



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 23, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Manor National Bank
Charter Number 6456**

**Race Street
Manor, PA 15665**

**Comptroller of the Currency
ADC - Western Pa (Pittsburgh)
4075 Monroeville Boulevard Building 2, Suite 300
Monroeville, PA 15146**

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.

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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 Manor National Bank prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of July 23, 2001. 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 meets the standard for satisfactory performance since it is comparable to peer group loan to deposit averages.
- The level of lending inside the assessment area meets the standard for satisfactory performance since a substantial majority of sampled loans originated during the examination period are within the AA.
- The distribution of sampled loans originated during the evaluation period among borrowers of different income levels meets the standard for satisfactory performance since it is reasonable considering area demographics.
- The distribution of sampled loans originated during the evaluation period among assessment area geographies meets the standard for satisfactory performance since it is reasonable considering area demographics.

DESCRIPTION OF INSTITUTION

Manor National Bank (MNB) is a \$16 million, independently owned community bank located in Westmoreland County Pennsylvania. The bank is headquartered approximately 25 miles southeast of Pittsburgh, Pennsylvania in the town of Manor PA. MNB operates one branch and one automated teller machine (ATM) in Manor PA where MNB's headquarter/administrative offices are housed. MNB is a community bank which offers basic deposit and loan products.

Loan products include residential real estate mortgages and consumer loans. Historically MNB's business focus has been on residential mortgage and consumer lending and the bank has not offered commercial loans. However, MNB has underwritten a few mortgages for borrowers using real estate for rental income purposes.

MNB received a "needs to improve" rating as a result of the previous CRA evaluation, which was conducted as of September 17, 1996. MNB's "needs to improve" CRA rating resulted from a loan to deposit ratio, which did not meet the standard for satisfactory performance. MNB's loan to deposit ratio was low compared to peer group ratios for the same period because MNB had experienced a substantial increase in deposits.

Net loans represent 46% of MNB's assets. MNB's loan portfolio is broken down by dollar volume as follows: 93% or \$7.3 million in residential real estate loans and 4% or \$.2 million in consumer installment loans. The remainder of the loan portfolio is composed of non-farm, non-residential real estate loans primarily rental income properties. There are no financial or legal impediments that would preclude MNB from lending.

DESCRIPTION OF ASSESSMENT AREA

MNB has identified fifteen whole, contiguous census tracts (CTs) or geographies as its assessment area (AA). The AA is situated within the northwestern portion of Westmoreland County in Pennsylvania. Westmoreland County is located within the Pittsburgh Metropolitan Statistical Area (MSA). MNB's AA surrounds the bank's single branch where the headquarters/administrative offices are housed in Manor, PA. MNB's AA is composed primarily of middle-income geographies, which total eleven. The remaining AA geographies, which are upper- and moderate-income, total one and three respectively. The bank's AA contains no low-income geographies.

The geography in which the bank operates its only branch is designated as a middle income geography. An ATM is situated at the bank's branch location. The town of Manor is physically isolated by hilly terrain from major area thoroughfares, other AA towns, business and commercial districts. Limited, secondary

road access has resulted in a lack of business or commercial development in the small town of Manor. This geographic isolation limits MNB's visibility, accessibility, and marketing options. The AA complies with all regulatory requirements and does not arbitrarily exclude low- or moderate- income areas.

Demographic information derived from annually updated HUD data was used to analyze the bank's lending distribution among borrowers of different income levels. HUD data updated for 2000, reports the median family income for the bank's AA to be \$44,600.

AA demographic information derived from annually updated HUD data, reports that of AA families 17%, 20%, 26% and 38% are of low-, moderate-, middle- and upper-income respectively.

Demographic data collected during the 1990 census is used to analyze the bank's lending distribution among AA geographies. The 1990 census reports the population of MNB's AA to be 75 thousand. Census data also reports that within the bank's AA, owner occupied housing represents 96% of housing, the median housing value equals \$57,586 and the median year built for AA housing is 1959. The majority (73%), of households are supported by wage or salaried jobs. However, 9% of households are considered to be at or below poverty level. These AA demographic factors restrict residential loan demand from low-income borrowers impacted by issues of housing availability and affordability.

The local economy has demonstrated modest growth during the 1990s. Westmoreland County has mirrored Pittsburgh as its economy has stabilized since experiencing significant problems the early and mid 1980's. Employment within the AA is diversified. Employment opportunities are available in the retail trade and service industries, as well as in manufacturing and government. Many area residents commute to Pittsburgh and its nearby suburbs in Allegheny County or alternatively to Greensburg, PA, the county seat in Westmoreland County. Lower taxes and available real estate in Westmoreland County have resulted in the area establishing itself as a bedroom community of Pittsburgh. Consequently, the area has developed an upscale housing market to serve commuting residents.

Banking competition within MNB's trade area is strong. The northwestern portion of Westmoreland County, is heavily banked as it borders on Allegheny County where Pittsburgh is located. In addition, northwestern Westmoreland County houses Greensburg the County seat. Competition consists of financial institutions, which are substantially larger, more sophisticated and more visible and accessible than is MNB. The larger, more sophisticated profile of the competing financial institutions allows them to offer a greater variety of products and services than MNB is able to provide. Competition includes three regional banks, which have established a strong area presence as well as more locally based credit unions, thrifts and community banks. Discussion with bank management confirmed that within the AA,

credit needs continue to be concentrated primarily in housing related financing.

Examiners contacted the Executive Director of the Norwin Chamber of Commerce. The local organization serves the Irwin, North Irwin and North Huntington areas of Westmoreland County. The purpose of the organization is to provide support to the local area and encourage community development. The contact described local economic conditions as improving. The contact identified housing related financing, as a community credit need. In addition, the contact described the performance of local financial institutions as favorable in both meeting community credit needs and responsiveness to opportunities for community participation. The contact stated that local "financial institutions are successfully supporting community banking and credit needs."

SAMPLING

MNB loan data was collected through a random sample composed of 30 residential mortgage loans originated to borrowers located inside and outside of the bank's assessment area over the evaluation period. Residential mortgage loans, originated over the period, were selected for sampling since residential real estate loans represent 94% of the bank's loan portfolio and are considered to be the bank's primary loan product for the period. The loan sample was used to analyze the bank's record of originating loans inside its AA as well as its record of distributing loans among AA borrowers of different income levels and AA geographies.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan to Deposit Analysis

< MNB's loan to deposit ratio meets the standard for satisfactory performance since it is comparable to the average loan to deposit ratio exhibited by local peer banks.

To assess MNB's level of lending activity we collected and analyzed loan to deposit data for MNB and local peer banks for the previous 12 quarters. MNB's level of lending activity is reasonable compared to the lending activity of peer banks. MNB's current loan to deposit ratio equals 55% and for the previous 12 quarters averaged 48%. This level of lending is comparable to the level of lending achieved by the bank's local peer group, which currently equals 54% and averaged 50% over the same 12 quarters. Peer banks included tri-state area banks with assets of \$30 million or less operating within a 15 county area in

southwestern Pennsylvania, the West Virginia panhandle, and southeastern Ohio.

MNB's current loan to deposit ratio demonstrates an increasing trend in MNB's lending level. MNB's comparatively low loan to deposit ratio during the previous evaluation period of 26%, resulted from deposit growth, which had nearly doubled during the 1990s. The recent increase in MNB's loan to deposit ratio resulted from growth in MNB's loan portfolio of 89% between December 31, 1997 and December 31, 2000. MNB has achieved steady loan growth despite the extent to which loan demand is hampered by area demographics. MNB operates in a context in which the bank is geographically isolated and faces heavy competition.

In addition, a substantial portion of MNB's loan demand can be attributed to requests for lower dollar amount loans. Specifically, of sampled residential mortgage loans, granted during the evaluation period, 87% were originated for dollar amounts less than or equal to \$100,000 and 50% were originated for amounts less than or equal to \$60,000. Consequently, MNB has originated a comparatively large number of lower dollar amount loans in order to achieve the growth it has experienced in its lending level. Therefore, MNB's has achieved a level of lending comparable to its peer group despite area demographics and the context in which MNB operates.

Lending in Assessment Area

< MNB's lending in its AA meets the standard for satisfactory performance. The substantial majority of sampled residential mortgage loans were originated within the bank's AA.

Data from a sample of 30 residential mortgage loans originated in the AA, during the evaluation period was collected and analyzed. This analysis was performed to assess MNB's level of lending in its AA. As indicated below, data derived from our sample of residential mortgage loans originated for the period revealed that 73% of sampled loan volume and 77% of sampled loan dollars were originated within MNB's AA. This level of AA lending is considered to be reasonable since a substantial majority of sampled, residential mortgages were originated within the AA.

The following table details the distribution inside and outside of the AA, of sampled residential mortgage loans, originated by MNB over the evaluation period.

LENDING INSIDE VS OUTSIDE THE ASSESSMENT AREA

	Inside Assessment Area		Outside Assessment Area		Totals	
	####	\$000	####	\$000	####	\$000
	Residential Mortgage Loans	22	\$1,835	8	\$548	30
	73%	77%	27%	23%	100%	100%

Lending to Borrowers of Different Incomes

< MNB's distribution of sampled residential mortgage loans among AA borrowers of different income levels meets the standard for satisfactory performance since it is reasonable considering AA demographics.

Demographic data compiled during the 1990 census for the MNB's AA categorizes the income levels of AA families as follows:

- 17% of AA families are low-income families
- 20% of AA families are moderate-income families
- 26% of AA families are middle-income families
- 38% of AA families are upper-income families

MNB'S record of originating residential mortgage loans among AA borrowers of different income levels is reasonable considering AA demographics. Data derived from a sample of 22 residential mortgage loans originated by MNB in its AA, during the evaluation period, was collected and analyzed. The analysis was performed to assess MNB's record of dispersing residential mortgage loan originations among AA borrowers of different income levels as compared to the income levels of AA families.

AA demographic information derived from annually updated HUD data, reports that of AA families 17% and 20% are of low- and moderate-income respectively. Low-income AA families by definition are families with annual incomes below \$22,300. Moderate-income AA families by definition are families with annual incomes between \$22,300 and \$35,680.

As indicated below, data derived from our sample of residential mortgage loans originated over the evaluation period, revealed that sampled loans originated to low and moderate-income borrowers represented 5% and 27% of sampled loan volume and 3% and 18% of sampled loan dollars, respectively. This level of residential mortgage lending to borrowers of different income levels is reasonable considering the demographic context in which MNB operates.

MNB's record of lending to moderate-income AA borrowers is strong compared to the percentage of moderate-income AA families. The volume of sampled residential mortgage loans originated by MNB to moderate-income borrowers exceeds the percentage of moderate-income borrowers residing within MNB's AA.

MNB's ability to extend residential mortgage loans to low-income borrowers, however, is hampered by AA demographics. Specifically, of households in the bank's AA, 15% of the AA population is age 65 or older and 22% of the AA households are comprised of retired residents. In addition, 33% of area households derive income from social security and 9% are considered to be at or below poverty level. The percentages of retired, senior, AA residents and limited income, AA households restrict residential mortgage demand particularly from low-income AA families.

Limited residential mortgage loan demand from low -income families may be attributed to many low-income families consisting of more senior, long time residents who have already owned and occupied residences in the area for many years. For this segment of the population, often housing needs tend to shift from owner occupied housing to apartment living. Therefore the bank's opportunity to originate residential mortgage loans to low -income borrowers is limited by area demographics.

Nevertheless, MNB is responsive to the needs of AA borrowers as demonstrated by the percentage of sampled residential mortgage loans originated for the relatively smaller dollar amounts needed by low and moderate-income borrowers. Specifically, of sampled residential mortgage loans, 87% were originated for dollar amounts less than or equal to \$100,000 and 50% were originated for amounts less than or equal to \$60,000.

MNB is also responsive to the needs of AA borrowers for whom high closing costs represent a barrier to obtaining home purchasing. MNB offers residential mortgages with PMI, no points and minimal closing costs as the bank does not charge the borrower application, commitment, or processing fees in conjunction with loan closings. Closing costs are minimal and represent costs typically passed on to borrowers for recording, credit reports, and title insurance which, MNB has historically waived for mortgages in dollar amounts less than \$100,000.

The following table details the distribution of sampled residential mortgage loans, originated by MNB over the evaluation period, among AA borrowers of different income levels period as compared to the income levels of AA families.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS

	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Totals	
	AA Families	17%		20%		26%		38%		100%
	####	\$000	####	\$000	####	\$000	####	\$000	####	\$000
Residential Mortgage Loans	1	\$57	6	\$336	6	\$362	9	\$1,080	22	\$1,835
	5%	3%	27%	18%	27%	20%	41%	59%	100%	100%

Geographic Distribution of Loans

< MNB's distribution of sampled residential mortgage loans among AA geographies meets the standard for satisfactory performance since it is reasonable considering AA demographics.

Demographic data compiled during the 1990 U.S. census for the MNB's AA indicates that available owner occupied housing is dispersed throughout the AA as follows:

- 0% of AA owner occupied housing is in low-income geographies
- 12% of AA owner occupied housing is in moderate-income geographies
- 71% of AA owner occupied housing is in middle-income geographies
- 17% of AA owner occupied housing is in upper-income geographies

MNB's record of originating residential mortgage loans among AA geographies is reasonable considering AA demographics. Data derived from a sample of 22 residential mortgage loans originated by MNB within the AA, over the evaluation period, was collected and analyzed. The sample contained mortgage loans originated in

a majority of AA geographies. The analysis was performed to assess the MNB's record of dispersing residential mortgage loans among AA geographies compared to the availability of AA owner occupied housing. Of all owner-occupied housing available within the AA, only 12% is located within the AA's moderate-income geographies.

As indicated below, data derived from our sample of residential mortgages originated in the AA during the evaluation period, revealed that sampled loans originated within moderate income geographies represented 5% and 3% of the sampled loan volume and sampled loan dollars respectively. This level of residential mortgage lending within moderate-income AA geographies is reasonable considering the availability of area owner occupied housing and the demographic context in which MNB operates.

MNB's record of originating residential mortgage loans within moderate-income AA geographies is reasonable considering the limited availability and location of owner occupied housing within these moderate-income AA geographies. The vast majority, 88% of all owner-occupied housing available within the AA, is located in the AA's middle- and upper-income geographies. Also, growth in the AA's available owner occupied housing is centered in the upscale housing market as the area has developed as a bedroom community of greater Pittsburgh.

In addition, opportunities for originating residential mortgage loans in AA moderate-income geographies is hampered since two of three of the AA's moderate-income geographies are located in the City of Jeannette. The City of Jeannette PA is situated on the eastern outskirts of MNB's AA, away from MNB' single branch which is located in the middle income geography of Manor, PA. The town of Manor is also located away from the AA's main thoroughfares and surrounded by hilly terrain, which serves to physically isolate MNB from AA geographies not immediately adjacent to its branch. Similarly, Manor PA, the location of MNB's only branch, lacks business and/or commercial development, which would serve to attract customers from non-adjacent geographies.

Therefore, two of the AA's three moderate-income geographies are geographically separated from where MNB has established its presence. In addition, residents of the City of Jeannette are also likely to patronize local credit unions associated with major area employers. The City of Jeannette is also situated midway between Manor, PA where MNB operates its branch, and Greensburg PA, a much larger city in which MNB faces heavy competition. Therefore, Jeannette loan applicants may be more likely, when seeking mortgage financing, to travel east towards the more heavily banked city of Greensburg than to travel west towards the small town of Manor. No unexplained or conspicuous gaps in geographic lending distribution were noted.

The following table details the distribution of sampled residential mortgage loans, originated by MNB over the evaluation

period, among AA geographies as compared to the availability of owner occupied housing within the AA geographies.

GEOGRAPHIC DISTRIBUTION OF RESIDENTIAL MORTGAGE LOANS

	Low Income Geographies		Moderate Income Geographies		Middle Income Geographies		Upper Income Geographies		Totals	
Owner Occupied Housing	0%		12%		71%		17%		100%	
	####	\$000	####	\$000	####	\$000	####	\$000	####	\$000
Residential Mortgage Loans	0	\$0	1	\$60	16	\$1,351	5	\$424	22	\$1,835
	0%	0%	5%	3%	72%	74%	23%	23%	100%	100%

Response to Complaints

No complaints have been received since the last examination.

Record of Compliance with Anti-Discrimination Laws

Analysis of public comments and consumer complaint information from 1997 through 2000 was performed according to the OCC's risk based fair lending approach. Based on an analysis of the information, the OCC determined that a comprehensive fair lending examination did not need to be conducted in conjunction with this CRA evaluation. The most recent comprehensive fair lending examination was performed in 1997.