
Comptroller of the Currency
Administrator of National Banks

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

PUBLIC DISCLOSURE

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Lebanon Valley National Bank
Charter No. 680
Post Office Box 1285
555 Willow Street
Lebanon, Pennsylvania 17042

Office of the Comptroller of the Currency
Northeastern Pennsylvania Duty Station

July 22, 1996

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 the financial institution.

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Lebanon Valley National Bank prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency.

The evaluation represents the OCC's current assessment and rating of the institution's CRA performance based on an examination conducted as of July 22, 1996. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the community in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under 5 performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Lebanon Valley National Bank (LVNB) is a \$560 million dollar bank headquartered in the heart of “Pennsylvania Dutch Country” in Lebanon, PA. The area is home to a highly diversified group of manufacturers, transport companies, wholesale and retail merchandisers, financial institutions, and service businesses of all varieties. In addition, farming continues to be prominent throughout the community. Major employers in the area include ALCOA, Hershey Foods, Armstrong, and Bayer Corporation. Competition is considered intense with regional and community banks in the marketplace. Major competitors include CoreStates, Dauphin Deposit Bank and Trust, Fulton Bank, and Bank of Lancaster County.

The Census MSA median family income for the community is \$36,465 and the total population approximates 1.2 million.

Institution's rating:

Based on the findings presented below, this institution is rated: " Outstanding record of meeting community credit needs" .

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

LVNB maintains ongoing and meaningful contact with a full range of groups through a formal outreach program administered by the head of the Community Banking division.

Eighteen branch managers and ten commercial lenders maintain active and regular contact with both existing and prospective customers. Year to date, branch managers have collectively made 407 calls to existing customers and 204 calls to prospective customers. Commercial lenders have made 593 calls to existing customers and 311 calls to prospective customers. “Customers” include area businesses, local governments, social service agencies, schools, and community service organizations.

As a result of outreach efforts, management and the Board have identified housing, small business, and farm loans as the primary credit needs in the community. Management has introduced a new receivables factoring product this year aimed at small businesses experiencing cash flow problems. Six borrowers have been approved for \$2.3 million with \$1.6 million currently outstanding under this “Business Manager” program .

Outreach efforts also identified a need for a bundling of products and services. Management and the Board responded by offering a service in which, for a minimum deposit of \$5,000, the consumer is privy to a host of attractively priced products and services, including free ATM access and credit cards with no associated annual fee. These “Keynote Services” were introduced in July of 1994. Currently, 300 accounts exist with \$3.4 million in savings, \$4.1 million in checking accounts and \$2.5 million in certificates of deposit.

Management and the Board actively solicit input from senior citizens in the community. Outreach efforts did not identify any specific credit needs, but a need for several products and services. Management and the Board have responded affirmatively and developed specific products in response to identified needs. Senior citizens receive a one quarter percentage point interest premium on their CDS, free checking accounts, 25% discount on safe deposit box fees, and additional accidental health insurance benefits. The availability of these products and services is communicated via the Heritage Society News, a bi-monthly newsletter which targets senior citizens that discusses products, bank news, and information. The newsletter also solicits input from seniors. Each member of the Heritage Society is assigned a Customer Service Representative who contacts each senior personally at least once a year to gain awareness of any unmet needs.

LVNB is a member of a multi-bank training consortium that conducts seminars for first time home buyers on at least an annual basis. LVNB is able to both inform home buyers of product offerings and solicit their input concerning specific credit needs.

Assessment Factor C - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

The Board of Directors remains committed to comply with the spirit and intent of the Community Reinvestment Act. The Board ensures that training is provided for all affected employees and consistently supports innovative underwriting criteria to address community credit needs. Directors continue to be personally involved in local school boards, planning commissions, economic development corporations, chambers of commerce, and other community organizations.

The Board has oversight responsibility for compliance with the Act. Directors meet at least monthly. They review and approve all CRA related activities and programs.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

Marketing and advertising programs effectively inform all segments of the community of the availability of all products and services. Reliance is placed primarily on radio and print advertising. The availability of credit and other banking services is further communicated via the extensive Outreach Program detailed under Assessment Factor A noted above. Management and the Board's ongoing personal contact with community members also serves as an effective marketing tool.

Management and the Board continue to sponsor educational seminars on a wide range of subjects, including credit counseling, budgeting, and home buying. Seminars are held semi-annually, usually in the spring and fall. Seminars conducted at least annually target farm and agricultural customers and small businesses.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business loans within its community, or the purchase of such loans originated in its community

LVNB has demonstrated significant efforts and performance in affirmatively addressing credit needs within the delineated community. A range of credit products are offered to meet the credit needs of the community. Credit product offerings are accurately detailed in the most recent CRA statement and include various consumer, real estate, commercial, agricultural, and municipal loans. LVNB's loan-to-deposit ratio is currently 80%.

The June 30, 1996 Report of Condition and Income (Call Report) indicates a loan portfolio comprised of 38% commercial, 24% farm related, 19% residential real estate and 14 % consumer instalment loans. The remaining 5% comprises municipal and other loans.

Our analysis revealed that a substantial majority of loan originations are within the delineated community. We reviewed 1994 and 1995 Home Mortgage Disclosure Act Loan Application Registers (HMDA-LARs). In 1994 and 1995, 99% and 84%, respectively, of all dollars originated were in the delineated community. Also in 1994 and 1995, LVNB was the second largest overall mortgage lender in Lebanon County.

The following table depicts LVNB's continued commitment to meeting the housing credit needs of the community. The table details the number and dollar amount of originations for 1994 and 1995.

	1994 HMDA		1995 HMDA	
	\$000	#	\$000	#
PURCHASE	7,668	108	9,064	136
REFINANCE	7,299	91	7,306	97
HOME IMPROVEMENT	1,333	157	3,169	308
TOTAL	16,300	356	19,539	541

LVNB sells the majority of residential loans originated into the secondary market. This provides management with additional funds to meet the housing credit needs of the community. In March of 1996, LVNB purchased Central Mortgage Company (CMC). CMC is a dominant player in the Lancaster market, and lends almost exclusively in the assessment area. The purchase of CMC further strengthens LVNB's performance in providing financing for home buyers. Performance as of June 30, 1996 is strong with \$25 million or 284 loans originated.

The Flexible Affordable Mortgage Program was established five years ago and targets low- to moderate-income individuals. Annual income cannot exceed 90% of HUD's published Federal Community Development Program Limits. Loans under this program carry attractive rates and a one point origination fee. In 1995, LVNB originated 15 such mortgages totaling \$651,000, all of which were in the assessment area. 1994 originations totaled \$1,073,700, all in the assessment area. The above table includes loans extended under this program.

The Fleet Community Home Buyers Program provides an affordable mortgage product to individuals whose income does not exceed 100% of HUD's median. LVNB requires 5% down payment with only 3% from the borrowers own funds. The remaining 2% may come in the form of a gift, grant, or unsecured loan. The program is not limited to first time home buyers. Educational counseling and limited or non-traditional credit history can be used. Originations under this program are included in the above table.

LVNB has done a good job in meeting the credit needs of the small business community. The following table details small business lending. Information is from the June 1996 Call Report. The majority of the \$153 million commercial loan portfolio (64%) is centered in small business loans. Total outstandings in 1996 represent a slight increase when compared to 1995. In 1995, LVNB maintained 1,038 small business loans with outstandings at \$85,481,000.

ORIGINAL AMOUNTS	#	\$000 OUTSTANDING	% OF TOTAL COMMERCIAL LOAN DOLLARS
\$100,000 OR LESS	704	18,549	12%
\$100,000 - \$250,000	220	23,795	16%
\$250,000 - \$1,000,000	175	55,082	36%
TOTAL	1,099	97,426	64%

The above table reflects the current composition of the commercial portfolio. Outstanding dollar amounts were used since originations are not formally tracked as part of the CRA program. Management consistently focuses on lending within the community. Small business loans originated during the period July 1, 1995 through June 30, 1996 were geographically analyzed by management to determine whether lending occurred inside or outside of the bank's community. During this period, LVNB originated 350 small business loans totaling \$52,935,000. Of those loans, 342 (98%) or \$51,447,000 (97%) were extended to businesses within the bank's delineated community. This further demonstrates LVNB's commitment to meet small business lending needs.

LVNB continues to devote significant resources to meeting the credit needs of the local farm community. LVNB has a sizeable agricultural loan portfolio. Most loans are made to small, family run farms with no access to regional or national credit markets. Many are owned by members of the Amish or Mennonite communities. Within Pennsylvania, LVNB is the third largest agricultural lender. The following table indicates exceptional performance in making credit available to small farms. Almost the entire \$100 million dollar agricultural loan portfolio comprises loans to small farms within the delineated community. The June 30, 1995 Call Report indicates that LVNB maintained 1,217 small farm loans with \$82,341,000 outstanding. 1996 performance exceeds that of 1995, as shown by the following table..

ORIGINAL AMOUNTS	#	\$000 OUTSTANDING	% OF TOTAL FARM LOAN DOLLARS
\$100,000 OR LESS	875	22,851	23%
\$100,000 - \$250,000	267	31,259	31%
\$250,000 - \$500,000	140	39,467	39%
TOTAL	1,282	93,577	93%

Similar to the small business loan table, the above table reflects the current composition of the agricultural portfolio. A geographical analysis of farm lending prepared by management further demonstrates their commitment to meeting the credit needs of the local farm community. For the period July 1, 1995 through June 30, 1996, LVNB originated 493 small farm loans for \$46,289,000. Four hundred and thirty-two loans (88%) or \$40,487,000 (87%) were extended to farms within the community.

The Farm Start Program was developed in the late 1980s in response to the credit needs of farmers just starting out. Loans are offered at favorable terms and rates and help to finance start-up costs. The program has been very successful and very well received with 40 loans totaling \$2.5 million extended to date, all within the assessment area. Originations during 1994, 1995, and year to date (June) 1996 were eight or \$502,000, 17 or \$1,239,000, and six or \$317,000, respectively. Loans are typically for livestock and machinery. Loans extended under this program are included in the above table.

As previously mentioned, consumer loans comprise approximately 14% of the entire loan portfolio. Management and the Board hope to significantly increase consumer lending volumes. Plans are to double the existing portfolio through increased marketing efforts. Budget increases have already been approved. No products in particular are being specifically targeted.

Assessment Factor J - The institution's participation in governmentally-insured, guaranteed or subsidized loan programs for housing and small business.

The purchase of CMC is expected to significantly expand activity in government programs and enhance LVNB's performance. Prior to the purchase, LVNB offered mainly conventional mortgage products. Participation in government-guaranteed programs was limited due mainly to management's lack of expertise with such products and programs. Approximately two-thirds of CMC's volume is governmentally-insured FHA and VA loans. As of June 30, 1996, LVNB through CMC has closed 135 or \$8 million governmentally-insured loans.

LVNB participates in the Small Business Administration (SBA) program and as a result, offers financing to small businesses that could not obtain financing on more conventional terms. The program makes loans up to \$750,000 available at favorable rates and terms. Demand for SBA loans has been very low and originations are minimal with less than five loans outstanding totaling less than \$1 million. Management provides this service to the community despite a lack of expertise in this area.

III GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Reasonableness of Delineated Community

The Board and management have revised and redefined their delineated community in response to both new CRA whole geography requirements and the current branch expansion focus. The delineated community is defined as the five counties in which LVNB has branches: Lebanon, Lancaster, Berks, Dauphin, and Schuylkill. The delineation complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income areas. The area consists of 295 census tracts in three Metropolitan Statistical Areas (Harrisburg-Lebanon-Carlisle, Lancaster, and Reading). The vast majority of tracts are middle-income (72%). Ten low-income and 43 moderate-income census tracts represent 3% and 15% of the total tracts, respectively. The remaining 9% are upper-income tracts.

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications and credit denials.

LVNB's lending patterns are consistent with the composition or mix of the delineated community. The vast majority of census tracts within the community are middle-income tracts. The following table summarizes the geographic distribution of mortgage loans originated by census tract for LVNB.

	LOW		MODERATE		MIDDLE		UPPER	
	\$	#	\$	#	\$	#	\$	#
1994 HMDA	0%	0%	4%	10%	86%	82%	10%	8%
1995 HMDA	>1%	1%	6%	11%	86%	81%	9%	8%

The following table details the distribution of mortgages according to borrower income characteristics. We found the distribution of loans among borrowers of different income levels to be very favorable. In 1994, 20% of the dollars and 43% of the number of mortgage originations were to borrowers with low- or moderate-incomes. In 1995, the figures increased to 25% and 40%, respectively.

	LOW		MODERATE		MIDDLE		UPPER	
	\$	#	\$	#	\$	#	\$	#
1994 HMDA	2%	11%	18%	32%	40%	33%	40%	23%
1995 HMDA	4%	11%	21%	29%	30%	28%	45%	31%

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

LVNB's offices are readily accessible to all segments of the local community. The branch network consists of 18 full service branches and an additional branch housed in an elder care facility. Hours are very convenient with evening and Saturday hours at all branches. Freestanding automated teller machines (ATMs) are located at the Lebanon Veterans Administration Hospital and Lebanon Valley College. LVNB offers its full range of products and services at all branches.

Current plans are to expand the already widespread branch network. Several branch expansion opportunities are in the process of being finalized. A branch is currently under construction in Derry Township and management has received approvals for three more branches with openings anticipated by year-end.

The Board has adopted a comprehensive branch closing policy. No branches have been closed since our prior examination.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practice intended to discourage application for types of credit set forth in the institution's CRA Statement(s).

Our fair lending review disclosed a good record of equitable lending to all members of the community. All affected personnel will be subject to regular and comprehensive fair lending training by the Outsourcing Partnership. All denied loans are subject to a second review process. This helps to ensure fair and equitable treatment to all borrowers. In addition, a self-testing process will be conducted going forward to further ensure compliance with fair lending laws. Every effort is made to find alternative methods to grant loans to creditworthy borrowers who might not initially meet standard criteria.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

There is no evidence of prohibited discriminatory or other illegal credit practices.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

As indicated below, LVNB is actively involved in several projects in the delineated community despite the reportedly limited opportunities to participate in such endeavors.

The Susquehanna Valley Community Development Loan Fund (SVCDF) helps to provide for economic expansion and home ownership in the Susquehanna Valley area. SVCDF specifically targets low- and moderate-income borrowers. The loans finance projects which benefit the community and generate secure well-paying jobs. LVNB has provided \$90,000 in financing to the loan fund.

LVNB recently made a \$765,000 equity investment in Maple Terrow, an affordable housing project in Lebanon which targets low-to-moderate income individuals.

LVNB is a member of the Affordable Housing Council in Lebanon County. This organization offers free seminars to potential home buyers. The council is committed to educating buyers concerning all aspects of the home buying process. LVNB was a primary force in establishing this council. Two members of LVNB's management team were on the organizing committee and helped to develop and implement the council.

LVNB has also extended \$11,000 to Habitat for Humanity, an organization dedicated to serving the housing needs of low- and moderate-income individuals.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

There are no limitations based on the bank's financial condition or size that would affect the bank's ability to meet community credit needs. LVNB's capital base of \$64 million and legal lending limit of close to \$10 million allow ample flexibility in meeting the community's credit needs.

Assessment Factor L - Any other factors that, in the regulatory authority's judgement, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

None noted.