



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

May 02, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Saratoga National Bank and Trust Company
Charter Number 21530

171 South Broadway
Saratoga Springs, NY 12866-4531

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 following are the primary factors supporting this rating.

- Saratoga National Bank and Trust Company's (SNB) average loan-to-deposit ratio since the last examination significantly exceeds the range of average loan-to-deposit ratios for the same period for other small and intermediate small banks operating in the assessment area (AA) and in counties adjacent to the assessment area, and therefore, the bank exceeds the standard for satisfactory performance.
- SNB's distribution of loans by borrower income meets the standard for satisfactory performance.
- SNB's distribution of loans by geographic income meets the standards for satisfactory performance.
- SNB's record of lending within its assessment area (AA) does not meet the standard for satisfactory performance.
- The bank has not received any CRA-related complaints since the last evaluation.

SCOPE OF EXAMINATION

The bank's prior CRA examination was as of August 26, 2002. We evaluated the bank using Large Bank criteria at the last exam since the bank's holding company assets exceed \$1 billion, despite the fact that the bank's asset size was less than \$250 million. The evaluation period covered January 1, 1996 through December 31, 2001, for Home Mortgage Disclosure Act (HMDA) and January 1, 2001, through December 31, 2001, for small business loans.

As of September 1, 2005, the asset size of the bank's holding company is no longer considered in the determination of the criteria used to evaluate the bank. Therefore, since the bank's asset size for the current and prior two calendar years was less than \$265 million, the bank qualifies as a Small Bank for CRA purposes. The evaluation period for this CRA evaluation covers the period from August 27, 2002 through May 2, 2008. The lending test portion of the examination utilized HMDA, business/farm and consumer loan data for January 1, 2005 through December 31, 2007. Management provided the data used for this examination and the holding company's internal audit department tested the accuracy of the data for each year under review.

DESCRIPTION OF INSTITUTION

Saratoga National Bank and Trust Company (SNB) is a community bank with total assets of \$240 million and headquartered in Saratoga Springs, NY, approximately 35 miles north of state capital Albany, NY. SNB is owned by a multi-bank holding company, Arrow Financial Corporation, which also owns Glens Falls National Bank and Trust Company (GFNB) located in Glens Falls, NY, 20 miles north of Saratoga Springs. GFNB has total assets of \$1.4 billion. SNB serves its community through six offices located in Saratoga County, which is within the Albany-Schenectady-Troy Metropolitan Statistical Area (MSA). One of the six offices is located in a moderate-income census tract. All offices have 24-hour ATMs and drive-up facilities.

As of March 31, 2008, SNB had \$189 million in gross loans and \$187 million in deposits. The loan portfolio consists of \$88 million (46%) in residential real estate loans and lines, \$71 million (38%) in consumer loans, and \$30 million (16%) in commercial loans. For calendar years 2005, 2006 and 2007, management originated 17,594 loans totaling \$425 million. Of these totals, motor vehicle loans represented 16,445 loans (93%) totaling \$323 million (76%).

Management's primary business focus has traditionally been indirect consumer lending. SNB, along with its sister bank, GFNB, are heavily involved in the indirect lending in the Capital Region of New York State. However, due to the volume of indirect loans originated, SNB sells a significant amount of its originated loans to GFNB in order to maintain a reasonable liquidity position. For calendar years 2005, 2006 and 2007, SNB sold \$173 million (54%) of newly originated motor vehicle loans to GFNB. The unsold motor vehicle loans remain in the bank's portfolio. The bank does not have any legal or financial circumstances that would impede its ability to help meet the credit needs in its AA. The bank received a "Satisfactory" CRA rating at its last examination dated August 26, 2002.

DESCRIPTION OF ASSESSMENT AREA(S)

SNB has one AA consisting of 42 census tracts in Saratoga County. All of the census tracts are located within the Albany-Schenectady-Troy MSA. Of the 42 census tracts, 7 (17%) are designated moderate-income, 23 (55%) are middle-income, 11 (26%) are upper-income, and 1 (2%) does not have an income designation. The AA does not contain any low-income census tracts. The AA is home to 194,519 persons in 52,246 families and 75,850 households. The distribution of families by income level is as follows: 15% low-income, 18% moderate-income, 24% middle-income, and 43% upper-income. The distribution of households by income level, which is used to evaluate borrower distribution of consumer loans, is as follows: 17% low-income, 15% moderate-income, 20% middle-income, and 48% 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 2007 updated median family income of \$66,300 for the

MSA is used to determine the income designation of the borrower. The median household income for the AA is \$51,018.

There are 13,906 business and 397 farms operating in the AA, of which 64% are identified as small-sized businesses or farms (revenues less than or equal to \$1 million. Only 4% are classified as large-sized businesses. The remaining 32% of businesses and farms in the AA did not report revenues and are not classified for business size.

The community credit needs as suggested by a member of the economic development community during a discussion held during the examination included loans and projects for affordable housing and senior housing.

Economic conditions in the area indicate modest economic growth. The March 2008 unemployment rate for Saratoga County was 4.8% which compares favorably to the unemployment rates for the Albany-Schenectady-Troy MSA and New York State which were 5.2% and 5.1%, respectively. The county has a diversified economic base with tourism, manufacturing, government and service sectors contributing to the economy. Major employers in the county include Stewart's Ice Cream Company, General Electric, State Farm Insurance, Target, Skidmore College, and the NYS Racing Association.

Competition in the AA is significant with 16 other financial institutions and several credit unions operating in Saratoga County. Competitors include Citizens Bank, KeyBank, Bank of America, TD Banknorth, Adirondack Trust Company, Trustco Bank, First Niagara, Ballston Spa National Bank and HSBC.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Our assessment of this bank's performance under the CRA is based solely on performance under the lending test. Management chose not to submit information for the investment and service tests which are optional tests under the Small Bank criteria. Under the lending test, we identified consumer loans as the bank's primary product type based on the number and volume of originations during calendar years 2005-2007.

Loan-to-Deposit Ratio

SNB's loan-to-deposit ratio exceeds the standard for satisfactory performance. The bank's average loan-to-deposit ratio for 22 quarters beginning September 30, 2002 through December 31, 2007 was 110.55. This significantly exceeds the average loan-to-deposit ratios for five other small and intermediate small banks operating within the Albany-Schenectady-Troy MSA. The average loan-to-deposit ratios for these institutions range from 62.65 to 83.26. However, these banks are not similarly situated as they do not have the support of a larger holding company or sister bank similar to that of SNB. Despite the lack of similarly situated institutions in the assessment area, the bank exceeds the standard based on the significant loan-to-deposit ratio maintained during the evaluation period.

Lending in Assessment Area

The bank's performance in this category does not meet the standard for satisfactory performance. We determined that for the calendar years 2005-2007, the bank originated 22% of the number and 29% of the amount of consumer loans within the AA. If the percentage of loans or other lending related activities in the assessment area is less than a majority, then the institution does not meet the standards for "Satisfactory" under this performance criterion. Refer to Table 1 for additional information.

Table 1 - Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer	3,540	22	12,905	78	16,445	93,375	29	229,348	71	322,723

Note: Motor vehicle loans represent a majority of the consumer loans with 16,024 loans totaling \$280,951M. Of the motor vehicle loans originated, 20% of the number and amount originated are within the AA.

The bank is an affiliate of GFNB. Both banks are owned by the bank holding company, Arrow Financial Corporation. In 1989, SNB began relationships with 5 local motor vehicle dealerships to purchase consumer automobile loans, referred to as indirect auto lending. Over the years, the activity has grown to include a larger number of motor vehicle dealerships. SNB has relationships with motor vehicle dealerships primarily located south, west and east of Saratoga Springs, New York. SNB is presently purchasing indirect auto loans from dozens of dealerships. Additionally, in order to maintain a reasonable liquidity position, bank management sells a significant volume on these loans to GFNB. Management sold motor vehicle loans totaling \$281 million from 2003-2007 with annual sales of \$36.6 million in 2003, \$71.9 million in 2004, \$68.9 million in 2005, \$46.8 million in 2006 and \$56.9 million in 2007.

The level of lending outside the assessment area is significant as a result of the extensive indirect automobile dealer network SNB has built over the last 20 years in and around the Capital Region of New York State. Accessible automobile loans are necessary in the area, as mass transit is not widely used or available. Despite the fact that the percentage of loans originated within the assessment area is below 50%, management originated a significant volume and amount of loans within the assessment area for a bank of its size.

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

Lending to borrowers of different incomes meets the standard for satisfactory performance. Our analysis centered on the bank's distribution of consumer loans to low- and moderate-income households. The level of lending to low-income borrowers

of 15% is slightly below the distribution of low-income households of 17%. However, if you consider the poverty level in the AA is 5.87% of households, this is considered reasonable. The level of lending to moderate-income borrowers of 25% exceeds the moderate-income household distribution of 25%. Refer to Table 2A below for more information.

Table 2A - 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	15	15	25	20	25	48	33

Geographic Distribution of Loans

The geographic distribution of loans meets the standard for satisfactory performance. 8% of the bank's consumer loans are to households located in the AA's one moderate income census tract. This census tract accounts for 11% of the AA's total households. The AA does not include any low-income census tracts. Refer to table 3A below for additional information.

Table 3A - 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	11	8	60	60	29	32

Responses to Complaints

SNB has not received any CRA related consumer complaints since the last CRA examination.

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.