



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

November 13, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The National Union Bank of Kinderhook
Charter Number 929**

**One Hudson Street
Kinderhook, New York 12106**

**Office of the Comptroller of the Currency
New York Metro Field Office
830 Morris Turnpike - Second Floor
Short Hills, New Jersey 07078**

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

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INSTITUTION'S CRA RATING

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 **The National Union Bank of Kinderhook, Kinderhook, New York** as prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **November 13, 2001**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated “**Satisfactory**”.

- Lending to borrowers of different income levels and businesses of different sizes is adequate.
- The geographic distribution of loans within the bank’s assessment areas is good.
- The bank’s average loan to deposit ratio of 62.8% is adequate when compared to other similarly situated banks in New York State.
- A large majority of the loans originated were within the bank’s assessment area.

DESCRIPTION OF INSTITUTION

The National Union Bank of Kinderhook (NUBK) is a \$106 million intra-state community bank. The bank's main office is located in Kinderhook, New York, which is located in Columbia County, New York, several miles southeast of Albany, New York. NUBK was last examined for CRA in March of 1997 and was rated "Satisfactory". NUBK is the only subsidiary of Kinderhook Bank Corporation.

In addition to the main office, the bank has four branch offices, all of which are located in Columbia County. The most recent office opened in Greenport, New York (October 2001). In addition, NUBK has five ATMs, three are located at banking offices with the remaining two being remote convenience facilities. None of the ATMs accept deposits. These units are strictly cash dispensers. Distribution of branch offices parallels the geographic makeup of the bank's assessment area (AA). One office is located in the moderate-income block numbering area (BNA) and two each in the middle and upper-income areas. NUBK does not have any legal or financial condition restrictions that would impede their ability to help meet the credit needs of their community.

At September 30, 2001, NUBK reported \$58 million in net loans and \$91 million in total deposits. Net loans represent 55% of total assets. The bank's lending activities include commercial loans (37%) and residential real estate loans (51%), consumer loans/credit cards (9%) and agriculture loans (3%). The primary lending products reviewed at this examination were residential mortgages and commercial loans. NUBK does not purchase loans, make loans for resale into the secondary markets, nor participate in credits with any other institutions.

The primary focus of NUBK's business plan is to sustain controlled growth through increased lending and possible expansion of its branch network. It is reported that Columbia County will continue to be the main market served. Loan growth is expected to come from management's emphasis on small businesses within the bank's AA.

According to June 30, 2000 Summary of Deposit Data (Federal Deposit Insurance Corporation and Office of Thrift Supervision), Hudson River Bank & Trust Company (Hudson), with eight offices, has 58% of the reported deposits in Columbia County while NUBK has 10% of the deposit base within the same area. NUBK ranks fourth among the six financial institutions that have offices in the county. Hudson also headquartered in Columbia County, reports total assets of \$1.9 billion as of September 30, 2001 and deposits of \$1.3 billion. Although Hudson is substantially larger than NUBK, management considers this bank to be the main competitor within its market. Overall competition is strong with much larger multi-state and regional banks also aggressively competing for business within the county.

DESCRIPTION OF ASSESSMENT AREA

NUBK has delineated all of Columbia County, New York as its assessment area (AA). This area is not part of any metropolitan statistical area (MSA) and therefore is comprised entirely of

block numbering areas (BNAs).

The total population of the AA is approximately 63,000 persons. The 1990 statewide median family income (MFI) for non-MSAs is \$31,472, which was used in our geographic analysis. The updated statewide MFI for 2000 is \$41,400, which was used in our analysis of lending by borrower income. A total of 20 BNAs make up the AA, of which none are low-income areas, 1 is moderate-income (5%), 15 are middle-income (75%) and 4 are upper-income (20%). The breakdown of families within the AA shows 15% low-income, 16% moderate-income, 24% middle-income and 45% upper-income. The AA meets regulatory requirements and does not arbitrarily exclude any low or moderate-income areas.

This area is in close proximity to the Capital District of New York, which includes the capital of the New York State, Albany. This area, which encompasses the bank's AA, provides many employment opportunities within the state government, which is the primary industry in the area. NUBK's AA serves as a "bedroom community" to Albany. In addition, other large employers are the county government (county seat is in Hudson, New York) and a large manufacturer of home health products, also located in Hudson.

Two community contacts were made during the examination. Both organizations concentrate their activities within the county that is also NUBK's AA. One group's focus was economic and business development along with job creation and retention, while the other promoted planned economic growth and development consistent with community needs and interests as well as providing programs and services to its member businesses, regardless of size. According to these two community contacts, the primary area credit needs are lending to small businesses (including start up financing) and various types of residential mortgage lending. It was noted that there has been intense competition in the area for small business loans, particularly since the events of September 11, 2001. Many of the local businesses have started to experience the ripple effects of the economic changes brought on by those events. The contacts expressed a need for the local banks to work with the local businesses during this time.

New York State Department of Labor data indicates that overall economic conditions are good. From 1995 to 2000, significant gains in employment were noted in the services industry and the clerical sector. In addition, significant employment growth has been recorded in research and testing services, private colleges and universities, computer and data processing services, and the retail trade sector. While it is noted that growth industries are driving the demand for new workers, replacement workers are in high demand overall for all industries.

As of September 30, 2001, Columbia County's unemployment rate was down to 2.3% from 3.2% a year earlier. This current unemployment rate remains better than the overall New York State rate of 4.9%

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

This evaluation period covers the timeframe from the bank's last CRA evaluation conducted in March of 1997, through September of 2001. The loan data used for this evaluation covers the time period of March 30, 1997 to September 30, 2001.

Our review covered commercial mortgage loans, residential mortgage loans, and small business loans originated during the review period. A random sample of 20 residential mortgage loans was selected. The sample for commercial loans was expanded to 40 loans due to the large amount of commercial mortgages in the original sample. The additional sample was comprised entirely of small business loans.

These loans were selected as they represent the bank's primary lending products, and represent approximately 85% of the loans originated during the review period. Loans to individuals were not reviewed as they represent only a small portion of the bank's overall lending activity.

LOAN-TO-DEPOSIT RATIO

The loan-to-deposit ratio meets the standards for "satisfactory" performance. A customized peer group, which included all banks in New York State within the same peer group as NUBK, was used to compare the loan-to-deposit ratio. A comparison with this peer group is considered more meaningful as it compares NUBK to similarly situated banks within New York State.

The loan-to-deposit calculation was impacted by the inability to access data for each quarter since the last examination for each of the banks within the custom peer group. In the fourteen quarters that were available for analysis, the bank's average loan to deposit ratio was 62.8%, slightly below the custom peer average of 68.1%. This percentage is indicative of the bank's historically low loan volume, partially due to management's prior focus of investing in securities for pledging requirements based on the bank's level of public funds. However, the loan portfolio has increased steadily each quarter since 1998, from \$38 million at December 31, 1998 to \$58 million at September 30, 2001. This represents a 53% increase over that timeframe and reflects management's intention to increase loan production in its market area. Over the same time period, total deposits have also steadily increased, from \$63 million to \$91 million, or 44%.

LENDING IN THE ASSESSMENT AREA

NUBK meets the standards for "satisfactory" performance for lending within its AA. Our random sample of 20 mortgage loans disclosed that 19 loans (95%), amounting to \$1.6 million (94%), were originated within the AA. Likewise, our review of 40 commercial loans revealed that 36 loans (90%), representing \$3.9 million (77%), were within the AA.

GEOGRAPHIC DISTRIBUTION OF LOANS

NUBK's geographic distribution of loans meets the standards for "satisfactory" performance. Overall geographic distribution of mortgage and commercial loans, based upon our sample, reflects a reasonable dispersion based throughout the AA given office locations and demographic data. There are no low-income areas and only one geography is classified as moderate-income within the bank's designated AA.

Mortgage Loans

Within the bank's AA, overall distribution of residential mortgage loans is good. An analysis of lending in low-income geographies is not applicable since there are none within the AA.

Distribution in the single moderate-income census tracts is below the level of owner occupied housing within that BNA. This is due to the fact that the lone moderate tract is located in the City of Hudson, headquarters for the much larger Hudson River Bank & Trust Company which has a stronghold on the business in that area. The strong competition provided by this bank, the limited housing stock (29% of the housing is owner occupied), and the business inability of NUBK to match Hudson's rates have restricted NUBK in making any significant level of loans in this area. In addition, demographic data reveals that 27% of the households are below the poverty level, which restricts the ability of many individuals to qualify for home loans.

Geographic Distribution of Sampled Mortgage Loans in AA					
BNA Designation	# Loans	%	\$ Amt (000)	%	% Owner Occupied Housing
Moderate	0	0	0	0	3%
Middle	6	32%	\$ 459	29%	70%
Upper	13	68%	\$ 1,123	71%	27%
NA	0	0	0	0	0
TOTALS	19	100%	\$1,582	100%	100%

Sources: 1990 internal bank records and US census data.

Due to the absence of any low-income geography, an analysis of activity in such an area is not applicable.

Commercial Loans

Within the bank's AA, the distribution of the commercial loans originated is excellent. The following table indicates that the percentage of loans made in the moderate-income BNA significantly exceeds the portion of businesses in that area.

Geographic Distribution of Sampled Commercial Loans in the AA					
Tract Income Level	# Loans	%	\$ Amt (000)	%	% of Businesses in Tract
Moderate	12	33%	\$ 1,142	30%	4%
Middle	10	28%	\$ 1,248	32%	69%
Upper	14	39%	\$ 1,456	38%	27%
TOTALS	36	100%	\$3,846	100%	100%

Sources: Internal bank records and Dun & Bradstreet

Due to the absence of any low-income geography, an analysis of activity in such an area is not applicable.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES OF DIFFERENT SIZES

The bank's overall record of lending to borrowers of different income levels and to businesses of different sizes meets the standards for "satisfactory" performance.

Mortgage Lending

Although the level of lending to low-income families is non-existent, lending to moderate,

middle, and upper-income borrowers is good. Lending to low-income borrowers is difficult as the low-income borrower, with a maximum income of \$20,700, has difficulty in meeting basic underwriting criteria based on a median housing value of \$ 104,353 within the bank's AA. NUBK does not presently offer affordable mortgage products. However, serious consideration is being given to partnering in a local housing group's first time homebuyer or affordable mortgage program. Competition to provide low-income products is intense with the larger regional and multi-national banks having a presence in the AA possessing the business ability to participate in such programs.

Borrower Distribution of Sampled Mortgage Loans					
Borrower Income Level	# Loans	%	\$ Amt (000)	%	% of Families at Income Level in AA
Low	0	0	0	0	15%
Moderate	3	16%	\$ 222	14%	15%
Middle	7	37%	\$ 643	41%	25%
Upper	9	47%	\$ 717	45%	45%
Totals	19	100%	\$1, 582	100%	100%

Sources: Internal Bank records and 1990 US Census Data

Commercial Lending

The bank's lending to businesses of different sizes is reasonable. Based upon our sample of 40 commercial loans originated within the bank's AA, 36 or 75% of the number of commercial loans and \$1.8 million or 47% of the dollar amount, are to businesses with revenues of \$1 million or less. Dun and Bradstreet business demographic information indicates that 87% of the businesses within the AA have reported annual revenues of \$1 million or less. The sample indicated that a substantial majority of the commercial loans made to those companies with annual revenues in excess of \$1 million were to businesses within the bank's AA. Such credits assist in job creation or retention, issues that were noted by one of the community contacts as significant in the area. Another issue noted by the community contacts was the need for "start-up" funding. In the sample of loans within the AA made by the bank, two were start-up ventures. These are examples of how bank management helps to meet the credit needs of its community.

Distribution of Sampled Commercial Loans by Business Size in AA					
Total \$ Amt Commercial Loan Sample in AA (000)	# Loans	# Business \$1MM or less Revenues	% of #	\$ Amt (000) to Business \$1MM or less Revenues	% of \$ Amt
\$3,846	36	27	75%	\$1,826	47%

Source: Internal bank records

RESPONSE TO COMPLAINTS

The bank did not receive any CRA related consumer complaints with respect to lending performance within its assessment areas during the review period.

FAIR LENDING REVIEW

An analysis of the most recently available public comments and consumer complaint information was performed according to the Office of the Comptroller of the Currency's risk-based fair lending approach. Based on its analysis of the information, the Office of the Comptroller of the Currency decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The last comprehensive fair lending exam was performed in March of 1997.