

Comptroller of the Currency
Administrator of National Banks

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

PUBLIC DISCLOSURE

March 31, 1997

COMMUNITY REINVESTMENT ACT

PERFORMANCE EVALUATION

Bridgehampton National Bank
Charter Number: 9669

2200 Montauk Highway
Bridgehampton, NY 11932

Office of the Comptroller of the Currency
Metro New York Duty Station
112 Madison Ave.
New York, NY 10016

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 Bridgehampton National Bank prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of March 31, 1997. 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.

Primary factors supporting the bank's overall rating include:

- o An average loan-to-deposit ratio of 72%, after selling a significant amount of loans during the review period, compares very favorably to peer group levels when the significant and seasonal fluctuations in the bank's deposit base are considered;
- o A substantial majority of originated loans are within the assessment area area;
- o A good record of lending to small businesses;
- o Bridgehampton National Bank has a good record of lending to low and moderate income borrowers, with small business and affordable housing financing identified as community credit needs; and
- o Geographic distribution of loans is reasonable.

The following table indicates the performance level of Bridgehampton National Bank with respect to each of the five performance criteria.

SMALL
INSTITUTION
ASSESSMENT
CRITERIA
BRIDGEHAMPTON NATIONAL BANK
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
since
complaints
prior
received
exam

DESCRIPTION OF INSTITUTION

Bridgehampton National Bank is a \$215 million locally-owned bank based in the town of Bridgehampton on the southeastern end of Suffolk County in Long Island. The bank's marketplace is extremely competitive, with an array of financial institutions, including a very large community bank and several large regional and multinational lenders, competing for business throughout the North and South Forks of eastern Long Island. The Bank's ability to originate residential purchase money mortgages to low and moderate income borrowers is negatively impacted by the lack of affordable housing and extremely high percentage of rental housing throughout the moderate income census tracts in the assessment area. Strong bank competition stems from a very large community bank as well as several large regional, multinational and mortgage banking companies offering residential mortgage products.

Bridgehampton N.B. operates six banking offices from which it provides a full range of deposit and loan services. ATM cards are available to all bank customers. Offices and ATMs are located throughout the North and South Forks and are accessible to low and moderate income borrowers. There is also a residential mortgage lending office located in Riverhead in the northwestern part of the bank's assessment area. The bank offers a full-line of consumer and business services, including SBA loans as well as several custom lending products designed to meet the credit needs of low and moderate income individuals and small businesses. Commercial and commercial real estate loans comprise 60% of total loans and consumer real estate loans are 30% of the portfolio. .

There are no legal impediments that would burden Bridgehampton National Bank from helping to meet the credit needs of its community.

DESCRIPTION OF ASSESSMENT AREA

Bridgehampton National Bank has defined one assessment area which comprises a portion of MSA 5380 and has a total of 25 census tracts. The assessment area complies with the requirements of CRA and does not arbitrarily exclude low or moderate income areas. The median family income is \$68,500 and the area contains 28% low, 25% moderate, 23% middle, and 24% upper income families. The total population is 97,778 and households total 39,653, of which 57% reside in moderate income census tracts. Additionally, 25% of households in moderate income geographies occupy rental housing units and 45% of total housing units within the assessment area are vacation homes. The assessment area contains several unpopulated or

sparsely populated areas, including an Indian Reservation, parks and nature preserves.

Bridgehampton's economy is characterized by extreme seasonal shifts caused by the influx of tourists and second home owners during the summer months. Major employers are Southampton Hospital, Eastern Long Island Hospital, Caldor, King Kullen, and a variety of small, seasonal businesses such as restaurants, hotels and boat marinas.

Credit needs for small business, including start-up financing, and affordable housing were identified during discussions with a representative from a small business advisory group sponsored by New York State and the director of a non-profit housing alliance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan to Deposit Ratio

Bridgehampton's loan-to-deposit ratio averaged 72% for the twelve quarters covered by this evaluation. The average ratio exceeds that of local competitors of 70% (based on information available for the local competitors as of 3/31/97). The Bank also is active in originating loans for sale in the secondary market, with a total of approximately \$40 million during 1996. A comparison to national competitors is not meaningful due to Bridgehampton's unique seasonally dependent economy and consequent fluctuations in deposit levels and loan demand. Further, Bridgehampton ranked fourth behind three lending institutions with significantly more resources in originating HMDA loans in the assessment area.

Lending in Assessment Area

Bank generated reports and commercial loan sampling indicate that Bridgehampton's lending within the assessment area is high. These reports were sampled and tested for accuracy. From June 1994 to December 31, 1996, a substantial majority of the loans originated were within the assessment area.

LOAN TYPE % IN ASSESSMENT AREA

Consumer (including mortgages)
92%

Commercial
89%

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Bridgehampton's record of lending to small businesses is good and to low to moderate income persons for HMDA reportable loans since the last CRA exam is reasonable, given the very

limited opportunities for affordable housing ownership in the assessment area.

A vast majority of the bank's business lending, which comprises 60% of total loans, is to small businesses. Management does not currently maintain sufficient data on their commercial portfolio to analyze the entire distribution of business loans by borrower revenue. We sampled 20% of the business portfolio, which indicated that 63% were to businesses that had revenues of less than \$1 million. Further support of the bank's performance of lending to small businesses can be drawn from an analysis of information contained in the Call Report. As of 6/30/96, the latest date this information was available, the total commercial loan portfolio was defined as small business loans (original amounts of less than \$1 million). A total of 20% of the commercial and commercial real estate portfolio had original amounts of less than \$100 thousand; 30% had original amounts of \$100 thousand to \$250 thousand; and 50% had original amounts of \$250 thousand to \$1 million. As of March 31, 1997, Bridgehampton had only nine loans over \$1 million, including one to a public library and another to a local hospital.

An analysis of HMDA data for 1996 and 1995 reveals that Bridgehampton has a good record of lending to low and moderate income borrowers, given the assessment area's unique demographic characteristics related to the seasonally based local economy. There is a significant lack of owner-occupied housing units due to the high level of second home residences (45% of total housing units) which are occupied for only a few months a year. The level of rental housing units as a percentage of total housing units is also high at 14%. For 1995, 20.6% of HMDA reportable lending, based on borrower income, was to low and moderate income families. For 1996 this percentage increased to 35%. Specifically, the bank's assessment area is comprised of 28% low income and 24% moderate income families. The table below depicts the lending levels to all income levels as well as the percentage of family income in the assessment area.

LOW
MODERATE
MIDDLE
UPPER

1996
4.6%
30.4%
22%
43%

1995
6%
16.6%
22.4%

55%

% OF
FAMILY
INCOME

28%

25%

23%

24%

Geographic Distribution of Loans

The geographic distribution of loans among different census tracts within the bank's assessment area is reasonable and includes moderate census tracts. There are no census tracts that have no loan activity. While total households in the assessment area (57%) are centered in moderate income geographies, there are also several moderate income census tracts in the assessment area which are very thinly populated due to the presence of an Indian Reservation, parklands, and nature preserves. Vacant housing units comprise 39% of total housing units in moderate income tracts. The ratio of rental households relative to total households also reflects a very high concentration of non-owner occupied residences (25%) within these census tracts and consequent low potential for home ownership and small business financing.

Based on census tract income levels, HMDA results for 1996 and 1995 are good, given the performance context in which the bank operates. There are no low income tracts and 60% of the census tracts are moderate, with 64% of low and moderate income households located in these tracts. The remaining 40% of census tracts in the bank's assessment area is comprised of middle income tracts. In 1996, 36% of HMDA related loans in the assessment area were in moderate tracts, and, in 1995, 38% of HMDA related loans in the assessment area were in moderate tracts.

A sampling of all commercial loans originated from 6/94 to 12/96 reveals that 30.7% was in moderate income tracts.

During the concurrent Fair Lending examination, no violations of Fair Lending laws and regulations were found.