

FEDERAL RESERVE SYSTEM

Community Bank System, Inc.  
Dewitt, New York

Order Approving the Acquisition of a Savings and Loan Holding Company and  
Acquisition of a Bank

Community Bank System, Inc. (“CBSI”), Dewitt, New York, a financial holding company within the meaning of the Bank Holding Company Act of 1956, as amended (“BHC Act”), has requested the Board’s approval under sections 4(c)(8) and 4(j) of the BHC Act<sup>1</sup> to acquire Oneida Financial Corp. (“Oneida”) and thereby indirectly acquire its subsidiary bank, Oneida Savings Bank, a state savings bank that has elected to be treated as a savings association pursuant to section 10(l) of the Home Owners’ Loan Act, as amended,<sup>2</sup> both of Oneida, New York. CBSI has also requested the Board’s prior approval under section 3 of the BHC Act<sup>3</sup> to acquire State Bank of Chittenango (“Bank of Chittenango”), Chittenango, New York, a limited purpose commercial bank wholly owned by Oneida Savings Bank.<sup>4</sup> Following the proposed acquisition, Oneida Savings Bank and Bank of Chittenango would be merged into CBSI’s subsidiary bank, Community Bank, N.A., Canton, New York.<sup>5</sup>

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<sup>1</sup> 12 U.S.C. §§ 1843(c)(8) and (j).

<sup>2</sup> 12 U.S.C. § 1467a(l).

<sup>3</sup> 12 U.S.C. § 1842(a).

<sup>4</sup> Bank of Chittenango is a state-chartered nonmember commercial bank, the activities of which are limited to municipal deposit-taking. Oneida is not a bank holding company with respect to Bank of Chittenango. See 12 U.S.C. § 1841(a)(5)(E).

<sup>5</sup> The mergers of Oneida Savings Bank and Bank of Chittenango into Community Bank are subject to the approval of the Office of the Comptroller of the Currency (“OCC”),

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (80 Federal Register 27,171 (2015)).<sup>6</sup> The time for submitting comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in the BHC Act.

CBSI, with consolidated assets of approximately \$7.9 billion, is the 142nd largest insured depository organization in the United States, controlling approximately \$6.1 billion in deposits.<sup>7</sup> CBSI controls Community Bank, which operates in New York and Pennsylvania. Community Bank is the 26th largest depository institution in New York, controlling deposits of approximately \$4.9 billion, which represent less than 1 percent of the total deposits of insured depository institutions in that state.<sup>8</sup>

Oneida, with consolidated assets of approximately \$850 million, is the 819th largest insured depository organization in the United States, controlling approximately \$744 million in deposits. Oneida controls Oneida Savings Bank, which operates solely in New York. Oneida Savings Bank is the 73rd largest insured depository institution in New York, controlling deposits of approximately \$676 million, which represent less than 1 percent of the total deposits of insured depository institutions in that state.<sup>9</sup>

On consummation of this proposal, CBSI would become the 126th largest insured depository organization in the United States, with consolidated assets of approximately \$8.8 billion, which represent less than 1 percent of the total assets of

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pursuant to section 18(c) of the Federal Deposit Insurance Act. 12 U.S.C. § 1828(c). The OCC approved the bank mergers on November 12, 2015.

<sup>6</sup> 12 CFR 262.3(b).

<sup>7</sup> Nationwide asset and deposit data are as of June 30, 2015, unless otherwise noted.

<sup>8</sup> State deposit data are as of June 30, 2014, unless otherwise noted. In this context, insured depository institutions include commercial banks, savings banks, and savings associations.

<sup>9</sup> The total amount of deposits held by Bank of Chittenango are included in the deposit data for Oneida Savings Bank.

insured depository institutions in the United States. CBSI would control total deposits of approximately \$6.8 billion, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. In New York, CBSI would become the 23rd largest depository organization, controlling deposits of approximately \$5.6 billion, which represent less than 1 percent of the total deposits of insured depository institutions in that state.

The Board previously has determined by regulation that the operation of a savings association by a bank holding company is closely related to banking for purposes of section 4(c)(8) of the BHC Act.<sup>10</sup> The Board requires that savings associations acquired by bank holding companies conform their direct and indirect activities to those permissible for bank holding companies under section 4(c)(8) of the BHC Act.<sup>11</sup> CBSI has committed that all of the activities of Oneida and its subsidiaries will conform to those permissible under section 4 of the BHC Act and Regulation Y or be divested.

#### Factors Governing Board Review of the Transactions

Because this transaction involves the acquisition of a savings association and a bank, the Board has reviewed the transaction under both section 4 and section 3 of the BHC Act, respectively. Section 4 establishes the standards governing the acquisition of a savings association, and section 3 establishes the standards governing the acquisition of a bank.

Section 4(j)(2)(A) of the BHC Act requires the Board to consider whether the proposed acquisition of Oneida “can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that

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<sup>10</sup> 12 CFR 225.28(b)(4)(ii).

<sup>11</sup> A savings association operated by a bank holding company may engage only in activities that are permissible for bank holding companies under section 4(c)(8) of the BHC Act. 12 CFR 225.28(b)(4). In this instance, CBSI will immediately merge Oneida Savings Bank into Community Bank and will not operate the savings association independently.

outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, unsound banking practices, or risk to the stability of the United States banking or financial system.”<sup>12</sup> As part of its evaluation, the Board reviews the financial and managerial resources and the future prospects of the companies involved, the effect of the proposal on competition in the relevant markets, the risk to the stability of the United States banking or financial system, and the public benefits of the proposal.<sup>13</sup> In acting on a notice to acquire a savings association, the Board reviews the records of performance of the relevant insured depository institutions under the Community Reinvestment Act (“CRA”).

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies involved in a transaction to acquire control of a bank. Section 3 also requires the Board to consider the competitive effects of the transaction, the effect of the proposal on the convenience and needs of the communities affected by the proposal, the risks of the proposal to the stability of the U.S. banking or financial system, and certain other factors.

### Competitive Considerations

As part of the Board’s consideration of the factors under section 4 of the BHC Act, the Board evaluates the competitive effects of a proposal in light of all of the facts of record.<sup>14</sup> The Board also considers the competitive effects of a proposal when

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<sup>12</sup> 12 U.S.C. § 1843(j)(2)(A). Section 604(e) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”), Pub. L. No. 111-203, 124 Stat. 1601 (2010), added “risk to the stability of the United States banking or financial system” to the list of possible adverse effects.

<sup>13</sup> See 12 CFR 225.26; see, e.g., Capital One Financial Corporation, FRB Order 2012-2 (February 14, 2012) (“Capital One Order”); Bank of America Corporation/Countrywide, 94 Federal Reserve Bulletin C81 (2008); Wachovia Corporation, 92 Federal Reserve Bulletin C138 (2006); and BancOne Corporation, 83 Federal Reserve Bulletin 602 (1997).

<sup>14</sup> 12 U.S.C. § 1843(j)(2).

acting on an application under section 3 of the BHC Act.<sup>15</sup> Under section 3 of the BHC Act, the Board is prohibited from approving a proposal that would result in a monopoly or would be in furtherance of an attempt to monopolize the business of banking in any relevant banking market, and from approving a bank acquisition that would substantially lessen competition in any relevant banking market, unless the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.<sup>16</sup>

CBSI and Oneida have subsidiary depository institutions that compete directly in the Utica-Rome, New York (“Utica-Rome market”), and Syracuse, New York (“Syracuse market”), banking markets.<sup>17</sup> The Board has considered the competitive effects of the proposal in these banking markets in light of all the facts of record. In particular, the Board has considered the number of competitors that would remain in the banking markets, the relative share of total deposits in insured depository institutions in the markets (“market deposits”) that CBSI would control,<sup>18</sup> the concentration levels of market deposits and the increase in that level as measured by the Herfindahl-Hirschman

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<sup>15</sup> 12 U.S.C. § 1842(c).

<sup>16</sup> 12 U.S.C. § 1842(c)(1).

<sup>17</sup> The Utica-Rome market includes Herkimer and Oneida counties and portions of Madison county, all of New York. The Syracuse market includes Cayuga, Onondaga, and Oswego counties and portions of Cortland and Madison counties, all of New York.

<sup>18</sup> Deposit and market share data are as of June 30, 2014, and are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors to commercial banks. See, e.g., Midwest Financial Group, 75 Federal Reserve Bulletin 386 (1989), and National City Corporation, 70 Federal Reserve Bulletin 743 (1984). Thus, the Board regularly has included thrift deposits in the market share calculation on a 50 percent weighted basis. See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52 (1991).

Index (“HHI”) under the Department of Justice Bank Merger Competitive Review guidelines (“DOJ Bank Merger Guidelines”),<sup>19</sup> and other characteristics of the markets.

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Bank Merger Guidelines for the Utica-Rome and Syracuse banking markets. On consummation of the proposal, the Utica-Rome market and Syracuse market would remain moderately concentrated, as measured by the HHI. The changes in the HHI would be minimal, and numerous competitors would remain in the markets following consummation of the proposal.<sup>20</sup>

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<sup>19</sup> Under the DOJ Bank Merger Guidelines, a market is considered unconcentrated if the post-merger HHI is under 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly concentrated if the post-merger HHI exceeds 1800. The Department of Justice (“DOJ”) has informed the Board that a bank merger or acquisition generally would not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. Although the DOJ and the Federal Trade Commission issued revised Horizontal Merger Guidelines in 2010, the DOJ has confirmed that its Bank Merger Guidelines, which were issued in 1995, were not modified. See Press Release, Department of Justice (August 19, 2010), [www.justice.gov/opa/pr/2010/August/10-at-938.html](http://www.justice.gov/opa/pr/2010/August/10-at-938.html).

<sup>20</sup> CBSI operates the ninth largest depository institution in the Utica-Rome market, controlling approximately \$102 million in deposits, which represent 2.5 percent of the market’s total weighted deposits. Oneida operates the seventh largest depository institution in the same market, controlling weighted deposits of approximately \$250 million, which represent 6.1 percent of the market’s total weighted deposits. On consummation of the proposed transaction, CBSI would become the third largest depository institution in the Utica-Rome market, controlling deposits of approximately \$603 million, which represent 13.9 percent of that market’s deposits. The HHI for the Utica-Rome market would increase by 5 points to a level of 1340, and 10 other competitors would remain in the market. In the Syracuse market, CBSI operates the 11th largest depository institution, controlling approximately \$233 million in deposits, which represent 2.1 percent of the market’s weighted deposits, and Oneida operates the 16th largest depository institution in the same market, controlling weighted deposits of approximately \$88 million, which represent less than 1 percent of the market’s weighted deposits. On consummation of the proposed transaction, CBSI would become the ninth largest depository institution in the Syracuse market, controlling deposits of approximately \$409 million, which represent 3.6 percent of the market’s total deposits.

The DOJ has advised the Board that consummation of the proposal would not likely have a significantly adverse effect on competition in any relevant banking market. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

Based on all of the facts of record, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of resources in the Utica-Rome and Syracuse markets or in any other relevant banking market. Accordingly, the Board determines that competitive considerations are consistent with approval.

#### Financial, Managerial, and Other Supervisory Considerations

In reviewing proposals under sections 3 and 4 of the BHC Act, the Board considers the financial and managerial resources and the future prospects of the institutions involved.<sup>21</sup> In its evaluation of financial factors, the Board reviews information regarding the financial condition of the organizations involved on both a parent-only and a consolidated basis, as well as information about the financial condition of the subsidiary depository institutions and the organizations' significant nonbanking operations. In this evaluation, the Board considers a variety of information, including public and supervisory information regarding capital adequacy, asset quality, and earnings performance, as well as public comments on the proposal. The Board evaluates the financial condition of the combined organization, including its capital position, asset quality, liquidity, earnings prospects, and the impact of the proposed funding of the transaction. The Board also considers the ability of the organization to absorb the costs of the proposal and to complete effectively the proposed integration of the operations of the institutions. In assessing financial factors, the Board considers capital adequacy to be especially important. The Board considers the future prospects of the organizations

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The HHI for the Syracuse market would decrease by 11 points to a level of 1212, and 25 other competitors would remain in the market.

<sup>21</sup> 12 U.S.C. §§ 1842(c)(2) and 1843(j)(4); 12 CFR 225.13(b) and .26(b).

involved in the proposal in light of their financial and managerial resources and the proposed business plan.

CBSI and Community Bank are both well capitalized and would remain so on consummation of the proposal. The proposed transaction is a holding company merger that is structured as a cash and share exchange, with a subsequent merger of the subsidiary depository institutions.<sup>22</sup> The asset quality, earnings, and liquidity of Community Bank, Oneida Savings Bank, and Bank of Chittenango are consistent with approval, and CBSI appears to have adequate resources to absorb the costs of the proposal and to complete integration of the institutions' operations. In addition, the future prospects of the institutions under the proposal are considered consistent with approval.

The Board also has considered the managerial resources of the organizations involved and of the proposed combined organization. The Board has reviewed the examination records of CBSI, Oneida, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by CBSI, the Board's supervisory experiences with CBSI and Oneida and those of other relevant bank supervisory agencies with the organizations, and the organizations' records of compliance with applicable banking, consumer protection, and anti-money-laundering laws, as well as information provided by the commenter.

CBSI, Oneida, and their subsidiary depository institutions are each considered to be well managed. CBSI's existing risk-management program and its directors and senior management are considered to be satisfactory. The directors and senior executive officers of CBSI have substantial knowledge of and experience in the banking and financial services sectors.

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<sup>22</sup> As part of the proposed transaction, each share of Oneida common stock would be converted into a right to receive cash or CBSI common stock based on a fixed exchange ratio, or a combination of the two. CBSI has the financial resources to fund the acquisition.



The Board also has considered CBSI's plans for implementing the proposal. CBSI is devoting significant financial and other resources to address all aspects of the post-acquisition integration process for this proposal. CBSI would implement its risk-management policies, procedures, and controls at the combined organization, and these are considered acceptable from a supervisory perspective. In addition, CBSI's management has the experience and resources to ensure that the combined organization operates in a safe and sound manner, and CBSI plans to integrate Oneida's existing management and personnel in a manner that augments CBSI's management.<sup>23</sup>

Based on all of the facts of record, including CBSI's supervisory record, managerial and operational resources, and plans for operating the combined institution after consummation, the Board concludes that considerations relating to the financial and managerial resources and the future prospects of the organizations involved in the proposal, as well as the records of effectiveness of CBSI and Oneida in combatting money-laundering activities, are consistent with approval.

#### Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board considers the effects of the proposal on the convenience and needs of the communities to be served.<sup>24</sup> The Board also considers this factor in weighing the possible adverse effects of the transaction against its public benefits, as required by section 4(j) of the BHC Act.<sup>25</sup> In its evaluation of the effects of the proposal on the convenience and needs of the communities to be served, the Board considers whether the relevant institutions are helping to meet the credit needs of the communities they serve, and other potential effects of the proposal on the convenience and needs of the communities to be served. In this

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<sup>23</sup> On consummation, two individuals currently serving as directors and officers of Oneida and Oneida Savings Bank will be added to the board of directors of CBSI and Community Bank.

<sup>24</sup> 12 U.S.C. § 1842(c)(2).

<sup>25</sup> 12 U.S.C. § 1843(j)(2).

evaluation, the Board places particular emphasis on the records of the relevant depository institutions under the CRA.<sup>26</sup> The CRA requires the federal financial supervisory agencies to encourage insured depository institutions to help meet the credit needs of the local communities in which they operate, consistent with the institutions' safe and sound operation,<sup>27</sup> and requires the appropriate federal financial supervisory agency to assess a depository institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income ("LMI") neighborhoods.<sup>28</sup>

In addition, the Board considers the banks' overall compliance record and the results of recent fair lending examinations. Fair lending laws require all lending institutions to provide loan applicants with equal access to credit, regardless of their race, ethnicity, or certain other characteristics. The Board also considers the assessments of other relevant supervisors, the supervisory views of examiners, other supervisory information, information provided by the applicant, and comments received on the proposal. The Board also may consider the applicant institution's business model, marketing and outreach plans, plans following consummation, and any other information the Board deems relevant.

In assessing the convenience and needs factor in this case, the Board has considered all of the facts of record, including reports of examination of the CRA performance of Community Bank and Oneida Savings Bank,<sup>29</sup> the fair lending and compliance records of both banks, the supervisory views of the OCC and the Federal Deposit Insurance Corporation ("FDIC"), confidential supervisory information, information provided by CBSI, and the public comments received on the proposal.

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<sup>26</sup> 12 U.S.C. § 2901 *et seq.*

<sup>27</sup> 12 U.S.C. § 2901(b).

<sup>28</sup> 12 U.S.C. § 2903.

<sup>29</sup> Bank of Chittenango is currently not subject to the CRA, as the bank is a limited purpose commercial bank that is restricted to accepting municipal deposits.

*Public Comments Regarding the Proposal*

In this case, the Board received comments from a commenter who objects to the proposal on the basis of alleged disparities in the number of conventional home purchase loans offered to African Americans or Hispanics, as compared to whites by Community Bank in the Buffalo/Niagara Falls (“Buffalo/Niagara”) Metropolitan Statistical Area (“MSA”), the Rochester MSA, and the Syracuse MSA, all in New York, and by Oneida Savings Bank in the Syracuse MSA, as reflected in data reported under the Home Mortgage Disclosure Act (“HMDA”)<sup>30</sup> for 2013. In addition to the commenter’s lending-related comments, the commenter alleges that CBSI is seeking to gerrymander its proposed post-merger CRA assessment areas.<sup>31</sup> The OCC considered the same adverse comments in connection with its review of the underlying bank merger application.<sup>32</sup>

*Business of the Involved Institutions and Response to Comment*

Community Bank is one of the largest community banking franchises headquartered in upstate New York. It is a full-service bank that offers a wide range of financial services, with a primary focus on loans to consumers. Community Bank has a large residential mortgage loan operation; however, the bank’s lending portfolio also consists of other types of loans, including small business loans, commercial and industrial loans, agricultural loans, and consumer loans. In addition to traditional deposit and loan products, Community Bank also offers insurance and investment products, and trust services. Community Bank’s branches are generally located in smaller towns and cities within its geographic market areas.

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<sup>30</sup> 12 U.S.C. § 2801 *et seq.*

<sup>31</sup> The commenter’s allegation was prompted by CBSI’s resubmission of its post-merger assessment areas to correct its inadvertent inclusion of certain entire counties in its post-merger assessment area map originally submitted in connection with its holding company application.

<sup>32</sup> The OCC considered the CRA performance evaluation of each bank involved in the transaction, and on a prospective basis, the probable effect of the proposed bank merger on the convenience and needs of the communities to be served.

CBSI argues that its lending record to minorities in the Buffalo/Niagara, Rochester, and Syracuse MSAs, as reflected in the 2013 HMDA data, is attributable to the low population of minorities in the communities in which its branches are located and is consistent with the fairly low level of minority mortgage loan applications that are processed by all HMDA reporting institutions in such MSAs generally. CBSI asserts that all mortgage applications received by Community Bank are reviewed in accordance with the bank's policies and procedures for underwriting and are subject to all of the bank's policies and procedures with respect to fair lending. CBSI further asserts that its lending practices are based on criteria that ensure both safe and sound lending and equal access to credit by creditworthy applicants, and that the bank has comprehensive procedures and policies in place to accomplish these goals, which include a "second review" process for any loan denial of a minority applicant; ongoing fair lending training for the bank's lending personnel; an annual fair lending risk assessment; and quarterly reports from the bank's chief compliance officer, director of internal audit, and chief risk officer to the board of directors of the bank regarding consumer protection, fair lending, CRA, and other laws and regulations.

Oneida Savings Bank maintains 12 full-service offices in rural areas of New York. Oneida Savings Bank offers products and services for business and retail consumers and has a significant lending focus in serving the home mortgage credit needs of its assessment areas. CBSI states that Oneida Savings Bank did not receive any conventional home purchase applications from African American or Hispanic applicants in 2013 in the Syracuse MSA, and argues that the bank's lack of HMDA-reportable conventional home purchase applications in 2013 was largely attributed to the underrepresentation of African Americans and Hispanics in the communities in which Oneida Savings Bank's branches are located. CBSI asserts that Oneida Savings Bank maintains comprehensive fair lending policies and procedures that are designed to ensure equal access to credit for all qualified applicants, a second review process of loan denials, annual fair lending training for all employees and directors, and an annual fair lending audit conducted by Oneida's internal audit department.

*Records of Performance Under the CRA*

As indicated above, in evaluating the convenience and needs factor and CRA performance, the Board considers substantial information in addition to information provided by public commenters and the response to comments by the applicant. In particular, the Board evaluates an institution's performance in light of examinations and other supervisory information, as well as information and views provided by the appropriate federal supervisors.<sup>33</sup>

The CRA requires that the appropriate federal financial supervisor for a depository institution prepare a written evaluation of the institution's record of helping to meet the credit needs of its entire community, including LMI neighborhoods.<sup>34</sup> An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation by the institution's primary federal supervisor of the institution's overall record of lending in its communities.

In general, federal financial supervisors apply lending, investment, and service tests to evaluate the performance of a large insured depository institution in helping to meet the credit needs of the communities it serves. The lending test specifically evaluates the institution's home mortgage, small business, small farm, and community development lending to determine whether the institution is helping to meet the credit needs of individuals and geographies of all income levels. As part of the lending test, examiners review and analyze an institution's HMDA data in addition to small business, small farm, and community development loan data collected and reported under the CRA regulations to assess an institution's lending activities with respect to borrowers and geographies of different income levels. The institution's lending performance is based on the number and amount of home mortgage, small business,

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<sup>33</sup> See Interagency Questions and Answers Regarding Community Reinvestment, 75 Federal Register 11,642, 11,665 (March 11, 2010).

<sup>34</sup> 12 U.S.C. § 2906.

small farm, and consumer loans (as applicable) in the institution's assessment areas; the geographic distribution of such loans, including the proportion and dispersion of the institution's lending in its assessment areas and the number and amount of loans in low-, moderate-, middle-, and upper-income geographies; the distribution of such loans based on borrower characteristics, including the number and amount of home mortgage loans to low-, moderate-, middle-, and upper-income individuals;<sup>35</sup> the institution's community development lending, including the number and amount of community development loans and their complexity and innovativeness; and the institution's use of innovative or flexible lending practices to address the credit needs of LMI individuals and geographies.

The Board is concerned when HMDA data reflect disparities in the rates of loan applications, originations, and denials among members of different racial or ethnic groups in local areas. These types of disparities may indicate weaknesses in the adequacy of policies and programs at an institution for meeting its obligations to extend credit fairly. However, other information critical to an institution's credit decisions is not available from HMDA data.<sup>36</sup> Consequently, HMDA data disparities must be evaluated in the context of other information regarding the lending record of an institution.

*CRA Performance of Community Bank*—Community Bank was assigned an overall “Satisfactory” rating by the OCC at its most recent CRA performance evaluation, as of March 12, 2012 (“Community Bank Evaluation”).<sup>37</sup> Community Bank received

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<sup>35</sup> Examiners also consider the number and amount of small business and small farm loans to businesses and farms with gross annual revenues of \$1 million or less, small business and small farm loans by loan amount at origination, and consumer loans, if applicable, to low-, moderate-, middle-, and upper-income individuals. See, e.g., 12 CFR 228.22(b)(3).

<sup>36</sup> Other data relevant to credit decisions could include credit history, debt-to-income ratios, and loan-to-value ratios. Accordingly, when conducting fair lending examinations, examiners analyze such additional information before reaching a determination regarding an institution's compliance with fair lending laws.

<sup>37</sup> The Community Bank Evaluation was conducted using the Large Institution CRA Examination Procedures. Examiners reviewed loans reportable under HMDA and CRA data collection requirements from January 1, 2008, through December 31, 2011. The

“High Satisfactory” ratings for the Lending Test, Investment Test, and Service Test.<sup>38</sup> Examiners found that Community Bank provided a good level of community development services.

Examiners found that Community Bank’s lending levels reflected excellent responsiveness to credit needs and an excellent ratio of loans within its assessment areas. Examiners also found that the bank had a good distribution of lending among census tracts and borrowers of different income levels and businesses of different sizes. The examiners highlighted that Community Bank’s innovative and flexible lending activity had a positive impact on the evaluation of its lending performance in New York.

Examiners found Community Bank to have investments that reflected good responsiveness to the credit and community development needs of the bank’s assessment areas. Examiners noted that the bank’s investments in its assessment areas included investments in mortgaged-backed securities comprised of mortgage loans made to LMI individuals or to finance residences located in LMI neighborhoods, and investments in municipal bonds that supported the revitalization and stabilization of LMI tracts or middle income census tracts designated as distressed or underserved.

Examiners found that the bank’s delivery systems were accessible to census tracts and individuals of different income levels throughout its assessment areas.

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evaluation period for community development loans, investments, and services was from December 12, 2008, through March 11, 2012. As of the evaluation date, 13 of the bank’s 15 assessment areas were located within the state of New York. Consequently, the greatest weight was given to New York State in the determination of the bank’s overall CRA rating.

<sup>38</sup> Examiners conducted full-scope reviews of the Northern Region Non-MSA and Southern Region Non-MSA assessment areas of the bank, since those areas combined represented 79 percent of the bank’s total lending, 65 percent of the bank’s total number of branches, and 64 percent of the bank’s total deposits in the state of New York. The examiners performed limited-scope reviews of the bank’s performance in the MSA portions of the bank’s assessment areas, including the Buffalo/Niagara, Rochester, and Syracuse MSAs, and found that the bank’s overall performance under the Lending Test, Investment Test, and Service Test in such areas was not inconsistent with its performance in the assessment areas that received full-scope reviews.

Examiners also found that Community Bank's hours and services offered throughout its assessment areas were good, and services offered were comparable among its branch locations regardless of the income level of the census tract. Examiners further noted that the bank's performance in providing community development services was good. Examiners highlighted Community Bank's low-cost and free banking service products, including its free checking, savings, and online banking products.

*Community Bank's Activities since the Community Bank Evaluation*

CBSI contends that, since the Community Bank Evaluation, it has significantly increased its community development lending and investments, and has continually engaged in community development and outreach efforts in its assessment areas. CBSI asserts that, between the years 2013 and 2014, Community Bank's employees donated their time and expertise on behalf of Community Bank to organizations, within the Syracuse, Rochester, and Buffalo/Niagara assessment areas, that have community development as their primary mission, including affordable housing agencies and organizations focused on business development, women and children advocacy, and other charitable causes. Community Bank represents that following consummation of the proposed transaction, it intends to implement additional measures to maintain and expand its outreach activities, staff, and other resources to continue to service minority individuals in its expanded assessment areas.

*CRA Performance of Oneida Savings Bank*—Oneida Savings Bank was assigned an overall CRA rating of "Satisfactory" at its most recent CRA performance evaluation by the FDIC, as of June 30, 2014 ("Oneida Savings Bank Evaluation").<sup>39</sup> The

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<sup>39</sup> The Oneida Savings Bank Evaluation was conducted using the Intermediate Small Bank Evaluation Procedures, which include the Lending and Community Development Tests. The Lending Test evaluated the bank's loan originations for loans reportable under HMDA for 2012 and 2013. The Community Development Test evaluated community development loans, qualified investments, and community development services for the period of February 14, 2011, through June 30, 2014. Commercial, consumer, and farm loans, however, were not considered, as they did not represent a substantial portion of the bank's loan portfolio. The Oneida Savings Bank Evaluation



bank received “Satisfactory” ratings for the Lending Test<sup>40</sup> and Community Development Test.

In evaluating the Lending Test, examiners found Oneida Savings Bank’s net loan-to-deposit ratio to be reasonable. Focusing on the Syracuse MSA, examiners noted that a substantial majority of the bank’s loans were made within its assessment areas, and the geographic distribution of loans reflected a reasonable dispersion throughout the assessment areas. Examiners also found that the bank’s distribution of borrowers reflected reasonable penetration among individuals of different income levels given the demographics of the bank’s assessment areas. The examiners also noted that Oneida Savings Bank’s assessment areas had been defined in accordance with the requirements of the CRA regulation and did not arbitrarily exclude low- and moderate-income geographies.

In evaluating the Community Development Test, examiners found that Oneida Savings Bank was adequately responsive through community development loans, qualified investments, and community development services. Examiners noted that the bank offered three low-cost deposit accounts that would particularly benefit low- and moderate-income individuals throughout its assessment areas. The OCC found that

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included a full-scope review of Oneida Savings Bank’s two assessment areas located within the Syracuse and Utica-Rome MSAs. The bank’s performance in its assessment area located within the Syracuse MSA received more weight in the overall performance conclusions and ratings since a majority of the bank’s offices and lending occurs in that area.

<sup>40</sup> The Lending Test applicable to intermediate small banks specifically evaluates the institution’s loan-to-deposit ratio and other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments; the percentage of loans and other lending-related activities located in the bank’s assessment areas; the bank’s record of lending to and engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; the geographic distribution of the bank’s loans; and the bank’s record of taking action in response to written complaints about its performance in helping to meet the credit needs in its assessment areas. See, e.g., 12 CFR 228.26(b).

Community Bank's and Oneida Savings Bank's records of helping to meet the credit needs of their communities and the probable effects on the convenience and needs of those communities were consistent with approval of the bank merger application, subject to certain conditions related to Community Bank's delineation of its post-merger assessment areas.

*Additional Convenience and Needs Considerations*

The Board also considers other potential effects of the proposal on the convenience and needs of the communities to be served. CBSI represents that the proposal would provide customers of the combined organization access to additional or expanded services, due to an expanded network of branch and ATM locations in its market areas.<sup>41</sup> Upon consummation of the bank mergers, Community Bank would offer the former depositors of Oneida Savings Bank its products and services, which Community Bank has represented are in many cases broader than the products and services offered by Oneida Savings Bank and Bank of Chittenango. CBSI expects that the merger would also enable it to compete more effectively with national financial institutions in its market areas and improve its ability to meet the needs of its customers and the communities in its market areas. Community Bank also represents that no significant reductions in products or services would be expected as a result of the proposal.

As noted, the commenter alleged the existence of HMDA data disparities in Community Bank's conventional home purchase lending to whites compared to its lending to African Americans and Hispanics in the Syracuse, Rochester, and Buffalo/Niagara markets and in Oneida Savings Bank's conventional home purchase lending in the Syracuse market. As discussed above, HMDA data disparities must be

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<sup>41</sup> Bank of Chittenango would be merged out of existence under the proposal, and its sole office located in Chittenango, New York, would be closed upon consummation of the merger. CBSI has represented that Community Bank would offer municipal deposit-taking services at all of its branches, including the former branches of the Oneida Savings Bank acquired by Community Bank under the proposal.

evaluated in the context of other information regarding the lending record of an institution. The OCC conducted reviews of Community Bank's and Oneida Savings Bank's 2013 HMDA data and conducted supervisory activities to assess fair lending risk at Community Bank. In that connection, the OCC evaluated supervisory information as well as other information provided by Community Bank. The Board has conferred with the OCC regarding its review and has taken into consideration supervisory reviews and other relevant information.

The commenter also disputed the appropriateness of Community Bank's pro forma assessment areas. The OCC conducted a review of Community Bank's current and proposed assessment areas. Community Bank committed, in an October 29, 2015 letter to the OCC, to expand its post-merger CRA assessment areas in recognition of the bank's continued growth.<sup>42</sup> The OCC indicated that the commitment addressed concerns with respect to the areas directly impacted by the proposed transaction.

In addition, as a condition of approval of the bank merger application, the OCC is requiring that Community Bank create a CRA Assessment Area Delineation Policy ("Policy")<sup>43</sup> and modify, as appropriate, its assessment areas in accordance with

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<sup>42</sup> In the letter ("Commitment Letter"), dated October 29, 2015, from Community Bank, N.A., to Marva V. Cummings, OCC Director of District Licensing, Community Bank committed to delineating its post-consummation assessment areas to include the following areas: (i) all of Oswego County, New York, including the areas north of the Oswego River and the north shore of Oneida Lake; (ii) all of Oneida County, New York, including the City of Utica; (iii) three census tracts previously excluded that form a triangle between the bank's Boiceville (Ulster County) and Fleischmanns (Delaware County) branches, both of New York; (iv) the City of Binghamton, New York, and the census tracts south of the Susquehanna River and north of the state border; (v) all of Tioga County, New York; (vi) all of Chemung County, New York; (vi) the City of Ithaca and all of Tompkins County, both of New York; and (vii) the census tracts in Carbon County and Schuylkill County, between the Lansford (Carbon County) and Lehighton (Carbon County) branches and its Hazelton (Luzerne County) branch, all of Pennsylvania.

<sup>43</sup> 12 CFR 25.41.

the Policy. Community Bank must submit the Policy and any proposed modifications to the Policy or its assessment areas to the OCC for approval.

The Board expects CBSI to ensure that Community Bank complies with the conditions and commitments imposed by the OCC. More generally, the Board expects CBSI to implement policies and procedures that are commensurate with an institution of its size and complexity, including policies and procedures to ensure full compliance with CRA requirements.

#### *Conclusion on Convenience and Needs*

The Board has considered all of the facts of record, including the records under the CRA of the relevant depository institutions involved, the institutions' records of compliance with fair lending and other consumer protection laws, consultations with the OCC and the FDIC, confidential supervisory information, information provided by CBSI, the public comments on the proposal,<sup>44</sup> and other potential effects of the proposal on the convenience and needs of the communities to be served. Based on that review, the Board concludes that the convenience and needs factor is consistent with approval.

#### Financial Stability

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") amended sections 3 and 4 of the BHC Act to require the Board to

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<sup>44</sup> The commenter also expressed concern about possible job losses resulting from the proposal. CBSI has described certain steps it would take to minimize such job losses, including offering comparable positions in the post-merger organization and providing displaced employees with severance and health care benefits, as well as re-employment services and other assistance through the New York State Department of Labor. This concern, however, is outside of the limited statutory factors that the Board is authorized to consider when reviewing an application or notice under the BHC Act. See, Western Bancshares, Inc. v. Board of Governors, 480 F.2d 749 (10<sup>th</sup> Cir. 1973); see also, e.g., Wells Fargo & Company, 82 Federal Reserve Bulletin 445, 457 (1996).

consider the extent to which a proposed acquisition, merger, or consolidation would result in greater risk to the stability of the United States banking or financial system.<sup>45</sup>

To assess the likely effect of a proposed transaction on the stability of the U.S. banking or financial system, the Board considers a variety of metrics that capture the systemic “footprint” of the resulting firm and the incremental effect of the transaction on the systemic footprint of the acquiring firm. These metrics include measures of the size of the resulting firm, the availability of substitute providers for any critical products and services offered by the resulting firm, the interconnectedness of the resulting firm with the banking or financial system, the extent to which the resulting firm contributes to the complexity of the financial system, and the extent of the cross-border activities of the resulting firm.<sup>46</sup> These categories are not exhaustive, and additional categories could inform the Board’s decision. In addition to these quantitative measures, the Board considers qualitative factors, such as the opaqueness and complexity of an institution’s internal organization, that are indicative of the relative degree of difficulty of resolving the resulting firm. A financial institution that can be resolved in an orderly manner is less likely to inflict material damage to the broader economy.<sup>47</sup>

The Board has considered information relevant to risks to the stability of the U.S. banking or financial system. After consummation, CBSI would have approximately \$8.8 billion in consolidated assets and, by any of a number of alternative measures of firm size, CBSI would not be likely to pose systemic risks. The Board generally presumes that a proposal that involves an acquisition of less than \$2 billion in assets, or that results in a firm with less than \$25 billion in consolidated assets, will not pose significant risks to the financial stability of the United States absent evidence that

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<sup>45</sup> Sections 604(d) and (e) of the Dodd-Frank Act, codified at 12 U.S.C. § 1842(c)(7) with respect to the acquisition of bank shares or assets and at 12 U.S.C. § 1843(j)(2)(A) with respect to the acquisition of savings associations.

<sup>46</sup> Many of the metrics considered by the Board measure an institution’s activities relative to the U.S. financial system.

<sup>47</sup> For further discussion of the financial stability standard, see Capital One Order.

the transaction would result in a significant increase in interconnectedness, complexity, cross-border activities, or other risk factors. Such additional risk factors are not present in this transaction.

In light of all the facts and circumstances, this transaction would not appear to result in meaningfully greater or more concentrated risks to the stability of the U.S. banking or financial system. Based on these and all other facts of record, the Board determines that considerations relating to financial stability are consistent with approval.

#### Weighing of Public Benefits of the Proposal

As noted above, in connection with a proposal under section 4 of the BHC Act, section 4(j) of the BHC Act requires the Board to “consider whether performance of the activity by a bank holding company or a subsidiary of such company can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, unsound banking practices, or risk to the stability of the United States banking or financial system.”<sup>48</sup> As discussed above, the Board has considered that the proposed transactions would provide greater services, product offerings, and geographic scope to customers of Oneida Savings Bank. In addition, the acquisitions would ensure continuity and strength of service to customers of Oneida Savings Bank.

The Board concludes that the conduct of the proposed nonbanking activities within the framework of Regulation Y, Board precedent, and this Order, is not likely to result in significant adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest, unsound banking practices, or risk to the stability of the United States banking or financial system. On the basis of the entire record, and for the reasons discussed above, the Board believes that the balance of benefits and potential adverse effects related to competition, financial and managerial resources, convenience to the public, financial stability, and other factors weighs in favor

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<sup>48</sup> 12 U.S.C. § 1843(j)(2).

of approval of this proposal. Accordingly, the Board determines that the balance of the public benefits under the standard of section 4(j)(2) of the BHC Act is consistent with approval.<sup>49</sup>

### Conclusion

Based on the foregoing and all the facts of record, the Board determines that the application and notice should be, and hereby are, approved.<sup>50</sup> In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act. The Board's approval is specifically conditioned on compliance by CBSI with all the conditions imposed in this Order, including receipt of all required regulatory approvals, and on the commitments made to the Board in connection with the proposal. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the Board in

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<sup>49</sup> 12 U.S.C. § 1843(j)(2)(A).

<sup>50</sup> The commenter requested that the Board hold a public hearing on the proposal. Section 3(b) of the BHC Act does not require that the Board hold a public hearing on an application unless the appropriate supervisory authorities for the bank to be acquired make a timely written recommendation of denial of the application. 12 CFR 225.16(e). The Board has not received such a recommendation from the appropriate supervisory authorities. The Board's regulations provide for a hearing on a notice filed under section 4 of the BHC Act if there are disputed issues of material fact that cannot be resolved in some other manner. 12 CFR 225.25(a)(2). Under its rules, the Board also may, in its discretion, hold a public hearing if appropriate to allow interested persons an opportunity to provide relevant testimony when written comments would not adequately represent their views. The Board has considered the request in light of all the facts of record. In the Board's view, the commenter has had ample opportunity to submit comments on the proposal and, in fact, submitted a written comment that the Board has considered in acting on the proposal. The commenter's request does not identify disputed issues of fact that are material to the Board's decision and that would be clarified by a public hearing. In addition, the request does not demonstrate why the written comments do not present the commenter's views adequately or why a hearing would otherwise be necessary or appropriate. For these reasons, and based on all the facts of record, the Board has determined that a public hearing is not required or warranted in this case. Accordingly, the request for a public hearing on the proposal is denied.

connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The proposal may not be consummated before the 15th calendar day after the effective date of this Order or later than three months thereafter unless such period is extended for good cause by the Board or the Federal Reserve Bank of New York acting pursuant to delegated authority.

By order of the Board of Governors,<sup>51</sup> effective November 18, 2015.

*Margaret McCloskey Shanks (signed)*

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Margaret McCloskey Shanks  
Deputy Secretary of the Board

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<sup>51</sup> Voting for this action: Chair Yellen, Vice Chairman Fischer, and Governors Tarullo, Powell and Brainard.