



SMALL BANK

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

PUBLIC DISCLOSURE

January 05, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Citizens National Bank of Berkeley Springs
Charter Number 14198**

**212 S. Washington Street
Berkeley Springs, WV 25411**

**Comptroller of the Currency
ADC-Maryland/National Capital Area
250 E Street SW
Mail Stop 3-5
Washington, DC 20219**

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 primary factors supporting the bank’s overall rating include:

- The loan-to-deposit ratio of 75% is reasonable and is commensurate with the loan-to-deposit ratio of similarly situated institutions at 76%.
- A majority of loans originated, 69% of the number and dollars of Home Mortgage Data Act (HMDA) reportable loans, are in the bank’s assessment area.
- The record of lending to borrowers of different incomes for consumer auto and small business loans reflects more than reasonable penetration among borrowers of different incomes. However, lending to borrowers of different incomes for residential real estate loans represents an area that the bank should focus on to enhance performance.
- Based solely on our analysis of HMDA data, lending in moderate-income geographies in the assessment area reflects low penetration and is an area that management has committed to enhance.

DESCRIPTION OF INSTITUTION

Citizens National Bank of Berkeley Springs (CNB) began serving the citizens and businesses of Morgan County, West Virginia on June 20, 1934. The bank is owned by CNB Financial Services, Inc. CNB has one wholly owned subsidiary, CNB Insurance Services, Inc. At September 30, 2003, total assets stood at \$201 million. CNB serves the community from its headquarters and main office location on South Washington Street in Berkeley Springs, Morgan County, West Virginia. Since opening, the bank has added three branches. The Valley Road Branch on Valley Road in Berkeley Springs in Morgan County opened in 1991. Subsequently, the bank expanded to an adjacent county and opened two branches in Berkeley County, West Virginia. These branches are the Hedgesville Branch on Hedgesville Road, which opened in 1998, and the South Martinsburg Branch on Apple Harvest Drive, which opened in 2001. At September 30, 2003, loans are 70% of total assets. The bank's lending activities are focused on residential mortgages, business loans, and consumer loans.

In terms of dollars, the loan portfolio consists of 64% residential mortgages (92% of which are first liens), 16% commercial and commercial real estate loans, 12% consumer loans, 6% land and construction related loans, and 2% municipal related loans. In terms of the number of loans, consumer loans comprise 52% of the loan portfolio.

CNB offers a full range of loan, deposit and trust services. The bank offers a variety of loan products including conventional residential real estate loans and consumer loans with no minimum amount. Services and fees are consistent throughout the bank's locations. Branches are open weekdays from 9:00AM until 4:00PM, and on Fridays until 5:00PM in Morgan County and until 6:00PM in Berkeley County. Saturday hours are available at the Main Office and at both Berkeley County branches from 9:00AM to 12:00 Noon. The drive-ins located at the branches in Morgan County are open weekdays from 8:00AM to 6:00PM, on Friday until 7:00PM, and Saturday until Noon. The drive-ins located at the branches in Berkeley County are open weekdays from 7:00AM to 7:00PM, and Saturday until Noon. During the evaluation period, CNB opened the South Martinsburg Branch in July 2001, and no branch offices were closed. The Main Office, the Hedgesville Branch, and the South Martinsburg Branch offer full service ATMs. Additionally, CNB offers cash dispensing ATMs at the Cacapon State Park Lodge in Morgan County, and at The Woods Resort in Berkeley County. There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs in its assessment area. At the prior CRA examination, in the report dated January 28, 1999, the bank's CRA performance was rated "Satisfactory".

DESCRIPTION OF ASSESSMENT AREA

CNB's assessment area meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income geographies. CNB's assessment area consists of all of Morgan County, West Virginia that contains four Block Numbering Areas (BNAs), a non-MSA area. Since the prior CRA evaluation, the bank expanded their assessment area twice to include two BNAs in Berkeley County, part of MSA 8840. The assessment area was expanded in 1999 and 2003 to include BNA 9712 and 9714, respectively. These two BNAs were added as each contains one of the two newest branches: the Hedgesville Branch (opened in 1998) and the South Martinsburg Branch (opened in July 2001). The updated 2002 HUD median family income is \$52,100, which is an increase from the 1990 median family of income of \$28,200. Based on the 1990 US Census Data, CNB's assessment area demographics, including BNA income, family income, and business

size/annual revenue characteristics are in the tables below.

Block Numbering Area (BNA) Income Characteristics

BNA Income Level	Number of BNAs	Percentage of AA
Low-Income	0	0 %
Moderate-Income	2	33.33 %
Middle-Income	2	33.33 %
Upper-Income	2	33.34 %
NA	0	0 %
Total	6	100.00 %

Family Income Characteristics

Level of Income	Percentage of Families
Low-Income	25 %
Moderate-Income	24 %
Middle-Income	18 %
Upper-Income	33 %
Total	100 %

Business Size & Revenue Characteristics

Business Revenue Size	Number of Businesses	% of Businesses
Small Businesses (Annual Revenues of \$1 Million or Less)	881	74 %
Other Businesses (Annual Revenues in Excess of \$1 Million)	51	4 %
Businesses Not Reporting Annual Revenues	266	22 %
Total	1,198	100 %

Currently, CNB's assessment area is experiencing steady, but slow economic growth. The Morgan County Economic Development Authority states that 52% of its wage earners travel

beyond its borders to work. A substantial majority of the businesses throughout the bank's assessment area are considered local, smaller businesses, while only a few are considered larger regional or national businesses in nature. The major employers are the Board of Education, War Memorial Hospital, General Motors Parts Division, U. S. Silica, Seely Furniture, and Quad Graphics. By industry type and number of employers, the largest are the services industry, followed by retail trade, construction, the finance/insurance/real estate industries, wholesale trade, the transportation and utilities industries, and manufacturing. In terms of housing, 58% are owner occupied units and 15% are rental units. Of the housing units, 81% are 1-4 family units, 14% are mobile homes, and 4% are multifamily units. Our review of the assessment area concluded that within Morgan County, CNB is the only independent community bank and must compete with two large banks (one state regional bank and one multi-state national bank), along with thrifts, credit unions, and non-financial institutions (e.g. mortgage companies). In Berkeley County, the bank must compete with three community banks, thrifts, and other large banks that are not similar in size and complexity to CNB. Management and the Board continue to identify the primary credit needs within the bank's assessment area as residential real estate loans and business loans, especially to small businesses. Our community contact during the examination affirmed the primary credit needs of the Morgan County community the bank serves is residential mortgage loans and loans to small businesses.

CONCLUSION ABOUT PERFORMANCE CRITERIA

The evaluation period is from October 1, 1998 through September 30, 2003 inclusive. Our analysis of the bank's performance for the respective evaluation factors is described below.

LOAN-TO-DEPOSIT RATIO

CNB's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. We reviewed the quarterly average loan-to-deposit ratios for the twenty quarters from October 1, 1998 through September 30, 2003 inclusive. During this evaluation period, CNB's loan-to-deposit ratio averaged 75%, compared to similarly situated institutions across the country whose loan to deposit ratios averaged 76%.

LENDING IN THE ASSESSMENT AREA

For HMDA loans during the evaluation period, our analysis reflects CNB originated 69% (or 1,120) of the number loans and dollars (\$85,134 thousand) of loans in the bank's assessment area. For business loans during the evaluation period, our analysis of a sample of small business loans reflects CNB originated 82% of the number and dollars of loans in the bank's assessment area. A majority of CNB's loans and lending-related activities are in the bank's assessment area.

We tested and relied on Home Mortgage Disclosure Act (HMDA) loan origination data provided by the bank, we sampled and tested business loan origination data, and relied on management's analysis of consumer auto loans.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

Overall, CNB's distribution of loans reflects more than reasonable penetration to businesses of different sizes and borrowers of different incomes for automobile related consumer loans but low penetration among borrowers of different incomes for residential real estate loans.

Lending To Borrowers of Different Incomes

The bank's distribution of consumer auto loans reflects more than reasonable penetration among borrowers of different incomes. Management provided us analysis of this portfolio because it is reflective of the bank's efforts to meet the credit needs in the assessment area. The total dollar amount of the consumer loan portfolio is \$16 million, and of that, automobile related loans are \$12 million. Consumer loans comprise 52% of the total number of loans. Automobile related loans represent 26% of the total number of loans. We relied on a sample of consumer auto loans that reflects 24% of the number of loans and 20% of the dollars of loans were extended to low-income families, compared to 25% that are moderate-income families in the bank's assessment area. Similarly, 21% of the number of loans and 22% of the dollars of loans were extended to moderate-income families, compared to 24% that are moderate-income families in the bank's assessment area.

Consumer Automobile Loans To Borrowers Of Different Incomes

Borrower Income Designation	Number of Loans Originated	Percentage of Number of Loans	Dollars (000s) of Loans	Percentage of Dollar of Loans	Family Income Characteristics
Low	22	24.18%	\$236	20.20%	25 %
Moderate	19	20.88%	\$252	21.58%	24 %
Middle	18	19.78%	\$243	20.78%	18 %
Upper	06	06.59%	\$169	14.45%	33 %
NA	26	28.57%	\$269	22.98%	NA
Total	91	100%	\$1,169	100%	100%

During the evaluation period, CNB's distribution of residential real estate loans, given the bank's assessment area demographics, reflects low penetration among borrowers of different incomes, especially to low- and moderate-income families. We tested and relied on HMDA residential mortgage origination data provided by the bank. Our analysis reflects 8% of the number of loans and 5% of the dollars of loans were extended to low-income families, compared to 25% within the assessment area that are low-income families. Similarly, 11% of the number of loans and 9% of the dollars of loans were extended to moderate-income families, compared to 24% that are moderate-income families in the bank's assessment area. While not part of the HMDA data, the bank made loans to two apartment complexes (of four in their immediate area) that provide HUD's Section 8 Housing Assistance Payments Program. These two apartment complexes provide housing for 16 low-or moderate- income families.

During the evaluation period, the bank expanded into a highly competitive market in Berkeley County, WV. Strong competition stems from financial institutions and non-bank institutions such as Internet mortgage companies. The bank's market share has declined as evidenced by a decline in the percentage of deeds of trust recorded by the bank in Morgan County. In the past, the bank recorded approximately 90% of all of the recorded deeds of trusts, whereas that percentage has declined to approximately 60% of recorded deeds of trusts.

HMDA Loans To Borrowers Of Different Incomes

Borrower Income Designation	Number of Loans Originated	Percentage of Number of Loans	Dollars (000s) of Loans	Percentage of Dollar of Loans	Family Income Characteristics
Low	58	8 %	\$3,095	5 %	25 %
Moderate	76	11 %	\$5,724	9 %	24 %
Middle	140	20 %	\$10,483	17 %	18 %
Upper	411	57 %	\$39,233	64 %	33 %
NA	32	4 %	\$3,066	5 %	NA
Total	717	100%	\$61,601	100%	100%

Lending To Businesses of Different Sizes

CNB's distribution of business loans, given the bank's assessment area demographics, reflects more than reasonable among penetration among businesses of different sizes. We sampled and tested business loan origination data provided by the bank. Our analysis reflects 87% of the number of loans and 93% of the dollars of loans were extended to small businesses, compared to 74% that are small businesses in the bank's assessment area.

GEOGRAPHIC DISTRIBUTION OF LOANS

Our evaluation of the HMDA data reflects that there is low level of distribution of lending to the moderate-income tracts in the bank's assessment area. During the assessment period, the bank originated 14% of loans in the moderate-income BNA's, which represent one-third of the assessment area. Management understands that this is an area for them to enhance especially given that 47% of the families in the assessment area live in moderate-income BNA's. There is, however, good distribution of lending with respect to small business loans. Fifty-one percent of loans to small businesses were originated in moderate-income areas.

RESPONSES TO COMPLAINTS

CNB did not receive any complaints about its performance in helping to meet assessment area needs during the evaluation period.

FAIR LENDING REVIEW

We found no evidence of illegal discrimination or other illegal credit practices. We reviewed CNB's HMDA data and consumer complaint information and found no violations of the substantive provisions of the anti-discrimination laws and regulations. As a result, the OCC decided that a comprehensive Fair Lending examination would not need to be conducted in connection with this CRA evaluation.