



Comptroller of the Currency
Administrator of National Banks

Small

Bank

Northeastern District
1114 Avenue of the Americas, Suite 3900
New York, New York 10036

PUBLIC DISCLOSURE

February 22, 1999

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**The National Bank of Vernon
Charter Number 1264
5238 West Seneca Street
P.O. Box 890
Vernon, New York 13476**

**Comptroller of the Currency
Syracuse Field Office
231 Salina Meadows Parkway
Suite 105
Syracuse, New York 13212**

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.

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 Community Reinvestment Act (CRA) performance of **The National Bank of Vernon** prepared by **The Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of February 22, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

The primary factors supporting the bank's overall rating include:

- ! The bank's average loan-to-deposit ratio since the last examination is reasonable at 62%;
- ! A substantial majority of mortgage, business, and farm lending is within the assessment area;
- ! Lending performance reflects very good distribution of credit among individuals of different income levels;
- ! Market share data indicates strong lending patterns across income levels, particularly low- and moderate-income, despite the bank's size relative to other active lenders in the assessment area; and,
- ! Lending to small businesses and small farms is good.

DESCRIPTION OF INSTITUTION

The National Bank of Vernon (NBV) is a \$56 million community bank wholly owned by Vernon Bank Corp., a one-bank holding company. NBV's main office is located in Vernon, New York. There are two branches located in nearby Oriskany Falls and Westmoreland. NBV is located in a primarily rural area approximately 25 miles west of Utica, New York and 45 miles east of Syracuse, New York.

Total loans are 53% of assets. The breakdown of the loan portfolio as of December 31, 1998, is as follows: 55% residential real estate, 12% commercial and other real estate, 9% commercial and industrial loans, 6% agricultural loans, and 18% consumer purpose loans. Management's primary business focus is on real estate lending. Loan growth has been very slow due to weak loan demand. Competition is strong, primarily arising from other community banks and credit unions.

NBV offers a range of banking products and services. NBV maintains traditional banking hours with extended hours on Thursday and Friday. Drive-in facilities are available at the Vernon and Westmoreland branches, and open one hour before bank lobby hours. Drive-up automated teller machines (ATMs) are also available at these locations. Additionally, NBV offers telephone banking services.

There are no financial impediments that would hinder its ability to help meet the credit needs of the community. A longstanding lawsuit by the Oneida Indians against New York State was recently expanded to include individual property owners on over 200,000 acres of land within the assessment area. This lawsuit has hindered the real estate market.

DESCRIPTION OF ASSESSMENT AREA

NBV's assessment area (AA) consists of three geographies in Madison County and fourteen geographies in Oneida County. Madison County is part of the Syracuse Metropolitan Statistical Area (MSA 8160) and Oneida County is part of the Utica-Rome MSA (MSA 8680). The bank designates only one AA since the three geographies in the Syracuse MSA represent only 1% and 2% of the geographies in the Syracuse MSA and Madison County, respectively. All offices are located in the Utica-Rome MSA. Nine geographies are designated middle-income and eight are upper-income. The AA meets regulatory guidelines and does not arbitrarily exclude any low or moderate income geographies.

The population of the AA is 70,387. The 1990 MSA census median family income for the Syracuse MSA is \$36,672, and \$31,702 for the Utica-Rome MSA. The updated estimated 1998 median family incomes for these MSAs are \$44,500 and \$37,700, respectively. The average housing cost in the assessment area is \$76,517. Owner occupied units represent 73% of total housing units, 23% are rental units and 6% are vacant. Approximately 18,000 families reside in the AA. Twelve percent of the families are low-income, 18% are moderate-income, 24% are middle-income and 46% are upper-income.

The local economy is stable. Major employers are Oneida Limited, the Oneida Indian Nation Casino, local school districts, and small businesses. As of December 31, 1998, the unemployment rate for New York State was 5.1%. Unemployment rates for the two counties and the MSAs are declining, and approximate 4%. Management indicated the credit needs of the community include affordable housing, small business, and agricultural loans. One community contact confirmed the need for affordable housing loans in the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

This examination covered the time period between January 1, 1996, and December 31, 1998, for all Home Mortgage Disclosure Act (HMDA) reportable loan originations (376 loans). Conclusions regarding small business and farm loan data are based on a sample of 68 loans originated during the same time period. HMDA reportable, small business and small farm loans constitute a majority of the bank's total loan originations.

Loan-to-Deposit Ratio

NBV's average loan-to-deposit ratio is reasonable at 62%. This is consistent with the average loan-to-deposit ratio of similarly situated banks in the Northeast at 64%, as well as, the average loan-to-deposit ratio of local, similarly situated banks at 63%. NBV's ratio is below the national peer average of 69%. The bank's loan to deposit ratio is impacted by stagnant loan demand, strong competition, and strong deposit growth in 1998.

Lending Within the Assessment Area

A substantial majority of the bank's lending is within the AA. Please refer to the chart below.

Lending Within the AA								
	HMDA Loans				Small Business and Farm Loans			
	#	%	\$ (000)	%	#	%	\$ (000)	%
1998	90	83%	3,070	81%	21	84%	717	67%
1997	100	91%	3,012	81%	13	92%	353	85%
1996	137	87%	3,501	87%	22	76%	517	73%
Three year totals	327	87%	9,583	83%	56	82%	1,587	72%

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The table below depicts the distribution of lending to borrowers of different income levels with respect to HMDA reportable loan originations. The results reveal good lending distribution across all income levels, with very good distribution to moderate-income individuals. The demographic composition of families in the AA is as follows: 12% low-income, 18% moderate-income, 24% middle-income, and 46% upper income.

Borrower Distribution of HMDA Loans by Income Level within the Assessment Area												
Income Level	1998				1997				1996			
	#	%	\$ 000	%	#	%	\$ 000	%	#	%	\$ 000	%
Low	5	6	95	3	8	8	189	6	16	12	193	6
Moderate	25	28	626	20	25	25	406	13	36	26	725	21
Middle	24	26	792	26	28	28	865	29	42	31	1055	30
Upper	36	40	1557	51	39	39	1552	52	43	31	1528	43
Total	90	100	3070	100	100	100	3012	100	137	100	3501	100

Market share information further supports good lending penetration across income levels in the AA, particularly low- and moderate-income. Based on 1996 market share reports, NBV ranked third in the AA capturing 7.06% market share for total number of HMDA loan originations. NBV ranked first in the AA for total loans to low- and moderate-income borrowers with market shares of 18.18% and 12.29%, respectively. During 1997, NBV ranked fourth in total HMDA reportable loan originations in the AA capturing 5.86% of the market. NBV again ranked first in total loans to low income borrowers and moderate income borrowers with market shares of 13.11% and 9.96%, respectively. Banks ranking higher than NBV in total market share are larger institutions, including a credit union and mortgage corporation. Market share information for 1998 was not available as of this examination.

NBV has developed a reputation of originating mortgage loans that do not have to conform to the secondary market guidelines because NBV retains all of its loans. This is attractive to borrowers who may not be able to provide information, documentation, or collateral meeting the requirements of a conforming loan, but are nonetheless qualified to obtain a mortgage. Management feels this niche has helped to serve the need for affordable housing loans in the community.

Lending to small businesses and small farms (gross annual revenues of \$1 million or less) in the community is good. Our sample revealed 82% of the number of loans and 72% of the dollar amount of these loans were to small businesses and small farms. This compares favorably to demographic information which indicates over 75% of the businesses and farms in the area have revenues less than \$1 million.

Geographic Distribution of Loans

There are no low- or moderate- income geographies in the bank's AA. Therefore, an analysis of the geographic distribution of loans would not be meaningful.

Responses to Complaints

No complaints were received since the prior examination.

Fair Lending

A fair lending review performed in conjunction with this CRA examination did not identify any violations of antidiscrimination laws and regulations.

NBV's AA consists of portions of the Syracuse and Utica-Rome MSAs. The majority of the bank's AA (82%) is within the Utica-Rome MSA (MSA 8680). All three offices are located in this MSA. There are no significant demographic differences between this MSA and the AA as a whole. A summary of the bank's performance in this MSA is provided below.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MSA 8680

NBV's performance in this portion of the AA is consistent with the overall performance of the bank. Seventy-eight percent of HMDA loans and 91% of business and farm loans originated the AA were in this MSA. The bank's record of lending to different income levels is good; lending to moderate-income borrowers in this MSA is very good. The demographic composition of families in MSA 8680 is as follows: 10% low-income, 17% moderate-income, 23% middle-income, and 50% upper-income. Please refer to the following table.

Borrower Distribution of HMDA Loans by Income Level for MSA 8680												
Income Level of Borrower	1998				1997				1996			
	#	%	\$	%	#	%	\$	%	#	%	\$	%
Low	4	5	71	3	7	8	174	6	15	12	187	6
Moderate	22	27	560	19	18	21	256	9	35	28	717	23
Middle	23	27	747	26	25	29	852	30	33	27	789	25
Upper	34	41	1,515	52	37	42	1,524	55	41	33	1,479	46
Total	83	100	2,893	100	87	100	2,806	100	124	100	3,172	100

Market share data for 1996 and 1997 is also very good for lending in this MSA. NBV ranked third for total number of HMDA loan originations in both years. The bank ranked first for total loans to low and moderate income borrowers in 1996. NBV ranked first for total loans to low income borrowers and second for total loans to moderate income borrowers in 1997.