



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

February 25, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Adirondack Bank, National Association
Charter Number 22839**

**60 Main St
Saranac Lake, NY 12983**

**Comptroller of the Currency
ADC - 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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

- The average loan-to-deposit ratio of 75% exceeds the standards for satisfactory performance based on the bank's financial condition and assessment area credit needs.
- Adirondack Bank, N. A. (ABNA) exceeds the standard for satisfactory performance for loans originated within the bank's assessment area.
- Borrower distribution meets the standard for satisfactory performance based on the distribution of credit to borrowers of different income levels and lending to businesses of different sizes.
- Geographic distribution of loan originations does not meet the standard for satisfactory performance based on the distribution of credit to borrowers and businesses in different geographies.
- ABNA has not received any CRA-related complaints during the evaluation period.

DESCRIPTION OF INSTITUTION

ABNA is a \$238 million community bank headquartered in Saranac Lake, New York, with nine locations serving the Adirondack and Utica regions of New York State. Adirondack Bancorp, Inc. – wholly owns ABNA a one-bank holding company. As of December 31, 2002, the bank had total assets of \$238 million consisting mainly of \$147 million (62%) in loans and \$69 million (29%) in investments. The bank's deposits totaled \$208 million. The loan portfolio consists of \$59 million (40%) in residential real estate loans, \$39 million (27%) in commercial loans, \$34 million (23%) in commercial real estate loans, and \$15 million (10%) in consumer loans. During the majority of the evaluation period, management focused on commercial lending. Over the last several months, management has been refocusing their efforts on retail lending by hiring a Senior Vice President of Retail Banking and adding another loan originator to meet the increasing demand for mortgage loans.

ABNA has nine branches serving a very broad area of Central and Northern New York. The bank has two assessment areas (AAs) covering Central and Northern New York. The first AA encompasses a majority of the geographies in the Utica-Rome MSA (MSA 8680). This AA includes all of Herkimer County and most of Oneida County. Six branches and one drive-up facility service the Utica-Rome MSA AA. All branches in this AA have deposit taking ATM's. Five of the six branches have drive-up facilities. One of the six branches and the drive-up facility are located in low-income geographies. The remaining branches are located in four middle-income geographies and one upper-income geography. During the rating period, management opened two

branches and closed one branch in middle-income geographies in the Utica-Rome MSA AA. On April 1, 1998, management opened the Boonville office, and on January 7, 2002, management opened the Mohawk office. Management closed the Leland Avenue branch in Utica, NY on December 21, 2001.

The second AA includes several geographies in the non-metropolitan areas of Northern New York extending up to the Canadian and Vermont borders. This AA includes all of Clinton County and significant portions of Essex, Franklin and Hamilton Counties. Three branches and one drive-up facility service this non-MSA AA. All branches in this AA have deposit taking automated teller machines (ATM's). Two of the three branches have drive-up facilities. All of these facilities are located in middle-income geographies.

ABNA does not have any legal, financial or other factors that would impede its ability to help meet the credit needs in its defined assessment area. At the last CRA examination dated August 7, 1997, ABNA demonstrated a satisfactory level of performance meeting the credit needs of the community.

DESCRIPTION OF THE UTICA-ROME ASSESSMENT AREA

The Utica-Rome AA consists of 78 geographies representing a majority of the geographies in the bank's combined AA. This AA contains four (4) low-income, 17 moderate-income, 39 middle-income, and 16 upper-income geographies, and two (2) geographies without an income designation.

The Utica-Rome AA has a total population of 230,516 in 59,497 families and 87,186 households. The table below further describes the distribution of the population, families and households based on geographic income categories. The AA consists of 19.0% low-income, 18.5% moderate-income, 23.5% middle-income and 39.0% upper-income families. Of the 99,352 housing units in the AA, 58.0% are owner-occupied, 30.0% are rental-occupied and 12.0% are vacant. The median housing value in the AA is \$63,403 with a median housing age of 41 years.

<i>Selected Characteristics by Income Category of the Geography</i>					
<i>Geographic Income Category</i>	<i>Percentage</i>				
	<i>Census Tracts</i>	<i>Population</i>	<i>Families</i>	<i>Households</i>	<i>Owner-Occupied Units</i>
<i>Low</i>	5.1	1.4	1.0	1.9	0.3
<i>Moderate</i>	21.8	17.6	14.9	18.4	10.2
<i>Middle</i>	50.0	56.3	58.2	56.7	60.9
<i>Upper</i>	20.5	24.5	25.9	23.0	28.6
<i>Income Not Designated</i>	2.6	0.2	0.0	0.0	0.0
<i>Total</i>	100	100	100	100	100

Source: U. S. Census

The 1990 U. S. Census Median Family Income for the Utica-Rome MSA is \$31,702. This figure is used to determine the income designation of the MSA's geographies. The 2002 Updated Median Family Income for this MSA is \$42,500. This figure is used to determine the income designation of individuals in this MSA. The Updated Median Family Income is based on information from the Department of Housing and Urban Development (HUD). The majority of the population (60.8%) of this bank's combined AA resides in this MSA.

The New York State unemployment rate for January 2003 was 6.9%; the Utica-Rome MSA was 6.0%. The unemployment rates for Herkimer and Oneida counties were 7.1% and 5.7%, respectively. Major employers in Herkimer and Oneida counties include the following: Oneida Indian Nation, Oneida Limited, Fleet Financial Group, Wal-Mart, the NYS Department of Corrections and Remington Arms. During the early 1990's, Herkimer and Oneida counties suffered a devastating loss when Griffis Air Force Base in Rome closed. However, in the late 1990's, that area was redeveloped into what is now known as the Griffis Business and Technology Park hosting the Air Force Research Lab and approximately 45 other businesses on 3600 acres.

ABNA faces strong competition from other financial institutions serving Herkimer and Oneida Counties. In addition to ABNA, Herkimer County hosts six commercial banks and one savings institution with a total of 17 offices. In Oneida County, ABNA faces competition from 13 commercial banks and 3 savings institution with a total of 64 offices.

During our examination, we contacted one local group which indicated community credit needs included home purchase and refinance loans, rehabilitation/home improvement loans and loans to small businesses.

DESCRIPTION OF THE NON-MSA ASSESSMENT AREA

The Non-MSA AA consists of 41 geographies including 10 moderate-income, 27 middle-income, and three (3) upper-income geographies, and one (1) geography without an income designation. This AA does not contain any low-income geographies. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

The Non-MSA AA has a total population of 148,599 in 36,345 families and 51,376 households. The table on the following page further describes the distribution of the population, families and households based on geographic income categories. The AA consists of 20.8% low-income, 19.3% moderate-income, 23.9% middle-income and 36.0% upper-income families. Of the 65,658 housing units in the AA, 51.5% are owner-occupied, 26.6% are rental-occupied and 21.9% are vacant. The median housing value in the AA is \$61,180 with a median housing age of 35 years.

<i>Selected Characteristics by Income Category of the Geography</i>					
<i>Geographic Income Category</i>	<i>Percentage</i>				
	<i>Census Tracts</i>	<i>Population</i>	<i>Families</i>	<i>Households</i>	<i>Owner- Occupied Units</i>
<i>Low</i>	0.0	0.0	0.0	0.0	0.0
<i>Moderate</i>	24.4	28.9	27.7	28.1	23.5
<i>Middle</i>	65.9	60.3	64.3	64.4	68.2
<i>Upper</i>	7.3	9.1	8.0	7.5	8.3
<i>Income Not Designated</i>	2.4	1.7	0.0	0.0	0.0
<i>Total</i>	100	100	100	100	100

Source: U. S. Census

The 1990 U. S. Census Median Family Income for the Non-MSA AA is \$31,472. This figure is used to determine the income designation of the Non-MSA's geographies. The 2002 Updated Median Family Income for Non-MSA's is \$43,600. This figure is used to evaluate borrower income distribution in the Non-MSA's. The Updated Median Family Income is based on information from the Department of Housing and Urban Development (HUD).

The New York State unemployment rate for January 2003 was 6.9%; the Non-MSA portion of NYS was 6.4%. The unemployment rates for Clinton, Essex, Franklin and Hamilton counties are as follows: 6.2%, 7.5%, 8.2% and 8.9%, respectively. Employment in the area is heavily dependent on tourism and a positive impact from interaction with Canadian citizens and companies. In 2000, the Plattsburgh-North County Chamber of Commerce released an assessment of the economic impact of Canada on Clinton County. They determined Canada citizens and companies contributed \$1.33 billion annually to the area through employment, real estate purchases, property taxes, professional services, exports, and health care. Major employers in the area include NYS Department of Corrections, Wyeth-Ayerst Laboratories, International Paper, State University of New York at Plattsburgh, local governments and schools.

ABNA has some competitors in Clinton, Essex, Franklin and Hamilton counties with its strongest competition in Plattsburg, New York in Clinton County. In Clinton County, ABNA competes with eight commercial banks with 24 offices, 16 of which are in Plattsburg. In Essex County, five commercial banks have 17 offices. In Franklin County, six commercial banks have 16 offices. In Hamilton County, the bank does not have a physical presence, but management considers a portion of the county part of the AA. Hamilton County has two commercial banks with three offices.

During the examination, we contacted one local development agency that indicated local community credit needs included flexible financing terms for small business loans and innovative products to help maintain and sustain tourism in the area.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

This evaluation of Adirondack Bank, N. A.'s (ABNA) performance covers the period from August 8, 1997 through February 10, 2003. The evaluation includes an analysis of each of the two assessment areas (AA), a Metropolitan Statistical Area (MSA) and a non-MSA.

Based on a discussion with management and a review of the new loan reports for 2001 and 2002, we determined the bank's primary products to be residential home purchase and refinance loans, commercial mortgages and commercial loans. Our analysis and conclusions are based on all home purchase loans and refinances located in the Utica-Rome AA and listed on the Home Mortgage Disclosure Act – Loan Application Register (HMDA-LAR), a sample of 32 home purchase loans and 65 refinances located in the Non-MSA AA and listed on the HMDA-LAR, and a sample of 72 business loans in the Utica-Rome AA and the Non-MSA AA.

Loan-to-Deposit Ratio

ABNA's loan-to-deposit ratio exceeds the standard for satisfactory performance for similarly situated banks headquartered in their AAs. Since the bank's last CRA examination, ABNA has had an average loan-to-deposit ratio of 75%. Similarly situated banks operating in their AAs have loan-to-deposit ratios ranging from 15% to 79%. Only one institution exceeds the 75% loan-to-deposit ratio posted by ABNA. Most of the banks within the AAs maintain an average loan-to-deposit ratio in the low- to mid-60% range.

Lending in Assessment Area

Lending within the AAs exceeds the standard for satisfactory performance. ABNA originated 47 home purchase loans totaling \$3,931 thousand. Of the total originated, 42 loans (89%) totaling \$3,543 thousand (90%) were within the bank's two AAs. During 2002, management originated 116 refinances totaling \$11,615 thousand. Of the total originated, 112 loans (97%) totaling \$11,371 (98%) were within the bank's two AAs. We relied on the information provided by our analysis of the 2002 HMDA-LAR for the Non-MSA AA as management did not geocode any of the applications from 1998 through 2001 for applicants in Non-MSA geographies, and we determined that this was an accurate representation of ABNA's past lending performance in the AAs.

We also chose a sample of 77 business/farm loans totaling \$6,877 thousand originated during the evaluation period. Of the total sample of business/farm loans originated, 72 loans (94%) totaling \$6,696 thousand (97%) are within the bank's two AA's.

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

ABNA's record of lending to borrowers of different incomes and to businesses of different sizes meets the standard for satisfactory performance.

Utica-Rome AA - Borrower Distribution

	Home Purchase Loans				Refinances				Family Distribution
	Count	Cnt/Total	Amount	Amt/Total	Count	Cnt/Total	Amount	Amt/Total	
Low	3	3.70%	77	1.07%	6	2.65%	170	0.97%	19.05%
Moderate	7	8.64%	278	3.86%	21	9.29%	920	5.25%	18.52%
Middle	16	19.75%	891	12.38%	59	26.11%	2583	14.75%	23.46%
Upper	54	66.67%	5641	78.40%	137	60.62%	11910	68.00%	38.96%
NA	1	1.24%	308	4.29%	3	1.33%	1930	11.03%	0.00%
Total	81	100.00%	7195	100.00%	226	100.00%	17513	100.00%	99.99%

The borrower distribution of home purchase and refinances to low-income borrowers in the Utica-Rome AA is satisfactory. While home purchase and refinances to low-income borrowers is lower than the distribution of families, this level of penetration is considered reasonable since 9.2% of the families in the AA are living below the poverty level.

The borrower distribution of home purchase and refinances to moderate-income borrowers in Utica-Rome AA is adequate. Five of the seventeen moderate-income geographies and nine of the 39 middle-income geographies were added to the AA in early 2002 when the bank opened the Mohawk branch in January 2002. Therefore, management has not had sufficient time to penetrate these geographies. The twelve remaining moderate-income geographies are located mainly in and around the city of Utica. If we removed the geographies in Herkimer county added to the AA as a result of the Mohawk branch opening, the distribution of families within the AA located in Oneida County is as follows: low-income families 17.83%, moderate-income families 17.50%, middle-income families 22.85% and upper-income families 41.83%. When we revised our analysis to include only originations within this revised AA, we determined 9.52% of home purchase loans and 10.13% of refinances were originated to moderate-income borrowers. These performance indicators are vastly improved for home purchase loans and slightly improved for refinances indicating adequate performance.

Non MSA - Borrower Distribution based on sample

	Home Purchase Loans				Refinances				Family Distribution
	Count	Cnt/Total	Amount	Amt/Total	Count	Cnt/Total	Amount	Amt/Total	
Low	0	0.00%	0	0.00%	2	3.08%	19	0.34%	20.76%
Moderate	0	0.00%	0	0.00%	7	10.77%	265	4.74%	19.34%
Middle	5	15.63%	322	10.71%	14	21.54%	746	13.34%	23.90%
Upper	26	81.25%	2640	87.80%	39	60.00%	4298	76.85%	36.00%
NA	1	3.13%	45	1.50%	3	4.62%	265	4.74%	0.00%
Total	32	100.00%	3007	100.00%	65	100.00%	5593	100.00%	100.00%

The borrower distribution of home purchase and refinances to low-income borrowers in the Non- MSA AA is satisfactory. While home purchase and refinances to low-income borrowers is lower than the distribution of families, this level of penetration is considered reasonable since 9.8% of the families in the AA are living below the poverty level.

The borrower distribution of home purchase to moderate-income borrowers in the Non-MSA AA is less than satisfactory. The borrower distribution of refinances to moderate-income borrowers in Non-MSA AA is adequate.

Business Loans

Utica-Rome AA	39		\$3,461,702		2002 Biz Data
Loans with Revenues <=\$1MM	23	58.97%	\$1,273,366	36.78%	92.57%
Loans with Revenues \$1MM+	16	41.03%	\$2,188,336	63.22%	7.43%
Loan amounts <=\$100M	28	71.79%	\$963,503	27.83%	

Lending to business of different sizes in the Utica-Rome AA is adequate. Of the 39 loans in the sample, 28 or 72% were in amounts less than \$100,000. However, the number of loans to businesses with revenues less than or equal to \$1 million was below the standard, but considered adequate performance.

Non MSA AA	33		\$3,234,405		2002 Biz Data
Loans with Revenues <=\$1MM	27	81.82%	\$3,030,405	93.69%	92.78%
Loans with Revenues \$1MM+	6	18.18%	\$204,000	6.31%	7.02%
Loan amounts <=\$100M	23	69.70%	\$708,969	21.92%	

Lending to businesses of different sizes in the Non-MSA is good. Of the 33 loans in the sample, 23 or 70% were in amounts less than \$100,000. The number of loans to businesses with revenues less than or equal to \$1 million was adequate; however, the amount of loans to businesses with revenues less than or equal to \$1 million was slightly above the standard.

Geographic Distribution of Loans

ABNA’s geographic distribution of loans does not meet the standard for satisfactory performance.

Utica- Rome AA

	Home Purchase Loans				Refinances				Owner-occ Housing
	Count	Cnt/Total	Amount	Amt/Total	Count	Cnt/Total	Amount	Amt/Total	
Low	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0.32%
Moderate	1	1.23%	18	0.25%	4	1.79%	141	0.81%	10.24%
Middle	50	61.73%	3645	40.80%	151	67.71%	9647	55.49%	60.84%
Upper	30	37.04%	3527	49.05%	68	30.49%	7598	43.70%	28.60%
NA	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0.00%
Total	81	100.00%	7190	90.10%	223	99.99%	17386	100.00%	100.00%

The geographic distribution for home purchase and refinances in low-income geographies did not receive a rating since the level of owner-occupied housing in these geographies is very small in

comparison to the owner-occupied housing in the AA. The geographic distribution for home purchase and refinances in moderate-income geographies is less than satisfactory.

Non-MSA AA

	Home Purchase Loans				Refinances				Owner-occupied Housing
	Count	Cnt/Total	Amount	Amt/Total	Count	Cnt/Total	Amount	Amt/Total	
Low	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0.00%
Moderate	1	3.13%	90	2.99%	1	1.54%	35	0.63%	23.47%
Middle	30	93.75%	2833	94.21%	62	95.38%	5472	97.84%	68.24%
Upper	1	3.13%	84	2.79%	2	3.08%	86	1.54%	8.29%
NA	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0.00%
Total	32	100.00%	3007	100.00%	65	100.00%	5593	100.00%	100.00%

The geographic distribution for home purchase and refinances in low-income geographies is not applicable since the Non-MSA AA does not include any low-income geographies. The geographic distribution for home purchase and refinances in moderate-income geographies is less than satisfactory.

Business Loans

Utica-Rome AA	# of loans	%	\$ of loans	%	Business Distribution
Low-income geographies	1	2.56%	\$100,000	2.89%	4.11%
Moderate-income geographies	2	5.13%	\$228,288	6.59%	17.40%
Middle-income geographies	27	69.23%	\$1,842,302	53.22%	53.00%
Upper-income geographies	8	20.51%	\$1,246,112	36.00%	24.38%
Geographies designated NA	1	2.56%	\$45,000	1.30%	1.11%
	39	100.00%	\$3,461,702	100.00%	100.00%

The geographic distribution of business and farm loans in low-income geographies in the Utica-Rome AA is adequate. The geographic distribution of business and farm loans in moderate-income geographies is less than satisfactory.

Non-MSA AA	# of loans	%	\$ of loans	%	Business Distribution
Moderate-income geographies	2	6.06%	\$154,147	4.77%	26.00%
Middle-income geographies	29	87.88%	\$3,066,258	94.80%	66.80%
Upper-income geographies	2	6.06%	\$14,000	0.43%	6.85%
Geographies designated NA	0	0.00%	\$0	0.00%	0.35%
	33	100.00%	\$3,234,405	100.00%	100.00%

The geographic distribution of business and farm loans in moderate-income geographies in the Non-MSA AA is less than satisfactory.

Responses to Complaints

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

Fair Lending Review

An analysis of public comments and consumer complaint information since the last CRA evaluation was performed according to the OCC's risk-based fair lending approach. Based on its analysis of the information, the OCC determined that a comprehensive fair lending examination would not be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 1997.