

GREENE COUNTY BANCORP INC
Form 10-K
September 28, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended June 30, 2009

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transaction period from _____ to

Commission File Number: 0-25165

GREENE COUNTY BANCORP, INC.
(Name of Small Business Issuer in its Charter)

United States
(State or Other Jurisdiction of Incorporation or Organization)
No.)

14-1809721

(I.R.S. Employer Identification No.)

302 Main Street, Catskill, New York
(Address of Principal Executive Office)

12414
(Zip Code)

(518) 943-2600
(Issuer's Telephone Number including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, par value \$0.10 per share Market LLC	The Nasdaq Stock

Securities Registered Pursuant to Section 12(g) of the Act:

None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ___ NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. YES ___ NO

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-K

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past twelve months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

As of September 8, 2009, there were issued and outstanding 4,105,312 shares of the Registrant's common stock of which 1,404,813 were shares of voting stock held by non-affiliates of the Registrant. Computed by reference to the closing price of Common Stock of \$14.09 on September 8, 2009, the aggregate value of stock held by non-affiliates was \$19,794,000.

DOCUMENTS INCORPORATED BY REFERENCE

1. Sections of Annual Report to Shareholders for the fiscal year ended June 30, 2009 (Part II).
2. Proxy Statement for the 2009 Annual Meeting of Shareholders (Part II and III)

Transitional Small Business Disclosure Formant

Yes No

GREENE COUNTY BANCORP, INC. AND SUBSIDIARIES
FORM 10-K

Index

Part I		
Item 1.	Business	<u>1-31</u>
Item 1A.	Risk Factors	<u>31</u>
Item 1B.	Unresolved Staff Comments	<u>31</u>
Item 2.	Properties	<u>32</u>
Item 3.	Legal Proceedings	<u>32-33</u>
Item 4.	Submissions of Matters to a Vote of Security Holders	<u>33</u>
Part II		
Item 5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	<u>33</u>
Item 6.	Selected Financial Data	<u>33</u>
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	<u>33</u>
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	<u>33</u>
Item 8.	Financial Statements and Supplementary Data	<u>34</u>
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	<u>34</u>
Item 9A(T).	Controls and Procedures	<u>34</u>
Item 9B.	Other Information	<u>34</u>
Part III		
Item 10.	Directors, Executive Officers, and Corporate Governance	<u>34</u>
Item 11.	Executive Compensation	<u>34</u>
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	<u>35</u>
Item 13.	Certain Relationships and Related Transactions and Director Independence	<u>35</u>
Item 14.	Principal Accountant Fees and Services	<u>35</u>
Part IV		
Item 15.	Exhibits and Financial Statement Schedules	<u>35</u>

Signatures	<u>36</u>
Exhibit 13 Annual Report to Shareholders	<u>37</u>
Exhibit 21 Subsidiaries of Greene County Bancorp, Inc.	<u>38</u>
Exhibit 23 Consent of Independent Registered Public Accounting Firm	<u>39</u>
Exhibit 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	<u>40</u>
Exhibit 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	<u>41</u>
Exhibit 32.1 Statement of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	<u>42</u>
Exhibit 32.2 Statement of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	<u>43</u>

PART I

ITEM 1. Business

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This annual report contains forward-looking statements. Greene County Bancorp, Inc. desires to take advantage of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995 and is including this statement for the express purpose of availing itself of the protections of the safe harbor with respect to all such forward-looking statements. These forward-looking statements, which are included in this annual report, describe future plans or strategies and include Greene County Bancorp, Inc.’s expectations of future financial results. The words “believe,” “expect,” “anticipate,” “project,” and similar expressions identify forward-looking statements. Greene County Bancorp, Inc.’s ability to predict results or the effect of future plans or strategies or qualitative or quantitative changes based on market risk exposure is inherently uncertain. Factors that could affect actual results include but are not limited to:

- (a) changes in general market interest rates,
- (b) general economic conditions,
- (c) legislative and regulatory changes,
- (d) monetary and fiscal policies of the U.S. Treasury and the Federal Reserve,
- (e) changes in the quality or composition of Greene County Bancorp, Inc.’s loan and investment portfolios,
- (f) deposit flows,
- (g) competition, and
- (h) demand for financial services in Greene County Bancorp, Inc.’s market area.

These factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements, since results in future periods may differ materially from those currently expected because of various risks and uncertainties.

General

Greene County Bancorp, Inc. operates as the federally chartered holding company of The Bank of Greene County, a federally chartered savings bank. A majority of Greene County Bancorp, Inc.’s issued and outstanding common stock (56.1%) is held by Greene County Bancorp, MHC, a federally chartered mutual holding company. The remaining shares of Greene County Bancorp, Inc. are owned by public stockholders and The Bank of Greene County’s Employee Stock Ownership Plan. In June 2004, The Bank of Greene County opened a new limited-purpose subsidiary, Greene County Commercial Bank. The purpose of Greene County Commercial Bank is to serve local municipalities’ banking needs.

Greene County Bancorp, Inc.

Greene County Bancorp, Inc. was organized in December of 1998 at the direction of the Board of Trustees of The Bank of Greene County (formerly Greene County Savings Bank) for the purpose of acting as the holding company of The Bank of Greene County. In 2001, Greene County Bancorp, Inc. converted its charter from a Delaware corporation regulated by the New York Superintendent of Banks and the Board of Governors of the Federal Reserve System to a federal corporation regulated by the Office of Thrift Supervision. At June 30, 2009, Greene County Bancorp, Inc.’s assets consisted primarily of its investment in The Bank of Greene County and cash and securities totaling \$3.2 million. At June 30, 2009, 1,800,680 shares of Greene County Bancorp, Inc.’s common stock, par value \$0.10 per share, were held by the public, including executive officers and directors, 200,358 shares were held as Treasury stock and 2,304,632 shares were held by Greene County Bancorp, MHC, Greene County Bancorp, Inc.’s mutual holding company. Greene County Bancorp, Inc.’s principal business is overseeing and directing the business of The Bank of Greene County and various Greene County Bancorp, Inc. investment securities.

At June 30, 2009, Greene County Bancorp, Inc. had consolidated total assets of \$460.5 million, consolidated total deposits of \$398.7 million, consolidated borrowings from the Federal Home Loan Bank of New York (FHLB) of \$19.0 million and consolidated total equity of \$40.3 million.

Greene County Bancorp, Inc.'s administrative office is located at 302 Main Street, Catskill, New York 12414-1317. Its telephone number is (518) 943-2600.

The Bank of Greene County

The Bank of Greene County was organized in 1889 as The Building and Loan Association of Catskill, a New York-chartered savings and loan association. In 1974, The Bank of Greene County converted to a New York mutual savings bank under the name Greene County Savings Bank. In conjunction with the reorganization and the offering completed in December 1998, which resulted in the organization of Greene County Bancorp, Inc., Greene County Savings Bank changed its name to The Bank of Greene County. In November 2006, The Bank of Greene County converted its charter to a federal savings bank charter. The Bank of Greene County's deposits are insured by the Deposit Insurance Fund, as administered by the Federal Deposit Insurance Corporation, up to the maximum amount permitted by law.

The Bank of Greene County's principal business consists of attracting retail deposits from the general public in the areas surrounding its branches and investing those deposits, together with funds generated from operations and borrowings, primarily in one to four-family residential mortgage loans, commercial real estate loans, consumer loans, home equity loans and commercial business loans. In addition, The Bank of Greene County invests a significant portion of its assets in investment securities, mortgage-backed and asset-backed securities. The Bank of Greene County's revenues are derived principally from the interest on its residential mortgages, and to a lesser extent, from interest on consumer and commercial loans and securities, as well as from servicing fees and service charges and other fees collected on its deposit accounts. Through its affiliation with Fenimore Asset Management and Essex Corporation, The Bank of Greene County offers investment alternatives for customers, which also contributes to the Bank's revenues. The Bank of Greene County's primary sources of funds are deposits, borrowings from the FHLB, and principal and interest payments on loans and securities. At June 30, 2009, The Bank of Greene County had outstanding borrowings of \$19.0 million from the Federal Home Loan Bank of New York.

The Bank of Greene County's administrative office is located at 302 Main Street, Catskill, New York 12414-1317. Its telephone number is (518) 943-2600.

Greene County Commercial Bank

Greene County Commercial Bank was formed in January 2004 as a New York State-chartered limited purpose commercial bank. Greene County Commercial Bank has the power to receive deposits only to the extent of accepting for deposit the funds of the United States and the State of New York and their respective agents, authorities and instrumentalities, and local governments as defined in Section 10(a)(1) of the New York General Municipal Law. At June 30, 2009, Greene County Commercial Bank had \$108.5 million in assets, \$88.7 million in total deposits, \$7.5 million in borrowings from The Bank of Greene County, and \$11.4 million in total equity.

Greene County Commercial Bank's administrative office is located at 302 Main Street, Catskill, New York 12414-1317. Its telephone number is (518) 943-2600.

Greene County Bancorp, MHC

Greene County Bancorp, MHC was formed in December 1998 as part of The Bank of Greene County's mutual holding company reorganization. In 2001, Greene County Bancorp, MHC converted from a state to a federal charter. The Office of Thrift Supervision regulates Greene County Bancorp, MHC. Greene County Bancorp, MHC owns 56.1% of the issued and outstanding common stock of Greene County Bancorp, Inc. Greene County Bancorp, MHC does not engage in any business activity other than to hold a majority of Greene County Bancorp, Inc.'s common stock and to invest any liquid assets of Greene County Bancorp, MHC, which amounted to \$185,800, in cash and cash equivalents at June 30, 2009.

Greene County Bancorp, MHC's administrative office is located at 302 Main Street, Catskill, New York 12414-1317, and its telephone number at that address is (518) 943-2600.

Market Area

The Bank of Greene County has been, and intends to continue to be, a community-oriented bank offering a variety of financial services to meet the needs of the communities it serves. The Bank of Greene County currently operates eleven full-service banking offices in Greene County, Columbia County and southern Albany County, New York. The Bank of Greene County's primary market area is currently concentrated around the areas within Greene County, Columbia County and southern Albany County where its full-service banking offices are located, namely the towns of Catskill, Cairo, Chatham, Coxsackie, Greenville, Hudson, Ravena, Tannersville and Westerlo.

As of the 2008 census estimates, the Greene County population was 49,000 and Columbia County was 62,000. Greene County is primarily rural and the major industry consists of tourism associated with the several ski facilities and festivals located in the Catskill Mountains. The county has no concentrations of manufacturing industry. Greene County is contiguous to the Albany-Schenectady-Troy metropolitan statistical area. The close proximity of Greene County to the city of Albany has made it a "bedroom" community for persons working in the Albany capital area. Greene County government and the Coxsackie Correctional Facilities are the largest employers in the County. Other large employers within the Company's market area include the Hunter Mountain and Ski Windham resort areas, LaFarge, Columbia Memorial Hospital, Taconic Farms, Ginsberg's Foods, the Catskill, Cairo-Durham, Chatham, Greenville and Coxsackie-Athens, Hudson City, and Ravena-Coeyman, Central School Districts.

Competition

The Bank of Greene County faces significant competition both in making loans and in attracting deposits. The Bank of Greene County's subsidiary Greene County Commercial Bank faces similar competition in attracting municipal deposits. The Bank of Greene County's market area has a high density of financial institutions, many of which are branches of significantly larger institutions that have greater financial resources than The Bank of Greene County, and all of which are competitors of The Bank of Greene County to varying degrees. The Bank of Greene County's competition for loans comes principally from commercial banks, savings banks, savings and loan associations, mortgage-banking companies, credit unions, insurance companies and other financial service companies. The Bank of Greene County faces additional competition for deposits from non-depository competitors such as the mutual fund industry, securities and brokerage firms and insurance companies. Competition has also increased as a result of the lifting of restrictions on the interstate operations of financial institutions.

Competition has increased as a result of the enactment of the Gramm-Leach-Bliley Act of 1999, which eased restrictions on entry into the financial services market by insurance companies and securities firms. Moreover, because this legislation permits banks, securities firms and insurance companies to affiliate, the financial services industry could experience further consolidation. This could result in a growing number of larger financial institutions competing in The Bank of Greene County's primary market area that offer a wider variety of financial services than The Bank of Greene County currently offers. In recent years, the internet has also become a significant competitive

factor for The Bank of Greene County and the overall financial services industry. Competition for deposits, for the origination of loans and the provision of other financial services may limit The Bank of Greene County's growth and adversely impact its profitability in the future.

Lending Activities

General. The principal lending activity of The Bank of Greene County is the origination, for retention in its portfolio, of fixed-rate and adjustable-rate mortgage loans collateralized by residential real estate located within its primary market area. The Bank of Greene County also originates commercial real estate loans, home equity loans, consumer loans and commercial business loans, and has increased its focus on commercial lending. The Bank of Greene County also offers a variety of line of credit products.

The Bank of Greene County continues to utilize conservative underwriting standards in originating real estate loans. As such, it does not engage in sub-prime lending or other exotic loan products. At the time of origination, appraisals are obtained to ensure adequate loan-to-value of the underlying collateral. Updated appraisals are obtained on loans when there is a reason to believe that there has been a change in the borrower's ability to repay the loan principal and interest or an event that would indicate a significant decline in the collateral value. Additionally, if an existing loan is to be modified or refinanced, generally, an appraisal is ordered to ensure collateral adequacy.

In an effort to manage the interest rate risk associated with its predominantly fixed-rate loan portfolio, The Bank of Greene County maintains high levels of liquidity. Cash, cash equivalents and securities available for sale comprised 23.6% of total assets at June 30, 2009, all of which can be used for liquidity needs. The Bank of Greene County seeks to attract checking and other transaction accounts that generally have lower interest rate costs and tend to be less interest rate sensitive when interest rates rise to fund fixed-rate residential mortgages. Additionally, The Bank of Greene County originates shorter-term consumer loans and other adjustable-rate loans including many commercial lending products in order to help mitigate interest rate risk.

Loan Portfolio Composition. Set forth below is selected information concerning the composition of The Bank of Greene County's loan portfolio in dollar amounts and in percentages (before deductions for deferred fees and costs, unearned discounts and allowances for losses) as of the dates indicated.

	At June 30,					
	2009		2008		2007	
	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in thousands)						
Real estate loans:						
Residential	\$172,038	63.48	% \$158,193	65.87	% \$140,901	67.51
Commercial	47,029	17.35	30,365	12.64	24,357	11.67
Construction and land	7,806	2.88	12,295	5.12	9,619	4.61
Multi-family	1,140	0.43	1,094	0.46	1,078	0.52
Total real estate loans	228,013	84.14	201,947	84.09	175,955	84.31
Consumer loans						
Installment loans(1)	3,827	1.41	4,172	1.74	4,057	1.94
Home equity loans	26,183	9.66	23,957	9.97	19,719	9.45
Passbook loans	347	0.13	401	0.17	583	0.28
Total consumer loans	30,357	11.20	28,530	11.88	24,359	11.67
Commercial loans	12,631	4.66	9,669	4.03	8,391	4.02
Total consumer loans and						

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-K

commercial loans	42,988	15.86	38,199	15.91	32,750	15.69
Total gross loans	271,001	100.0 %	240,146	100.0 %	208,705	100.00 %
Less:						
Deferred fees and costs	321		182		61	
Allowance for loan losses	(3,420)		(1,888)		(1,486)	
Total loans receivable, net	\$267,902		\$238,440		\$207,280	

(1) Includes direct automobile loans (on both new and used automobiles) and personal loans.

	At June 30,				
	2006		2005		
	Amount	Percent	Amount	Percent	
(Dollars in thousands)					
Real estate loans:					
One-to-four family	\$ 131,010	68.44	% \$ 117,207	70.74	%
Commercial real estate	22,599	11.81	18,077	10.91	
Construction and land	8,728	4.55	5,255	3.17	
Multi-family	1,200	0.63	1,477	0.89	
Total real estate loans	163,537	85.43	142,016	85.71	
Consumer loans					
Installment (1)	3,384	1.77	3,466	2.09	
Home equity	16,486	8.61	12,607	7.61	
Passbook	632	0.33	742	0.45	
Total consumer loans	20,502	10.71	16,815	10.15	
Commercial business loans	7,390	3.86	6,860	4.14	
Total consumer loans and commercial business loans	27,892	14.57	23,675	14.29	
Total gross loans	191,429	100.00	% 165,691	100.00	%
Less:					
Deferred fees and costs	(22)		(163)		
Allowance for loan losses	(1,314)		(1,236)		
Total loans receivable, net	\$ 190,093		\$ 164,292		

(1) Includes direct automobile loans (on both new and used automobiles) and personal loans.

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-K

	At June 30,					
	2009		2008		2007	
	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in thousands)						
Fixed-rate loans						
Real estate loans						
Residential	\$ 165,309	61.00	% \$ 152,722	63.59	% \$ 134,474	64.43
Commercial	19,357	7.14	17,030	7.09	16,181	7.75
Construction and land	6,296	2.32	11,335	4.72	8,735	4.19
Multi-family	936	0.35	1,094	0.46	1,078	0.52
Total fixed-rate real estate loans	191,898	70.81	182,181	75.86	160,468	76.89
Consumer loans						
Installment loans (1)	3,827	1.41	4,172	1.74	4,057	1.94
Home equity loans	13,157	4.85	14,745	6.14	10,829	5.19
Passbook loans	347	0.13	401	0.17	583	0.28
Commercial loans	5,191	1.91	5,185	2.16	5,113	2.45
Total fixed-rate loans	214,420	79.11	206,684	86.07	181,050	86.75
Adjustable-rate loans						
Real estate loans:						
Residential	6,729	2.48	5,471	2.28	6,427	3.08
Commercial	27,672	10.21	13,335	5.55	8,176	3.92
Construction and land	1,510	0.56	960	0.40	884	0.42
Multi-family	204	0.08	---	---	---	---
Total adjustable-rate real estate loans	36,115	13.33	19,766	8.23	15,487	7.42
Consumer loans						
Home equity loans	13,026	4.81	9,212	3.83	8,890	4.26
Commercial loans	7,440	2.75	4,484	1.87	3,278	1.57
Total adjustable-rate loans	56,581	20.89	33,462	13.93	27,655	13.25
Total gross loans	271,001	100.00	% 240,146	100.00	% 208,705	100.00
Less:						
Deferred fees and costs	321		182		61	
Allowance for loan losses	(3,420)		(1,888)		(1,486)	
Total loans receivable, net	\$ 267,902		\$ 238,440		\$ 207,280	

(1) Includes direct automobile loans (on both new and used automobiles) and personal loans.

	At June 30,			
	2006		2005	
	Amount	Percent	Amount	Percent
(Dollars in thousands)				
Fixed-rate loans				
Real estate loans				
One-to-four family	\$124,310	64.94%	\$112,970	68.18%
Commercial real estate	17,337	9.06	13,039	7.87
Construction and land	7,438	3.88	5,105	3.08
Multi-family	1,200	0.63	1,401	0.85
Total fixed-rate real estate loans	150,285	78.51	132,515	79.98
Consumer loans				
Installment (1)	3,384	1.77	3,466	2.09
Home equity	8,222	4.29	5,397	3.26
Passbook	632	0.33	742	0.45
Commercial business loans	5,512	2.88	5,043	3.04
Total fixed-rate loans	168,035	87.78	147,163	88.82
Adjustable-rate loans				
Real estate loans:				
One-to-four family	6,700	3.50	4,237	2.56
Commercial real estate	5,262	2.75	5,038	3.04
Construction and land	1,290	0.67	150	0.09
Multi-family	--	---	76	0.04
Total adjustable-rate real estate loans	13,252	6.92	9,501	5.73
Consumer loans				
Home Equity	8,264	4.32	7,210	4.35
Commercial business loans	1,878	0.98	1,817	1.10
Total adjustable-rate loans	23,394	12.22	18,528	11.18
Total gross loans	191,429	100.00%	165,691	100.00%
Less:				
Deferred fees and costs	(22)		(163)	
Allowance for loan losses	(1,314)		(1,236)	
Total loans receivable, net	\$190,093		\$164,292	

(1) Includes direct automobile loans (on both new and used automobiles) and personal loans.

Residential and Construction and Land Loans. The Bank of Greene County's primary lending activity is the origination of residential mortgage loans collateralized by property located in The Bank of Greene County's primary market area. Residential mortgage loans refer to loans collateralized by residences; by contrast, multi-family loans refer to loans collateralized by multi-family units, such as apartment buildings. Generally, residential mortgage loans are made in amounts up to 85.0% of the appraised value of the property. However, The Bank of Greene County will originate residential mortgage loans with loan-to-value ratios of up to 95%, with private mortgage insurance. For the

year ended June 30, 2009, less than one percent of the residential mortgage loans originated by The Bank of Greene County were originated with loan-to-value ratios over 85.0%. For the year ended June 30, 2009, The Bank of Greene County originated approximately 85% to 90% of residential mortgage loans with loan-to-value ratios of 80% or less. Generally, residential mortgage loans are originated for terms of up to 30 years, though in recent years The Bank of Greene County has been successful in marketing and originating such loans with 15-year terms. Residential fixed-rate loans are offered with monthly payment features. The Bank of Greene County generally requires fire and casualty insurance, the establishment of a mortgage escrow account for the payment of real estate taxes, hazard and flood insurance, as well as title insurance on most properties collateralizing real estate loans made by The Bank of Greene County.

At June 30, 2009, virtually all of The Bank of Greene County's residential mortgage loans were conforming loans and, accordingly, were eligible for sale in the secondary mortgage market. However, generally the residential mortgage loans originated by The Bank of Greene County are retained in its portfolio and are not sold into the secondary mortgage market. To the extent fixed rate residential mortgage loans are retained by The Bank of Greene County, it is exposed to increases in market interest rates, since the yields earned on such fixed-rate assets would remain fixed, while the rates paid by The Bank of Greene County for deposits and borrowings may increase, which could result in lower net interest income.

The Bank of Greene County currently offers residential mortgage loans with fixed and adjustable interest rates. Originations of fixed-rate loans versus adjustable-rate loans are monitored on an ongoing basis and are affected significantly by the level of market interest rates, customer preference, The Bank of Greene County's interest rate gap position, and loan products offered by The Bank of Greene County's competitors. Particularly, in a relatively low interest rate environment, borrowers may prefer fixed-rate loans to adjustable-rate loans. Single-family residential real estate loans often remain outstanding for significantly shorter periods than their contractual terms because borrowers may refinance or prepay loans at their option. The average length of time that The Bank of Greene County's single-family residential mortgage loans remain outstanding varies significantly depending upon trends in market interest rates and other factors.

The Bank of Greene County's adjustable-rate mortgage ("ARM") loans currently provide for maximum rate adjustments of 150 basis points per year and 600 basis points over the term of the loan. The Bank of Greene County offers ARM loans with initial interest rates that are below market, referred to as "teaser rates." However, in underwriting such loans, borrowers are qualified at the full index rate. Generally, The Bank of Greene County's ARM loans adjust annually. After origination, the interest rate on such ARM loans is reset based upon a contractual spread or margin above the average yield on one-year United States Treasury securities, adjusted to a constant maturity, as published weekly by the Federal Reserve Board.

ARM loans decrease the risk associated with changes in market interest rates by periodically re-pricing, but involve other risks because as interest rates increase, the underlying payments by the borrower increase, thus increasing the potential for default by the borrower. At the same time, the marketability of the underlying collateral may be adversely affected by higher interest rates. Upward adjustment of the contractual interest rate is also limited by the maximum periodic and lifetime interest rate adjustment permitted by the terms of the ARM loans, and, therefore, is potentially limited in effectiveness during periods of rapidly rising interest rates. At June 30, 2009, \$6.7 million, or 2.48%, of The Bank of Greene County's loan portfolio consisted of residential loans with adjustable interest rates, compared to \$165.3 million, or 61.0%, of the loan portfolio comprised of residential loans with fixed interest rates. The Bank of Greene County's willingness and capacity to originate and hold in portfolio fixed rate residential mortgage loans has enabled it to expand customer relationships in the current relatively low long-term interest rate environment where borrowers have generally preferred fixed rate mortgage loans. However, as noted above, to the extent The Bank of Greene County retains fixed rate residential mortgage loans in its portfolio, it is exposed to increases in market interest rates, since the yields earned on such fixed rate assets would remain fixed while the rates paid by The Bank of Greene County for deposits and borrowings may increase, which could result in lower net interest income.

The Bank of Greene County's residential mortgage loan originations are generally obtained from The Bank of Greene County's loan representatives operating in its branch offices through their contacts with existing or past loan customers, depositors of The Bank of Greene County, attorneys and accountants who refer loan applications from the general public, and local realtors. The Bank of Greene County has loan originators who call upon customers during non-banking hours and at locations convenient to the customer.

All residential mortgage loans originated by The Bank of Greene County include "due-on-sale" clauses, which give The Bank of Greene County the right to declare a loan immediately due and payable in the event that, among other things, the borrower sells or otherwise disposes of the real property subject to the mortgage and the loan is not repaid.

At June 30, 2009, \$172.0 million, or 63.48%, of The Bank of Greene County's loan portfolio consisted of residential mortgage loans. \$1.6 million of such loans (consisting of 13 loans) were included in nonperforming loans as of that date.

The Bank of Greene County originates construction-to-permanent loans to homeowners for the purpose of construction of primary and secondary residences. The Bank of Greene County issues a commitment and has one closing which encompasses both the construction phase and permanent financing. The construction phase is a maximum term of twelve months and the interest charged is the rate as stated in the commitment, with loan-to-value ratios of up to 85% (or up to 95% with private mortgage insurance), of the completed project. The Bank of Greene County also offers loans collateralized by undeveloped land. The acreage associated with such loans is limited. These land loans generally are intended for future sites of primary or secondary residences. The terms of vacant land loans generally have a ten-year amortization and a five-year balloon payment.

At June 30, 2009, \$7.8 million or 2.88% of the Bank of Greene County's loan portfolio consisted of construction and land lending. Construction lending generally involves a greater degree of risk than other residential mortgage lending. The repayment of the construction loan is, to a great degree, dependent upon the successful and timely completion of the construction of the subject property. The Bank of Greene County completes inspections during the construction phase prior to any disbursements. The Bank of Greene County limits its risk during the construction as disbursements are not made until the required work for each advance has been completed. Construction delays may further impair the borrower's ability to repay the loan. Construction loans included in nonperforming loans totaled \$13,000 (consisting of one loan) at June 30, 2009.

Commercial Real Estate and Multifamily Loans. At June 30, 2009, \$47.0 million, or 17.35%, of the total loan portfolio consisted of commercial real estate loans. Growth in the commercial real estate portfolio is the result of and increase in opportunities to lend to local businesses due to less availability of funds within other larger financial institutions within our market area. The Bank has increased its focus within this lending area and has developed a strong team of lenders and business development staff. Office buildings, mixed-use properties and other commercial properties collateralize commercial real estate loans. The Bank of Greene County originates fixed- and adjustable-rate commercial mortgage loans with maximum terms of up to 20 years. The maximum loan-to-value ratio at closing of commercial real estate loans is generally 75%. At June 30, 2009, the largest commercial mortgage loan had a principal balance of \$2.8 million and was performing in accordance with its terms. Commercial real estate loans included in nonperforming loans totaled \$749,000 (consisting of 6 loans) at June 30, 2009.

In underwriting commercial real estate loans, The Bank of Greene County reviews the expected net operating income generated by the real estate to ensure that it is generally at least 110% of the amount of the monthly debt service; the age and condition of the collateral; the financial resources and income level of the borrower and any guarantors; and the borrower's business experience. The Bank of Greene County's policy is to require personal guarantees from all commercial real estate borrowers.

The Bank of Greene County may require an environmental site assessment to be performed by an independent professional for non-residential mortgage loans. It is also The Bank of Greene County's policy to require title and hazard insurance on all mortgage loans. In addition, The Bank of Greene County may require borrowers to make payments to a mortgage escrow account for the payment of property taxes. Any exceptions to The Bank of Greene County's loan policies must be made in accordance with the limitations set out in each policy. Typically, the exception authority ranges from the Chief Lending Officer to the Board of Directors, depending on the size and type of loan involved.

Loans collateralized by commercial real estate generally are larger than residential loans and involve a greater degree of risk. Commercial mortgage loans often involve large loan balances to single borrowers or groups of related borrowers. Payments on these loans depend to a large degree on the results of operations and management of the properties or underlying businesses, and may be affected to a greater extent by adverse conditions in the real estate market or the economy in general. Accordingly, the nature of commercial real estate loans makes them more difficult for management to monitor and evaluate.

The Bank of Greene County originates a limited number of multi-family loans, which totaled \$1.1 million, or 0.43%, of The Bank of Greene County's total loans at June 30, 2009. Multi-family loans are generally collateralized by apartment buildings located in The Bank of Greene County's primary market area. There were no nonperforming multi-family loans at June 30, 2009. The Bank of Greene County's underwriting practices and the risks associated with multi-family loans do not differ substantially from that of commercial real estate loans.

Consumer Loans. The Bank of Greene County's consumer loans consist of direct loans on new and used automobiles, personal loans (either secured or unsecured), home equity loans, and other consumer installment loans (consisting of passbook loans, unsecured home improvement loans and recreational vehicle loans). Consumer loans (other than home equity loans) are originated at fixed rates with terms to maturity of one to five years. At June 30, 2009, consumer loans (other than home equity loans) totaled \$4.2 million, or 1.54%, of the total loan portfolio. Consumer loans (other than home equity loans) totaling \$19,000 were included in nonperforming loans as of that date.

Consumer loans generally have shorter terms and higher interest rates than residential mortgage loans. In addition, consumer loans expand the products and services offered by The Bank of Greene County to better meet the financial services needs of its customers. Consumer loans generally involve greater credit risk than residential mortgage loans because of the difference in the underlying collateral. Repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance because of the greater likelihood of damage, loss or depreciation in the underlying collateral. The remaining deficiency often does not warrant further substantial collection efforts against the borrower beyond obtaining a deficiency judgment. In addition, consumer loan collections depend on the borrower's personal financial stability. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

The Bank of Greene County's underwriting procedures for consumer loans includes an assessment of the applicant's credit history and an assessment of the applicant's ability to meet existing and proposed debt obligations. Although the applicant's creditworthiness is the primary consideration, the underwriting process also includes a comparison of the value of the collateral to the proposed loan amount. The Bank of Greene County underwrites its consumer loans internally, which The Bank of Greene County believes limits its exposure to credit risks associated with loans underwritten or purchased from brokers and other external sources. At this time, The Bank of Greene County does not purchase loans from any external sources.

The Bank of Greene County offers fixed- and adjustable-rate home equity loans that are collateralized by the borrower's residence. Home equity loans are generally underwritten with terms not to exceed 20 years and under the same criteria that The Bank of Greene County uses to underwrite residential fixed rate loans. Home equity loans may be underwritten with terms not to exceed 20 years and with a loan to value ratio of 85% when combined with the principal balance of the existing mortgage loan. The Bank of Greene County appraises the property collateralizing the

loan at the time of the loan application (but not thereafter) in order to determine the value of the property collateralizing the home equity loans. At June 30, 2009, the outstanding balance of home equity loans totaled \$26.2 million, or 9.66%, of The Bank of Greene County's total loan portfolio. There were three home equity loans included in nonperforming loans totaling \$227,000 at June 30, 2009.

Commercial Loans. The Bank of Greene County also originates commercial loans up to 10 years at fixed and adjustable rates. The Bank of Greene County attributes growth in this portfolio to its ability to offer borrowers senior management attention as well as timely and local decision-making on commercial loan applications. The decision to grant a commercial loan depends primarily on the creditworthiness and cash flow of the borrower (and any guarantors) and secondarily on the value of and ability to liquidate the collateral, which may consist of receivables, inventory and equipment. A mortgage may also be taken for additional collateral purposes, but is considered secondary to the other collateral for commercial business loans. The Bank of Greene County generally requires annual financial statements, tax returns and personal guarantees from the commercial borrowers. The Bank of Greene County also generally requires an appraisal of any real estate that collateralizes the loan. At June 30, 2009, The Bank of Greene County had \$12.6 million of commercial loans representing 4.66% of the total loan portfolio. The largest commercial loan had a balance of \$781,000. At June 30, 2009, The Bank of Greene County's commercial loan portfolio included loans collateralized by inventory, fire trucks, other equipment, or real estate. There were four commercial loans included in nonperforming loans totaling \$132,000 at June 30, 2009.

Commercial lending generally involves greater risk than residential mortgage lending and involves risks that are different from those associated with residential and commercial real estate lending. Real estate lending is generally considered to be collateral based, with loan amounts based on fixed-rate loan-to-collateral values, and liquidation of the underlying real estate collateral is viewed as the primary source of repayment in the event of borrower default. Although commercial loans may be collateralized by equipment or other business assets, the liquidation of collateral in the event of a borrower default is often an insufficient source of repayment because equipment and other business assets may be obsolete or of limited use, among other things. Accordingly, the repayment of a commercial loan depends primarily on the creditworthiness of the borrower (and any guarantors), while liquidation of collateral is a secondary and often insufficient source of repayment.

Loan Maturity Schedule. The following table sets forth certain information as of June 30, 2009 regarding the amount of loans maturing or re-pricing in The Bank of Greene County's portfolio. Adjustable-rate loans are included in the period in which interest rates are next scheduled to adjust rather than the period in which they contractually mature, and fixed-rate loans are included in the period in which the final contractual repayment is due. Lines of credit with no specified maturity date are included in the category "within one year."

The following table illustrates the future maturities of such loans at June 30, 2009.

	1 Year	3 Years	5 Years			
	Within	Through	Through	Through	Beyond	
	1 Year	3 Years	5 Years	10 Years	10 Years	Total
(Dollars in thousands)						
Real estate loans:						
Residential	\$4,876	\$968	\$3,569	\$20,466	\$142,159	\$172,038
Commercial	10,225	1,854	13,047	11,224	10,679	47,029
Construction and land	6,565	533	424	72	212	7,806
Multi-family	---	---	---	511	629	1,140
Total real estate loans	21,666					