



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

April 18, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Port Allegany
Charter Number 3877**

**64 Main Street
Port Allegany, PA 16743**

**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 overall rating is based on the following factors:

- The bank's loan-to-deposit ratio meets the standard for satisfactory performance.
- A substantial majority of the bank's loans are originated in its assessment area (AA).
- The bank's record of lending to borrowers of different income levels meets the standard for satisfactory performance.
- The bank has had no consumer complaints regarding its community reinvestment performance.

DESCRIPTION OF INSTITUTION

The First National Bank of Port Allegany (FNBPA) is an independent intrastate community bank, founded in 1888, with its main office located in Port Allegany, Pennsylvania. FNBPA is located in a rural section of northwestern Pennsylvania, at the easternmost border of McKean County. FNBPA had total assets of \$94 million at December 31, 2004.

FNBPA is a full service bank operating from three branches. The main office in Port Allegany offers daily hours from 8:30 am to 3:00 pm. The Port Allegany Lillibridge Plaza branch keeps daily lobby and drive-in hours from 11:30 am to 5:30 pm, and Saturday hours from 10:00 am until noon. The Coudersport branch has similar hours as the main office, but provides extended hours on Fridays until 4:00 pm. Coudersport's drive-up facility has extended hours on Fridays until 6:00 pm, and opens at 8:30 am until noon on Saturdays. Automated Teller Machines (ATMs) are located at both the Lillibridge Plaza and Coudersport offices.

FNBPA's primary competitors are: Citizens Trust Company, Hamlin Bank & Trust Company, and Northwestern Savings Bank. Citizens Trust Company is headquartered in Coudersport, about 17 miles east of Port Allegany. Hamlin Bank & Trust Company is headquartered in Smethport, about 9 miles west of Port Allegany. A branch of Northwestern Savings Bank (a \$5.8 billion dollar regional bank headquartered in Warren, Pennsylvania with 147 offices in Pennsylvania, Ohio, and New York) also competes with FNBPA. Both the asset size and branch network of each of these competitors is larger than FNBPA.

At December 31, 2004, FNBPA reported \$51 million in net loans and \$69 million in total

deposits. Net loans represent 54% of total assets. Major loan products include fixed rate residential mortgages, commercial loans, and consumer loans. The bank's primary lending product is residential mortgage loans. Residential real estate loans represent 66% of the loan portfolio, followed by commercial loans at 28% and consumer installment loans at 6%. Net Tier 1 Capital totaled \$8 million at December 31, 2004.

FNBPA is very community-oriented with a conservative lending philosophy. The bank maintains a website that offers information on branch hours of service, bank products offered, and current interest rates and fees. Internet banking and on-line bill payment services are also available. The bank offers Personal Free Checking to recipients of social security checks, active military personnel, and college students. This account requires no minimum balance or monthly fees, unlimited check writing, and free standard replacement checks. FNBPA offers a variety of mortgage and consumer products. Unlike many of its competitors, the bank has made its niche in the community by offering non-conforming residential mortgages. FNBPA does not have any legal or financial condition restrictions that would impede its ability to help meet the credit needs of the communities it serves.

According to the June 30, 2004 FDIC/OTS Summary of Deposits Market Share Report, FNBPA ranked 6th out of 7 financial institutions operating within McKean County by generating 9.21% of the County's total deposits. Hamlin Bank & Trust Company ranked first with 46.26% of the deposits. Other financial institutions include Northwestern Savings Bank in second place with 24.62% of the deposits, and National City Bank of PA ranked third with 9.48% of the deposits.

FNBPA ranked 4th out of 4 institutions in Potter County with 4.33% of that county's deposits. Northwestern Savings Bank ranked first with 35.28% of the deposits. Other financial institutions include Citizens Trust Company in second place with 30.31% of the deposits, and First Citizens National Bank ranking third with 30.08% of the total deposits.

The CRA evaluation period for the Lending Test is January 1, 2002 to December 31, 2004. FNBPA operates solely in a non-MSA and therefore the bank is not defined as a Home Mortgage Disclosure Act (HMDA) reporter. After discussions with bank personnel and a review of financial information, we determined that home mortgage loans were FNBPA's primary lending product. For sampling purposes, we reviewed the bank's monthly Home Loan Activity reports of loan originations from January 1, 2002 through December 31, 2004. The Lending Test focused on the bank's primary lending products, which based on our review of loans originated during this time period, are both home purchase and home refinance mortgage loans. Our analysis is based on a sample of 60 home mortgage loans originated during the evaluation period.

FNBPA's previous Public Evaluation (PE) was dated November 1, 1999 and the overall CRA rating assigned was **Satisfactory**. Since the prior CRA evaluation, FNBPA has not opened or closed any branch offices.

DESCRIPTION OF ASSESSMENT AREA

FNBPA's Assessment Area (AA) includes three block-numbering areas (BNAs) in eastern McKean County and three (BNAs) in western Potter County, based on the pre-2004 MSA changes. This area is a non-metropolitan area (non-MSA). The AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies.

The Census 2000, and changes to MSA boundaries in 2004, requires regulators to evaluate loans originated in 2002, 2003, and 2004 under separate demographic comparators.

Year of Loan Activity	Census Demographics	MSA Boundaries
2002 and prior	1990	Old Boundaries
2003	2000	Old Boundaries
2004	2000	New Boundaries

Based on 1990 Census data, FNBPA's AA included six middle-income BNAs (100%). There are no low- or moderate-income BNAs in the non-MSA AA. The total population in the AA is 25,265 and is comprised of 7,011 families with the following family income distribution: low-income (21%), moderate-income (20%), middle-income (25%), and upper-income (34%). The Updated Median Family Income for 2002 is \$41,100 and the median cost of housing in the AA is \$39,931. The percentage of households below the poverty level is 14%.

In 2004, The Office of Management and Budget (OMB) redefined some MSA AA boundaries. FNBPA's non-MSA AA boundaries did not change. Therefore, 2003 and 2004 loan data are combined for analysis purposes. *Based on 2000 Census data*, the AA includes six middle-income census tracts. There were no low- or moderate-income census tracts in the non-MSA AA. The total population in the AA is 25,927 and is comprised of 7,190 families with the following family income distribution: low-income (19%), moderate-income (19%), middle-income (25%), and upper-income (37%). The Updated Median Family Income for 2004 is \$47,400 and the median cost of housing in the AA is \$63,012. The percentage of households below the poverty level declined to 11%.

As of December 31, 2004, the Pennsylvania seasonally adjusted average state unemployment rate is 5.1%. McKean and Potter Counties fall above the state average at 6.7% and 7.7%, respectively. The AA is rural with small towns and villages throughout. The major employers in McKean and Potter Counties are Zippo Manufacturing Company, Bradford and Charles Cole Memorial Hospitals, and Morris Compressors, Inc. School districts and local, state and federal government also provide considerable employment opportunities. The majority of local residents work in Port Allegany at St.

Gorbain Containers, LLC and Pittsburgh Corning Corp.

Based on the most recent HMDA Peer Mortgage Data, 1,342 lenders originated HMDA loans in the non-MSA AA. Beneficial Corporation ranked first with a 17% market share. Northwest Savings Bank ranked second at 13%. If FNBPA were a HMDA reporter, they would be ranked between these two institutions in the non-MSA AA based on the number of mortgage loans originated.

Community Contact

Credit needs of the community were determined during this examination by contacting the head of a local revitalization group. This individual described the AA as having a declining economy. There is a need to modernize Port Allegany to attract and maintain business downtown that will draw customers from areas outside of Port Allegany. This individual's group was formed to procure funding for various revitalization projects. FNBPA has been involved and supportive of the contact's revitalization efforts since inception. The contact described FNBPA as a local community bank with a good rapport with customers and a focus on locality. This individual indicated that affordable housing needs are being met in the community. The contact could not identify unmet credit needs, as financial institutions are perceived as being able to meet the various credit needs in the community.

During the evaluation period, FNBPA participated in the funding of three community development loans to the Potter County Housing & Redevelopment Authority. Funds advanced were used to purchase and revitalize existing housing for low- and moderate-income individuals, including the elderly.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The evaluation period covered lending activity for home purchase and refinance mortgages originated from January 1, 2002 through December 31, 2004.

Loan-to-Deposit Ratio

An analysis of FNBPA's Loan-to-Deposit ratio from the first quarter of 2002 through the fourth quarter of 2004 reveals the bank meets the standards for Satisfactory performance. The bank's average Loan-to-Deposit ratio for these 12 quarters was 74%, ranging from 71% to 75%. This ratio is reasonable given the bank's size, financial condition, and AA needs. It is above the average quarterly ratios of similarly situated banks in Pennsylvania of similar asset size. The peer average was 72%, with a range for the period between 68% and 77%. The peer consisted of Pennsylvania banks with total assets between \$50 million and \$100 million.

Lending in Assessment Area

A substantial majority of the home purchase and home refinance loans originated by FNBPA during the evaluation period were within the AA. FNBPA exceeds the standards for satisfactory performance for lending in their AA. An analysis of the sampled data from both evaluation periods disclosed that 85% and 90% (by number of loans) were originated in the AA.

The following tables analyze the distribution of home mortgage loans originated inside and outside of the bank's AA.

HOME MORTGAGE LOANS ORIGINATED DURING EVALUATION PERIOD 01/01/02 THROUGH 12/31/02				
	INSIDE ASSESSMENT AREAS		OUTSIDE ASSESSMENT AREAS	
	# Loans	\$(000)	# Loans	\$(000)
Home Purchase	8	633	2	75
Home Refinance	9	482	1	84
Home Improvement	0	0	0	0
Multifamily	0	0	0	0
Total Loans	17	1,115	3	159
Percentage	85%	88%	15%	12%

Source: 2002 FNBPA SAMPLE

HOME MORTGAGE LOANS ORIGINATED DURING EVALUATION PERIOD 01/01/03 THROUGH 12/31/2004				
	INSIDE ASSESSMENT AREAS		OUTSIDE ASSESSMENT AREAS	
	# Loans	\$(000)	# Loans	\$(000)
Home Purchase	8	472	2	65
Home Refinance	10	803	0	0
Home Improvement	0	0	0	0
Manufactured	0	0	0	0
Multifamily	0	0	0	0
Total Loans	18	1,275	2	65
Percentage	90%	95%	10%	5%

Source: 2003 - 2004 FNBPA SAMPLE

Lending to Borrowers of Different Income Levels

FNBPA's record of lending to borrowers of different income levels meets the standard for Satisfactory performance. *Based on the 1990 Census Data*, the number of home mortgage loans originated to low-income borrowers living in the non-MSA AA is less than the percentage of low-income families residing in the non-MSA AA. The level of home mortgage loans originated to moderate-income borrowers in the non-MSA AA is also less than the percentage of moderate-income families. Home ownership is difficult for low-income individuals to afford. The high level of poverty (14% of households are below the poverty level) attests to this observation. The low volume of owner occupied housing units (54%) also supports this conclusion.

Based on 2000 Census Data, the disparity widens when comparing the level of home mortgage loans originated to low-income borrowers in the non-MSA AA to the percentage of low-income families for the non-MSA AA. The level of home mortgage loans originated to moderate-income borrowers in the non-MSA AA is also well below the percentage of moderate-income families. Considering the affordability of housing in the non-MSA AA, this performance is satisfactory. The median cost of housing increased 58% from \$39,931 to \$63,012 based on 2000 U.S. Census data. The HUD updated median family income only increased 15% for 2003 to \$47,400. This means that a low-income person earns less than \$23,700 in the non-MSA AA. Based on these statistics, it would be difficult for a low-income individual to purchase housing in the non-MSA AA. Home ownership is also difficult for low-income individuals because of the high level of poverty (11% of households are below the poverty level). The low volume of owner occupied housing units (56%) also supports this conclusion.

The following tables are an analysis of the distribution of home mortgage loans by borrower income level.

Borrower Distribution of Home Mortgage Loans Non-MSA AA (McKean and Potter Counties) 01/01/02 THROUGH 12/31/02					
Income Level	# of Loans	% of Loans	\$ (000) of Loans	% of \$ of Loans	Income Level of Families in AA
Low	3	15%	110	9%	21%
Moderate	2	10%	90	7%	20%
Middle	5	25%	256	20%	25%
Upper	10	50%	819	64%	34%
Total	20	100.00%	1,275	100.00%	100.00%

Source: 2002 FNBPA SAMPLE/1990 Census Data

Borrower Distribution of Home Mortgage Loans

Non-MSA AA (McKean and Potter Counties) 01/01/03 THROUGH 12/31/04					
Income Level	# of Loans	% of Loans	\$ (000) of Loans	% of \$ of Loans	Income Level of Families in AA
Low	3	7%	111	5%	19%
Moderate	4	10%	178	8%	19%
Middle	15	38%	754	32%	25%
Upper	18	45%	1,263	55%	37%
Total	40	100.00%	2,306	100.00%	100.00%

Source: 2003 -2004 FNBPA SAMPLE/2000 Census Data

Geographic Distribution of Loans

FNBPA's AA consists of six middle-income areas for both 1990 and 2000 census data; therefore a geographic analysis is not meaningful.

Responses to Complaints

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

Fair Lending Review

We found no evidence of discrimination or other illegal credit practices.