



Comptroller of the Currency
Administrator of National Banks

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

PUBLIC DISCLOSURE

June 11, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Luzerne National Bank
Charter Number: 8921**

**118 Main Street
Luzerne, Pennsylvania 18709**

**Office of the Comptroller of the Currency
Northern 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 **The Luzerne National Bank** prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of June 11, 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 is reasonable at 61%;
- A substantial majority of HMDA (Home Mortgage Disclosure Act) reportable loans originated during the examination period are in the bank's assessment area;
- Loans originated in the assessment area are reasonably distributed among geographies with different income characteristics;
- 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.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>Luzerne 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		X	
Response to Complaints	No complaints received since the prior examination.		

DESCRIPTION OF INSTITUTION

The Luzerne National Bank (LNB) is an \$88 million institution situated in northeastern Pennsylvania. The bank operates two full service offices and two automatic teller machines located in Luzerne County. Major competitors include several large regional banks.

Primary loan products include fixed rate and adjustable rate residential mortgages, small business loans, consumer installment loans, and credit cards. The loan portfolio represents 61% of total assets. A breakdown of the portfolio as of March 31, 1997 is as follows: 57% residential mortgages, 34% commercial loans, 8% consumer installment loans, and 1% credit cards. 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

LNB's assessment area includes 32 census tracts in Luzerne County. The population of the assessment area approximates 101,000. Seventeen percent of the families residing in the assessment area are low-income, eighteen percent are moderate-income, twenty-four percent are middle-income, and forty-one percent are upper-income families.

The assessment area is part of the Scranton/Wilkes-Barre/Hazleton Metropolitan Statistical Area (MSA). The income levels of these census tracts include three moderate-income tracts, twenty-four middle-income tracts, and five upper-income tracts. The median family income of this MSA is \$35,900.

The unemployment rate for Luzerne County, as of March 1997, was 7.4%. This is above the state average. Employment opportunities are centered in health care, financial services, and manufacturing. Major employers include the Wyoming Valley Health Care Systems, Geisinger Health System, Mercy Hospital, the Department of Veteran Affairs Medical Center, the Student Loan Marketing Association, Mellon Bank, Techneglas Inc., C-TEC Corporation, Bell Atlantic, and Harris Semiconductors.

Credit needs of the community were determined during this examination by reviewing local community contacts made by other regulatory agencies. Two community development agencies and one non-profit organization were contacted. These contacts indicated that there is a need for small business loans to encourage development and revitalization of the local area. There is also a need for affordable housing loans and educational seminars on basic banking services. LNB is addressing these needs through several loan programs. LNB started the Downtown Revitalization Program in both Luzerne and Swoyersville. Through this program, small business loans are offered to local businesses to revitalize the local area. Residential mortgage loans with low down payment requirements are also offered when private mortgage insurance is obtained. LNB also sponsors monthly seminars on various banking services. Recent topics included: Cash Flow Maximizer, trust and estate planning, insurance, private mortgage insurance (PMI), and adjustable rate residential mortgage loans.

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 May 30, 1997.

Loan to Deposit Ratio

Our analysis of the loan to deposit ratio indicates that the average ratio of 61%, which has been increasing over the past two years, is reasonable. This average is below both the local and national peer bank averages of 72% and 67%, respectively. However, LNB's ratio has been steadily increasing and, as of March 31, 1997, is similar to the peer ratios for the same date.

Lending in Assessment Area

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

HMDA Reportable Loan Originations						
	1997		1996		1995	
	#	%	#	%	#	%
Inside Assessment Area	44	90	89	87	68	92
Outside Assessment Area	5	10	13	13	6	8
Total	49	100	102	100	74	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 information from the 1995, 1996, and 1997 HMDA-LARs. The following table shows that LNB's volume of lending is representative of the demographic composition of the assessment area.

HMDA Reportable Loan Originations by Level of Borrower Income							
Income Category	1997		1996		1995		% of Families Within Assessment Area
	# of Originations	%	# of Originations	%	# of Originations	%	
Low	3	6	10	10	10	14	17
Moderate	8	16	14	14	17	23	18
Middle	12	25	20	19	18	24	24
Upper	25	51	58	57	29	39	41
NA*	1	2	0	0	0	0	
Total	49	100	102	100	74	100	100

* Income information not available

LNB is very responsive to the credit needs of small businesses in its community. In the 1996 edition of Small Business Lending in Pennsylvania published by the U.S. Small Business Administration Office of Advocacy, LNB was ranked #3 in small business friendliness for banks with total assets less than \$100 million in Pennsylvania. This bank is an active Small Business Administration (SBA) lender. Currently, there is \$378 thousand in SBA loans in the loan portfolio. Management has also taken a leadership role in revitalizing the local area. As described earlier, LNB started a revitalization program in both Luzerne and Swoyersville. Thirty-eight business loans totaling \$1.5 million are currently outstanding under this program. Bank-generated reports detailing commercial loans outstanding which were originated during the examination period were used to evaluate LNB's record of lending to businesses of different sizes. A small business loan is defined as a loan with an original amount of less than \$1 million. The following table shows that substantially all of LNB's commercial lending is to small businesses.

<p>Commercial Loan Originations By Size of Loan</p>
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Loan Amount (000s)	1997		1996		1995	
	#	%	#	%	#	%
<\$100	55	79	75	77	86	85
\$101-\$250	9	13	18	19	14	14
\$251-\$1,000	6	8	4	4	0	0
>\$1,000	0	0	0	0	1	1
Total	70	100	97	100	101	100

Geographic Distribution of Loans

We reviewed the geographic distribution of the bank's lending using 1995, 1996, and 1997 HMDA reportable loan originations. The following table indicates a reasonable penetration of loan originations to various income census tracts.

HMDA Reportable Loan Originations by Census Tract Characteristic							
Census Tract Characteristic	1997		1996		1995		Census Tracts within Assessment Area
	#	%	#	%	#	%	
Low	0	0	0	0	0	0	0
Moderate	3	7	7	8	9	13	3
Middle	31	70	59	66	42	62	24
Upper	10	23	23	26	17	25	5
Total	44	100	89	100	68	100	32

Compliance with Antidiscrimination Laws

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