



**NEW YORK STATE BANKING DEPARTMENT**  
**Consumer Services Division**  
One State Street Plaza  
New York, NY 10004

**PUBLIC SUMMARY**

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

**Evaluation Date: December 31, 2006**

**Institution: Five Star Bank**  
**55 North Main Street**  
**Warsaw, NY 14569**

**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 Five Star Bank (“FSB”) 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, 2006.

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 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 are primarily based on a review of performance tests and standards described in Section 76.7 and detailed in Sections 76.8 – 76.13. The tests and standards incorporate the 12 assessment factors contained in Section 28-b of the New York State Banking Law.

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

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

### **Overall Rating**

FSB is rated "1," indicating an outstanding record of helping to meet community credit needs.

### **Lending Test - "Outstanding"**

- FSB's level of lending reflects an excellent responsiveness to community credit needs. During the evaluation period, FSB originated a combined total of 6,482 HMDA-reportable and small business/small farm loans amounting to \$536.3million.
- A substantial majority of FSB's loans were originated in the assessment area.
- FSB's geographic distribution of HMDA-reportable and small business and small farm loans reflects a good penetration throughout the assessment area.
- FSB's distribution of loans based on borrower characteristics reflects an excellent penetration among individuals of different income levels and businesses of different revenue sizes.
- FSB makes good use of flexible lending programs to serve the credit needs of its assessment area.
- FSB is a leader in making community development loans. During the evaluation period, FSB extended 123 loans totaling \$36.6 million in its assessment area.

### **Investment Test - "Outstanding"**

- FSB's investments, including grants reflect an excellent level of qualified investments and grants. Qualified investments totaled \$36.4 million as of the evaluation date.

### **Service Test - "Outstanding"**

- FSB's delivery systems are readily accessible to its geographies and individuals of different income levels in its assessment area.
- FSB's services are tailored to the convenience and needs of its assessment area.
- FSB is a leader in providing community development services.

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:

FSB was formed in December 2005 through a merger of Wyoming County Bank ("WCB"), National Bank of Geneva ("NBG") and Bath National Bank (BNB") into First Tier Bank & Trust ("FTBT"), the surviving entity, which changed to its current name. All four banks were wholly-owned subsidiaries of Financial Institutions, Inc. ("FII"), which remained as FSB's holding company. FSB and FII are headquartered in Warsaw, Wyoming County, New York.

FSB reported total assets of \$1.9 billion as of December 31, 2006, which consisted primarily of \$910.1 million of net loans and leases and \$836.7 million in investments. Total deposits were \$1.6 billion.

FSB operates 49 full-service banking offices in 14 counties as follows: one office each in Allegany, Cayuga and Chautauqua; five each in Cattaraugus and Livingston; three in Chemung; four each in Erie and Genesee; two each in Monroe, Seneca and Yates; six each in Ontario and Wyoming, including the main office; and seven in Steuben counties. Supplementing the banking offices is a net work of automated teller machines ("ATMs") at 90 locations within FSB's assessment area.

FSB provides a variety of loan products, including commercial and agricultural working capital loans, commercial and agricultural mortgages, equipment loans, crop and livestock loans, residential mortgage and home equity loans, home improvement loans, automobile loans and personal loans. Most of the newly originated fixed-rate residential loans are sold in the secondary market with servicing rights retained by FSB.

The following is a summary of FSB's lending portfolio, based on Schedule RC-C of its December 31, 2003, December 31, 2004, and December 31, 2005 Call Reports:

<b>TOTAL GROSS LOANS OUTSTANDING</b>						
LOAN TYPE	12/31/2004*		12/31/2005		12/31/2006	
	\$000	%	\$000	%	\$000	%
Residential Mortgage Loans	40,273	35.6	389,128	39.2	386,213	41.6
Commercial Mortgage Loans	29,786	26.3	257,259	25.9	229,779	24.8
Agricultural Loans	0	0.0	73,940	7.4	56,237	6.1
Commercial & Industrial Loans	20,703	18.3	106,591	10.7	83,381	9.0
Construction and land dev	3,233	2.9	16,752	1.7	13,668	1.5
Consumer Loans	18,604	16.5	146,978	14.8	152,715	16.5
Other Loans	474	0.4	2,626	0.3	5,181	0.5
<b>Total Gross Loans</b>	<b>113,073</b>	<b>100.0</b>	<b>993,274</b>	<b>100.0</b>	<b>927,174</b>	<b>100.0</b>

\*Pre-merger

As shown in the previous table, FSB is primarily a mortgage lender, with 41.7% of its loan portfolio in residential mortgages and 24.8% in commercial mortgages. FSB also reported consumer loans totaling 16.5% its portfolio.

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

**Assessment Area:**

FSB's assessment area is comprised of 15 counties: nine counties in their entirety and portions of six counties.

The assessment area consists of 201 census tracts, of which 19 or 9.5% are considered low- to moderate-income ("LMI"), 138 or 68.7% middle-income and 39 or 19.4% upper-income.

The assessment area appears reasonable based upon the location of branches and lending patterns. There is no evidence that LMI areas are arbitrarily excluded.

The following chart illustrates the distribution of census tracts inside the assessment area:

<b>Distribution of Assessment Area Census Tracts by Income Level</b>							
County	Zero	Low	Moderate	Middle	Upper	Total	LMI %
Allegany	1	0	0	11	1	13	0.0
Cattaraugus *	0	0	2	14	1	17	11.8
Cayuga *	1	0	1	6	1	9	11.1
Chautauqua *	0	0	0	0	1	1	0.0
Chemung *	1	2	4	10	3	20	30.0
Erie *	0	0	0	7	14	21	0.0
Genesee	0	0	1	8	6	15	6.7
Livingston	2	0	3	9	1	15	20.0
Monroe *	0	0	0	2	4	6	0.0
Ontario	0	1	3	17	2	23	17.4
Schuyler	0	0	0	5	0	5	0.0
Seneca	0	0	0	9	1	10	0.0
Steuben	0	0	2	24	4	30	6.7
Wyoming	0	0	0	11	0	11	0.0
Yates	0	0	0	5	0	5	0.0
<b>Total</b>	<b>5</b>	<b>3</b>	<b>16</b>	<b>138</b>	<b>39</b>	<b>201</b>	<b>9.5</b>

\*Partial County

**Details of Assessment Area:**

*Chart #1: Shows population and income.*

*Chart #2: Shows housing demographics.*

*Chart #3: Shows business demographics.*

**Unemployment Rates:**

Consistent with the New York statewide unemployment trend, the average annual unemployment rates in the 15 counties comprising the assessment area all declined in 2006. However, eight counties in the assessment area, mostly located in southwestern New York, registered higher unemployment rates in 2005 and 2006 than the New York statewide unemployment rates.

The following table summarizes the 2005 and 2006 average unemployment rates (not seasonally adjusted) for the 15 counties in FSB’s assessment area:

<b>Assessment Area Annual Unemployment Rates</b>		
<b>County</b>	<b>2005</b>	<b>2006</b>
Allegany	5.6	5.3
Cattaraugus	5.5	5.1
Cayuga	4.8	4.7
Chautauqua	4.9	4.5
Chemung	5.4	4.9
Erie	5.3	4.9
Genesee	4.9	4.5
Livingston	5.1	4.8
Monroe	4.6	4.3
Ontario	4.5	4.3
Schuyler	5.4	5.0
Seneca	4.7	4.5
Steuben	5.8	5.2
Wyoming	5.4	4.8
Yates	4.3	4.1
NY Statewide	5.0	4.5

Source: U.S. Bureau of Labor Statistics

CHART # 1

<b>ASSESSMENT AREA POPULATION AND INCOME CHARACTERISTICS BY COUNTY</b>																						
<b>COUNTY</b>	<b>Total Population**</b>	<b>Age 65 and over</b>		<b>Age 16 and less</b>		<b>Median Family Income(MFI)</b>	<b>HUD MSA MFI</b>	<b># of Households</b>		<b># of HH below poverty level</b>		<b>Total Families</b>	<b>Low income</b>		<b>Moderate income</b>		<b>Middle income</b>		<b>Upper income</b>		<b>LMI families in LMI tracts</b>	
		<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>			<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Allegany</b>	49,927	7,000	14.0	10,592	21.2	38,864	49,600	18,056	2,769	15.0	12,217	2,588	21.2	2,482	20.3	3,005	24.6	4,142	33.9	0.0	0.0	
<b>Cattaraugus**</b>	73,664	10,649	14.5	16,748	22.7	39,554	49,600	28,211	3,569	13.0	19,112	3,874	20.3	3,911	20.5	4,532	23.7	6,795	35.6	1,424	18.3	
<b>Cayuga**</b>	33,766	5,916	17.5	6,847	20.3	42,518	49,600	13,431	1,991	15.0	8,072	1,688	20.9	1,281	15.9	1,847	22.9	3,256	40.3	388	13.2	
<b>Chautauqua**</b>	4,082	781	19.1	797	19.5	50,443	49,600	1,840	95	5.0	1,195	108	9.0	261	21.8	222	18.6	604	50.5	0.0	0.0	
<b>Chemung**</b>	77,541	12,597	16.3	16,643	21.5	45,091	52,400	30,306	4,129	14.0	19,806	3,796	19.2	3,656	18.5	4,546	23.0	7,808	39.4	2,223	29.8	
<b>Erie**</b>	111,173	18,128	16.3	24,481	22.0	68,747	58,300	42,050	1,703	4.0	30,833	2,590	8.4	4,126	13.4	6,557	21.3	17,560	57.0	0.0	0.0	
<b>Genesee</b>	60,370	8,661	14.3	13,731	22.7	48,065	49,600	22,804	1,774	8.0	15,905	1,943	12.2	2,873	18.1	3,608	22.7	7,481	47.0	329	6.8	
<b>Livingston</b>	64,328	7,328	11.4	13,081	20.3	50,538	64,100	22,149	2,181	10.0	15,434	3,104	20.1	3,249	21.1	4,044	26.2	5,037	32.6	1,705	26.8	
<b>Monroe**</b>	32,182	3,672	11.4	7,527	23.4	70,380	64,100	11,776	361	3.0	8,957	849	9.5	1,248	13.9	2,011	22.5	4,849	54.1	0.0	0.0	
<b>Ontario</b>	100,224	13,200	13.2	22,404	22.4	53,620	64,100	38,392	2,829	7.0	26,537	4,693	17.7	5,344	20.1	6,754	25.5	9,746	36.7	1,538	15.3	
<b>Schuyler</b>	19,224	2,815	14.6	4,203	21.9	41,566	49,600	7,375	779	11.0	5,204	966	18.6	1,017	19.5	1,223	23.5	1,998	38.4	0.0	0.0	
<b>Seneca</b>	33,342	5,050	15.1	7,360	22.1	45,467	49,600	12,619	1,306	10.0	8,628	1,418	16.4	1,548	17.9	1,849	21.4	3,813	44.2	0.0	0.0	
<b>Steuben</b>	98,726	14,971	15.2	22,564	22.9	43,352	49,600	39,093	4,698	12.0	26,360	4,973	18.9	4,863	18.4	6,039	22.9	10,485	39.8	792	8.1	
<b>Wyoming</b>	43,424	5,297	12.2	9,048	20.8	44,623	49,600	14,877	1,195	8.0	10,747	1,483	13.8	1,935	18.0	2,862	26.6	4,467	41.6	0.0	0.0	
<b>Yates</b>	24,621	3,817	15.5	5,691	23.1	40,950	49,600	9,056	968	11.0	6,316	1,158	18.3	1,330	21.1	1,463	23.2	2,365	37.4	0.0	0.0	
<b>TOTAL A/A*</b>	826,594	119,882	14.5	181,717	22.0	49,852	53,962	312,035	30,347	10.0	215,323	35,231	16.4	39,124	18.2	50,562	23.5	90,406	42.0	8,399	11.3	

\* Assessment Area \*\* Partial County

CHART # 2

<b>ASSESSMENT AREA HOUSING CHARACTERISTICS BY COUNTY</b>																			
<b>COUNTY</b>	Total Housing Units	1-4 family Units		Multifamily Units		Owner-Occupied Units (O-O)		O-O Units in Low-income Tracts		O-O Units in Mod-income Tracts		O-O Units in Mid-income Tracts		O-O Units in Upp-income Tracts		Rental Units		Vacant/ Boarded-up Units	
		#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%
<b>Allegany</b>	24,505	23,551	96.0	954	4.0	13,302	54.0	0	0.0	0	0.0	12,411	93.3	891	6.7	5,486	22.0	6,496	27.0
<b>Cattaraugus**</b>	35,301	33,351	94.0	1,950	6.0	20,870	59.0	0	0.0	2,331	11.2	17,752	85.1	787	3.8	8,557	24.0	7,120	20.0
<b>Cayuga**</b>	15,075	12,904	86.0	2,171	14.0	7,538	50.0	0	0.0	447	5.9	6,318	83.8	773	10.3	6,686	44.0	1,675	11.0
<b>Chautauqua**</b>	2,428	2,187	90.0	241	10.0	1,328	55.0	0	0.0	0	0.0	0	0.0	1,328	100.0	672	28.0	594	24.0
<b>Chemung**</b>	32,638	29,354	90.0	3,284	10.0	20,014	61.0	106	0.5	2,352	11.8	11,166	55.8	6,390	31.9	11,595	36.0	2,357	7.0
<b>Erie**</b>	43,851	40,773	93.0	3,078	7.0	34,595	79.0	0	0.0	0	0.0	9,098	26.3	25,497	73.7	8,090	18.0	1,800	4.0
<b>Genesee</b>	24,190	22,456	93.0	1,734	7.0	16,608	69.0	0	0.0	510	3.1	8,630	52.0	7,469	45.0	6,814	28.0	1,420	6.0
<b>Livingston</b>	24,023	22,313	93.0	1,710	7.0	16,509	69.0	0	0.0	3,049	18.5	12,783	77.4	677	4.1	6,173	26.0	1,873	8.0
<b>Monroe**</b>	12,058	11,098	92.0	960	8.0	9,531	79.0	0	0.0	0	0.0	2,591	27.2	6,940	72.8	2,358	20.0	318	3.0
<b>Ontario</b>	42,647	38,453	90.0	4,194	10.0	28,230	66.0	406	1.4	1,676	5.9	20,813	73.7	5,335	18.9	11,191	26.0	4,277	10.0
<b>Schuyler</b>	9,181	8,976	98.0	205	2.0	5,691	62.0	0	0.0	0	0.0	5,691	100.0	0	0.0	1,870	20.0	1,807	20.0
<b>Seneca</b>	14,794	13,921	94.0	873	6.0	9,311	63.0	0	0.0	0	0.0	8,175	87.8	1,136	12.2	3,897	26.0	2,164	15.0
<b>Steuben</b>	46,132	43,446	94.0	2,686	6.0	28,584	62.0	0	0.0	1,428	5.0	22,923	80.2	4,232	14.8	11,938	26.0	7,061	15.0
<b>Wyoming</b>	16,940	16,203	96.0	737	4.0	11,460	68.0	0	0.0	0	0.0	11,460	100.0	0	0.0	3,790	22.0	2,034	12.0
<b>Yates</b>	12,064	11,527	96.0	537	4.0	6,954	58.0	0	0.0	0	0.0	6,954	100.0	0	0.0	2,282	19.0	3,035	25.0
<b>TOTAL A/A*</b>	355,827	330,513	93.0	25,314	7.0	230,525	65.0	512	0.2	11,793	5.1	156,765	68.0	61,455	26.7	91,399	26.0	44,031	12.0

\* Assessment Area \*\*Partial County

CHART # 3

<b>BUSINESS DEMOGRAPHICS BY COUNTY</b>											
COUNTY AND ASSESSMENT AREA(A/A)	Number of Businesses	Businesses with Rev. of \$1 million or less		Businesses with Rev. of more than \$1 million		Businesses with no revenues reported		Businesses with less than 50 employees		Operating from a single location	
		#	%	#	%	#	%	#	%	#	%
Allegany	2,961	1,632	55.1	105	3.5	1,224	41.3	1,952	65.9	2,610	88.1
Cattaraugus**	4,975	2,885	58.0	210	4.2	1,880	37.8	3,476	69.9	4,259	85.6
Cayuga**	2,108	1,328	63.0	129	6.1	651	30.9	1,618	76.8	1,766	83.8
Chautauqua**	473	262	55.4	25	5.3	186	39.3	365	77.2	365	77.2
Chemung**	4,599	2,753	59.9	261	5.7	1,585	34.5	3,511	76.3	3,682	80.1
Erie**	10,660	7,000	65.7	669	6.3	2,991	28.1	8,201	76.9	9,467	88.8
Genesee	4,053	2,501	61.7	232	5.7	1,320	32.6	3,001	74.0	3,527	87.0
Livingston	4,236	2,649	62.5	180	4.2	1,407	33.2	3,087	72.9	3,748	88.5
Monroe**	1,996	1,363	68.3	92	4.6	541	27.1	1,547	77.5	1,796	90.0
Ontario	8,019	4,911	61.2	442	5.5	2,666	33.2	5,867	73.2	7,001	87.3
Schuyler	1,277	778	60.9	53	4.2	446	34.9	909	71.2	1,145	89.7
Seneca	2,372	1,365	57.5	89	3.8	918	38.7	1,648	69.5	2,046	86.3
Steuben	6,258	3,627	58.0	228	3.6	2,403	38.4	4,316	69.0	5,422	86.6
Wyoming	2,933	1,733	59.1	149	5.1	1,051	35.8	2,054	70.0	2,644	90.1
Yates	1,974	1,223	62.0	70	3.5	681	34.5	1,387	70.3	1,798	91.1
<b>Total A/A*</b>	<b>58,894</b>	<b>36,010</b>	<b>61.1</b>	<b>2,934</b>	<b>5.0</b>	<b>19,950</b>	<b>33.9</b>	<b>42,939</b>	<b>72.9</b>	<b>51,276</b>	<b>87.1</b>

\*Assessment Area; \*\*Partial County

## **PERFORMANCE TESTS AND ASSESSMENT FACTORS**

*This evaluation is based on the review of FSB's lending, investment and service activities within the assessment area as provided for in Parts 76.8, 76.9 and 76.10 of the General Regulations of the Banking Board. The evaluation covers calendar years 2005 and 2006.*

Statistics contained in this evaluation were derived primarily from the HMDA-reportable, small business and small farm loan information submitted by FSB. The 2005 aggregate data for HMDA-reportable, small business and small farm loans were obtained from the Federal Financial Examination Council ("FFIEC") and PCI Services, Inc. CRA Wiz© software. Aggregate data for 2006 were not available. Demographic data referred to in this report were obtained from the 2000 U.S. Census, with the updated median family income figures provided by the U.S. Department of Housing and Urban Development ("HUD").

### **I. Lending Test: "Outstanding"**

*FSB's lending performance is evaluated pursuant to the following criteria: (1) Lending Activity; (2) Assessment Area Concentration; (3) Geographic Distribution of Loans; (4) Borrower Characteristics; (5) Community Development Lending; and (6) Innovative or Flexible Lending Practices. Residential mortgages, small business and small farm loans, and community development loans were reviewed for this evaluation.*

#### **Lending Activity: "Outstanding"**

FSB's lending level reflects an excellent responsiveness to assessment area credit needs.

During the evaluation period, FSB extended a total of 5,768 loans totaling \$6.5 million within its assessment area, consisting of 2,451 HMDA-reportable and 3,317 small business/small farm loans.

#### **Assessment Area Concentration: "Outstanding"**

FSB originated a substantial majority (89.0%) of the total HMDA-reportable and small business/small farm loans inside the assessment area during the evaluation period.

The following table shows the distribution of HMDA-reportable and small business/small farm loans inside and outside the assessment area during the evaluation period.

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
	#	%	#	%		\$000	%	\$000	%	
HMDA										
2005	1,504	91.0	149	9.0	1,653	86,600	89.0	10,750	11.0	97,350
2006	947	93.9	62	6.1	1,009	53,332	92.6	4,273	7.4	57,605
Subtotal	<b>2,451</b>	<b>92.1</b>	<b>211</b>	<b>7.9</b>	<b>2,662</b>	<b>139,932</b>	<b>90.3</b>	<b>15,023</b>	<b>9.7</b>	<b>154,955</b>
Small Business & Small Farms										
2005	1,749	86.0	285	14.0	2,034	134,404	76.7	40,776	23.3	175,180
2006	1,568	87.8	218	12.2	1,786	156,809	76.0	49,403	24.0	206,212
Subtotal	<b>3,317</b>	<b>86.8</b>	<b>503</b>	<b>13.2</b>	<b>3,820</b>	<b>291,213</b>	<b>76.4</b>	<b>90,179</b>	<b>23.6</b>	<b>381,392</b>
<b>Total</b>	<b>5,768</b>	<b>89.0</b>	<b>714</b>	<b>11.0</b>	<b>6,482</b>	<b>431,145</b>	<b>80.4</b>	<b>105,202</b>	<b>19.6</b>	<b>536,347</b>

### HMDA Reportable Loans

FSB originated a substantial majority of its HMDA-reportable loans in the assessment area. In 2005, FSB originated 91.0% by number and 89.0% by dollar value of the HMDA-reportable loans in the assessment area. Although fewer loans were made in 2006, FSB's concentration rates were higher at 93.9% by number and 92.6% by dollar volume.

### Small Business and Small Farm Loans

FSB originated a substantial majority of its small business/small farm loans in its assessment area. In 2005, FSB originated 86.0% by number and 76.7% by dollar value of its small business/small farm loans in the assessment area. FSB originated approximately 10% fewer small business/farm loans in 2006, however, penetration rates in the assessment area increased to 87.8% by number and 76.0% by dollar value.

### **Geographic Distribution of Loans: "High Satisfactory"**

The overall geographic distribution of loans reflects a good dispersion among census tracts of different income levels.

### HMDA-Reportable Loans

The geographic distribution of HMDA-reportable loans reflects a good penetration in LMI areas.

In 2005, FSB originated 8.5% by number and 6.2% by dollar volume of its HMDA-reportable loans in LMI geographies, which was well above the aggregate's penetration ratios of 5.4% and 3.3%, respectively. In 2006, LMI penetration rates declined to 5.6% by number but still exceeded the percentage of owner-occupied housing units located in

LMI areas.

The following chart provides a summary of FSB's HMDA-reportable loans geographic distribution during the evaluation period:

Distribution of HMDA-reportable Loans by Geographic Income Level*								
Geography	2005							
	Bank				Aggregate			
Income Level	#	%	\$000	%	#	%	\$000	%
Low	2	0.1	106	0.1	69	0.3	3,477	0.2
Moderate	126	8.4	5,277	6.1	1,147	5.1	60,926	3.1
Middle	1,190	79.1	67,485	77.9	14,874	66.2	1,115,428	55.9
Upper	184	12.2	13,501	15.6	6,386	28.4	813,814	40.8
N/A	2	0.1	231	0.3	2	0.0	296	0.0
<b>Total</b>	<b>1,504</b>	<b>100.0</b>	<b>86,600</b>	<b>100.0</b>	<b>22,478</b>	<b>100.0</b>	<b>1,993,941</b>	<b>100.0</b>
Geography	2006							
	Bank				Aggregate			
Income Level	#	%	\$000	%	Not available.			
Low	1	0.1	40	0.1				
Moderate	52	5.5	1,658	3.1				
Middle	793	83.7	42,449	79.6				
Upper	101	10.7	9,185	17.2				
N/A	0	0.0	0	0.0				
<b>Total</b>	<b>947</b>	<b>100.0</b>	<b>53,332</b>	<b>100.0</b>				

\*Geography income level is based upon 2000 Census data on median family income figure for the MSA of the mortgaged property. Low-income is defined as <50% of the MSA median, moderate-income is 50% to <80% of the MSA median income, middle-income is 80% to <120%, and upper-income is at least 120%.

### Small Business & Small Farm Loans

The geographic distribution of FSB's small business and small farm loans reflects a good penetration in LMI geographies.

In 2005, FSB extended 8.6% of its small business loans in LMI geographies as compared to the aggregate's 8.7%. In 2006, the small business loans originated in LMI geographies decreased to 7.7%, which is slightly below the percentage of business establishments in LMI areas.

The following chart provides a summary of FSB's small business and small farm loans geographic distribution during the evaluation period:

Distribution of Small Business/Small Farm Loans by Geographic Income Level*								
Geography	2005							
	Bank				Aggregate			
Income Level	#	%	\$000	%	#	%	\$000	%
Low	13	0.7	861	0.6	219	1.2	13,491	2.1
Moderate	139	7.9	12,976	9.7	1,402	7.5	63,175	9.8
Middle	1,327	75.9	102,070	75.9	10,576	56.9	332,898	51.8
Upper	269	15.4	18,477	13.7	6,380	34.3	233,080	36.3
N/A	1	0.1	20	0.0	4	0.0	30	0.0
<b>Total</b>	<b>1,749</b>	<b>100.0</b>	<b>134,404</b>	<b>100.0</b>	<b>18,581</b>	<b>100.0</b>	<b>642,674</b>	<b>100.0</b>
Geography	2006							
	Bank				Aggregate			
Income Level	#	%	\$000	%	Not available.			
Low	10	0.6	276	0.2				
Moderate	111	7.1	8,681	5.5				
Middle	1,163	74.2	107,084	68.3				
Upper	281	17.9	39,957	25.5				
N/A	3	0.2	811	0.5				
<b>Total</b>	<b>1,568</b>	<b>100.0</b>	<b>156,809</b>	<b>100.0</b>				

\*Geography income level is based upon 2000 Census data on median family income figure for the MSA where business is located. Low income is defined as <50% of the MSA median, moderate income is 50% to <80%, middle income is 80% to <120% and upper income is at least 120%.

### Borrower Characteristics: “Outstanding”

The overall distribution of FSB’s loans based on borrower characteristics reflects an excellent penetration among individuals of different income levels and businesses of different revenue sizes.

### HMDA-Reportable Loans

The distribution of FSB’s HMDA-reportable loans among borrowers of different income levels is excellent.

In 2005, FSB outperformed the aggregate, by extending 32.5% of its HMDA-reportable loans to LMI individuals. In 2006, lending to LMI individuals increased to 36.1% and exceeded the percentage of LMI families in its assessment area.

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

Distribution of HMDA-reportable Loans by Borrower Income Level*								
2005								
Borrower Income Level	Bank				Aggregate			
	#	%	\$000	%	#	%	\$000	%
Low	163	10.8	4,807	5.5	1,949	8.7	81,799	4.1
Moderate	327	21.8	12,144	14.0	4,999	22.2	298,461	15.0
Middle	430	28.6	22,419	25.9	6,227	27.7	457,225	22.9
Upper	546	36.3	44,670	51.6	8,470	37.7	1,025,956	51.5
Income N/A	38	2.5	2,560	3.0	833	3.7	130,500	6.5
<b>Total</b>	<b>1,504</b>	<b>100.0</b>	<b>86,600</b>	<b>100.0</b>	<b>22,478</b>	<b>100.0</b>	<b>1,993,941</b>	<b>100.0</b>
2006								
Borrower Income Level	Bank				Aggregate			
	#	%	\$000	%	#	%	\$	%
Low	128	13.5	3,077	5.8	Not available.			
Moderate	214	22.6	8,598	16.1				
Middle	275	29.0	13,461	25.2				
Upper	300	31.7	23,554	44.2				
Income N/A	30	3.2	4,642	8.7				
<b>Total</b>	<b>947</b>	<b>100.0</b>	<b>53,332</b>	<b>100.0</b>				

\*Borrower income level is based upon the Department of Housing and Urban Development's annual estimate of median family income figure for the MSA of the mortgaged property. Low income is defined as <50% of the MSA median, moderate income is 50% to <80%, middle income is 80% to <120% and upper income is at least 120%.

### Small Business and Small Farm Loans

FSB's small business and small farm loans lending distribution based on borrower characteristics reflects an excellent penetration among businesses of different revenue sizes.

In 2005, FSB originated 82.7% by number of its small business loans to firms with gross annual revenues ("GAR") of \$1 million or less. This ratio is well above the aggregate's penetration ratio of 51.7%. In 2006, although fewer loans were extended to small businesses with GAR of \$1 million or less, the penetration ratio remained at the same level.

The following chart provides a summary of FSB's small business lending distribution based on borrower revenues during the evaluation period:

Distribution of Small Business Loans by Business Revenue Size								
2005								
Revenue Size	Bank				Aggregate			
	#	%	\$000	%	#	%	\$000	%
\$1million or less	1,446	82.7	71,982	53.6	10,162	51.7	298,992	42.9
Over \$1 million	303	17.3	62,422	46.4	9,498	48.3	397,866	57.1
No Revenue Info	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total</b>	<b>1,749</b>	<b>100.0</b>	<b>134,404</b>	<b>100.0</b>	<b>19,660</b>	<b>100.0</b>	<b>696,858</b>	<b>100.0</b>
2006								
Revenue Size	Bank				Aggregate			
	#	%	\$000	%	#	%	\$000	%
\$1million or less	1,281	81.7	78,605	50.1	Not available.			
Over \$1 million	287	18.3	78,204	49.9				
No Revenue Info	0	0.0	0	0.0				
<b>Total</b>	<b>1,568</b>	<b>100.0</b>	<b>156,809</b>	<b>100.0</b>				

### Innovative/Flexible Lending Practices:

FSB makes good use of flexible lending practices in serving its assessment area's credit needs. FSB enhanced its mortgage lending to low- and moderate-income borrowers by participating in the flexible loan programs of the State of New York Mortgage Agency ("SONYMA") and the Federal Home Loan Mortgage Corporation ("Freddie Mac"). Also, FSB improved its lending to small businesses and small farms by participating in loan programs of the Small Business Administration ("SBA") and Farm Service Agency ("FSA").

During the evaluation period, FSB made 21 SONYMA loans totaling \$1.8 million, 45 Freddie Mac loans totaling \$2.9 million, 90 SBA 7A loans totaling \$4.8 million and three FSA loans totaling \$265 thousand.

### Community Development Lending: "Outstanding"

FSB is a leader in making community development loans. During the evaluation period, FSB made 123 community development loans totaling \$36.6 million in the assessment area.

The following table summarizes FSB's community development lending activities as of evaluation date:

<b>Community Development Loans</b>				
Category	Number of Loans	Percentage	Amount \$000	Percentage
Affordable Housing	15	12.2	3,570	9.7
Community Services	80	65.0	7,204	19.7
Economic Development	21	17.1	15,551	42.5
Revitalization and Stabilization	7	5.7	10,274	28.1
Total	123	100.0	36,599	100.0

Below are examples of FSB's community development loans:

- A \$1.0 million loan to Genesee Community College, a not-for-profit entity to finance the construction of student housing at a local community college. A majority of the students receive financial aid.
- A \$1.2 million mortgage loan and \$3.0 million line of credit to a real estate developer, to finance the purchase of an office building, which is located in a NYS Empire Development Zone and currently leased to the Monroe County Industrial Development Authority in conjunction with the Jobs Plus program.
- A \$3.5 million line of credit to a manufacturer of retail store furniture and fixtures located in a low-income area of Chautauqua County, NY. The business will create jobs and help revitalize the area.
- A \$4.3 million loan to a real estate company to finance the construction of a shopping center/strip mall located in a moderate-income census tract in Cattaraugus County, NY. The shopping center will create jobs in the area.
- A \$3.1 million line of credit to Holimont, Inc., an organization located and operating in a distressed middle-income area of Cattaraugus County, NY. The business would create jobs and revitalize the area.

## **II. Investment Test: "Outstanding"**

*The investment test evaluates FSB's record of helping to meet the needs of its assessment area through qualified investments. Qualified investments are evaluated based on their dollar volume, innovation and/or complexity, responsiveness to community development needs, and the degree to which they are not routinely provided by private investors.*

FSB's level of qualified community development investments reflects an excellent responsiveness to the credit needs of the assessment area. During the evaluation period, FSB made 452 qualified investments totaling \$36.4 million, including 119 grants to various community organizations totaling \$124 thousand.

The following table summarizes FSB's qualified investment activities as of evaluation date:

<b>Qualified Investments and Grants</b>				
Category	Number of Loans	Percentage	Amount \$000	Percentage
Affordable Housing	5	1.1	146	0.4
Community Services	227	50.2	11,508	31.7
Economic Development	30	6.7	2,854	7.8
Revitalize and Stabilize	190	42.0	21,857	60.1
<b>Total</b>	<b>452</b>	<b>100.0</b>	<b>36,365</b>	<b>100.0</b>

As shown in the above table, 60.1% of total qualified investments dollars were for initiatives that supported revitalization and stabilization of the LMI areas.

FSB's qualified investments consisted primarily of municipal bonds, bond anticipation notes and equity investments. The following are examples of these investments:

- \$1.1 million investment in a bond anticipation note issued by the City of Elmira to finance the revitalization of low and moderate-income census tracts in downtown Elmira.
- \$1.0 million investment in a bond anticipation note issued by the City of Salamanca for the maintenance of essential services and the revitalization of distressed areas.
- \$1.4 million investment in municipal bonds issued by Steuben County for a construction project in a distressed area that would bring jobs and help retain businesses and residents.
- \$945 thousand investment in municipal bonds issued by Cattaraugus County for various road projects in a distressed area; improvements would assist in providing essential services to LMI individuals.
- \$1.1 million equity investment in Small Business Investment Corporation ("SBIC") that targets FSB's assessment area.

### **III. Service Test: "Outstanding"**

*The service test evaluates a banking institution's record of helping to meet the credit needs of its assessment area by analyzing both the availability and effectiveness of a banking institution's systems for delivering both retail banking and community development services.*

### Accessibility of Delivery Systems

FSB's delivery systems are readily accessible to its geographies and individuals of different income levels in its assessment area.

FSB operates 49 offices that are accessible to all individuals and geographies within its assessment area. Six of the offices are located in moderate-income areas, and five offices in middle-income and two in upper-income areas are adjacent to moderate-income census tracts. FSB provides drive-up facilities in 44 offices and a network of 90 ATMs in over 88 locations which can be accessed free of charge. FSB offers on-line banking in addition to the 24-hour telephone banking and bank-by-mail services.

### Changes in Branch Locations

No branches have been opened or closed since the merger in 2005.

### Reasonableness of Business Hours and Services

Services are tailored to the convenience and needs of FSB's assessment area.

FSB's business hours are from 9:00AM to 4:00PM Monday through Thursday and 9:00AM to 5:00PM on Fridays. Twenty nine branches with drive-in tellers are open on Saturdays from 9:00AM to 12:00PM or 1:00PM.

### Community Development Services

FSB is a leader in providing community development services. Its directors, officers and employees provided financial advice and technical assistance to various community organizations that promote economic opportunities or provide community services in LMI areas. Below are a few examples of the organizations and the officers' involvement:

- A senior vice president is a board member of Rochester Business Alliance, a Rochester-based business organization that promotes economic development in the nine-county Rochester region.
- A vice president is the chairman of the finance committee is a director and vice president of Salamanca and Elmira chapters, respectively of Glove House, a national organization that provides various social services to poor people, including food, clothing, and temporary shelter.
- A vice president and an assistant vice president are volunteer tax preparers for ProAction, a non-profit organization that serves LMI individuals in Bath, NY.
- An assistant vice president is a member of the loan committee of Child and Family Services Ways to Work, a Buffalo not-for-profit family service agency that provides a

vast array of health and human service programs primarily to LMI individuals.

- A senior vice president serves as treasurer of the Wyoming County Empire Zone.
- An employee taught mortgage financing to a first-time home buyers seminar sponsored by Tri County Housing Council, non-profit agency located in Big Flats, Chemung County and another employee taught a basic banking course to special education students enrolled in Hillside Children's Center.

Additionally, FSB sponsors the SBA Straight Talk seminars in Buffalo and six breakfast seminars for various municipal governments/agencies representing LMI or distressed areas every January of each year.

#### **IV. Discrimination or Other Illegal Practices**

**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.**

There were no practices noted that were intended to discourage applications for the types of credit offered by the institution.

The concurrent regulatory compliance and fair lending examinations indicated a satisfactory performance in terms of adherence to antidiscrimination or other applicable laws and regulations. No evidence of prohibited discrimination or other illegal credit practices was noted.

#### **V. 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.**

FSB ascertains the credit needs of its assessment area through various outreach efforts and its officers' active participation in community organizations particularly those that build or develop affordable housing, promote the development of economically depressed areas, and create/attract businesses. These organizations include the Buffalo Chapter of the NAACP, the Black Chamber of Commerce and Buffalo Urban League, Chamber of Commerce in Cattaraugus, Rochester Business Alliance, Habitat

for Humanity in Wyoming County and Cayuga Home. In addition, FSB ascertains community credit needs by staging “branch events” throughout its market area. During the evaluation period, FSB held 27 of such events that were attended not only by customers but also by the residents and leaders of the community.

**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.**

FSB’s advertising medium includes radio and television, local newspapers and local trade publications, posters, brochures and direct mail. Additionally, FSB, through participation in seminars and conferences, makes the members of the community aware of the credit services it offers.

**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 Executive Management Committee (EMC) promotes reviews, considers and evaluates FSB’s CRA initiatives. Members of the EMC consist of the following: president/CEO, chief risk officer, chief of community banking, chief financial officer, Director of human resources, and treasurer. The compliance department submits a CRA loan and qualified investment activity to the EMC semi-annually. Additionally, this information is provided to the board of director’s audit committee for their review and input. On a monthly basis, the board of directors reviews the public relations update of qualified services initiatives within the assessment area.

**VI. Other Factors**

**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.**

None noted.

## GLOSSARY

### Aggregate

The cumulative lending by all HMDA-reporting lenders in the same geographic area under evaluation.

### 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.

### **Demand-Adjusted Penetration Rate**

The number of owner-occupied loans made by the institution (or aggregate as appropriate) in a geographic area per thousand owner-occupied housing units in that area. Mathematically, it is arrived at by dividing the number of owner-occupied housing units into the number of loans made and then multiplying by 1,000.

### **Demand-Adjusted Penetration Ratio**

A ratio that depicts geographic penetration of loans by comparing demand-adjusted lending in LMI areas with non-LMI areas. Mathematically, it is arrived at by dividing the demand-adjusted penetration rate in non-LMI areas into the demand-adjusted penetration rate in LMI areas and then expressed as a percentage.

A ratio of 100% means that the institution (or aggregate as appropriate) made an equal number of loans proportionally in LMI and non-LMI areas. Less than 100 percent would indicate less lending in LMI areas on the same basis compared to non-LMI areas, whereas over 100 percent would indicate a greater level of lending in LMI areas versus non-LMI areas.

### **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.

### **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 (“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 nonmetropolitan 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 nonmetropolitan 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**

Those individuals, 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 nonmetropolitan median family income. In all instances, the area median family incomes used to measure individual income levels are updated annually by HUD.

### **Small Business Loans**

Loans to businesses with original amounts of \$1 million or less.