



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

January 14, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Gratz National Bank
Charter Number 14301

Market Street
Gratz, PA 17030

Office of the Comptroller of the Currency

NORTHERN PENNSYLVANIA FIELD OFFICE
60 Public Square Suite 602
Wilkes-Barre, PA 18701

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory".

The major factors supporting the institution's rating include:

- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, assessment areas (AA), credit needs, and relevant competitive factors;
- A substantial majority of loans are originated inside the bank's AAs;
- The record of lending reflects satisfactory penetration to borrowers of different incomes; and
- The bank has not received any CRA-related consumer complaints since the last CRA examination.

SCOPE OF EXAMINATION

CRA activities for The Gratz National Bank (GNB) were completed using full-scope review procedures for its AAs. Our review covered the bank's performance from 1/1/2006 through 9/30/2008. Residential mortgages were determined to be the bank's primary loan product and were reviewed as part of this examination. GNB's lending to small businesses and small farms was also reviewed, although the bank's residential mortgage lending performance received more weight in our analysis.

DESCRIPTION OF INSTITUTION

The Gratz National Bank (GNB), founded in 1934, is an independent intrastate community bank located in central Pennsylvania. GNB is the only bank of the parent holding company, GNB Financial Services, Inc., headquartered in Gratz, PA. The bank had total assets of \$122 million as of September 30, 2008. The bank has three offices: the main office in Gratz (upper Dauphin County), a branch in Valley View (western Schuylkill County), and a branch in Herndon (lower Northumberland county). GNB is a full-service retail bank serving three contiguous counties. All offices have drive-up facilities with Saturday hours and extended hours on Thursday and Friday. There are extended lobby hours on Friday. Automated teller machines (ATM) are located at all three branch locations. GNB's primary competition is from Mid Penn Bank and Susquehanna Bank PA. The asset size and branch network of each of these competitors are considerably larger than GNB.

As of September 30, 2008, GNB reported \$84 million in net loans and \$100 million in total deposits. Net loans represent 69% of total assets. Major loan products include fixed rate residential mortgages, small agricultural loans, and small commercial loans. The primary lending product is residential mortgage loans, which was the primary

business focus of the bank during a majority of the evaluation period. Residential real estate loans represent 56% of the loan portfolio, followed by commercial loans at 24%, small agricultural loans at 18%, and consumer loans at two percent. Net Tier 1 Capital was \$15 million as of that same date.

According to the June 30, 2008 FDIC Summary of Deposits Market Share Report, GNB ranked 20th out of 30 institutions in the Harrisburg-Carlisle, PA MSA with 0.83% of deposits. Manufacturers and Traders Trust Company ranked first with 31 offices and 12.82% of the deposits. Other financial institutions include PNC Bank N.A., in second place, with 25 offices and 12.60% of the deposits, and Commerce Bank Harrisburg N.A., ranked third with 17 offices and 11.11% of the deposits. In Schuylkill County, GNB ranked 13th out of 20 institutions with 1.36% of the deposits. Wachovia Bank ranked first with eight offices and 21.37% of the market share, and Manufacturers and Traders Trust Company, in second place, with 12 offices in the county and 17.53% of the deposits. In Northumberland County, GNB ranked 17th out of 18 institutions with 0.04% of the deposits. Susquehanna Bank PA ranked first in this county with eight offices and 23.08% of the deposits, and Northumberland National Bank ranked second with three offices and 16.63% of the deposits.

GNB's last Public Evaluation (PE) was dated October 19, 2004 and the overall CRA rating assigned was "Satisfactory". The Herndon branch was the only branch opened or closed since the last PE.

DESCRIPTION OF ASSESSMENT AREA(S)

GNB has two assessment areas (AAs). These AAs meet regulatory requirements and do not arbitrarily exclude low- or moderate-income geographies.

The first AA includes seven census tracts (CTs) in the Harrisburg-Carlisle MSA (MSA 25420). All of the CTs are located in upper Dauphin County. Based on 2000 census data, GNB's AA includes two moderate-income CTs (29%) and five middle-income CTs (71%). There are no low- or upper-income tracts in the AA. The total population in this AA is 26,272 and the median cost of housing in the AA is \$79,570. The percentage of households below the poverty level is nine percent. The AA's population was comprised of 7,474 families with the following family income distribution: 21.66% are low-income, 23.88% are moderate-income, 27.96% are middle-income, and 26.50% are upper-income. The HUD updated median family income for 2008 is \$65,600.

Gratz - Harrisburg-Carlisle MSA (MSA 25420)

Demographic Information for Full Scope Area: Gratz - Harrisburg-Carlisle MSA (MSA 25420)						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	7	0.00	28.57	71.43	0.00	0.00
Population by Geography	26,272	0.00	21.59	78.41	0.00	0.00
Owner-Occupied Housing by Geography	8,050	0.00	22.78	77.22	0.00	0.00
Business by Geography	1,472	0.00	14.81	85.19	0.00	0.00
Farms by Geography	109	0.00	3.67	96.33	0.00	0.00
Family Distribution by Income Level	7,474	21.66	23.88	27.96	26.50	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	3,404	0.00	25.09	74.91	0.00	0.00
Median Family Income HUD Adjusted Median Family Income for 2008 Households Below Poverty Level		52,829 65,600 9%	Median Housing Value Unemployment Rate (2000 US Census)		79,570 2.07%	

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2000 US Census and 2008 HUD updated MFI

The second AA includes four CTs in Schuylkill County and one CT in Northumberland County. These are non-metropolitan areas (non-MSA). Based on 2000 Census Data, all of the CTs in the non-MSA AA are middle-income. The total population in the non-MSA AA is 19,467 and the median cost of housing is \$68,001. The percentage of households below the poverty level is eight percent. The non-MSA population is comprised of 5,361 families with the following family income distribution: 16% are low-income, 20% are moderate-income, 27% are middle-income, and 37% are upper-income. The HUD updated median family income for 2008 is \$49,800.

Gratz - NON MSA AA

Demographic Information for Full Scope Area: Gratz NON MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	5	0.00	0.00	100.00	0.00	0.00
Population by Geography	19,467	0.00	0.00	100.00	0.00	0.00
Owner-Occupied Housing by Geography	6,182	0.00	0.00	100.00	0.00	0.00
Business by Geography	875	0.00	0.00	100.00	0.00	0.00
Farms by Geography	75	0.00	0.00	100.00	0.00	0.00
Family Distribution by Income Level	5,361	16.06	19.88	27.49	36.56	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	1,927	0.00	0.00	100.00	0.00	0.00
Median Family Income HUD Adjusted Median Family Income for 2008 Households Below Poverty Level		41,475 49,800 8%	Median Housing Value Unemployment Rate (2000 US Census)		68,001 1.70%	

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2000 US Census and 2008 HUD updated MFI

As of September 30, 2008 the Pennsylvania average state unemployment rate was 5.7%. The Harrisburg-Carlisle MSA rate was below the state average at 4.6%. Both Northumberland and Schuylkill Counties were below the state average, with both county averages at five percent, according to year-end 2007 data.

The major employees in Dauphin County are the Commonwealth of Pennsylvania, Hershey Foods, PinnacleHealth, Penn State Hershey Medical Center, Tyco, Penn State, and Capital Blue Cross. The major employees in Northumberland County are Weis Markets, county government, and ConAgra Foods. The major employees in Schuylkill County are Pennsylvania State Government, Alcoa Extrusions Inc., Good Samaritan Regional, Pottsville Hospital, and Lowe's Home Center's Inc.

In 2007, 119 lenders originated HMDA loans in the MSA AA, according to HMDA Peer Mortgage Data. GNB ranked eighth in the MSA AA with a market share of 3.67%. Community Banks ranked first with a market share of 14.32%. Mid Penn Bank ranked second with a market share of 6.39%. Of the 95 lenders that originated HMDA loans in the non-MSA AA, GNB ranked first with a market share 13.56%. Community Banks ranked second with a market share of 12.20%.

A community contact was made with a local official. Due to the rural nature of the area, housing development and community development opportunities are limited. The contact could not identify unmet credit needs, as financial institutions were perceived as being able to meet the various credit needs in the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance is "Satisfactory". The evaluation period covered lending activity for home mortgage loans (purchase money, refinance, and home improvement loans) reported under the Home Mortgage Disclosure Act (HMDA) from January 1, 2006 to September 30, 2008. The bank's lending activity to small businesses and small farms was also reviewed.

Loan-to-Deposit Ratio

GNB's loan-to-deposit (LTD) ratio is satisfactory. The ratio is reasonable, meeting the standard for satisfactory performance. We reviewed the quarterly average LTD ratios for the 17 quarters beginning September 30, 2004 through September 30, 2008, inclusive. The bank's average LTD ratio during this period was 82%. GNB's LTD ratio ranks fifth among the bank's peer group. During this 17 quarter period, the bank's LTD ranged from a low of 78% and a high of 84%. The custom peer average was 76%, with average peer bank ratios ranging from 51% to 93%.

Lending in Assessment Area

The bank's lending in their overall AA is excellent. A substantial majority of GNB's loan

products were originated within the bank’s AA, meeting the standard for outstanding performance. During the evaluation period, 97% of the total home mortgage loans, small business loans and small farm loans were within the bank’s AA.

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

GNB’s borrower distribution is satisfactory. The bank’s record of lending reflects excellent penetration to borrowers of different incomes, meeting the standard for outstanding performance.

In the Harrisburg-Carlisle MSA AA, the level of home mortgage loans originated to low-income borrowers meets the percentage of low-income families. When considering the affordability in of housing in the AA, this performance is satisfactory. The median cost of housing in the AA is \$79,570 based on 2000 census data. The HUD updated median family income for 2008 is \$65,600.

The percentage of loans made to moderate-income borrowers significantly exceeds the percentage of moderate-income families in the MSA AA. This performance is excellent. Please refer to Table 2A.

Table 2A - Borrower Distribution of Residential Real Estate Loans in MSA AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	21.66	17.02	23.88	55.32	27.96	14.89	26.49	12.77
Home Refinance	21.66	26.92	23.88	32.69	27.96	26.92	26.49	13.46
Home Improvement	21.66	16.95	23.88	40.68	27.96	40.68	26.49	1.69

In the Non-MSA AA, the level of home mortgage loans originated to low-income borrowers is slightly less than the percentage of low-income families in the AA. However, when considering the affordability of housing in the AA, this performance is satisfactory. The median cost of housing in the AA is \$68,001, based on 2000 census data. The HUD updated median family income for 2008 is \$49,800. This means that a low-income person earns less than \$24,900. Based on these statistics, it would be difficult for a low-income person to purchase housing in this AA.

The percentage of loans made to moderate-income borrowers meets the percentage of moderate-income families in the Non-MSA AA. This performance is satisfactory. Please refer to Table 2B.

Table 2B - Borrower Distribution of Residential Real Estate Loans in Non-MSA AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	16.06	10.45	19.88	16.42	27.49	28.36	36.56	44.78
Home Refinance	16.06	11.90	19.88	23.81	27.49	30.95	36.56	33.33
Home Improvement	16.06	7.69	19.88	20.88	27.49	41.76	36.56	29.67

In both the MSA AA and the Non-MSA AA, the level of small business loans originated to businesses with less than \$1,000,000 in revenues exceeded the percentage of business with revenues of less than \$1,000,000. Please refer to Tables 2C and 2D.

Table 2C - Borrower Distribution of Loans to Businesses in MSA AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	64.33	4.82	30.85	100%
% of Bank Loans in AA by #	100	0	0	100%
% of Bank Loans in AA by \$	100	0	0	100%

Table 2D - Borrower Distribution of Loans to Businesses in Non-MSA AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	65.83	4.34	29.83	100%
% of Bank Loans in AA by #	100	0	0	100%
% of Bank Loans in AA by \$	100	0	0	100%

In both the MSA AA and the Non-MSA AA, the level of farm loans originated to farms with less than \$1,000,000 in revenues exceeded the percentage of farms with revenues of less than \$1,000,000. Please refer to Tables 2E and 2F.

Table 2E - Borrower Distribution of Loans to Farms in MSA AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	98.17	1.83	0	100%
% of Bank Loans in AA by #	100	0	0	100%
% of Bank Loans in AA by \$	100	0	0	100%

Table 2F - Borrower Distribution of Loans to Farms in Non-MSA AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	97.33	1.33	1.33	100%
% of Bank Loans in AA by #	100	0	0	100%
% of Bank Loans in AA by \$	100	0	0	100%

Geographic Distribution of Loans

The geographic distribution of loans in the MSA AA needs to improve. The geographic distribution reflects poor dispersion throughout this AA. There are no lower- or upper-income geographies in the AA. However, there are two moderate-income geographies and five middle-income geographies in the AA. The bank’s Non-MSA AA consists of five middle-income geographies; therefore a geographical analysis on this area is not meaningful.

The level of home mortgage loans, small business loans, and small farm loans originated within moderate-income geographies are substantially less than the percentage of AA owner occupied housing in these geographies. Lending opportunities for GNB in these moderate-income tracts has been limited due to the interest rate competition with several of the other community banks in the MSA AA. Please refer to Tables 3A and 3B.

Table 3A - Geographic Distribution of Residential Real Estate Loans in MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0	0	22.78	6.38	77.22	93.62	0	0
Home Refinance	0	0	22.78	7.69	77.22	92.31	0	0
Home Improvement	0	0	22.78	6.78	77.22	93.22	0	0

Table 3B - Geographic Distribution of Loans to Businesses/Farms in MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Small Business Loans	0	0	14.81	0	85.19	100	0	0
Small Farm Loans	0	0	3.67	0	96.33	100	0	0

Responses to Complaints

The bank has not received any CRA-related consumer complaints since the last CRA examination.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.