratio of lending to low-income families was favorable in light of assessment area demographics indicating that 12 percent of the families are low-income. The ratio of lending to moderate-income families was also favorable when compared with the demographics of the assessment area, which show 17 percent of the families are moderate-income.

Consumer Loans

The bank's level of consumer lending to borrowers of different income was excellent. Exhibit 1 shows that loans to LMI borrowers totaled 70 percent of all loans analyzed while LMI families represent 29 percent of all families in the assessment area. Loans to low- and moderate-income borrowers accounted for 51 and 27 percent of the loans sampled, respectively. These ratios compare well with the demographics of the assessment area as noted above.

Small Business Loans

The bank's level of lending to businesses with revenues of \$1 million or less was excellent. As Exhibit 2 shows, 84 percent of the loans analyzed were made to such businesses. This ratio compared favorably with the percentage of farm and non-farm business establishments (84 percent) in Alden's assessment area that have GAR of \$1 million or less.

In addition, 86 percent of the small business loans Alden originated during the examination period were for \$100 thousand or less. The average loan size was \$49 thousand, an amount that would meet the credit needs of smaller businesses.

EXHIBIT 2					
Distribution of Loans in Assessment Area					
By Size of Business					
January 1, 2000 - December 31, 2001					
SMALL BUSINESS LENDING SUMMARY					
Number of loans to businesses	Number of loans to <u>small</u> businesses*	% of loans to <u>small</u> businesses*	\$ amount of loans to businesses	\$ amount of loans to <u>small</u> businesses*	% of \$ amount of loans to <u>small</u> businesses*
73	61	84%	3,613,128	2,504,140	69%

Geographic Distribution of Loans in the Assessment Area

There are no LMI census tracts in the bank's assessment area; therefore, no geographic distribution analysis was performed.

Response to Complaints

Alden received no complaints relating to the bank's CRA performance, and no complaints have been filed with the Federal Reserve Bank of New York since the previous examination. No credit practices that violated the substantive provisions of the antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act, were identified as having a potential impact on Alden's CRA rating.

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

CRA APPENDIX A

GLOSSARY

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending on population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status and living conditions to allow for statistical comparisons.

Consumer loan(s): A loan(s) to one or more individuals for household, family or other personal expenditures. A consumer loan does not include a home mortgage, small business or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into "male householder" (a family with a male householder and no wife present) or "female householder" (a family with a female householder and no husband present).

Geography: A census tract or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act ("HMDA"): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender and income of applicants, the amount of loan requested, and the disposition of the application (e.g., approved, denied and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes, and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Metropolitan area (“MA”): Any primary metropolitan statistical area (“PMSA”), metropolitan statistical area (“MSA”), or consolidated metropolitan statistical area (“CMSA”), as defined by the Office of Management and Budget, with a population of 250 thousand or more, and any other area designated as such by the appropriate federal financial supervisory agency.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution’s CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Small loan(s) to business(es): A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (“Call Report”) and the Thrift Financial Reporting (“TFR”) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.

Alden State Bank

Assessment Area

January 1, 2000 - December 31, 2001

