
Comptroller of the Currency
Administrator of National Banks

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

PUBLIC DISCLOSURE

October 24, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Savannah Bank, N.A.
Charter Number 12810
1565 Main Street, P.O. Box 278
Savannah, New York 13146**

**Comptroller of the Currency
Syracuse Duty Station
Interstate Place II
100 Elwood Davis Road
North 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 Savannah Bank, N.A. prepared by **The Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of October 24, 1996. 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.

Savannah Bank, N.A. has satisfactory CRA performance based on the following conclusions:

- The bank's average loan to deposit ratio is less than reasonable based on the peer average. However, management is placing particular emphasis on improving the ratio which has been steadily rising over the past two years.
- Management originates a majority of loans within the bank's assessment area.
- The distribution of loans to borrowers of different incomes and businesses of various sizes is adequate.
- The geographic distribution of loans within the bank's assessment area is reasonable.

The following table indicates the performance level of Savannah Bank, N.A. with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>SAVANNAH BANK, N.A.</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio			X
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints received since the prior examination.		

DESCRIPTION OF INSTITUTION

Savannah Bank, N.A. (SBNA) is a \$43 million community bank with its main office located in Savannah, New York and two branches located in Fair Haven and Waterloo. The loan portfolio represents approximately 29% of the bank's total assets. Forty-four percent of total loans are real estate secured loans (residential and commercial), 25% are consumer loans, and 31% are business and farm loans. Currently, the bank's business focus is on all types of lending in conjunction with management's changed philosophy of developing a reputation as an active lender in the community. There is no direct competition in Savannah. However, some competition arises in Fair Haven from regional bank branches in nearby towns. Furthermore, competition is very strong in Waterloo from several other community and regional bank branches. There are no legal, financial or other impediments hindering the bank's ability to help meet the credit needs of the community.

SBNA offers traditional loan and deposit products at its three offices. The Savannah and Waterloo offices have extended hours on Thursday, and all offices have extended hours on Friday. The bank has no automated teller machines (ATM) or drive-up facilities at any branches.

DESCRIPTION OF ASSESSMENT AREA

SBNA's assessment area consists of thirteen geographies. One census tract is in the Syracuse Metropolitan Statistical Area (MSA 8160), four census tracts are in the Rochester MSA (MSA 6840), and eight block numbering areas (BNA) are in Seneca County, which is not part of an MSA. Four census tracts are designated moderate income, one BNA is designated upper income, and the remaining census tracts and BNAs are designated middle income. SBNA's assessment area meets the criteria of the regulation and does not arbitrarily exclude any low or moderate income areas. There is a total population of 47,578 residents in the assessment area. The combined median family income for the two MSAs and the non-MSA is \$34,656. The income levels of families within the assessment area are: 22% low income families, 20% moderate income families, 25% middle income families, and 33% upper income families. Housing is substantially owner-occupied.

Employment is primarily in the service, manufacturing and retail trade sectors. The overall unemployment rate for the assessment area is approximately 5%. There is no notable new business in the area. The three branches are located in three very distinct market areas. The local economy in Savannah is stable, but stagnant, and the housing market is depressed. It is a very rural farm area (primarily muck farming), and the only major employer is the Clyde-Savannah school district. The Fair Haven area is very seasonal due to its location on Lake Ontario. Primary business is in the summer months from tourists, as well as seasonal second home owners and renters. Waterloo is considered the only area of potential growth. Although there are no major employers in Waterloo, there are several small businesses. Management indicated the credit needs of the community include small consumer loans, small business and farm loans, home improvement loans, and home equity loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

SBNA's **loan to deposit ratio** is less than reasonable based on the peer average. The average loan to deposit ratio over the last eight calendar quarters is 28%. The loan to deposit ratio of a sample of banks located in New York State (excluding southeastern NYS) averaged 62%. SBNA's loan to deposit ratio has historically been very low. In the past, management philosophy was very conservative and SBNA did not have the reputation as a "lender" in the community. Additionally, credit products were not competitive. Area residents still maintained substantial deposit relationships at the bank which also contributed to the low ratio. However, the arrival of new management in early 1995 prompted improved planning, product restructuring, and personnel enhancements. Management has been focusing its efforts on improving the bank's loan to deposit ratio which has been steadily rising, and increased approximately 13% in the last two years. As of July 31, 1996, this ratio was 36%.

SBNA's current strategies include moderate, steady loan growth by developing a reputation in the community as a lender and making the public aware of what SBNA has to offer. Management has established a written strategic plan for the next five years projecting a loan to deposit ratio that compares more favorably to peer levels. As of this evaluation date, management is ahead of its plans. There has been an emphasis on developing competitive and attractive loan products, advertising, loan sales, community contacts, and direct loan solicitations. The strong competition in Waterloo challenges management to search for ways to take advantage of potential growth in that area. Local economic conditions have dampened activity in the housing market, as well as the need for larger size loans. However, gross loan volume increased \$3.2 million dollars during the period from December 31, 1994 through June 30, 1996. The number of loan originations has increased so far in 1996 when compared to 1995 (see following table). Management has taken advantage of loan opportunities resulting from management changes and downsizing at nearby community banks and regional bank branches. SBNA continues to pride itself on quick, quality and flexible service.

	1995	1996 (through June 30)
Consumer Loans	354	227
Mortgage Loans (*)	49	39
Business Loans	111	51
TOTAL	514	327

(*) Home Mortgage Disclosure Act (HMDA) reportable loans including home purchase, refinance, and home improvement loans.

Management originates a majority of loans **within the bank's assessment area**.

Management's analysis covering all types of lending shows 77% of loan originations in 1995 and the first two quarters of 1996, or 64% based on dollar volume, are located within the bank's assessment area. These reports were tested for accuracy during the examination. A sample of small business and farm loan originations for the same period disclosed 67% were in the assessment area. Lastly, our sample of consumer loans originated in 1996 indicated 80% were in the assessment area.

Lending to borrowers of different incomes and to businesses of different sizes is adequate.

Relative to mortgage lending, our analysis of the 1995 and 1996 (first two quarters) Home Mortgage Disclosure Act-Loan Application Register (HMDA-LAR) shows 1% of loan originations were to low income borrowers, 26% to moderate income borrowers, 34% to middle income borrowers, and 31% to upper income borrowers. Management indicated that demand for mortgage related products, especially from low and moderate income borrowers, is not strong due to area economic conditions. Additionally, the bank did not offer a competitive mortgage product in the past. Within the last year, management restructured its mortgage product to be more competitive and is focusing current efforts on advertising the new product and attracting mortgage customers with hopes of increasing the level of mortgage lending. Regarding consumer lending, our sample of consumer loans indicated 16% were to low income borrowers, 20% to moderate income borrowers, 36% to middle income borrowers, and 28% to upper income borrowers. The distribution reasonably reflects the income characteristics of the assessment area.

SBNA also lends to businesses of various sizes. We reviewed total commercial loan originations for 1995 and through June 30, 1996 using information provided by management. One hundred thirty-one loans, or 80%, were loans to small businesses and/or farms (less than \$1 million in gross annual revenues), and 32, or 20%, were loans to large businesses. Based on dollar volume, 67% of commercial loan originations were loans to small businesses and farms. We sampled various loan files to ensure the businesses met revenue criteria. Additionally, a sample of small business and farm loans indicated 83% were loans less than \$100,000.

The **geographic distribution of loans** in the assessment area is reasonable. There is reasonable lending activity throughout the assessment area, including the moderate income census tracts. The four moderate income census tracts (30%) surround the main branch. Based on the 1995 and 1996 HMDA-LAR information, 51 loans, or 33%, were to borrowers living in these census tracts. Our sample of small business and farm loans indicated 35, or 36%, of small business loan originations were to borrowers in the moderate income tracts. Our sample of consumer loans disclosed 20, or 24%, were to borrowers located in the moderate income tracts. An internal management report indicating location of 1996 loan originations through July disclosed 50% were to borrowers in moderate income census tracts.

SBNA has not received any **consumer complaints** since the last CRA Examination. During the concurrent Fair Lending Examination, we did not identify any violations of the substantive provisions of antidiscrimination or fair lending laws and regulations.

METROPOLITAN STATISTICAL AREAS

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MSA 6840

Performance in MSA 6840 is consistent with the bank's overall performance. SBNA's main office is located in this MSA. This location represents 51% of total deposits and 60% of total loans. Activity in this MSA represents the majority of SBNA's performance. There are four census tracts of this MSA designated part of the bank's assessment area, all of which are moderate income tracts. 1995 and 1996 HMDA-LAR information indicates 35, or 40% of HMDA reportable loans originated in MSA 6840. Of those originations, 30, or 86%, were within the portion of the MSA designated as part of the assessment area. Results of borrower distribution in MSA 6840 indicated 37% were to borrowers with low or moderate income. Additionally, 86% were loans to borrowers in moderate income census tracts.

Fifty-five percent of small business/farm loans made in the bank's assessment area were in this MSA. Additionally, 76% of the loans made in this MSA were less than \$100,000. Our consumer loan sample indicated 30% of consumer loans in the bank's assessment area were made in this MSA. Three of these loans were to borrowers with low or moderate income.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MSA 8160

Performance in MSA 8160 is consistent with the bank's overall performance. SBNA has one branch in MSA 8160. This location represents 22% of total deposits and 6% of total loans. Because of the seasonal nature of this area and the level of temporary residents and tourists, lending activity is very limited. There is only one census tract in this MSA that is part of the assessment area and it is designated middle income. Therefore, activity in this MSA is the smallest portion of the bank's overall activity. Based on the 1995 and 1996 HMDA-LAR, 19, or 22%, of HMDA reportable loans originated in this MSA. Of those originations, 6, or 32%, were within the portion of the MSA designated as part of the assessment area. Additionally, 47% were loans to borrowers with low or moderate income. Although the bank makes other types of loans in this MSA, activity is minimal and is not meaningful in our analysis. Management recently hired a new branch manager for this office who is very familiar with the area with hopes to increase lending activity.

NONMETROPOLITAN STATEWIDE AREAS

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN SENECA COUNTY

Performance in Seneca County is consistent with the bank's overall performance. SBNA has one branch located in this area. This location represents 27% of total deposits and 34% of total loans. Seven block numbering areas in the assessment area portion of this area are middle income and one is upper income.

With respect to mortgage related loan originations, 39% were in Seneca County. Forty-one percent of small business/farm loans made in the assessment area were in Seneca County. Additionally, 92% of these loans were less than \$100,000. Our sample of consumer loans in the assessment area indicated 60% were made in Seneca County. Four of these loans, or 33%, were to borrowers with low or moderate income.