



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

March 09, 2011

COMMUNITY REINVESTMENT ACT (CRA) PERFORMANCE EVALUATION

Cayuga Lake National Bank
Charter Number 412

3 Cayuga Street
Union Springs, NY 13160-2423

Office of the Comptroller of the Currency

Upstate New York (Syracuse) Field Office
5000 Brittonfield Parkway Suite 102
East Syracuse, NY 13057

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.

INSTITUTION'S CRA RATING: This institution is rated Outstanding.

The following points support the above rating:

- Cayuga Lake National Bank's (CLNB) average loan-to-deposit ratio is reasonable compared to similarly situated institutions.
- A substantial majority of the loans originated were in the bank's assessment area (AA).
- CLNB had an excellent penetration of home mortgage loans to borrowers of different income levels during the evaluation period.
- CLNB had an excellent dispersion of home mortgage loans to geographies within the AA.

SCOPE OF EXAMINATION

The current evaluation period covers the dates from May 2, 2005 through March 8, 2011. However, the sample used in our lending analysis was from the period of January 1, 2008 through December 1, 2010. This period was representative of the entire evaluation period as no strategic changes or changes in lending standards took place. Bank management indicated that home mortgage loans continue to be the primary focus for loan growth. Our review of loans originated during the period confirmed that home mortgages were the primary loan product when taking into account the number and amount of loans originated. We chose a random sample of an equal amount of loans for each year we reviewed for borrower and geographical distribution.

DESCRIPTION OF INSTITUTION

CLNB is a community bank headquartered in Union Springs, New York. CLNB also has a branch office located in Aurora, New York, located approximately 6 miles south along Route 90. As of December 31, 2010, CLNB had total assets of \$108 million consisting mainly of loans (56%) and investments (40%). Assets are funded primarily through core deposits representing 70% of average assets. Bank management continues to focus on residential mortgages as the primary loan product. The majority of the loan portfolio is secured by 1-4 family residential real estate properties. Total residential real estate loans amount to \$40 million or 67% of average loans. Commercial loans totaled \$5.5 million (10%) with another \$8 million (12%) in commercial real estate. Consumer loans totaled just under \$5 million (8%). CLNB is wholly owned by a single bank holding company, Cayuga Lake Bank Corporation.

CLNB faces competition from other community, regional, and large banking institutions in the Auburn area. In addition, a small savings bank opened a branch in close proximity to the bank's main office in Union Springs during the evaluation period. Both

the main office and the Aurora branch offer full services during business hours Monday through Friday. The main office has a drive-up location that stays open an additional hour each business day. Both locations have 24-hour Automatic Teller Machines (ATM) available for customer transactions. CLNB now offers customers Internet Banking services to allow for loan and deposit account access and intra-bank transfers.

CLNB has no legal or financial impediments that would hinder its ability to help meet the credit needs in its defined AA. At the last CRA examination dated May 2, 2005, the bank demonstrated a satisfactory level of performance.

DESCRIPTION OF ASSESSMENT AREA

CLNB has one AA consisting of all 20 geographies located in Cayuga County. Due to assignment changes, the county is no longer located in a Metropolitan Statistical Area (MSA). This means that the bank's performance will be compared with data gathered on geographies across New York State that are not located in an MSA. Of the 20 geographies, 1 is designated moderate-income, 14 middle-income, 4 upper-income, and 1 with no income designation. The geography with no income designation represents the New York State Auburn Correctional Facility. The AA does not have any geographies designated as low-income.

According to 2010 U.S. Census data, the AA has a population of 81,963. A total of 35,477 housing units are located in the AA, with 62% listed as owner-occupied. Approximately 14% of the AA housing units are vacant. The weighted average median age of AA houses is over 50 years old with a value of \$72,615. The Department of Housing and Urban Development (HUD) Updated Median Family Income for 2010 was \$55,300. We used the HUD Updated Family Income for 2008 and 2009 for those home mortgage loans originated in those years. A total of 10.81% the households in the AA are living below poverty level.

As is the case throughout the nation, economic conditions have deteriorated in the AA during the evaluation period. The AA unemployment rate has increased from 5.0% as of the last CRA exam to 8.2% as of December 2010. This compares slightly unfavorably to the New York State unemployment rate, which increased from 5.4% to 8.0%. The rate was fairly stable in 2010 for the AA, while the state unemployment rate decreased. A total of 4,504 businesses (381 farms) were located within the AA as of 2010, with over 73% earning less than \$500 thousand per year. Major employers in AA include Auburn Memorial Hospital and the Auburn Correctional Facility.

During our examination, we contacted one local organization that assists low- and moderate-income individuals. Specific community needs mentioned include the need for senior housing and assistance for returning veterans. The contact mentioned that involvement from local banks with community development needs has been very good.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

CLNB's performance with regard to the lending test exceeded the standard for satisfactory performance. The performance level for the lending test was based on four individual factors: loan-to-deposit ratio, lending in the AA, lending to borrowers of different income levels, and geographic distribution of loans.

Loan-to-Deposit Ratio

CLNB's average loan-to-deposit ratio during the evaluation period was reasonable. The average quarterly loan-to-deposit ratio since the last CRA examination up to December 31, 2010 was 60.79%. In comparison, three similarly situated banks operating in similar markets or competing directly with CLNB had average quarterly loan-to-deposit ratios ranging from 38.43% to 63.25%.

Lending in Assessment Area

CLNB had a substantial majority of loans originated within its AA during the assessment period as indicated by the table below. The bank originated 93.08% by count and 93.89% by amount of loans in the AA.

Lending in Assessment Area									
Number of Loans					Dollars of Loans (000s)				
Inside		Outside		Total	Inside		Outside		Total
#	%	#	%		\$	%	\$	%	
1,815	93.08%	135	6.92%	1,950	\$72,471	93.89%	\$4,720	6.11%	\$77,191

Source: All loans originated during the period of January 1, 2008 to December 31, 2010 (with exception of 13 loans with unassigned geo codes).

Lending to Borrowers of Different Incomes

CLNB had an excellent penetration of home mortgage loans to borrowers of different income levels during the evaluation period. Approximately 16% of the families in the AA are designated low-income. The distribution of loans to low-income borrowers at 4.76% is near to the percentage of low-income families in the AA when considering the fact that 10.81% of the households are below poverty level. This fact is supported by a high level of unemployment in the AA given current economic conditions. It would be extremely difficult for a household living below the poverty level or the unemployed to qualify for a home mortgage loan. At 23.81%, the distribution of loans to moderate-income borrowers exceeds the percentage of moderate-income families in the AA, which is 16.44%. Refer to the chart below for more information.

Borrower Distribution of Residential Real Estate Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Mortgage	16.09%	4.76%	16.44%	23.81%	24.00%	38.10%	43.47%	33.33%

Source: % of Number of Loans is from a sample of home mortgage loans originated during the period; % of AA Families is from the 2000 U.S. Census data.

Geographic Distribution of Loans

CLNB had an excellent dispersion of residential real estate loans during the evaluation period. Only 2.03% of the owner occupied households in the bank's AA are located in the moderate-income geography. At 4.76%, the percentage of loans made to borrowers in the bank's moderate-income geography exceeds the percentage of the AA owner occupied households. There are no low-income geographies located in Cayuga County. Refer to the chart below for more information.

Geographic Distribution of Residential Real Estate Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Mortgage	0.00%	0.00%	2.03%	4.76%	77.61%	71.43%	20.36%	23.81%

Source: % of Number of Loans is from sample of loans originated during evaluation period; % of AA Owner Occupied Housing is from 2000 U.S. Census data.

Responses to Complaints

CLNB has not received any complaints regarding its CRA performance since the prior examination.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.