



Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

SMALL BANK

PUBLIC DISCLOSURE

April 19, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Scotia
Charter Number: 14680
201 Mohawk Avenue
Scotia, New York 12302

Comptroller of the Currency
Syracuse Field Office
231 Salina Meadows Parkway, Suite 105
Syracuse, New York 13212

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 **First National Bank of Scotia (FNB Scotia)** prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, **as of April 19, 2004**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A of 12 CFR Part 25.

INSTITUTION'S CRA RATING: This institution is rated “Satisfactory” based on the following:

- FNB Scotia’s average loan to deposit ratio at 73% meets the standards for satisfactory performance when compared to its peer lenders.
- FNB Scotia meets the standard for satisfactory performance for loans originated within the bank’s assessment area (AA).
- Borrower distribution of loan originations meets the standard for satisfactory performance for the distribution of credit to borrowers of different income levels and lending to businesses of different sizes.
- Geographic distribution of loan originations meets the standard for satisfactory performance for the distribution of credit to borrowers and businesses in different geographies.
- FNB Scotia has not received any CRA-related complaints during the evaluation period.

DESCRIPTION OF INSTITUTION

FNB Scotia is a \$251 million community bank headquartered in the Village of Scotia, NY, a suburb of Schenectady, NY. The bank operates ten offices within its AA. As of December 31, 2003, total assets were \$251 million consisting mainly of \$180 million (72%) in loans and \$43 million (17%) in investments. The bank’s deposits total \$231 million. The loan portfolio consists of \$21 million in residential real estate loans, \$46 million in commercial and commercial real estate loans, and \$114 million in consumer loans. During the majority of the evaluation period, management focused on commercial lending and indirect consumer lending.

FNB Scotia competes against other community banks, large multi-state and international banks, savings and loans, credit unions, and finance companies. FNB Scotia is positioned to help meet the credit needs of the community. FNB Scotia offers accessible banking hours tailored to customer needs in the AA. Nine of the ten offices offer extended hours on Friday, are open Saturday mornings, and have drive-up window service. The tenth office is located within an office building, which is not convenient for extended hours or drive-up window service. All offices offer ATM services with 24-hour worldwide access via the PLUS and NYCE systems.

FNB Scotia has no legal or financial impediments that would hinder its ability to help meet the credit needs in its defined AA. At the last CRA examination dated August 30, 1999, FNB Scotia demonstrated a satisfactory level of performance in meeting the credit needs of the community. This evaluation covers the time period from August 31, 1999, through April 19, 2004.

DESCRIPTION OF ASSESSMENT AREA

FNB Scotia's AA consists of 94 geographies entirely within the Albany-Schenectady-Troy Metropolitan Statistical Area (MSA) – MSA 0160. The geographies are distributed as follows: two low-income, 13 moderate-income, 55 middle-income, 23 upper-income, and one with no income designation. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

The AA has a total population of 399,723 in 107,436 families, and 151,536 households. The AA consists of 14.01% low-income, 17.77% moderate-income, 25.40% middle-income, and 42.82% upper-income families. Of the 162,342 housing units in the AA, 65% are owner-occupied, 27% are renter-occupied, and 8% are vacant. The median housing value in the AA is \$104,493, with a median housing age of 45 years.

The 1990 U.S. Census Median Family Income for the AA is \$39,425. This figure is used to determine the income designation of the geographies. The Median Household Income for the AA is \$37,253. This figure is used to evaluate borrower income distribution for consumer loans in the AA.

As of March 2004, the unemployment rates for New York State and MSA 0160 were 6.7% and 4.9%, respectively. The unemployment rates for Albany, Saratoga, and Schenectady Counties, as of March 2004, were 4.1%, 4.5%, and 4.6%, respectively. Since the last CRA exam, the unemployment rate has increased in the bank's AA at the same rate as the state unemployment rate. Local economic conditions are stable but have suffered with the downsizing of General Electric Co. and the state government offices. Major employers include the Albany and Schenectady School Districts, Union College, Schenectady County Community College, the State University of New York at Albany, General Electric Co., and state and local government offices.

During our examination, we contacted two local non-profit organizations that assist low- and moderate-income individuals and small businesses with financial counseling and support. Both community contacts confirmed there is a continuing strong need for affordable home financing and affordable small business financing.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

This evaluation covers loan activity between August 30, 1999, and December 31, 2002. Based on a discussion with management and a review of new loan reports for 2000, 2001, and 2002, we determined the bank's primary products to be consumer indirect loans, the majority of which are vehicle loans, and commercial loans. Our analysis and conclusions are based on a sample of 2000, 2001, and 2002 consumer indirect loans and commercial loans originated within the bank's AA. We believe this sample is representative of the entire examination period.

Loan-to-Deposit Ratio

FNB Scotia's loan-to-deposit ratio meets the standard for satisfactory performance. Since the last CRA examination, FNB Scotia's average loan-to-deposit ratio is 73%. FNB Scotia's average loan-to-deposit ratio is in the mid-range of five similar peer banks, with average loan-to-deposit ratios ranging from 60% to 119%.

Lending in the Assessment Area

Lending within the AA meets the standard for satisfactory performance with 68% of the number of loans and 83% of the dollar amount of loans originated within the bank's AA. Our sample of commercial loans originated or purchased by the bank during this evaluation period showed 82% of the number of loans and 90% of the dollar amount of loans were within the AA. Our sample of consumer indirect loans originated or purchased by the bank during this evaluation period showed 53% of the number and 52% of the dollars were within the banks AA.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

FNB Scotia’s record of lending to borrowers of different incomes and to businesses of different sizes meets the standard for satisfactory performance.

Borrower Distribution of Consumer Indirect Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	18.00	18.33	15.40	30.00	20.70	26.67	45.90	25.00

Source: % of AA Households is based on the 1990 U.S. Census. % of Number of Loans is based on our loan sample.

Borrower distribution of consumer indirect loans to low-income borrowers meets the percentage of low-income households in the AA. The borrower distribution of consumer indirect loans to moderate-income borrowers in the AA exceeds the percentage of moderate-income households in the AA.

Borrower Distribution of Loans to Businesses in the AA		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses	92.13	7.87
% of Bank Loans in AA by #	78.33	21.67
% of Bank Loans in AA by \$	86.29	13.71

Source: % of AA Businesses is based on Dunn and Bradstreet data. % of Number of Loans in AA by # and by \$ is based on our loan sample.

Lending to businesses of different sizes in the FNB Scotia AA is satisfactory. The percentage of loans to businesses with annual revenues equal to or less than \$1 million is reasonably close to the percentage of small businesses in the AA.

Geographic Distribution of Loans

FNB Scotia's geographic distribution of loans meets the standard for satisfactory performance.

Geographic Distribution of Consumer Indirect Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	1.80	0.00	10.80	10.00	62.70	60.00	24.7	30.00

Source: % of AA Households is based on the 1990 U.S. Census. % of Number of Loans is based on our loan sample.

Overall, the geographic distribution of consumer loans is adequate. The percentage of the number of loans to households in moderate-income geographies is near the percentage of households located in moderate-income geographies in the AA. There were no loans to households located in low-income geographies based on our sample. However, we placed more weight on lending in moderate-income geographies in this product due to the very small percentage of households located in low-income geographies.

Geographic Distribution of Loans to Businesses in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
	.72	0.00	8.68	6.67	61.69	53.33	28.91	40.00

Source: % of AA Businesses is based on the 1990 U.S. Census. % of Number of Loans is based on our loan sample.

The geographic distribution of the percentage of business loans made to businesses in moderate-income geographies is reasonable compared to the percentage of businesses located in moderate-income geographies. Based on our sample, there were no loans made to businesses in low-income geographies. For this product, we placed more emphasis on lending in moderate-income geographies since there is a very small percentage of businesses located in low-income geographies.

Response to Complaints

FNB Scotia has not received any complaints regarding its CRA performance since the prior examination.

Fair Lending Review

We found no evidence of illegal discrimination or other illegal credit practices.