



NEW YORK STATE BANKING DEPARTMENT
CONSUMER SERVICES DIVISION
One State Street
New York, NY 10004

PUBLIC SUMMARY

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

Date of Evaluation: December 31, 2008

Institution: Adirondack Bank
185 Genesee Street
Utica, NY 13501

Note: This evaluation is not an assessment of the financial condition of this institution. The rating assigned does not represent an analysis, conclusion or opinion of the New York State Banking Department concerning the safety and soundness of this financial institution.

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GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act ("CRA") performance of Adirondack Bank ("AB") prepared by the New York State Banking Department. The evaluation represents the Banking Department's current assessment and rating of the institution's CRA performance based on an evaluation conducted as of December 31, 2008.

Section 28-b of the New York State Banking Law, as amended, requires that when evaluating certain applications, the Superintendent of Banks shall assess a banking institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income ("LMI") areas, consistent with safe and sound operations.

Part 76 of the General Regulations of the Banking Board implements Section 28-b and further requires that the Banking Department assess the CRA performance records of regulated financial institutions. Part 76 establishes the framework and criteria by which the Department will evaluate the performance. Section 76.5 further provides that the Banking Department will prepare a written report summarizing the results of such assessment and will assign to each institution a numerical CRA rating based on a 1 to 4 scoring system. The numerical scores represent an assessment of CRA performance as follows:

- (1) outstanding record of meeting community credit needs;
- (2) satisfactory record of meeting community credit needs;
- (3) needs to improve record of meeting community credit needs; and
- (4) substantial noncompliance in meeting community credit needs.

Section 76.5 further requires that the CRA rating and the written summary be made available to the public ("Evaluation"). Evaluations of intermediate small banking institutions are primarily based on a review of performance tests and standards described in Section 76.7 and detailed in Section 76.12. The tests and standards incorporate the 12 assessment factors contained in Section 28-b of the New York State Banking Law.

For an explanation of technical terms used in this report, please consult the **GLOSSARY** at the back of this document.

OVERVIEW OF INSTITUTION'S PERFORMANCE

AB's performance was evaluated according to the intermediate small bank performance criteria. AB is rated "2," indicating a "**Satisfactory**" record of helping to meet community credit needs. This rating is unchanged from the prior New York State Banking Department Performance Evaluation, dated December 31, 2006. AB's rating is based on the following factors:

CRA Rating: "Satisfactory"

I. **Lending Test: "Satisfactory"**

- ***Loan-to-Deposit ("LTD") Ratio and Other Lending-Related Activities: "Satisfactory"***

AB's average LTD ratio was reasonable considering its size, financial condition and the credit needs of its assessment area. Throughout the evaluation period, AB's LTD ratios were consistently below its peers' ratios. However, the average LTD ratio during the evaluation period of 75.28% was an improvement from the prior evaluation's average LTD ratio of 68.45%.

- ***Assessment Area Concentration: "Outstanding"***

AB originated a substantial majority of its HMDA-reportable, small business and consumer loans within its assessment area. Over the three years, more than 90% of AB's lending (measured by both number of loans and dollars lent) was within its assessment area.

- ***Distribution by Borrowers Characteristics: "Satisfactory"***

The overall distribution of loans based on borrowers' characteristics reflected a reasonable penetration rate among individuals of different income levels and businesses of different revenue sizes.

For HMDA-reportable loans, the distribution reflected a reasonable penetration among borrowers of different income levels. In 2007, AB's penetration rates for LMI individuals were slightly higher than the aggregate's rates. In 2008, AB's penetration rates decreased and were lower than the aggregate's penetration rate.

The distribution of small business loans based on borrower characteristics reflected an excellent penetration among businesses of different revenue sizes. For both 2007 and 2008, more than two-thirds of AB's loans were made to businesses with revenues of <=\$1MM. In 2007, AB's performance was significantly above the aggregate's penetration rate which totaled slightly more than one-third of all business loans made to businesses with revenues of <=\$1MM. In addition, the penetration rate of lending to businesses with revenues of <=\$1MM exceeded the business demographics.

The distribution of AB's consumer loans based on borrower characteristics reflected an excellent penetration among borrowers of different income levels. Although aggregate data are not available for comparison, in both 2007 and 2008, AB made more than 50% of its consumer loans to LMI borrowers.

- ***Geographic Distribution of Loans: "Satisfactory"***

Overall, the geographic distribution of loans reflected a reasonable dispersion throughout the assessment area. Lending in LMI geographies to small businesses and consumers were both reasonable, while HMDA-reportable lending in LMI geographies was poor.

The geographic distribution of HMDA-reportable loans made during the evaluation period reflected a poor penetration rate in LMI census tracts. In 2007, the bank extended 7.5% by number and 4.7% by dollar volume of its HMDA-reportable loans in LMI tracts. These LMI penetration rates were considerably less than the aggregate's rates of 12.1% by number and 8.4% by dollar volume.

AB's geographic distribution of its small business loans reflected a reasonable dispersion among census tracts of different income levels throughout its assessment area. In 2007, AB originated 19% by number and 17% by dollar volume of its small business loans in the LMI census tracts. AB's penetration rate was close to the aggregate's penetration rate for number of loans, while falling short for dollars lent. However, in 2008, the bank extended more loans in LMI geographies increasing its penetration rates to 25% by number and 18.5% by dollar volume.

The geographic distribution of consumer loans reflected a reasonable dispersion throughout the assessment area. In 2007, AB originated 10.1% by number and 6.1% by dollar volume of its consumer loans in LMI tracts. The level of originations in LMI tracts was relatively similar in 2007 and 2008.

- ***Action Taken in Response to Written Complaints With Respect to CRA: "Satisfactory"***

Since the latest CRA evaluation as of December 31, 2006, neither AB nor the New York State Banking Department has received any written complaints regarding AB's CRA performance. However, NYSBD did receive a letter from a community group, which credited AB for its immeasurable efforts and performance in meeting the credit needs of its community.

II. Community Development Test: "Satisfactory"

AB demonstrated an adequate responsiveness to the community development needs of its assessment area with \$3.9 million in community development loans and qualified investments. AB provided an adequate

level of community development services in its assessment area.

This evaluation was conducted based on a review of the 12 assessment factors set forth in Section 28-b of the New York State Banking Law and Part 76 of the General Regulations of the Banking Board.

PERFORMANCE CONTEXT

Institution's Profile:

Founded in 1898, AB is a New York State chartered financial institution, primarily serving upstate and Central New York. Headquartered in Utica, New York, AB is a wholly-owned subsidiary of Adirondack Bancorp, Inc., a one-bank holding company.

According to the Call Report dated December 31, 2008, AB reported total assets of \$479.6 million, with \$314.3 million in net loans and total deposits of \$400.7 million. According to the latest available comparative deposit data, dated June 30, 2006¹, AB has a market share of 2.72%, or \$401.6 million out of \$14.8 billion in deposits inside its market, ranking it 11th among 27 deposit-taking institutions in its assessment area.

1-4 family residential mortgage loans make up the largest portion of AB's gross loans outstanding. However, both commercial and industrial loans and commercial mortgage loans are also significant portions of the portfolio.

The following table illustrates AB's lending portfolio, based on Schedule RC-C of the year-end Call Reports for 2007 and 2008.

TOTAL GROSS LOANS OUTSTANDING						
LOAN TYPE	2006		2007		2008	
	\$000	%	\$000	%	\$000	%
1-4 Residential Mortgage Loans	123,254	42.0	124,479	41.3	132,955	41.9
Commercial & Industrial Loans	98,133	33.4	75,853	25.2	67,377	21.2
Commercial Mortgage Loans	46,955	16.0	67,557	22.4	86,711	27.3
Multifamily Mortgages	3,726	1.3	3,327	1.1	5,528	1.7
Consumer Loans	18,894	6.4	25,037	8.3	23,687	7.5
Construction Loans	2,572	0.9	5,066	1.7	1,151	0.4
Total Gross Loans	293,534	100.0	301,319	100.0	317,409	100.0

AB offers various competitive lending and deposit products tailored to the needs of the community it serves. These products include residential mortgage loans, small business loans and consumer loans. In addition, AB offers Advantage Free Basic Checking and Advantage Free Business Checking. AB's Free Basic Checking has no monthly service charge and no per transaction fees, with no minimum balance required (\$25 minimum to open). AB's Free Business Checking has no monthly maintenance fee and allows 250 free items per statement cycle.

AB operates in a highly competitive market with several large regional and national banks in its assessment area. These banks include Manufacturers & Traders Trust Co.; Key Bank, National Bank; HSBC Bank, USA National Assn; and Bank of Utica. Of the 335 offices within AB's assessment area, the combination of the three largest banks had 108 branches, more than \$6.6 billion in deposits and a market share of 44.6%.

¹ The FDIC bases its Summary of Deposits on data collected annually as of June 30.

In 2007, AB ranked 13th out of 207 HMDA-reporting lenders within its assessment area. This ranking reflected a market share of 2.20% based on number of loans with an average loan size of \$63 thousand.

There were no legal or financial impediments affecting AB's ability to meet the credit needs of its assessment area.

Assessment Area:

AB's assessment area includes all of Herkimer and Oneida Counties, as well as portions of the eight counties of Onondaga, Clinton, Essex, Franklin, Fulton, Hamilton, Lewis and Montgomery in New York State. Since the last evaluation, AB made two changes to its assessment area. AB excluded Madison County (11-tracts) and included the Indian Reservation of Onondaga County (1-tract).

Herkimer and Oneida Counties are located in Metropolitan Statistical Area ("MSA") 46540 (Utica-Rome). Onondaga county is located in MSA 45060 (Syracuse). Clinton, Essex, Franklin, Fulton, Hamilton, Lewis and Montgomery counties are part of a Non-Metropolitan Statistical Area (Non-MSA).

The following table shows the distribution of census tracts within AB's assessment area.

Distribution of Assessment Area Census Tracts by Income Level							
County	Unknown-income	Low	Moderate	Middle	Upper	Total	LMI %
Herkimer	0	0	3	16	0	19	16%
Oneida	1	10	14	32	16	73	33%
Onondaga*	0	21	23	52	37	133	33%
Clinton*	1	0	2	10	3	16	13%
Essex*	0	0	0	4	0	4	0%
Franklin*	0	0	0	4	0	4	0%
Fulton*	0	0	3	7	0	10	30%
Hamilton*	0	0	0	3	0	3	0%
Lewis*	0	0	0	3	0	3	0%
Montgomery*	0	0	0	4	0	4	0%
Total AA	2	31	45	135	56	269	28%

* Indicates a partial county

The assessment area appears reasonable based upon the location of AB's offices and its lending patterns. There is no evidence that AB arbitrarily excluded LMI geographies.

Economic and Demographic Data:

Demographic data regarding the owner-occupied housing units and small businesses located in LMI census tracts, as well as families that are LMI and businesses with revenues of less than \$ 1MM, are included in the appropriate sections.

The total population for the assessment area is 867,285. Thirty eight percent of families are considered LMI. The median family income is \$48,121. The HUD Updated Income for the assessment area is \$56,804.

The largest industry in the assessment area was services, which consists of 34.7% of the total businesses. Retail trade and construction were the second and third largest industries, accounting for 15.8% and 6.9% of the total businesses, respectively. The fourth largest industry was finance, insurance and real estate, with 6.6% of all businesses within the assessment area. Approximately 20.4% of all businesses were not classified. Twenty four percent of businesses are located in LMI geographies.

Unemployment Rates

In 2008, the unemployment rates in all three MSAs and virtually all counties in the assessment area were higher than the statewide average. The following chart shows the annual unemployment rates, for each county in AB's assessment area, compared with the statewide and metropolitan divisions, based on the U.S. Bureau of Labor Statistics.

Assessment Area Unemployment Rate		
	Annual 2007	Annual 2008
Statewide	4.5	5.4
MSA 46540	4.5	5.6
Herkimer	5.0	6.2
Oneida	4.3	5.5
MSA 45060	4.5	5.7
Onondaga*	4.1	5.3
Non-MSA		
Clinton*	5.7	6.7
Essex*	5.7	6.8
Franklin*	5.6	7.1
Fulton*	5.5	6.9
Hamilton*	4.8	6.4
Lewis*	5.5	6.8
Montgomery*	5.9	7.2

* Assessment area includes a partial county, but statistics reflect the entire county.

PERFORMANCE STANDARDS AND ASSESSMENT FACTORS

AB's performance was evaluated according to the intermediate small bank's performance criteria under the Lending and Community Development tests pursuant to part 76.12 of the General Regulations of the Banking Board. The Lending test includes the following criteria: (1) Loan-to-Deposit Ratio and other Lending-Related Activities; (2) Assessment Area Concentration; (3) Distribution by Borrower Characteristics; (4) Geographic Distribution of Loans; and (5) Action Taken in Response to Written Complaints Regarding CRA. The Community Development test entails the review of: (1) Community Development Loans (2) Community Development Qualified Investments and (3) Community Development Services. The following factors were also considered in assessing AB's record of performance: the extent of participation by the Board of directors or Board of Trustees in formulating CRA policies and reviewing CRA performance; any practices intended to discourage credit applications; evidence of prohibited discriminatory or other illegal credit practices; record of opening and closing offices and providing services at offices; and process factors such as activities to ascertain credit needs; and the extent of marketing and special credit related programs. Finally, the evaluation considered other factors as delineated in Section 28-b of the Banking Law that reasonably bear upon the extent to which a banking institution is helping to meet the credit needs of its entire community.

The assessment period includes calendar years 2007 and 2008. Examiners considered AB's HMDA-reportable loans, small business loans and consumer loans in evaluating factors (2), (3) and (4), as noted above. Factors (3) and (4) only consider loans within AB's assessment area. Small business loan aggregate data are shown for comparative purposes, AB is not required to report these data and as such, AB is not included in the aggregate data. The 2008 HMDA-reportable and small business loan aggregate data were not available when this evaluation was conducted. Consumer aggregate data are generally not available.

Statistics employed in this evaluation were derived from various sources. In addition to specific loan information submitted by AB, aggregate data for small business and HMDA-reportable lending activity were obtained from the Federal Financial Institutions Examination Council ("FFIEC").

The demographic data referred to in this report were obtained from the 2000 U.S. Census data, with updated median family income figures provided by the U.S. Department of Housing and Urban Development ("HUD"). Business demographic data used in this report derive from information on US businesses, enhanced by Dun & Bradstreet and updated annually.

CRA Rating: "Satisfactory"

I. Lending Test – "Satisfactory"

- **Loan-to-Deposit Ratio ("LTD") Analysis and Other Lending Related Activities:**
"Satisfactory"

AB's average LTD ratio was reasonable considering its size, financial condition and the

credit needs of its assessment area. Throughout the evaluation period, AB's LTD ratios were consistently below its peers' ratios. However, the average LTD ratio during the evaluation period of 75.28% was an improvement from the prior evaluation's average LTD ratio of 68.45%.

These ratios were calculated from information shown in the bank's Uniform Bank Performance Report as submitted to the Federal Deposit Insurance Corporation ("FDIC").

Loan-to-Deposit Ratios									
	2007 (Q1)	2007 (Q2)	2007 (Q3)	2007 (Q4)	2008 (Q1)	2008 (Q2)	2008 (Q3)	2008 (Q4)	Average LTD
Bank	71.35	71.66	74.66	76.41	74.71	77.25	77.75	78.43	75.28
Peer	86.56	87.86	88.56	89.45	89.47	91.00	91.10	89.30	89.16

- **Assessment Area Concentration: "Outstanding"**

AB originated a substantial majority of its HMDA-reportable, small business and consumer loans within its assessment area. Over the three years, more than 90% of AB's lending, on average, (measured by both number of loans and dollars lent) was within its assessment area.

The following table illustrates the distribution of AB's loans inside and outside of its assessment area.

***Distribution of Loans Inside and Outside of the Assessment Area**

Loan Type	Number of Loans					Loans in Dollars (in thousands)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
HMDA-Reportable										
2007	492	94.2%	25	5.8%	517	31,173	90.5%	2,175	6.5%	33,348
2008	406	96.8%	18	3.2%	424	26,652	94.8%	1,855	6.5%	28,507
Subtotal	898	95.3%	43	4.7%	941	57,825	92.3%	4,030	6.5%	61,855
Small Business										
2007	150	89.2%	18	10.8%	168	25,772	93.0%	1,936	7.0%	27,708
2008	195	91.4%	18	8.6%	213	33,795	91.2%	3,259	8.8%	37,054
Subtotal	345	90.4%	36	9.6%	381	59,567	91.9%	5,195	8.0%	64,762
Consumer										
2007	1175.5	92.7%	92	7.3%	1268	18,331	79.0%	4,887	21.0%	23,218
2008	1198.4	93.5%	84	6.5%	1282	21,579	96.3%	826	3.7%	22,405
Subtotal	2373.9	93.1%	176	6.9%	2550	39,910	87.2%	5,713	12.5%	45,623
Total	3617	93.4%	255	6.6%	3872	157,302	91.3%	14,938	8.7%	172,240

*For small business and consumer lending, analysis was performed on a sample of 163 loans in 2007 (65 small business; and 98 consumer) and 159 loans in 2008 (69 small business; and 90 consumer). Number and dollar volume of loans were then extrapolated from the resulting percentages and were not actual results. HMDA lending analysis is based on actual lending.

• **Distribution by Borrower Characteristics: “Satisfactory”**

The overall distribution of loans based on borrowers’ characteristics reflected a reasonable penetration rate among individuals of different income levels and businesses of different revenue sizes.

1-4 family HMDA-Reportable Loans: “Satisfactory”

The distribution of 1-4 family HMDA-reportable loans reflected a reasonable penetration among borrowers of different income levels.

In 2007, AB extended 29.3% by number and 18% by dollar volume of its 1-4 family HMDA-reportable loans to LMI individuals. These LMI penetration rates were slightly higher than the aggregate’s rates of 28.5% and 17.9% respectively.

In 2008, AB’s LMI penetration rates for number and dollar volume were 22.9% and 13.5%, respectively, a decrease from 2007. AB’s volume of lending was only down 17.5%, compared to the 22.9% decrease of the aggregate lending volume during the same period. Across New York State, existing home sales declined by 23% from 1Q 2008 to 1Q 2009; permits for new construction declined by 60%. This was reflected in the aggregate’s lending results, which decreased 22%. However, AB’s lending penetration rates to LMI

borrowers were worse than the aggregate for both number of loans and dollars lent.

The following chart provides a summary of AB's HMDA lending distribution during the evaluation period, including a comparison to the aggregate's record and family demographics in the assessment area (percentage of families at each income level).

^*Distribution of 1-4 family HMDA-Reportable Loans by Borrower Income Level									
Borrower Income Level	2007								Fam. Demo- graphics
	Bank				Aggregate				
	#	%	\$000	%	#	%	\$000	%	
Low	36	7.3	904	2.9	1,699	7.6	76,445	3.7	20.1%
Moderate	108	22.0	4,713	15.1	4,681	20.9	295,735	14.2	17.8%
Middle	126	25.6	5,273	16.9	6,197	27.7	481,455	23.1	22.0%
Upper	204	41.5	18,228	58.5	9,328	41.7	1,060,896	50.9	40.1%
Not Applicable	18	3.7	2,055	6.6	484	2.2	168,244	8.1	0.0%
Total	492	100.0	31,173	100.0	22,389	100.0	2,082,775	100.0	100.0%
Borrower Income Level	2008								Fam. Demo- graphics
	Bank				Aggregate				
	#	%	\$000	%	#	%	\$000	%	
Low	25	6.2	750	2.8	1,296	7.5	62,877	3.6	20.1%
Moderate	68	16.7	2,854	10.7	3,708	21.5	255,339	14.5	17.8%
Middle	103	25.4	5,702	21.4	4,408	25.5	385,549	21.9	22.0%
Upper	193	47.5	16,038	60.2	7,471	43.3	896,562	50.9	40.1%
Not Applicable	17	4.2	1,308	4.9	377	2.2	161,304	9.2	0.0%
Total	406	100.0	26,652	100.0	17,260	100.0	1,761,631	100.0	100.0%

^ Chart does not include multi-family lending, which is included in HMDA chart for income of geography.

Small Business Lending: "Outstanding"

The distribution of small business loans based on borrower characteristics reflected an excellent penetration among businesses of different revenue sizes.

For both 2007 and 2008, more than two-thirds of AB's loans were made to businesses with revenues of <=\$1MM. In 2007, AB's performance was significantly above the aggregate's penetration rate which totaled slightly more than one-third of all business loans made to businesses with revenues of <=\$1MM. In addition, the penetration rate of lending to businesses with revenues of <=\$1MM exceeded the business demographics.

The following chart provides a summary of AB's small business lending distribution during the evaluation period, including a comparison to the aggregate's record and the business demographics in the assessment area (percentage of businesses at each revenue size level).

*Distribution of Small Business Loans by Business Revenue Size									
Revenue Size	2007								Business Demographics
	Bank				Aggregate				
	#	%	\$000	%	#	%	\$000	%	
<=\$1MM	106	70.7	16,955	65.8	10,794	37.5	270,078	33.3	61.2%
>\$ 1MM	44	29.3	8,813	34.2					5.8%
No Revenue Info	0	0.0	0	0.0					33.0%
Total	150	100.0	25,768	100.0	28,786		810,595	33.3	100.0%
Revenue Size	2008								Business Demographics
	Bank				Aggregate				
	#	%	\$000	%	#	%	\$000	%	
<=\$ 1MM	46	71.9	17,234	51.0	7,423	33.5	237,447	34.4	59.9%
>\$ 1 MM	18	28.1	16,559	49.0					5.4%
No Revenue Info	64	0.0	0	0.0					34.7%
Total	195	100.0	33,793	100.0	22,186		691,167		100.0%

*Loan analysis was performed on a sample of 168 loans in 2007 and 213 loans in 2008. Number and dollar volume of loans were then extrapolated from the resulting percentages and are not actual results.

Consumer Loans: "Outstanding"

The distribution of AB's consumer loans based on borrower characteristics reflected an excellent penetration among borrowers of different income levels. Although aggregate data are not available for comparison, in both 2007 and 2008, AB made more than 50% of its consumer loans to LMI borrowers.

The following chart provides a summary of AB's consumer lending distribution during the evaluation period, including a comparison to family demographics in the assessment area (percentage of families at each income level).

*Distribution of Consumer Loans by Borrower Income Level					
Borrower Income Level	2007				Family Demographics
	Bank				
	#	%	\$000	%	
Low	264	22.5	1,908	10.4	20.1%
Moderate	343	29.2	5,869	32.0	17.8%
Middle	264	22.5	3,962	21.6	22.0%
Upper	303	25.8	6,603	36.0	40.1%
Total	1,175	100.0	18,342	100.0	100.0%
Borrower Income Level	2008				Family Demographics
	Bank				
	#	%	\$000	%	
Low	153	12.8	1,295	6.0	20.1%
Moderate	488	40.7	5,049	23.4	17.8%
Middle	320	26.7	12,406	57.5	22.0%
Upper	237	19.8	2,826	13.1	40.1%
Total	1,199	100.0	21,576	100.0	100.0%

*Loan analysis was performed on a sample of 1,268 loans in 2007 and 1,282 loans in 2008. Number and dollar volume of loans were then extrapolated from the resulting percentages and are not actual results.

- **Geographic Distribution of Loans: “Satisfactory”**

Overall, the geographic distribution of loans reflected a reasonable dispersion throughout the assessment area. Lending in LMI geographies to small businesses and consumers were both reasonable, while HMDA-reportable lending in LMI geographies was poor.

HMDA-Reportable Loans: “Needs to Improve”

The geographic distribution of HMDA-reportable loans made during the evaluation period reflected a poor penetration rate in LMI census tracts. In 2007, the bank extended 7.5% by number and 4.7% by dollar volume of its HMDA-reportable loans in LMI tracts. These LMI penetration rates were considerably less than the aggregate’s rates of 12.1% by number and 8.4% by dollar volume.

In 2008, the AB’s LMI penetration rate for number of loans decreased, as did the penetration rate for the aggregate. Even so, AB remained below the aggregate’s penetration ratio. However, AB increased its lending penetration rate for dollars lent, almost matching the aggregate’s rate, which had decreased.

A county-by-county analysis of AB’s 2007 and 2008 HMDA-reportable loans revealed the reasons for the low penetration rates for number of loans. The vast majority of AB’s HMDA loans were in Herkimer and Oneida Counties (85% of loans) and 97% of the LMI census tract lending occurred in these two counties. Very few loans (16 - representing 2% of lending) were made in Onondaga County, which contains 48% of the total population, 47% of the owner-occupied housing units and 58% of the LMI tracts within the assessment

area. One third of the census tracts of Onondaga are LMI, yet no loans were made in LMI areas of Onondaga. While 30% of the assessment area within Fulton County are LMI areas, the population is less than 10% of the population of Onondaga.

The following charts provide summaries of AB's HMDA lending distribution during the evaluation period. The first chart includes a comparison to the aggregate's record and the owner-occupied housing units in the assessment area. The second chart shows the breakdown of LMI census tract lending by county and includes a comparison to the LMI census tracts in each county.

*Distribution of HMDA-reportable Loans by Geographic Income Level									
Geographic Income Level	2007								Owner-Occupied Housing Units
	Bank				Aggregate				
	#	%	\$000	%	#	%	\$000	%	
Low	8	1.6	357	1.1	564	2.5	46,188	2.2	2.7%
Moderate	29	5.9	1,116	3.6	2,141	9.6	129,579	6.2	9.2%
Middle	372	75.6	23,288	74.7	13,410	59.9	1,203,611	57.8	60.7%
Upper	83	16.9	6,412	20.6	6,268	28.0	702,885	33.7	27.4%
Not Applicable	0	0.0	0	0.0	6	0.0	512	0.0	0.0%
Total	492	100.0	31,173	100.0	22,389	100.0	2,082,775	100.0	100.0%
Geographic Income Level	2008								Owner-Occupied Housing Units
	Bank				Aggregate				
	#	%	\$000	%	#	%	\$000	%	
Low	6	1.5	661	2.5	328	1.9	21,128	1.2	2.7%
Moderate	18	4.4	804	3.0	1,362	7.9	80,584	4.6	9.2%
Middle	305	75.1	18,558	69.6	10,530	61.0	1,018,771	57.8	60.7%
Upper	77	19.0	6,629	24.9	5,039	29.2	640,863	36.4	27.4%
Not Applicable	0	0.0	0	0.0	1	0.0	285	0.0	0.0%
Total	406	100.0	26,652	100.0	17,260	100.0	1,761,631	100.0	100.0%

*Loan analysis was performed on a sample of 517 loans in 2007 and 414 loans in 2008. Number and dollar volume of loans were then extrapolated from the resulting percentages and are not actual results.

Distribution of HMDA-Reportable Loans in LMI Geographies by County									
	2007				2008				AA demographics (% of LMI census tracts)
	Total Loans	Loans in LMI Census Tracts		Aggregate %	Total Loans	Loans in LMI Census Tracts		Aggregate %	
		#	%			#	%		
Herkimer	200	10	5.0%	4.4%	155	7	4.5%	4.7%	16%
Oneida	216	26	12.0%	14.2%	188	16	8.5%	12.1%	33%
Onondaga	11			13.5%	5	0		10.9%	33%
Clinton	17	1	5.9%	5.1%	16	1	6.3%	3.8%	13%
Essex	16			0.0%	9	0		0.0%	0%
Franklin	10			0.0%	13	0		0.0%	0%
Fulton	4			25.4%	1	0		22.6%	30%
Hamilton	6			0.0%	4	0		0.0%	0%
Lewis	9			0.0%	12	0		0.0%	0%
Montgomery	3			0.0%	3	0		0.0%	0%
Total	492	37	7.5%	12.2%	406	24	5.9%	10.2%	28%

Small Business Loans: "Satisfactory"

AB's geographic distribution of its small business loans reflected a reasonable dispersion among census tracts of different income levels throughout its assessment area.

In 2007, AB originated 19% by number and 17% by dollar volume of its small business loans in the LMI census tracts. AB's penetration rate was close to the aggregate penetration rate for number of loans, while falling short for dollars lent. However, in 2008, the bank extended more loans in LMI geographies, increasing its penetration rates to 25% by number and 18.5% by dollar volume. Once again, AB was below the aggregate penetration rate for dollars lent; however, AB exceeded the aggregate penetration rate for number of loans. Based on the number of loans, the bank's performance is comparable to the demographics.

The following chart provides a summary of AB's small business lending distribution during the evaluation period, including a comparison to the aggregate's record and the business demographics in the assessment area (percentage of businesses at each geographic income level).

***Distribution of Small Business Loans by Geographic Income Level**

Geographic Income Level	2007								Business Demographics
	Bank				Aggregate				
	#	%	\$000	%	#	%	\$000	%	
Low	18	12.1	1,623	6.3	2,850	9.9	128,413	15.8	12.5%
Moderate	10	6.9	2,757	10.7	2,757	9.6	78,050	9.6	11.2%
Middle	96	63.8	16,079	62.4	15,848	55.1	432,002	53.3	54.8%
Upper	26	17.2	5,308	20.6	7,326	25.4	172,063	21.2	21.5%
Not Applicable	0	0.0	0	0.0	5	0.0	67	0.0	0.0%
Total	150	100.0	25,768	100.0	28,786	100.0	810,595	100.0	100.0%
Geographic Income Level	2008								Business Demographics
	Bank				Aggregate				
	#	%	\$000	%	#	%	\$000	%	
Low	27	14.1	4,393	13.0	2,305	10.4	101,958	14.8	12.5%
Moderate	21	10.9	1,417	5.5	2,022	9.1	72,520	10.5	11.5%
Middle	82	42.2	11,591	34.3	12,275	55.3	362,175	52.4	54.6%
Upper	64	32.8	15,950	47.2	5,582	25.2	154,504	22.4	21.3%
Not Applicable	0	0.0	0	0.0	2	0.0	10	0.0	0%
Total	195	100.0	33,793	100.0	22,186	100.0	691,167	100.0	100.0%

*Loan analysis was performed on a sample of 168 loans in 2007 and 213 loans in 2008. Number and dollar volume of loans were then extrapolated from the resulting percentages and are not actual results.

Consumer Loans: "Satisfactory"

The geographic distribution of consumer loans reflected a reasonable dispersion throughout the assessment area.

In 2007, AB originated 10.1% by number and 6.1% by dollar volume of its consumer loans in LMI tracts. The level of originations in LMI tracts was relatively similar in 2007 and 2008. There are no aggregate data available for consumer loans and the penetration rate is reasonable when compared to the demographics.

The following chart provides a summary of AB's consumer lending distribution during the evaluation period, including a comparison to household demographics in the assessment area (percentage of households at each geographic income level).

*Distribution of Consumer Loans by Geographic Income Level					
Geographic Income Level	2007				Household Demographics
	Bank				
	#	%	\$000	%	
Low	40	3.4	367	2.0	8.2%
Moderate	79	6.7	752	4.1	14.3%
Middle	911	77.5	13,353	72.8	55.1%
Upper	146	12.4	3,870	21.1	22.4%
Not Applicable	0	0.0	0	0.0	0.0%
Total	1,175	100.0	18,342	100.0	100.0%
Geographic Income Level	2008				Household Demographics
	Bank				
	#	%	\$000	%	
Low	56	4.7	29	2.4	8.2%
Moderate	70	5.8	41	3.4	14.3%
Middle	948	79.1	1,044	87.1	55.1%
Upper	125	10.4	85	7.1	22.4%
Not Applicable	0	0.0	0	0.0	0.0%
Total	1,199	100.0	21,576	100.0	100.0%

*Loan analysis was performed on a sample of 1,268 loans in 2007 and 1,282 loans in 2008. Number and dollar volume of loans were then extrapolated from the resulting percentages and are not actual results.

- **Action Taken In Response to Written Complaints With Respect to CRA: “Satisfactory”**

Since the latest CRA evaluation as of December 31, 2006, neither AB nor the New York State Banking Department has received any written complaints regarding AB’s CRA performance.

However, NYSBD did receive a letter from Home Headquarters, which credited AB for its immeasurable efforts and performance in meeting the credit needs of its community. Home Headquarters is a private, not-for-profit Community Development Financial Institution (“CDFI”) that works to promote sustainable homeownership and affordable home improvements for families in Central and Upstate New York.

Home Headquarters noted that AB has been a strong partner and has provided invaluable support to the organization through financial contributions and volunteer activities. As noted in the section on Community Development Services, an assistant vice president serves on the loan committee of Syracuse Home Headquarters.

II. Community Development Test: “Satisfactory”

AB demonstrated an adequate responsiveness to the community development needs of its assessment area with \$3.9 million in community development loans and qualified investments. In addition, AB provided an adequate level of community development services in its assessment area.

The following are examples of AB's community development lending, investment and service activities.

Community Development Loans:

During the evaluation period, AB had 18 qualified community development loans for \$3.5 million. The following are examples of qualified community development loans offered by AB.

Affordable Housing

- A loan for \$425 thousand was extended to a real estate holding company. The loan proceeds enabled the subject borrower to purchase 29 units of affordable housing for the benefit of low-income individuals in a middle-income census tract area of Oneida County, New York.

Revitalization and Stabilization

- AB approved a loan for \$2 million to a commercial realtor to complete the renovation of the Hotel Syracuse parking garage. The presence of the completed garage revitalizes and stabilizes downtown Syracuse. The garage is located in a low-income area of Onondaga County in New York.

Community Service

- In 2008, AB approved a \$91 thousand working capital loan and increased a line of credit from \$60,000 to \$100,000 for the Boys and Girls Club of Utica, a not-for-profit youth service organization. The organization offers a wide range of educational and recreational activities for young people in LMI areas of Utica-Rome.

AB is a participating lender in the governmentally guaranteed or subsidized programs for small businesses through the Small Business Administration ("SBA") and New York Business Development Corporation. During the period from January 1, 2007 through December 31, 2008, AB originated 19 loans for \$1.9 million and purchased 25 loans for \$6.2 million.

Qualified Investments and Grants:

AB's qualified investments totaled \$381 thousand, of which \$330 thousand were investments in municipal bonds of the Town of Lewis, Town of Leyden, Village of Port Leyden and the Village of St. Johns Ville, all located in economically distressed areas. AB made grants totaling \$50.9 thousand to community development non-profit organizations. Examples of these organizations follow.

- Peacemaker Program, located in a low-income census tract, offers a wide array of services, including mediation, dispute resolution training and child advocacy.

- Herkimer County Chamber of Commerce, a membership organization, works to foster a positive business environment for private and public entities operating in the County.

Community Development Services:

AB provided an adequate level of community development services in its assessment area.

AB's employees and officers provided community services in the form of technical assistance and services on the board and loan committees of various community development organizations. Examples of such services are as follows.

- AB provided a training facility to The Business Training Institute Inc., a not-for-profit business school. The Business Training Institute Inc. works with the Women's Business Center of New York to conduct this training for small businesses owners.
- The marketing manager, regional president and senior vice president participated and prepared materials for a seminar "Get Smart Credit," a Freddie Mac program for first-time home buyers.
- A senior vice president is chairperson of the board of Rome Empire Zone, which provides businesses in the designated Rome Empire Zone tax incentives based on job creation and economic investment.
- An assistant vice president serves on the loan committee of Syracuse Home Headquarters, which provides loans and down payment assistance to low-income families in Syracuse.
- A senior vice president serves on the board of Rome Industrial Development Corporation ("RIDC"). RIDC's mission is to maintain and improve the economic vitality and quality of life in the City of Rome's commercial, industrial and financial development.
- An assistant vice president provides banking education to students about low cost checking and savings accounts. In addition, the AVP is the president of Valley United Way, conducting fundraising efforts and providing fiscal oversight for the organization.

The following factors were also considered in assessing AB's record of performance.

- **The extent of participation by the banking institution's board of directors/trustees in formulating the banking institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.**

The board has the authority to approve CRA policy. The board discusses matters regarding CRA policies during its regular monthly meeting. The board minutes indicate that it is the

policy of AB to provide for and work to satisfy the credit needs of its entire community including low- and moderate-income areas. During the on-site examination, the designated CRA officer completed a revised draft of AB's CRA policy. The policy is pending board approval.

- **Any practices intended to discourage applications for types of credit set forth in the banking institution's CRA Public File.**

Examiners noted no practices that were intended to discourage applications for the types of credit offered by AB.

- **Evidence of prohibited discriminatory or other illegal credit practices.**

The most recent regulatory compliance and fair lending examinations conducted concurrently with this evaluation indicate satisfactory adherence to anti-discrimination and other applicable laws and regulations. No evidence of prohibited discriminatory or other illegal credit practices were noted.

- **The banking institution's record of opening and closing offices and providing services at offices**

AB operates 17 full-service banking offices in six counties. Seven of the branches, including the main office are in Oneida County; five are in Herkimer County; two are in Franklin County and one each are in Essex, Clinton and Onondaga Counties. Of the 17 offices, three are in low-income areas, including its head office, and one office is located in a moderate-income census tract. Eight offices are located in middle-income areas, and four are located in upper-income areas. Supplementing the banking offices is an Automated-Teller-Machine ("ATM") network consisting of 16 deposit taking machines located in all but one (Charlotte Street branch) of its branch offices. In addition, AB has one off-site cash-only dispensing ATM.

AB did not close or open any branches, however, it relocated the branch at 80 Central Plaza to 296 West Main Street, Ilion, New York in 2008. The relocation of this branch did not adversely affect the LMI geographies.

- **Process Factors**

Activities conducted by the banking institution to ascertain the credit needs of its community, including the extent of the banking institution's efforts to communicate with members of its community regarding the credit services being provided by the banking institution.

AB ascertains the credit needs of its community through the involvement of its employees, officers and directors in the community and not-for-profit organizations. During interactions, AB's officials assess the community financial needs. The information gathered is used to address the community credit needs.

For example, AB collaborated with the Resource Center for Independent Living, a not-for-profit organization, on the introduction of the Automobile Loan Program. In addition, AB implemented an emergency loan program for local businesses affected by the unfavorable snow conditions during the winter of 2007. Further efforts included the implementation of the Free Home Buyers Education Seminar and the Business-to-Business educational and networking program.

The extent of the banking institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the banking institution.

AB advertises its products and credit services in local newspapers, such as Sbmonthly.com, Boonville Herald, Mohawk Valley Business Journal and Utica Phoenix.

- **Other Factors**

Other factors that in the judgment of the Superintendent and Banking Board bear upon the extent to which a banking institution is helping to meet the credit needs of its entire community.

None.

GLOSSARY

Aggregate Penetration Rate

The number of loans originated and purchased by all reporting lenders in specified categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the assessment area.

Community Development

The term “community development” is defined to mean:

1. Affordable housing (including multifamily housing) for low- or moderate-income (“LMI”) individuals;
2. Community services targeted to LMI individuals;
3. Activities that promote economic development by financing business or farms that meet the size eligibility standards of the United States Small Business Administration (“SBA”) Development Company or Small Business Investment Company programs, or have gross annual incomes of \$1 million or less;
4. Activities that revitalize or stabilize LMI geographies; and
5. Activities that seek to prevent defaults and/or foreclosures in loans included in (1) and (3) above.

A “community development loan” is defined as a loan that has as its *primary purpose* community development. This includes but is not limited to loans to:

- Borrowers for affordable housing rehabilitation and construction, including construction and permanent financing for multifamily rental property serving low or moderate income (“LMI”) persons;
- Nonprofit organizations serving primarily LMI or other community development needs;
- Borrowers to construct or rehabilitate community facilities that are located in LMI areas or that primarily serve LMI individuals;
- Financial intermediaries including community development financial institutions, community development corporations, minority- and women-owned financial institutions, community loan funds or pools, micro-finance institutions, and low-income or community development credit unions that primarily lend or facilitate lending to promote community development;
- Local, state and tribal governments for community development activities; and
- Borrowers to finance environmental clean up or redevelopment of an industrial site as part of an effort to revitalize the LMI community in which the property is located.

A “qualified investment” is defined as a lawful investment, deposit, membership share or grant that has as its *primary purpose* community development. This includes but is not limited to investments, deposits, membership shares or grants in or to:

- Financial intermediaries (including community development financial institutions, community development corporations, minority- and women-owned financial institutions, community loan funds, micro-finance institutions and low-income or community development credit unions) that primarily lend or facilitate lending in LMI areas or to LMI individuals in order to promote community development;
- Organizations engaged in affordable housing rehabilitation and construction;
- Organizations, including, for example, small business investment corporations that promote economic development by financing small businesses;
- Facilities that promote community development in LMI areas or LMI individuals, such as youth programs, homeless centers, soup kitchens, health care facilities, battered women’s centers, and alcohol and drug recovery centers;
- Projects eligible for low-income housing tax credits;
- State and municipal obligations, such as revenue bonds that specifically support affordable housing or other community development needs;
- Organizations serving LMI housing or other community development needs, such as counseling for credit, home ownership, home maintenance, and other financial services education; and
- Organizations supporting activities essential to the capacity of LMI individuals or geographies to utilize credit to sustain economic development, such as day care operations and job training programs that facilitate access to permanent jobs.

A “community development service” is defined as a service that has as its *primary purpose* community development, is related to the provision of financial services, and has not been considered in the evaluation of the banking institution's retail banking services. This includes but is not limited to:

- Providing technical assistance on financial matters to nonprofit, tribal or government organizations serving LMI housing or economic revitalization and development needs;
- Providing technical assistance on financial matters to small businesses or community development organizations;
- Lending employees to provide financial services for organizations facilitating affordable housing construction and rehabilitation or development of affordable housing;
- Providing credit counseling, home buyers and home maintenance counseling, financial planning or other financial services education to promote community development and affordable housing;
- Establishing school savings programs for LMI individuals;
- Providing seminars for LMI persons on banking and bank account record-keeping;
- Making ATM “Training Machines” available for extended periods at LMI community sites or at community facilities that serve LMI individuals; and
- Technical assistance activities to community development organizations such as:
 - ❖ Serving on a loan review committee;
 - ❖ Developing loan application and underwriting standards;
 - ❖ Developing loan processing systems;

- ❖ Developing secondary market vehicles or programs;
- ❖ Assisting in marketing financial services, including the development of advertising and promotions, publications, workshops and conferences;
- ❖ Furnishing financial services training for staff and management;
- ❖ Contributing accounting/bookkeeping services; and
- ❖ Assisting in fund raising, including soliciting or arranging investments.

Home Mortgage Disclosure Act (“HMDA”)

The Home Mortgage Disclosure Act, enacted by Congress in 1975, and subsequently amended, requires institutions to annually report data about applications for residential (including multifamily) financing.

Income Level

The income level of the person, family or household is based on the income of person, family or household. A geography’s income is categorized by median family income for the geography. In both cases, the income is compared to the MSA or statewide nonmetropolitan median income.

Income level of individual or geography	% of the area median income
Low-income	Less than 50
Moderate-income	At least 50 and less than 80
Middle-income	At least 80 and less than 120
Upper-income	120 or more

Loans to Small Businesses

Small business loans to businesses with gross annual revenues (“GAR”) of \$1 million or less (“< = \$ 1MM”).

Low or Moderate Income (“LMI”) Geographies

Those census tracts or block numbering areas (“BNAs”), where according to the 2000 US Census, the median family income is less than 80% of the area median family income. In the case of tracted areas that are part of a Metropolitan Statistical Area (“MSA”) or Primary Metropolitan Statistical Area (“PMSA”), this would relate to the median family income for the MSA or PMSA in which the tracts are located. In the case of BNAs and tracted areas that are not part of a MSA or PMSA, the area median family income would be the statewide non-metropolitan median family income.

LMI Borrowers

Borrowers whose income, as reported on the loan application which the lender relied upon in making the credit decision, is less than 80% of the area median family income. In the case where the residential property is located in a MSA or PMSA, this would

relate to the median family income for that MSA or PMSA. Otherwise, the area median family income would be the statewide non-metropolitan median family income. In all instances, the area median family incomes used to measure borrower income levels are updated annually by the U.S. Department of Housing and Urban Development (“HUD”).

LMI Individuals/Persons

Individuals or persons whose income is less than 80% of the area median family income. In the case where the individual resides in a MSA or PMSA, this would relate to the median family income for that MSA or PMSA. Otherwise, the area median family income would be the statewide non-metropolitan median family income. In all instances, the area median family incomes used to measure individual income levels are updated annually by HUD.

LMI Penetration Rate

A number that depicts the percentage of a bank’s total loans (for a particular product) that was extended to LMI geographies or borrowers. For example, an LMI penetration rate of 20% would indicate that the bank made 20 out of a total of 100 loans in LMI geographies or to LMI borrowers.

Small Business Loans

Loans to businesses with original amounts of \leq \$1MM.