



Comptroller of the Currency
Administrator of National Banks

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

PUBLIC DISCLOSURE

April 17, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Herndon National Bank
Charter Number: 13982**

**P.O. Box 305
Herndon, Pennsylvania 17380**

**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 **Herndon National Bank** prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of April 17, 1997. 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 40% is below average;
- A substantial majority of mortgage loans originated during the examination period are in the bank's assessment area;
- There is a reasonable 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 Herndon National Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>Herndon 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	Not meaningful.		
Response to Complaints	No complaints received since the prior examination.		

DESCRIPTION OF INSTITUTION

Herndon National Bank (HNB) is a \$25 million institution situated in Herndon, Pennsylvania. The bank operates one full service office and one proprietary automated teller machine located in southern Northumberland County. Major competitors include several large community banks.

Primary loan products include fixed rate residential mortgages, small business and agricultural loans, and consumer installment loans. The loan portfolio represents 31% of total assets. A breakdown of the portfolio as of December 31, 1996 is as follows: 57% residential mortgages, 18% installment loans, 14% commercial credits, and 11% agricultural 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

HNB's assessment area includes three block numbering areas (BNAs) in Northumberland County. The population of the assessment area is approximately 14,000. Fourteen percent of the families residing in the assessment area are low-income, nineteen percent are moderate-income, twenty-seven percent are middle-income, and forty percent are upper-income families.

The BNAs in the assessment area are in a non-metropolitan statistical area. All of these BNAs are middle-income areas. The statewide non-metropolitan median family income of \$34,500 applies to this area.

Unemployment rates in this area are usually above state averages. Local employment opportunities are provided by Creative Playthings and Meckley's Lime Stone Quarry. However, most residents travel to Sunbury where Weis Markets is a large employer. In addition, several state and federal prisons in the surrounding areas also provide employment.

Credit needs of the community were determined during this examination by reviewing a community contact with a county housing agency made by another regulatory office. This indicated that there is a need for subsidized mortgages and low interest loans in Northumberland County. Given HNB's size and capacity, they are addressing this need by offering traditional mortgage and installment loan products with no minimum loan balance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Please note that for purposes of this review, the examination period covers loan activity from January 1, 1995 to December 31, 1996.

Loan to Deposit Ratio

Our analysis of the loan to deposit ratio indicates that the average ratio of 40%, which has been maintained over the past two years, is below average. This ratio is below both local and national peer banks which have average ratios of 66% and 61%, respectively.

Lending in Assessment Area

We analyzed the bank's record of lending in their assessment area using a sample of mortgage loan originations during the examination period. We reviewed 17 out of 34 mortgages originated during 1995 and 23 of the 41 mortgages extended during 1996. The following table indicates that a substantial majority of mortgage loan originations during the examination period are in the assessment area. This reflects a good response to local community housing credit needs.

Mortgage Loan Originations								
	1996				1995			
	# of Loans	%	\$ Amount (000)	%	# of Loans	%	\$ Amount (000)	%
Inside Assessment Area	19	83	550	92	16	94	439	91
Outside Assessment Area	4	17	48	8	1	6	41	9
Total	23	100	598	100	17	100	480	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 mortgage sample as indicated in the above analysis. The following table shows that HNB's record of lending to borrowers of different incomes is satisfactory. The distribution of 1995 originations is better than the demographics would suggest, with 70% of the loans being made to low- and moderate-income individuals. No mortgage loans were made to low-income individuals during 1996, however, 30% of the loans were extended to moderate-

income borrowers. This is a good performance record when compared to the number of moderate-income families in the assessment area.

Mortgage Loan Originations by Level of Borrower Income									
Income Category	1996				1995				% of Families In Area
	# of Loans	%	\$Amount (000)	%	# of Loans	%	\$ Amount (000)	%	
Low	0	0	0	0	5	29	103	21	14
Moderate	7	30	165	28	7	41	227	47	19
Middle	11	48	261	43	1	6	53	11	27
Upper	5	22	172	29	3	18	56	12	40
NA*	0	0	0	0	1	6	41	9	
Total	23	100	598	100	17	100	480	100	100

* Income information not available

HNB has an excellent record of lending to small businesses. We used a bank generated report which lists all commercial and agricultural loans originated during the examination period to evaluate the bank's record of lending to businesses of different sizes. Since revenue information for these borrowers was not readily available, the size of the loan was used as an indication of the size of the business. 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. During 1995, ten commercial loans totaling \$104 thousand were originated. All had original amounts less than \$100 thousand and the average size of the loan was \$10 thousand. During 1996, twelve commercial loans were extended with original amounts totaling \$161 thousand. All were less than \$100 thousand and had an average size of \$13 thousand. Two agricultural loans were originated during 1996 which totaled \$12,500.

Geographic Distribution of Loans

An analysis of the geographic distribution of loans was not performed. It was not considered meaningful because all of the BNAs in the assessment area are middle-income.

Compliance with Antidiscrimination Laws

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