



Community Reinvestment Act Large Bank Performance Evaluation

Public Disclosure

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Community Reinvestment Act Performance Evaluation

Community Banks, NA
Charter Number: 2252

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Millersburg, PA 17061

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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 CRA performance of **Community Banks, NA** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **September 30, 1997**. This agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area may include visits to some, but not necessarily all of the institution's branches. 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:

- Lending levels reflect good responsiveness to the credit needs of the community. This determination is supported by an average loan to deposit ratio of 72% and the origination of \$15 million in residential mortgage loans that were sold in the secondary market during the evaluation period;
- A majority of HMDA and small business loans and a reasonable amount of small farms loans were originated in the assessment area;
- The geographic distribution of HMDA, small business, and small farm loans reflects an adequate penetration throughout the assessment area; and
- HMDA, small business, and small farm loans originated during the evaluation period are reasonably distributed among borrowers of different income levels and businesses of different sizes.

The following table indicates the performance level of **Community Banks, NA** with respect to the lending, investment, and service tests.

Performance Levels	Community Banks, NA Performance Tests		
	Lending Test	Investment Test	Service Test
Outstanding			
High Satisfactory			X
Low Satisfactory	X		
Needs to Improve		X	
Substantial Noncompliance			

*** Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.**

Description of Institution

Community Banks, NA (CBNA) is the principal subsidiary of its holding company, Community Banks, Inc. The bank is headquartered in Millersburg, Pennsylvania, a small, rural town located approximately thirty miles north of the state capital of Harrisburg. The bank operates twenty-one full service offices and fifteen automated teller machines located throughout sections of Snyder, Dauphin, Northumberland, Schuylkill, and Luzerne counties. Competition for loans is significant from offices of large regional institutions, local community banks, savings and loan associations, and employee credit unions. There are no legal or financial impediments which would impact the bank's ability to help meet the credit needs of its assessment area.

As of September 30, 1997, total bank assets were \$453 million, including loans of \$270 million and investments of \$169 million. Primary loan products include fixed-rate and adjustable-rate residential mortgages, small business and agricultural loans, and consumer installment and home equity loans. The following chart illustrates the bank's loan portfolio distribution:

Loan Portfolio Distribution		
Loan Type	Balance at 9/30/97 (\$000)	% of Portfolio
Secured by 1-4 Family Residential Properties	113,931	42%
Secured by Multifamily Properties	216	less than 1%
Consumer Loans to Individuals	59,346	22%
Construction and Land Development Loans	1,703	less than 1%
Commercial and Industrial Loans	91,085	34%
Secured by Farmland	1,054	less than 1%
Agricultural Production Loans	135	less than 1%
Loans to Municipalities	2,893	1%
Totals	270,363	100%

Description of Assessment Area

CBNA's assessment area meets regulatory guidelines and does not arbitrarily exclude any low- and moderate-income geographies. A combination of census tracts and block numbering areas (BNAs) define the bank's assessment area and are analyzed in our review. The assessment area is comprised of fourteen census tracts in the Scranton-Wilkes-Barre-Hazleton MSA 7560, twelve tracts in the Harrisburg-Lebanon-Carlisle MSA 3240, and forty-two BNAs in the non-MSA counties of Northumberland and Schuylkill. Economic conditions in the assessment area are stable. Demographics of the area are highlighted in the following table:

Assessment Area Demographics

Characteristic	MSA 7560	MSA 3240	Non-MSA	Combined MSA & Non-MSA
# of Census Tracts	14	12	42	68
Low Income	NA	NA	NA	NA
Moderate Income	21%	8%	14%	15%
Middle Income	57%	75%	74%	71%
Upper Income	21%	17%	12%	10%
Population	49,777	52,945	164,349	267,071
Families:	13,816	15,095	46,230	75,141
Low Income	19%	15%	18%	18%
Moderate Income	19%	21%	20%	20%
Middle Income	25%	29%	25%	25%
Upper Income	37%	35%	37%	37%
1990 U.S. Census Median Family Income	\$30,676	\$37,389	\$28,934	\$30,047
1997 HUD Median Family Income	\$37,700	\$45,200	\$34,500	\$37,047
Median Housing Value	\$53,565	\$67,018	\$41,501	\$48,606
1-4 Family Housing Units	18,745	18,497	62,004	99,246
Rental Units	6,430	5,108	16,142	27,680
Total Housing Units	21,301	21,540	70,690	113,531

As indicated in the above table, there are no low-income geographies in the bank's assessment area. Moderate-income tracts account for 15% of the area with middle- and upper-income tracts making up the majority.

The population in the bank's assessment area is 267,000. Of the 75,000 families residing in the assessment area, 38% are considered to be low- and moderate-income families. Middle- and upper-income families comprise 62% percent of the inhabitants and the HUD median family income of the area is \$37,000.

Employment opportunities in the assessment area are diverse. The area's unemployment rate reflects the state average unemployment rate of 6%. Major industries include light manufacturing, federal and state correctional institutions, retail sales, agricultural products, and education and health care facilities. Some of the major employers include Metal Industries, Inc., AMP Electronics, Chef Boyardee, Intershoe Company, the federal penitentiaries at Allenwood and Lewisburg, and Susquehanna and Bucknell Universities. In addition, a large segment of the population commutes to the state capital area of Harrisburg for employment opportunities provided by the State of Pennsylvania.

The following table depicts the type and number of businesses operating in the assessment area, and the volume of employees working within these establishments. The information provided was compiled by the US Census Bureau and reveals 1993 employment data.

Assessment Area Business Demographics					
Type of Industry	Number of Employees	Number of Businesses	Employees per Business		
			1 to 49	50 to 499	500 or More
Mining	1,655	98	93	5	NA
Construction	12,213	1,720	1,692	28	NA
Manufacturing	74,177	1,133	810	303	20
Transportation & Utilities	19,793	777	717	56	4
Wholesale Trade	21,358	1,254	1,187	64	3
Retail Trade	60,202	5,086	4,855	229	2
Finance, Insurance, & Real Estate	19,834	1,505	1,450	49	6
Administrative	4,612	146	105	34	7
Services & Other	95,946	6,895	6,605	271	19
Totals	309,790	18,614	17,515	1,089	61

Based on the business demographics defined in the above table, the majority of business establishments are identified as small businesses hiring fewer than 50 employees.

Management determines the primary credit needs of its assessment area as residential housing, consumer credit, and small business loans. Our community contacts with two nonprofit housing and redevelopment authorities operating within the assessment area corroborate the bank's credit needs determination. Obtaining funds for closing costs and down payments for first time home buyers and money to support homeowner's assistance were identified by the community contacts as two of the area's primary credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE

Scope of Review:

This review covered the time period from January 1, 1996 to September 30, 1997. All Home Mortgage Disclosure Act (HMDA), small business, small farm, and community development loans originated during this period were evaluated. Our loan review was assisted by bank management's compilation of data as required by the Community Reinvestment Act regulation. We validated the accuracy of management's reports by sampling and testing through other areas of our examination process. Also, investments purchased and matured and services provided over the time period were reviewed.

LENDING TEST

Performance Criteria:

CBNA's loan-to-deposit ratio averaged 72% over the eight quarter period ending September 30, 1997. The national peer group average for the same time period was slightly higher at 75%. During the examination period, the bank sold \$15,000,000 of residential mortgage loans on the secondary market. As a result, their volume of originations is higher than their average loan-to-deposit ratio suggests.

Since January 1, 1996, CBNA grew by \$138 million in assets to slightly more than \$453 million in total assets. Growth of \$52 million in loans, \$84 million in investments, and \$78 million in deposits occurred. Three full service branch offices and one stand alone ATM machine were opened over the examination period.

Lending in the Assessment Area

As indicated by the table that follows, CBNA demonstrates a good responsiveness to serving the credit needs within its assessment area.

Loan Originations in the Assessment Area from 1/1/96 to 9/30/97				
Loan Type	# of Loans	% in AA	\$ Amount of Loans (000)	% in AA
HMDA Residential Mortgage Loans	1,125	87	41,160	81
Small Business Loans	191	69	6,869	62
Small Farm Loans	10	71	175	35
Totals	1,326	84	48,204	77

On a combined basis for the review period, the number of HMDA residential mortgages, small

business loans, and small farm loans originated in the assessment area averaged 84%. This correlates to an average of 77% of the total dollar volume of the same types of loans originated within the assessment area. CBNA's performance translates into a high percentage of loans made within their assessment area.

Geographic Distribution of Loans

We reviewed the geographic distribution of CBNA's lending using the same loan information used to evaluate lending in the assessment area. The following tables depict the geographic distribution of the total HMDA residential mortgages, small business, and small farm loans originated in the bank's assessment area during the examination period.

Geographic Distribution of HMDA Loans Originated in the Assessment Area from 1/1/96 to 9/30/97						
Census Tract Income Level	# of Loans originated	%	\$ Volume of Loans (000)	%	Census Tract Income Profile %	% Owner Occupied Housing
Low	NA	NA	NA	NA	NA	NA
Moderate	137	12	4,178	10	15	12
Middle	926	82	33,374	81	70	74
Upper	62	6	3,608	9	15	14
Total	1,125	100	41,160	100	100	100

The bank's geographic distribution of HMDA residential mortgage loans reflects good penetration throughout its assessment area. The number and dollar amount of HMDA loans originated are in proportion to the assessment area's census tract income characteristics and the percentage of its owner occupied housing units.

Geographic Distribution of Small Business Loans Originated in the Assessment Area from 1/1/96 to 9/30/97						
Census Tract Income Level	# of Loans Originated	%	\$ Volume of Loans (000)	%	Census Tract Income Profile %	% Household Income

Geographic Distribution of Small Business Loans Originated in the Assessment Area from 1/1/96 to 9/30/97						
Low	NA	NA	NA	NA	NA	NA
Moderate	18	9	635	9	15	13
Middle	155	82	4,831	71	70	74
Upper	18	9	1,403	20	15	13
Total	191	100	6,869	100	100	100

The bank's geographic distribution of small business loans reflects good penetration throughout its assessment area. The number and dollar volume of small business loans originated is proportionate to the census tract income characteristics and the household income profile within the assessment area.

Geographic Distribution of Small Farm Loans Originated in the Assessment Area from 1/1/96 to 9/30/97					
Census Tract Income Level	# of Loans Originated	%	\$ Volume of Loans (000)	%	Census Tract Income Profile %
Low	NA	NA	NA	NA	NA
Moderate	NA	NA	NA	NA	15
Middle	8	80	137	78	70
Upper	2	20	38	22	15
Total	10	100	175	100	100

Although a large portion of the assessment area is rural in nature, only 1% of the population derives its income from farming. The above table indicates that a majority of the small farm loans originated have been in middle- and upper-income census tracts, depicting a proportionate level of borrowing in these tracts.

Borrower's Profile

CBNA has a satisfactory record of lending to borrowers of different income levels. The following table shows the distribution of the number and dollar volume of all HMDA residential mortgage

loans originated compared to the distribution of families at different income levels residing within the assessment area.

Total HMDA Loan Originations by Level of Borrower Income from 1/1/96 to 9/30/97					
Borrower Income Level	# of Loans originated	%	\$ Volume of Loans (000)	%	Income % of Families Residing within the Assessment Area
Low	3	<1%	64	<1%	18
Moderate	166	13	5,228	10	20
Middle	1,042	80	39,430	78	25
Upper	87	7	5,861	12	37
Total	1,298*	100	50,583*	100	100

*** Total mortgage originations inside and outside of the assessment area**

The table indicates that the origination of HMDA loans to low- and moderate-income families is disproportionate to the number of such families residing in the assessment area. During the evaluation period, most of CBNA's HMDA lending has been to middle-income families, who account for 25% of the population.

CBNA has been unable to originate many housing loans to low- and moderate-income families. This is primarily due to a modest supply of available housing at affordable prices in the bank's assessment area. According to 1990 US Census Bureau data, 87% of the total housing units are 1-4 family units and rental units comprise 24% of total available housing. Our community contact with the Harrisburg Fair Housing Council identified an ongoing demand for affordable housing for both rural and urban families.

Based on these considerations, CBNA's lending to low-, moderate-, middle-, and upper-income borrowers residing in the assessment area is reasonable.

Small Business and Small Farm Loans

The CRA regulation indicates that loan size generally correlates to the size of the business and farm borrower. A small business or small farm is defined as one with less than \$1 million in

annual revenues. Based upon CBNA's analyses of commercial loans originated in their assessment area, the distribution of business and farm loans to borrowers of different sizes is good.

Our review of the bank's CRA Data Collection Report reveals that 92% in number and 49% in dollar volume of the total commercial loans originated were in amounts of \$1 million or less. Additionally, 71% of the number and 35% of the dollar volume of total farm loans originated were in amounts of \$1 million or less. The following table identifies the small business and small farm loans originated in the assessment area during the evaluation period by their loan size. All of these originations were made to small businesses and small farms with gross annual revenues of \$1 million or less.

Commercial and Agricultural Loan Originations in the Assessment Area by Loan Amount From 1/1/96 to 9/30/97								
Loan Amount	Commercial				Agricultural			
	# of Loans	%	\$ (000)	%	# of Loans	%	\$ (000)	%
< than \$100 thousand	178	86	4,263	30	10	71	175	35
\$100 to \$200 thousand	12	6	1,826	13	NA	NA	NA	NA
\$251 thousand to \$1 million	1	<1	780	6	NA	NA	NA	NA
Total Small Business & Small Farm Loans	191	92	6,869	49	10	71	175	35
Total Commercial & Farm Loans	207	100	13,991	100	14	100	502	100

Community Development Lending

Community development loans are those that have community development as their primary purpose. Based on our two community contacts and the demographics of CBNA's assessment area, community development loan opportunities are limited.

CBNA regularly originates loans to a variety of nonprofit organizations whose mission is to provide community development services. We accounted for the origination of these types of loans in our analysis of business loans originated in the assessment area.

Of particular note was the origination of a \$10,000 no fee loan made in conjunction with the City of Hazleton Home Improvement Program. This program provides up to \$10,000 to qualifying LMI individuals for home improvement purposes. CBNA was the only institution that participated in this program during our evaluation period.

Innovative or Flexible Lending Practices

Community Banks, NA makes regular use of innovative and flexible lending practices in order to serve the credit needs of its assessment area. The bank offers customary loan products with features designed to make credit more affordable to low- and moderate-income borrowers. For example, "No Point" mortgages, Private Mortgage Insurance (PMI) loans, and Adjustable Rate Mortgages (ARMs) with flexible repayment terms are offered.

Over the examination period the bank originated 76 PMI loans totaling \$4,000,000 and 374 "No Point" mortgages in the amount of \$22,000,000.

The bank's ARM loan product has a maximum term of fifteen years. To make the loan more affordable during a period of rising interest rates, monthly payments are kept constant for up to ten years. At the end of ten years, borrowers have the option of adjusting payments to the new rate or extending the maturity date further. As of September 30, 1997, the bank had \$50,000,000 in ARM loans outstanding.

Service Test

CBNA's services are readily accessible to essentially all portions of the bank's assessment area. Of the twenty-one full service branches in operation, ten are located in and directly serve moderate-income geographies. Of the 8,717 families residing in these moderate-income tracts, the majority (54%) are low- and moderate-income families. Broken down by income category, low-income families total 29%, and moderate-income families represent 25% of the total. There are no low-income geographies in the bank's assessment area.

Community Banks, NA offers extended business hours at all office locations, including Saturday hours. Service hours are determined to convenience the assessment area and are supported by customer surveys. Individual branches adjust teller availability to customer traffic flow

accordingly. Each branch provides full banking services and fifteen automatic teller machines (ATMs) are readily accessible throughout the assessment area.

Alternate delivery systems include “Bank by Phone” services, allowing customers to access their accounts, transfer funds, and make loan payments by telephone twenty-four hours a day. Additionally, loan officers regularly accommodate loan applicants by taking applications by phone and setting flexible hours.

During 1996, the bank provided community development services by participating in two of Schuylkill County Home Buyer Coalition’s first time home buyers seminars. Bank officers provided credit and budgeting counseling to prospective low- and moderate-income home buyers.

Investment Test

Community Banks, NA held no qualified community investments at 9/30/97. Under the new CRA regulation, financial institutions can receive positive consideration for making “qualified investments”. A “qualified investment” is defined as a lawful investment that has community development as its primary purpose and benefits the bank’s assessment area. Community development investments provide affordable housing, community services, and activities that promote economic development in the low- and moderate-income communities of the bank’s assessment area.

Few qualified community development investment opportunities exist in CBNA’s assessment area. Management was encouraged to seek out and participate in community development investment opportunities when they become available.

Fair Lending Review

A concurrent fair lending review did not identify any violations of antidiscrimination laws and regulations. CBNA’s fair lending internal controls, reviews, and training programs are effective.

Conclusions with Respect to Performance Tests in MSA #3240

CBNA's performance in MSA #3240 - Harrisburg/Lebanon/Carlisle - is consistent with the bank's overall lending performance. The bank's assessment area in this MSA includes upper Dauphin County, which is predominately rural.

Lending Test: Performance in this MSA is consistent with the bank's overall performance in this category. CBNA's performance in lending to borrowers of different income levels, based on HMDA loans originated in MSA 3240, is depicted in the following table. The volume of loans generated in moderate-income geographies exceeds both the census tract profile of the areas and the percentage of moderate-income families residing in moderate-income tracts. Information is unavailable to determine the volume of small business and small farm loans originated in this MSA.

Geographic Distributions of HMDA Loans Originated in MSA 3240 from 1/1/96 to 9/30/97						
Census Tract Income Level	# of Loans originated	%	\$ Volume of Loans (000)	%	% Census Tract Profile	% Owner Occupied Housing
Low	NA	NA	NA	NA	NA	NA
Moderate	43	10	2,235	11	8	6
Middle	380	89	16,732	84	75	77
Upper	5	1	1,003	5	17	17
Total	428	100	19,970	100	100	100

Service Test: Performance in this MSA is consistent with the bank's overall performance in this category. CBNA serves the communities in this area through six full service offices located in twelve census tracts. There are no low-income tracts in this MSA. One tract is designated as moderate-income, nine tracts are middle-income, and one is an upper-income tract. The total population of the area is 52,945, and the median HUD family income is \$45,200. Of the 15,095 families residing in this MSA, 15% are low-income families and 21% are moderate-income families. CBNA offers extended service hours at each branch office. Hours are supported by customer surveys.

Investment Test: Performance in this MSA is consistent with the bank's overall performance in this category. As of September 30, 1997, CBNA held no qualified community investments that directly benefit MSA 3240.

Conclusions with Respect to Performance Tests in MSA #7560

CBNA's performance in MSA #7560 - Scranton/Wilkes-Barre/Hazleton - is consistent with the bank's overall lending performance. The bank's assessment area in this MSA includes fourteen census tracts in lower Luzerne County. There are no low-income tracts. Three are moderate-income, eight are middle-income, and the remaining three are upper-income census tracts.

Lending Test: Performance in this MSA is consistent with the bank's overall performance in this category. CBNA's performance in lending to borrowers of different income levels, based on HMDA loans originated in MSA 7560, is depicted in the following table. The volume of loans generated in moderate-income geographies exceeds both the census tract profile of the areas and the percentage of moderate-income families residing in moderate-income tracts. Information is unavailable to determine the volume of small business and small farm loans originated in this MSA.

Geographic Distributions of HMDA Loans Originated in MSA 7560 from 1/1/96 to 9/30/97						
Census Tract Income Level	# of Loans originated	%	\$ Volume of Loans (000)	%	% Census Tract Profile	% of Families in AA
Low	NA	NA	NA	NA	NA	NA
Moderate	30	26	898	22	3	15
Middle	63	55	1,808	44	8	65
Upper	22	19	1,439	34	3	20
Total	115	100	4,145	100	14	100

Service Test: Performance in this MSA is consistent with the bank's overall performance in this category. The bank operates two offices in the Hazleton area and one in the community of Conyngham. Each office provides full banking services to a population of 49,777. The median HUD family income for the area is \$37,700. Of the 13,816 families residing in this MSA, low-income families total 19% and moderate-income families represent an additional 19% of the total. CBNA offers extended service hours at each branch office. Hours are supported by customer surveys.

Investment Test: Performance in this MSA is consistent with the bank's overall performance in this category. As of September 30, 1997, CBNA held no qualified community development investments that directly benefit MSA #7560.