



**NEW YORK STATE  
DEPARTMENT OF FINANCIAL SERVICES  
FINANCIAL FRAUD AND CONSUMER PROTECTION DIVISION**

One State Street  
New York, NY 10004

**PUBLIC SUMMARY**

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

**Date of Evaluation:** December 31, 2012

**Institution:** Catskill Hudson Bank  
95 Schewnk Drive  
Kingston, NY 12401

**Note:** This evaluation is not an assessment of the financial condition of this institution. The rating assigned does not represent an analysis, conclusion or opinion of the New York State Department of Financial Services concerning the safety and soundness of this financial institution.

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## **GENERAL INFORMATION**

This document is an evaluation of the Community Reinvestment Act (“CRA”) performance of Catskill Hudson Bank (“CHB”) prepared by the New York State Department of Financial Services (“DFS” or the “Department”). This evaluation represents the Department’s current assessment and rating of the institution’s CRA performance based on an evaluation conducted as of December 31, 2012.

Section 28-b of the New York Banking Law, as amended, requires that when evaluating certain applications, the Superintendent of Financial Services shall assess a banking institution’s record of helping to meet the credit needs of its entire community, including low- and moderate-income (“LMI”) areas, consistent with safe and sound operations.

Part 76 of the General Regulations of the Superintendent implements Section 28-b and further requires that the Department assess the CRA performance records of regulated financial institutions. Part 76 establishes the framework and criteria by which the Department will evaluate the performance. Section 76.5 further provides that the Department will prepare a written report summarizing the results of such assessment and will assign to each institution a numerical CRA rating based on a 1 to 4 scoring system. The numerical scores represent an assessment of CRA performance as follows:

- (1) Outstanding record of meeting community credit needs;
- (2) Satisfactory record of meeting community credit needs;
- (3) Needs to improve in meeting community credit needs; and
- (4) Substantial noncompliance in meeting community credit needs.

Section 76.5 further requires that the CRA rating and the written summary (“Evaluation”) be made available to the public. Evaluations of banking institutions are primarily based on a review of performance tests and standards described in Section 76.7 and detailed in Sections 76.8 through 76.13. The tests and standards incorporate the 12 assessment factors contained in Section 28-b of the New York Banking Law.

For an explanation of technical terms used in this report, please consult the **GLOSSARY** at the back of this document.

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## **OVERVIEW OF INSTITUTION'S PERFORMANCE**

CHB is evaluated according to the intermediate small bank performance criteria pursuant to Part 76.7 and Part 76.12 of the General Regulations of the Superintendent. (During the prior assessment period, CHB's performance was evaluated according to the small bank performance criteria.) This assessment period included calendar years 2009, 2010, 2011 and 2012. CHB is rated "2," indicating a "Satisfactory" record of helping to meet community credit needs. This represents a downgrade from the prior DFS assessment.

The rating is based on the following factors:

**Lending Test:** "Satisfactory"

- **Loan-to-Deposit ("LTD") Ratio and Other Lending-Related Activities:** "Satisfactory"

CHB's average LTD ratio was reasonable considering its size, business strategy, financial condition and peer group activity.

During the 16 quarter period, both CHB and its peer group's LTD ratios trended downward. CHB's average LTD ratio was 57.3%, significantly below its peer group's average of 77.0%. However, CHB attributed its lower LTD ratio to rapid growth public deposits and decreased lending as a result of the economic downturn.

- **Assessment Area Concentration:** "Satisfactory"

During the evaluation period, CHB originated a total of 575 small business loans, totaling \$104.3 million in lending, of which 79.0% by numbers and 74.8% by dollar value were lent within the assessment area. This majority of lending inside of its assessment area is a reasonable record of lending within CHB's assessment area.

- **Distribution by Borrowers Characteristics:** "Satisfactory"

The distribution of small business loans based on the revenue size of the business demonstrated a satisfactory rate of lending to businesses of different revenue sizes.

CHB's rate of lending to small businesses with gross revenues less than or equal to \$1 million was 48.0% by number of loans and 37.2% by dollar value, which compared favorably to the aggregate levels of 32.5% and 34.0%, respectively. While exceeding the aggregate's level, CHB's penetration ratio declined from 60.4% by number of loans and 51.1% by dollar value during the prior evaluation period.

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- **Geographic Distribution of Loans: “Outstanding”**

The distribution of small business loans based on the income level of the geography of the business demonstrated an excellent rate of lending.

CHB’s assessment area does not have low-income census tracts. CHB’s rates of small business lending in moderate-income census tracts for all years during the evaluation period averaged 24.4% by number of loans and 30.3% by dollar value. These ratios outperformed the aggregate levels of 14.9% by number of loans and 16.8% by dollar value. In addition, CHB’s penetration rates exceeded the demographics of businesses in its assessment area.

- **Action Taken in Response to Written Complaints With Respect to CRA**

Since the latest CRA evaluation as of December 31, 2009, neither CHB nor DFS received any written complaints regarding CHB’s CRA performance.

**Community Development Test (Loans, Investments, Services): “Satisfactory”**

CHB’s community development performance demonstrated a reasonable responsiveness to the community development needs of its assessment area through community development loans, investments and services, considering CHB’s capacity and the need and availability of such opportunities for community development in its assessment area.

- **Community Development Loans: “Satisfactory”**

During the evaluation period, CHB originated \$3.3 million in new community development loans and had \$1 million outstanding from the prior evaluation period. This demonstrated an adequate level of community development lending during the course of the evaluation period. CHB’s total community development loans of \$4.3 million represented 0.28% of its total annualized assets.

- **Community Development Qualified Investments: “Outstanding”**

During the evaluation period, CHB made \$13.7 million in new community development investments. In addition, CHB made \$56,000 in community development grants. CHB’s qualified investments including grants represented 0.90% of the total annualized assets, demonstrating an excellent level of community development investments over the course of the evaluation period.

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- **Community Development Services: “Satisfactory”**

CHB demonstrated an adequate level of community development services over the course of the evaluation period.

- **Responsiveness to Credit and Community Development Needs**

CHB demonstrated a reasonable level of responsiveness to credit and community development needs.

This evaluation was conducted based on a review of the 12 assessment factors set forth in Section 28-b of the New York Banking Law and Part 76 of the General Regulations of the Superintendent.

## PERFORMANCE CONTEXT

### Institution Profile:

Catskill Hudson Bank (“CHB”), formerly Community Bank of Sullivan County, is wholly owned by Catskill Hudson Bancorp, Incorporated. The current name reflects CHB’s market area, which includes the greater Catskill and Hudson River Valley. CHB, headquartered in Kingston, NY, has a majority of its branches in Sullivan County. These branches offer a full range of commercial banking services with a main focus on commercial real estate lending.

Per the Consolidated Report of Condition (the “Call Report”) as of December 31, 2012, filed with the Federal Deposit Insurance Corporation (“FDIC”), CHB reported total assets of \$382.6 million, of which \$184.0 million were net loans and lease finance receivables. It also reported total deposits of \$345.0 million, resulting in a loan-to-deposit ratio of 53.3%. According to the latest available comparative deposit data as of June 30, 2012, CHB had a market share of 3.03%, or \$315.8 million in a market of \$10.4 billion, inside its assessment area, ranking it 13<sup>th</sup> among 30 deposit-taking institutions in Sullivan, Ulster and Orange Counties.

The following is a summary of CHB’s loan portfolio, based on Schedule RC-C of CHB’s December 31, Year 2009 to December 31, 2012’s Call Reports:

<b>TOTAL GROSS LOANS OUTSTANDING</b>								
Loan Type	2009		2010		2011		2012	
	\$000's	%	\$000's	%	\$000's	%	\$000's	%
1-4 Family Residential Mortgage Loans	26,094	16.2	27,186	15.6	22,495	13.0	20,525	10.8
Commercial & Industrial Loans	42,086	26.1	44,122	25.3	46,256	26.6	47,382	25.0
Commercial Mortgage Loans	76,169	47.2	86,881	49.8	92,150	53.1	108,978	57.6
Multifamily Mortgages	6,875	4.3	7,335	4.2	5,345	3.1	3,845	2.0
Consumer Loans	3,017	1.9	2,390	1.4	1,874	1.1	1,200	0.6
Agricultural Loans	1,650	1.0	1,637	0.9	1,653	1.0	1,801	1.0
Construction Loans	4,957	3.1	4,407	2.5	3,753	2.2	4,977	2.6
Obligations of States & Municipalities	0	0.0	0	0.0	0	0.0	0	0.0
Other Loans	105	0.1	343	0.2	32	0.0	281	0.1
Lease financing	262	0.2	142	0.1	11	0.0	182	0.1
<b>Total Gross Loans</b>	<b>161,215</b>		<b>174,443</b>		<b>173,569</b>		<b>189,171</b>	

As illustrated in the above chart, CHB is primarily a commercial real estate lender, with 57.6% of its loan portfolio in commercial mortgages followed by commercial and industrial loans at 25.0%, as of December 31, 2012.

CHB operates 12 branches, of which nine are located in Sullivan County, two in Ulster County and one in Orange County. In addition, CHB conducts general commercial banking business from its corporate headquarters in Kingston, New York and maintains its operations center in Monticello, New York. Supplementing the banking offices is an automated teller machine (“ATM”) network at every branch with

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deposit-taking capabilities. All branches except two Kingston branches offer Saturday banking hours.

*There are no known financial or legal impediments that had an adverse impact on CHB's ability to meet the credit needs of its community.*

**Assessment Area:**

CHB's assessment area is comprised of all Sullivan County, part of Orange County, and part of Ulster County. The assessment area was expanded since the prior evaluation period to include the City of Kingston and townships of Ulster, Esopus, Rosendale, Hurly, Marbletown and Rochester in Ulster County.

There are 68 census tracts in the area, of which 12 are moderate-income, 40 are middle-income, and 16 are upper-income. The assessment area does not include any low-income census tracts. The following chart shows the assessment area by census tract income level, including LMI census tracts.

<b>Assessment Area Census Tracts by Income Level</b>							
County	N/A	Low	Mod	Middle	Upper	Total	LMI %
Sullivan	0	0	4	12	8	24	16.7
*Orange	0	0	3	10	5	18	16.7
*Ulster	0	0	5	18	3	26	19.2
Total	0	0	12	40	16	68	17.6

*\*Partial County*

*The assessment area appears reasonable based upon the location of CHB offices and its lending patterns. There is no evidence that CHB has arbitrarily excluded LMI areas.*

**Demographic & Economic Data**

The assessment area had a population of 245,802 during the examination period. About 13.6% of the population were over the age of 65 and 19.8% were under the age of 16.

Of the 62,224 families in the assessment area, 20.3% were low-income, 18.3% were moderate-income, 21.8% were middle-income and 39.7% were upper-income families. There were 93,307 households in the assessment area, of which 10.7% had income below the poverty level and 2.1% were on public assistance.

The weighted average median family income in the assessment area was \$71,325.

There were 120,224 housing units within the assessment area, of which 89.2% were one- to four-family units, and 10.8% were multifamily units. A majority (52.4%) of the

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area's housing units were owner-occupied, while 25.1% were rental units. Of the 62,993 owner-occupied housing units, 13.0% were in low- and moderate-income census tracts while 87.0% were in middle- and upper-income census tracts. The median age of the housing stock was 47 years, and the median home value in the assessment area was \$223,264.

There were 22,293 non-farm businesses in the assessment area. Of these, 72.3% were businesses with reported revenues of less than or equal to \$1 million, 3.9% reported revenues of more than \$1 million and 23.9% did not report their revenues. Of all the businesses in the assessment area, 80.5% were businesses with less than fifty employees while 92.0% operated from a single location. The largest industries in the area were services (44.4%), followed by retail trade (13.9%) and construction (8.2%); 13.3% of businesses in the assessment area were not classified.

According to the New York State Department of Labor, the average unemployment rate for New York State during the evaluation period peaked in 2010 at 8.6%, whereas the rates in Sullivan and Ulster Counties peaked in 2012 at 9.6% and 8.8%, respectively. Orange County had its highest unemployment rate in 2010 and 2012 at 8.3%. Sullivan County had the highest unemployment rates among the three Counties in the assessment area.

<b>Assessment Area Unemployment Rate</b>				
<b>Year</b>	<b>Statewide</b>	<b>Sullivan County</b>	<b>Orange County</b>	<b>Ulster County</b>
2009	8.4%	8.8%	7.9%	7.8%
2010	8.6%	9.3%	8.3%	8.2%
2011	8.3%	9.2%	8.0%	8.3%
2012	8.5%	9.6%	8.3%	8.8%

### **Community Information**

According to a nonprofit community organization interviewed for this examination, most local banks were responsive to the credit and banking needs of the assessment area. The representative of the organization commented positively on CHB for its participation in various fundraising events in the community.

The representative noted that banks drastically reduced their contributions and grants to community groups, especially in Sullivan County, which experienced the highest unemployment rates in the assessment area.

The representative also noted that public transportation and healthcare topped the list of needed services in the assessment area. Due to limited public transportation, LMI individuals were unable to commute to work and had limited opportunities to secure employment.

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## **PERFORMANCE STANDARDS AND ASSESSMENT FACTORS**

*CHB was evaluated under the intermediate small banking institution's performance standards in accordance with Parts 76.7 and 76.12 of the General Regulations of the Superintendent, which consist of the lending test and the community development test.*

*The lending test includes:*

- 1. Loan-to-deposit ratio and other lending-related activities;*
- 2. Assessment area ("AA") concentration;*
- 3. Distribution by borrower characteristics;*
- 4. Geographic distribution of loans; and*
- 5. Action taken in response to written complaints regarding CRA*

*The community development test includes:*

- 1. Community development lending;*
- 2. Community development investments;*
- 3. Community development services; and*
- 4. Responsiveness to community development needs*

*The following factors also were considered in assessing the bank's record of performance:*

- 1. Extent of participation by the board of directors or board of trustees in formulating CRA policies and reviewing CRA performance;*
- 2. Any practices intended to discourage credit applications,*
- 3. Evidence of prohibited discriminatory or other illegal credit practices;*
- 4. Record of opening and closing offices and providing services at offices; and*
- 5. Process factors, such as activities to ascertain credit needs and the extent of marketing and special credit related programs*

Statistics employed in this evaluation were derived from various sources. Bank-specific information was submitted by the bank both as part of the examination process and on its Call Report submitted to the FDIC. Aggregate lending data was obtained from the Federal Financial Institutions Examination Council ("FFIEC") and deposit data were obtained from the FDIC. Loan-to-deposit ratios were calculated from information shown in the bank's Uniform Bank Performance Report ("UBPR") as submitted to the FDIC.

The demographic data referred to in this report were derived from the 2010 U.S. Census and the U.S. Department of Housing and Urban Development. Business demographic data used in this report are based on Dun & Bradstreet reports which are updated annually. Unemployment data were obtained from the New York State Department of Labor. Some non-specific bank data are only available on a county-wide basis and are used even where the institution's assessment area includes partial counties.

The assessment period included calendar years 2009, 2010, 2011 and 2012.

The examiners considered CHB’s small business loans in evaluating factors (2), (3) and (4) of the lending test noted above.

Small business data are shown for comparative purposes only. CHB is not required to report this data, and therefore it is not included in the aggregate data. As CHB made very few small farm loans, all analyses were based on small business lending. Small business loan data evaluated in this performance evaluation represented actual originations.

At its **prior** Performance Evaluation as of December 31, 2008, DFS assigned CHB a rating of “1,” reflecting an “Outstanding” record of helping to meet community credit needs.

**Current CRA Rating: “Satisfactory”**

**Lending Test: “Satisfactory”**

CHB’s small business lending activities were reasonable in light of aggregate and peer group activity and the demographics of the assessment area.

**Loan-to-Deposit Ratio and other Lending-Related Activities: “Satisfactory”**

CHB’s average LTD ratio was reasonable considering its size, business strategy, financial condition, aggregate and peer group activity.

During the 16 quarter period, both CHB and its peer group’s LTD ratios trended downward. CHB’s average LTD ratio was 57.3%, significantly lower than its peer group’s average of 77.0%. However, CHB’s lower LTD ratios were attributable to the growth of public funds on deposit from local municipalities, school districts, fire-companies, fire districts and school banking programs. Total public funds deposits increased more than two-fold during the evaluation period. Meanwhile, gross loans growth was only 17.3% during the same period due to decreased lending as a result of the economic downturn.

The chart below shows CHB’s LTD ratios in comparison with the peer group’s ratios for the 16 quarters since the prior evaluation.

<b>Loan-to-Deposit Ratios</b>																	
	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	Avg.
CHB	61.7	61.4	64.1	64.8	59.6	60.1	58.1	59.0	57.3	55.1	48.6	53.8	53.7	55.9	49.8	53.3	57.3
Peer	79.3	80.1	79.8	77.6	76.4	80.4	79.7	78.9	76.5	76.6	75.9	75.1	73.3	74.3	74.5	74.0	77.0

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Assessment Area Concentration: “Satisfactory”

During the evaluation period, CHB originated a total of 575 small business loans, totaling \$104.3 million in lending, of which 79.0% by number and 74.8% by dollar value were lent within the assessment area. This majority of lending inside of its assessment area is a reasonable record of lending.

CHB’s lending activities inside the assessment area decreased over the evaluation period, particularly from 2010 to 2012, as CHB expanded its assessment area during the evaluation period.

The following table shows the percentages of CHB’s small business loans originated inside and outside of the assessment area.

Distribution of Loans Inside and Outside of the Assessment Area										
Loan Type	Number of Loans					Loans in Dollars (in thousands)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Small Business										
2009	113	83.1%	23	16.9%	136	21,959	77.8%	6,275	22.2%	28,234
2010	134	84.3%	25	15.7%	159	20,500	82.7%	4,281	17.3%	24,781
2011	110	76.9%	33	23.1%	143	17,166	75.9%	5,438	24.1%	22,604
2012	97	70.8%	40	29.2%	137	18,333	64.1%	10,273	35.9%	28,606
Subtotal	454	79.0%	121	21.0%	575	77,958	74.8%	26,267	25.2%	104,225

Small business analyses were based on actual lending.

Distribution by Borrower Characteristics: “Satisfactory”

The distribution of small business loans based on the revenue size of the business demonstrated a satisfactory rate of lending to businesses of different revenue sizes.

CHB’s rate of lending to small businesses with gross revenues less than or equal to \$1 million was 48.0% by number of loans and 37.2% by dollar value, which compared favorably to the aggregate levels of 32.5% and 34.0%, respectively. While exceeding the aggregate’s level, CHB’s penetration ratio declined from 60.4% by number of loans and 51.1% by dollar value during the prior evaluation period. These numbers compared unfavorably to the demographics of the assessment area, where such businesses made up 72.6% of all businesses.

The following chart provides a summary of CHB’s small business lending distribution based on revenue size of the borrower during the evaluation period:

Distribution of Small Business Lending by Revenue Size of Business									
2009									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	55	48.7%	10,250	46.7%	829	25.5%	33,174	37.7%	73.8%
Rev. > \$1MM	58	51.3%	11,709	53.3%					4.2%
Rev. Unknown		0.0%		0.0%					22.0%
<b>Total</b>	<b>113</b>		<b>21,959</b>		<b>3,247</b>		<b>88,037</b>		
2010									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	63	47.0%	8,271	40.3%	762	26.8%	27,460	31.5%	76.3%
Rev. > \$1MM	71	53.0%	12,229	59.7%					4.2%
Rev. Unknown		0.0%		0.0%					19.6%
<b>Total</b>	<b>134</b>		<b>20,500</b>		<b>2,844</b>		<b>87,240</b>		
2011									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	56	50.9%	5,276	30.7%	1,283	36.8%	32,993	33.5%	68.1%
Rev. > \$1MM	54	49.1%	11,890	69.3%					3.1%
Rev. Unknown		0.0%		0.0%					28.8%
<b>Total</b>	<b>110</b>		<b>17,166</b>		<b>3,488</b>		<b>98,617</b>		
2012									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	44	45.4%	5,214	28.4%	1,361	39.3%	26,614	33.2%	72.3%
Rev. > \$1MM	53	54.6%	13,119	71.6%					3.9%
Rev. Unknown		0.0%		0.0%					23.9%
<b>Total</b>	<b>97</b>		<b>18,333</b>		<b>3,464</b>		<b>80,067</b>		
GRAND TOTAL									
Rev. Size	Bank				Aggregate				Bus.Dem.
	#	%	\$000's	%	#	%	\$000's	%	%
Rev. <= \$1MM	218	48.0%	29,011	37.2%		32.5%		34.0%	
Rev. > \$1MM	236	52.0%	48,947	62.8%					
Rev. Unknown	-	0.0%	-	0.0%					
<b>Total</b>	<b>454</b>		<b>77,958</b>						

### Geographic Distribution of Loans: "Outstanding"

The distribution of small business loans based on the income level of the geography of the business demonstrated an excellent rate of lending into LMI census tracts.

CHB's assessment area does not include low-income census tracts. Therefore no loans were extended to low-income census tracts.

CHB's rates of small business lending in moderate-income census tracts for all years during the evaluation period averaged 24.4% by number of loans and 30.3% by dollar value. These ratios outperformed the aggregate levels of 14.9% by number of loans and 16.8% by dollar value. In addition, CHB's penetration rates exceeded the demographics of businesses in its assessment area.

The following chart provides a summary of CHB's small business lending distribution based on the income level of the geography.

<b>Distribution of Small Business Lending by Geographic Income of the Census Tract</b>									
<b>2009</b>									
<b>Geographic</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low		0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Moderate	17	15.0%	3,626	16.5%	455	14.0%	13,832	15.7%	18.9%
LMI	17	15.0%	3,626	16.5%	455	14.0%	13,832	15.7%	18.9%
Middle	75	66.4%	15,489	70.5%	2,181	67.2%	61,684	70.1%	67.9%
Upper	21	18.6%	2,844	13.0%	611	18.8%	12,521	14.2%	13.2%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
<b>Total</b>	<b>113</b>		<b>21,959</b>		<b>3,247</b>		<b>88,037</b>		
<b>2010</b>									
<b>Geographic</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Moderate	28	20.9%	5,750	28.0%	369	13.0%	11,123	12.7%	18.2%
LMI	28	20.9%	5,750	28.0%	369	13.0%	11,123	12.7%	18.2%
Middle	72	53.7%	10,681	52.1%	1,926	67.7%	60,476	69.3%	68.8%
Upper	34	25.4%	4,069	19.8%	549	19.3%	15,641	17.9%	13.0%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
<b>Total</b>	<b>134</b>		<b>20,500</b>		<b>2,844</b>		<b>87,240</b>		
<b>2011</b>									
<b>Geographic</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Moderate	29	26.4%	6,275	36.6%	522	15.0%	19,229	19.5%	17.3%
LMI	29	26.4%	6,275	36.6%	522	15.0%	19,229	19.5%	17.3%
Middle	57	51.8%	9,785	57.0%	2,369	67.9%	61,763	62.6%	69.3%
Upper	24	21.8%	1,106	6.4%	597	17.1%	17,625	17.9%	13.5%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
<b>Total</b>	<b>110</b>		<b>17,166</b>		<b>3,488</b>		<b>98,617</b>		
<b>2012</b>									
<b>Geographic</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Moderate	37	38.1%	7,933	43.3%	592	17.1%	15,344	19.2%	19.5%
LMI	37	38.1%	7,933	43.3%	592	17.1%	15,344	19.2%	19.5%
Middle	41	42.3%	6,915	37.7%	1,881	54.3%	47,154	58.9%	56.8%
Upper	19	19.6%	3,485	19.0%	991	28.6%	17,569	21.9%	23.6%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
<b>Total</b>	<b>97</b>		<b>18,333</b>		<b>3,464</b>		<b>80,067</b>		
<b>GRAND TOTAL</b>									
<b>Geographic</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
Moderate	111	24.4%	23,584	30.3%	1,938	14.9%	59,528	16.8%	
LMI	111	24.4%	23,584	30.3%	1,938	14.9%	59,528	16.8%	
Middle	245	54.0%	42,870	55.0%	7,267	64.1%	232,817	65.3%	
Upper	98	21.6%	11,504	14.8%	4,991	21.1%	17,521	17.9%	
Unknown	-	0.0%	-	0.0%	0	0.0%	0	0.0%	
<b>Total</b>	<b>454</b>		<b>77,958</b>		<b>13,196</b>		<b>380,733</b>		

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Action Taken In Response to Written Complaints With Respect to CRA:

Neither CHB nor DFS received any written complaints regarding CHB's CRA performance since the last CRA evaluation.

**Community Development Test:** "Satisfactory"

CHB's community development performance demonstrated a reasonable responsiveness to the community development needs of its assessment area through community development loans, investments and services, considering CHB's capacity and the need and availability of such opportunities for community development in its assessment area.

During the evaluation period, CHB originated \$3.3 million in new community development loans and had \$1 million outstanding from the prior evaluation period. Also, during the evaluation period, CHB made \$13.7 million in new community development investments and \$56,000 in community development grants. The annualized ratio of total community development loans and investments over total assets as of December 31, 2012 was 1.2%.

A more detailed description of CHB's community development activity follows:

**Community Development Loans:** "Satisfactory"

During the evaluation period, CHB originated \$3.3 million in new community development loans, and had \$1 million outstanding from the prior evaluation period. This demonstrated an adequate level of community development lending over the course of the evaluation period. CHB's total community development loans of \$4.3 million represented 0.28% of its total annualized assets.

<b>Community Development Loans</b>				
	<b>This Evaluation Period</b>		<b>Outstandings from Prior Evaluation Periods</b>	
<b>Purpose</b>	<b># of Loans</b>	<b>\$000</b>	<b># of Loans</b>	<b>\$000</b>
Community Services	3	\$3,160	1	\$808
Revitalize/Stabilize	1	\$113	2	\$183
<b>Total</b>	<b>4</b>	<b>\$3,273</b>	<b>3</b>	<b>\$991</b>

Below are highlights of CHB's community development lending.

In 2012, CHB extended a \$3.0 million, non-revolving line of credit, to a nonprofit organization that operates a summer camp program in a moderate-income census tract in Ulster County. This entity has various enriching programs for children, adults and families, including special programs for people with disabilities. It also promotes tourism,

thereby, helping the assessment area, as a whole. In 2011, this organization was seriously affected by Hurricanes Irene and Lee. Because of these severe weather events, Ulster County received designated disaster declarations from Federal Emergency Management Administration (“FEMA”).

Three commercial loans totaled \$295,669 to rehabilitate commercial properties that are located in moderate-income census tracts. One of these three loans was extended during the current evaluation period, while the other two were extended from the prior period.

Community Development Investments: “Outstanding”

During the evaluation period, CHB made \$13.7 million in new community development investments. In addition, CHB made \$56,000 in community development grants. CHB’s qualified investments including grants represented 0.90% of the total annualized assets, demonstrating an excellent level of community development investments over the course of the evaluation period.

Community Development Investments and Grants				
	This Evaluation Period		Outstandings from Prior Evaluation Periods	
CD Investments	# of Inv.	\$000	# of Inv.	\$000
Affordable Housing				
Community Services	8	\$ 1,843		
Revitalize/Stabilize	23	\$ 11,865		
Total	31	\$ 13,708	0	0
CD Grants	# of Grants	\$000	Not Applicable	
Affordable Housing	1	\$ 1		
Community Services	102	\$ 48		
Economic Development	15	\$ 7		
Total	118	\$ 56		

Examples of investments made are listed below:

CHB invested in eight installment and serial bonds totaling \$1.8 million issued by five local fire districts, all located in moderate-income census tracts. Funds were used to purchase fire-fighting vehicles.

CHB invested in 23 municipal bonds, in the total amount of \$11.9 million, issued by six local town and village governments that are located in moderate-income census tracts or in declared disaster areas by FEMA during the evaluation period. Funds were used for public improvements, water and sewer systems, highway equipment and capital improvements.

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### Community Development Services: “Satisfactory”

CHB demonstrated an adequate level of community development services over the course of the evaluation period.

Below are highlights of CHB’s community development services.

- The president & CEO serves on the board of a partnership with a local economic development agency in Sullivan County where he is the Vice Chairman of the Board. In addition, the president serves on the Finance Committee and the Revolving Loan Committee of the partnership.
- The president & CEO is a member of the board of an economic development organization in Hudson Valley where he serves on the Strategy Committee, Food and Beverage Committee, and Market Ready – Real Estate Committee. The organization provides information to help companies with relocating to, and expanding within, seven counties in the Hudson Valley area.
- CHB’s president & CEO chairs a task force team which was formed as a partnership with three local economic development organizations in Ulster County. The task force team has the mission to enhance the economic development in CHB’s targeted market area in Ulster County and create potential small business lending opportunities.
- The president serves as a member of the Board of a local community college foundation which provides scholarships to needy and deserving individuals in CHB’s targeted area in Ulster County.
- CHB’s officers provide free tax collection services in local towns, village offices and school districts located in moderate-income census tracts.
- As a local bank, CHB participates in fundraising programs by providing branch lobby spaces for toy collections and clothing drives. During the evaluation period, three branches of CHB provided lobby spaces for these community events. The Middletown branch sponsored a “Community Shred Day,” providing free document shredding service to the community, and provided education to the participants to raise awareness about protecting one’s identity.

### Responsiveness to Community Development Needs:

CHB demonstrated a reasonable level of responsiveness to credit and community development needs through its community development lending, grants, community development services and outreach programs.

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## Additional Factors

### **The extent of participation by the banking institution's board of directors or board of trustees in formulating the banking institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act**

The CRA officer prepares CHB's CRA data report and presents it to the president and CEO on a quarterly basis. The president reviews the reports and presents them in subsequent board meetings.

### **Discrimination and other illegal practices**

- *Any practices intended to discourage applications for types of credit set forth in the banking institution's CRA Public File.*

DFS did not note any practices that were intended to discourage applications for the types of credit offered by the institution.

- *Evidence of prohibited discriminatory or other illegal credit practices.*

DFS did not note any evidence of prohibited discriminatory or other illegal practices.

### **Record of opening and closing offices and providing services at offices**

In 2010, CHB opened a new branch in a middle-income census tract in Kingston, Ulster County. It did not close any branches during the evaluation period. CHB does not have any branches in low-income census tracts because its assessment area does not include any low-income tracts.

CHB operates 12 branches: nine in Sullivan, two in Ulster and one in Orange County. Two branches are located in moderate-income census tracts (one in Sullivan County and one in Ulster County). All branches except one in a middle-income census tract and one in an upper-income census tract offer Saturday services from 9:00 AM until 12:00 noon. Seven of these branches provide drive-through services on Saturday mornings.

Distribution of Branches within the Assessment Area							
County	N/A #	Low #	Moderate #	Middle #	Upper #	Total #	LMI %
Sullivan			1	7	1	9	0
Ulster*			1	1		2	1
Orange*				1		1	-
<b>Total</b>	-	-	2	9	1	12	0
*Partial County							

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## Process Factors

- Activities conducted by the banking institution to ascertain the credit needs of its community, including the extent of the banking institution's efforts to communicate with members of its community regarding the credit services being provided by the banking institution.

CHB is a member of various economic and public policy organizations, such as Sullivan County Partnership for Economic Development, Orange County Partnership, Hudson Valley Economic Development Corporation, Ulster County Development Corporation, and Patterns for Progress. CHB also is a member of several local chambers of commerce, including Sullivan County Chamber of Commerce and Industry, Inc., Regional Chamber of Commerce of Ulster County, Orange County Chamber of Commerce, and Regional New Paltz Chamber of Commerce. Membership and participation in these organizations enable CHB to ascertain the credit and banking needs of its assessment area.

- The extent of the banking institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the banking institution

CHB's website lists all of its banking products and services. CHB markets these products and services further through a number of media outlets in the assessment area to make the community aware of the credit services it offers. CHB advertises in major local publications (such as Kingston Times and Sullivan County Democrat) and through two local radio stations.

## **Other factors that in the judgment of the Superintendent bear upon the extent to which a banking institution is helping to meet the credit needs of its entire community**

None

## GLOSSARY

### Aggregate Penetration Rate

The number of loans originated and purchased by all reporting lenders in specified categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the assessment area.

### Community Development

“Community development”:

1. Affordable housing (including multifamily housing) for low- or moderate-income (“LMI”) individuals;
2. Community services targeted to LMI individuals;
3. Activities that promote economic development by financing business or farms that meet the size eligibility standards of the United States Small Business Administration (“SBA”) Development Company or Small Business Investment Company programs, or have gross annual incomes of \$1 million or less;
4. Activities that revitalize or stabilize LMI geographies; and
5. Activities that seek to prevent defaults and/or foreclosures in loans included in (1) and (3) above.

### Community Development Loan

A loan that has its *primary purpose* community development. This includes but is not limited to loans to:

- Borrowers for affordable housing rehabilitation and construction, including construction and permanent financing for multifamily rental property serving low or moderate income (“LMI”) persons;
- Nonprofit organizations serving primarily LMI or other community development needs;
- Borrowers to construct or rehabilitate community facilities that are located in LMI areas or that primarily serve LMI individuals;
- Financial intermediaries including community development financial institutions, community development corporations, minority- and women-owned financial institutions, community loan funds or pools, micro-finance institutions, and low-income or community development credit unions that primarily lend or facilitate lending to promote community development;
- Local, state and tribal governments for community development activities; and
- Borrowers to finance environmental clean up or redevelopment of an industrial site as part of an effort to revitalize the LMI community in which the property is located.

## **Community Development Service**

Service that has community development as its *primary purpose*, is related to the provision of financial services, and has not been considered in the evaluation of the banking institution's retail banking services. This includes but is not limited to:

- Providing technical assistance on financial matters to nonprofit, tribal or government organizations serving LMI housing or economic revitalization and development needs;
- Providing technical assistance on financial matters to small businesses or community development organizations;
- Lending employees to provide financial services for organizations facilitating affordable housing construction and rehabilitation or development of affordable housing;
- Providing credit counseling, home buyers and home maintenance counseling, financial planning or other financial services education to promote community development and affordable housing;
- Establishing school savings programs for LMI individuals;
- Providing seminars for LMI persons on banking and bank account record-keeping;
- Making ATM “Training Machines” available for extended periods at LMI community sites or at community facilities that serve LMI individuals; and
- Technical assistance activities to community development organizations such as:
  - ❖ Serving on a loan review committee;
  - ❖ Developing loan application and underwriting standards;
  - ❖ Developing loan processing systems;
  - ❖ Developing secondary market vehicles or programs;
  - ❖ Assisting in marketing financial services, including the development of advertising and promotions, publications, workshops and conferences;
  - ❖ Furnishing financial services training for staff and management;
  - ❖ Contributing accounting/bookkeeping services; and
  - ❖ Assisting in fund raising, including soliciting or arranging investments.

## **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 Home Mortgage Disclosure Act, enacted by Congress in 1975, and subsequently amended, requires institutions to annually report data about applications for residential (including multifamily) financing.

## **Income Level**

The income level for borrowers is based on household or family income. A geography's income is categorized by median family income for the geography. In both cases, the income is compared to the MSA or statewide nonmetropolitan median income.

<b>Income level of individual or geography</b>	<b>% of the area median income</b>
Low-income	Less than 50
Moderate-income	At least 50 and less than 80
Middle-income	At least 80 and less than 120
Upper-income	120 or more

## **Loans to Small Businesses**

Small business loans to businesses with gross annual revenues of \$1 million or less.

## **Low or Moderate Income ("LMI") Geographies**

Those census tracts or block numbering areas where, according to the 2000 U.S. Census, the median family income is less than 80% of the area median family income. In the case of tracted areas that are part of a Metropolitan Statistical Area ("MSA") or Primary Metropolitan Statistical Area ("PMSA"), this would relate to the median family income for the MSA or PMSA in which the tracts are located. In the case of BNAs and tracted areas that are not part of a MSA or PMSA, the area median family income would be the statewide non-metropolitan median family income.

## **LMI Borrowers**

Borrowers whose income, as reported on the loan application which the lender relied upon in making the credit decision, is less than 80% of the area median family income. In cases where the residential property is located in a MSA or PMSA, this would relate to the median family income for that MSA or PMSA. Otherwise, the area median family income would be the statewide non-metropolitan median family income. In all instances, the area median family incomes used to measure borrower income levels are updated annually by the U.S. Department of Housing and Urban Development ("HUD").

## **LMI Individuals/Persons**

Individuals or persons whose income is less than 80% of the area median family income. In the case where the individual resides in a MSA or PMSA, this would relate to the median family income for that MSA or PMSA. Otherwise, the area median family income would be the statewide non-metropolitan median family income. In all instances, the area median family incomes used to measure individual income levels are updated annually by HUD.

### **LMI Penetration Rate**

A number that represents the percentage of a bank's total loans (for a particular product) that was extended to LMI geographies or borrowers. For example, an LMI penetration rate of 20% would indicate that the bank made 20 out of a total of 100 loans in LMI geographies or to LMI borrowers.

### **Low-Income Housing Tax Credit (LIHTC)**

A dollar for dollar tax credit for affordable housing, created under the Tax Reform Act of 1986, that provides incentives to invest in projects for the utilization of private equity in the development of affordable housing aimed at low income Americans. It is also more commonly called Section 42 credits in reference to the applicable section of the IRC. The tax credits are more attractive than tax deductions as they provide a dollar for dollar reduction in a taxpayer's federal income tax. It is more commonly attractive to corporations since the passive loss rules and similar tax changes greatly reduced the value of tax credits and deductions to individual taxpayers.

### **New Markets Tax Credit (NMTC)**

The New Markets Tax Credits (NMTC) Program was established by Congress in December 2000 to stimulate economic and community development and job creation in low-income communities. It permits individual and corporate taxpayers to receive a credit against federal income taxes for making qualified equity investments in Community Development Entities (CDEs). The credit provided to the investor totals 39% of the cost of the investment and is claimed over a 7-year period. CDEs must use substantially all of the taxpayer's investments to make qualified investments in low-income communities. The Fund is administered by the US Treasury Department's Community Development Financial Institutions Fund (CDFI).

### **Qualified Investment**

A lawful investment, deposit, membership share or grant that has community development as its *primary purpose*. This includes but is not limited to investments, deposits, membership shares or grants in or to:

- Financial intermediaries (including community development financial institutions, community development corporations, minority- and women-owned financial institutions, community loan funds, micro-finance institutions and low-income or community development credit unions) that primarily lend or facilitate lending in LMI areas or to LMI individuals in order to promote community development;
- Organizations engaged in affordable housing rehabilitation and construction;
- Organizations, including, for example, small business investment corporations that promote economic development by financing small businesses;

- Facilities that promote community development in LMI areas or LMI individuals, such as youth programs, homeless centers, soup kitchens, health care facilities, battered women's centers, and alcohol and drug recovery centers;
- Projects eligible for low-income housing tax credits;
- State and municipal obligations, such as revenue bonds that specifically support affordable housing or other community development needs;
- Organizations serving LMI housing or other community development needs, such as counseling for credit, home ownership, home maintenance, and other financial services education; and
- Organizations supporting activities essential to the capacity of LMI individuals or geographies to utilize credit to sustain economic development, such as day care operations and job training programs that facilitate access to permanent jobs.