



NEW YORK STATE BANKING DEPARTMENT
CONSUMER SERVICES DIVISION
One State Street
New York, NY 10004

PUBLIC SUMMARY

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

Date of Evaluation: December 31, 2008

Institution: Orange County Trust Company
212 Dolson Avenue
Middletown, NY 10940

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 Banking Department 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 Orange County Trust Company ("OCTC") prepared by the New York State Banking Department. The evaluation represents the Banking Department's current assessment and rating of the institution's CRA performance based on an evaluation conducted as of December 31, 2008.

Section 28-b of the New York State Banking Law, as amended, requires that when evaluating certain applications, the Superintendent of Banks 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 Banking Board implements Section 28-b and further requires that the Banking 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 Banking 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 record of 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 be made available to the public ("Evaluation"). Evaluations of small banking institutions are primarily based on a review of performance tests and standards described in Section 76.7 and detailed in Section 76.12. The tests and standards incorporate the 12 assessment factors contained in Section 28-b of the New York State Banking Law.

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

OVERVIEW OF INSTITUTION'S PERFORMANCE

OCTC is rated "1," indicating an "Outstanding" record of helping to meet community credit needs. The rating is based on the following factors:

I. Lending Test: "Satisfactory"

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

The bank's LTD ratio was reasonable considering the bank's size, financial condition and the credit needs of the assessment area. The bank's average LTD ratio for the eight quarters during the evaluation period was 80.3%.

- ***Assessment Area Concentration: "Outstanding"***

OCTC originated a substantial majority of its loans in the assessment area. Overall, OCTC originated 95.4%, by number, and 90.3%, by dollar value, of its loans within the assessment area during the evaluation period.

- ***Geographic Distribution of Loans: "Satisfactory"***

The geographic distribution of small business loans reflected reasonable dispersion among census tracts of different income levels. When considering low- and moderate-income tracts together, OCTC's penetration rate of lending in LMI geographies exceeded the aggregate's penetration rate, for both number and dollar value of loans, for both years of the assessment period.

While its overall volume of HMDA-reportable lending was modest, OCTC was able to increase its lending in 2008, even as the aggregate's overall lending dropped by almost 50%. When considering both years of the evaluation period, and low- and moderate-income tracts combined, OCTC's penetration rate of lending in LMI geographies was reasonable.

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

The bank's small business lending distribution based on revenue size reflected reasonable dispersion among businesses of different sizes. In both 2007 and 2008, OCTC's lending penetration ratios for lending to businesses with gross annual revenues of \$1MM or less were higher than the aggregate's penetration ratios.

The bank's HMDA-reportable lending distribution based on borrower characteristics reflected marginally reasonable penetration among individuals of different income levels.

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- **Action Taken in Response to Written Complaints With Respect to CRA: “Satisfactory”**

Since the latest CRA evaluation as of December 31, 2006, neither the bank nor the New York State Banking Department has received any written complaints regarding the bank’s CRA performance.

II. Community Development Test: “Outstanding”

- **Community Development Loans: “Outstanding”**
OCTC had an excellent level of community development loans and commitments. These totaled \$12.6 million, which more than quadrupled the level achieved by the bank at its previous evaluation. Virtually the entire amount was new money. The majority of these commitments were extended to non-profit organizations that provided community services to LMI individuals in the assessment area.
- **Community Development Investments: “Outstanding”**
During the evaluation period, OCTC originated an excellent level of community development qualified investments and grants. These totaled \$1.6 million, compared to only \$8.7 thousand at the previous evaluation.
- **Community Development Services: “Satisfactory”**
During the evaluation period, a number of the bank’s officers provided their financial expertise to community development organizations operating in the assessment area.

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

PERFORMANCE CONTEXT

Institution's Profile:

Chartered in 1892, OCTC is a full-service commercial bank with trust powers. The bank is headquartered in Middletown, New York and operates five full-service branches all located in Orange County. Each branch, with the exception of the North Street, Middletown office, has a 24-hour automated teller machine ("ATM"). No branches were opened or closed during the evaluation period.

According to the Federal Deposit Insurance Corporation's ("FDIC") Consolidated Report of Condition ("Call Report") as of December 31, 2008, OCTC reported total assets of \$496.5 million, of which \$245.5 million were net loans and lease finance receivables. The Call Report also showed total deposits of \$292.6 million, resulting in a loan-to-deposit ratio of 83.9%. According to the latest available comparative deposit data, dated June 30, 2008, OCTC obtained a market share of 5.6%, or \$293.5 million out of \$5.2 billion inside its market, ranking it 8th among 21 deposit-taking institutions in the assessment area.

The following is a summary of the bank's lending portfolio, based on Schedule RC-C of the bank's December 31, 2006, December 31, 2007 and December 31, 2008 Call Reports:

| TOTAL GROSS LOANS OUTSTANDING | | | | | | |
|--------------------------------------|------------|-------|------------|-------|------------|-------|
| LOAN TYPE | 12/31/2006 | | 12/31/2007 | | 12/31/2008 | |
| | \$000 | % | \$000 | % | \$000 | % |
| 1-4 Residential Mortgage Loans | 63,292 | 29.9 | 61,348 | 26.0 | 67,446 | 27.1 |
| Commercial & Industrial Loans | 51,557 | 24.4 | 70,920 | 30.1 | 69,555 | 28.0 |
| Commercial Mortgage Loans | 83,659 | 39.5 | 91,116 | 38.7 | 93,001 | 37.4 |
| Multifamily Mortgages | 3,797 | 1.8 | 3,596 | 1.5 | 5,586 | 2.3 |
| Consumer Loans | 1,531 | 0.7 | 976 | 0.4 | 1,012 | 0.4 |
| Loans secured by farmland | 1,296 | 0.6 | 1,158 | 0.5 | 877 | 0.4 |
| Construction Loans | 5,774 | 2.7 | 5,668 | 2.4 | 10,274 | 4.1 |
| Other Loans | 819 | 0.4 | 829 | 0.4 | 843 | 0.3 |
| Total Gross Loans | 211,725 | 100.0 | 235,611 | 100.0 | 248,594 | 100.1 |

As illustrated in the table above, lending to businesses is the bank's primary focus, with commercial mortgage loans and commercial and industrial loans combined comprising 65.4% of the loan portfolio as of December 31, 2008. The bank's portfolio also includes a significant volume of HMDA-reportable loans. As of year end 2008, the balance in this loan product accounted for 27.1% of the loan portfolio.

There are no known financial or legal impediments that adversely impacted the bank's ability to meet the credit needs of its community.

Assessment Area:

OCTC's assessment area includes Orange County in its entirety and the villages of Wurtsboro and Bloomingburg (one census tract) in Sullivan County. There are 68 census

tracts in the assessment area, of which five are low-income, 14 are moderate-income, 35 are middle-income, and 14 are upper-income tracts.

The following table summarizes the distribution of census tracts across the bank's assessment area by county and tract income level.

| Distribution of Assessment Area Census Tracts by Income Level | | | | | | |
|--|------------|-----------------|---------------|--------------|--------------|--------------|
| County | Low | Moderate | Middle | Upper | Total | LMI % |
| Orange | 5 | 14 | 35 | 13 | 67 | 28.4 |
| Sullivan | | | | 1 | 1 | 0.0 |
| Total | 5 | 14 | 35 | 14 | 68 | 27.9 |

The assessment area appears reasonable based upon the location of bank's offices and its lending patterns. There is no evidence that LMI areas have been arbitrarily excluded.

Demographic & Economic Data

Population and Income Characteristics

According to the 2000 U.S. Census data, the assessment area has a population of 348.3 thousand, including 35.9 thousand (10.3%) individuals over the age of 65 and 90.5 thousand (26.0%) under the age of 16.

Of the 86.9 thousand families in the assessment area, 20.5% were low-income, 18.1% were moderate-income, 24.0% were middle-income and 37.4% were upper-income. There were 117.4 thousand households in the assessment area, of which 9.2% had income below the poverty level and 3.1% were on public assistance.

The MSA median family income within the assessment area was \$61.1 thousand. The U.S. Department of Housing and Urban Development ("HUD") estimated median family income for the area was \$78.5 thousand in 2008.

Housing Characteristics

There were 125.6 thousand housing units in the assessment area, of which 88.1% were 1-4 family and 11.9% were multifamily units. Owner-occupied units totaled 78.9 thousand, of which 12.7% were located in LMI geographies.

Business Demographics

There were 30.4 thousand non-farm businesses in the assessment area. Of these, 65.8% were businesses with reported revenues of less than or equal to \$1 million, 4.0% reported revenues of more than \$1 million and 30.1% did not report their revenues. Of all the businesses in the assessment area, 75.2% were businesses with less than fifty employees while 91.3% operated from a single location. The largest industries in the area were services (33.5%), followed by retail trade (15.7%) and construction (10.0%), while 18.7% of businesses in the assessment area were not classified.

Unemployment Rates

According to the New York State Department of Labor, the average unemployment rate for New York State was 4.5% in 2007 and 5.4% in 2008. In 2007, the average unemployment rate was lower for Orange County and higher for Sullivan County compared to the statewide rates. In 2008, both counties had average unemployment rates higher than New York State's.

The following table summarizes the 2007 and 2008 average unemployment rates (not seasonally adjusted) for the two counties in the bank's assessment area:

| Unemployment Percentages by Geographic Area | | | |
|--|-------------------|---------------|-----------------|
| Year | N.Y. State | Orange | Sullivan |
| 2007 | 4.5 | 4.3 | 5.3 |
| 2008 | 5.4 | 5.5 | 6.6 |

PERFORMANCE STANDARDS AND ASSESSMENT FACTORS

OCTC's performance was evaluated according to the intermediate small bank's performance criteria under the Lending and Community Development tests pursuant to Part 76.12 of the General Regulations of the Banking Board. The Lending test includes the following criteria: (1) Loan-to-Deposit Ratio and Other Lending-Related Activities; (2) Assessment Area 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 entails the review of: (1) Community Development Loans; (2) Community Development Qualified Investments; and (3) Community Development Services. The following factors were also considered in assessing OCTC's record of performance: the extent of participation by the Board of Directors or Board of Trustees in formulating CRA policies and reviewing CRA performance; any practices intended to discourage credit applications, evidence of prohibited discriminatory or other illegal credit practices; record of opening and closing offices and providing services at offices; and process factors such as activities to ascertain credit needs and the extent of marketing and special credit-related programs. Finally, the evaluation considered other factors as delineated in Section 28-b of the Banking Law that reasonably bear upon the extent to which a banking institution is helping to meet the credit needs of its entire community.

The assessment period included calendar years 2007 and 2008. Examiners considered OCTC's small business and HMDA-reportable loans in evaluating factors (2), (3) and (4) of the Lending test as noted above. HMDA-reportable loan data included in this performance evaluation represent actual originations. Small business loan aggregate data are shown for comparative purposes, OCTC is not required to report this data and as such, OCTC is not included in the aggregate data. Small business loan data was reviewed using a random sample of 138 loans. Performance results were then extrapolated from this data. Since commercial lending accounted for the largest portion of the loan portfolio, greater emphasis was placed on small business lending in evaluating OCTC's overall performance.

Statistics employed in this evaluation were derived from various sources. In addition to bank-specific loan information submitted by OCTC, aggregate data for HMDA-reportable and small business loans were obtained from the Federal Financial Institutions Examination Council ("FFIEC"). The demographic data referred to in this report were obtained from the 2000 U.S. Census data, with updated median family income figures provided by the U.S. Department of Housing and Urban Development ("HUD"). Business demographic data used in this report derive from information on U.S. businesses, enhanced by Dun & Bradstreet data and updated annually. As OCTC does not make farm loans, the data only include non-farm loans.

OCTC received a rating of "2" reflecting a "Satisfactory" record of helping to meet community credit needs at its **prior** Performance Evaluation conducted by the New York State Banking Department as of December 31, 2006.

Overall CRA Rating: “Outstanding”

Lending Test: “Satisfactory”

OCTC’s small business and HMDA-reportable lending activities are reasonable in light of the assessment area’s credit needs.

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

The bank’s LTD ratio was reasonable considering the bank’s size, financial condition and the credit needs of the assessment area.

The bank’s average LTD ratio for the eight quarters during the evaluation period was 80.3%. Although slightly below the peer group’s average of 89.2%, OCTC’s average LTD ratio has increased over the assessment period and has improved since the prior evaluation period’s average LTD ratio of 72.4%. The peer group is comprised of all FDIC insured commercial banks having assets between \$300 million and \$1.0 billion. These ratios were calculated from information shown in the bank’s Uniform Bank Performance Report (“UBPR”) with data submitted to the Federal Deposit Insurance Corporation (“FDIC”).

The chart below shows OCTC’s LTD ratios in comparison with the peer group’s for the eight quarters during this evaluation period.

| Loan-to-Deposit Ratios | | | | | | | | | |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|
| | 2007 (Q1) | 2007 (Q2) | 2007 (Q3) | 2007 (Q4) | 2008 (Q1) | 2008 (Q2) | 2008 (Q3) | 2008 (Q4) | Avg. LTD |
| Bank | 76.88 | 76.67 | 78.06 | 85.00 | 78.77 | 81.41 | 81.96 | 83.90 | 80.33 |
| Peer | 86.56 | 87.86 | 88.56 | 89.45 | 89.47 | 91.00 | 91.10 | 89.29 | 89.16 |

• **Assessment Area Concentration: “Outstanding”**

OCTC originated a substantial majority of its loans within the assessment area. Overall, OCTC originated 95.4%, by number, and 90.3%, by dollar value, of its loans within the assessment area during the evaluation period.

The concentration of the OCTC’s small business loans in its assessment area was excellent. Over the two-year evaluation period, OCTC originated 95%, by number, and 89.2%, by dollar value of its small business loans in its assessment.

The bank’s assessment area lending performance in HMDA-reportable loans was also excellent. Over the two-year evaluation period, OCTC originated 98.4%, by number, and 99.6%, by dollar value of its HMDA-reportable loans in its assessment area. In 2008, all of the bank’s HMDA-reportable loans were originated within its assessment area.

The following table shows the percentages of the bank's small business and HMDA-reportable 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 | | | | | | | | | | |
| 2007 | 215 | 98.6 | 3 | 1.4 | 218 | 51,018 | 95.8 | 2,237 | 4.2 | 53,255 |
| 2008 | 181 | 91.0 | 18 | 9.0 | 199 | 40,656 | 82.1 | 8,864 | 17.9 | 49,520 |
| Subtotal | 396 | 95.0 | 21 | 5.0 | 417 | 91,674 | 89.2 | 11,101 | 10.8 | 102,775 |
| HMDA | | | | | | | | | | |
| 2007 | 27 | 96.4 | 1 | 3.6 | 28 | 5,889 | 99.2 | 45 | 0.8 | 5,934 |
| 2008 | 34 | 100.0 | 0 | 0.0 | 34 | 6,791 | 100.0 | 0 | 0.0 | 6,791 |
| Subtotal | 61 | 98.4 | 1 | 1.6 | 62 | 12,680 | 99.6 | 45 | 0.4 | 12,725 |
| Total | 457 | 95.4 | 22 | 4.6 | 479 | 104,354 | 90.3 | 11,146 | 9.7 | 115,500 |

Small business loan analysis was performed on a sample of 71 loans in 2007 and 60 loans in 2008 that were originated in the assessment area. Number and dollar value of loans were then extrapolated from the resulting percentages and are not actual results.

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

The geographic distribution of loans reflected reasonable dispersion among census tracts of different income levels.

Small Business Loans: “Satisfactory”

The geographic distribution of small business loans reflected reasonable dispersion among census tracts of different income levels. The sample did not include any loans made in low-income geographies. However, this was more than offset by its performance in moderate-income tracts where the sample showed OCTC lending at rates that were significantly better than the aggregate's and well above the business demographics. When considering low- and moderate-income tracts together, OCTC's penetration rate of lending in LMI geographies exceeded the aggregate's penetration rate, for both number and dollar value of loans, for both years of the assessment period.

In 2007, the bank originated 26.8%, by number, of its small business loans in LMI geographies. This level of performance compared favorably to the aggregate's LMI penetration ratio of 19.9%, as well as the business demographics, which show that 22.8% of businesses are located in LMI geographies. In 2008, OCTC's LMI penetration ratio declined to 21.7%. However, it remained at a level that was comparable to the aggregate's

penetration ratio and the business demographics.

The following chart provides a summary of the bank's small business lending distribution during the evaluation period:

| Distribution of Small Business Loans by Geography Income Level | | | | | | | | | |
|--|------------|--------------|---------------|--------------|---------------|--------------|----------------|--------------|-----------------------|
| Geography Income Level | 2007 | | | | | | | | Business Demographics |
| | Bank | | | | Aggregate | | | | |
| | # | % | \$000's | % | # | % | \$000's | % | % |
| Low | 0 | 0.0 | 0 | 0.0 | 1,682 | 9.4 | 32,511 | 10.4 | 7.4 |
| Moderate | 58 | 26.8 | 13,498 | 26.5 | 1,871 | 10.5 | 34,050 | 10.8 | 15.4 |
| Middle | 136 | 63.4 | 31,332 | 61.4 | 9,666 | 54.2 | 178,366 | 56.8 | 56.6 |
| Upper | 21 | 9.9 | 6,188 | 12.1 | 4,614 | 25.9 | 69,099 | 22.0 | 20.6 |
| Total | 215 | 100.0 | 51,018 | 100.0 | 17,833 | 100.0 | 314,026 | 100.0 | 100.0 |
| Geography Income Level | 2008 | | | | | | | | Business Demographics |
| | Bank | | | | Aggregate | | | | |
| | # | % | \$000's | % | # | % | \$000's | % | % |
| Low | 3 | 1.7 | 157 | 0.4 | 1,329 | 10.0 | 20,000 | 8.1 | 7.7 |
| Moderate | 36 | 20.0 | 8,032 | 19.8 | 1,331 | 10.0 | 26,335 | 10.6 | 15.7 |
| Middle | 130 | 71.7 | 29,169 | 71.7 | 7,209 | 54.3 | 148,748 | 59.9 | 56.0 |
| Upper | 12 | 6.7 | 3,298 | 8.1 | 3,417 | 25.7 | 53,307 | 21.5 | 20.6 |
| Total | 181 | 100.0 | 40,656 | 100.0 | 13,286 | 100.0 | 248,390 | 100.0 | 100.0 |

Small business loan analysis was performed on a sample of 71 loans in 2007 and 60 loans in 2008 that were originated in the assessment area. Number and dollar value of loans were then extrapolated from the resulting percentages and are not actual results.

HMDA-Reportable Loans: "Satisfactory"

The bank's geographic distribution of HMDA-reportable loans reflected reasonable dispersion among census tracts of different income levels. While its overall volume of HMDA-reportable lending was modest, OCTC was able to increase its lending in 2008, even as the aggregate's overall lending dropped by almost 50%.

However, over the two-year period, only one loan was made in a low-income census tract. Particularly in 2008, this was more than offset by OCTC's performance in moderate-income tracts where OCTC lent at rates that were significantly better than the aggregate's and well above the percent of owner-occupied housing units. When considering both years of the evaluation period, and low- and moderate-income tracts combined, OCTC's penetration rate of lending in LMI geographies was reasonable.

In 2007, OCTC originated 14.8%, by number, of its HMDA-reportable loans in LMI geographies. This ratio is below the aggregate's LMI penetration rate of 17.8%. However, in 2008, OCTC's LMI penetration rate increased to 20.6%, outperforming the aggregate's LMI penetration rate of 16.6%. Additionally, OCTC's LMI penetration rates in 2007 and 2008 compared favorably to the 12.6% of owner-occupied units in the assessment area that are located in LMI census tracts.

The following chart provides a summary of the bank's HMDA-reportable lending distribution during the evaluation period:

| Distribution of HMDA-Reportable Loans by Geography Income Level | | | | | | | | | |
|---|-----------|--------------|--------------|--------------|---------------|--------------|------------------|--------------|--------------|
| Geography Income Level | 2007 | | | | | | | | OO-Hus % |
| | Bank | | | | Aggregate | | | | |
| | # | % | \$000's | % | # | % | \$000's | % | |
| Low | 1 | 3.7 | 145 | 2.5 | 457 | 4.2 | 89,993 | 3.9 | 2.4 |
| Moderate | 3 | 11.1 | 345 | 5.9 | 1,494 | 13.6 | 273,782 | 12.0 | 10.2 |
| Middle | 15 | 55.6 | 3,094 | 52.5 | 6,515 | 59.2 | 1,290,139 | 56.4 | 61.8 |
| Upper | 8 | 29.6 | 2,305 | 39.1 | 2,538 | 23.1 | 631,155 | 27.6 | 25.6 |
| N/A | 0 | 0.0 | 0 | 0.0 | 3 | 0.0 | 560 | 0.0 | 0.0 |
| Total | 27 | 100.0 | 5,889 | 100.0 | 11,007 | 100.0 | 2,285,629 | 100.0 | 100.0 |
| Geography Income Level | 2008 | | | | | | | | OO-Hus % |
| | Bank | | | | Aggregate | | | | |
| | # | % | \$000's | % | # | % | \$000's | % | |
| Low | 0 | 0.0 | 0 | 0.0 | 218 | 3.8 | 43,356 | 3.6 | 2.4 |
| Moderate | 7 | 20.6 | 2,697 | 39.7 | 742 | 12.8 | 131,872 | 10.9 | 10.2 |
| Middle | 21 | 61.8 | 2,752 | 40.5 | 3,505 | 60.3 | 714,829 | 58.8 | 61.8 |
| Upper | 6 | 17.6 | 1,342 | 19.8 | 1,343 | 23.1 | 324,786 | 26.7 | 25.6 |
| N/A | 0 | 0.0 | 0 | 0.0 | 2 | 0.0 | 130 | 0.0 | 0.0 |
| Total | 34 | 100.0 | 6,791 | 100.0 | 5,810 | 100.0 | 1,214,973 | 100.0 | 100.0 |

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

The distribution of loans based on borrower characteristics reflected reasonable penetration among individuals of different income levels and businesses of different sizes.

Small Business Loans: "Satisfactory"

The bank's small business lending distribution based on revenue size reflected reasonable dispersion among businesses of different sizes. In both 2007 and 2008, OCTC's lending penetration ratios for lending to businesses with gross annual revenues of \$1MM or less were higher than the aggregate's penetration ratios.

In 2007, OCTC extended 46.5%, by number, of its small business loans to businesses with revenues of \$1 million or under. In comparison, in 2007, only 35.4% of the aggregate's small business loans were extended to businesses with this revenue size. OCTC continued to outperform the aggregate in 2008, during which it extended loans to smaller-sized businesses at a rate that was 70% higher than the aggregate's. However, OCTC's performance during the evaluation period was less than the business demographics, which showed that 65% to 68% of all businesses in the assessment area had gross annual revenues of \$1 million or less.

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

| Distribution of Small Business Loans by Business Revenue Size | | | | | | | | | |
|---|------------|--------------|---------------|--------------|---------------|--------------|----------------|--------------|-----------------------|
| Revenue Size | 2007 | | | | | | | | Business Demographics |
| | Bank | | | | Aggregate | | | | |
| | # | % | \$000's | % | # | % | \$000's | % | % |
| \$1 million or less | 100 | 46.5 | 23,605 | 46.3 | 6,307 | 35.4 | 144,667 | 46.1 | 68.4 |
| Over \$1 million | 115 | 53.5 | 27,413 | 53.7 | | | | | 4.4 |
| No Revenue Info | 0 | 0.0 | 0 | 0.0 | | | | | 27.2 |
| Total | 215 | 100.0 | 51,018 | 100.0 | 17,833 | 100.0 | 314,026 | 100.0 | 100.0 |
| Revenue Size | 2008 | | | | | | | | Business Demographics |
| | Bank | | | | Aggregate | | | | |
| | # | % | \$000's | % | # | % | \$000's | % | % |
| \$1 million or less | 81 | 45.0 | 21,671 | 53.3 | 3,513 | 26.4 | 87,579 | 35.3 | 65.8 |
| Over \$1 million | 100 | 55.0 | 18,985 | 46.7 | | | | | 4.0 |
| No Revenue Info | 0 | 0.0 | 0 | 0.0 | | | | | 30.1 |
| Total | 181 | 100.0 | 40,656 | 100.0 | 13,286 | 100.0 | 248,390 | 100.0 | 100.0 |

Small business loan analysis was performed on a sample of 71 loans in 2007 and 60 loans in 2008 that were originated in the assessment area. Number and dollar value of loans were then extrapolated from the resulting percentages and are not actual results.

HMDA-Reportable Loans: "Satisfactory"

The bank's HMDA-reportable lending distribution based on borrower characteristics reflected marginally reasonable penetration among individuals of different income levels. However, over the two-year period, only one loan was made to a low-income borrower. In 2007, when no loans were made to low-income borrowers, the lending penetration ratio to moderate-income borrowers was higher than the aggregate's penetration ratio; thus the overall penetration rate to LMI borrowers was reasonable. .

In 2007, OCTC extended 18.5%, by number, of its HMDA-reportable loans to LMI borrowers. This ratio is comparable to the aggregate's performance in 2007 during which the aggregate extended 20.7% of its HMDA-reportable loans to LMI borrowers. However, in 2008, OCTC's lending to LMI borrowers fell below the aggregate's performance, declining to 15.1% as compared to the aggregate's ratio of 23.3% even as there was a significant decrease in loan volume. Additionally, OCTC's performance was below the 38.6% of families in the assessment area considered LMI.

The following chart provides a summary of the bank's HMDA-reportable lending distribution based on borrower income during the evaluation period:

| Distribution of 1 - 4 Family HMDA-Reportable Loans by Borrower Income Level | | | | | | | | | |
|---|-----------|--------------|--------------|--------------|---------------|--------------|------------------|--------------|------------------------|
| Borrower Income Level | 2007 | | | | | | | | Family Demographics |
| | Bank | | | | Aggregate | | | | |
| | # | % | \$000's | % | # | % | \$000's | % | % |
| Low | 0 | 0.0 | 0 | 0.0 | 450 | 4.1 | 45,283 | 2.0 | 20.5 |
| Moderate | 5 | 18.5 | 386 | 6.6 | 1,818 | 16.6 | 268,786 | 12.1 | 18.1 |
| Middle | 6 | 22.2 | 325 | 5.5 | 3,281 | 29.9 | 601,270 | 27.0 | 24.0 |
| Upper | 13 | 48.1 | 4,690 | 79.6 | 5,007 | 45.6 | 1,208,676 | 54.3 | 37.4 |
| N/A | 3 | 11.1 | 488 | 8.3 | 423 | 3.9 | 100,431 | 4.5 | - |
| Total | 27 | 100.0 | 5,889 | 100.0 | 10,979 | 100.0 | 2,224,446 | 100.0 | 100.0 |
| Borrower Income Level | 2008 | | | | | | | | Family Demographics |
| | Bank | | | | Aggregate | | | | |
| | # | % | \$000's | % | # | % | \$000's | % | % |
| Low | 1 | 3.0 | 20 | 0.4 | 288 | 5.0 | 30,665 | 2.5 | 20.5 |
| Moderate | 4 | 12.1 | 286 | 5.9 | 1,060 | 18.3 | 162,496 | 13.4 | 18.1 |
| Middle | 7 | 21.2 | 917 | 18.9 | 1,794 | 30.9 | 354,615 | 29.3 | 24.0 |
| Upper | 15 | 45.5 | 2,933 | 60.6 | 2,555 | 44.1 | 642,386 | 53.1 | 37.4 |
| N/A | 6 | 18.2 | 685 | 14.1 | 103 | 1.8 | 19,747 | 1.6 | - |
| Total | 33 | 100.0 | 4,841 | 100.0 | 5,800 | 100.0 | 1,209,909 | 100.0 | 100.0 |

Note: Chart does not include multi-family lending, which is included in HMDA chart for income of geography.

Action Taken in Response to Written Complaints With Respect to CRA: **“Satisfactory”**

Since the latest CRA evaluation as of December 31, 2006, neither the bank nor the New York State Banking Department has received any written complaints regarding the bank’s CRA performance.

Community Development Test: “Outstanding”

The bank’s community development performance demonstrated excellent responsiveness to the community development needs of its assessment area.

Community Development Loans: “Outstanding”

OCTC had an excellent level of community development loans and commitments. These totaled \$12.6 million, which more than quadrupled the level achieved by the bank at its previous evaluation. Virtually the entire amount was new money. The majority of these commitments were extended to non-profit organizations that provided community services to LMI individuals in the assessment area. Several of these loan commitments supported affordable housing, while some were used for working capital by entities working in economic development.

The following is a brief description of some of the bank’s community development loans during the evaluation period:

- In 2007, the bank extended several credit facilities totaling \$2.8 million to a Middletown,

NY non-profit provider of independent living facilities for people with disabilities .This corporation derives substantially all of its revenue from government agencies, primarily the New York State Office of Mental Retardation and Developmental Disabilities (“OMRDD”), Medicaid and HUD. The largest of these facilities was a line of credit for \$2.0 million that was used as working capital to support payroll and receivables.

- During the evaluation period, the bank extended various credit commitments totaling \$5.5 million to a non-profit, health care provider. Of the total, \$3.0 million represented the bank’s participation in the Community Preservation Corporation’s (“CPC”) \$11.5 million loan to the corporation for the construction of a new medical facility in Newburgh, NY. One million five hundred thousand dollars was a line of credit for the purchase of equipment for the new facility. Nine hundred fifty thousand dollars consisted of two lines of credit for use as working capital. The borrower is recognized as a Section 330 Federally Qualified Health Center and derives more than 50% of its revenue from Medicaid.
- In 2008, the bank originated a commercial mortgage loan for \$2.0 million to a limited liability company that the borrower used to purchase a 51-unit apartment complex in Middletown, NY. The rents charged on the apartments were below the affordable rental housing thresholds for the MSA.
- In 2007, the bank extended a \$700 thousand line of credit to CPC to support various affordable housing initiatives in Orange County. The bank renewed this commitment in 2008.

Community Development Investments: “Outstanding”

During the evaluation period, OCTC originated an excellent level of community development qualified investments and grants. These totaled \$1.6 million, compared to only \$8.7 thousand at the previous evaluation. OCTC’s qualified investments at this evaluation consisted of the following:

- \$700 thousand investment commitment in a Collateral Trust Note Purchase Agreement with the Community Preservation Corporation. This commitment was originated in 2007 and renewed in 2008.
- \$40 thousand investment commitment in Call Notes issued by the New York Business Development Corporation. The commitment was originated in 2007 and renewed in 2008.
- \$82 thousand in contributions to the Federal Home Loan Bank’s Affordable Housing Program.
- \$6 thousand in qualified grants and donations to community development organizations operating in the assessment area such as Habitat for Humanity, Catholic Charities, and

the Food Bank of Hudson Valley.

Community Development Services: "Satisfactory"

During the evaluation period, a number of the bank's officers provided their financial expertise to community development organizations operating in the assessment area. Highlights of their involvement follows:

- The president of the bank serves on the Advisory Board of the Salvation Army in Orange County.
- A senior vice president is a board member of the Orange County Industrial Development Agency.
- An assistant vice president serves as director and Finance Committee member of Independent Living, Inc., which provides services that enhance the quality of life for persons with disabilities. The organization's primary source of funding is Medicaid.
- A vice president serves as treasurer of the Middletown Day Nursery Association Inc., a non-profit entity that receives funding from the United Way and CACFP. The CACFP is the Child and Adult Care Food Program, a Federal program that provides healthy meals to children and adults receiving day care. The program plays a vital role in improving the quality of day care and making it more affordable for many low-income families.
- A vice president of the bank serves as a member of the Fund Raising Committee of the United Way of Orange County. Another officer is a board member of this organization.
- **Additional factors:**

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

The board of directors takes an active role in formulating the bank's CRA policies. The board reviews and approves the bank's CRA policy annually. The board also reviews the annual CRA self-assessment of the bank's performance and effectiveness in meeting the credit needs of its assessment area.

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

Examiners noted no 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.

The most recent regulatory compliance and fair lending examinations conducted concurrently with this evaluation indicate satisfactory adherence to anti-discrimination and other applicable laws and regulations. No evidence of prohibited discriminatory or other illegal credit practices was noted.

The banking institution's record of opening and closing offices and providing services at offices

No branches were opened or closed during the assessment period. OCTC operates five full service branches, all located in Orange County. 1 of these branches, the North Street, Middletown branch is located in a moderate-income census tract. It is the only branch without a 24-hour automated teller machine ("ATM").

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.

The bank ascertained the credit needs of its local community primarily through bank personnel involvement with community organizations, committees, and non-profit organizations, as detailed in the community development services section of this evaluation. In addition, a senior bank officer attended meetings with local town officials to discuss strategies for financing affordable housing and community development projects..

- 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.

In addition to the ongoing active involvement of its officers and employees with the community, the bank regularly advertises on the local cable station and in the newspaper.

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

As part of the examination, two community development organizations were contacted regarding OCTC. The representatives of these organizations indicated they were both pleased with the assistance that OCTC has been providing to their organizations and with the bank's responsiveness to address the credit needs of the community.

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

The term “community development” is defined to mean:

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.

A “community development loan” is defined as a loan that has as 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.

A “qualified investment” is defined as a lawful investment, deposit, membership share or grant that has as its *primary purpose* community development. 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.

A “community development service” is defined as a service that has as its *primary purpose* community development, 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.

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 of the person, family or household is based on the income of person, family or household. 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.

| Income level of individual or geography | % of the area median income |
|--|------------------------------------|
| 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 (“GAR”) of \$1 million or less (“< = \$ 1MM”).

Low or Moderate Income (“LMI”) Geographies

Those census tracts or block numbering areas (“BNAs”), where according to the 2000 US 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 the case 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 depicts 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.

Small Business Loans

Loans to businesses with original amounts of \leq \$1MM.