



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

Public Disclosure

October 11, 2000

Community Reinvestment Act Performance Evaluation

**Ontario National Bank
Charter Number: 8717
26 East Main Street
Clifton Springs, New York 14432**

**Office of the 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 CRA performance of **Ontario National Bank (ONB)** prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of **October 11, 2000**. 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 C.F.R. Part 25.

Institution's CRA Rating: This institution is rated "**Satisfactory.**"

The primary factors supporting the overall rating are:

- ONB's average loan-to-deposit ratio since the last examination is very good at 78%.
- A majority of ONB's loans are originated in its assessment area.
- The distribution of mortgage loans among borrowers of different income levels is good.
- Lending to small business and farms in the assessment area is reasonable.

DESCRIPTION OF INSTITUTION

ONB is a \$79 million community bank with its main office and one branch located in Clifton Springs, New York. There is also one branch located in Phelps, NY, and one branch in Palmyra, NY. The Palmyra branch opened in February 1997, subsequent to the last CRA examination. The bank is wholly-owned by ONB Corporation, a one bank holding company. As of September 30, 2000, ONB had \$58 million in loans and total deposits of \$64 million. Approximately 80% of the loan portfolio is secured by either residential or commercial real estate. Business loans total \$6.6 million, or 10% of the loan portfolio, and consumer loans total \$3.8 million, or 6% of the loan portfolio. ONB's primary business line remains residential real estate, however management is more recently focusing on small- to medium-sized commercial loans.

ONB offers a variety of loan and deposit products at all its offices. The main office maintains traditional banking hours with extended hours on Thursday and Friday. It also has a walk-up window available with slightly extended hours daily. The Clifton Springs and Phelps offices are open 9:00 a.m. to 4:30 p.m. Monday through Thursday and until 6:00 p.m. on Friday. Both

offices have a drive-up window opening at 8:30 a.m. The Palmyra office, which has both lobby and drive-up service, opens at 9:00 a.m. every day and closes at 4:00 p.m. Monday through Wednesday, 5:00 p.m. on Thursday and 6:00 p.m. on Friday. The Phelps and Palmyra offices offer Saturday hours from 9:00 a.m. to noon. All offices, except the main office, have an automated teller machine (ATM) accessible 24 hours a day. An ATM is also available at the nearby Clifton Springs Hospital in downtown Clifton Springs.

ONB is reasonably positioned to help meet the credit needs of the community. Competition primarily arises from a local credit union that just recently built a branch between Phelps and Clifton Springs. There is no direct competition in Clifton Springs. Branches of two regional institutions are located in Phelps and Palmyra. The bank has no legal or financial impediments hindering its ability to help meet the credit needs of the community.

We last evaluated ONB's performance under the CRA as of June 1996, which resulted in a "Satisfactory" rating. The time period for this public evaluation spans from June 30, 1996 through September 30, 2000.

DESCRIPTION OF THE ASSESSMENT AREA

ONB's assessment area (AA) consists of six middle-income census tracts in the Rochester Metropolitan Statistical Area (MSA). The AA complies with the regulation and does not arbitrarily exclude any low- or moderate-income areas.

There is a total population of 29,553 persons in the AA. This population represents 8,149 families with the following family income distribution: 18% low-income, 22% moderate-income, 29% middle-income, and 31% upper-income. The 1990 U.S. Census median family income used to determine the income designation of geographies is \$40,519. The Housing and Urban Development (HUD) updated median family income for 2000 used to determine borrower income distribution is \$52,400. Owner-occupied units are 75% of total housing units, 21% of total housing units are rental units and 4% are vacant. The average housing cost in the AA is approximately \$68 thousand.

The local economy is good. Employment is primarily in the service and retail trade sectors. Management indicated the Clifton Springs community has not been affected by a gradual downturn in the Rochester, NY economy. Management explained there is an ingress of people from other areas to work in Clifton Springs. This is primarily due to the large Clifton Springs Hospital and GW Lisk, a local manufacturing firm. Two other area companies, Magnus and Z-Axis, have also built new plants on the route between Clifton Springs and Phelps. Palmyra is more of a bedroom community to Rochester, NY; however, is home to Garlock, a large machining company, which provides some local stability. Additionally, there are various small businesses and firms residing in the assessment area. Local school districts and the New York State Thruway Authority are also relatively large employers in the area. Management indicated there is a need for all types of lending in the community it serves.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Our examination focused on loans originated between June 30, 1996 and September 30, 2000. We evaluated all mortgage related loans reported on the Home Mortgage Disclosure Act-Loan Application Registers (HMDA-LAR) during this time period, which included 532 loans totaling approximately \$30 million. We also reviewed a sample of twenty business loans totaling approximately \$1.4 million. During this time period, 43% of the dollar amount of all loan originations were HMDA related products, and 30% were commercial loans and mortgages.

Loan to Deposit Ratio

ONB's loan-to-deposit ratio exceeds the standard for satisfactory performance. ONB's average loan-to-deposit ratio since the last examination of 78% exceeds the average loan-to deposit ratios of a group of similarly situated banks whose ratios range from 45% to 74%, with an overall average of 60%. Similarly situated banks include ten banks considered by management to be ONB's peers due to their location, size, and/or business activities.

Lending in the Assessment Area

ONB meets the standard for satisfactory performance with respect to lending in the AA. Our review of HMDA loans indicated 343 loans (64%) totaling \$16.8 million (56%) were made to borrowers in the AA. Furthermore, our sample of commercial loans revealed 13, or 65%, totaling \$787 thousand, or 57%, were originated in the AA.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

ONB's record of lending to borrowers of different incomes and to businesses of different sizes meets the standard for satisfactory performance. ONB has a good record of lending to borrowers of different incomes including low- and moderate-income borrowers. Please refer to the following table. Furthermore, available market share data reflects very positively on ONB's lending performance. In 1999, ONB ranked first for HMDA loans to low-income and eleventh for loans to moderate-income applicants with 11% and 3% of the market share, respectively. In 1998, ONB ranked first for HMDA loans to both low-income and moderate-income applicants, with 11% and 10% of the market share, respectively. In 1997, ONB ranked fifth for HMDA loans to low-income applicants and fourth for loans to moderate-income applicants, with 8% and 6% of the market share, respectively.

HMDA lending to low-income borrowers is reasonably lower than the distribution of the families in the AA. This is primarily due to the difficulty a low-income borrower, with a **maximum** income of \$25,676, would have meeting the bank's basic underwriting criteria (28% housing debt/total income and 20% downpayment), based on the median housing value of approximately \$68,000. A borrower earning \$25,676 financing a \$68,000 house for 30 years at 7.875% with \$2400 in property and school taxes would have a housing debt ratio of 28%, provided they were able to make a 20% downpayment. ONB offers private mortgage insurance (PMI), allowing a downpayment as low as 5%. Under this scenario, with all other factors the same as in the previous example, the borrower would then have a housing debt ratio greater than 32%. ONB participates in the Federal Home Loan Bank (FHLB) first time homebuyers club through which first time homebuyers can save toward a downpayment on a new home. However, management indicated there has been little interest in this program. ONB's

performance with respect to moderate-income borrowers is in line with the distribution of families in the AA.

Borrower Distribution of Sampled Mortgage Loans

Income Level	# of Loans	% of Loans	\$ of Loans	% of \$ Amount	Income Level of Families in AA
Low	36	11%	720,000	5%	18%
Moderate	75	22%	2,534,000	15%	22%
Middle	128	37%	6,301,000	38%	29%
Upper	103	30%	7,091,000	42%	31%
Total	343	100%	16,765,000	100%	100%

ONB's lending to businesses of different sizes is reasonable. Based on our sample of the thirteen commercial loans originated in the AA, nine, or 70% of the number of commercial loans originated, and \$248 thousand, or 18% of the dollar amount originated, are to businesses or farms with revenues equal to or less than \$1 million. Dun and Bradstreet business demographic information indicates 77% of the businesses and farms in the AA that reported revenues have revenues of \$1 million or less.

Geographic Distribution of Loans

All geographies in the bank's assessment area are designated middle-income. Therefore, an analysis of the geographic distribution of ONB's loans is not meaningful.

Response to Complaints

ONB has not received any CRA related consumer complaints with respect to the bank's lending performance since the last CRA examination.

Results of the Fair Lending Examination

During the Fair Lending Examination as of June 30, 2000, we did not identify any violations of the substantive provisions of anti-discrimination or fair lending laws and regulations. The scope of our Fair Lending Examination focused on the loan terms of automobile loans originated between January 1, 2000 and June 30, 2000.