

PUBLIC DISCLOSURE

August 13, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bank of Cattaraugus

RSSD No. 92902

**24 Main Street
Cattaraugus, New York 14719**

FEDERAL RESERVE BANK OF NEW YORK

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

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.

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INSTITUTION'S CRA RATING: Bank of Cattaraugus (“Cattaraugus”) is rated **Outstanding**.

The outstanding performance of Cattaraugus with regard to the Community Reinvestment Act (“CRA”) is based on the following performance criteria:

- The loan-to-deposit ratio was reasonable.
- A substantial majority of loans were made in the assessment area.
- The distribution of lending to borrowers of different income levels, including low- and moderate-income (“LMI”) individuals, and to businesses of different sizes was excellent.

DESCRIPTION OF INSTITUTION

Established in 1882, Cattaraugus operates a single office in the village of Cattaraugus, which is located within the municipality of New Albion in Cattaraugus County in southwestern New York State. Cattaraugus is not part of a holding company or affiliated with any other institution.

Cattaraugus extends residential mortgage, home improvement, consumer and commercial loans. As of March 31, 2012, Cattaraugus had total assets of \$19.5 million and net loans and leases of \$7.6 million. Loans secured by one-to-four-family residential properties represent 83% of all real estate loans and 66% of net loans and leases. The table on the following page shows the composition of the bank’s loan portfolio according to the Consolidated Reports of Condition and Income as of March 31, 2012.

Loan Portfolio Summary		
LOAN TYPE	DOLLAR AMOUNT* (‘000s)	PERCENT OF TOTAL
Commercial / Industrial & Non Farm Non Residential Real Estate	765	10%
Construction & Land Development	167	2%
Secured by 1-4 Family Residential Real Estate	5,035	66%
Farm	389	5%
Consumer	1,294	17%
Total Gross Loans and Leases	7,650	100%

There are no financial or legal factors that would prevent the bank from meeting the credit needs of its assessment area. Cattaraugus’ previous CRA examination was dated August 13, 2007, and the bank received an overall rating of outstanding.

DESCRIPTION OF ASSESSMENT AREA

The assessment area consists of three middle-income census tracts in Cattaraugus County, New York. Cattaraugus' assessment area is rural in nature and not part of a Metropolitan Statistical Area. The assessment area has not changed since the prior CRA exam. Cattaraugus' one office is centrally located within the assessment area.

The three middle-income census tracts that comprise the assessment area have been designated as distressed middle-income tracts due to population loss, consistent with the designation of the majority of the census tracts in Cattaraugus County. A middle-income, nonmetropolitan geography will be designated as distressed if it is in a county that meets one or more of the following triggers: (1) an unemployment rate of at least 1.5 times the national average, (2) a poverty rate of 20 percent or more, or (3) a population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of five percent or more over the five-year period preceding the most recent census.

The assessment area is in compliance with the requirements of Section 228.41 of Regulation BB and does not arbitrarily exclude LMI geographies. A map illustrating Cattaraugus' assessment area is located in Appendix C.

SCOPE OF EXAMINATION

Procedures

Cattaraugus was examined using the FFIEC Interagency CRA small bank procedures. The examination covered the time period from August 13, 2007 through August 12, 2012.

Products

The bank's consumer and small business loans originated during the evaluation period were analyzed. Loan samples were selected using the Board of Governors' sampling procedures. The sample period was January 1, 2010 through December 31, 2011. Forty-eight (48) small business loans and ninety-eight (98) consumer loans were analyzed. The integrity of the small business and consumer loan data was verified as part of the onsite examination.

The bank's HMDA-related loans (home purchase, refinance and home improvement) were not analyzed due to very low loan volumes during the examination period. Between January 1, 2007 and December 31, 2011, Cattaraugus originated only two home purchase, five refinance and eight home improvement loans. Cattaraugus is not a high volume mortgage lender but does service and retain the loans originated in its loan portfolio. Higher loan volumes are primarily concentrated in the bank's consumer and business lending.

Lending Analysis

In order to analyze the borrower characteristics of consumer loans, the proportion of the bank's originations to LMI borrowers was compared to the proportion of LMI households located in the assessment area. For small business lending, Cattaraugus' percentage of loans to businesses with gross annual revenues ("GAR") of \$1 million or less was compared to the percentage of all such businesses located in the assessment area. The size of the small business loan was also used as a proxy to identify lending to businesses with GAR of \$1 million or less.

Geographic distribution of lending was not evaluated since the assessment area contains no low- or moderate-income geographies and all three census tracts that comprise the assessment area are middle-income geographies.

The average of Cattaraugus' loan-to-deposit ratio was compared to the loan-to-deposit ratio of local and national peer banks. Similarly-sized local peer banks were selected based on their similarity to Cattaraugus with regard to deposit totals and number of branches, and their location within or near Cattaraugus's assessment area. Local peer banks included Alden State Bank, Bank of Akron, Bank of Holland and Cattaraugus County Bank.

Community Contacts

In order to learn more about community credit needs, examiners conducted interviews with two community organizations focused on economic development.

PERFORMANCE CONTEXT

The following demographic and economic information was obtained from publicly available sources that include the U.S. Department of Commerce's Census Bureau (2000), the New York State Department of Labor, Dun and Bradstreet, HUD, and the New York State Association of Realtors.

Demographic Characteristics

According to the 2000 Census, the assessment area's population is 13,631. The assessment area consists of portions of Cattaraugus County, with 100% of the assessment area's population residing in middle-income census tracts within the county. Cattaraugus County experienced a substantial (4%) population decline from 2000 to 2010.

Income Characteristics

According to the 2000 Census, the assessment area has 3,544 families, of which 639 (18%) are low-income families, 775 (22%) are moderate-income families, and 338 (10%) live below the poverty level. The 2011 HUD-adjusted median family income ("MFI") was \$52,300 for Cattaraugus County, compared to \$70,400 for the State of New York.

Housing Characteristics

According to the 2000 Census, the assessment area has 6,169 housing units, of which 65% are owner-occupied, 15% are rental, and 21% are vacant. Of the owner-occupied housing units, 100% are in middle-income tracts.

The New York Association of Realtors reports the median annual sales price of existing single-family homes in Cattaraugus County was \$73,000 in 2010¹, compared to \$215,000 for the State of New York. The recent decline in housing prices due to the nationwide housing market crisis had limited effect on the assessment area. Between 2005 and 2010, the sales price of a single-family home in Cattaraugus County rose by 3%. Housing costs in the area also remain relatively affordable for some LMI individuals. In Cattaraugus County, housing is about three times the income of a low-income borrower and twice the income of a moderate-income borrower.

¹ Median annual sales price of existing single-family homes in Cattaraugus County was unavailable for 2011.

Exhibit I

Assessment Area Demographics

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income		
	#	%	#	%	#	%	#	%	
Low-income	0	0.0	0	0.0	0	0.0	639	18.0	
Moderate-income	0	0.0	0	0.0	0	0.0	775	21.9	
Middle-income	3	100.0	3,544	100.0	338	9.5	881	24.9	
Upper-income	0	0.0	0	0.0	0	0.0	1,249	35.2	
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0	
Total Assessment Area	3	100.0	3,544	100.0	338	9.5	3,544	100.0	
	Housing Units by Tract	Housing Types by Tract							
		Owner-Occupied				Rental		Vacant	
		#	%	%	#	%	#	%	
Low-income	0	0	0.0	0.0	0	0.0	0	0.0	
Moderate-income	0	0	0.0	0.0	0	0.0	0	0.0	
Middle-income	6,169	4,004	100.0	64.9	895	14.5	1,270	20.6	
Upper-income	0	0	0.0	0.0	0	0.0	0	0.0	
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0	
Total Assessment Area	6,169	4,004	100.0	64.9	895	14.5	1,270	20.6	
	Total Businesses by Tract	Businesses by Tract & Revenue Size							
		Less Than or = \$1 Million				Over \$1 Million		Revenue Not Reported	
		#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	0	0.0	
Moderate-income	0	0.0	0	0.0	0	0.0	0	0.0	
Middle-income	492	100.0	446	100.0	16	100.0	30	100.0	
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0	
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0	
Total Assessment Area	492	100.0	446	100.0	16	100.0	30	100.0	
Percentage of Total Businesses:				90.7		3.3		6.1	

Based on 2000 Census Information.

Interviews with community contacts noted that the area is primarily in need of loans to support small businesses. Community contacts also noted, however, that many borrowers pose a higher credit risk, and cannot qualify for small business loans under current underwriting standards.

Labor, Employment and Economic Characteristics

The assessment area has 492 business establishments, of which 91% had gross annual revenues (“GAR”) of less than or equal to \$1 million. Of the total businesses, all are located in middle-income census tracts. Since the prior examination, unemployment significantly increased in Cattaraugus County. In 2011, Cattaraugus County’s unemployment rate was 8.7%, up from 5.0% at the end of 2006 and compared to 8.2% for the State of New York.

In Cattaraugus County, employment sectors are varied and include the educational, health care, and social services industries; manufacturing; the retail trade industry; and arts, entertainment, and recreation, and accommodation and food services. According to local development agencies, key employers in the area include Dresser-Rand, a producer of gas turbines for the energy industry, as well as the international headquarters of CUTCO Cutlery in Olean. Tourism continues to be strong throughout the year because of Ellicottville's Holiday Valley ski resort and Allegany State Park, as well as casinos located in Salamanca.

See Exhibit I for additional assessment area demographics.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

An assessment of Cattaraugus' core performance criteria under the FFIEC's small bank performance test follows:

Loan-to-Deposit Ratio

Cattaraugus'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 20 most recent quarters ending December 31, 2011 was 64%, based on information contained in the bank's Consolidated Report of Condition and Income. This ratio mirrored the national peer group's average loan-to-deposit ratio of 64% for similarly sized peer banks, but was somewhat less than the local peer group's average of 75%.

Lending in the Assessment Area

Cattaraugus originated a substantial majority of its loans in its assessment area. Overall, 88% of the loans evaluated for this CRA examination, by number, were originated in the assessment area. Of the consumer-related loans sampled, 84%, by number, were extended to individuals residing in the assessment area, while 96% of the sample of small business loans were extended to business establishments located in the assessment area.

Of the loans originated by Cattaraugus during the examination period, ten represented community development loans totaling \$488 thousand to a local non-profit organization that provides affordable housing, to the New York State Business Development Corporation, and to the Village of Cattaraugus to construct a new Department of Public Works Building.

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

Cattaraugus demonstrated excellent lending penetration among individuals of different income levels, including LMI individuals, and businesses of different sizes, given the demographics of the assessment area. An analysis of the lending distribution in each loan category follows:

Distribution of Consumer Loans in Assessment Area By Income Level of Borrower January 1, 2010 – December 31, 2011		
	CONSUMER	<u>TOTAL</u>
LOW-INCOME: Less than 50% of Median Income		
Number	33	33
Percentage	40%	40%
Amount (\$000s)	\$97	\$97
Percentage	16%	16%
MODERATE-INCOME: At least 50% & less than 80% of Median Income		
Number	17	17
Percentage	21%	21%
Amount (\$000s)	\$70	\$70
Percentage	12%	12%
MIDDLE-INCOME: At least 80% & less than 120% of Median Income		
Number	15	15
Percentage	18%	18%
Amount (\$000s)	\$140	\$140
Percentage	24%	24%
UPPER-INCOME: 120% or more of Median Income		
Number	16	16
Percentage	20%	20%
Amount (\$000s)	\$285	\$285
Percentage	48%	48%
INCOME UNKNOWN		
Number	1	1
Percentage	1%	1%
Amount (\$000s)	\$2	\$2
Percentage	<1%	<1%

Consumer Loans

Cattaraugus's distribution of consumer loans to LMI borrowers was excellent. The bank originated 33 or 40% of its consumer loans to low-income borrowers, compared to 20% of households in the assessment area that are low-income. The bank also made 17 or 21% of its consumer loans to moderate-income borrowers, compared to 18% of households in the area that are moderate-income.

Business Lending

The distribution of loans to businesses of different sizes was excellent. The bank made 44 or 96% of its small business loans to businesses with GAR of \$1 million or less, compared to 91% of such businesses located in the assessment area. Of the bank's small business loans, 100% were in amounts of \$100,000 or less, which are particularly responsive to the credit needs of small businesses. The average size of the bank's small business loans was \$12 thousand and was very responsive to the assessment area's small business credit needs.

Geographic Distribution

The geographic distribution of lending in the NY Non-MSA assessment area was not evaluated since all three of Cattaraugus' assessment area census tracts are middle-income tracts and there were no low- or moderate-income census tracts. Since all the geographies have the same income classification, a geographic analysis has limited value. Lending dispersion based on a map distribution review revealed an excellent distribution of consumer and small business loans throughout the assessment area.

Response to Complaints

Cattaraugus and the Federal Reserve Bank of New York did not receive any complaints relating to its CRA performance during the examination period.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Cattaraugus is in compliance with the substantive provisions of the antidiscrimination laws and regulations. No evidence of discriminatory or other illegal credit practices was identified as being inconsistent with helping to meet the credit needs of the assessment area.

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.

Community development: All agencies have adopted the following language. Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies; or loans, investments or services that (i) Support, enable or facilitate projects or activities that meet eligible uses" criteria described in Section 2301c of the Housing and Economic Recovery Act of 2008 ("HERA"), Public Law 110-289, 122 Stat. 2654, as amended, and are conducted in designated target areas identified in plans approved by the United States Department of Urban and Development in accordance with the Neighborhood Stabilization program ("NSP"); (ii) Are provided no later than two years after the last date funds appropriated for the NSP are required to be spent by the grantees; (iii) Benefit low-, moderate- and middle-income individuals and geographies in the bank's assessment area(s) or geographies outside the bank's assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

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: A family is a group of two people or more related by birth, marriage, or adoption and residing together; all such people (including related subfamily members) are considered as members of one family.

Geography: A census tract 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: A household consists of all persons who occupy a housing unit. Persons not living in households are classified as living in group quarters.

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

Metropolitan Statistical Area (“MSA”): A geographic entity defined by the federal Office of Management and Budget for use by federal statistical agencies, based on the concept of a core area with a large population nucleus, plus adjacent communities having a high degree of economic and social integration with that core.

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

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

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

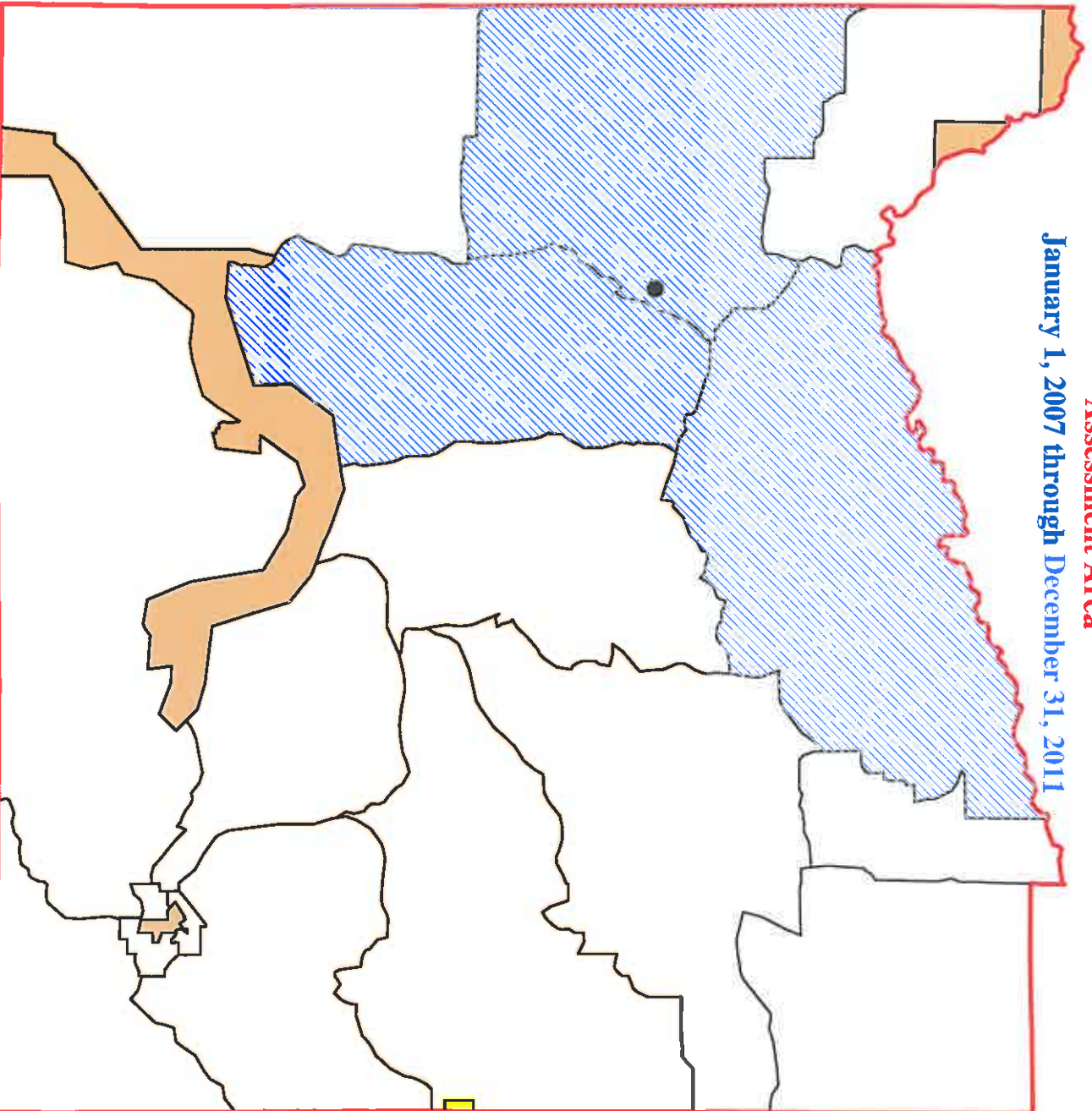
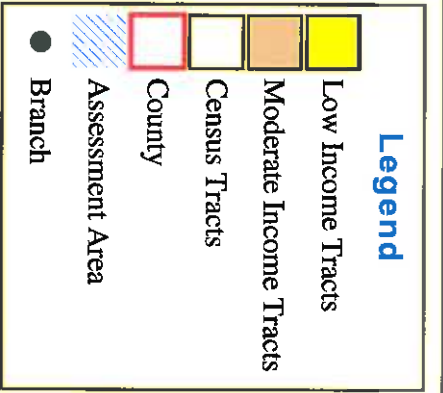
Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

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% of the area median income, or a median family income that is more than 120%, in the case of a geography.

Bank of Cattaraugus

Assessment Area
January 1, 2007 through December 31, 2011



Cattaraugus

