



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 01, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Ballston Spa National Bank
Charter Number: 1253

87 Front Street
Ballston Spa, NY 12020

Office of the Comptroller of the Currency

Upstate New York (Syracuse)
231 Salina Meadows Parkway Suite 105
Syracuse, NY 13212

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 CRA rating are:

- The average loan-to-deposit ratio since the last examination meets the standard for satisfactory performance.
- A majority of the bank's primary loan products originated are within the Assessment Area (AA).
- A satisfactory distribution of loans among borrowers of different income levels and businesses of different sizes.
- A satisfactory distribution of loans among census tracts of different income levels throughout the AA.
- The level of Community Development (CD) lending, investments, and services demonstrates adequate responsiveness to needs in the AA.

Scope of Examination

The evaluation period for this examination covers the period of October 3, 2003 through September 30, 2007. However, the lending test portion of the examination included only those loans originated from January 1, 2005 through March 31, 2007. We verified that the loans originated during this period were representative of the entire evaluation period. Home mortgage loans, commercial loans, and consumer loans were the primary loan products selected for review. All loans originated during the period were included in our analysis. A data integrity review conducted prior to the start of this examination verified the accuracy of the loan data used to support our conclusions.

Description of Institution

Headquartered in the county seat, Ballston Spa National Bank (BSNB), services all of Saratoga County. Operating nine branches exclusively in the state of New York, BSNB is wholly owned by Ballston Spa Bancorp, Inc, a one-bank holding company. As of March 31, 2007, BSNB had total assets of \$318 million, which consisted of approximately \$233 million in loans, \$70 million in investments, and \$15 million in fixed/other assets. Net tier 1 capital totaled almost \$23 million. The portfolio consists of 60% residential real estate (including home equity loans), 19% commercial loans (including commercial real estate), and 19% consumer loans. The other 2% are classified as municipal loans. The bank holds \$269 million in deposits.

BSNB directly competes with 16 financial institutions that have a presence in Saratoga County. Compared with all other competitors, BSNB currently has 9.5% of total deposits, or market share, within the county. This market share ranks third, behind Adirondack Trust Company with 20.7% market share and Trustco Bank with 11.4% market share. Competing institutions range in size from large banks with a national presence to smaller community banks. BSNB currently has no constraints affecting its ability to conduct lending activity in a safe and sound manner. BSNB received a “Satisfactory” rating on its October 2003 Performance evaluation.

During our review, we contacted a local not-for-profit organization that provides loans to small businesses and low-income housing organizations in the Capital Region of the state, including Saratoga County. Our contact identified several financing needs for the area. The needs identified included, but were not limited to:

- Refinancing out of adjustable rate loans
- First time home buyer mortgage products
- HELOC loans for home repair
- Inner city financing

Description of Assessment Area

The AA consists of all 45 census tracts located in Saratoga County, which is part of the Albany-Schenectady-Troy Metropolitan Statistical Area (MSA 0160). The AA contains no low-income, nine moderate-income, 24 middle-income, and 11 upper-income tracts. Also contained in the AA is one tract not designated for income (listed as N/A). The AA has a total population of 200,635 consisting of 54,000 families and 78,226 households. The family income distribution in the AA consists of 15.46% low-income, 18.81% moderate-income, 23.61% middle-income, and 42.12% upper-income families. Of the 86,701 housing units in the AA, 65% are owner-occupied, 25% are renter-occupied and 10% are vacant. Approximately 6% of the households are below the poverty level. The median housing value in the AA is \$112,624, with a median housing age of 37 years. The table below further describes the distribution of the population, families, and households based on geographic income categories.

Selected Characteristics by Income Category of the Census Tract					
<i>Geographic Income Category</i>	<i>Census Tracts</i>	<i>Population</i>	<i>Families</i>	<i>Households</i>	<i>Owner-Occupied Units</i>
Low	0.00%	0.00%	0.00%	0.00%	0.00%
Moderate	20.00%	12.43%	12.45%	12.94%	12.02%
Middle	53.33%	58.73%	57.00%	58.98%	57.32%
Upper	24.44%	28.72%	30.55%	28.08%	30.66%
N/A	2.23%	0.12%	0.00%	0.00%	0.00%

Saratoga County is part of the Capital Region of the state. Although the northern

portion of the county is a part of the AA, the majority of bank operations are conducted in the central and southern portions of the county. This portion of New York State is not as heavily affected by some of the forces that have influenced the Upstate New York economy, such as the decline in the manufacturing industry, and the move to service and retail type industries. This is the result of having a large population of state and county government jobs, as well as local universities and colleges. The public sector is not as affected as the private sector by national or local economic trends and conditions. This being the case, the private sector economy in the Albany-Schenectady-Troy Metropolitan Statistical Area (MSA) is somewhat stagnant. Outside of healthcare and hospitality/leisure, most industries are either cutting or holding employment levels steady. The manufacturing employment in the region is heavily dependent on General Electric. However, the region is host to an emerging nanotechnology sector. In 2006, Advanced Micro Devices Inc. (AMD) announced plans to build a \$3 billion computer chip manufacturing plant in Malta, which is located in Saratoga County.

The 2000 U. S. Census Median Family Income for the Albany-Schenectady-Troy MSA is \$54,944. This figure is used to determine the income designation of the MSA's census tracts. The Updated Median Family Income for this MSA is \$66,200. This figure was used to evaluate the income level of borrowers. The Updated Median Family Income is based on information from the Department of Housing and Urban Development (HUD).

Conclusions with Respect to Performance Tests

This evaluation of BSNB's loan performance covers the period from January 1, 2005 through March 31, 2007. Based on a discussion with management and a review of the new loan origination reports for 2003 through 2007, we determined the bank's primary products to be home mortgage loans, commercial loans, and consumer installment loans. The home mortgage loans and commercial loan products were weighted slightly higher in our evaluation due to the dollar amount of those loans. The consumer installment loans were primarily indirect automobile loans.

The Community Development portion of our examination included activity for the entire evaluation period of October 6, 2003 to September 30, 2007.

LENDING TEST

Loan-to-Deposit Ratio

BSNB's average loan-to-deposit ratio meets the standard for satisfactory performance. The bank's average loan-to-deposit ratio since the last examination is 73.19%. This is consistent with the average loan-to-deposit ratios of a group of similarly situated banks, which ranged from 47.83% to 108.43%. Similarly situated banks included nine banks considered to be peers due to their location, size, and business activities. The average of these peer banks is 71.1%.

Lending in Assessment Area

BSNB meets the standard for satisfactory performance for lending in the AA. A majority of home mortgage, consumer, and commercial loans originated during the evaluation period are in the bank's AA. By count, 58% are within the boundaries. The percentage is 63% by dollar amount. Please refer to the following table.

Loan Type	# in AA	% in AA	Dollar Amount in AA (in 000s)	% in AA	Total # Originated	Total Amount Originated (in 000s)
Home Loans	349	54%	\$50,079	56%	646	\$89,208
Commercial Loans	247	83%	\$49,494	74%	297	\$67,258
Consumer Loans	1237	56%	\$26,690	60%	2209	\$44,410
Total	1,833	58%	\$126,263	63%	3,152	\$200,876

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

The bank's record of lending to borrowers of different incomes and to businesses of different sizes meets the standard for satisfactory performance. For our review of mortgage lending to borrowers of different incomes, we considered the fact that 6% of households in the AA are below the poverty level. The average housing price in Saratoga County is high when compared to the average cost of housing throughout Upstate New York. Given the high home prices in the AA, a person with an income below the poverty level would find it difficult to afford a home loan. The distribution of loans to low-income families is adequate given these circumstances. The distribution of mortgage loans to moderate-income families is good. The following table shows the mortgage loans originated during the evaluation period compared to the distribution of the income level of families in the AA.

Borrower Distribution of Home Loans

Income Level	# of Loans	%	\$ of Loans	%	Income Level of Families in AA
Low	19	5.44%	\$1,346	2.69%	15.46%
Moderate	63	18.06%	\$6,474	12.93%	18.81%
Middle	92	26.36%	\$10,537	21.04%	23.61%
Upper	167	47.85%	\$30,018	59.94%	42.12%
NA	8	2.29%	\$1,704	3.40%	0.00%
Total	349	100%	\$50,079	100%	100%

The percentage of commercial loans to small businesses (revenues less than or equal to \$1 million) in the AA is good. Approximately 62.3% of the businesses in the AA reported revenues of less than or equal to \$1 million, compared to approximately 62%

of the bank's commercial loans were made to small businesses. The following table shows the commercial loans originated during the evaluation period compared to the revenue distribution of businesses in the AA.

Borrower Distribution of Business Loans

Revenues	Count	%	Amount	%	Revenue Distribution
<=\$1MM	153	61.94%	\$25,700	51.93%	62.29%
\$1MM +	94	38.06%	\$23,794	48.07%	4.84%
Not Reported	0	0.00%	\$0	0.00%	32.87%
Total	247	100%	\$49,494	100%	100%

The distribution of consumer loans to low- and moderate-income individuals is excellent. The consumer loans originated to low- and moderate-income individuals exceed the standard in both categories. By count, 23.6% of consumer loans were extended to low-income individuals, compared to only 17.11% of the households being designated as such. By count, 24% of consumer loans were extended to moderate-income individuals, compared to only 15.5% of the households designated as such. The following table shows the consumer loans originated during the evaluation period compared to the distribution of households in the AA by income.

Borrower Distribution of Consumer Loans

Income Level	# of Loans	%	\$ of Loans	%	Income Level of Households in AA
Low	292	23.61%	\$3,352	12.56%	17.11%
Moderate	298	24.09%	\$5,029	18.84%	15.53%
Middle	306	24.73%	\$6,429	24.09%	19.90%
Upper	334	27.00%	\$11,637	43.60%	47.46%
NA	7	0.57%	\$243	0.91%	0.00%
Total	1,237	100%	\$26,690	100%	100%

Geographic Distribution of Loans

The bank's geographic distribution of lending throughout the AA meets the standard for satisfactory performance. The geographic distribution of home loans in moderate-income census tracts is good compared to the level of owner-occupied housing in the respective census tracts. The following table shows the geographic distribution of the bank's home mortgage loans compared to the owner occupied housing, by income level of the tract.

Geographic Distribution of Home Mortgage Loans

Tract Designation	# of Loans	%	\$ of Loans	%	Owner-Occupied Housing
Low	0	0.00%	\$0	0.00%	0.00%
Moderate	39	11.17%	\$4,636	9.26%	12.02%
Middle	231	66.19%	\$33,933	67.76%	57.32%
Upper	79	22.64%	\$11,510	22.98%	30.66%
NA	0	0.00%	\$0	0.00%	0.00%
Total	349	100%	\$50,079	100%	100%

The geographic distribution of commercial loans in moderate-income census tracts is adequate compared to the geographic distribution of the businesses in the AA. The following table shows the geographic distribution of the bank’s commercial loans compared to the geographic distribution of the businesses in the AA, by income level of the tract.

Geographic Distribution of Commercial Loans

Tract Designation	# of Loans	%	\$ of Loans	%	Geographic Distribution of Businesses
Low	0	0.00%	0	0.00%	0.00%
Moderate	19	7.69%	\$3,811	7.70%	10.83%
Middle	157	63.56%	\$31,110	62.86%	58.83%
Upper	71	28.75%	\$14,573	29.44%	30.34%
NA	0	0.00%	\$0	0.00%	0.00%
Total	247	100%	\$49,494	100%	100%

A vast majority of loans in the bank’s consumer loan portfolio are indirect auto loans originated by various car dealerships within the AA. These dealerships operate in the tracts located in southern and central portion of the county. The majority of the AA moderate-income tracts are located in the northern portion of the county, which are less densely populated. The distribution of consumer loans to customers within moderate-income tracts is somewhat lower than the distribution of housing units within those tracts. However, given the circumstances, the distribution is adequate. The following table shows the geographic distribution of the bank’s consumer loans compared to the geographic distribution of housing units, by income level of the tract.

Geographic Distribution of Consumer Loans

Tract Designation	# of Loans	%	\$ of Loans	%	Distribution of Housing Units
Low	0	0.00%	\$0	0.00%	0.00%
Moderate	110	8.89%	\$1,680	6.30%	15.85%
Middle	818	66.13%	\$17,731	66.43%	57.55%
Upper	309	24.98%	\$7,279	27.27%	26.60%
NA	0	0.00%	\$0	0.00%	0.00%
Total	1,237	100%	\$26,690	100%	100%

Responses to Complaints

BSNB has not received any CRA-related complaints during this evaluation period.

COMMUNITY DEVELOPMENT TEST

The bank's performance under the Community Development test is satisfactory. The bank's community development performance demonstrates adequate responsiveness to community development needs in the AA through qualified loans, investments, and services.

Number and Amount of Community Development Loans

BSNB originates few loans that are over \$1 million in total. For the lending evaluation period of January 1, 2005 through March 31, 2007, the bank originated six commercial loans equal to or over \$1 million, which is approximately 2.5% of the total number of loans originated during the period. Accordingly, the bank has a very small amount of lending activity that would meet the requirements of community development lending. However, BSNB does provide a \$1 million line of credit to a business located in a moderate-income tract. This is a qualified loan in that it provides funds to a business that provides employment to individuals located in a moderate-income census tract. Also, two loans totaling \$800 thousand were extended to a not-for-profit corporation that provides affordable housing to low- and moderate-income individuals. These two loans are qualified CD loans because they are to a non-profit, and not secured by commercial real estate.

In addition to the above mention CD loans, the bank originated several loans that do not meet the size requirement, but would otherwise qualify as meeting the definition of a CD loan. Another seven loans totaling \$1.043 million were extended to businesses located in moderate-income tracts that help stabilize these areas. Three loans totaling \$330 thousand were extended to businesses that provide services to low- and moderate-income individuals. Finally, two loans totaling \$238 thousand were extended to organizations that provide financing for small businesses.

Number and Amount of Qualified Investments

BSNB has provided \$100 thousand to a privately owned investment fund that is designed to expand new and existing businesses within New York's 51 participating economic development zones. In addition to the investment, the bank has made donations totaling \$66 thousand during the evaluation period.

Extent to Which the Bank Provides Community Development Services

The bank provides a satisfactory level of community development services through its products and involvement with local organizations that support community development activities.

The following is a list of organizations that BSNB employees are involved in:

- An executive serves as a board member of an organization that provides micro-loans to businesses that do not qualify for traditional bank lending.
- An executive serves on the board of an organization that is involved with the development of adolescent, elementary school age girls of a low- and moderate-income background.
- A junior executive serves on the board of an organization that assists homeless veterans in the area with housing and employment.
- A loan officer served as treasurer of an organization that provides support for the economically poor and vulnerable.
- A branch manager serves as a board member of a community center that offers services to low- and moderate-income individuals. Services include a food pantry, providing child care services, domestic violence counseling, and programs for senior citizens and children.

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.