



PUBLIC DISCLOSURE

September 03, 2013

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 primary factors supporting the overall rating are:

- Saratoga National Bank & Trust Company (SNB) had a more than reasonable average loan-to-deposit ratio during the evaluation period.
- SNB had a reasonable penetration of consumer loans to borrowers of different income levels within the AA.
- The bank had a reasonable dispersion of consumer loans in the moderate-income census tracts within 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 May 2, 2008, through September 2, 2013. With the exception of the loan-to-deposit ratio, we based lending performance on loans originated between January 1, 2010, and December 31, 2011. This review period is representative of the entire evaluation period. An evaluation of the bank's lending data and discussions with bank management indicated SNB's primary product during the evaluation period was consumer loans. SNB management provided a Loan Application Register (LAR) containing all consumer loan originations during the evaluation period. As part of the examination, we validated the accuracy of the LAR.

DESCRIPTION OF INSTITUTION

SNB is a \$317 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 \$1.6 billion community bank headquartered in Glens Falls, NY, approximately 19 miles northeast of Saratoga Springs. With the opening of the Clifton Park office in April 2013, SNB serves the community through seven offices. Five of the offices are located in Saratoga Springs and Wilton, with the new Clifton Park office serving the southern portion of the county and the Corinth office serving the northern portion. The Corinth office is located in a moderate-income census tract, and the other offices are located in middle- or upper-income census tracts. All offices have 24-hour ATMs and drive-up facilities.

As of June 30, 2013, SNB has \$203 million in gross loans and \$274 million in deposits. The loan portfolio consists of \$83 million (30%) in residential real estate loans and lines, \$82 million in consumer loans (30%), and \$33 million (12%) in commercial loans. The majority of the remaining portion of the loan portfolio consists of non-residential

construction and land loans. For the calendar years 2010 and 2011, management originated 9,396 loans totaling \$269 million. Of these totals, motor vehicle loans represented 8,518 (91%) totaling \$161 million (60%). Over 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 or financial impediments that would hinder its ability to help meet the credit needs in its defined AA. At the last CRA examination dated May 2, 2008, SNB received a rating of "Satisfactory" CRA performance.

DESCRIPTION OF ASSESSMENT AREA

SNB has one AA consisting of all 45 census tracts in Saratoga County within the Albany-Schenectady-Troy MSA. Of the 45 census tracts, nine (20.00%) are designated moderate-income, 24 (53.33%) are designated middle-income, 11 (24.44%) are designated upper-income, and one (2.22%) does not have an income designation. The census tract without an income designation contains Skidmore College.

The AA has a total population of 200,635 persons in 54,000 families and 78,226 households. A total of 86,701 housing units are located in the AA, with 64.96% listed as owner-occupied. Of those housing units, 9.85% 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: 15.46% low-income, 18.81% moderate-income, 23.61% middle-income, and 42.12% upper-income. The distribution of households by income level, which is used to evaluate borrower distribution of consumer loans, is as follows: 17.11% low-income, 15.54% moderate-income, 19.90% middle-income, and 47.45% upper-income. The 2000 census median family income of \$54,944 is used to determine the income designation of the census tracts in the MSA. The 2011 updated median family income of \$77,000 for the MSA is used to determine the income designation of the borrower. The median household income for the AA is \$50,668. The percentage of households in the AA below the poverty level is 5.99%.

Economic conditions in the AA deteriorated during the evaluation period, as was the case with the entire state. The April 2013 unemployment rate for Saratoga County was 6.1% compared to the April 2008 rate of 4.1%. The April 2009 through April 2012 Saratoga County unemployment rates ranged from 6.1% in 2009 to a high of 6.8% in April 2010. Saratoga County unemployment rates are seasonal, with rates peaking in the month of January or February. The seasonally adjusted June 2013 unemployment rates for New York State and the Albany-Schenectady-Troy MSA were 7.5% and 6.4%, respectively. Major employers in the county include Momentive Performance Material, Saratoga County, Saratoga Hospital, the Saratoga Springs City and Shenendehowa Central School Districts, Skidmore College, and Global Foundries.

Competition in the AA is significant, with 16 other community, regional, and national financial institutions competing for deposit market share. Major competitors for market share include Adirondack Trust Company, Trustco Bank, First Niagara Bank, Ballston Spa National Bank, and Bank of America. SNB deposit market share in the county improved from 6.04% (8th) as of June 30, 2007, to 7.37% (5th) as of June 30, 2012.

During our examination, we contacted a local non-profit human services agency that provides basic necessities and services to low-income individuals in the AA. The contact identified specific needs, such as support for local food pantries, funding for weatherization programs, and affordable housing, including workforce housing for people transitioning from homelessness to permanent housing. The organization relies on support from a number of entities within the community. Several financial institutions, including SNB, were mentioned by the contact as being responsive to providing support.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

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.

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 June 30, 2013, was 87.80%. In comparison, four similarly situated institutions had average quarterly loan-to-deposit ratios ranging from 56.60% to 83.71% during the same time period. The institutions used for comparison competed directly with SNB in the Saratoga County market.

Lending in Assessment Area

A majority of consumer loans originated during the evaluation period were outside 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	1,657	19.14	7,001	80.86	8,658	34,230	20.33	134,120	79.67	168,350

Source: Consumer Loan LAR data 2010-2011.

Significant lending outside the AA is the result of the high percentage of indirect auto loans in the consumer loan population. Since 1989, SNB has built relationships with a vast network of auto dealers throughout New York State. Excluding the indirect auto loans, a substantial majority of SNB's home mortgage, small business, and direct consumer loans originated during the evaluation period were inside the AA, approximating 66% by number and 86% by dollar amount of loans.

Lending to Borrowers of Different Incomes

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 15.92% was near to the percentage of low-income households within the AA at 17.11%. Furthermore, the percentage of consumer loans to moderate-income borrowers at 27.51% was significantly higher than the percentage of moderate-income households within the AA at 15.54%. SNB did not have income information available on 2.39% of consumer loan borrowers. Refer to the table below.

Borrower Distribution of Consumer Loans								
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	17.11	15.92	15.54	27.51	19.90	25.53	47.45	28.65

Source: Consumer Loan LAR data 2010-2011; 2000 U.S. Census data.

Geographic Distribution of Loans

The geographic dispersion of consumer loans during the evaluation period was reasonable. By count, 9.01% of consumer loans were originated to borrowers residing

in the moderate-income census tracts, which is near the percentage of AA households located in those census tracts at 12.94%, and represents an increase in moderate-income census tract lending when compared to the previous evaluation period. Refer to the table below.

Geographic Distribution of Consumer Loans								
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	0	0	12.94	9.01	58.98	59.34	28.08	31.65

Source: Consumer Loan LAR data 2010-2011; 2000 U.S. Census data.

Responses to Complaints

SNB did not receive any CRA-related complaints during the evaluation period.

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.