
Comptroller of the Currency
Administrator of National Banks

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

PUBLIC DISCLOSURE

November 25, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Herminie
Charter Number: 10188**

**First Financial Center
Irwin, Pennsylvania 15642**

**Comptroller of the Currency
Western Pennsylvania Duty Station
4075 Monroeville Boulevard, Suite 300
Monroeville, PA 15146**

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 First National Bank of Herminie** prepared by the **Comptroller of the Currency**, the institution's supervisory agency, as of **November 25, 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 **Satisfactory**.

First National Bank of Herminie is responsive to the credit needs of the community, including the low- and moderate-income individuals and areas. This responsiveness is evidenced by:

- the large majority of mortgage loans (86%) and the majority of consumer loans (55%) originated within their assessment area;
- the loan-to-deposit ratio of 66% is reasonable, as of September 30, 1996;
- the strong geographic distribution of both mortgage and consumer lending among census tracts of varying income levels mirroring their assessment area's demographic profile; and,
- the reasonable distribution of loans among borrowers of diverse income levels and to small businesses reflecting the characteristics of their assessment area.

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

| SMALL INSTITUTION ASSESSMENT CRITERIA | <u>First National Bank of Herminie</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 were received since the last examination | | |

DESCRIPTION OF INSTITUTION

As of September 30, 1996, the First National Bank of Herminie (FNB Herminie) had assets totaling \$225.3 million, with deposits of \$193.1 million and gross loans of \$127.9 million. The bank offers a wide range of traditional loan and deposit products. FNB Herminie's primary business focus is the consumer market with a majority of the loan portfolio comprised of residential mortgages and individual instalment loans. A detailed breakdown of their portfolio by total dollar volume is shown in the chart to the right.

The bank does not have any financial or legal impediments hindering its ability to help meet the community's credit needs.

FNB Herminie operates eight branches in Irwin, Herminie, North Huntingdon, and Greensburg all of which

are situated in Westmoreland County. Specifically, the bank operates five offices in the Greensburg area at Hempfield Industrial Park, West Point Plaza, North Main Street, Davis Supermarket, and Redstone Highlands. The bank's presence in Irwin, Herminie, and North Huntingdon consists of a single office in each city with the Herminie facility also serving as the headquarters and administrative offices.

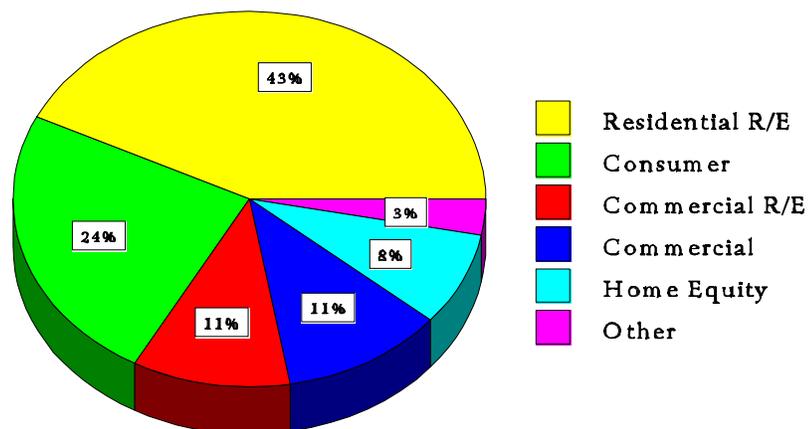
The Bank operates a total of ten automated teller machines (ATM's). All branches have an ATM, with two located at the Circleville Branch. Additionally, a stand alone ATM was established at the Fort Allen location of another Davis Supermarket.

DESCRIPTION OF THE ASSESSMENT AREA

The bank's assessment area is confined to 46 contiguous whole census tracts within Westmoreland and Allegheny Counties and complies with the Community Reinvestment Act. The defined area approximates a five mile radius around each of the bank's branches and does not arbitrarily exclude low- and moderate-income areas. Of those 46 census tracts, 38 are in Westmoreland County and 8 are in Allegheny County. The entire assessment area is within the Pittsburgh Metropolitan Statistical Area (MSA). The number of census tracts by

Loan Composition

September 30, 1996



income level designation is as follows: there are no low-income census tracts; 6 moderate-income census tracts; 38 middle-income census tracts; and, 2 upper-income census tracts. A graph depicting this information and FNB Herminie's lending patterns can be found in the Geographic Distribution of Loans section on page 8 of this Performance Evaluation.

As mentioned in the description of the bank above, FNB Herminie operates a majority of its branches (5) in, or around, Greensburg. Greensburg is the most heavily populated area in Westmoreland County and is also the county seat. There are numerous financial institutions operating throughout the bank's assessment area and competition is heavy. This competition includes other local banks and credit unions, as well as, branches of larger regional banks such as PNC and Mellon.

The total population of the assessment area is 220,058 according to the 1990 Census data. The 1990 census data also indicates the Median Family Income for the assessment area is \$31,948 versus the Pittsburgh MSA Median Family Income of \$32,787.

Economic conditions within the bank's community are stable. Since the collapse of the steel and mining industries during previous two decades, no dominant industries or employers have emerged. As a result, a significant portion of the community is either self employed or work for a variety of smaller manufacturing and service related businesses. In addition, Sony, the Elliot Company and Westinghouse continue to provide employment opportunities in the county. The level of unemployment is consistent with national averages.

The housing industry is exhibiting positive trends as Westmoreland County offers lower property tax rates than neighboring Allegheny County. This lower taxation combined with the availability of land for new development is turning western Westmoreland County into a bedroom community of Pittsburgh. Many residents commute into Allegheny County where primary employment fields include government, health care and education.

Management stated that individual credit needs within the community include debt consolidation, education and home improvement loans. Additionally, demand also exists for direct and indirect automobile financing, residential mortgages and home construction loans. Another need will be infrastructure financing as land continues to be developed (ie. sewer systems, etc.). A review of two "Community Contacts" conducted within the assessment area revealed that local banks are meeting the credit needs of the community.

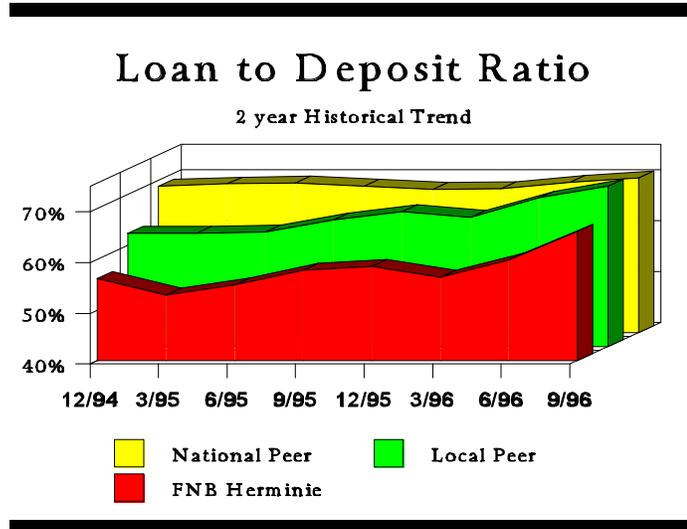
CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan-to-Deposit Ratio

FNB Herminie's average loan-to-deposit (LTD) ratio for the past eight quarters of 58% is reasonable. Incorporating the \$7.2 million of mortgages the bank originated and sold on the secondary market during that time does not materially impact the eight quarter average. FNB Herminie's LTD ratio ranged from a low of 53% on March 31, 1995 to a recent high of 65% reached on September 30, 1996 during the 2-year period.

In relation to 14 other financial institutions of comparable size operating in Westmoreland and Allegheny Counties, FNB Herminie's average LTD ratio is noticeably below the local 2-year average of 66%. This is also true when the bank is compared with the national peer group eight quarter average of 69%. During the 2-year period the local peer group ratios fluctuated between 62% and 72%, and the national peer group ratios have fluctuated between 68% and 71%.

While FNB Herminie's eight quarter average LTD ratio is below that of comparable institutions, recent performance is improving. As of September 30, 1996 FNB Herminie's loan-to-deposit ratio (including loans sold) of 66% is in line with both national and local peer group levels of 71%. Furthermore, the chart above shows FNB Herminie's ratio steadily increasing over the past two years in line with the local peer group. The chart also shows that locally the ratios are trending higher compared with the national peer group's relatively flat performance. This evidences a conscious decision by FNB Herminie's management team to increase their lending activity, and close the gap between them and their competitors.



Lending in the Assessment Area

A large majority of FNB Herminie's lending is within their assessment area. We compiled statistical information on lending patterns from the bank's 1995 Home Mortgage Disclosure Act-Loan Application Register (HMDA-LAR) for mortgage loans and a sample of 49 consumer loans made in 1996. The dollar amount of mortgage loan originations for 1995 in the assessment area represented 81% of the total mortgage loan volume (\$6.9 million). The number of mortgage loans made in the assessment area comprised 85% of the 329 total mortgage loan originations in 1995. Twenty-seven (or 55%) of the 49 consumer loans in our sample were extended to borrowers within the assessment area. The significantly lower percentage of consumer lending in their assessment area is due to a majority of these loans being indirect automobile financing, which typically results in dealer networks covering large geographic areas.

Income Distribution within Assessment Area

The distribution of FNB Herminie’s lending reflects reasonable penetration among individuals of different income levels. To review the distribution of the bank’s lending among these income groups, we analyzed residential mortgage loan data from the bank’s 1995 HMDA-LAR and reviewed a sample of 49 consumer loans originated during 1996.

The following chart shows the income demographics of FNB Herminie’s assessment area and the bank’s distribution by number of loans originated. This data supports the conclusion that the bank’s lending distribution among different income levels within their assessment area is reasonable. FNB Herminie’s lending to low- and moderate- income individuals totals 26% of their lending in comparison to the 38% of the area’s population comprised of these two groups.

| <i>Assessment Area Demographic Characteristics</i> | | | | | | | | | | |
|--|---------------------|-----|--------------------------|------|------------------------|------|-----------------------|------|-------|-----|
| | Low Income Families | | Moderate Income Families | | Middle Income Families | | Upper Income Families | | Total | |
| | 18% | | 20% | | 25% | | 37% | | 100% | |
| <i>FNB Herminie Distribution</i> | | | | | | | | | | |
| <i>Loan Types</i> | # | % | # | % | # | % | # | % | # | % |
| Mortgages | 24 | 8.6 | 49 | 17.5 | 85 | 30.4 | 116 | 41.4 | 274 | 98 |
| Consumer | 1 | 3.7 | 6 | 22.2 | 4 | 14.8 | 16 | 59.3 | 27 | 100 |

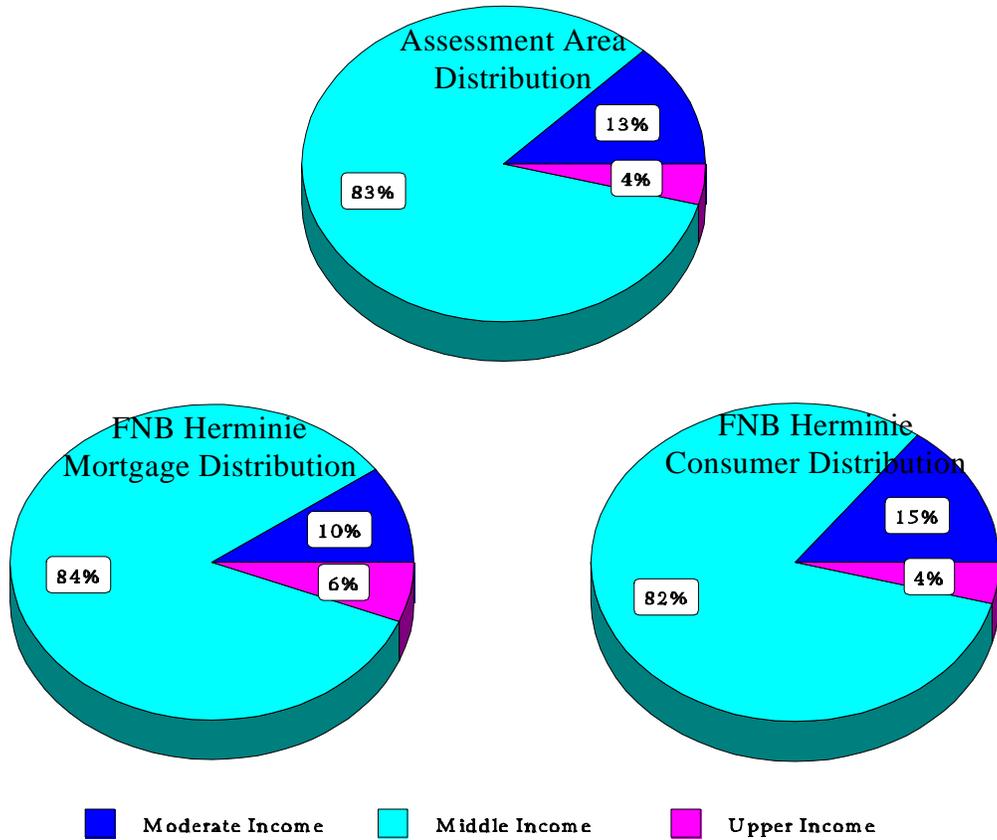
Six of the bank’s originations did not provide income information representing the 2% of mortgage loan originations unaccounted for in the table above.

Lending to small businesses is good, making up 81% of the commercial loan portfolio balances per the June 30, 1996 Reports of Condition and Income. Of the commercial real estate portfolio, 63% of outstanding loan balances are to small businesses. The Reports of Condition and Income identify commercial loans with an original amount of \$1 million or less as small business loans. First National Bank of Herminie did not report any agricultural lending.

Geographic Distribution of Loans

FNB Herminie’s geographic distribution of loans among census tracts of different income levels is very good. The bank’s distribution mirrors their area’s demographic composition. To review the distribution of bank lending among census tracts, we analyzed residential

mortgage loan data from the bank's 1995 HMDA-LAR. For consumer loans, we used the same sample of 27 consumer loans originated in the assessment area. The charts below depict the composition of the bank's assessment area by census tract income level designation and show FNB Herminie's distribution of lending among these census tracts.



Fair Lending Analysis

First National Bank of Herminie is in substantial compliance with the provisions of anti-discrimination laws and regulations. An analysis performed during the recent consumer compliance examination did not reveal any discriminatory treatment or illegal practices.