

# **PUBLIC DISCLOSURE**

**September 16, 2002**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The Bank of Millbrook  
RSSD No. 175609**

**3263 Franklin Avenue  
Millbrook, New York 12545**

**FEDERAL RESERVE BANK OF NEW YORK**

**33 LIBERTY STREET  
NEW YORK, N.Y. 10045**

**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.

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## INSTITUTION

***INSTITUTION'S CRA RATING:*** The Bank of Millbrook is rated “**SATISFACTORY.**”

For the examination period of January 1, 2000, through June 30, 2002, the satisfactory performance of the Bank of Millbrook with regard to the Community Reinvestment Act (“CRA”) is based on the following performance criteria:

- The bank’s loan-to-deposit ratio was reasonable.
- Most of the bank’s loans were made in the assessment area.
- The geographic distribution of loans in the assessment area was excellent.
- The distribution of loans to borrowers of different income levels, including low- and moderate-income (“LMI”) individuals, and to businesses of different sizes was reasonable.
- No complaints have been filed relating to the bank’s CRA performance since the previous examination.

## DESCRIPTION OF INSTITUTION

Established in 1891, the Bank of Millbrook (“Millbrook”) operates one office in the village of Millbrook, which is located in the Dutchess County town of Washington. Dutchess County is in the Mid-Hudson Valley region of New York State, approximately 90 miles north of New York City. The bank is the sole subsidiary of Millbrook Bank System, Inc., a banking and financial service corporation organized in April 1998. As of June 30, 2002, the bank had total assets of \$115 million with net loans and leases of \$58.5 million.

The bank offers a range of commercial and consumer loan products. These products include secured and unsecured consumer installment loans, automobile loans, credit cards, home equity lines of credit, home improvement loans, residential mortgage loans, commercial loans, equipment loans and commercial lines of credit. Loans secured by one- to four-family residential properties represent nearly half (49 percent) of the loans in the portfolio. Loans to individuals represent 17 percent of the total loan portfolio while commercial and industrial loans represent 11 percent.

Millbrook’s previous CRA examination was conducted as of August 4, 1997, at which time the bank received an overall rating of “outstanding.” There are no financial or legal factors that would prevent the bank from meeting the credit needs of its assessment area.

## DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank's assessment area is largely rural and consists of a portion of the Dutchess County Primary Metropolitan Statistical Area ("PMSA") 2281 (Dutchess, NY). The assessment area includes the townships of Washington, Stanford, Clinton, Pleasant Valley, Union Vale, Dover, Amenia, and the eastern half of LaGrange. Of the assessment area's ten census tracts, only one is defined as moderate-income while the other nine census tracts are defined as middle-income.

A map illustrating Millbrook's assessment area is on page BB10.

## PERFORMANCE CONTEXT

The following demographic and economic information was obtained from publicly available sources that include the U.S. Department of Commerce's Bureau of Census, 1990, the U.S. Department of Labor, and the U.S. Department of Housing and Urban Development ("HUD").

### Demographic Characteristics

According to the 1990 Census, the population in the assessment area is 37,290. Ten percent of the assessment area population resides in the moderate-income tract while the remaining 90 percent lives in the middle-income census tracts. Therefore, when evaluating the geographic distribution of the bank's loans, examiners considered the very limited lending and investment opportunities in the assessment area.

Of the 13,703 households in the bank's assessment area, 11 percent are in the moderate-income geography and the remaining 89 percent in the middle-income geographies. Of the households that are considered families in the bank's assessment area, 17 percent are low-income, 20 percent are moderate-income, 30 percent are middle-income, and 33 percent are upper-income. According to the 1990 Census, the median family income in the assessment area is \$47,677. The 2002 HUD-adjusted median family income of PMSA 2281 (Dutchess, NY) is \$68,100.

### Housing Characteristics

Of the 15,413 housing units in the assessment area, 10,078 (65 percent) are owner-occupied and 3,440 (22 percent) are rental. The owner-occupied percentage is slightly higher than that of the Dutchess County PMSA (63 percent) and considerably higher than the 48 percent reported by New York State. Ten percent of all owner-occupied units (1,011 units) are located in the moderate-income census tract. Within this geography, 59 percent of the housing units are owner-occupied, 25 percent are renter-occupied, and 16 percent are vacant.

Most of the housing stock in the assessment area (83 percent) consists of one- to four-family residential dwellings. According to the New York State Association of Realtors, the median sales price of a house in Dutchess County as of July 2002 is \$245 thousand. Housing costs in the assessment area are high, especially in relation to income levels. According to bank

management, the town of Millbrook submitted a proposal to create affordable housing units, but the initiative did not receive sufficient support and the housing was not built.

### Labor, Employment and Economic Characteristics

Eight companies and Vassar College account for 80 percent of the local workforce in Dutchess County. The companies include IBM, The Gap, Pauling Rubber and Central Hudson Utility. According to the Dutchess County Economic Development Corporation, recruiting for these companies can be challenging because of the area's high cost of housing.

The economic conditions in Dutchess County are stable. According to 2001 data from the U.S. Bureau of Labor Statistics, the unemployment rate in Dutchess County is 3.4 percent, which is lower than the New York State rate of 4.9 percent.

Non-farm business establishments in the bank's assessment area total 1,601, of which 88 percent have gross annual revenues ("GAR") of \$1 million or less. The one moderate-income census tract in Millbrook's assessment area contains 159 non-farm business establishments. Of the 159 non-farm business establishments in the moderate-income census tract, 82 percent have a GAR of \$1 million or less.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The satisfactory rating is based on an assessment of the bank's core performance criteria. To assess the bank's performance related to lending, borrower income and geographic distribution, examiners analyzed a sample of 345 loans originated between January 1, 2000, and June 30, 2002. The sample included 183 consumer loans, 79 loans reported under the Home Mortgage Disclosure Act ("HMDA"), and 83 small business loans.

### **Loan-to-deposit Ratio**

Millbrook's loan-to-deposit ratio was reasonable given the bank's size, financial condition and the credit needs of its assessment area. The bank's average loan-to-deposit ratio for the four most recent quarters ending June 30, 2002, was 62.1 percent, based on information contained in the *Uniform Bank Performance Report*. This ratio is comparable to the regional peer group average of 62.92 percent over the same period.

### **Lending in the Assessment Area**

Millbrook originated most of the loans evaluated in the assessment area. During the current examination, the bank originated 1,275 loans, a 39 percent increase over the volume at the previous examination. Of the total number of loans sampled, 79 percent were originated in the bank's assessment area compared with 86 percent at the previous examination. When broken down by product, 82 percent of HMDA-related loans, 73 percent of consumer loans, and 90 percent of small business loans were originated in the assessment area.

While the overall loan volume has increased significantly, lending in the assessment area has decreased since the previous examination. According to bank management, a large financial institution acquired several community banks in a neighboring area. Many former customers of the smaller banks, who live outside Millbrook's assessment area, are willing to travel longer distances to maintain a relationship with a community bank. As a result, Millbrook is doing more business outside of its assessment area to keep up with this demand.

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

Millbrook's record of lending to borrowers of different income levels, including LMI individuals, and to businesses of different sizes was excellent for consumer lending, reasonable for small business lending, and poor for HMDA-related lending given the demographics of the bank's assessment area. An analysis of the lending distribution in each loan category follows:

<b>EXHIBIT 1</b>			
<b>Distribution of Loans in Assessment Area</b>			
<b>By Income Level of Borrower</b>			
<b>January 1, 2000 to June 30, 2002</b>			
	<b>HMDA-RELATED</b>	<b>CONSUMER</b>	<b>TOTAL</b>
<b>LOW-INCOME:</b>			
<b>Less than 50% of Median Income</b>			
Number	2	47	49
Percentage	3%	35%	25%
Amount (\$)	\$232,000	\$302,562	\$534,562
Percentage	2%	21%	4%
<b>MODERATE-INCOME:</b>			
<b>At least 50% &amp; less than 80% of Median Income</b>			
Number	7	30	37
Percentage	12%	23%	19%
Amount (\$)	\$1,084,000	\$349,989	\$1,433,989
Percentage	10%	25%	12%
<b>MIDDLE-INCOME:</b>			
<b>At least 80% &amp; less than 120% of Median Income</b>			
Number	16	27	43
Percentage	26%	20%	22%
Amount (\$)	\$2,293,000	\$340,335	\$2,633,335
Percentage	22%	24%	22%
<b>UPPER-INCOME:</b>			
<b>120% or more of Median Income</b>			
Number	36	29	65
Percentage	59%	22%	34%
Amount (\$)	\$6,933,000	\$431,058	\$7,364,058
Percentage	66%	30%	62%

### HMDA-related Loans

The bank's HMDA-related lending to borrowers of different income levels was adequate. As shown in Exhibit 1, loans to LMI borrowers accounted for 15 percent of the loans sampled while LMI families represent 36 percent of all families in the assessment area. Within the sample, 3 percent of the loans were extended to low-income borrowers and 12 percent to moderate-income borrowers. The percentage of lending to low-income families does not reflect the assessment area's demographics, which indicate that 17 percent of the families are low-income.

Lending to moderate-income families was adequate compared with the demographics of the assessment area, which show that 20 percent of the families are moderate-income. As noted in the Performance Context section, housing costs are significantly higher than in the rest of the state. Using the most recent New York State Association of Realtors data, median housing prices are at least seven times the HUD definition of a low-income borrower. The result is that purchasing a home is more challenging for low-income borrowers.

### Consumer Loans

Millbrook's consumer lending to borrowers of different income levels was excellent. The bank offers loans for new and used vehicles, personal and vacation loans, home equity, student loans and credit cards. Exhibit 1 shows that loans to LMI borrowers totaled 58 percent of the loans sampled while LMI families represent 36 percent of all families in the assessment area. Loans to low- and moderate-income borrowers accounted for 35 percent and 23 percent of the sample, respectively. These ratios compare favorably with the demographics of the assessment area, which indicate that 17 percent of all families are low-income and 20 percent are moderate-income.

### Small Business Loans

Approximately 89 percent of small business loans originated by Millbrook during the examination period were for \$100 thousand or less. The average loan size was \$42 thousand, an amount that would meet the credit needs of smaller businesses.

The bank's lending to businesses with revenues of \$1 million or less was reasonable. As shown in Exhibit 2 on the following page, 56 percent of the loans sampled were made to such businesses. This ratio compared adequately with the percentage of non-farm business establishments (88 percent) in Millbrook's assessment area which have GAR of \$1 million or less.

EXHIBIT 2 <b>Distribution of Loans in Assessment Area                      By Size of Business</b> January 1, 2000 – June 30, 2002 <b>SMALL BUSINESS LENDING SUMMARY</b>					
Number of loans to businesses	Number of loans to <u>small</u> businesses*	% of loans to <u>small</u> businesses	\$ amount of loans to businesses	\$ amount of loans to <u>small</u> businesses*	% of \$ amount of loans to <u>small</u> businesses*
66	37	56%	\$2,772,700	\$1,309,701	47%

**Geographic Distribution of Loans**

Overall, Millbrook’s geographic distribution of loans was considered excellent given the demographics of the bank’s assessment area. The distribution of lending for each loan category is analyzed as follows:

HMDA-related Loans

The geographic distribution of the bank’s HMDA-related lending was excellent. Of the 66 HMDA-related loans sampled, 6 loans (9 percent) were originated in the moderate-income census tract where 10 percent of owner-occupied housing units are located.

Consumer Loans

The geographic distribution of the bank’s consumer loans was excellent. Of the 133 sampled consumer loans, 10 percent were originated in the moderate-income census tract where 11 percent of the assessment area households and population reside.

Small Business Loans

The geographic distribution of small business loans was excellent. Of the 66 sampled small business loans originated in the bank’s assessment area, 17 percent were originated in the moderate-income census tract. This percentage is excellent considering the number of non-farm business establishments in moderate-income census tract totaling 10 percent of the business establishments in the assessment area.

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\* Businesses with gross annual revenues of \$1 million or less.



### **Response to Complaints**

Millbrook received no complaints relating to the bank's CRA performance, and no complaints have been filed with the Federal Reserve Bank of New York since the previous examination.

No credit practices that violated the substantive provisions of the antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act, were identified that would have an impact on Millbrook's CRA rating.

## CRA APPENDIX A

### GLOSSARY

**Census tract:** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Consumer loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

**Geography:** A census tract or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (“HMDA”):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and income of applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn).

**Home mortgage loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes, and refinancings of home improvement and home purchase loans.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Low-income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Metropolitan area (“MA”):** Any primary metropolitan statistical area (“PMSA”), metropolitan statistical area (“MSA”), or consolidated metropolitan statistical area (“CMSA”), as defined by the Office of Management and Budget, with a population of 250,000 or more, and any other area designated as such by the appropriate federal financial supervisory agency.

**Moderate-income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Middle-income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Owner-occupied units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Rated area:** A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution’s CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

**Small loan(s) to business(es):** A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (“Call Report”) and the Thrift Financial Reporting (“TFR”) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

**Upper-income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.

**CRA APPENDIX B**

**INSERT MAP OF ASSESSMENT AREA HERE**