

PUBLIC DISCLOSURE

August 4, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Bank of Smithtown
02-36-7210
One East Main Street
Smithtown, New York
11787**

Federal Reserve Bank of New York

33 Liberty Street

New York, New York 10045-0001

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Bank of Smithtown** ("Smithtown") prepared by the **Federal Reserve Bank of New York** on behalf of the Board of Governors of the Federal Reserve System, the institution's supervisory agency, as of August 4, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory."

Over the examination review period of July 1, 1996 through June 30, 1997, Smithtown's performance with regard to CRA is rated "Satisfactory." This determination is based on the following performance criteria: 1) a reasonable loan-to-deposit ratio 2) a majority of loans in its assessment area; and 3) an excellent distribution of loans to borrowers of different income levels (including low- and moderate-income individuals) and businesses of different sizes. However, the geographic distribution of loans within the bank's assessment area does not meet standards for satisfactory performance.

DESCRIPTION OF INSTITUTION

The Bank of Smithtown ("Smithtown") operates seven full service branches located in the Township of Smithtown in Suffolk County located in Western Long Island. The bank is part of Smithtown Bancorp., a bank holding company with Bank of Smithtown as its sole subsidiary. There are no financial or legal impediments preventing Smithtown from servicing the credit needs of the consumers and small businesses in its assessment area.

Bank of Smithtown offers a variety of commercial and consumer products. As of March 31, 1997, the bank's total assets were \$191.9 million with total loans of \$97.8 million. The largest concentration of loans (\$66.8 million or 68 percent) are real estate related, which include \$13.2 million in residential mortgages (13 percent of all loans) and \$43.3 million in commercial mortgages (44 percent of all loans). Commercial loans not secured by real estate total \$22 million (or 22 percent of all loans).

DESCRIPTION OF SMITHTOWN'S ASSESSMENT AREA

The following demographic and economic information was obtained from publicly available sources that include the United States Department of Commerce's Bureau of the Census, 1990, the United States Department of Labor, and the Department of Housing and Urban Development (AHUD@).

Smithtown's assessment area is suburban in nature and part of the Nassau-Suffolk Metropolitan Statistical Area (MSA 5380@). The bank's assessment area is approximately bounded by Smithtown Bay to the north, the Township of Brookhaven to the east, the Township of Islip and the Long Island Expressway to the south, and the Township of Huntington to the west.

Specifically, the assessment area consists of 73 census tracts which are located in the Township of Smithtown and portions of the Townships of Brookhaven, Islip, and Huntington. Of the 73 census tracts in the bank's assessment area, seven are classified as low- and moderate-income and 66 are middle- and upper-income tracts.

The population in Smithtown's assessment area is 309,570 or 12 percent of MSA 5380 population. Eight percent of the assessment area's entire population is of low- and moderate-income. Family demographics in Smithtown's assessment area are as follows: 13 percent (or 10,506) of the families in the assessment area are of low-income, 19 percent (or 14,982) are of moderate-income, 28 percent (or 22,712) are middle-income, and 40 percent (or 31,982) are upper-income families. Families located in low- and moderate-income census tracts total 5,059 or 6 percent of all families in Smithtown's assessment area. Of the total 5,059 families residing in low- and moderate-income census tracts, 2,690 or 53 percent are low- and moderate-income families. The MSA 5380 has an estimated median family income of \$68,500, according to 1997 United States Department of Housing and Urban Development data, whereas, Smithtown's assessment area has a median family income of \$59,191.

There are 98,066 housing units in the bank's assessment area, of which 80,150 units (or 82 percent) are owner-occupied. Low- and moderate-income census tracts contain 6,526 housing units, of which, 4,411 (or

68 percent) are owner-occupied. Of the total owner-occupied units, 8 percent (6,526 of 80,150) are located in low- and moderate-income census tracts and 74 percent (59,142 of 80,150) are located in the middle-income census tracts. The median housing value in 1990 was \$180,554 for the assessment area and \$186,209 for the MSA. The median housing age is 30 years in the MSA. The assessment area has an owner-occupancy rate of 82 percent which is higher than both rate of 74 percent in MSA 5380 and the New York State rate of 48 percent.

In Suffolk County, 35 percent of all businesses are service establishments, 24 percent are retail establishments and 7 percent are manufacturing establishments. From 1990-1994, employment in Suffolk County's manufacturing sector has declined 17 percent while employment its services sector has grown 10 percent. During the same period, per capita personal income has increased 14 percent.

In the bank's assessment area, there are 10,743 small business establishments with less than \$1 million in revenues. Of that total 9 percent (926 of 10,743) are located in low- and moderate-income census tracts.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The examination of Smithtown covered the period of July 1, 1996 through June 30, 1997. The "Satisfactory" rating is based on an assessment of the bank's core performance criteria.

For the lending, income, and geographic distribution performance levels, a sample of loans reviewed for the period July 1, 1996 through June 30, 1997: 37 housing-related, 112 consumer and 79 small business loans.

Loan-to-Deposit Ratio

Smithtown's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and the credit needs of its assessment area. The bank's loan-to-deposit ratio, based on information contained in its Consolidated Report of Condition and Income for the four most recent quarters ending March 31, 1997, was 62 percent. The national peer average was 68 percent in the March 31, 1997 Uniform Bank Performance Report. Although slightly below peer nationally, Smithtown's loan-to-deposit ratio was higher than the four quarter average of 53 percent achieved by similarly situated institutions in its assessment area.

Lending in Assessment Area

During the examination review period, Smithtown originated a reasonable majority of its loans within its assessment area. While a majority of the bank's consumer and business loans were made within its assessment area, a slight majority of its housing-related loans were outside of its assessment area.

Of the total loans sampled, 64 percent (145 of 228) were found within the bank's assessment area. Of the consumer and business loans, 76 percent (85 of 112) and 53 percent (42 of 79), respectively, were made within the bank's assessment area. However, only 49 percent (18 of 37) housing-related loans were made within the bank's assessment area.

Lending to Borrowers of Different Income Levels and to Small Businesses of Different Sizes

Smithtown's record of lending to borrowers of different income levels (including low- and moderate-income individuals) and businesses of different sizes is excellent given the demographics of its assessment area. An analysis of the distribution of loans across income levels for each loan category is as follows:

TABLE A

**Distribution of Loans Within Assessment Area By Income Level of Borrower
 July 1996 through June 1997**

	Housing Related	Consumer	TOTAL
LOW INCOME: <i>Less Than 50% of Median Income</i>			
Number	5	32	37
Percentage	28%	38%	36%
Amount(\$)	\$267,000	\$172,968	\$439,968
Percentage	15%	28%	18%
MODERATE INCOME: <i>At least 50% and less than 80% of Median Income</i>			
Number	2	22	24
Percentage	11%	26%	23%
Amount(\$)	\$7,000	\$145,976	\$152,976
Percentage	Less than 1%	24%	6%
MIDDLE INCOME: <i>At least 80% and less than 120% of Median Income</i>			
Number	6	17	23
Percentage	33%	20%	22%
Amount(\$)	\$383,000	\$114,375	\$497,375
Percentage	21%	18%	20%
UPPER INCOME: <i>120% or more of Median Income</i>			
Number	5	14	19
Percentage	28%	16%	19%
Amount(\$)	\$1,163,000	\$188,084	\$1,351,084
Percentage	64%	30%	56%

TABLE B

**Distribution of Loans Within Assessment Area By Size of Business
 July 1996 through June 1997**

Small Business Lending Summary					
Number of loans to businesses	Number of loans to small businesses *	% of loans to small businesses	\$ amount of loans to businesses	\$ amount of loans to small businesses*	% of \$ amount to small businesses
42	31	74%	\$6,674,300	\$4,241,500	64%

* Businesses with gross annual revenues of \$1 million or less.

Housing-Related

The bank's housing-related lending to borrowers of different income levels is excellent. Table A shows that loans to low- and moderate-income borrowers comprised 39 percent of the loans sampled and loans to low-income borrowers comprised 28 percent of the loans sampled. The overall proportion of loans to low- and moderate-income borrowers compares favorably to the demographics of the assessment area where low- and moderate-income families represent 32 percent of all families in the assessment area and low-income families represent 13 percent of all families in the assessment area.

Consumer

The bank's consumer lending to borrowers of different income levels is excellent. Table A shows that loans to low- and moderate-income borrowers comprised 64 percent of the loans sampled and loans to low-income borrowers comprised 38 percent of the loans sampled. Eight percent of the assessment area's population is of low- and moderate-income.

Small Business and Farm

The bank's lending to businesses and farms with revenues of \$1 million or less is excellent. Table B shows that 74 percent of the loans sampled were made to such businesses. Furthermore, of those loans, 46 percent (14 of 31) were made to businesses with gross annual revenues of \$100 thousand or less.

Geographic Distribution of Loans

Overall, Smithtown's geographic distribution of loans is not considered reasonable. Although the bank delivered consumer loans at a reasonable level in low- and moderate-income census tracts within the bank's assessment area, there is only one housing-related loan and one small business loan within such tracts. An analysis of the dispersion of lending for each loan category is as follows:

Housing Related

Of the 37 loans in the bank's assessment area, most of which were for home improvement, only one loan

was originated in a low- and moderate-income census tract. However, of the 6 percent of the families in the assessment area residing in low- and moderate-income census tracts, 53 percent are of low- and moderate-income.

Consumer

An analysis of the sample of consumer loans shows that there is a reasonable geographic distribution of consumer loans throughout the bank's assessment area. A review of lending activity reveals that the bank extended consumer credit in a majority of the census tracts with 5 percent of the sampled loans made within the bank's low- and moderate-income census tracts.

Small Business Loans

A review of lending activity reveals that the majority of small business lending was made to businesses located in census tracts near the bank's main branch. However, of the small business loans originated in the bank's assessment area, only one loan was extended within low- and moderate-income census tracts. Of the number of businesses in the bank's assessment area with less-than \$1 million in revenues, 9 percent (926 of 10,743) are located in low- and moderate-income census tracts.

Response to Complaints

No complaints relating to Smithtown's CRA performance were received by Smithtown and no complaints have been filed with the Federal Reserve Bank of New York since the last examination.

Smithtown is in compliance with the substantive provisions of the antidiscrimination laws and regulations, including the Equal Credit Opportunity Act, the Fair Housing Act, and any agency regulations pertaining to nondiscriminatory treatment of credit applicants. Management has developed adequate policies, procedures, and training programs supporting nondiscrimination in lending and credit practices.