



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

Public Disclosure

August 30, 1999

Community Reinvestment Act Performance Evaluation

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

**Office of the Comptroller of the Currency
Syracuse Field Office
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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 CRA performance of the **First National Bank of Scotia (FNBS)** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **August 30, 1999**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

Institution's CRA Rating: This institution is rated "**Satisfactory.**"

The primary factors supporting the overall rating are:

- FNBS's average loan-to-deposit ratio since the last examination is 74%.
- A substantial majority of all loans originated are within the bank's assessment area.
- The distribution of mortgage, home improvement, refinances, indirect loans and direct loans among borrowers of different income levels is very good.
- The geographic distribution of mortgage, home improvement and refinances is very good. The geographic distribution of indirect and direct loans is reasonable. Commercial loan distribution is very good.
- A substantial majority of commercial loan originations are to small businesses.

DESCRIPTION OF INSTITUTION

FNBS is a \$193 million community bank with its main office located in the Village of Scotia, New York, a suburb of Schenectady, New York. The bank operates nine offices within its assessment area. At June 30, 1999, FNBS has \$120 million in loans and \$177 million in deposits. Consumer loans total \$62 million and represent 52% of the loan portfolio. Real estate loans, which include consumer and commercial real estate loans, total \$48 million, 40% of the loan portfolio. The remaining 8% represent commercial loans. The primary business focus is indirect and direct auto lending.

Competition is strong from other financial institutions and finance companies both within and outside the bank's assessment area. FNBS is reasonably positioned to help meet the credit needs of the community. FNBS has reasonable banking hours with core hours from 9 a.m. to 5 p.m. at most branches (including the branch in the moderate-income geography) with extended hours on Friday. FNBS offers Saturday hours at six of its nine offices. Drive-up facilities are available at eight of the nine offices including the branch in the moderate-income geography. Automated teller machines (ATM's) are available at eight of the nine offices with 24-hour worldwide access via the PLUS and NYCE systems.

The bank has no legal or financial impediments that would hinder its ability to help meet the credit needs of the community. We last evaluated FNBS's performance under the CRA as of January 29, 1996. Our evaluation period for this public evaluation spans from January 30, 1996 through August 30, 1999.

DESCRIPTION OF THE ASSESSMENT AREA

FNBS's assessment area (AA) consists of 94 geographies entirely within the Albany-Schenectady-Troy Metropolitan Statistical Area (MSA) - MSA 0160. The geographies are distributed as follows: two (2) low-income, 13 moderate-income, 55 middle-income, 23 upper-income, and one (1) with no income available. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

The AA's 400 thousand residents representing 107 thousand families have the following family income distribution: 14% low-income, 18% moderate-income, 25% middle-income, and 43% upper-income. The 1990 U. S. Census median family income is \$39,425. This figure is used to determine the distribution of geographies. The Housing and Urban Development updated median family income is used to determine borrower income distribution. The updated median family income for 1999, 1998, 1997, and 1996 for MSA 0160 is \$49,700, \$47,400, \$47,000 and \$43,400, respectively.

Local economic conditions are stable but have suffered over the last decade with the downsizing of General Electric and state government. Major employers include small businesses, local school districts and colleges, state and local governments and General Electric. The July 1999 unemployment rates for Albany, Saratoga and Schenectady Counties are as follows: 2.8%, 2.9% and 3.4% respectively. The July unemployment rate for MSA 0160 is 3.3%. The unemployment rate for New York State is 5.3%. Community credit needs include affordable home purchase loans for all income levels, consumer loans and commercial loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Our examination focused on loans originated between January 30, 1996 and August 30, 1999. We focused on the bank's primary business lines which include consumer indirect and direct installment lending. Since the bank reports real estate loans on the Loan Application Register as required by the Home Mortgage Disclosure Act (HMDA-LAR), we considered these loans as well. We also sampled business loans to determine the level of lending to businesses of different sizes.

Loan to Deposit Ratio

FNBS's loan-to-deposit ratio meets the standard. The average loan-to-deposit ratio since the last examination of 74% compares favorably to similarly situated banks whose ratios range from 54% to 74%. However, FNBS's loan-to-deposit ratio has declined steadily over the evaluation period and is 67% as of June 30, 1999. Similarly situated banks are those with \$175 to \$225 million in total assets located in New York State.

Lending in the Assessment Area

FNBS exceeds the standard for lending in the AA. A substantial majority of all loan originations are within the bank's AA. Approximately 95% of the number and 93% of the amount of loan originations are within the AA. Refer to the Table 1 in the Appendix for more information.

Note that our conclusions for indirect, direct and commercial lending for all of the elements under the lending test are based on a random sample of originations that took place during the evaluation period. We initially sampled 32 indirect loans totaling \$448 thousand, 31 direct loans totaling \$411 thousand, and 21 commercial loans totaling \$2.0 million. Our sample represented less than one (1) percent of the number and dollar amount of indirect loans originated, two (2) percent of the number and dollar amount of direct loans originated, and six (6) percent of the number and ten (10) percent of the dollar amount of commercial loans originated. Management questioned the results of the initial sample of indirect loans with respect to their geographic distribution. As a result, we expanded our sample by another 39 indirect loans to evaluate performance in that area. Please refer to the **Geographic Distribution of Loans** section of this report for more information. We included all originations reported on the Home Mortgage Disclosure Act - Loan Application Register (HMDA-LAR).

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

FNBS's record of lending to borrowers of different incomes and to businesses of different sizes exceeds the standard. FNBS has a very good record of lending to borrowers of different incomes including low- and moderate-income borrowers as indicated by Table 2 in the Appendix.

FNBS's lending to businesses of different sizes is very good. A sample of 20 business originations indicates 90% of the number and 70% of the amount of originations were to small businesses (businesses with revenues of \$1 million or less.) This compares favorably with Dun and Bradstreet information which indicates 90% of the businesses in the AA reporting revenues have revenues of \$1 million or less.

Geographic Distribution of Loans

FNBS's geographic distribution of loans originated meets the standard. FNBS's geographic distribution of indirect and direct loans is reasonable. The geographic distribution of HMDA loans is good in the low- and moderate-income geographies given that FNBS does not consider HMDA loans as a primary or even secondary product type. Refer to Table 4 in the Appendix for

more information. The geographic distribution of commercial loans is very good. Refer to Table 5 in the Appendix for more information.

Our original sample of indirect loans did not provide enough information to draw a conclusion on the geographic distribution of these loans. We revised the sample to provide more information about the geographic distribution of indirect loans and, as such, this information serves as the basis for our conclusion in this area.

Response to Complaints

FNBS has not received any CRA related consumer complaints since the last CRA examination.

Results of the Fair Lending Examination

During the concurrent Fair Lending Examination, we did not identify any violations of the substantive provisions of anti-discrimination or fair lending laws and regulations. The scope of our Fair Lending Examination focused on home improvement loans secured by real estate originated between January 1, 1999 and June 30, 1999. We compared loan terms on these loans to determine if any of the terms were unfavorable to those in a prohibited basis group.

APPENDIX

Table 1

<i>Lending in the AA</i>						
Product Type	Number in AA	%	Amount in AA	%	Total Number	Total Amount
Indirect*	30	94%	397	89%	32	448
Direct*	31	100%	411	100%	31	411
Commercial*	20	95%	1,989	99%	21	2011
HMDA	255	94%	7,441	94%	270	7,903

*Lending in the assessment area for indirect, direct and commercial loans is based on a random sample. We used all HMDA loans originations to determine HMDA lending in the AA.

Table 2

<i>Lending to Borrowers of Different Incomes</i>								
Product Type	Low-Income		Moderate-Income		Middle-Income		Upper-Income	
	% of #	% of \$	% of #	% of \$	% of #	% of \$	% of #	% of \$
Indirect*	20%	18%	17%	16%	30%	22%	33%	44%
Direct*	23%	13%	23%	22%	12%	17%	42%	48%
HMDA**	9%	7%	20%	16%	22%	23%	42%	42%
Income Distribution of Families within the AA	14%		18%		25%		43%	

*Based on sample.

**Note: The percentages for HMDA loans do not equal 100% because income information was not available for 17 loans originated which represents 7% of the number and 12% of the amount of originations over the evaluation period.

Table 3

<i>Geographic Distribution of Indirect and Direct Loans</i>								
Product Type	Low-Income		Moderate-Income		Middle-Income		Upper-Income	
	% of #	% of \$	% of #	% of \$	% of #	% of \$	% of #	% of \$
Indirect*	5%	4%	8%	7%	59%	55%	28%	34%
Direct**	3%	<1%	3%	2%	45%	47%	49%	50%
Geographic Distribution of Population	2%		10%		61%		27%	

*Based on revised sample.

**Based on sample.

Table 4

<i>Geographic Distribution of HMDA Loans</i>								
Product Type	Low-Income		Moderate-Income		Middle-Income		Upper-Income	
	% of #	% of \$	% of #	% of \$	% of #	% of \$	% of #	% of \$
HMDA	<1%	<1%	3%	5%	63%	62%	34%	32%
Geographic Distribution of Owner-Occupied Housing	1%		7%		63%		29%	

Table 5

<i>Geographic Distribution of Commercial Loans</i>								
Product Type	Low-Income		Moderate-Income		Middle-Income		Upper-Income	
	% of #	% of \$	% of #	% of \$	% of #	% of \$	% of #	% of \$
Commercial Loans*	5%	1%	10%	1%	55%	85%	30%	13%
Geographic Distribution of Commercial Businesses	1%		11%		60%		28%	

*Based on sample