



Office of the
Comptroller of the Currency
Washington, DC 20219

INTERMEDIATE SMALL BANK

PUBLIC DISCLOSURE

May 26, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Scotia
Charter Number 14680
201 Mohawk Avenue, Scotia, NY 12302

Office of the Comptroller of the Currency
5000 Brittonfield Parkway, Suite 102B, East Syracuse, NY 13057

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.

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

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Outstanding.

The major factors supporting the institution's ratings are:

- First National Bank of Scotia (FNBS) had an average loan-to-deposit ratio during the evaluation period.
- FNBS had a majority of consumer loans originated within its assessment area (AA) during the evaluation period.
- The bank had satisfactory penetration of consumer loans to borrowers of different income levels within the AA.
- FNBS's community development (CD) performance demonstrates excellent responsiveness to CD needs in the AA.

Scope of Evaluation

The evaluation period covers the time period from April 13, 2011 through May 26, 2015. We sampled loans originated between January 1, 2013 and March 31, 2015. The sample period was representative of the entire evaluation period as there were no major changes in the bank's strategic initiatives or underwriting standards. We determined that consumer loans were the bank's primary product based upon the volume of loan originations during the evaluation period and discussions with management. The bank offers consumer loans for a variety of purposes; however, automobile loans continue to be the bank's specialty area, primarily indirect loans originated through automobile dealers. Indirect automobile loans accounted for approximately 75% of loan originations during the evaluation period. Our sample included 120 randomly selected consumer loans. The evaluation period for CD activity covers the period from April 13, 2011 through May 26, 2015.

Description of Institution

FNBS is a community bank headquartered in Scotia, New York (NY), and owned by a one-bank holding company, Glenville Bank Holding Company, Inc. The bank's main office is located in Schenectady County as are five other branches, including a branch that services employees of General Electric (GE). The bank also maintains two branches in Albany County and two branches in Saratoga County. One branch is located in a low-income census tract. No branches were opened or closed during the evaluation period.

As of March 31, 2015, FNBS had total assets of \$430 million. Approximately 81%, or \$350 million, of assets were loans, funded by deposits of approximately \$392 million. Consumer loans amounted to approximately 42.3% of total loans, followed by business loans at 35.07%, and residential real estate loans at 24.06%. For Community Reinvestment Act (CRA) purposes, business loans include both commercial real estate and commercial and industrial loans. The remaining portion of the portfolio is a small amount of construction and development loans. The bank's primary product and lending focus remains consumer loans, primarily indirect automobile loans, based on a review of loan origination activity and discussions with bank management.

FNBS has no legal or financial impediments that would hinder its ability to help meet the credit needs in its AA. At the last CRA evaluation, dated April 13, 2011, the bank received a rating of "Satisfactory" performance.

Description of Assessment Area

FNBS's AA is located in the Albany-Schenectady-Troy Metropolitan Statistical Area (MSA). It consists of 165 census tracts in Albany, Saratoga, and Schenectady Counties. The AA includes all census tracts in Schenectady and Albany Counties and all but three northern census tracts of Saratoga County. The Great Sacandaga Lake is a natural geographic barrier to servicing these tracts. Of the 165 census tracts, 19 are designated low-income, 22 are moderate-income, 80 are middle-income, 43 are upper-income, and one (a college) does not have an income designation.

According to 2010 U.S. Census data, the total population of the AA is 672,425, with 164,047 families and 267,078 households. The distribution of households in the AA at each income level, used to evaluate borrower distribution of consumer loans, is 23.51% low-income, 15.76% moderate-income, 27.99% middle-income and 42.73% upper-income. The distribution of households in each census tract income designation, used to evaluate geographic distribution of consumer loans, is 8.9% low-income, 11.37% moderate-income, 49.72% middle-income, and 30.01% upper-income. The 2010 U.S. Census Median Household Income is \$62,055, which is used to determine the income designation of the borrower. The 2010 U.S. Census MSA Median Family Income is \$74,739, which is used to determine the income designation of the census tracts in the AA. There are 296,194 housing units in the AA, with approximately 59.24% owner occupied, 30.93% rental occupied, and 9.83% vacant. The percentage of households in the AA below poverty level is 9.77%.

Economic conditions in the AA have improved since the 2008 economic crisis. The unemployment rate for the Albany-Schenectady-Troy MSA decreased to 4.4%, as of March 2015, from 7.3%, at March 2011. Similarly, the New York State unemployment rate decreased from 8.1% to 5.7%. There are 54,633 businesses and 1,281 farms located in the AA based on the 2010 U.S. Census data. Approximately 71% had revenues of less than \$1 million dollars.

Major employers in the region continue to be GE, New York State and its political subdivisions, healthcare providers and insurers, and numerous colleges and universities. Saratoga County also benefits from the tourism industry with the Saratoga Race Course, Saratoga Raceway and Casino, and Saratoga Performing Arts Center located in Saratoga Springs, NY. Since the last evaluation, the nanotechnology industry has also expanded. The Global Foundries semiconductor fabrication plant in Saratoga County continues to grow and currently employs 3,000 people. The plant reports that it will add 600 more employees during 2015. The Sematech Semiconductor Research Consortium's investment in facilities located on the State University of New York's School of Nanoscale Science and Engineering campus located in Albany has also led to job growth. In Schenectady, as of December 2014, a gaming company has approvals to build a 50,000 square foot gaming facility, hotel and marina along the Mohawk River. The casino is expected to create between 1,200 and 1,400 jobs, outside of construction jobs. It should also provide added benefits to downtown Schenectady, which has seen significant infrastructure improvements over the last ten years and has added small businesses along its primary thoroughfare.

FNBS has heavy competition in the AA with 33 other community, regional, and large banking institutions, as well as credit unions, having branch locations in the area. The bank ranks 12th in terms of total branch deposits in the AA.

We contacted one local organization that provides home ownership counseling services, grants and job training to low and moderate-income individuals. A specific community service need mentioned was bank branching. The neighborhood serviced by this organization has very limited bank branches making banking difficult. The organization's director also stated that there is a need for improved communication between banks, grant providers and the CD organizations to ensure all parties understand associated needs and risks.

Conclusions with Respect to Performance Tests

Our evaluation of the bank's CRA performance is based on performance under the Lending and Community Development Tests.

LENDING TEST

FNBS's performance under the Lending Test is satisfactory. Lending Test performance is based on: the bank's average loan-to-deposit ratio during the evaluation period, the level of lending in the AA, lending to borrowers of different income levels, and the bank's geographic distribution of loans.

Loan-to-Deposit Ratio

FNBS's average loan-to-deposit ratio during the evaluation period was more than reasonable. The average quarterly loan-to-deposit ratio since the last CRA evaluation through December 31, 2014, was 85.43%. A comparison with three commercial banks

of similar size and serving the same market had average quarterly loan-to-deposit ratios ranging from 60.1% to 79.4%.

Lending in Assessment Area

Lending in the AA is satisfactory. FNBS had a majority of consumer loans originated within its AA during the evaluation period, as indicated by the table below. The bank originated 69.85% by number and 69.05% by amount of loans within the AA.

Lending in the AA										
Consumer Loans	Number of Loans					Dollars of Loans (millions)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
	5570	69.85%	2404	30.15%	7974	\$113.86	69.05%	\$51.03	30.95%	\$164.89

Source: All consumer loans originated between January 1, 2013 and March 31, 2015.

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

FNBS had satisfactory penetration of consumer loans to borrowers of different income levels during the evaluation period. The percentage of loans to moderate-income borrowers significantly exceeded the percentage moderate-income households in the AA. However, the percentage of loans to low-income borrowers was below the percentage of low-income households in the AA. Refer to the table below.

The bank’s primary consumer product is automobile loans, which tend to be larger loans than other types of consumer loans. The cost of paying for and maintaining a reliable vehicle when compared to the upper limit income of low-income persons, in addition to less expensive and convenient public transportation options, provides some economic explanation for the lower penetration among low-income persons. Indirect automobile loans account for approximately 75.4% of loan originations during the evaluation period, and the average automobile loan amount originated by the bank was \$20,253. Based on the 2010 U.S. Census data, 50% of the Median Household Income is \$31,028. The cost of maintaining a reliable vehicle, including maintenance costs, repairs, gasoline, and insurance, limits the capacity of low-income persons to afford a vehicle and cover other living expenses. Additionally, significantly less expensive public transportation options, providing ample routes and access within the AA, contribute to the economics that influence automobile ownership by low-income individuals within the assessment area.

Borrower Distribution of Consumer Loans in the AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	23.51%	12.7%	15.76%	28.8%	17.99%	22.0%	42.73%	36.4%

Source: Consumer Loan Sample; 2010 U.S. Census data.

Geographic Distribution of Loans

FNBS had poor dispersion of consumer loans among census tracts of different income designations during the evaluation period. The percentage of loans in both low and moderate-income census tracts was below the percentage of households located in those tracts. Refer to the table below for additional information.

The majority of low and moderate-income census tracts are located in the Cities of Schenectady and Albany, where the Capital District Transportation Authority (CDTA) offers good public transportation services. Monthly unlimited ride passes cost \$65 per month, and there are further discounts for seniors and persons with disabilities. The cost of using public transportation is significantly less expensive than the cost of owning, insuring, maintaining and parking an automobile. Additionally, while the bank’s geographic distribution of loans remains below the comparators, the bank’s performance significantly improved in low-income tracts since the prior evaluation.

Geographic Distribution of Consumer Loans in the AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	8.9%	5.9%	11.37%	8.5%	49.72%	54.2%	30.01%	31.4%

Source: Consumer Loan Sample; 2010 U.S. Census data.

Responses to Complaints

FNBS did not receive any CRA-related complaints since the prior evaluation.

COMMUNITY DEVELOPMENT TEST

FNBS’ performance under the CD Test demonstrates excellent responsiveness to CD needs of the AA and is rated Outstanding. Performance under the CD Test is based on: number and amount of CD loans, number and amount of qualified investments, and the extent to which the bank provides CD services. The bank’s responsiveness through CD loans, qualified investments, and CD services, as a whole, is excellent, in relation to the CD lending, investment, and service needs in the AA.

Number and Amount of Community Development Loans

FNBS demonstrated excellent responsiveness to CD needs of the AA through qualified lending. FNBS originated or renewed eleven CD loans totaling \$4,460,825, including:

- Five loans totaling \$279,000 to persons and a business negatively impacted by Hurricane Irene, for which FEMA had issued a Major Disaster Declaration that included Albany, Saratoga and Schenectady Counties.

- Two commercial loans, totaling \$1,378,825, a commercial term loan for \$378,825, and a \$1,000,000 commercial line of credit, to a non-profit organization that provides care to primarily low and moderate-income individuals with disabilities and health problems.
- Three commercial mortgages totaling \$2,453,000, funding multifamily apartment buildings that provide housing in low or moderate-income census tracts to low and moderate-income families.
- An annually renewed \$75,000 line of credit to a business development corporation that focuses on job creation and small business development.
- An annually renewed \$100,000 line of credit to a CD organization that provides loans to non-profit organizations that, in turn, provides housing and other services to low and moderate-income families.

Number and Amount of Qualified Investments

FNBS demonstrated excellent responsiveness to CD needs of the AA through qualified investments, including seven qualified investments totaling \$1,565,380:

- Three bonds totaling \$700,000 that revitalize and stabilize a moderate-income census tract within the bank's AA by funding school improvement/construction.
- Two bonds totaling \$365,380 that revitalize and stabilize a moderate-income census tract within the bank's AA by funding school improvement/construction and bus purchases.
- Two bonds totaling \$500,000 to a CD organization focused on clean and affordable energy and funds energy audits and energy efficiency home improvement loans, after grants of up to 50% of the project, to moderate-income homeowners in the entire state, including the bank's AA.
- FNBS was also very active in donating to or sponsoring charitable and non-profit organizations in and around its AA. During the CD evaluation period, the bank contributed \$42,131 to CD-eligible entities that support the needs of low and moderate-income families, revitalize or stabilize low and moderate-income census tracts, and/or support small businesses and job creation.

Extent to Which the Bank Provides Community Development Services

FNBS demonstrated adequate responsiveness to CD needs of the AA through qualified services. The bank has one branch located in a low-income census tract. FNBS employees and directors served the community through involvement in various organizations during the evaluation period. Among these organizations, several perform services that qualify as CD activity, including:

- A bank director serves as a fund raising adviser to a local relief organization, which assists low and moderate-income individuals in crisis situations, primarily with food.
- A Vice President serves on the Finance Committee of a hospice providing services to low and moderate-income patients.
- An Executive Vice President serves on the Finance Committee for the local community college foundation. The college is located in a low-income census tract and stabilizes the area. The officer also serves as the Board chair of the County Chamber of Commerce, which operates from a low-income census tract and supports business growth and job development in the entire county. Finally, this officer is on the Advisory Board of a local charity that provides services to low and moderate-income persons and families.
- A Vice President serves on the Board of a local relief organization, which assists low and moderate-income individuals in crisis situations, primarily with food.
- A Finance Specialist serves as a trustee on a local church that has a large food distribution program for low and moderate-income individuals.
- A Vice President serves on the Fund Raising Committee of a health services organization that provides services to low and moderate-income individuals. He was also active in providing financial expertise in the development of a handbook for a community center that assists low and moderate-income individuals.
- A Branch Operations Specialist serves on the Board and is the Treasurer of a senior living facility targeting low and moderate-income senior citizens.
- An Assistant Vice President is a member of the Finance Committee of a local CD organization that provides emergency housing, food and job training, among other services, to low and moderate-income persons and families.
- A Vice President is the Chairman of the Loan Review Committee of a local business development company that provides loans to businesses on the condition that a majority of the jobs are available to low and moderate-income individuals.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.