

# **PUBLIC DISCLOSURE**

September 6, 2005

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**ORANGE COUNTY TRUST COMPANY  
RSSD No. 176101**

**212 Dolson Avenue  
Middletown, NY 10940**

**FEDERAL RESERVE BANK OF NEW YORK**

**33 LIBERTY STREET  
NEW YORK, N.Y. 10045**

**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:** Orange County Trust Company is rated “**SATISFACTORY.**”

*The following table indicates the performance level of the institution with respect to the lending and community development tests.*

PERFORMANCE LEVELS	PERFORMANCE TESTS	
	Lending Test	Community Development Test
Outstanding		
Satisfactory	X	X
Needs to Improve		
Substantial Noncompliance		

The satisfactory performance of Orange County Trust Company (“OCTC”) with regard to the Community Reinvestment Act (“CRA”) is based on the following performance criteria:

- The bank’s loan-to-deposit ratio was reasonable.
- A substantial majority of loans were made in the assessment area.
- The distribution of loans to businesses of different sizes was reasonable.
- The geographic distribution of loans in the assessment area was excellent.
- The level of responsiveness to the community development needs of its assessment area through community development loans, qualified investments and community development services was adequate.

## DESCRIPTION OF INSTITUTION

OCTC is a New York State-chartered banking corporation headquartered in Middletown, New York. OCTC is a retail bank with five branches located in Orange County, New York. Three branches are located in Middletown and the other two branches are located in the towns of Montgomery and Vails Gate.

As of December 31, 2004, the bank had total assets of \$400 million, gross loans and leases of \$161 million and deposits of \$253 million. Commercial mortgage and commercial and industrial lending represent 60% of the bank's loan portfolio. Loans secured by residential real estate comprise 35% of the loan portfolio. While the bank offers a range of consumer and commercial financial services, OCTC has shifted its strategic focus in recent years to specialize primarily in small business commercial banking.

As of June 30, 2004, OCTC had the 11<sup>th</sup> largest deposit market share in its assessment area, with 4% of deposits. The market was dominated by larger banks such as Fleet National Bank, Hudson United, Bank of New York, Keybank National Association and Charter One Bank. These large banks combined had approximately half of the local deposit market share.

OCTC's previous CRA examination was dated August 25, 2003, and the bank received an overall rating of "satisfactory." There are no financial or legal factors preventing OCTC from serving credit needs in its assessment area.

## DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The assessment area consists of portions of Orange County and one contiguous census tract in Sullivan County within the township of Mamakating. The Orange County portion of the assessment area, which is part of Metropolitan Statistical Area 39100 (Poughkeepsie-Newburgh-Middletown, NY) includes the townships of Mount Hope, Greenville, Minisink, Wawayanda, Goshen, Hamptonburgh, Crawford, Cornwall, Newburgh, and Wallkill, including the city of Middletown.

## SCOPE OF EXAMINATION

### Procedures

OCTC's CRA performance was assessed using the Federal Financial Institutions Examination Council's *Intermediate- Small Bank Examination Procedures*.

### Products

Loan products evaluated include small business and other loans qualifying as community development loans. The small business loans evaluated were reported under CRA. Examiners verified the integrity of small business loan data the bank reported in 2003 and 2004. OCTC extends HMDA reportable loans, however, HMDA loan types were not analyzed during this examination because the bank's business strategies resulted in low volumes and would not affect

the overall conclusions, if included. Multifamily loans qualifying as community development loans were considered in the evaluation of community development.

### Examination Period

Small business loans originated between January 1, 2003, and December 31, 2004, were evaluated. Examiners also reviewed activities pertaining to the community development test covering the same time period.

### Lending Distribution Analysis

Only loans in OCTC's assessment area were included in the analysis of geographic and borrower distribution. A separate analysis of 2003 and 2004 data was conducted for geographic and borrower distribution because of a change in CRA and HMDA reporting requirements. In accordance with the reporting requirements, loans from January 1, 2003, through December 31, 2003, were reported and evaluated using the assessment area definitions issued by the Office of Management and Budget ("OMB") through December 31, 2003. Loans originated from January 1, 2004, through December 31, 2004, were reported and analyzed using the new OMB assessment area definitions.

The analysis of the distribution of loans by geography and borrower characteristics focused on 2004 lending activity because of the recent changes in metropolitan area definitions issued by the OMB that became effective in 2004. To evaluate the geographic distribution of small business loans, the analysis compared the proportion of loan originations with the proportion of businesses located in LMI and non-LMI geographies. In order to analyze lending to businesses of different sizes the proportion of originations to businesses with gross annual revenues (GAR) of \$1 million or less was compared to the proportion of business establishments with GAR of \$1 million or less. The size of the small business loans was also used as a proxy to identify lending to businesses with GAR of \$1 million or less.

Examiners contacted members of a community development organization focused on affordable housing during this examination.

## **PERFORMANCE CONTEXT**

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

### Demographic Characteristics

According to the 2000 Census, the population of OCTC's assessment area totals 156,652. The assessment area contains 31 census tracts of which 8 (26%) are moderate-income, 19 (61%) are middle-income and 4 (13%) are upper-income.

Income Characteristics

The 2004 HUD-adjusted median family income was \$65,500 for MSA 39100 (Poughkeepsie-Newburgh-Middletown, NY). Of the 39,705 families residing in the assessment area, 39% are of low- or moderate-incomes and 6% of all families reside below the poverty level.

Housing Characteristics

The assessment area contains 58,187 housing units, of which 63% are owner-occupied. In moderate-income census tracts, owner-occupied units represent 38% of total housing units. The median sales price for single family housing in Orange County is significant in comparison to low- and moderate-incomes in the area. The annual median sales price of a single family home in Orange County was \$260,000 in 2004.

This median sales price was at least 4 times the income of a moderate-income family in 2004 and at least 8 times the income of a low-income family in 2004. Accordingly, purchasing a home is difficult without some form of subsidy for many low- and moderate-income individuals. A community contact indicated that the population in the assessment area was increasing due, in part to the migration of individuals seeking relief from the higher cost of home ownership in New York City area. This migration has contributed to the increased housing costs over the last few years. The contact also noted that there was a need for affordable multiple family housing.

Exhibit 1 on the following page provides additional information related to OCTC's assessment area demographics.

**Exhibit 1 - Assessment Area Demographics**

Assessment Area 2004

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	7,703	19.4
Moderate-income	8	25.8	7,735	19.5	1,113	14.4	7,729	19.5
Middle-income	19	61.3	26,860	67.6	1,109	4.1	10,033	25.3
Upper-income	4	12.9	5,110	12.9	211	4.1	14,240	35.9
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>31</b>	<b>100.0</b>	<b>39,705</b>	<b>100.0</b>	<b>2,433</b>	<b>6.1</b>	<b>39,705</b>	<b>100.0</b>
	<b>Housing Units by Tract</b>	<b>Housing Types by Tract</b>						
		<b>Owner-Occupied</b>			<b>Rental</b>		<b>Vacant</b>	
		<b>#</b>	<b>%</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Low-income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate-income	13,388	5,106	13.9	38.1	7,401	55.3	881	6.6
Middle-income	37,566	26,232	71.5	69.8	9,645	25.7	1,689	4.5
Upper-income	7,233	5,362	14.6	74.1	1,261	17.4	610	8.4
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>58,187</b>	<b>36,700</b>	<b>100.0</b>	<b>63.1</b>	<b>18,307</b>	<b>31.5</b>	<b>3,180</b>	<b>5.5</b>
	<b>Total Businesses by Tract</b>	<b>Businesses by Tract &amp; Revenue Size</b>						
		<b>Less Than or = \$1 Million</b>		<b>Over \$1 Million</b>		<b>Revenue Not Reported</b>		
		<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	1,466	21.2	1,245	20.6	138	23.7	83	27.9
Middle-income	4,606	66.6	4,040	66.9	388	66.6	178	59.9
Upper-income	846	12.2	753	12.5	57	9.8	36	12.1
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>6,918</b>	<b>100.0</b>	<b>6,038</b>	<b>100.0</b>	<b>583</b>	<b>100.0</b>	<b>297</b>	<b>100.0</b>
<b>Percentage of Total Businesses:</b>				<b>87.3</b>		<b>8.4</b>		<b>4.3</b>

Based on 2000 Census Information.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS**

**LENDING TEST**

OCTC’s overall record of meeting the credit needs of its assessment area through its lending performance is rated satisfactory. OCTC originated a substantial majority of its loans within its assessment area and its loan-to-deposit ratio was reasonable. The overall distribution of its loans among businesses of different sizes was reasonable. The geographic distribution of small business loans reflected excellent penetration throughout the bank’s assessment area.

Loan-to-Deposit Ratio

The loan-to-deposit ratio was reasonable given OCTC’s size, financial condition, and the credit needs of its assessment area. The bank’s average loan-to-deposit ratio for the eight most recent quarters ending December 31, 2004, was 63%, based on information contained in its *Consolidated Report of Condition and Income*. This ratio was below the national peer average of 82% for similarly sized banks but was slightly above the local peer average ratio of 62%, for similarly sized banks located in the area during the same time period.

Lending in Assessment Area

OCTC originated a substantial majority of its loans in its assessment area. Of the 401 small business loans originated during the two-year review period, 344 or 86% were extended to businesses located in the bank’s assessment area.

Lending to Businesses of Different Sizes

Overall distribution of small business loans to businesses with GAR of \$1 million or less was reasonable in comparison to the number of business establishments with GAR of \$1 million or less in the assessment area. As noted in Exhibit 2 below, 62% of the loans were made to such businesses while 87% of all business establishments in the assessment area have GAR of \$1 million or less. Of the small business loans reported, 61% were in amounts of \$100,000 or less. The average size of these loans in amounts of \$100,000 or less was \$50,732, an amount that would typically meet the credit needs of smaller businesses.

<p align="center"><b>Exhibit 2</b>  <b>Distribution of Loans in Assessment Area</b>  <b>By Size of Business</b>  <b>January 1, 2004 – December 31, 2004</b>  <b>(In Thousands)</b></p>					
<p align="center">Small Business Lending Summary</p>					
<p align="center">Number of loans to businesses</p>	<p align="center">Number of loans to <u>small</u> businesses</p>	<p align="center">% of loans to <u>small</u> businesses</p>	<p align="center">\$ amount of loans to businesses</p>	<p align="center">\$ amount of loans to <u>small</u> businesses</p>	<p align="center">% of \$ amount of loans to <u>small</u> businesses</p>
201	124	62%	\$30,849	\$15,861	51%



### Geographic Distribution of Loans

The overall geographic distribution of OCTC's small business loans was excellent in relation to the demographics of the assessment area. Of the 201 small business loans originated in the bank's assessment area during 2004, 33% were originated in moderate-income census tracts. This performance compares very favorably in comparison to the 21% of business establishments located in moderate-income census tracts. OCTC's small business penetration also exceeded the aggregate of other lenders in the assessment area, which reported 23% of their loans in moderate-income census tracts.

### Response to Complaints

OCTC 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.

## **COMMUNITY DEVELOPMENT TEST**

OCTC's community development performance demonstrates adequate responsiveness to the community development needs of its assessment area through community development loans, qualified investments, and community development services, as appropriate, considering OCTC's capacity and the need and availability of such opportunities for community development in OCTC's assessment area. Community development loan and qualified investment opportunities are limited due to the capacity of the bank and the characteristics of its assessment area. As such, many of the community development opportunities are absorbed by the large banks operating in the same area. An analysis of community development loans and investments originated by similarly sized banks operating the area generally supported that opportunities are limited.

### Community Development Lending

OCTC made 13 community development loans totaling \$2.0 million. As an example, two community development loans were originated to community development organizations providing needed assistance to low- and moderate-income individuals with developmental, physical and psychiatric challenges.

### Qualified Investments

Qualified Investments totaled only \$10 thousand, representing three investments. Two of these investments supported a New York statewide organization that is involved with small business development and the third was a contribution provided to a local hospice providing services to low- and moderate-income individuals.

### Community Development Services

OCTC operates 5 branches within its assessment area, 2 of which are located in moderate income census tracts. These two branches provide essential financial services in these areas. Additionally, one officer of the bank serves on the finance committee of a Middletown Hospice

which provides physical, psychological, and bereavement counseling to predominately low- and moderate-income individuals. A senior officer of the bank also serves as the treasurer of the same organization.

**FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

No evidence of discriminatory or other illegal credit practices, including the Equal Credit Opportunity Act and the Fair Housing Act, was identified as being inconsistent with helping to meet community credit needs.

## CRA APPENDIX A

### GLOSSARY

**Aggregate lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Census tract:** A small, relatively permanent statistical subdivision of a county or statistically equivalent entity, delineated for data presentation purposes by a local group of census data users or the geographic staff of a regional census center in accordance with Census Bureau guidelines. Designed to be relatively homogeneous units with respect to population characteristics, economic status, and living conditions at the time they are established, census tracts generally contain between 1,000 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries are delineated with the intention of being stable over many decades, so they generally follow relatively permanent visible features. However, they may follow governmental unit boundaries and other invisible features in some instances; the boundary of a state or county (or statistically equivalent entity) is always a census tract boundary.

**Community development:** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
  - a. Rates of poverty, unemployment, and population loss; or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

**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:** A family is a group of two people or more related by birth, marriage, or adoption and residing together; all such people (including related subfamily members) are considered as members of one family.

**Geography:** A census tract 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:** A household consists of all the people who occupy a housing unit. A household includes the related family members and all the unrelated people, if any, such as lodgers, foster children, wards, or employees who share the housing unit. A person living alone in a housing unit, or a group of unrelated people sharing a housing unit such as partners or roomers, is also counted as a household. The count of households excludes group quarters.

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

**Metropolitan Statistical Area (“MSA”):** A geographic entity defined by the federal Office of Management and Budget for use by federal statistical agencies, based on the concept of a core area with a large population nucleus, plus adjacent communities having a high degree of economic and social integration with that core.

**Metropolitan Division:** A county or group of counties within a **Metropolitan Statistical Area** that contains a population of at least 2.5 million and represents an employment center(s) associated through commuting ties.

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

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

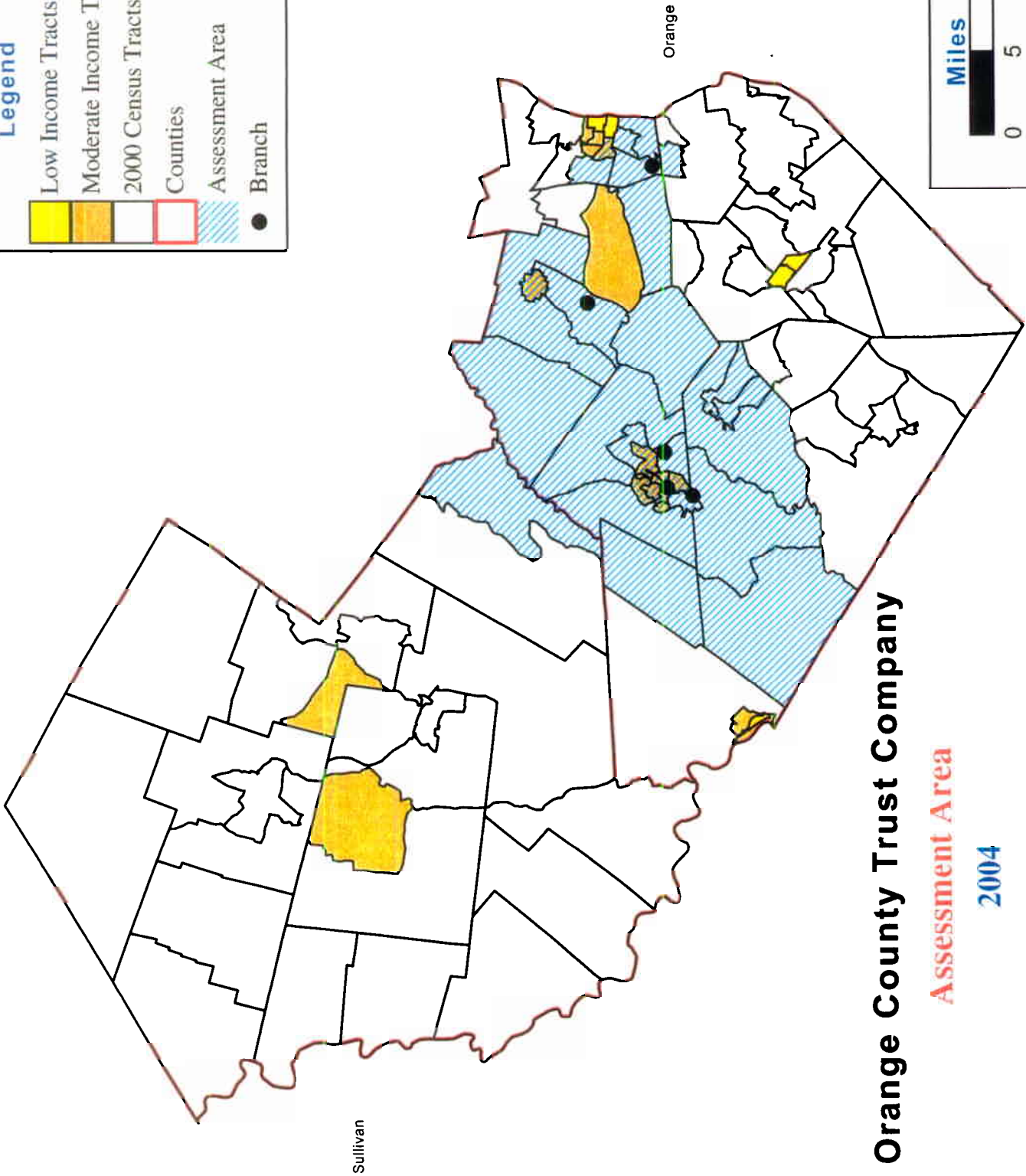
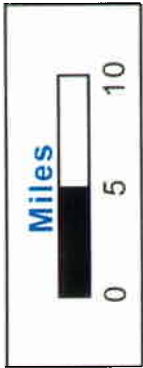
**Owner-occupied units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**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% of the area median income, or a median family income that is more than 120%, in the case of a geography.

**Legend**

- Low Income Tracts
- Moderate Income Tracts
- 2000 Census Tracts
- Counties
- Assessment Area
- Branch



**Orange County Trust Company**

**Assessment Area**

**2004**