
Comptroller of the Currency
Administrator of National Banks

Northeastern District
1114 Avenue of the Americas, Suite 3900
New York, New York 10036

PUBLIC DISCLOSURE

November 12, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Gratz National Bank
Charter Number: 14301
Market Street, P.O. Box 159
Gratz, Pennsylvania 17030**

**Office of the Comptroller of the Currency
Northeastern Pennsylvania Duty Station
100 Hazle Street, Suite 202
Wilkes-Barre, Pennsylvania 18702**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **The Gratz National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of November 12, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated Outstanding.

The primary factors supporting the bank's overall rating include:

- The average loan to deposit ratio is reasonable at 64%;
- A significant majority of Home Mortgage Disclosure Act (HMDA) reportable loans, consumer loans, and commercial credits originated during the examination period are in the bank's assessment area;
- Loans originated in the assessment area show a good penetration of geographies with different income characteristics;
- The record of lending to individuals of different income levels is good; and
- Lending to small businesses is strong.

The following table indicates the performance level of The Gratz National Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>The Gratz National Bank</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to businesses of Different sizes	X		
Geographic Distribution of Loans	X		
Response to Complaints	No complaints received since the prior examination.		

DESCRIPTION OF INSTITUTION

The Gratz National Bank (GNB) is a \$43 million independent institution situated in central Pennsylvania. The bank operates two full service offices located in northern Dauphin County and western Schuylkill County. The Schuylkill County office opened in October of 1996. Major competitors include several local community banks.

Primary loan products include fixed rate residential mortgages, small business and agricultural loans, and consumer installment loans. The loan portfolio represents 56% of total assets. A breakdown of the portfolio as of September 30, 1996 is as follows: 60% residential mortgages, 20% commercial loans, 12% agricultural credits, and 8% consumer installment loans. There are no legal or financial impediments which would hinder the bank's ability to help meet the credit needs of its community.

DESCRIPTION OF ASSESSMENT AREA

GNB's assessment area meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income areas. The assessment area includes 15 census tracts and block numbering areas (BNAs) in portions of Dauphin, Perry, Schuylkill, and Northumberland counties. The population of the assessment area is approximately 59,000. Eighteen percent of the families residing in the assessment area are low-income, twenty-two percent are moderate-income, thirty percent are middle-income, and thirty percent are upper-income families. Seventy-five percent of the housing units in the assessment area are owner occupied, which is in line with the bank's lending pattern.

The census tracts in Dauphin and Perry Counties are part of the Harrisburg-Lebanon-Carlisle Metropolitan Statistical Area (MSA). The income levels of the eight census tracts in this MSA include one moderate- and seven middle-income tracts. The median family income of this MSA is \$43,400. There are four BNAs in Schuylkill County and three BNAs in Northumberland County. These counties are non-MSA areas. One is a moderate-income BNA and six are middle-income BNAs. The statewide non-metropolitan median family income of \$32,800 applies to these areas.

Employment in this area is centered in manufacturing and farming. However, most residents travel outside the area for work where opportunities exist in government employment due to the close proximity to Harrisburg.

Credit needs of the community were determined during this examination by reviewing local community contacts made by other regulatory agencies. These contacts indicate that the primary need of the local community is not access to affordable housing or any particular type of credit but for business growth and expansion in order to create new jobs in the area. Management has also identified this need and has helped to meet this need in its assessment area through lending to small businesses.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Please note that for purposes of this report the examination period covers lending activity from January 1, 1994 through September 30, 1996.

Loan to Deposit Ratio

The average loan to deposit ratio of 64%, which was calculated over the past eight quarters, is reasonable. This ratio has remained stable and is similar to both local and national peer banks which have average ratios of 67% and 64%, respectively.

Lending in Assessment Area

We analyzed the bank's record of lending in their assessment area using a sample of information on the HMDA Loan Application Register (HMDA-LAR), a bank generated report on commercial and agricultural lending, and a sample of consumer loans. The sample of HMDA loans included 75% of the mortgage files originated during each year in the examination period and the consumer loan sample included 50% of the originations for 1996. One hundred percent of commercial and agricultural loan originations during 1996 were used for this analysis. The following tables demonstrate GNB's excellent record of lending in their assessment area.

HMDA Reportable Loan Originations During Examination Period						
	1996		1995		1994	
	# of Lns	%	# of Lns	%	# of Lns	%
Inside Assessment Area	48	100	42	98	46	92
Outside Assessment Area	0	0	1	2	4	8

Consumer and Commercial Loan Originations 1996								
	Inside Assessment Area				Outside Assessment Area			
	#	%	\$ (000)	%	#	%	\$ (000)	%
Consumer Loans	86	98	858	95	2	2	42	5

Commercial and Farm Loans	77	99	4,501	96	1	1	170	4
----------------------------------	-----------	-----------	--------------	-----------	----------	----------	------------	----------

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The bank's record of lending to borrowers of different income levels was evaluated using all originations on the 1994, 1995, and 1996 HMDA-LARs and the same sample of consumer loans used above. Our consumer loan review shows that 21% of the originations were made to low-income borrowers, 20% to moderate-income borrowers, 20% to middle-income borrowers, and 9% to upper-income borrowers. In 30% of our sample the income was not available. This reflects GNB's strong record of lending to borrowers of different income levels. The following table shows that GNB's volume of mortgage lending is also representative of the demographic composition of the assessment area.

HMDA Reportable Loan Originations by Level of Borrower Income							
Income Category	1996		1995		1994		% of Families Within Assessment Area
	# of Originations	%	# of Originations	%	# of Originations	%	
Low	4	6	4	7	7	10	18
Moderate	12	19	9	15	14	21	22
Middle	21	33	19	33	28	42	30
Upper	27	42	26	45	18	27	30
Total	64	100	58	100	67	100	100

GNB is very responsive to the credit needs of small businesses and small farms in its community. We used a bank generated report detailing commercial and agricultural loan originations during 1996 to evaluate the bank's record of lending to small businesses. The report showed that 100% of the commercial and agricultural loans were made to small businesses and small farms. During 1996, \$3.5 million in small business loans and \$1.1 million in small farm loans have been originated.

Geographic Distribution of Loans

We reviewed the geographic distribution of the bank's lending using a sample of 1994, 1995, and 1996 HMDA reportable loan originations, all 1996 commercial and agricultural loan originations, and a sample of 1996 consumer loan originations. The same loan samples used to evaluate lending in the assessment area were also used for this analysis. We also reviewed a bank generated report which shows the geographic distribution of total loans and deposits. The most recent report dated August 31, 1996 shows that 12% of total loans are in moderate-income areas and 88% are in middle-income areas. A majority of the census tracts and BNAs in the assessment area are middle-income, with no low- or upper-income areas and only two moderate-income tracts. The following tables show that GNB has a very good record of lending in geographies with various income characteristics.

HMDA Reportable Loan Originations by Census Tract/BNA Characteristic During Examination Period						
Census Tract/BNA Characteristic	# of Loans	%	\$ Amount (000s)	%	Census Tracts/BNAs within Assessment Area	% of Total Census Tracts/BNAs
Low	0	0	0	0	0	0
Moderate	45	33	2,172	30	2	13
Middle	91	67	5,004	70	13	87
Upper	0	0	0	0	0	0
Total	136	100	7,176	100	15	100

Consumer and Commercial Loan Originations by Census Tract/BNA Characteristic 1996									
Census Tract/BNA Characteristic	Consumer Loans				Commercial and Farm Lns				Census Tracts within Assessment Area
	#	%	\$ (000)	%	#	%	\$ (000)	%	
Low	0	0	0	0	0	0	0	0	0
Moderate	9	10	68	8	7	9	307	7	2
Middle	77	90	790	92	70	91	4,194	93	13

Upper	0	0	0	0	0	0	0	0	0
Total	86	100	858	100	77	100	4,501	100	15

Compliance with Antidiscrimination Laws

No violations of antidiscrimination laws and regulations were noted during the concurrent fair lending examination.

CONCLUSIONS WITH RESPECT TO PERFORMANCE IN METROPOLITAN STATISTICAL AREAS (MSA) AND NON-METROPOLITAN STATISTICAL AREAS (NON-MSA)

GNB’s assessment area consists of a portion of the Harrisburg-Lebanon-Carlisle MSA (MSA 3240) and non-MSA areas in Schuylkill and Northumberland Counties. A summary of the bank’s performance in each of these areas is provided below.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MSA 3240

GNB defines its assessment area within the Harrisburg-Lebanon-Carlisle MSA as seven census tracts in Dauphin County and one census tract in Perry County. The bank operates one full service office in northern Dauphin County.

GNB’s performance in this portion of the assessment area is similar to the overall performance of the bank. Our analysis shows that a majority of HMDA reportable loan originations in the assessment area (56%) were in this MSA during the examination period. Our review of consumer lending shows that 30% of 1996 originations in the MSA were to low-income borrowers, 30% were to moderate-income borrowers, 15% were to middle-income borrowers, and 5% were to upper-income borrowers. In 20% of the sample, income information was not available. This shows an excellent penetration of lending to different income levels. During the examination period, the bank’s record of mortgage lending to borrowers of different income levels in this MSA is also very good, as depicted in the following table.

HMDA Reportable Loan Originations by Level of Borrower Income For MSA 3240							
Income Category	1996		1995		1994		% of Families Within Assessmen t Area in MSA 3240
	# of Originations	%	# of Originations	%	# of Originations	%	
Low	1	5	4	19	5	17	19
Moderate	3	14	4	19	9	30	23
Middle	5	24	5	24	13	43	31
Upper	12	57	8	38	3	10	27
Total	21	100	21	100	30	100	100

The bank's assessment area in this MSA consists of one moderate-income and seven middle-income census tracts. In this MSA, the geographic distribution of HMDA and consumer loan originations during the examination period exceeds expected results based on the census tract characteristics of this portion of the assessment area. Fifty-nine percent by number of HMDA originations are in moderate-income tracts and forty-one percent are in middle-income tracts. Our consumer loan analysis revealed that 45% of 1996 originations are in moderate-income tracts and 55% are in middle-income tracts. A bank generated report on commercial and agricultural lending shows that 13% of 1996 originations are in moderate-income tracts and 87% are in middle-income tracts.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN SCHUYLKILL AND NORTHUMBERLAND COUNTIES

GNB includes seven BNAs in Schuylkill and Northumberland Counties (non-MSA) in its assessment area. The bank operates one full service office in western Schuylkill County.

GNB's performance in this portion of the assessment area is similar to the bank's overall performance. During the examination period, 44% of the HMDA reportable loan originations in the assessment area were in Schuylkill and Northumberland Counties. Our review of consumer lending shows that 18% of 1996 originations in these non-MSA areas were to low-income borrowers, 17% were to moderate-income borrowers, 21% were to middle-income borrowers, and 11% were to upper-income borrowers. In 33% of this sample, income information was not available. This reflects a very good record of lending to borrowers of different income levels. During the examination period, the bank's record of mortgage lending to borrowers of different income levels in the non-MSA areas is good, as depicted in the following table.

HMDA Reportable Loan Originations by Level of Borrower Income For Non-MSA Areas							
Income Category	1996		1995		1994		% of Families in Non- MSA Areas
	# of Originations	%	# of Originations	%	# of Originations	%	
Low	3	7	0	0	2	5	17
Moderate	9	21	5	13	5	13	21
Middle	16	37	14	38	15	41	28
Upper	15	35	18	49	15	41	34
Total	43	100	37	100	37	100	100

The bank's assessment area in this non-MSA area consists of one moderate-income and six middle-income BNAs. Our analysis of the geographic distribution of HMDA, consumer, and commercial loan originations during the examination period shows that all the originations in this area are in middle-income areas. The moderate income BNA is located at the northern edge of the assessment area. These results are reasonable because of this BNA's distance from Gratz and other bank competition in that area.