



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**March 30, 2009**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The First National Bank of Fredericksburg  
Charter Number 8783

147 South Pine Grove Street  
Fredericksburg, PA 17026

Office of the Comptroller of the Currency

NORTHERN PENNSYLVANIA FIELD OFFICE  
60 Public Square Suite 602  
Wilkes-Barre, PA 18701

**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 major factors supporting the institution's rating include:

- A substantial majority of home mortgage loans were originated within the bank's assessment area;
- The distribution of loans reflects an excellent penetration among borrowers of different incomes;
- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, assessment area (AA), credit needs, and relevant competitive factors; and
- The bank has not received any CRA-related consumer complaints since the last CRA examination.

**SCOPE OF EXAMINATION**

First National Bank of Fredericksburg (FNB) was evaluated under the Small Bank Community Reinvestment Act (CRA) examination procedures. Our review covered the bank's CRA performance from January 1, 2006 through December 31, 2008, as this is representative of its lending strategy since the last CRA examination. Residential mortgages were determined to be the bank's primary loan product and were reviewed as part of this examination. The residential mortgage loan analysis is based upon the bank's Home Mortgage Disclosure Act-Loan Application Registers (HMDA-LARs). The HMDA data were tested prior to this review and found to be reliable for the purpose of this analysis. Therefore, we used the HMDA data from January 1, 2006 through December 31, 2008 to evaluate the bank's home mortgage loan performance.

**DESCRIPTION OF INSTITUTION**

First National Bank of Fredericksburg (FNB), founded in 1907, is an independent, intrastate community bank located in south central Pennsylvania. FNB is a full service financial institution. Additional details about products and services can be found at the bank's Internet website [www.fnbankonline.com](http://www.fnbankonline.com). FNB is not part of a holding company structure, and the bank does not have subsidiaries or affiliates. There have been no changes to FNB's corporate structure, including merger or acquisition activities, since the previous examination. The bank has eight full-service branches. Seven of the offices have drive-up windows, and all have extended evening and weekend hours. During this evaluation period, no branches were opened or closed.

As of December 31, 2008, FNB reported total assets of \$179 million. Total loans were \$139 million or 77% of total assets. Total deposits were \$150 million. The bank's primary lending products are residential mortgage loans and commercial loans, which were the primary business focus of the bank during a majority of this evaluation period.

Residential real estate loans represent 43% of the loan portfolio, followed by commercial loans at 39%, and consumer loans at 18%. Net tier one capital was \$14 million as of that same date.

Competition in the area is strong and includes numerous locally based state chartered banks and regional banks. FDIC deposit market share data was obtained by using county codes. FNB has five offices in Lebanon County. According to the June 30, 2008 FDIC Summary of Deposit Market Share Report for Lebanon County, FNB ranked 5<sup>th</sup> out of 10 institutions with 7.2% of deposits. Fulton Bank ranked 1<sup>st</sup> with 9 offices in the county and 28.7% of the deposit market share. Other financial institutions include Wachovia Bank, N.A. with 6 offices and 20.51% of the market share, and Northwest Savings Bank with 5 offices and 12.82% of the market share.

FNB has one office in Berks County. According to the June 30, 2008 FDIC Summary of Deposit Market Share Report for this county, FNB ranked 18<sup>th</sup> out of 21 institutions with .32% of deposits. Sovereign Bank ranked 1<sup>st</sup> with 14 offices and 37.76% of the market share. Other financial institutions include National Penn Bank with 20 offices and 14.15% of the market share, and Wachovia Bank, N.A. with 19 offices and 12.88% of the market share.

FNB has two offices in Schuylkill County. According to the June 30, 2008 FDIC Summary of Deposit Market Share Report for this county, FNB ranked 15<sup>th</sup> out of 20 institutions with 1.31% of deposits. Wachovia Bank, N.A. ranked 1<sup>st</sup> with 8 offices and 21.37% of the market share. Other financial institutions include Manufacturers & Traders Trust Company with 12 offices and 17.53% of the market share, and Sovereign Bank with 11 offices and 15.81% of the market share.

FNB maintains an ongoing program to identify the credit needs of its market area. FNB's last Public Evaluation (PE) was dated July 12, 2004, and the overall CRA rating assigned was "Satisfactory". There are no known legal, financial or other factors impeding FNB's ability to help meet the credit needs of its community.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

FNB has three assessment areas (AAs), all located in the state of Pennsylvania. All meet regulatory requirements and do not arbitrarily exclude any low- or moderate-income geographies.

### **Lebanon AA**

This assessment area includes 29 census tracts (CTs), which is the entire Lebanon, PA Metropolitan Statistical Area (MSA). The bank's headquarters and four additional branches are located in the northern portion of Lebanon County. The AA contains no low-income CTs. There are 4 moderate-income CTs, 21 middle-income CTs, and 4 upper-income CTs. According to the 2000 U.S. Census, the total population of this AA is 120,327. The AA's population is comprised of 32,890 families with the following family income distribution: 16.79% are low-income, 19.96% are moderate-income, 25.27% are middle-income, and 37.97% are upper-income. The median cost of

housing in this AA is \$98,801. The Updated Median Family Income for 2008 is \$62,500. The percentage of households below the poverty level is 7%.

In 2007, 240 lenders originated HMDA loans in the Lebanon, PA MSA AA. According to the 2007 HMDA Peer Mortgage Data, FNB ranked 16<sup>th</sup> with a market share of 1.73%. Fulton Bank ranked 1<sup>st</sup> with a market share of 8.65%, and Wachovia Bank, N.A. ranked 2<sup>nd</sup> with a market share of 6.54%.

Major employers in Lebanon County are: Fort Indiantown Gap military post, Hershey Foods, Good Samaritan Hospital, Farmers Pride (poultry), Hershey Entertainment & Resorts, Cornwall Lebanon School District, and federal, state and local government offices.

**Lebanon AA**

Demographic Information for Full Scope Area: Fredericksburg Lebanon AA 2008						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	29	0.00	13.79	72.41	13.79	0.00
Population by Geography	120,327	0.00	16.43	67.01	16.55	0.00
Owner-Occupied Housing by Geography	33,863	0.00	11.94	69.36	18.70	0.00
Business by Geography	6,706	0.00	17.01	66.76	16.22	0.00
Farms by Geography	459	0.00	1.31	81.70	16.99	0.00
Family Distribution by Income Level	32,890	16.79	19.96	25.27	37.97	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	12,089	0.00	24.39	65.13	10.49	0.00
Median Family Income		48,742	Median Housing Value	98,801		
HUD Adjusted Median Family Income for 2008		62,500	Unemployment Rate	7.2%		
Households Below Poverty Level		7%	(Feb. 2009)			

(\*) The NA category consists of geographies that have not been assigned an income classification. Source: 2000 US Census and 2008 HUD updated MFI

**Berks AA**

This AA comprises 3 census tracts in western Berks County, which is part of the Reading, PA MSA. The Reading, PA MSA contains a total of 82 census tracts; however, the bank designated only the three census tracts it could reasonably service.

All three of the census tracts in this AA are middle-income tracts. There are no low- or moderate-income census tracts in this AA. The bank has one branch in this AA. According to the 2000 U.S. Census data, the total population in this AA is 20,063. The AA's population is comprised of 5,422 families with the following family income distribution: 13.26% are low-income, 20.71% are moderate-income, 30.21% are middle-income, and 35.82% are upper-income. The median cost of housing in this AA is \$110,548. The Updated Median Family Income for 2008 is \$60,500. The percentage of households below the poverty level is 5%.

In 2007, 126 lenders originated HMDA loans in the Berks AA. According to the 2007

HMDA Peer Mortgage Data, FNB ranked 13<sup>th</sup> with a market share of 2.32%. Countrywide Home Loans ranked 1<sup>st</sup> with a market share of 8.40%, and Countrywide Bank, FSB ranked 2<sup>nd</sup> with a market share of 5.69%.

The major employers in Berks County are: Reading Hospital and Medical Center, East Penn Manufacturing (batteries), County of Berks, Wal-Mart Stores, Reading School District, Boscov's Department Store, and Carpenter Technology Corporation (specialty steel).

**Berks AA**

Demographic Information for Full Scope Area: Fredericksburg Berks AA 2008						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	3	0.00	0.00	100.00	0.00	0.00
Population by Geography	20,063	0.00	0.00	100.00	0.00	0.00
Owner-Occupied Housing by Geography	5,773	0.00	0.00	100.00	0.00	0.00
Business by Geography	1,232	0.00	0.00	100.00	0.00	0.00
Farms by Geography	171	0.00	0.00	100.00	0.00	0.00
Family Distribution by Income Level	5,422	13.26	20.71	30.21	35.82	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	1,842	0.00	0.00	100.00	0.00	0.00
Median Family Income HUD Adjusted Median Family Income for 2008 Households Below Poverty Level		53,061 60,500 5%	Median Housing Value Unemployment Rate (Feb. 2009)	110,548 8.9%		

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2000 US Census and 2008 HUD updated MFI

**Schuylkill AA**

This AA consists of 7 census tracts located in the southern portion of the non-MSA area of Schuylkill County. The Schuylkill County non-MSA contains a total of 39 census tracts; however, FNB designated only the 7 census tracts it could reasonably service.

This AA includes no low- or moderate-income tracts. Six of the tracts are middle-income tracts, and one is an upper-income tract. According to the 2000 U.S. Census data, the total population of this AA is 27,336. The AA's population is comprised of 7,784 families with the following family income distribution: 11.97% low-income, 17.61% moderate-income, 25.89% middle-income, and 44.53% upper-income. The median cost of housing in this AA is \$86,938. The Updated Median Family Income for 2008 is \$51,500. The percentage of households below the poverty level is 7%.

In 2007, 148 lenders originated HMDA loans in the Schuylkill Non-MSA AA. According to the 2007 HMDA Peer Mortgage Data, FNB ranked 11<sup>th</sup> with a market share of 2.85%. Sovereign Bank ranked 1<sup>st</sup> with a market share of 9.45%, and Countrywide Home Loans ranked 2<sup>nd</sup> with a market share of 7.80%.

Major employers in Schuylkill County are: Wal-Mart, Schuylkill Health Systems, Cargill Meat Solutions (meat packaging), Sapa Extrusions, Guilford Mills (knit fabrics), Lowe's

Companies Distribution Center, and state and local government offices.

**Schuylkill AA**

Demographic Information for Full Scope Area: Fredericksburg Schuylkill AA 2008						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	7	0.00	0.00	85.71	14.29	0.00
Population by Geography	27,336	0.00	0.00	82.73	17.27	0.00
Owner-Occupied Housing by Geography	8,755	0.00	0.00	81.27	18.73	0.00
Business by Geography	1,529	0.00	0.00	80.71	19.29	0.00
Farms by Geography	72	0.00	0.00	59.72	40.28	0.00
Family Distribution by Income Level	7,784	11.97	17.61	25.89	44.53	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	2,303	0.00	0.00	86.54	13.46	0.00
Median Family Income		41,475	Median Housing Value	86,938		
HUD Adjusted Median Family Income for 2008		51,500	Unemployment Rate	10.5%		
Households Below Poverty Level		7%	(Feb. 2009)			

(\*) The NA category consists of geographies that have not been assigned an income classification.  
 Source: 2000 US Census and 2008 HUD updated MFI

**Overall Assessment Area Description**

The bank’s AAs are primarily rural and small town. Agriculture is the largest industry in the area with a majority of the land being utilized for agricultural purposes. The area is also one of Pennsylvania’s top poultry producing areas and is a state leader in the production of milk, corn, and soybeans. With three interstate highways running through the three counties, business parks provide employment from companies utilizing these locations for distribution centers. These highways also enable many residents to commute to work in Reading and Harrisburg, the state capital of Pennsylvania. Employment opportunities exist in those larger cities mainly in government and manufacturing jobs.

**Economy**

As of February 2009, the Pennsylvania average state unemployment rate was 8.2%; while unemployment in AA counties was 7.2% for Lebanon County, 8.9% for Berks County, and 10.5% for Schuylkill County. This areas recession is deepening and hurting some of its largest traditional employers. There are projected state government layoffs due to the deteriorating fiscal condition in the Pennsylvania government. This could affect the Lebanon County area because many residents commute the 25 miles to Harrisburg, the state capital. The local economy is being supported by the lack of a housing crash and the boom in hospital construction.

**Community Contacts**

We reviewed a recent community contact with an economic development organization. The organization promotes economic development in Lebanon County, PA and helps businesses access financing options including publicly supported loan programs, job training funding, and grants. Their main focus is to: diversify the economic base, restore brownfield industrial sites, provide financial assistance to existing businesses,

develop the infrastructure, and initiate workforce development. This community contact identified several needs in the area. There is a need for venture capital and financing options for new businesses. There is also a need for low-income housing, assisted living facilities for the elderly, and assistance for homeless individuals and families. Housing affordability is becoming an issue in the area. They also see a need for financing programs to address home maintenance and home rehabilitation issues. This community contact believes that area banks are supportive of the local community and ongoing economic development activities.

We also reviewed a recent community contact with a government agency that focuses on providing affordable housing for low-income families and senior citizens in Lebanon County, PA. They also provide several social services to the community. The contact identified safe, affordable housing as a continuing need in the area. This contact also discussed another government agency in the county that focuses on services and programs for homeowners. That agency has a first time homebuyers program, a housing rehabilitation program, and a housing accessibility program to assist disabled persons. This community contact indicated that local financial institutions are very supportive of community development efforts.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank's performance is "Satisfactory". FNB's quarterly average net loan-to-deposit ratio is reasonable. A substantial majority of FNB's home mortgage loan products were originated within the bank's AA. The distribution of loans reflects excellent penetration among borrowers of different income levels.

### **Loan-to-Deposit Ratio**

FNB's loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and AA credit needs, and it meets the standard for satisfactory performance. The bank's quarterly average net loan-to-deposit ratio for the 24 quarters since the last CRA evaluation was 77.02%. This ratio ranks the bank ninth among the bank's peer group. The peer group consisted of 14 similarly sized institutions in the state of Pennsylvania. The peer group's quarterly average net loan-to-deposit ratio was 79.20% over the same 24 quarters.

### **Lending in Assessment Area**

A substantial majority of FNB's home mortgage loan products were originated within the bank's AA, exceeding the standard for satisfactory performance. During the evaluation period, 93% of the total home mortgage loans were within the bank's AA.

### **Lending to Borrowers of Different Incomes**

The bank's record of lending reflects excellent penetration among borrowers of different incomes, exceeding the standard for satisfactory performance. All areas received a full-scope review.

Lebanon, PA MSA AA (Lebanon County)

The distribution of home mortgage loans reflects excellent penetration among borrowers of different income levels in the Lebanon, PA MSA AA.

The percentage of home purchase loans originated to low- and moderate-income borrowers exceeds the percentage of low- and moderate-income families in the AA. The percentage of home refinance loans originated to low-income borrowers is near to the percentage of low-income families in the AA. The level of home refinance loans originated to moderate-income families exceeds the percentage of moderate-income families in the AA. The percentage of home improvement loans originated to low-income borrowers is lower than the percentage of low-income families in the AA. However, the percentage of home improvement loans originated to moderate-income borrowers is near to the percentage of moderate-income families in the AA. When considering the affordability of housing in the AA, this performance is outstanding. The median cost of housing in the AA is \$98,801 according to the 2000 census data. Based on the 2008 HUD adjusted median family income, low-income families earn less than \$31,250.

The following, Table 2A, shows the distribution of home loan products among borrowers of different income levels for the period of January 1, 2006 through December 31, 2008 as compared to the percent of families in each income category.

<b>Table 2A - Borrower Distribution of Residential Real Estate Loans in Lebanon, PA MSA AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	16.79	19.54	19.96	28.74	25.28	20.69	37.97	31.03
Home Refinance	16.79	14.62	19.96	25.14	25.28	27.49	37.97	32.75
Home Improvement	16.79	7.41	19.96	17.59	25.28	34.26	37.97	40.74

*Source: data reported under HMDA; 2000 US Census Data*

Reading, PA MSA AA (Berks County)

The distribution of home mortgage loans reflects excellent penetration among borrowers of different income levels in the Reading, PA MSA AA.

The percentage of home purchase loans originated to low-income borrowers is near to the percentage of low-income families in the AA. The percentage of home purchase loans originated to moderate-income borrowers exceeds the percentage of moderate-income families in the AA. The percentage of home refinance loans originated to low- and moderate-income borrowers exceeds the percentage of low- and moderate-income families in the AA. The percentage of home improvement loans originated to low- and



moderate-income borrowers exceeds the percentage of low- and moderate-income families in the AA. When considering the affordability of housing in the AA, this performance is outstanding. The median cost of housing in the AA is \$110,548 according to the 2000 census data. Based on the 2008 HUD adjusted median family income, low-income families earn less than \$32,500.

The following, Table 2B, shows the distribution of home loan products among borrowers of different income levels for the period of January 1, 2006 through December 31, 2008 as compared to the percent of families in each income category.

<b>Table 2B - Borrower Distribution of Residential Real Estate Loans in Reading, PA MSA AA (Berks County)</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	13.26	12.50	20.71	31.25	30.21	25.00	35.82	31.25
Home Refinance	13.26	24.25	20.71	36.36	30.21	24.24	35.82	15.15
Home Improvement	13.26	16.22	20.71	29.73	30.21	32.43	35.82	21.62

*Source: data reported under HMDA; 2000 US Census Data*

Schuylkill, PA Non- MSA AA (Schuylkill County)

The distribution of home mortgage loans reflects reasonable penetration among borrowers of different income levels in the Schuylkill, PA Non-MSA AA.

FNB did not originate any mortgage loans to low-income borrowers. However, the percentage of home purchase loans originated to moderate-income borrowers exceeds the percentage of moderate-income families in the AA. The percentage of home refinance loans originated to low-income borrowers is less than the percentage of low-income families in the AA. The percentage of home refinance loans originated to moderate-income borrowers exceeds the percentage of moderate-income families in the AA. The percentage of home improvement loans originated to low-income borrowers is less than the percentage of low-income families in the AA, while the percentage of home improvement loans to moderate-income borrowers is near to the percentage of moderate-income families in the AA. When considering the affordability of housing in the AA, this performance is satisfactory. The median cost of housing in the AA is \$86,938 according to the 2000 census data. Based on the 2008 HUD adjusted median family income for 2008, low-income families earn less than \$25,750. Based on this statistic, it would be difficult for a low-income individual to purchase housing in this AA.

The following, Table 2C, shows the distribution of home loan products among borrowers of different income levels for the period of January 1, 2006 through December 31, 2008

as compared to the percent of families in each income category.

<b>Table 2C - Borrower Distribution of Residential Real Estate Loans in Schuylkill, PA Non-MSA AA (Schuylkill County)</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	11.97	0.00	17.61	21.43	25.89	14.29	44.53	64.29
Home Refinance	11.97	8.16	17.61	18.37	25.89	30.61	44.53	42.86
Home Improvement	11.97	1.92	17.61	13.46	25.89	32.69	44.53	51.92

*Source: data reported under HMDA; 2000 US Census Data*

## Geographic Distribution of Loans

The geographic distribution reflects reasonable dispersion throughout census tracts of different income levels, meeting the standard for satisfactory performance. No conspicuous gaps or areas of low penetration were identified.

### Lebanon, PA MSA AA

The geographic distribution of loans reflects reasonable dispersion throughout census tracts of different income levels in the Lebanon, PA MSA AA.

There are no low-income census tracts in this AA; therefore, an analysis of this distribution would not be meaningful. In our analysis, we took into consideration the limited opportunities to lend in moderate-income geographies. There are only four moderate-income geographies in this AA, and a majority of the population (67 percent) and owner-occupied housing (69 percent) is located within middle-income geographies.

The percentage of home purchase loans originated in moderate-income geographies is near to the percentage of owner-occupied housing units in these geographies. The percentage of home refinance loans originated in moderate-income geographies is lower than the percentage of owner-occupied housing units in these geographies. The percentage of home improvement loans originated in moderate-income geographies is lower than the percentage of owner-occupied housing units in these geographies. This performance is considered reasonable when taking into consideration the limited opportunities to lend in moderate-income geographies as well as the strong competition from larger financial institutions in this AA.

The following, Table 3, details the bank's performance as compared to the percentage of owner-occupied housing units in each census tract income level for the period of January 1, 2006 through December 31, 2008.

<b>Table 3 - Geographic Distribution of Residential Real Estate Loans in Lebanon, PA MSA AA</b>								
<b>Census Tract Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
<b>Loan type</b>	<b>% of AA Owner Occupied Housing</b>	<b>% of Number of Loans</b>	<b>% of AA Owner Occupied Housing</b>	<b>% of Number of Loans</b>	<b>% of AA Owner Occupied Housing</b>	<b>% of Number of Loans</b>	<b>% of AA Owner Occupied Housing</b>	<b>% of Number of Loans</b>
Home Purchase	0.00	0.00	11.94	11.49	69.36	83.91	18.70	4.60
Home Refinance	0.00	0.00	11.94	7.07	69.36	84.23	18.70	8.70
Home Improvement	0.00	0.00	11.94	5.17	69.36	85.35	18.70	9.48

*Source: data reported under HMDA; 2000 US Census Data.*

### Reading, PA MSA AA and Schuylkill, PA Non-MSA AA

There are no low- or moderate-income geographies in the bank's Reading, PA MSA AA (Berks County) and Schuylkill, PA Non-MSA AA (Schuylkill County); therefore, a geographical analysis for these areas would not be meaningful.

### **Responses to Complaints**

The bank has not received any CRA-related consumer complaints since the last CRA examination.

### **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.