

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

First National Bank of Lilly's rating is based on the following factors:

- ⇒ The bank's average loan to deposit ratio has historically been low at 22.94%, however, the banks loan to deposit ratio increased to 35% over the last quarter. The low loan to deposit ratio can be attributed to external factors such as the competition in the banks assessment area and reduced lending opportunities in the lending area..
- ⇒ A substantial majority of lending is in the assessment area.
- ⇒ Loan distribution indicates a satisfactory mix among borrowers of different income levels.

DESCRIPTION OF INSTITUTION

First National Bank of Lilly (FNB) is a \$15 million rural community bank located in Cambria County, Pennsylvania. The bank is independently owned and operates out of a single location in Lilly, total population of the borough is 1 thousand. The bank does not have any ATM's nor branches. Products and services offered include residential and commercial mortgages, commercial and consumer loans, and checking, savings, and certificate of deposit accounts for individuals and businesses. The bank's loan portfolio consists primarily of residential real estate loans (53%) and consumer loans (23%), with commercial mortgages (14%) and commercial loans (10%) making up the balance.

The bank has 13 individuals whose combined total deposits represent approximately 28% of the total bank's deposits. These customers represent long term relationships with the bank. The bank conducted a survey to bank customers in March and April. Out of 809 surveyed, or 80% of the community, the bank received a response rate of 7%. The following is the questions asked with the results:

Do Banking Services Meet Needs - 89% stated yes.

Does Bank Meet Credit Needs - 94% stated yes.

There are no legal or financial impediments which would prevent the bank from helping to meet the credit needs of its community.

DESCRIPTION OF ASSESSMENT AREA

FNB has identified its 1996 assessment area as four census tracts located in the northern portion of the Johnstown, PA, Metropolitan Statistical Area (MSA). Included in the assessment area are the Boroughs of Cresson, Lilly, and Portage, as well as Cassandra, Cresson, Munster, Portage, and Washington Townships. The bank's 1995 assessment area only included Washington Township and the borough of Lilly.

The median family income for the MSA is \$29,100. The bank's assessment area meets the requirements of the Community Reinvestment Act (CRA) regulation, and does not arbitrarily exclude low - and moderate-income census tracts. The assessment area is comprised entirely of middle income census tracts.

FNB faces a very competitive environment within the bank's assessment area. The bank's competition in the area is comprised of Portage National Bank, Summit Bank, Laurel Bank, C & G Savings Bank, and Johnstown Bank and Trust company. A profile of each bank reveals the following information:

Portage National Bank's average loan to deposit ratio for the last five quarters is 71%. The bank's total assets as of 3/31/96 totaled 126 million dollars and has a total of 7 offices and 3 ATM's.

The bank's primary business is Real Estate 59% (1-4 family residential represents 46.40%), and loans to individuals represent 29.35% of the loan portfolio.

Summit Bank's average loan to deposit ratio for the last five quarters is 71%. The bank's total assets as of 3/31/96 totaled 139 million dollars and has a total of 8 offices and 6 ATM's. The bank's primary business is Real Estate 73.31% (1-4 family residential represents 57.98%), and loans to individuals represent 15.29% of the loan portfolio.

Laurel Bank's average loan to deposit ratio for the last five quarters has been 82.54%. The bank's total assets as of 3/31/96 totaled 228 million dollars and has a total of ??? offices and xxxx ATM's. The bank's primary business is Real Estate 32.58% (1-4 family residential represents 21.78%), commercial & industrial loans 20.50%, and loans to individuals, 42.88% of the loan portfolio.

C& G Savings Bank's average loan to deposit ratio for the last five quarters has been 52%. The bank's total assets as of 3/31/96 totaled 85 million dollars and has xxxx branches and xxxx ATM's. The bank's primary business is in 1-4 family residential loans of 46.27%, and loans to individuals, 53.73% of the loan portfolio.

Johnstown Bank and Trust company's average loan to deposit ratio for the last five quarters has been 78%. The bank's total assets as of 3/31/96 totaled 587 million dollars and has xxxx branches and xxxx ATM's. The bank's primary business is in Real Estate 52.48% (1-4 family residential loans of 31.55%), and loans to individuals, 28% of the loan portfolio.

The local economy is weak and is forecasted to remain weak. Unemployment exceeds both state and national averages and is estimated by management to be at 8%. The primary employers in Lilly are the Lilly Independent School District and FNB with 8 full time employees. Commercial and residential construction within the Borough of Lilly is at a standstill due to the lack of a public sewer system. Plans for installation of a new sewer system are under way, and completion is hopeful to be by mid- 1997.

In addition, according to the 1990 Demographic Data, the number of households by income Type is broken down into the following major percentages: Wage/Salary 64%; Social Security 39%; Retirement 26%, and below poverty level of 15%.

Management has identified housing loans and other loans for consumer purposes such as vehicle loans as the primary credit needs in its assessment area. Community contacts also stated that the credit needs in the community are limited in light of population demographics and the lack of economic development. In addition, both contacts indicated that they feel the credit needs of the community are being met. Community contacts included the mayor of Lilly and a former OCC field manager who lives in Lilly.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan to Deposit Ratio

FNB's loan to deposit average for the last eight quarters has been 22.94%. However, at the end of June the loan to deposit ratio had increased to approximately 35%. A review of other banks indicates that their loan to deposit ratio averaged between 52% and 82%. The nature of the aging population in the assessment area, its geographic (rural) location, and strong competition in the area are the primary reasons for this below average ratio. Bank's within FNB's assessment area are more than 5 times as large as FNB, and have multiple branches which have allowed them to tap other areas for loans, increasing their loan to deposit ratios relative to FNB. In addition, the bank's conservative lending philosophies and limited marketing strategies also contribute to the low ratio.

Lending in the Assessment Area

The bank has a good record of lending within its assessment area. We used the bank's Home Mortgage Disclosure Act (HMDA) report as well as manually prepared management reports to determine lending levels within the assessment area as well as loan penetration among borrowers of different incomes. We tested management's reports and we considered them to be reliable. Our analysis revealed that in 1994, 86% of total loans originated inside the assessment area. In 1995, the bank improved that record by originating 89% of total loans inside its assessment area.

Lending to Borrowers of Different Incomes

FNB has a good record of lending to borrowers of different income levels. The table below breaks out the percentage, by number of loans made to each income category in 1994 and 1995.

Lending to Borrowers of Different Incomes				
	Low Income Families	Moderate Income Families	Middle Income Families	Upper Income Families
Area Demographic Characteristics	16.21%	20.69%	24.31%	38.77%
All loan types - 1994	22.%	20.%	36.27%	21.73%

All loan types - 1995	20%	26.67%	26.67%	26.67%
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As indicated above, loans to low-and moderate income borrowers represent 42% and 47% of the total number of loans originated within the assessment area in 1994 and 1995, respectively. These numbers indicate a strong commitment to addressing the credit needs of the residents of the assessment area, regardless of income.

During 1994 and 1995, the bank made a total of 10 loans to small businesses located in its assessment area. Loans to small businesses are defined as loans made to businesses whose annual revenues are \$1,000,000 or less. Small business loans originated in the assessment area represent 91% of total business loans originated during this period.

The following table shows the total number of loan originations by number, dollar amount and percentage of total loans.

	#	\$ AMT.	% of Total Loans
1994	71	\$1,016,000	38%
1995	73	733,000	25%

Geographic Distribution of Loans

The bank's entire assessment area is comprised of middle income census tracts. Accordingly, we did not perform an analysis of the geographic distribution of credit, as such an analysis would not have been meaningful.

Complaints

Their has not been any complaints received since the prior examination.

Other

In conjunction with the CRA examination, a fair lending examination was performed. The fair lending examination revealed substantive compliance with the antidiscrimination provisions of the fair lending laws and regulations.