



PUBLIC DISCLOSURE

January 03, 2017

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

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: Satisfactory.

The primary factors supporting the CRA rating are as follows:

- The bank had a reasonable loan-to-deposit ratio during the evaluation period.
- A majority of the home mortgage loans and the small business loans originated during the evaluation period were within the bank's assessment area (AA).
- The bank had a reasonable dispersion of home mortgage loans and small business loans among census tracts of different income designations within the AA.
- The bank had a reasonable penetration of home mortgage loans to borrowers of different income levels and small business loans of different revenue sizes within the AA.
- The bank's community development performance represented adequate responsiveness to the community development needs of the AA.

Scope of Examination

Our assessment of the bank's performance covered the time period from October 8, 2013, through January 3, 2017, which represents the evaluation period. Our assessment of the performance under the Lending Test was based on the loan originations and loan purchases of the bank's primary loan products, home mortgage loans and small business loans, during the period January 1, 2014, through September 30, 2016. Our assessment of home mortgage loans included home purchase, home improvement and refinance loans as reported on the loan application register (LAR), submitted as required by the Home Mortgage Disclosure Act (HMDA), and verified by examiners. Our assessment of small business loans was based on a sample of originated and purchased loans.

Description of Institution

Ballston Spa National Bank (BSNB), a \$440 million community bank headquartered in Ballston Spa, NY, operates ten branches in Saratoga County, NY, and one branch in Latham, NY, located in adjacent Albany County. The Latham, NY, branch opened in August 2015 and has less than \$1 million in deposits as of June 30, 2016. BSNB is wholly owned by Ballston Spa Bancorp, Inc., a one-bank holding company.

BSNB offers traditional deposit, loan, and fiduciary products and services with investment and insurance products and services offered through its relationship with Infinex Investments, Inc. Management's strategic focus is on commercial loan growth. As of September 30, 2016, BSNB's balance sheet includes \$316 million in total loans consisting of 50 percent residential real estate mortgages, 22 percent commercial real estate mortgages, seven (7) percent commercial loans, seven (7) percent consumer loans, six (6) percent multi-family real estate mortgages, four (4) percent home equity lines of credit, and four (4) percent loans to organizations (i.e. government entities and not-for-profit organizations). Deposits, sourced from the bank's market area, total \$399 million. Fiduciary assets total \$88 million with another \$13 million in custody accounts.

BSNB has no legal, financial or other impediments hindering its ability to help meet the credit needs in its assessment area. BSNB demonstrated satisfactory performance at its last CRA evaluation dated October 7, 2013, receiving satisfactory ratings under the Lending and Community Development Tests.

Description of Assessment Area

BSNB designated one assessment area (AA) within the Albany-Schenectady-Troy, NY Metropolitan Statistical Area (MSA), MSA 10580. The AA consists of Saratoga County, in its entirety, a majority of Schenectady County, and a small portion of Albany County. BSNB added the Schenectady County and Albany County portions of the AA to reflect the expanded area they could reasonably serve with the opening of the Latham branch based on area traffic patterns, deposit activity and natural barriers. The portions of Schenectady County included in the AA represent the Towns of Glenville, Niskayuna, and Rotterdam, the Village of Scotia and the City of Schenectady. The Latham branch borders the Town of Niskayuna in Schenectady County. The Albany County portion of the AA includes the census tracts in the Town of Colonie circumscribed by geographic barriers of Interstate 87 and Interstate 90. Given these barriers, we determined the portion of Albany County identified by management for inclusion in the AA is reasonable. The AA does not arbitrarily exclude low- or moderate-income areas.

The AA consists of 98 census tracts designated as follows: eight (8) low-income, 11 moderate-income, 56 middle-income, 22 upper-income, and one not applicable representing Skidmore College in Saratoga Springs. All of the eight (8) low-income tracts and six (6) of the 11 moderate-income tracts are located in the Schenectady County portion of the AA. The remaining five (5) moderate-income tracts are located in Saratoga County. BSNB's 11 branches are located in middle- or upper-income census tracts mainly in Saratoga County with the Latham branch located in an upper-income census tract in Albany County. BSNB does not operate any branches in Schenectady County.

The AA's 397,199 persons live predominately in middle- and upper-income census tracts with 6.92 percent located in low-income tracts and 7.57 percent located in moderate-income tracts. The majority of the AA population, 219,607 persons, are located in the 50 census tracts in Saratoga County, followed by 146,490 persons in 41 census tracts in Schenectady County and 31,102 persons in seven (7) census tracts in Albany County.

The AA includes 173,792 total housing units of which 111,577 or 64.20 percent are owner-occupied. The remaining units are rental units (42,510 or 24.46 percent) or vacant units (19,705 or 11.34 percent). Owner-occupied housing (OOH) in low- and moderate-income tracts represents less than 10 percent of the AA OOH housing, with 3.36 percent of OOH in low-income census tracts and 6.01 percent of OOH in moderate-income census tracts. The AA median housing value of \$195,991 reflects the \$223,260 median housing value in Saratoga County, \$207,241 median housing value in the Albany County portion of the AA, and \$152,722 median housing value in the Schenectady County portion of the AA.

The AA includes 100,674 families with a median family income (MFI) of \$82,000 (based on the 2010 U. S. Census updated in 2016 by the Federal Financial Institutions Examining Council (FFIEC)). Low- and moderate-income families represent 17.93

percent and 17.59 percent of all families living in the AA. Low-income families earn less than 50 percent of the MFI or \$41,000. Moderate-income families earn less than 80 percent of the MFI or \$65,600, but no less than 50 percent of the MFI.

The AA includes 154,087 households, 7.96 percent of which are living below the poverty level. Households in the AA living below the poverty level total 12,261 and are centered in Saratoga and Schenectady Counties. These households are approximately split equally in each of these counties.

Businesses in the AA total 100,674 with the majority located in middle- and upper-income census tracts. Less than 11 percent of the businesses are located in low- and moderate-income geographies with 4.40 percent and 5.93 percent, respectively. The majority of businesses in the AA, 81.33 percent, report revenues of \$1 million or less, with 6.53 percent reporting revenues more than \$1 million, and 12.14 percent did not report revenues. The AA includes very few farms, 677 in total. The December 2016 unemployment rates for Albany, Saratoga and Schenectady Counties were 3.8, 3.8 and 4.1 percent, respectively. The unemployment rates in the counties within the AA are lower than the National and New York State unemployment rates in December 2016 of 4.5 and 4.5 percent, respectively.

Demographic Information for Full Scope Area: 2017 BSNB AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	98	8.16	11.22	57.14	22.45	1.02
Population by Geography	397,199	6.92	7.57	59.27	25.76	0.48
Owner-Occupied Housing by Geography	111,577	3.36	6.01	62.48	28.14	0.00
Business by Geography	23,059	4.40	5.93	62.93	26.73	0.00
Farms by Geography	677	1.33	3.99	69.42	25.26	0.00
Family Distribution by Income Level	100,674	17.93	17.59	23.39	41.08	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	35,765	11.02	11.60	61.48	15.89	0.00
Median Family Income		74,739	Median Housing Value		195,991	
FFIEC Adjusted Median Family Income for 2016		82,000	Unemployment Rate for Albany-Schenectady-Troy MSA (Dec 2016)		4.0%	
Households Below Poverty Level		7.96%				

Economic conditions in the area are generally stronger than New York State as a whole. The most recent census data from 2010 shows that Saratoga County’s population experienced the fastest growth rate in New York State at 9.5 percent between 2000 and 2010. New York State’s population grew at 2.1 percent over this same period. Schenectady and Albany Counties also grew faster than the overall state average at a respective, 5.6 percent and 3.3 percent. Between 2010 and 2015, the population of

New York State is estimated to have grown by 2.2%. Over this same time period, the population of Saratoga and Albany Counties is estimated to have grown by 3.0 percent and 1.7 percent. Schenectady County's population is estimated to have remained unchanged. The local housing market has demonstrated considerable stability compared to the historic volatility other markets have demonstrated over the last decade. The area has experienced employment growth in high technology jobs, such as nanotechnology research and development and semiconductor manufacturing. Significant area employers are centered in national and state government agencies, such as the U.S. Navy's Knolls Atomic Power Laboratory, local municipalities, and health care facilities. Significant private employers include Global Foundries, State Farm Insurance and Momentive Performance Materials in Saratoga County, and General Electric and Golub Corporation in Schenectady County.

Competition from other financial institutions operating in the area is significant. The area's higher than average growth rate has attracted a significant number of financial institutions to the area. In Saratoga County, BSNB competes against 16 other institutions with 71 locations. BSNB's ranks fifth (5th) in Saratoga County with 8.46 percent in deposit market share. The four institutions with higher market share captured 54 percent of the deposits and include The Adirondack Trust Company, Bank of America, N.A., First Niagara Bank, N.A. (since acquired by KeyBank, N.A.) and Trustco Bank. In Schenectady County, eleven financial institutions have a presence in the market with Trustco Bank and Bank of America, N.A. capturing 50 percent of the market collectively. In Albany County, BSNB competes against 18 other institutions with 122 locations. Prior to its acquisition of First Niagara Bank, N.A., KeyBank, N.A. dominated the market with 51 percent of total deposits. First Niagara Bank, N.A., as of June 30, 2016, reported six (6) percent market share in Albany County. Other competitors include Citizens Bank, N.A., M&T Bank, Bank of America, N.A. and Trustco Bank. BSNB's deposit market share ranks 18th in Albany County at 0.01 percent.

Outreach with several affordable housing organizations serving the Albany-Schenectady-Troy MSA indicate a need for financial institution involvement in area economic development, small business loans and affordable housing loans.

Conclusions with Respect to Performance Tests

BSNB demonstrated satisfactory performance under both the Lending and Community Development Tests.

LENDING TEST

BSNB's performance under the Lending Test is satisfactory. Our assessment of performance under the Lending Test weighted the performance in home mortgage lending heavier than the performance of small business lending based on the higher volume of home mortgage lending during the evaluation period.

Loan-to-Deposit Ratio

The average quarterly loan to deposit ratio for BSNB for the CRA evaluation period is reasonable. The ratio was calculated using the 12 quarter average of loan-to-deposit (LTD) ratios from the date of the last evaluation, October 7, 2013, or December 31, 2013, through September 30, 2016. During this period, the average ratio was 75.90 percent. This was compared to five other similarly-sized financial institutions located in the Albany-Schenectady-Troy MSA. The range for these banks was 67.66 percent to 91.10 percent with an average of 80.64 percent during the same period.

Lending in Assessment Area

A majority of the home mortgage loans and small business loans originated during the evaluations period were inside the bank's AA. Approximately 68 percent by number and 69 percent by dollar amount of loans were originated within the AA for the bank's two primary products. The amount of home mortgage loans within the assessment area was 67 percent by number and 70 percent by dollar, and the amount of business loans in the AA was 78 percent by number and 65 percent by dollar. Refer to the following table for more information.

Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total #	Inside		Outside		Total \$
	#	%	#	%		\$	%	\$	%	
HMDA	396	67.35	192	32.65	588	53,196	69.74	23,080	30.26	76,276
Small Business	43	78.18	12	21.82	55	5,250	65.44	2,773	34.56	8,023
Totals	439	68.27	204	31.73	643	58,446	69.33	25,853	30.67	84,299

Source: HMDA data and sample of business data

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

The distribution of loans to borrowers of different income levels and to businesses of different sizes reflects reasonable penetration. Refer to the tables for supporting details.

Home mortgage lending to borrowers of different income levels reflects reasonable penetration of the demographic.

Home purchase lending to borrowers of different income levels reflects reasonable penetration of the demographic. Home purchase lending to low-income borrowers is significantly lower than the percentage of low-income families in the AA. However, given the \$195,991 median housing value, a low-income family, earning no more than \$41,000 per year, would have difficulty qualifying for a mortgage. We also considered the fact that 7.96 percent of the households in the area were below the poverty line and unlikely to qualify for a home mortgage. Home purchase lending to moderate-income borrowers is near to the percentage of moderate-income families in the AA.

Home improvement lending to borrowers of different income levels reflects excellent penetration of the demographic. Home improvement lending to low-income borrowers exceeds the percentage of low-income families in the AA. Home improvement lending to moderate-income borrowers is near to the percentage of moderate-income families in the AA.

Home refinance lending to borrowers of different income levels reflects reasonable penetration of the demographic. Home refinance lending to low-income borrowers is lower than the percentage of low-income families in the AA. Home refinance lending to moderate-income borrowers is near to the percentage of moderate-income families in the AA.

Borrower Distribution of Residential Real Estate Loans in the Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of Number of Loans	% of Dollar of Loans	% of Number of Loans	% of Dollar of Loans	% of Number of Loans	% of Dollar of Loans	% of Number of Loans	% of Dollar of Loans
Home Purchase	6.11	2.45	16.79	9.65	21.37	17.26	47.33	55.88
Home Improvement	22.82	3.54	17.45	15.06	24.16	29.42	31.54	50.97
Refinance	12.07	7.71	15.52	10.94	24.14	19.64	43.97	50.48
% of AA Families	17.93		17.59		23.39		41.08	

Source: HMDA data; US Census Data

Note: Borrower income level reported as NA for 11 home purchase loans totaling \$4,032,000, 6 home improvement totaling \$95,000, and 5 refinances totaling \$1,850,000.

The portion of small business loans made to small size business was lower than the percentage of small size businesses located in the AA, but still considered reasonable. Management originates small business lines of credit using a demand loan structure. Despite annual reviews of the borrower’s creditworthiness, the lines are not considered small business loans since the activity does not meet the definition of a refinancing or a renewal. As a result, the performance does not fully reflect BSNB’s small business lending activity.

Borrower Distribution of Loans to Businesses in the Assessment Area			
Business Revenues	≤ \$1,000,000	> \$1,000,000	Unavailable/ Unknown
% of Bank Loans in AA by #	46.51	48.84	4.65
% of Bank Loans in AA by \$	38.46	59.35	2.19
% of AA Businesses	81.33	6.53	12.14

Source: Loan sample; Dun and Bradstreet data

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion among all geographies including those designated low- or moderate-income. Refer to the tables below for supporting details.

The geographic distribution of home mortgage loans reflects a reasonable dispersion among all geographies including those designated low- or moderate-income.

The geographic distribution of home purchase, home improvement and home refinancing loans reflects a reasonable dispersion among all geographies including those designated low- or moderate-income. The geographic distribution of home purchase, home improvement and home refinancing loans is lower than the percentage of owner-occupied housing in low-income geographies. All of the low-income geographies are located in Schenectady County. BSNB does not have a physical presence in Schenectady County, yet management added the tracts in Schenectady County since the branch is located on a heavily traveled road which connects Schenectady to the Latham area. Management is building its presence in the area, but given the market competition, it will take some time. The geographic distribution of home purchase, home improvement and home refinancing loans exceeds the percentage of owner-occupied housing in moderate-income geographies.

Geographic Distribution of Residential Real Estate Loans in the Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of Number of Loans	% of Dollar of Loans	% of Number of Loans	% of Dollar of Loans	% of Number of Loans	% of Dollar of Loans	% of Number of Loans	% of Dollar of Loans
Home Purchase	0.00	0.00	9.16	5.94	72.52	72.66	18.32	21.40
Home Improvement	0.00	0.00	10.07	6.12	74.50	71.82	15.44	22.07
Refinance	0.86	1.87	8.62	10.26	71.55	66.74	18.97	21.13
% of Owner-Occupied Housing	3.36		6.01		62.48		28.14	

Source: HMDA data; US Census Data

The geographic distribution of small business loans reflects a reasonable dispersion among all geographies including those designated low- or moderate-income. The geographic distribution of small business loans is lower than the percentage of businesses operating in low-income geographies. As stated previously, management recently added the low-income geographies to its AA in a county in which BSNB has no physical presence. Management is committed to serving this area and is working to penetrate an already competitive market. The geographic distribution of small business loans exceeds the percentage of businesses operating in moderate-income geographies.

Geographic Distribution of Loans to Businesses in the Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of Number of Loans	% of Dollar of Loans	% of Number of Loans	% of Dollar of Loans	% of Number of Loans	% of Dollar of Loans	% of Number of Loans	% of Dollar of Loans
Small Business	0.00	0.00	6.98	0.91	74.42	84.00	18.60	15.09
% of AA Businesses	4.40		5.93		62.93		26.73	

Source: Loan sample; Dun and Bradstreet data

Responses to Complaints

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

COMMUNITY DEVELOPMENT TEST

BSNB's community development (CD) performance is rated satisfactory based on the bank's responsiveness to the community development needs of the AA, as well as, the number and amount of CD loans, number and amount of qualified investments, and the extent to which the bank provides CD services. The bank primarily meets the AA CD needs through the origination of community development loans.

Number and Amount of Community Development Loans

The number and amount of community development loans reflects adequate responsiveness to the community development needs within the AA.

The bank made nine qualified CD loans for \$1.5 million during the evaluation period. The majority of the loans supported affordable housing, and revitalization and stabilization of low- and moderate-income census tracts. To a lesser degree, the banks efforts promoted economic development through support of small businesses that are creating, maintaining and improving housing and jobs in the AAs. The remainder of the loans supported community services targeted to people of low- and moderate-income.

Number and Amount of Qualified Investments

The number and amount of community development investments reflects adequate responsiveness to community development needs within the AA.

Over the course of the evaluation period, BSNB invested in the AA through donating or sponsoring an aggregate amount of \$60 thousand to numerous CD eligible charitable and non-profit organizations within the bank's AA. The activities supported the needs of low- and moderate-income families, revitalize or stabilize low- and moderate-income census tracts, and support small businesses and job creation.

During the prior evaluation period, BSNB invested \$89 thousand in an economic development organization which provides financing to small businesses throughout New York State, including the bank's AA.

Extent to Which the Bank Provides Community Development Services

BSNB demonstrated adequate responsiveness to CD needs of the AA through qualified services. BSNB employees participated in nearly 285 hours of qualified CD service activity during the evaluation period. Employees served on boards of directors, loan and finance committees, and as treasurers for five community development related organizations within the AA and a sixth organization in a County adjacent to the AA. The majority of the services were provided to organizations that provide economic development by supporting small size businesses that are creating, maintaining or improving jobs in the AAs, followed by services to people of low- or moderate-income,

and organizations that support affordable housing for people of low- and moderate-income.

Responsiveness to Community Development Needs

The bank's CD performance in their assessment area represented adequate responsiveness to the community development needs of the AAs.

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.