



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

April 13, 2011

### 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

UPSTATE NEW YORK (SYRACUSE) Field Office  
5000 Brittonfield Parkway Suite 102  
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: Satisfactory.**

The primary factors supporting the above rating are:

- First National Bank of Scotia (FNBS) had an average loan-to-deposit ratio during the evaluation period that was reasonable compared to similarly situated institutions.
- A majority of consumer loans originated were in the bank's assessment area (AA).
- The bank had an excellent penetration of consumer loans to borrowers of different income levels.
- The bank had a poor dispersion of consumer loans to borrowers located in low-income census tracts. However, there are mitigating factors for this performance.
- The bank's community development performance demonstrates adequate responsiveness to community development needs in the AA.

## **Scope of Examination**

The current evaluation period for community development activity covers the dates from October 15, 2007 through April 12, 2011. The lending test covers the period from September 1, 2007 through December 31, 2010. The sampled loans were originated from the period of January 1, 2008 through December 31, 2010. This period was representative of the entire lending test period as no strategic changes or changes in lending standards took place. We determined that consumer loans were the bank's primary product after evaluating originations during the period by both count (82% consumer loans) and amount (52% consumer loans) and by discussing the matter with bank management. We chose a random sample of 115 consumer loans, 60 of which were inside the bank's AA.

## **Description of Institution**

FNBS is a community bank headquartered in Scotia, New York. FNBS is owned by a one-bank holding company, Glenville Bank Holding Company, Inc. In addition to the main office, the bank has nine full service branches and a stand-alone Automatic Teller Machine (ATM) located throughout Schenectady, Albany, and Saratoga Counties. The offices are located in one moderate-income, five middle-income, and four upper-income census tracts. The stand-alone ATM is located at Schenectady County Community College in a middle-income census tract. No branches were opened or closed during the evaluation period.

As of December 31, 2010, FNBS had total assets of \$350 million, consisting mainly of loans (78%) and funded almost exclusively through deposits of \$317 million. Consumer loans amounted to approximately 45.50% of total loans, followed by business loans at 29.53%, and residential real estate loans at 23.46%. For CRA purposes, business loans include both commercial real estate and commercial and industrial loans. The remaining portion of the portfolio was made up of a small amount of construction and development loans. Management's primary focus remained indirect auto lending with an effort to increase home mortgage and business loans when possible.

FNBS has no legal or financial impediments that would hinder its ability to help meet the credit needs in its defined AA. At the last examination dated October 15, 2007, the bank demonstrated a satisfactory level of performance.

## **Description of Assessment Area**

FNBS has one AA consisting of 110 census tracts in Albany, Saratoga, and Schenectady Counties within the Albany-Schenectady-Troy Metropolitan Statistical Area (MSA). While the AA includes all of the census tracts in Schenectady County, only portions of Albany and Saratoga Counties are included. Those tracts included in Northern Albany and Southern Saratoga Counties represent those areas that FNBS can reasonably be expected to serve given the bank's size, strategy, and branch locations. Of the 110 census tracts, seven are designated low-income, 14 are moderate-income, 54 are middle-income, 34 are upper-income, and one does not have an income designation.

The AA has a population of 441,547. A total of 187,147 housing units are located in the AA, with 64.81% listed as owner-occupied. Approximately 6% of the housing units are vacant. The weighted average median typical AA house was built in 1963 with a value of \$110,849. The Department of Housing and Urban Development (HUD) Updated Median Family Income for 2010 was \$75,500. A total of 7% of the households in the AA are living below the poverty level.

Economic conditions in the AA, much like the entire nation, have deteriorated during the evaluation period. The unemployment rate for the Albany-Schenectady-Troy MSA has increased from 3.7% as of the last CRA exam to 7.1% as of December 2010. Similarly, the New York State unemployment rate increased during the same time period from 4.4% to 8.0%. A total of 31,336 businesses (825 farms) were located in the AA as of 2010, with approximately 71% with revenues less than \$500 thousand per year. The AA is heavily reliant on the government sector as it is by far the biggest employer in the region. Large job layoffs are expected in the state and local government entities, which will affect the AA greatly and offset any possible recovery in the private sector in the near future. Major private sector employers include Albany Medical Center, Albany International Corporation, and SUNY Albany. General Electric remains a large employer in the Schenectady area. Additionally, According to Moody's Analytics, the area is emerging as a leader in commercially viable nanotechnology. Global Foundries, Inc., formerly the manufacturing arm of Advanced Micro Devices Inc., is in process of building a \$3 billion computer chip manufacturing plant in Malta, NY, located in Saratoga

County. In 2011, SUNY Albany intends to expand its nanotechnology research center and add nearly 1,300 research and science positions in nearby Albany County. Saratoga County also benefits from tourism with the Saratoga Race Course, Saratoga Raceway and Casino, and Saratoga Performing Arts Center located in Saratoga Springs, NY.

FNBS has heavy competition in the AA with 32 other community, regional, and large banking institutions having branch locations in the area. The bank ranks 11<sup>th</sup> in terms of total branch deposits in the AA.

During our examination, we contacted one local organization that provides home ownership counseling services to low- and moderate-income individuals. A specific community lending need mentioned was low-cost home improvement loans. The housing stock in the AA is aged, which affects the low- and moderate-income borrowers disproportionately.

## **Conclusions with Respect to Performance Tests**

Our assessment of the bank's performance under the Community Reinvestment Act (CRA) is based on performance under the lending test and community development test.

### **LENDING TEST**

FNBS' performance with regard to the lending test met the standard for satisfactory performance. The performance level for the lending test was based on four individual factors: loan-to-deposit ratio, lending in the AA, lending to borrowers of different incomes, and the geographic distribution of loans.

#### **Loan-to-Deposit Ratio**

FNBS' average loan-to-deposit ratio during the evaluation period was reasonable. The average quarterly loan-to-deposit ratio since the last CRA examination up to December 31, 2010 was 82.51%. In comparison, three similarly situated banks operating in similar markets or competing directly with FNBS had average quarterly loan-to-deposit ratios ranging from 57.17% to 97.17%.

#### **Lending in Assessment Area**

FNBS had a majority of consumer loans originated within its AA during the assessment period as indicated by the table below. The bank originated 52.17% by count and 50.10% by amount of loans in the AA. It should be noted that we used our consumer loan sample, which is heavily represented by indirect auto loans, to compare credit extended inside the AA. The percentage of loans originated within the AA would likely increase if we included home mortgage and business loans in our analysis.

<b>Lending in the Assessment Area</b>										
Consumer Loans	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
	60	52.17	55	47.83	100	975	50.10	971	49.90	100

Source: Random selection of 115 consumer loans originated between January 1, 2008, and December 31, 2010.

### Lending to Borrowers of Different Incomes

FNBS had an excellent penetration of consumer loans to borrowers of different incomes during the evaluation period. The percentage of loans to low-income borrowers exceeded the percentage of AA low-income households. The percentage of loans to moderate-income borrowers significantly exceeded the percentage of AA moderate-income households. For more information, refer to the chart below.

<b>Borrower Distribution of Consumer Loans in the Assessment Area</b>								
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	18.30	26.67	15.68	30.00	18.74	28.33	47.29	15.00

Source: % of Number of Loans is from a sample of consumer loans originated from January 1, 2008 – December 31, 2010; % of AA Households is from the 2000 U.S. Census data.

### Geographic Distribution of Loans

FNBS had a poor dispersion of consumer loans during the evaluation period. The percentage of loans in low-income census tracts was below the percentage of households located in those tracts. The percentage of loans in moderate-income census tracts was also slightly below the percentage of households located in those tracts. Refer to the chart below for more information.

<b>Geographic Distribution of Consumer Loans in the Assessment Area</b>								
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	4.76	0.00	9.01	8.33	54.08	53.33	32.14	38.33

Source: % of Number of Loans is from a sample of consumer loans originated from January 1, 2008 – December 31, 2010; % of AA Households is from the 2000 U.S. Census data.

The bank's consumer loan portfolio is concentrated in car loans. The low income census tracts in the bank's assessment area are located in downtown Schenectady. The Capital District Transportation Authority (CDTA) operates extensive bus routes within the City of Schenectady and along the Albany – Schenectady corridor. As a result, car ownership is likely lower in these census tracts due to greater access to public transportation than suburban and rural areas.

### **Responses to Complaints**

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

## **COMMUNITY DEVELOPMENT TEST**

FNBS' performance with regard to the community development test met the standard for satisfactory performance. The performance level for the community development test was based on three individual factors: number and amount of community development loans, number and amount of qualified investments, and the extent to which the bank provides community development services.

### **Number and Amount of Community Development Loans**

FNBS demonstrated adequate responsiveness to community development needs of the AA through qualified lending. FNBS originated or renewed 13 community development loans totaling \$1,600,078 including:

- Two commercial loans totaling \$35,078, a commercial mortgage totaling \$300,000, and a commercial line of credit totaling \$100,000 to a non-profit organization that provides care to primarily low- and moderate-income individuals with disabilities and health problems.
- Two commercial mortgages totaling \$550,000, and a commercial line of credit totaling \$250,000 to renovate a property for a non-profit business located in a low-income census tract. This activity led to revitalization and employment opportunity in that low-income census tract, as well as surrounding low- and moderate-income census tracts.
- A \$15,000 line of credit to a chamber of commerce located in a moderate-income census tract.
- Three \$50,000 lines of credit to economic development funds operating within the bank's AA that assist small businesses and create employment opportunities.
- A \$75,000 line of credit and a \$125,000 line of credit to the New York State Business Development Corporation. These loans have the potential to benefit small businesses located in the bank's AA.

## **Number and Amount of Qualified Investments**

FNBS demonstrated adequate responsiveness to community development needs of the AA through qualified investments. A Schenectady County economic development bond was purchased during the evaluation period totaling \$389,419. The economic development bond proceeds were used for the development and improvement of various commercial sites in moderate-income tracts within the City of Schenectady. Additionally, FNBS donated \$9,108 to organizations that serve the community in qualified community development activity.

## **Extent to Which the Bank Provides Community Development Services**

FNBS demonstrated adequate responsiveness to community development needs of the AA through qualified services. The bank has one branch located in a moderate-income census tract. Additionally, the bank offers referrals to a national lending service for home mortgage loans that do not conform to the bank's lending criteria. Under this referral program, the national lending service originated 48 loans, including 23 to low- and moderate-income borrowers during the evaluation period.

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 community development activity.

- A bank director serves as a director of an economic development corporation and an executive of an industrial corporation assisting small businesses in the Schenectady area.
- An executive officer serves as a director of an employment training and economic development organization.
- An officer serves as a director and on the finance committees of an organization that provides health services to low- and moderate-income individuals and a community center serving primarily low- and moderate-income individuals. The officer also serves as a director and treasurer of a civic organization that aids businesses in low- and moderate-income census tracts.
- A manager serves as treasurer of an organization that serves disadvantaged youths.
- An officer serves as a director of an organization that provides aid to low- and moderate-income individuals.
- An employee serves as a director of a youth association that serves children from low- and moderate-income homes.
- An officer serves on the finance committee for a day care facility primarily serving low- and moderate-income individuals.

### **Responsiveness to Community Development Needs**

The bank's community development performance demonstrates satisfactory responsiveness to community development needs in its AA considering the bank's capacity and the need and availability of such opportunities for community development in the AA.

### **Fair Lending or Other Illegal Credit Practices Review**

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