

FORM 10-Q

**UNITED STATES
FEDERAL DEPOSIT INSURANCE CORPORATION**

WASHINGTON, D.C. 20329-9900

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2008

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

FDIC Certificate No.: 58072

USA Bank

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction of incorporation
or organization)

20-0646362

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

601 North Main Street, Port Chester, New York 10573

(Address of principal executive offices)
(Zip Code)

(914) 939-3700

(Registrant's telephone number, including area code)

N/A

Former name, former address and former fiscal year, if changed since last report

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 preceding 12 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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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 May 14, 2008, 5,750,000 shares of the Issuer's common stock, \$2.00 par value, were outstanding.

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PART I
Financial Information

Item 1. Consolidated Financial Statements

USA BANK
CONSOLIDATED BALANCE SHEETS
March 31, 2008, and December 31, 2007 (unaudited)

	March 31, 2008	December 31, 2007
ASSETS		
Cash and due from banks	\$ 3,188,572	\$ 2,746,304
Federal funds sold and overnight investments	13,629,791	8,209,367
Cash and cash equivalents	16,818,363	10,955,671
 Interest bearing deposits	 4,835,943	 4,835,943
Held to maturity securities, at amortized cost (fair value \$1,365,355 in 2008 and \$1,424,183 in 2007)	1,324,368	1,395,835
Available for sale securities, at fair value	37,322,027	37,520,245
Total investment securities	38,646,395	38,916,080
 Loans held for sale	 5,172,312	 6,786,211
Loans, net of the allowance for loan losses of \$1,646,000 in 2008 and \$1,421,000 in 2007	127,766,760	105,493,540
 Leasehold improvements and equipment, net	 798,605	 846,337
Accrued interest receivable	1,110,949	993,008
Other assets	617,729	646,827
Total assets	\$ 195,767,056	\$ 169,473,617
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing deposits	\$ 5,993,983	\$ 5,490,964
Interest-bearing deposits	143,518,269	117,350,203
Total deposits	149,512,252	122,841,167
 Securities sold under repurchase agreements	 23,000,000	 23,000,000
Accrued expenses and other liabilities	1,843,278	1,323,236
Total liabilities	174,355,530	147,164,403
Commitments and Contingencies		
Shareholders' Equity		
Common stock, par value \$2; 5,750,000 shares authorized, issued and outstanding at March 31, 2008, and December 31, 2007, respectively	11,500,000	11,500,000
Additional paid-in capital	21,116,774	21,116,774
Accumulated deficit	(11,080,144)	(10,334,178)
Accumulated other comprehensive (loss) income – net unrealized (loss) gain on available for sale securities – net of taxes (2007)	(125,104)	26,618
Total shareholders' equity	21,411,526	22,309,214
Total liabilities and shareholders' equity	\$ 195,767,056	\$ 169,473,617

See Accompanying Notes to Consolidated Financial Statements

USA BANK
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three Months Ended March 31, 2008 and 2007 (unaudited)

	Three Months Ended March 31	
	2008	2007
Interest Income		
Interest on Federal funds sold and overnight investments	\$ 86,228	\$ 211,333
Interest on interest bearing deposits	58,952	-
Interest on loans	2,239,627	1,368,153
Interest on investments	598,836	107,023
Interest on loans held for sale	174,258	22,568
Total interest income	<u>3,157,901</u>	<u>1,709,077</u>
Interest Expense		
Interest expense on deposits	1,564,935	904,555
Interest expense on securities sold under repurchase agreements	262,983	-
Total interest expense	<u>1,827,918</u>	<u>904,555</u>
Net interest income	1,329,983	804,522
Provision for loan losses	225,000	171,000
Net interest income after provision for loan losses	<u>1,104,983</u>	<u>633,522</u>
Noninterest Income		
Gains on sale of securities	146,365	-
Gains on sale of loans	50,669	32,319
Broker fee income	47,792	17,139
Service charges	15,400	16,664
Other	6,693	5,323
Total noninterest income	<u>266,919</u>	<u>71,445</u>
Noninterest Expense		
Salaries and employee benefits	777,892	1,121,734
Occupancy and equipment	192,550	170,021
Professional fees	292,501	282,778
Legal	218,033	168,388
Commissions	156,706	78,034
Data and item processing	86,864	97,006
Contract services	49,810	53,536
Printing, stationery and supplies	13,691	35,250
Advertising	9,644	92,439
Other	320,177	119,748
Total noninterest expense	<u>2,117,868</u>	<u>2,218,934</u>
Net loss	<u>\$ (745,966)</u>	<u>\$ (1,513,967)</u>
Basic and diluted loss per share	<u>\$ (0.13)</u>	<u>\$ (0.26)</u>

See Accompanying Notes to Consolidated Financial Statements

USA BANK
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Three Months Ended March 31, 2008 and 2007 (unaudited)

	Number of Shares	Common Stock	Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total
Balance, December 31, 2006	5,750,000	\$11,500,000	\$ 21,116,774	\$ (6,017,998)	\$ (32,234)	\$ 26,566,542
Comprehensive loss:						
Net loss	-	-	-	(1,513,967)	-	(1,513,967)
Unrealized holding gains on available for sale securities	-	-	-	-	21,781	21,781
Total comprehensive loss						(1,492,186)
Balance, March 31, 2007	<u>5,750,000</u>	<u>\$ 11,500,000</u>	<u>\$ 21,116,774</u>	<u>\$ (7,531,965)</u>	<u>\$ (10,453)</u>	<u>\$ 25,074,356</u>
Balance, December 31, 2007	5,750,000	\$ 11,500,000	\$ 21,116,774	\$ (10,334,178)	\$ 26,618	\$ 22,309,214
Comprehensive loss:						
Net loss	-	-	-	(745,966)	-	(745,966)
Unrealized holding loss on available for sale securities	-	-	-	-	(151,722)	(151,722)
Total comprehensive loss						(897,688)
Balance, March 31, 2008	<u>5,750,000</u>	<u>\$ 11,500,000</u>	<u>\$ 21,116,774</u>	<u>\$ (11,080,144)</u>	<u>\$ (125,104)</u>	<u>\$ 21,411,526</u>

See Accompanying Notes to Consolidated Financial Statements

USA BANK
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2008 and 2007 (unaudited)

	Three Months Ended March 31,	
	2008	2007
Cash Flows from Operations		
Net loss	\$ (745,966)	\$ (1,513,967)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Amortization and accretion of premiums and discounts on investments, net	(44,890)	11,016
Provision for loan losses	225,000	171,000
Gain on sale of available for sale securities	(146,365)	-
Loans originated for sale, net of principal payments received	(1,630,351)	(7,694,370)
Proceeds from sales of loans	3,294,919	6,574,076
Net gains on sale of loans	(50,669)	(32,319)
Depreciation and amortization	56,921	51,778
Changes in assets and liabilities:		
Increase in deferred loan fees	104,968	29,653
Increase in accrued interest receivable	(117,941)	(32,307)
Increase (decrease) in other assets	29,098	(113,261)
Increase in accrued expenses and other liabilities	537,421	263,854
Net cash provided by (used in) operating activities	1,512,146	(2,284,847)
Cash Flows from Investing Activities		
Purchase of available for sale securities	(14,982,651)	-
Proceeds from sale of available for sale securities	14,246,701	-
Principal repayments on available for sale securities	954,419	475,610
Net increase in loans receivable	(22,603,188)	(6,136,772)
Purchase of leasehold improvements and equipment	(9,189)	(56,586)
Principal repayments on held to maturity securities	73,369	97,808
Net cash used in investing activities	(22,320,539)	(5,619,940)
Cash Flows from Financing Activities		
Net increase (decrease) in time deposits	22,841,762	(3,773,828)
Net increase in other deposits	3,829,323	7,662,236
Net cash provided by financing activities	26,671,085	3,888,408
Net increase (decrease) in cash and cash equivalents	5,862,692	(4,016,379)
Cash and cash equivalents		
Beginning	10,955,671	25,103,881
Ending	\$ 16,818,363	\$ 21,087,502

See Accompanying Notes to Consolidated Financial Statements

USA BANK
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
For The Three Months Ended March 31, 2008 and 2007 (unaudited)

	<u>Three Months Ended March 31</u> <u>2008</u>	<u>2007</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for:		
Interest	<u>\$ 1,692,977</u>	<u>\$ 1,104,189</u>
Supplemental disclosure of noncash investing activity:		
Unrealized holding (losses) gains on available for sale securities arising during the period	<u>\$ (169,102)</u>	<u>\$ 21,781</u>

See Accompanying Notes to Consolidated Financial Statements

USA Bank
Notes to Consolidated Financial Statements
(Unaudited)

Note 1. Nature of Operations

USA Bank (the “Bank”) is a State of New York chartered commercial bank whose deposits are insured by the Federal Deposit Insurance Corporation. The Bank offers traditional commercial banking services to customers through its main office in Port Chester, NY.

Formation of the Bank and development stage activities

On September 30, 2004, the Bank submitted an application to the State of New York Banking Department (“NY Banking Department”) and commenced the development stage activities needed to form a bank. Prior to this date, certain costs were incurred by organizers on behalf of the Bank, which were included in operations. On February 5, 2005, the Bank submitted its Certificate of Merit to the NY Banking Department and its Organization Certificate was approved and filed by the NY Banking Department on August 17, 2005.

On December 21, 2005, the Bank completed the initial sale of its common stock. On December 22, 2005, the Bank received its Authorization Certificate from the State of New York Banking Department to operate as a commercial bank and obtained insurance from the Federal Deposit Insurance Corporation (the “FDIC”) and commenced business operations on December 23, 2005.

On June 30, 2006, the Bank sold an aggregate of 3,416,666 shares of its Common Stock at \$6.00 per share for an aggregate selling price of \$20,499,996 in cash. Stock issuance costs aggregated \$1,586,710 (including financial advisory fees and selling commissions aggregating \$1,174,756) resulting in net proceeds of \$18,913,286 which were applied to augment the Bank’s capital.

Note 2. Basis of Consolidated Financial Statement Presentation

Principles of Consolidation

The interim consolidated financial statements and notes thereto include the accounts of the Bank and its wholly-owned subsidiary, USA MBA, Inc., a Connecticut-based mortgage brokerage company, which is inactive as it is pending approval from the FDIC. All significant intercompany balances and transactions have been eliminated in consolidation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and general practices within the banking industry and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities as of the dates of the balance sheet and the reported amounts of income and expenses for the reporting periods. Amounts in prior period financial statements are reclassified whenever necessary to conform to current period presentations. The results of operations for the three months ended March 31, 2008, are not necessarily indicative of the results which may be expected for the year as a whole. The accompanying consolidated financial statements and notes

thereto should be read in conjunction with the audited consolidated financial statements of the Bank and notes thereto as of December 31, 2007, filed with the FDIC on Form 10-KSB on March 31, 2008.

Note 3. Investments

The amortized cost, gross unrealized gains, gross unrealized losses and approximate fair values of available for sale and held to maturity securities at March 31, 2008, and December 31, 2007, are as follows:

March 31, 2008

Available for sale securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Sponsored Agencies	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000
Mortgage-backed securities	36,447,131	441,871	(566,975)	36,322,027
Total available for sale	\$ 37,447,131	\$ 441,871	\$ (566,975)	\$ 37,322,027
Held to maturity securities				
Mortgage-backed securities	\$ 1,324,368	\$ 40,987	\$ -	\$ 1,365,355

December 31, 2007

Available for sale securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Sponsored Agencies	\$ 10,997,408	\$ 52,352	\$ -	\$ 11,049,760
Mortgage-backed securities	26,478,839	489,127	(497,481)	26,470,485
Total available for sale	\$ 37,476,247	\$ 541,479	\$ (497,481)	\$ 37,520,245
Held to maturity securities				
Mortgage-backed securities	\$ 1,395,835	\$ 28,348	\$ -	\$ 1,424,183

At March 31, 2008, gross unrealized holding losses on available for sale securities totaled \$566,975. The unrealized loss amount at March 31, 2008 relates to four securities with an aggregate depreciation of 7.58% from the Bank's amortized cost. The gross unrealized losses have primarily existed for a period of less than twelve months. Management does not believe that any of the unrealized losses as of March 31, 2008, are other than temporary, as they primarily relate to mortgage-backed securities issued by U.S. Government sponsored agencies and non-agency mortgage-backed securities with average FICO scores in excess of 700 and these unrealized losses have resulted from the recent illiquidity in the market place. The Bank has the ability to hold these securities until fair value recovery or to maturity, if necessary, and expects to receive all contractual principal and interest related to these investments. As a result, management believes that these unrealized losses will not have a negative impact on future earnings or a permanent effect on capital.

At December 31, 2007, gross unrealized holding losses on available for sale securities totaled \$497,481. The gross unrealized loss amount at December 31, 2007, relates to four securities with aggregate depreciation of 6.14% from the Bank's amortized cost. None of the unrealized losses on available for sale securities as of December 31, 2007, existed for a period of twelve months or longer.

The held to maturity securities at each date presented are pledged as collateral for municipal deposits. At March 31, 2008, \$33.1 million of the available for sale securities have been pledged as collateral for municipal deposits and securities sold under agreements to repurchase. There were sales of \$14.1 million of investment securities during the three months ended March 31, 2008, which resulted in a gain of \$146,365. There were no sales of investment securities during the three months ended March 31, 2007.

Note 4. Loans and Allowance for Loan Losses

A summary of the Bank's loan portfolio as of March 31, 2008, and December 31, 2007, is as follows:

	March 31, 2008	% of Total Portfolio	December 31, 2007	% of Total Portfolio
Real estate loans				
Residential mortgages	\$ 7,858,367	6.06%	\$ 9,854,486	9.21%
Commercial real estate	36,044,027	27.81%	34,540,293	32.28%
Construction	60,809,024	46.92%	45,309,980	42.34%
Home equity	8,959,082	6.91%	8,730,086	8.16%
Total real estate loans	<u>113,670,500</u>	<u>87.70%</u>	<u>98,434,845</u>	<u>91.99%</u>
Commercial and industrial loans	<u>12,850,476</u>	<u>9.92%</u>	<u>5,811,828</u>	<u>5.43%</u>
Consumer loans	<u>3,084,733</u>	<u>2.38%</u>	<u>2,755,848</u>	<u>2.58%</u>
Total gross loans	<u>129,605,709</u>	<u>100.00%</u>	<u>107,002,521</u>	<u>100.00%</u>
Deferred loan (fees) costs, net	(192,949)		(87,981)	
Allowance for loan losses	<u>(1,646,000)</u>		<u>(1,421,000)</u>	
Loans receivable, net	<u>\$127,766,760</u>		<u>\$ 105,493,540</u>	

In the normal course of business, the Bank may grant loans to executive officers, directors and members of their immediate families, as defined, and to entities in which these individuals have more than a 10% equity ownership. Such loans are transacted at terms including interest rates, substantially the same as those available to unrelated customers.

Allowance for Loan Losses

The following represents the activity in the allowance for loan losses for the three months ended March 31, 2008, and March 31, 2007:

	March 31, 2008	March 31, 2007
Balance at beginning of period	<u>\$ 1,421,000</u>	<u>\$ 703,000</u>
Provision for loan losses	<u>225,000</u>	<u>171,000</u>
Balance at end of period	<u>\$ 1,646,000</u>	<u>\$ 874,000</u>

Non-Accrual, Past Due and Restructured Loans

The following is a summary of non-accrual and past due loans:

	<u>March 31, 2008</u>	<u>December 31, 2007</u>
Loans delinquent over 90 days and still accruing	\$ -	\$ -
Non-accrual loans	<u>3,660,803</u>	<u>3,626,285</u>
Total nonperforming loans	<u><u>\$ 3,660,803</u></u>	<u><u>\$ 3,626,285</u></u>
% of Total Loans	2.82%	3.39%
% of Total Assets	1.87%	2.14%
Ratio of allowance for loan losses to nonperforming loans	44.96%	39.19%

The Bank did not have any loans ninety days or more past due and still accruing interest or loans considered “troubled debt restructurings” as of or during the three months ended March 31, 2008, or the year ended December 31, 2007.

Potential Problem Loans

Other than loans that have been identified as non-accrual at March 31, 2008, and December 31, 2007, the Bank had no material loans as to which management has significant doubts as to the ability of the borrower to comply with the present repayment terms.

Loans Held for Sale

As of March 31, 2008, and December 31, 2007, the Bank had \$5.2 million and \$6.8 million, respectively, invested in loans held for sale. Loans held for sale are comprised of fully collateralized mortgages and HELOC lines of credit.

Note 5. Deposits

At March 31, 2008, and December 31, 2007, deposits consisted of the following:

	<u>March 31, 2008</u>	<u>December 31, 2007</u>
Noninterest-bearing deposits	<u>\$ 5,993,983</u>	<u>\$ 5,490,964</u>
Interest-bearing deposits		
Demand deposits	1,232,558	1,496,125
NOW and money market	9,465,392	8,083,554
Savings	<u>10,419,357</u>	<u>8,211,324</u>
Demand, NOW, money market and savings	<u>21,117,307</u>	<u>17,791,003</u>
Time Certificates under \$100,000	67,534,485	52,330,858
Time Certificates over \$100,000	<u>54,866,477</u>	<u>47,228,342</u>
Time deposits	<u>122,400,962</u>	<u>99,559,200</u>
Total interest-bearing deposits	<u>143,518,269</u>	<u>117,350,203</u>
Total deposits	<u><u>\$ 149,512,252</u></u>	<u><u>\$ 122,841,167</u></u>

Included in time deposits at March 31, 2008, and December 31, 2007, were brokered deposits totaling \$30,477,880 and \$27,966,987, respectively. Brokered deposits at March 31, 2008, and at December 31, 2007, have original maturities of four weeks to five years.

Note 6. Securities Sold Under Agreements to Repurchase

The following table summarizes the securities sold under agreements to repurchase:

Maturity Date	March 31, 2008	December 31, 2007
May 2017	\$ 4,000,000	\$ 4,000,000
July 2017	7,000,000	7,000,000
July 2017	4,000,000	4,000,000
July 2017	4,000,000	4,000,000
July 2017	4,000,000	4,000,000
Total securities sold under agreements to repurchase	\$ 23,000,000	\$ 23,000,000

Securities sold under agreements to repurchase were collateralized by mortgage-backed securities. The weighted average cost of funds on the repurchase agreements at March 31, 2008, and December 31, 2007, was 4.57% and 4.59%, respectively. The amounts outstanding as of both March 31, 2008 and December 31, 2007 have original maturities of ten years and are structured to be callable on scheduled dates from six to eighteen months from inception or on a quarterly basis thereafter at the option of the counterparty. The average outstanding balance was \$23,000,000 for the three-month period ended March 31, 2008, and \$11,295,699 for the year ended December 31, 2007.

Note 7. Available Borrowings

The Bank has established a secured line of credit facility with M&T Bank. The Bank has the ability to borrow up to \$5 million on an overnight basis from M&T Bank using investments as collateral at 125% of the borrowed amount. The Bank also has a \$1 million secured line of credit with the Federal Reserve Bank. There were no borrowings outstanding under either of these lines of credit at or during the periods ended March 31, 2008, or December 31, 2007.

Note 8. Basic Loss per Share

The Bank's basic loss per share for the three months ended March 31, 2008 and 2007 was calculated by dividing the net loss for the respective periods by the weighted average shares outstanding. As the Bank did not have dilutive securities during the three months ended March 31, 2008 and 2007, diluted loss per share is not presented. The calculation of the basic loss per share for the three months ended March 31, 2008 and 2007 appears below:

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Net Loss	\$ (745,966)	\$ (1,513,967)
Weighted Average Shares	5,750,000	5,750,000
Basic Loss per share	\$ (0.13)	\$ (0.26)

Note 9. Related Party Transactions

The aggregate dollar amount of loans to related parties was approximately \$1,644,000 and \$562,000 at March 31, 2008, and December 31, 2007, respectively.

Related party deposits aggregated approximately \$1,016,000 and \$1,365,000 as of March 31, 2008, and December 31, 2007, respectively. The Bank paid \$9,000 during the three months ended March 31, 2008, for information technology-related services to an IT consulting company, the principal of which is a director of the Bank. The Bank also paid rent for its main branch facility at 601 North Main Street, Port Chester, New York, of \$28,000 during the three months ended March 31, 2008 to a company owned by certain directors, management and others.

Note 10. Fair Value

The Bank uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Bank may be required to record at fair value other assets on a nonrecurring basis such as loans held for sale and loans held for investment. These nonrecurring fair value adjustments typically involve application of the lower of cost or market accounting or write-downs of individual assets.

Fair Value Hierarchy

Under SFAS No. 157, the Bank groups assets at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Valuation is based upon quoted prices for identical instruments in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Following is a description of valuation methodologies used for assets recorded at fair value.

Investment Securities Available-for-Sale

Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based

valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets, and money market funds. Level 2 securities include mortgage-backed securities issued by government-sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Loans

The Bank does not record loans at fair value on a recurring basis. However, from time to time, nonrecurring fair value adjustments to collateral dependent loans are recorded to reflect partial write-downs based on the observable market price or current appraised value of collateral.

The balances of assets measured at fair value on a recurring basis as of March 31, 2008, were as follows:

	<u>Total</u>	<u>Significant Other Observable Inputs (Level 2)</u>
Securities available for sale	\$37,322,027	\$37,322,027

The balances of assets measured at fair value on a nonrecurring basis as of March 31, 2008, were as follows:

	<u>Total</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total Gains (Losses)</u>
Impaired Loans (1)	\$ 3,350,303	\$3,350,303	\$ -

(1) Represents carrying value and related write-downs for which adjustments are based on the appraised value of the collateral.

The Bank will apply the fair value measurement and disclosure provisions of SFAS No. 157 effective January 1, 2009 to nonfinancial assets and liabilities measured on a nonrecurring basis. The Bank measures the fair value of the following on a nonrecurring basis: (1) long-lived assets; (2) foreclosed assets; and (3) indefinite lived assets.

Note 11. Financial Instruments with Off-Balance Sheet Risk

In the normal course of business the Bank is a party to financial instruments with off-balance-sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit and involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the consolidated financial statements. The contractual amounts of these instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The contractual amounts of commitments to extend credit represents the amounts of potential accounting loss should the contract be fully drawn upon, the customer default, and the value of any existing collateral become worthless. The Bank uses the same credit policies and procedures in making commitments and conditional obligations as it does for on-balance-sheet instruments and evaluates each customer's creditworthiness on a case-by-case basis.

Management believes that the Bank controls the credit risk of these financial instruments through credit approvals, credit limits, monitoring procedures and the receipt of collateral as deemed necessary.

Financial instruments whose contract amounts represent credit risk are as follows at March 31, 2008 (unaudited), and December 31, 2007:

	March 31, 2008	December 31, 2007
Commitments to extend credit:		
Future loan commitments	\$ 34,790,805	\$ 29,502,849
Unused lines of credit	13,562,124	17,478,512
Undisbursed construction loans	24,810,528	24,743,688
Financial standby letters of credit	320,994	320,994
	<u>\$ 73,484,451</u>	<u>\$ 72,046,043</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments to extend credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. Since these commitments could expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of the collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include residential and commercial property, deposits and securities.

Standby letters of credit are written commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. All guarantees issued or modified that are not derivative contracts have been recorded on the Bank's balance sheet at their fair value at inception. The liability related to guarantees recorded at March 31, 2008, and December 31, 2007, was not significant.

Note 12. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. The Bank meets the quantitative measures to be considered well capitalized.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average

assets (as defined). Management believes that as of March 31, 2008, and December 31, 2007, the Bank meets all capital adequacy requirements to which it is subject.

The FDIC categorizes banks based on certain capital ratios under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios, which the Bank continues to exceed.

The Authorization Certificate issued by the NY Banking Department requires the Bank to maintain a risk-based ratio of Tier 1 capital to assets of not less than eight percent (8%) for a period of three years.

Supervisory Action

On October 22, 2007, the NY Banking Department and the FDIC issued, with the consent of the Bank, parallel Orders to Cease and Desist applicable to the Bank. The Orders, which were substantially identical, were issued as a result of findings made during the regulators' Safety and Soundness Examination conducted as of the close of business on September 30, 2006, and Compliance Examinations conducted as of the close of business on February 20, 2007. None of the findings or the terms of the Orders affect or address the Bank's ability to meet its financial obligations, including the timely payment of customer deposits or the funding of loan commitments, nor do the Orders affect FDIC insurance of the Bank's deposits.

The Orders require the Bank to refrain from certain practices and to take affirmative action to correct identified deficiencies and weaknesses in its operations. The full text of the Orders can be viewed on the FDIC website and the NY Banking Department website at www.fdic.gov and <http://www.banking.state.ny.us>, respectively.

A summary of the terms and conditions of the Orders follows:

The Orders prohibit the Bank from operating with inadequate management supervision and Board of Directors oversight, inadequately trained and supervised staff and inadequate audit, compliance and information technology and security policies, processes and procedures, and without a current, comprehensive business and strategic plan and budget. They also prohibit violations of the Bank Secrecy Act and various consumer protection statutes.

The Orders require the Bank to adopt a number of policies and procedures designed to strengthen and improve its operations, and to assess and report to the regulators within specified time frames, regarding several aspects of its operations. The Orders require the Bank to engage qualified professionals acceptable to the regulators to prepare or assist with the preparation of some of the required reports. The Orders direct the Bank to prepare and submit the following reports and other materials:

- A Management Report assessing the Bank's management and staffing needs, performance, competence and responsibilities, and recommending staff training and Board of Directors and senior management recruitment and retention plans and a plan to respond to the recommendations contained in the Management Plan;

- A Corporate Governance Review and report by an independent third party assessing the Bank's corporate governance process, including compliance with the corporate governance provisions of the Sarbanes–Oxley Act of 2002;
- An Expense Report detailing and assessing the propriety of fees and expenses paid to the Bank's insiders and a plan for the Bank to seek reimbursement of payments to insiders determined to have been inappropriate;
- A Strategic Plan for at least the next three years, including detailed financial and market assumptions, goals, strategies and policies, and a mission statement;
- A Profit Plan, including plans to improve the Bank's operating performance, as gauged by specific metrics, and a comprehensive budget;
- An effective corporate information security policy;
- A Disaster Recovery/Business Continuity Plan and a test of such Plan;
- A Compliance Management System, including consumer protection compliance monitoring, testing and training procedures, a Compliance Training Program and appointment of a qualified compliance officer;
- An Audit Program providing for implementation, monitoring and testing of internal audit controls and procedures, consumer protection compliance, information security and anti-money laundering compliance; and
- Quarterly Progress Reports on compliance with the Orders.

The Orders further require the Bank to take the following affirmative actions:

(i) increased, informed Board of Directors participation and oversight, including the adoption of good corporate record-keeping and reporting practices; (ii) correction of legal and regulatory violations; (iii) implementation of recommended Bank Secrecy Act policies and procedures; (iv) implementation of an effective information security policy and a disaster recovery/business continuity plan; and (v) establishment of a Compliance Committee of the Board of Directors.

Since September 30, 2006 (the date as of which the examination was conducted), the Bank has taken steps that address a number of the issues covered by the Orders and will continue to address these issues. Actions already taken include the following: (i) election of Ronald J. Gentile, whose experience includes 19 years with the FDIC and service as chief executive officer of a bank facing similar issues, as President and Chief Executive Officer and a director; (ii) the hiring of a chief compliance officer with more than five years of experience, (iii) the election of six additional independent directors, (iv) the retention of Fin Pro, Inc. to assist in the revision of the Bank's strategic plan and to review fees and expenses paid to the Bank's insiders, (v) the retention of George Roman of Strategic Solutions, Inc. and James E. Devaney (each of whom has substantial relevant regulatory experience) to review the Bank's loan function; and (vi) the implementation of procedures to comply with the Sarbanes–Oxley Act. The Management Report, the Corporate Governance Review, a revised Strategic Plan and budget have been

submitted to the FDIC and the NY Banking Department for review. The Bank has also updated and revised its Disaster Recovery/Business Continuity Plan and tested such Plan. The Bank has introduced enhanced training programs for its directors, officers and employees.

In the third quarter of 2007, the Board of Directors established a Compliance Committee with the responsibility of overseeing the actions taken by the Bank that are required by the Orders. The Compliance Committee, which meets monthly, was, as of March 31, 2008, composed of directors, a majority of whom are independent, the Bank's Compliance Officer and an independent advisor. The Bank believes that it has timely complied with the provisions of the Orders that have required action to-date.

Additionally, a joint FDIC and NY Banking Department Safety and Soundness and Bank Secrecy Act Examination was conducted as of the close of business on December 31, 2007. The final report from this examination has not been received by the Bank.

Note 13. Commitments and Contingencies

Representations and Warranties Reserves

In the normal course of business, the Bank is subject to potential recourse obligations resulting from standard representations and warranties customary in mortgage sales activities. Violations of these representations and warranties may require the Bank to repurchase loans previously sold. For the three months ended March 31, 2008, and the year December 31, 2007, the Bank sold \$3.2 million and \$48.3 million of loans, respectively. The Bank is contingently liable under representations and warranties made in the contracts relating to these sales, in certain instances for the life of the loans. The Bank has established a reserve for representations and warranties related to these sales which totaled \$46,000 at March 31, 2008, and \$26,000 at December 31, 2007. On an ongoing basis, the Bank monitors the adequacy of the representations and warranties reserve liability, which is established upon the initial sale of the loans, and is included in accrued expenses and other liabilities in the balance sheet. The Bank has not been required to purchase any loans under such representations and warranties obligations.

Legal Proceedings

On May 7, 2007, two actions were begun in the Supreme Court of the State of New York. One naming the Bank as the defendant was brought by Salvatore Pane, Lisa Vitale and Perry Winter, and the other naming Fred DeCaro, Jr., and the Bank as defendants was brought by Salvatore Pane and First Lincoln Mortgage Corp. (formerly USA Mortgage Bankers of America, Inc.). The first suit, which purports to be brought by the plaintiffs as shareholders and as representatives of a class of shareholders, alleges that the offering materials used by the Bank in connection with its offerings of stock in 2005 and 2006 contained various representations that were untrue, that various payments were made to related parties and that various loans were improperly made. While the plaintiffs seek monetary judgments and other relief from Mr. DeCaro, the only judgment demanded against the Bank is "such other relief as to the Court may seem just and proper."

The suit against the Bank only alleges that the Bank had entered into an agreement to acquire USA Mortgage Bankers of America, Inc., and that the Bank “abandoned” the plan and breached the agreement. The plaintiffs seek damages in an unspecified amount.

The Bank believes that the claims are without merit and intends to defend itself vigorously. The Bank has filed motions to dismiss these suits, which motions have been denied. While the Bank recognizes that these suits may constitute loss contingencies within the meaning of SFAS No. 5, an estimate of the amount thereof cannot be made. After reviewing the requirements of Item 103 of Regulation S-B concerning obligations to disclose material legal proceedings, the Bank has concluded that the suits need not be described thereunder.

In addition, on August 21, 2007, a suit was instituted by Ralph G. Meyer, Jr., and Anthony J. Gioia in the Supreme Court of the State of New York, County of Nassau naming the Bank and Fred DeCaro, Jr., as defendants. The plaintiffs, both former employees of the Bank, claim that misrepresentations and other actions by the defendants induced them to terminate their prior employment and accept employment with the Bank. The causes of action asserted by the plaintiffs are for (i) fraud, (ii) tortious interference, (iii) intentional infliction of emotional distress, (iv) breach of contract, (v) quasi contract and (vi) wage claims. Each plaintiff seeks \$5 million in damages plus front pay, back wages, emotional damages, benefits and other compensatory damages, together with interest and \$5 million in punitive damages for each of the first three claims. For each of the fourth and fifth claims, each plaintiff seeks damages of \$5 million together with front pay, back wages, emotional damages, benefits and other compensatory damages together with interest. For the sixth claim, each plaintiff seeks damages in the amount of \$5 million together with punitive damages, counsel fees and interest. The Bank believes that the claims asserted are without merit and intends to vigorously defend against such claims.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis is intended to assist in understanding the consolidated financial condition and results of operations of the Bank. This discussion should be read in conjunction with the accompanying unaudited financial statements as of and for the three months ended March 31, 2008 and 2007, along with the audited financial statements as of and for the year ended December 31, 2007, included in the Bank’s Annual Report on Form 10-KSB filed with the Federal Deposit Insurance Corporation on March 31, 2008.

Summary

As of March 31, 2008, the Bank had total assets of \$195.8 million, which is an increase of \$26.3 million (15.5%) from the \$169.5 million at December 31, 2007. Total assets at March 31, 2008 primarily consisted of \$16.8 million in cash and equivalents, \$38.6 million in investment securities and \$127.8 million in loans net of the allowance for loan losses. Funding for these assets was primarily derived from deposits of \$149.5 million, repurchase agreements of \$23.0 million, and shareholders’ equity of \$21.5 million. Total equity capital at March 31, 2008, was \$21.5 million, representing a Tier 1 Leverage Capital Ratio of 11.88%. This compares to total equity capital at December 31, 2007, which was \$22.3 million, representing a Tier 1 Leverage Capital Ratio of 13.21%.

Earning assets, comprised of federal funds sold, overnight investments, interest-bearing deposits, investment securities, loans held for sale and gross loans increased \$25.8 million (15.9%) from \$162.4 million at December 31, 2007, to \$188.2 million at March 31, 2008. The earning asset growth during the first quarter of 2008 was primarily in gross loans, net of non-accrual loans, which increased \$22.6 million (21.8%). Funding to support this earning asset growth during the first three months of 2008 was from deposit growth, which increased \$26.7 million (21.7%) from \$122.8 million at December 31, 2007, to \$149.5 million at March 31, 2008. The deposit growth was primarily in time, NOW and money market, and savings deposits, which increased \$22.8 million (22.9%), \$1.4 million (17.1%), and \$2.2 million (26.9%), respectively.

The Bank had a net loss of \$746,000 (or basic and diluted loss per share of \$(0.13)) for the three months ended March 31, 2008, compared to a net loss of \$1.5 million (or basic and diluted loss per share of \$(0.26)) for the three months ended March 31, 2007. The reduced operating loss in the first quarter of 2008, compared to the first quarter of 2007, is due to the \$525,000 increase in net interest income resulting from the growth in earning assets; the \$195,000 increase in noninterest income primarily resulting from the \$146,000 gain on the sale of investments during the first quarter of 2008; and the \$344,000 reduction in salaries and benefits expenses primarily reflecting staff reductions. Net interest margin for the three months ended March 31, 2008, was 2.98%, as compared to 3.33% for the three months ended March 31, 2007. The decrease in net interest margin is largely attributable to prevailing interest rates as opposed to changes in the Bank's practices.

The results for the three months ended March 31, 2008 compared to the three months ended March 31, 2007 reflects management's continued focus on leveraging the Bank's capital with quality commercial loan growth, an emphasis on revenue enhancement and cost reduction strategies and the continuous use of asset liability strategies to lower the Bank's interest rate sensitivity.

Critical Accounting Policy

In the ordinary course of business, the Bank has made a number of estimates and assumptions relating to reporting results of operations and financial condition in preparing its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. The Bank's management believes the following discussion addresses the Bank's only critical accounting policy, which is the policy that is most important to the portrayal of the Bank's financial condition and results of operations and requires management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Bank's management has reviewed this critical accounting policy and the resulting estimates with its loan committee. Refer to the discussion below under "Allowance for Loan Losses."

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to operations. Loans are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed.

Subsequent recoveries, if any, are credited to the allowance. There were no loan charge-offs or recoveries for the three months ended March 31, 2008 and 2007.

The Bank had impaired loans totaling \$3.6 million, which are on non-accrual status as of March 31, 2008, with respect to which there is a specific reserve of \$310,500. The Bank's ongoing allowance for loan losses analysis results in an allowance for loan losses that consists of specific and general components. The specific component relates to allowances established for individual impaired loans. The general component relates to pools of loans segregated by loan type, and is based on historical loss experience adjusted by certain qualitative factors as determined by management and the board of directors.

The accrual of interest income on loans is discontinued whenever reasonable doubt exists as to its collectibility and generally is discontinued when loans are past due 90 days as to either principal or interest, or are otherwise considered impaired. When the accrual of interest income is discontinued, all previously accrued and uncollected interest is reversed against interest income. The accrual of interest on loans past due 90 days or more may be continued if the loan is well secured, and it is believed all principal and accrued interest income due on the loan will be realized, and the loan is in the process of collection. A non-accrual loan is restored to accrual status when it is no longer delinquent and collectibility of interest and principal is no longer in doubt.

The allowance for loan losses is evaluated on a regular basis by management and is based on management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Based upon this evaluation, management believes the allowance for loan losses of \$1,646,000 or 1.27% of gross loans at March 31, 2008, to be adequate, under prevailing economic conditions, to absorb losses on existing loans. At December 31, 2007, the allowance was \$1,421,000 or 1.33% of gross loans outstanding.

Management considers all non-accrual loans, other loans past due 90 days or more based on contractual terms, and restructured loans to be impaired. In most cases, loan payments that are past due less than 90 days and the related loans are not considered to be impaired. The Bank considers consumer installment loans to be pools of smaller balance homogeneous loans, which are collectively evaluated for impairment.

Recent Accounting Changes

In September 2006, the FASB issued SFAS No. 157, "*Fair Value Measurements*." This statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity operates. This statement does not require any new fair value measurements, but rather, it provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. This

statement is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. The FASB has approved a one-year deferral for the implementation of the statement for non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a nonrecurring basis. Effective January 1, 2008, the Bank adopted SFAS No. 157. The impact of the adoption of this statement was not material.

In February 2007, the FASB issued SFAS No. 159, “*The Fair Value Option for Financial Assets and Financial Liabilities.*” This statement permits companies to elect to follow fair value accounting for certain financial assets and liabilities in an effort to mitigate volatility in earnings without having to apply complex hedge accounting provisions. The statement also establishes presentation and disclosure requirements designed to facilitate comparison between entities that chose different measurement attributes for similar types of assets and liabilities. This statement is effective for fiscal years beginning after November 15, 2007. The Bank did not elect the fair value option for any financial assets or financial liabilities as of January 1, 2008, the effective date of the standard.

Comparison of Financial Condition as of March 31, 2008, versus December 31, 2007

General

The Bank’s total assets were \$195.8 million at March 31, 2008, an increase of \$26.3 million (15.5%) from \$169.5 million at December 31, 2007. Earning assets, net of non-accrual loans, were \$188.2 million as of March 31, 2008, an increase of \$25.8 million (15.9%) from \$162.4 million at December 31, 2007. The earning asset growth during the first quarter of 2008 occurred in gross loans, net of non-accrual loans and Federal funds sold and overnight investments, which increased \$22.6 million (21.8%) and \$5.4 million (66.0%), respectively. This earning asset growth was primarily funded by the \$26.7 million (21.7%) growth in total deposits.

Federal funds sold and overnight investments

The balance in federal funds sold and overnight investments was \$13.6 million at March 31, 2008, which is an increase of \$5.4 million (66.0%) compared to \$8.2 million at December 31, 2007. These funds provide a source of liquidity to fund portfolio loan growth and loans held for sale, as well as to cover fluctuations in deposits as they mature in keeping with the guidelines established by the Bank’s Asset and Liability Management Committee.

Interest-Bearing Deposits in Banks

Interest-bearing deposits in banks mature within one year and are carried at cost. The balance in interest-bearing deposits was \$4.8 million at both March 31, 2008, and December 31, 2007. This balance consists of fixed rate deposits which mature in June 2008.

Loans

Total gross loans reached \$129.6 million at March 31, 2008. The loan portfolio consisted of commercial real estate loans of \$36.0 million, construction loans of \$60.8 million, residential mortgages of \$7.8 million, home equity lines of credit of \$9.0 million, commercial and industrial loans of \$12.9 million and consumer loans of \$3.1 million. The ratio of total gross loans to deposits as of March 31, 2008, was 86.7%, down from the December 31, 2007 ratio of 87% and in keeping with the Bank’s targeted ratio of 80% to 90%.

Allowance for Loan Losses and Non-Accrual, Past Due and Restructured Loans

The allowance for loan losses consists of the balance at the beginning of the period plus the current year provision of \$225,000 and totaled \$1,646,000 at March 31, 2008. As of March 31, 2008, there were fourteen loans thirty days or more past due totaling \$6.6 million, (six of which totaling \$3.7 million are ninety days or more past due and have been put on non-accrual status in accordance with the Bank's policy).

The following represents the activity in the allowance for loan losses for the three months ended March 31, 2008 and 2007.

	For the Three Months Ended March 31	
	2008	2007
Balance at beginning of period	\$ 1,421,000	\$ 703,000
Provision for loan losses	225,000	171,000
Balance at end of period	<u>\$ 1,646,000</u>	<u>\$ 874,000</u>

Non-Accrual, Past Due and Restructured Loans

The following is a summary of non-accrual and past due loans:

	March 31, 2008	December 31, 2007
Loans delinquent over 90 days and still accruing	\$ -	\$ -
Non-accrual loans	3,660,803	3,626,285
Total nonperforming loans	<u>\$ 3,660,803</u>	<u>\$ 3,626,285</u>
% of Total Loans	2.82%	3.39%
% of Total Assets	1.87%	2.14%
Ratio of allowance for loan losses to nonperforming loans	44.96%	39.19%

The Bank did not have any loans considered "troubled debt restructurings" as of or during the three months ended March 31, 2008, or the year ended December 31, 2007.

Potential Problem Loans

Other than loans that have been identified as non-accrual at March 31, 2008, the Bank had no material loans as to which management has significant doubts as to the ability of the borrower to comply with the present repayment terms.

Deposits

Deposits were \$149.5 million at March 31, 2008, an increase of \$26.7 million (21.7%) from the \$122.8 million in deposits at December 31, 2007. Noninterest-bearing deposits were \$6.0 million at March 31, 2008, an increase of \$503 thousand (9.1%) from the \$5.5 million in noninterest-bearing deposits at December 31, 2007. Interest-bearing deposits were \$143.5 million at March 31, 2008, an increase of \$26.2 million (22.3%) over the \$117.3 million in interest-bearing deposits at December 31, 2007. The primary growth in total deposits was in time deposits under \$100,000 including brokered CD's, which were \$67.5 million, at March 31, 2008, an increase of \$15.2 million (29.1%) from the \$52.3 million at December 31, 2007.

Brokered deposits were \$30.5 million or 20.4% of total deposits at March 31, 2008, compared to \$28.0 million or 22.8% of total deposits at December 31, 2007.

Repurchase Agreements

The Bank entered into repurchase agreements in 2007 and has maintained the balance of \$23.0 million at March 31, 2008 and December 31, 2007. The weighted average cost of funds on this balance as of March 31, 2008 and December 31, 2007 was 4.57% and 4.59%, respectively.

Accrued expenses and other liabilities

Accrued expenses and other liabilities increased \$512,000 to \$1,843,000 at March 31, 2008, from \$1,331,000 at December 31, 2007. This increase was primarily the result of increased accrued interest payable on time deposits resulting from increased volume and increases in accounts payable and accrued expenses, primarily related to professional fees for litigation, regulatory matters and year-end reporting requirements.

Results of Operations – Comparison of Results for the Three Months Ended March 31, 2008 and 2007

General

The Bank experienced a net loss of \$746,000 (\$0.13 per share) during the three months ended March 31, 2008, as compared to a net loss of \$1,514,000 (\$0.26) for the three months ended March 31, 2007. The \$768,000 (51%) reduced net loss for the three months ended March 31, 2008 compared to the three months ended March 31, 2007 primarily reflects a \$525,000 (65%) increase in net interest income resulting from asset growth; and \$146,000 of gains on the sale of investment securities during the three months ended March 31, 2008, as compared to no such gains recorded during the three months ended March 31, 2007; and a \$101,000 reduction in total noninterest expenses.

Net interest income

The Bank's net interest income is dependent primarily upon the difference or spread between the average yield earned on federal funds sold and overnight investments, interest-bearing deposits, loans, investment securities, and other earning assets and the average rate paid on deposits and borrowings, as well as the relative amounts of such interest-earning assets and interest-bearing liabilities. The Bank, like other banking institutions, is subject to interest rate risk to the degree that its interest-bearing liabilities re-price at different times than its interest-earning assets. The Bank's Asset Liability Management Committee monitors the interest rate risk and takes steps to reduce the impact on net interest income due to changes in interest rates.

For the three months ended March 31, 2008, net interest income was \$1,330,000 versus \$805,000 for the quarter ended March 31, 2007, a \$525,000 (65%) increase. The increase in net interest income is primarily the result of the \$81.8 million (85%) increase in average interest-earning assets, which were \$178.4 million for the three months ended March 31, 2008, as compared to average interest-earning assets of \$96.5 million for the quarter ended March 31, 2007. This growth in average earning assets reflects the Bank's continued effort to leverage upon the Bank's capital with quality loan growth.

The net interest spread increased from 1.98% for the quarter ended March 31, 2007, to 2.27% for the three months ended March 31, 2008. The yield on earning assets of 7.08% for the three months ended March 31, 2008, is the same as the yield for the three months ended March 31, 2007. The Bank's increased average loan volume and increased mix of fixed versus variable rate loans has contributed to the yield remaining the same, despite the interest rate cuts made by the Federal Reserve Bank since March 31, 2007. The Bank's loan portfolio reached an average balance of \$116.0 million during the three months ended March 31, 2008, with an average yield of 7.72%, as compared to an average balance of \$71.4 million with an average yield of 7.67% for the three months ended March 31, 2007. The average balance of the Bank's investment securities increased by \$31.6 million as a result of the Bank's asset liability management growth strategy. This strategy included the use of the increase in investment securities to collateralize \$23.0 million of repurchase agreements, while locking in a 1.60% spread at the time of their investment.

The Bank's cost of funds was 4.81% for the three months ended March 31, 2008, as compared to a cost of funds of 5.10% for the three months ended March 31, 2007. The decrease in the costs of funds primarily reflects the interest rate cuts made by the Federal Reserve Bank and the addition in July 2007 of the repurchase agreements totaling \$23.0 million with an average cost of 4.57% as part of the growth strategy.

Funding the increase in average interest-earning assets was an \$81.2 million (114%) increase in interest-bearing liabilities, which increased from an average balance of \$70.9 million for the three months ended March 31, 2007, to an average balance of \$152.1 million for the three months ended March 31, 2008. In addition to the \$23.0 million increase in repurchase agreements, the average balance of time deposits was \$109.8 million for the three months ended March 31, 2008, an increase of \$59.0 million (116%) from the average balance of \$50.7 million for the three months ended March 31, 2007. For both periods, the average balance of time deposits to total average interest-bearing liabilities was 72%.

Average Balances, Yields and Rates

The following table presents average balance sheets (daily averages), interest income, interest expense, and the corresponding annualized rates on earning assets and rates paid on interest-bearing liabilities for the three months ended March 31, 2008 and 2007.

Distribution of Assets, Liabilities and Shareholders' Equity: Interest Rates and Interest Differential

	Three months ended March 31, 2008			Three months ended March 31, 2007			Fluctuations in Interest Income/ Expense Total
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate	
Interest-earning assets							
Loans (1)	\$115,991,356	\$ 2,239,627	7.72%	\$ 71,365,265	\$ 1,368,153	7.67%	\$ 871,474
Investments	39,265,813	598,836	6.10%	7,682,031	107,023	5.57%	491,813
Interest bearing deposits Federal funds sold and overnight investments	4,835,943	58,952	4.88%	-	-	0.00%	58,952
	10,631,846	86,228	3.24%	16,124,580	211,333	5.24%	(125,105)
Loans held for sale	7,653,497	174,258	9.11%	1,357,406	22,568	6.65%	151,690
Total interest-earning assets	<u>178,378,455</u>	<u>3,157,901</u>	7.08%	<u>96,529,282</u>	<u>1,709,077</u>	7.08%	<u>1,448,824</u>
Cash and due from banks	2,321,104			3,323,413			
Premise and equipment, net	830,886			745,050			
Allowance for loan losses	(1,462,791)			(704,900)			
Other	1,176,665			1,998,545			
Total Assets	<u>\$181,244,319</u>			<u>\$101,891,390</u>			
Interest-bearing liabilities							
Saving deposits	\$10,461,071	\$ 99,965	3.82%	\$ 16,772,276	\$ 185,609	4.43%	\$ (85,644)
Money market and NOW	8,843,947	65,537	2.96%	3,376,313	31,215	3.70%	34,322
Time deposits	109,757,657	1,399,433	5.10%	50,743,668	687,731	5.42%	711,702
Repurchase agreements	23,000,000	262,983	4.57%	-	-	-	262,983
Total interest-bearing liabilities	<u>152,062,675</u>	<u>1,827,918</u>	4.81%	<u>70,892,257</u>	<u>904,555</u>	5.10%	<u>923,363</u>
Noninterest-bearing deposits	5,646,721			3,993,353			
Accrued expenses and other liabilities	1,304,010			704,360			
Shareholders' equity	<u>22,230,913</u>			<u>26,301,420</u>			
Total liabilities and equity	<u>\$181,244,319</u>			<u>\$101,891,390</u>			
Net interest income		<u>\$ 1,329,983</u>			<u>\$ 804,522</u>		<u>\$ 525,461</u>
Interest spread			<u>2.27%</u>			<u>1.98%</u>	
Interest margin			<u>2.98%</u>			<u>3.33%</u>	

(1) Includes non-accruing loans

Changes in Assets and Liabilities and Fluctuations in Interest Rates

The following table summarizes the variance between interest income and interest expense for the three months ended March 31, 2008 and 2007, resulting from changes in the volume of average assets and liabilities and fluctuations in interest rates earned and paid. The changes in interest attributable to both rate and volume have been allocated to both rate and volume on a pro-rata basis.

	Three months ended March 31, 2008 versus 2007		
	Increase (Decrease)	Due to Change in Average	
		Volume	Rate
Interest-earning assets			
Loans	\$ 871,474	\$ 861,596	\$ 9,878
Investments	491,813	399,285	92,528
Federal funds sold and overnight investments	(125,105)	(59,039)	(66,066)
Interest-bearing deposits	58,952	59,045	(93)
Loans held for sale	151,690	68,857	82,833
Total interest-earning assets	<u>1,448,824</u>	<u>1,329,744</u>	<u>119,080</u>
Interest-bearing liabilities			
Savings deposits	(85,644)	(76,838)	(8,806)
Money market and NOW	34,322	41,613	(7,291)
Time deposits	711,702	754,737	(43,035)
Repurchase agreements	262,983	262,983	-
Total interest-bearing liabilities	<u>923,363</u>	<u>982,494</u>	<u>(59,131)</u>
Net interest income	<u>\$ 525,461</u>	<u>\$ 347,250</u>	<u>\$ 178,211</u>

Provision for Loan Losses

The provision for loan losses for the three months ended March 31, 2008 and 2007, was \$225,000 and \$171,000, respectively. This represents the amount considered necessary by management to maintain an adequate allowance for loan losses based on management's analysis of loan risk ratings and other factors.

The allowance for loan losses totaled \$1,646,000 or 1.27% of total gross loans as of March 31, 2008, and \$1,421,000 or 1.33% of total loans as of December 31, 2007.

Noninterest income

Noninterest income was \$267,000 and \$71,000 for the three months ended March 31, 2008, and March 31, 2007, respectively. This \$196,000 (274%) increase in noninterest income primarily reflects \$146,000 in gains on the sale of investment securities during the three months ended March 31, 2008, as compared to no such gain for the three months ended March 31, 2007; a \$31,000 increase in fees earned from brokering loans, which reached \$48,000 for the three months ended March 31, 2008, compared to \$17,000 for the three months ended March 31, 2007; and an \$18,000 increase in gains on sales of loans.

Noninterest expense

Total noninterest expense was \$2.1 million for the three months ended March 31, 2008, versus \$2.2 million for the same period in 2007, a decrease of \$100,000. This decrease reflects

management's continuing efforts to reduce costs by focusing more on traditional commercial banking as evidenced by the reduction of \$344,000 in salaries and employee benefits. Offsetting this salary and benefits reduction were increases in commissions, legal expense and FDIC insurance expense of \$79,000, \$50,000 and \$108,000, respectively.

Salaries and employee benefits expense was \$778,000 for the three months ended March 31, 2008, a decrease of \$344,000 (31%) when compared to the \$1,122,000 incurred during the three months ended March 31, 2007. This decrease reflects a 30% reduction in full-time-equivalent employees as of each period end from 57 at March 31, 2007, to 40 at March 31, 2008, which accounted for a \$135,000 reduction in salaries. It also reflects a \$200,000 reduction in sign-on bonuses for loan representatives recorded in the first quarter of 2007 as compared to no such bonuses incurred during the three months ended March 31, 2008. The reduction in full-time-equivalent employees and reduced bonus expense reflects the impact of management's cost reduction strategies and focus on traditional commercial banking.

Commissions earned by loan representatives for loan closings were \$157,000 for the three months ended March 31, 2008, as compared to \$78,000 for the three months ended March 31, 2007. The \$79,000 increase relates primarily to the significant increase in loan originations, primarily for portfolio, during the three months ended March 31, 2008, as compared to the three months ended March 31, 2007.

Occupancy and equipment expense increased \$23,000 (13%) to \$193,000 for the three months ended March 31, 2008, from the \$170,000 incurred during the three months ended March 31, 2007. The primary cause of the increase in occupancy and equipment expense was the increase in rent expense and real estate taxes as a result of the relocation of the Bank's main branch facility to 601 North Main Street, Port Chester, NY, from the previous location of 211 Irving Avenue, Port Chester, NY.

Legal expense increased \$50,000 (29%) to \$218,000 for the three months ended March 31, 2008, from \$168,000 for the three months ended March 31, 2007. This increase primarily results from the defense of lawsuits and the increase in expenses relating to the reporting requirements of the regulatory orders. Also, there was an increase of \$108,000 in FDIC insurance expense, which reflects both the increase in deposits and insurance rates.

Partly offsetting these increases in noninterest expenses was the reduction in advertising expense of \$82,000 from \$92,000 during the three months ended March 31, 2007 to \$10,000 for the three months ended March 31, 2008. This decrease reflects the Bank's decision to utilize print and local radio advertising versus the more expensive television advertising, which was used in 2007 when the Bank was initially introducing itself to the local market.

Loss on Average Equity and Average Assets

The loss on average equity for the three months ended March 31, 2008, was (13.4)%, compared to the loss on average equity of (23.0)% for the three months ended March 31, 2007. The loss on average assets for the three months ended March 31, 2008, was (1.6)%, compared to the loss on average assets of (5.94)% for the three months ended March 31, 2007.

Liquidity

The liquidity ratio is defined as the percentage of liquid assets to total assets. The following categories of assets in the accompanying balance sheet are considered liquid assets: cash and due from banks; federal funds sold and overnight investments; interest-bearing deposits; available for sale investments (which have not been pledged to secure municipal deposits or repurchase agreements); and loans held for sale. Liquidity is a measure of the Bank's ability to generate adequate cash to meet financial obligations. The principal cash requirements of a financial institution are to cover downward fluctuations in deposits and increases in its loan portfolio. In addition to the liquid assets on the balance sheet, the Bank has in place a \$5.0 million overnight secured line of credit with a correspondent bank and a \$1.0 million secured line of credit with the Federal Reserve Bank of New York to meet daily needs. No borrowings were made against either of these lines during the three months ended March 31, 2008.

Management believes that the Bank's short-term assets provide excess liquidity with liquid assets of approximately \$32.3 million (16.5% of total assets) at March 31, 2008, and \$28.3 million (16.7% of total assets) at December 31, 2007. The existing excess liquidity at March 31, 2008, will be used to fund new loans for both portfolio and sale, and to purchase investment securities to serve as collateral for municipal deposits and repurchase agreements, as well as to meet potential fluctuations in deposits. As the Bank begins to fund loans at higher rates than liquid assets, the liquidity ratio will be reduced to a targeted level of approximately 10% of total assets.

Capital

As of September 30, 2006, the most recent notification from the Federal Deposit Insurance Corporation and the NY Banking Department categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events that have occurred since then that management believes have changed the Bank's categorization. The Bank currently has no plans to raise additional capital.

The following table illustrates the Bank's regulatory capital ratios as of the dates indicated:

	March 31, 2008		December 31, 2007	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
	(Dollars in thousands)			
Total Capital to Risk-Weighted Assets	\$ 23,183	15.18%	\$ 23,704	18.21%
Tier 1 Capital to Risk-Weighted Assets	\$ 21,537	14.10%	\$ 22,283	17.12%
Tier 1 (Leverage) Capital to Average Assets	\$ 21,537	11.88%	\$ 22,283	13.21%

Capital adequacy is one of the most important factors used to determine the safety and soundness of individual banks. Based on the above ratios, the Bank meets the quantitative guidelines to be considered "well capitalized" under applicable regulations. To be considered

“well capitalized,” an institution must generally have a leverage capital ratio of at least 5%, a Tier 1 risk-based capital ratio of at least 6%, and a total risk-based ratio of at least 10%.

Market Risk

Market risk is defined as the sensitivity of income to fluctuations in interest rates, foreign exchange rates, equity prices, commodity prices and other market-driven rates or prices. Based on the nature of the Bank’s business, market risk is primarily limited to interest rate risk, defined as the impact of changing interest rates on current and future earnings.

The Bank’s goal is to maximize long-term profitability, while minimizing its exposure to interest rate fluctuations. The first priority is to structure and price the Bank’s assets and liabilities to maintain an acceptable interest rate spread, while reducing the net effect of changes in interest rates. In order to reach an acceptable interest rate spread, the Bank must generate loans and seek acceptable long-term investments to replace lower yielding balances in Federal funds sold. The focus also must be on maintaining a proper balance between the timing and volume of assets and liabilities re-pricing within the balance sheet. One method of achieving this balance is to originate variable rate loans for the portfolio to offset the short-term re-pricing of the liabilities. In fact, a number of interest-bearing deposit products have no contractual maturity. Customers may withdraw funds from their accounts at any time; deposit balances may therefore run off unexpectedly due to changing market conditions.

The exposure to interest rate risk is monitored by the Bank’s Senior Management and is reported to the Bank’s Asset and Liability Management Committee on a quarterly basis. Management reviews the interrelationships within the balance sheet to maximize net interest income within acceptable levels of risk.

Impact of Inflation and Changing Prices

The Bank’s consolidated financial statements have been prepared in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation. Unlike most individual companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution’s performance than the effect of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services. Notwithstanding this fact, inflation can directly affect the value of loan collateral, in particular, real estate. Inflation, or disinflation, could significantly affect the Bank’s earnings in future periods.

“Safe Harbor” Statement Under Private Securities Litigation Reform Act of 1995

Some of the statements under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Report on Form 10-Q may include forward-looking statements which reflect our current views with respect to future events and financial performance. Statements which include the words “expect,” “intend,” “plan,” “believe,” “project,” “anticipate” and similar statements of future or forward-looking nature identify forward-looking statements for purposes of the federal securities laws or otherwise. All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in these statements or that could adversely affect the holders of our common

stock. These factors include, but are not limited to, (1) changes in prevailing interest rates that would affect the interest earned on the Bank's interest-earning assets and interest paid on its interest-bearing liabilities, (2) the timing of re-pricing of the Bank's interest-earning assets and interest-bearing liabilities, (3) the effect of changes in governmental monetary policy, (4) the effect of changes in regulations applicable to the Bank and the conduct of its business, (5) changes in competition among financial service companies, including possible further encroachment of non-banks on services traditionally provided by banks and the impact of recently enacted federal legislation, (6) the ability of competitors which are larger than the Bank to provide products and services that are impractical for the Bank to provide, (7) the volatility of quarterly earnings, due in part to the variation in number, dollar volume, and profit realized from the brokering and sale of loans held for sale in different quarters, (8) the effect of the loss of any executive officer, key personnel, or director, (9) the effect of the Bank's opening branches and the receipt of regulatory approval to complete such actions, (10) the concentration of the Bank's business in its market area, (11) the concentration of the Bank's loan portfolio in commercial loans to small- and medium-sized businesses, which may be affected more severely than larger businesses during periods of economic weaknesses, and (12) the lack of seasoning in the Bank's loan portfolio, which may increase risk for future credit defaults. Other such factors may be described in other filings made by the Bank with the FDIC.

Although the Bank believes that it both offers the loan and deposit products and has the resources needed for success, future revenues and interest spreads and yields cannot be reliably predicted. These trends may cause the Bank to adjust its operations in the future. Because of the foregoing and other factors, recent results should not be considered reliable indicators of future financial results.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Bank is a "smaller reporting company" and, accordingly, is not required to provide the information required by this Item.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Based on an evaluation of the Bank's disclosure controls and procedures performed by its Chief Executive Officer and its Chief Financial Officer as of the end of the period covered by this report, the Bank's Chief Executive Officer and its Chief Financial Officer concluded that the Bank's disclosure controls and procedures have been effective during the period covered by this report.

As used herein, "disclosure controls and procedures" means controls and other procedures of the Bank that are designed to ensure that information, required to be disclosed by the Bank in the reports it files or submits under the Securities Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Bank in the reports it files or submits under the Securities Exchange Act is accumulated and communicated to the Bank's

management, including its principal executive officer or officers and its principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control over Financial Reporting

There have not been any material changes in the Bank's internal controls or in other factors that occurred during the quarter ended March 31, 2008, that have materially affected or are reasonably likely to materially affect the Bank's internal control over financial reporting.

Item 4T. Controls and Procedures

Not applicable.

**PART II
OTHER INFORMATION**

Item 1. Legal Proceedings

The information contained in Note 13 to the financial statements under “Legal Proceedings” included herein is hereby incorporated in response to this Item 1.

Item 1A. Risk Factors

Not applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the quarter ended March 31, 2008, the Bank had no unregistered sales of securities nor did it repurchase any of its Common Stock.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

On April 29, 2008, the Bank held its 2008 Annual Meeting of Stockholders. At the meeting, the stockholders voted on (i) the election of 10 directors of the Bank to hold office until the Annual Meeting of Stockholders in 2009 and until their successors are duly elected and qualified and (ii) a proposal to ratify the appointment of McGladrey & Pullen, LLP as independent auditor for the year ending December 31, 2008.

The stockholders voted in favor of the election of the following individuals to serve as directors and cast the number of votes set forth opposite the name of each in favor of, or withheld from voting on, such election:

Name	Number of Votes For	Number of Shares Withheld
Ronald J. Gentile	3,326,809	279,523
Fred A. DeCaro, Jr.	3,383,344	222,988
Gene R. Branca	3,337,754	268,578
Patrick A. DeAngelis	3,377,427	228,905
Fred A. DeCaro, III	3,409,027	197,305
John D. Filice	3,333,727	272,605
Rocco A. Magnotta	3,342,227	264,105
Frank Mioli	3,343,855	262,477
William D. Zeidenberg	3,343,727	262,605
Richard D. Zeisler	3,370,177	236,155

The stockholders voted to ratify the appointment of McGladrey & Pullen, LLP as independent auditor for the year ending December 31, 2008. The results of the voting were that 3,438,433 shares were voted in favor of the proposal, 114,199 shares were voted against the proposal, and 53,700 shares abstained from voting on the proposal.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibit No.	Description
31.1	Certification by Chief Executive Officer Pursuant to Rule 13a-14.
31.2	Certification by Chief Financial Officer Pursuant to Rule 13a-14.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

USA Bank

Date: May 14, 2008

/s/ Ronald J. Gentile

Name: Ronald J. Gentile
President and Chief Executive Officer

Date: May 14, 2008

/s/ Paul V. Erwin

Name: Paul V. Erwin
Senior Vice President and Chief Financial
Officer and Secretary

**CERTIFICATION
BY PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14**

I, Ronald J. Gentile, certify that:

1. I have reviewed this quarterly report on Form 10-Q of USA Bank;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Ronald J. Gentile

Name: Ronald J. Gentile
President and Chief Executive Officer
(Principal executive officer)

Date: May 14, 2008

**CERTIFICATION
BY PRINCIPAL FINANCIAL OFFICER
PURSUANT TO RULE 13a-14**

I, Paul V. Erwin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of USA Bank;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Paul V. Erwin

Name: Paul V. Erwin
Senior Vice President, Chief Financial Officer,
and Secretary
(Principal financial officer)

Date: May 14, 2008

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES–OXLEY ACT OF 2002

In connection with the Quarterly Report of USA BANK (the “*Bank*”) on Form 10-Q for the period ended March 31, 2008, as transmitted for filing with the Federal Deposit Insurance Corporation on the date hereof (the “*Report*”), I, Ronald J. Gentile, the Chief Executive Officer of the Bank, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

Date: May 14, 2008

/s/ Ronald J. Gentile

Name: Ronald J. Gentile

President and Chief Executive Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES–OXLEY ACT OF 2002

In connection with the Quarterly Report of USA BANK (the “*Bank*”) on Form 10-Q for the period ended March 31, 2008, as transmitted for filing with the Federal Deposit Insurance Corporation on the date hereof (the “*Report*”), I, Paul V. Erwin, the Chief Financial Officer of the Bank, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

Date: May 14, 2008

/s/ Paul V. Erwin

Name: Paul V. Erwin
Senior Vice President and Chief Financial
Officer and Secretary