



Comptroller of the Currency
Administrator of National Banks

Small Bank
Performance Evaluation

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

PUBLIC DISCLOSURE

October 26, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Fredericksburg
Charter Number: 8783**

**Post Office Box 40, 147 South Pine Grove Street
Fredericksburg, Pennsylvania 17026**

**Office of the Comptroller of the Currency
Northern Pennsylvania Field Office
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 First National Bank of Fredericksburg** prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of October 26, 1998. 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**.

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

- The average loan to deposit ratio of 73% is above national peer group averages;
- A majority of Home Mortgage Disclosure Act (HMDA) reportable loans originated during the examination period are in the bank's assessment area;
- The geographic distribution of HMDA loans in the assessment area is reasonable; and
- There is a good penetration of loans to individuals of different income levels and substantially all of the bank's commercial lending is to small businesses and small farms.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>First National Bank of Fredericksburg</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

First National Bank of Fredericksburg (FNB) is a \$104 million institution situated in central Pennsylvania. The bank operates seven full service offices and seven automated teller machines located in northern Lebanon County, southern Schuylkill County, and western Berks County. Five of the offices have drive-in facilities and all have extended evening and weekend hours. The Lebanon, PA branch opened in June of 1998.

FNB offers telephone banking services and a personal computer banking system. FNB has no operating subsidiaries. Major competitors include First Union and many small community banks. As of June 30, 1997, FNB's market share of all deposits held by FDIC-insured institutions operating in Pennsylvania was 0.05%. As of that date, the bank's market share in Lebanon County was 4.60%, 0.64% in Schuylkill County, and 0.33% in Berks County.

Primary loan products include fixed rate and adjustable rate residential mortgages, small business and agricultural loans, and consumer installment loans. The loan portfolio represents 67% of total assets. A breakdown of the portfolio as of September 30, 1998 is as follows: 54% residential mortgages, 27% commercial and commercial real estate loans, 6% consumer installment loans, and 13% agricultural credits.

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 (AA)

FNB's overall assessment area meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income (LMI) areas. The AA includes 23 census tracts (CTs) and block numbering areas (BNAs) located in portions of Lebanon, Berks, and Schuylkill counties. The population of the assessment area is 97,901. Nineteen percent of the families residing in the AA are low-income, 23% are moderate-income, 28% are middle-income, and 30% are upper-income families.

The CTs in Lebanon County are part of the Harrisburg-Lebanon-Carlisle Metropolitan Statistical Area (MSA 3240), and make up the bank's first AA. FNB's headquarters are located in this MSA. Population in these tracts is 73,401. The income levels of these CTs include three moderate-income and fourteen middle-income tracts. There are no low- or upper-income tracts.

The second AA comprises two census tracts in Berks County. This area is part of the Reading, PA Metropolitan Statistical Area (MSA 6680). Both CTs are middle-income tracts. The population of this AA is 12,325.

The third AA is a non-MSA located in part of Schuylkill County. Four BNAs make up this AA which has a population of 12,175. Three of the BNAs are middle-income and the fourth is an upper-income tract. Thirteen percent of the families residing in the AA are low-income, 18% are moderate-income, 24% are middle-income, and 45% are upper income. The statewide non-metropolitan median family income of \$35,200 applies to this area, as does the average housing cost of \$60,278. The median year homes were built is 1962. FNB operates one full service branch and one automated teller machine in this county.

The local area is primarily rural and known for dairy and poultry farming. Most residents travel outside the area to Reading and Harrisburg for work where employment opportunities exist predominantly in manufacturing and government. According to the Pennsylvania Department of Labor and Industry, unemployment in Lebanon County is consistently below state and national averages due to its proximity to Harrisburg. As of September 30, 1998, the Pennsylvania state unemployment rate was at 4.3% while Lebanon County was at 3.2%. In Berks County, the unemployment rate was at 4.1% and in Schuylkill County, the unemployment rate was at 6.3%.

Major employers in the Lebanon County area include the federal and county governments, the Good Samaritan Hospital, the Philhaven Hospital, and Farmers Pride. In Berks County, major employers include the Reading Hospital and Medical Center, East Penn Manufacturing Company, Carpenter Technology Corporation, Dana Corporation, and Berks County Services Center. Schuylkill County's major employers include the J.E. Morgan Knitting Mills, Pennsylvania Government, Alumax Extrusions, Pottsville Hospital, and the Good Samaritan Regional Hospital.

ASSESSMENT AREA DEMOGRAPHICS		
Designation	# Census Tracts	% of Total Tracts
Low	0	0
Moderate	3	13
Middle	19	83
Upper	1	4
Total	23	100

Determination of Community Credit Needs

Community Contacts

Credit needs in the local area were determined during this examination by contacting a representative of a local housing and redevelopment authority. This contact indicated that the need for affordable, decent housing is an issue in this area, as is the need for job creation. Bank management also stated that these are the most important issues in the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

SCOPE OF REVIEW

For purposes of this review the examination period covers all Home Mortgage Disclosure Act (HMDA) reportable loan activity from January 1, 1997 through September 15, 1998. Small business loan data is based on the information found within the Call Report dated June 30, 1998. All dollar amounts contained in the tables within this report are in thousands unless otherwise noted.

LOAN TO DEPOSIT RATIO

Our analysis of the loan to deposit ratio indicates that the average ratio of 73%, which has been maintained over the past two years since the previous Community Reinvestment Act examination, is good. This ratio has remained stable, ranging between 68% and 77%, and is higher than national peer banks which have an average ratio of 71%. The ratio is lower than local peer banks which have an average ratio of 83%, however FNB has regularly sold residential mortgage loans during this period. Had these loans been kept in their portfolio, the loan to deposit ratio would have been higher.

Lending in Assessment Area

We analyzed the bank's record of lending in their assessment area using information on the calendar year 1997 and the year-to-date 1998 HMDA Loan Application Registers (HMDA-LAR). The following table indicates that a substantial majority of HMDA reportable loan originations during the examination period are in FNB's AA. This reflects a good response to local community housing needs.

Mortgage Loan Originations								
	1997				1/1/98-9/15/98			
	#	%	\$	%	#	%	\$	%
Inside AA	127	78	4,606	76	90	74	3,612	66
Outside AA	36	22	1,446	24	32	26	1,835	34
Total	163	100	6,052	100	122	100	5,447	100

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 the same HMDA information as in the above analysis. We analyzed the distribution of lending for each AA separately and compared it to the demographics of that area. The following tables show that FNB's volume of lending is representative of the demographic composition of the entire AA. Also, we noted that in 1997, 45% of FNB's applications in the AA were from low- and moderate-income borrowers. This is similar to the originations for that year, indicating that very few applications were denied. Overall, FNB's record of lending to borrowers of different income levels is satisfactory.

HMDA Reportable Loan Originations by Level of Borrower Income									
Income Category	1997				1/1/98-9/15/98				% of Families Within AA
	#	%	\$	%	#	%	\$	%	
Low	20	16	654	14	10	11	227	6	19
Moderate	38	30	1,221	27	25	28	794	22	23
Middle	45	35	1,611	35	31	34	1,139	32	28
Upper	24	19	1,130	25	24	27	1,452	40	30
Total	127	100	4,606	100	94	100	3,612	100	100

FNB's overall market share in 1997, based on HMDA originations, was 2.87%. During that time, the bank's market share, also based on HMDA originations, for low-income borrowers was 6.04% and for moderate-income borrowers was 4.90%. Therefore, overall market share data compares favorably to both low- and moderate-income borrower data.

In conjunction with its correspondent, Atlantic Central Bankers Bank, FNB offers a first time home buyers program. This program offers a thirty year maximum term, fixed rate mortgage with a loan-to-value ratio of up to 97%. Private mortgage insurance may be required and the prospective borrower must complete a course in home ownership.

FNB is responsive to the credit needs of small businesses and farms in its community. We used the “currently outstanding” loan data from the June 30, 1998 Call Report to evaluate the bank’s record of lending to small businesses and farms. For this analysis, a small business loan is defined as a loan with an original amount of less than \$1 million and a small farm loan is an agricultural loan made for less than \$500 thousand. The following table shows FNB’s record of lending to small businesses and small farms. Note that a large majority are very small loans with original amounts of less than \$100 thousand.

Distribution of Small Business/Small Farm Loans by Loan Size from June 30, 1998 Call Report				
Loan Size	Small Business		Small Farm	
	# / %	\$ / %	# / %	\$ / %
≤ \$100M	141 / 68	4,289 / 24	52 / 61	1,447 / 16
>\$100M ≤ \$250M	45 / 22	5,777 / 32	18 / 21	2,328 / 27
>\$250M ≤ \$1,000M	21 / 10	7,937 / 44	15 / 18	5,011 / 57
Total	207 / 100	18,003 / 100	85 / 100	8,786 / 100

Geographic Distribution of Loans

The following table depicts the geographic distribution of HMDA loans. As was stated previously, there are no low-income census tracts and only three moderate-income census tracts in the bank’s AA. Competition for these loans is strong with many community banks offering special “affordable housing programs”. Given the bank’s market share, their lending to all CTs is considered reasonable.

Geographic Distribution of HMDA Reportable Loan Originations by Census Tract Characteristic					
CTs	1997		1/1/98-9/15/98		% Owner Occupied Households in AA
	# / %	\$ / %	# / %	\$ / %	
Low	0 / 0	0 / 0	0 / 0	0 / 0	0%
Moderate	8 / 6	316 / 7	9 / 10	210 / 6	12%
Middle	118 / 93	4,264 / 92	79 / 88	3,315 / 92	83%
Upper	1 / 1	26 / 1	2 / 2	87 / 2	5%
Total	127 / 100	4,606 / 100	90 / 100	3,612 / 100	100%

Responses to Complaints

No complaints were received during this period by FNB regarding its performance in meeting its AA credit needs.

Fair Lending Review

A Fair Lending Review was performed in conjunction with this CRA examination and did not identify any violations of antidiscrimination laws and regulations.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MSA 3240

FNB defines its AA within the Harrisburg-Lebanon-Carlisle MSA as seventeen CTs in Lebanon County. Three of the tracts are moderate-income tracts and the rest are middle-income tracts. Twenty-five percent of the households in this MSA are geographically located in the moderate-income tracts and seventy-five percent are in the middle-income tracts. Seventy-five percent of the population in the bank's AA resides in this MSA. The median family income in this MSA is \$46,500. Average housing costs are at \$63,688 with 1954 as the median year built. The bank operates five full service offices and five automated teller machines in this county.

The bank's performance with respect to HMDA loan originations in this MSA is illustrated in the following table. FNB's loan activity in this MSA represents 80% of the total number of HMDA originations within its AA reported in 1997 and 87% of the year-to-date 1998 HMDA originations. The originations are reasonably representative of the demographics in the MSA.

HMDA Reportable Loan Originations by Level of Borrower Income in MSA 3240									
Income Category	1997				1/1/98-9/15/98				% of Families Within AA
	#	%	\$	%	#	%	\$	%	
Low	16	16	573	16	8	10	203	7	21
Moderate	29	29	906	24	23	29	763	23	24
Middle	37	36	1,476	39	27	35	1,002	30	28
Upper	19	19	869	23	20	26	1,339	40	27
Total	101	100	3,824	100	78	100	3,307	100	100

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MSA 6680

FNB defines its AA within the Reading, PA MSA as two census tracts in Berks County. The tracts are both middle-income tracts. Thirteen percent of the population in the bank's AA resides in this MSA. The median family income in this MSA is \$46,500. Average housing costs are at \$81,118 with 1966 as the median year built. The bank operates one full service office and one automated teller machine in this county.

The bank's performance with respect to HMDA loan originations in this MSA is illustrated in the following table. FNB's loan activity in this MSA represents 18% of the total number of HMDA originations within its AA reported in 1997 and 10% of the year to date 1998 HMDA originations. The lending pattern to all demographic categories in the MSA is good considering the bank's limited presence in the MSA.

HMDA Reportable Loan Originations by Level of Borrower Income in MSA 6680									
Income Category	1997				1/1/98-9/15/98				% of Families Within AA
	#	%	\$	%	#	%	\$	%	
Low	4	17	81	11	2	22	24	15	16
Moderate	8	35	279	38	2	22	31	19	21
Middle	6	26	110	15	3	34	84	51	29
Upper	5	22	261	36	2	22	26	15	34
Total	23	100	731	100	9	100	165	100	100

Scope of Examination

Time Period Reviewed	January 1, 1997 to September 15, 1998		
Financial institution First National Bank of Fredericksburg	Products reviewed Small business, small farm, HMDA Reportable Loans		
List of AAs and Type of Examination			
AA	Type of Exam	Branches Visited	Other Information
Pennsylvania MSA - 3240 - Harrisburg- Lebanon-Carlisle MSA - 6680 - Reading, PA Non-MSA - Schuylkill County	on-site	Main Office	Not applicable