



Office of the
Comptroller of the Currency
Washington, DC 20219

INTERMEDIATE SMALL BANK

PUBLIC DISCLOSURE

April 25, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Saratoga National Bank and Trust Company
Charter Number 21530

137 South Broadway Saratoga Springs, NY 12866-4531

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:

- Saratoga National Bank and Trust Co (SNB) had a more than reasonable average loan-to-deposit ratio during the evaluation period.
- SNB had a majority of consumer loans originated within its assessment area (AA) during the evaluation period.
- SNB had satisfactory penetration of consumer loans to borrowers of different income levels.
- SNB had poor penetration in different geographies of the AA.
- SNB community development (CD) performance demonstrates excellent responsiveness to CD needs in the AA.
- SNB did not receive any CRA-related complaints during the evaluation period.

Scope of Examination

The evaluation period covers the time period from September 3, 2013, through April 24, 2017. We used management's internal reports of loans originated between January 1, 2015, and December 31, 2016, to arrive at our conclusions. The period was representative of the entire evaluation period as there were no major changes in the bank's strategic initiatives or underwriting standards. The bank's CD development period was evaluated from the date of the last PE. We determined that consumer loans were the bank's primary product. 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 95% of loan originations during the evaluation period. Management maintains geographic and income data for all consumer loans. Our data integrity testing found this data to be accurate allowing us to use it in the evaluation. We were able to derive our conclusion from the bank's records as opposed to sampling loans.

Description of Institution

SNB is a \$462 million community bank headquartered in Saratoga Springs, New York (NY), which is centrally located in Saratoga County and approximately 35 miles north of Albany, NY. SNB is owned by a multi-bank holding company, Arrow Financial

Corporation (Arrow). Arrow also owns Glens Falls National Bank (GFNB), a \$2.1 billion community bank headquartered in Glens Falls, NY, approximately 19 miles northeast of Saratoga Springs. With the opening of the Colonie office in June 2014 and the Troy office in September 2015, SNB serves the community through nine offices. Five of the offices are located in Saratoga Springs and Wilton; the Clifton Park office serves the southern portion of Saratoga County; the Corinth office serves the northern portion of Saratoga County; the Colonie office serves the north-eastern portion of Albany County; and, the Troy office serves the western portion of Rensselaer County. Seven of the offices are located in middle-income census tracts, while the Route 9 (Saratoga Springs) and Clifton Park offices are located in upper-income census tracts.

All offices have 24-hour ATMs and all but one have drive-up facilities. The bank's ATMs recognize public benefit cards without a surcharge. There are no material differences in the availability or cost of services available across SNB's offices. Management offers various loan and deposit products. Deposit products include low balance, service-charge free accounts. Loan products include residential and commercial mortgages, commercial loans, and consumer loans with a focus on indirect auto lending. With the opening of the Colonie and Troy offices, the bank has gained access to several loan programs offered in conjunction with area community development organizations. These programs focus on technological expansion and support small business interests that increase employment opportunities for LMI persons and support minority and women owned businesses. The bank is also a preferred Small Business Administration lender. The bank offers various low down payment mortgages from the USDA, SONYMA, VA and FHA. The bank has a first-time home buyer program offering low down payments, fee waivers, a down payment savings program and a rate reduction.

As of March 31, 2017, SNB has \$367 million in gross loans and \$390 million in deposits. The loan portfolio consists of \$145 million (39.64%) in residential real estate loans and lines, \$104 million in consumer loans (28.47%), and \$29 million (31.88%) in commercial loans. For the calendar years 2015 and 2016, management originated 13,166 loans totaling \$579 million. Of these totals, motor vehicle loans represented 12,026 (91.34%) totaling \$271 million (46.86%). Approximately 99% of these motor vehicle loans are originated indirectly through dealerships located throughout New York State. Due to the volume of this indirect lending, SNB sells a significant amount of these loans to GFNB for liquidity purposes.

SNB has no legal, financial, or regulatory impediments that would hinder its ability to help meet the credit needs of its AA. At the last CRA examination dated September 3, 2013, SNB received a CRA performance rating of "Satisfactory."

Description of Assessment Area (AA)

The AA contains 210 census tracts and includes all the census tracts (CTs) in the Albany-Schenectady-Troy MSA, but excludes Schoharie County. Of the 210 census tracts, 24 (11.43%) are designated low-income, 33 (15.71%) are designated moderate-income, 105 (50.00%) are designated middle-income, 47 (22.38%) are designated

upper-income, and one (0.48%) does not have an income designation. The census tract without an income designation contains Skidmore College.

The AA has a total population of 837,967 persons in 205,234 families and 333,150 households. A total of 372,555 housing units are located in the AA, with 58.81% listed as owner-occupied. Of those housing units, 10.58% are listed as vacant. The distribution of families by income level, which is used to evaluate borrower distribution of home mortgage loans is as follows: 20.41% low-income, 17.75% moderate-income, 21.82% middle-income, and 40.03% upper-income. The distribution of households by income level, which is used to evaluate borrower distribution of consumer loans, is as follows: 24.02% low-income, 15.93% moderate-income, 18.11% middle-income, and 41.94% upper-income. The median household income for the AA is \$60,770. The percentage of households in the AA below the poverty level is 10.08%.

The AA's low-income CTs average median household income is \$29,928, with 28.79% of households below the poverty level. In the AA's low-income CTs, 48.53% of the households are low-income and 20.35% are moderate-income. In the moderate-income CTs, the median household income is \$40,402. In the moderate-income CTs, 17.21% of the households are below the poverty level, 35.57% of the households are low-income and 20.68% are moderate-income. The majority of low- and moderate-income CTs are along well scheduled public transportation routes providing a very affordable alternative to the costs of vehicle ownership. Unlimited fares covering the cities and surrounding suburbs of Schenectady, Albany and Troy are \$65 for 31 days.

Economic conditions in the AA improved during the evaluation period, as was the case with the entire state. The March 2017 unemployment rate for Saratoga County was 3.9% compared to the March 2013 rate of 6.3%. During the same timeframe, Albany County had unemployment rates of 3.8% and 6.3%, respectively, while Rensselaer County had rates of 4.20% and 7.20%, respectively, and Schenectady County had rates of 4.20% and 7.10%, respectively. Unemployment rates for these counties compare favorably to New York State unemployment rates of 4.4% and 8.0% at March 2017 and March 2013, respectively. Unemployment rates in the AA are seasonal, with rates peaking in the months of January or February. The seasonally adjusted March 2017 unemployment rates for New York State and the Albany-Schenectady-Troy MSA were 4.3% and 4.0%, respectively. The top employers in the Capital Region are Albany Medical Center, General Electric, Glens Falls Hospital, GlobalFoundries, Saratoga Hospital, Price Chopper, Rensselaer Polytechnic Institute and Walmart.

Competition from other financial institutions operating in the AA is significant. In Saratoga County, SNB's seven offices compete for deposit market share with 16 other community, regional, and national financial institutions; in Albany County SNB has one office competing against 18 other institutions; and in Rensselaer County SNB has one office competing against 12 other institutions.

Indirect loan competition is significant in the AA as many lenders have found that well controlled indirect lending programs provide a reasonable return for the credit risk, and

significant cash flows in the present low rate environment to reduce interest rate risk. This, coupled with pent up automobile demand, has increased the level of competition for indirect paper. Presently, major indirect lenders in the AA include: First National Bank of Scotia; Community Bank, N.A.; NBT Bank, N.A.; PNC Bank, N.A.; M&T Bank, SEFCU and TEG Federal Credit Union. There are also a reported 26 national subprime lenders servicing New York State and the Albany region.

During our evaluation, we contacted a local non-profit economic community development agency that focuses on business development and retention in Saratoga County through consultation with local communities and private developers, identifying governmental incentives that will attract outside investment. The agency also has a small business incubator program. While noting Saratoga County's overall affluence and lower unemployment rate, the contact also noted a need to increase affordable housing for the area's lower income labor force, noting public funding concerns and their effect on making affordable housing projects more economically viable. From a business perspective, he also noted the need for newer or rehabilitated commercial and industrial sites with gas and electrical updates.

Conclusions with Respect to Performance Tests

SNB's lending performance was satisfactory. In order to determine the bank's performance under the lending test, we evaluated its average loan-to-deposit ratio, the percentage of loans originated inside the AA, lending to borrowers of different incomes, and the geographic distribution of loans.

LENDING TEST

Loan-to-Deposit Ratio

SNB'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 examination through March 31, 2017, was 88.03%. In comparison, five similarly situated institutions had average quarterly loan-to-deposit ratios ranging from 67.82% to 91.22% during the same time period. All banks are located in the Albany-Schenectady-Troy MSA and compete with SNB.

Lending in Assessment Area

A majority of consumer loans originated during the evaluation period were inside the bank's AA. Refer to the table below.

Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer	6,519	52.12	5,987	47.88	12,506	166,933	54.44	139,681	45.56	306,614

Source: Consumer Loan data 2015-2016.

A majority of loans were originated in the AA. There is significant lending outside the AA, the result of a high percentage of indirect auto loans in the consumer loan population. Competition for indirect loans remains highly competitive. As a side review, approximately 73% by number and 70% by dollar of consumer loans including the sizable indirect loan originations were made within the AA or in counties contiguous to the AA. The largest portion of loans outside of the AA and surrounding counties was in the Syracuse MSA, with the inclusion of Cayuga County at about 12%.

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

SNB had a reasonable penetration of loans to borrowers of different income levels during the evaluation period. By count, the percentage of consumer loans to low-income borrowers at 20.16% is near the percentage of low-income households within the AA at 24.02%. Furthermore, the percentage of consumer loans to moderate-income borrowers at 27.11% significantly exceeded the percentage of moderate-income households within the AA at 15.93%. Refer to the table below.

Borrower Distribution of Consumer Loans								
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	24.02	20.16	15.93	27.11	18.11	23.50	41.94	25.26

Source: Consumer Loan data 2015-2016; 2010 U.S. Census data.

Geographic Distribution of Loans

The geographic distribution of loans reflects 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.

Penetration levels were negatively affected by higher levels of low-income households in the low-income CT, along with higher levels of poverty in the low-income tracts. Levels of poverty in the moderate-income tract were not as severe; however, vehicle affordability is also an issue. Lower cost viable public transportation is available in the LMI CTs and provides an affordable option to vehicle ownership.

Geographic Distribution of Consumer Loans								
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	9.01	5.30	14.65	11.32	51.01	57.53	25.33	25.85

Source: Consumer Loan data 2015-2016; 2010 U.S. Census data.

COMMUNITY DEVELOPMENT (CD) TEST

SNB 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

SNB demonstrated excellent responsiveness to CD needs of the AA through qualified lending. SNB originated thirteen CD loans totaling \$6,241,504 including:

- Five Small Business Administration 504 loans totaling \$4,329,000 to businesses reporting revenues below \$1,000,000, which expanded, created or retained jobs in the AA. The 504 program helps businesses grow by acquiring and improving major fixed assets. The business must create or retain jobs with the expansion.
- Three commercial loans, totaling \$819,000 to a not-for-profit organization that focuses on providing services to persons with learning disabilities and traumatic brain injuries. This not-for-profit entity also provides group housing. The entity is 90% funded by Medicaid.

- A \$150,000 working capital loan to a real estate leasing company to provide support of a multifamily housing unit to lower-income persons located in a moderate-income CT.
- A \$300,000 loan to the community Loan Fund of the Capital Region. This is a pool of loan capital that makes loans to local developers for low-income housing, community development and microbusinesses.
- Three loans of \$643,504 were to funding start-up operations that support job creation for LMI persons.

Number and Amount of Qualified Investments

SNB demonstrated adequate responsiveness to the investment needs of the AA through a \$1,000,000 bond purchase of a \$3,302,000 investment in the City of Troy. This bond includes funding for reconstruction of the sea wall along the Hudson River bordering LMI census tracts, and the addition of a pedestrian connector at River Front Park in a moderate-income census tract. The bond also funded the purchase of emergency maintenance equipment to serve the city, where 64% of the CTs are LMI.

The bank purchased an \$88,000 bond as part of a \$1,174,096 serial bond to support an addition to, and refurbishment of, the Mechanicsville District Public Library located in a moderate-income CT.

The bank made \$42,165 in donations to 25 entities serving LMI persons or supporting community development. The largest donations were: \$8,300 to a community development organization serving Saratoga County, which retains and creates jobs and attracts new business; \$5,200 to an organization in Saratoga County that works to find suitable housing for LMI workers in the county; \$4,350 to an organization in Albany County which focuses on services for LMI youth; \$3,220 to an affordable housing organization in Saratoga County; and \$3,000 to a food pantry in Wilton, NY.

Extent to Which the Bank Provides Community Development Services

SNB demonstrated excellent responsiveness to CD needs of the AA through qualified services including:

- A bank officer provided 100 hours of service as an executive committee member at an organization that focuses on providing services to low-income families and youths in Saratoga County.
- A bank officer provided 155 hours of service as a board member of an organization that helps low-income persons in Saratoga County with home repair and accessibility.
- A bank officer provided 100 hours of service as the treasurer of an organization that provides food, clothing and shelter to low-income families in the Albany

region.

- A bank officer provided 100 hours of service as the treasurer of an organization that provides affordable housing to low-income persons in Albany, Schenectady and Washington Counties.
- A bank officer provided 101 hours of service as the president of an organization that provides residential support and other services, which address the needs of those who have a mental illness or drug dependency, with the goal of returning them as functioning members of society throughout the Albany region.
- A bank officer provided 90 hours of service as the treasurer of an organization that focuses on economic development and job creation to unemployed persons in Saratoga County.
- The bank assisted Rebuilding Saratoga Together and Saratoga Affordable Housing Group in their applications for FHLB grants of \$300,000 and \$720,000, respectively. The grants will be used for home repair to LMI home owners, and for the renovation of 24 low-income housing units in Saratoga County.

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.