



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 16, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The National Bank Of Delaware County
Charter Number 4495**

**131-135 Delaware Street
Walton, NY 13856**

**Comptroller of the Currency
ADC -Upstate New York (Syracuse)
231 Salina Meadows Parkway, Suite 105
Syracuse, NY 13212**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

- The average loan-to-deposit ratio of 54% is reasonable and meets the standard for satisfactory performance based on the bank's financial condition and assessment area credit needs.
- The National Bank of Delaware County (NBDC) exceeds the standard for satisfactory performance for loans originated within the bank's assessment area.
- Borrower distribution meets the standard for satisfactory performance based on the distribution of credit to borrowers of different income levels and lending to businesses of different sizes.
- An analysis of the geographic distribution of loan originations was not completed as the results would not be meaningful given the fact that the assessment area includes only one moderate-income geography consisting of the State University College at Delhi.
- NBDC has not received any CRA-related complaints during the evaluation period.

DESCRIPTION OF INSTITUTION

NBDC is a \$152 million community bank headquartered in Walton, New York, with four locations serving the Central Leatherstocking and Catskills regions of New York State. NBDC is part of a one-bank holding company, Delaware Bancshares, Inc. As of June 30, 2003, the bank had total assets of \$152 million consisting mainly of \$81 million (53%) in investments and \$60 million (39%) in loans. The bank's deposits totaled \$128 million. The loan portfolio consists of \$32 million (53%) in residential real estate loans, \$21 million (35%) in commercial and commercial real estate loans, \$6 million (10%) in consumer loans, and \$1 million (2%) in other loans.

The bank has one assessment area (AA) in Central New York bordering the Catskill Mountains to the South. The AA consists of 14 geographies in Delaware County and 16 geographies in Otsego County. Both counties are outside metropolitan statistical areas (MSAs). The bank's four offices are located in Walton, Franklin, Andes and Hamden, New York. The Walton, Franklin, and Andes locations have drive-up facilities. The bank has an automated teller machine (ATM) at the Walton office and a cash dispensing ATM at the Walton Big M grocery store. NBDC also offers telephone banking and has a small trust department. Management has neither opened nor closed any offices during the evaluation period.

NBDC does not have any legal, financial or other factors that would impede its ability to help meet the credit needs in its defined assessment area. At the last CRA examination dated February 9, 1998, NBDC demonstrated satisfactory performance meeting the credit needs of the community.

DESCRIPTION OF ASSESSMENT AREA

The AA consists of 30 geographies – one (1) moderate-income, 27 middle-income, and two (2) upper-income. The AA is reasonable and conforms to regulatory requirements. The AA has a total population of 107,742 in 27,255 families and 39,388 households. The table below further describes the distribution of the population, families and households based on geographic income categories. The AA consists of 19.3% low-income, 21.0% moderate-income, 24.6% middle-income and 35.1% upper-income families. Of the 53,746 housing units in the AA, 54% are owner-occupied, 19% are rental-occupied and 27% are vacant. The median housing value in the AA is \$68,851 with a median housing age of 40 years.

<i>Selected Characteristics by Income Category of the Geography</i>					
<i>Geographic Income Category</i>	<i>Percentage</i>				
	<i>Census Tracts</i>	<i>Population</i>	<i>Families</i>	<i>Households</i>	<i>Owner-Occupied Units</i>
Moderate	3.33	1.27	0.01	0.01	0.00
Middle	90.00	94.25	98.82	98.79	99.00
Upper	6.67	4.48	1.17	1.20	1.00
Total	100.00	100.00	100.00	100.00	100.00

Source: U. S. Census

The 1990 U. S. Census Median Family Income for the Non Metropolitan Statistical Area (Non-MSA) of New York State is \$31,472. This figure is used to determine the income designation of the AA geographies. The 2002 Updated Median Family Income for the Non-MSA is \$43,600. This figure is used to determine the income designation of individuals for real estate loans in this non-MSA. The Updated Median Family Income is based on information from the Department of Housing and Urban Development (HUD).

The New York State unemployment rate for June 2003 was 5.9%. The unemployment rate for counties outside Non-MSA's was 5.0%. The unemployment rates for Delaware and Otsego counties were 4.2% and 3.2%, respectively. Major employers in Delaware County include local governments and school districts, four hospitals and some industrial employers such as Kraft Foods in Walton, Ultradairy in Fraser, Tyco in Hobart, and Keith Clark in Sidney. Major employers in Otsego County include local governments and school districts, two hospitals, two colleges/universities and small businesses catering to tourists coming to the Baseball Hall of Fame in Cooperstown.

NBDC, which only has a physical presence in Delaware County, faces a modest amount of competition from a wide variety of institutions from ranging from credit unions and small banks such as The Sidney Federal Credit Union, The Delaware National Bank of Delhi and The National Bank of Stamford, to branches of some large local institutions such as NBT Bank and Wilber National Bank. Multinational Bank, HSBC also has two small offices in Delaware County. As of June 30, 2002, according to the Federal Deposit Insurance Corporation's website, NBDC's network of offices represent 21% of all bank branches and 18% of all deposits in Delaware County. All four of NBDC's offices are located in middle-

income geographies.

During our examination, we contacted a local housing organization. According to the person interviewed, the credit needs of the community include home mortgages, home equity loans/lines and home improvement loans. This person indicated that the banks in the area are doing a good job meeting these credit needs, but he/she would like to see more housing renewal/repair programs in the area.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

This evaluation of The National Bank of Delaware County (NBDC) performance covers the period from February 9, 1998 through December 31, 2002.

Based on a discussion with management and a review of the bank's new loan report for loans originated between January 1, 2001 and June 30, 2003, we determined the bank's primary products to be residential real estate loans and commercial loans. Our analysis and conclusions are based on a sample of 20 residential real estate loans and 22 commercial loans originated during the evaluation period.

Loan-to-Deposit Ratio

NBDC's loan-to-deposit ratio meets the standard for satisfactory performance. Since the last CRA examination, NBDC's average loan-to-deposit ratio is 53.7%. NBDC is one of three banks operating in the AA with less than \$250 million in assets. The other two banks, The Delaware National Bank of Delhi and The National Bank of Stamford, had average loan-to-deposit ratios of 61.8% and 60.8%, respectively, during the same time period.

Lending in Assessment Area

Lending within the AA exceeds the standard for satisfactory performance. Overall, 92.9% of the number and 97.1% of the amount of loans were originated within the assessment area.

	# in AA	Total # in sample	%	\$ in AA	Total \$ in sample	%
Real Estate	20	20	100.00%	1,027,400	1,027,400	100.00%
Commercial	19	22	86.36%	1,318,819	1,388,797	94.96%
Total	39	42	92.86%	2,346,219	2,416,197	97.10%

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

NBDC's record of lending to borrowers of different incomes and to businesses of different sizes meets the standard for satisfactory performance.

Residential Real Estate Loans

The borrower distribution of residential real estate loans to low-income borrowers is adequate. Our sample did not incorporate any residential real estate loans to low-income borrowers; however, according to the 1990 U. S. Census data, the percentage of households below the poverty level within this AA is 12.59%. A majority of these households are designated low-income and are not able to secure home mortgage financing. This lack of capacity results in limited opportunities for the bank to extend residential mortgage loans to low-income households.

The borrower distribution of residential real estate loans to moderate-income borrowers is satisfactory. Our sample indicates that 15.0% of the number and 13.6% of the amount of loans originated are to moderate-income borrowers.

NBDC participates in the Village of Walton Home Ownership Program. The program provides assistance and grant monies to first-time homeowners interested in purchasing homes in the Village of Walton. The program is funded the Department of Housing and Urban Development through a Small Cities Block Grant. The purchasers must be considered low-or moderate-income to qualify for the program. The purchaser can obtain up to \$25,000 in grant money with the balance of the purchase price coming from institutional financing. During the evaluation period, NBDC originated 18 loans under the program totaling \$789,060.

Income Level	Count	%	Amount	%	Family Distribution
Low	0	0.00%	0	0.00%	19.28%
Moderate	3	15.00%	139,900	13.62%	20.96%
Middle	6	30.00%	194,700	18.95%	24.57%
Upper	11	55.00%	692,800	67.43%	35.19%
Total	20	100.00%	1,027,400	100.00%	100.00%

Business Loans

The distribution of loans to businesses and farms is good with 89.5% of the number and 85.6% of the amount of loans originated during the evaluation period are to businesses and farms with \$1 million or less in revenues.

Revenues	Count	%	Amount	%	2002 Biz Data
Loans with Revenues <=\$1MM	17	89.47%	1,128,819	85.59%	93.67%
Loans with Revenues \$1MM+	2	10.53%	190,000	14.41%	6.33%
Totals	19	100.00%	1,318,819	100.00%	100.00%

Geographic Distribution of Loans

We did not complete an analysis of the geographic distribution of loan originations as the results

would not be meaningful given the fact that the assessment area includes only one moderate-income geography consisting entirely of the State University of New York campus in Delhi. This moderate-income geography does not include any owner-occupied units; therefore, there is no opportunity to originate real estate loans. The geography has only 15 businesses representing 0.24% of the total businesses in the AA; therefore, there is only a very limited opportunity to originate business loans in this geography.

Responses to Complaints

NBDC has not received any CRA-related complaints during this evaluation period.

Fair Lending Review

We found no evidence of illegal discrimination or other illegal credit practices.