NEW YORK NATIONAL BANK
A Hudson Valley Holding Corp. Subsidiary
Member FDIC
21 Scarsdale Road
Yonkers, New York 10707

Banking Development District Hearing **April 2, 2009**

I am pleased to speak on behalf of New York National Bank, a subsidiary of Hudson Valley Holding Corp, on the Banking Development Program.

We very much appreciate the State's willingness to support our community based bank with these associated low cost deposits. These deposits allow us to provide banking services to small and moderate sized businesses, and particularly providing economic-development focused lending.

One area of the program which we believe deserves attention and revision is regarding eligible collateral for the provided deposits. Here is a further description of the issue:

Eligible Collateral:

In consideration of enhancements to the current program, we urge the state to broaden its definition of permitted collateral in support of the BDD deposits.

The current requirement of dollar for dollar collateral can be a deterrent to the program, especially for banks that do not readily have excess collateral available. If banks don't have the collateral available they must use the deposits provided to buy the needed securities, instead of utilizing those funds for loans or other more productive purposes. Accordingly, the yield on the purchase of short-term securities to match the maturities of the BDD deposits can have the effect of wiping out any profits that might otherwise come from the use of these deposits.

A much less expensive approach to collateralizing BDD deposits would be to allow Federal Home Loan Bank of New York Letters of Credit. This costs banks 12.5 basis points and frees up the deposits for their intended purpose. Further, this is a "win-win" for NYS and the banks since locally made loans are eligible collateral, which banks can pledge to the FHLB for the L/C.

This is a way to insure participating banks, particularly community banks that are very locally focused, to remain eligible for this program.

Very truly yours,

Michael J. Gilfeather
Executive Vice President