



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

June 30, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Northumberland National Bank
Charter Number: 7005

245 Front Street
Northumberland, PA 17857-0000

Office of the Comptroller of the Currency

NORTHERN PENNSYLVANIA
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 Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The major factors supporting this rating include:

- The bank's quarterly average net loan-to-deposit ratio is reasonable and meets the standards for satisfactory performance;
- A majority of the bank's loans were originated in the bank's assessment area;
- The bank's distribution of loans represents a reasonable penetration among individuals of different income levels;
- The bank's distribution of loans represents an excellent dispersion throughout census tracts of different income levels;
- NNB's responsiveness to community development needs and opportunities in its assessment area is adequate in light of its capacity and area opportunities.

Scope of Examination

Northumberland National Bank (NNB) was evaluated under the Intermediate Small Bank examination procedures, which include a lending test and a community development (CD) test. The lending test evaluates the bank's record of meeting the credit needs of its assessment area (AA) through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AA through CD lending, qualified investments, and community development services.

The evaluation period under the Lending Test covers the bank's performance from January 1, 2005 through December 31, 2007, as this is representative of its lending strategy since the last CRA examination. The evaluation period for the community development test is from January 6, 2003 through June 30, 2008.

NNB's primary loan products are home mortgage loans. NNB operates only in a Non-MSA; therefore, the bank is not a Home Mortgage Disclosure Act (HMDA) reporter. Even though NNB is not required to report HMDA data, NNB collects HMDA data. Prior to this evaluation, we tested the accuracy of NNB's HMDA data. Results of this testing evidenced the data is reasonably accurate and can be relied upon for this evaluation. Therefore, the Lending Test includes all HMDA data from January 1, 2005 through December 31, 2007. Community Development (CD) loans, investments, and services submitted by management were also verified to ensure that they met the regulatory definition for community development.

Description of Institution

Northumberland National Bank (NNB) is an intrastate community bank headquartered in Northumberland, Pennsylvania. As of December 31, 2007, NNB had total assets of \$353 million and tier one capital of \$28 million. NNB is wholly owned by Northumberland Bancorp, a one-bank holding company headquartered in Northumberland, Pennsylvania with consolidated assets of \$353 million. The bank does not have any subsidiaries or affiliates.

As of June 30, 2008, NNB operates four full service branches and a limited service branch. NNB has its main branch in Northumberland, a supermarket branch in Selinsgrove, a branch in Sunbury, and a branch in Hummels Wharf. The Sunbury branch and the Hummels Wharf branch were opened during the evaluation period. In addition to the four full service offices, the bank has one limited service drive -up location, which is in close proximity to its main office location. All five locations have Automated Teller Machines (ATMs), and four of the five ATMs are available 24/7. All branches offer extended hours on Thursdays and Fridays, and all locations are open on Saturday. There were no branches closed, and there were no mergers or acquisitions during the evaluation period.

NNB is a full service community bank offering a standard range of retail banking, commercial banking, and trust services. Its retail services include checking accounts, savings programs, money-market accounts, certificates of deposit, consumer loan programs, and residential mortgages. In addition, NNB helps coordinate first time home buyer financing, closing cost assistance, and down payment assistance for low- and moderate-income first time home buyers. The bank's commercial services include business deposit accounts, revolving lines of credit, commercial loans, and commercial mortgages.

As of December 31, 2007, NNB reported total loans of \$199 million or 56% of total assets. The loan portfolio is comprised as follows:

Loan Portfolio Summary by Loan Product December 31, 2007	
Loan Category	% of Outstanding Dollars
Residential Real Estate Loans	80%
Construction and Development Loans	1%
Commercial Real Estate Loans	3%
Commercial & Industrial Loans	9%
Agricultural Loans	2%
Consumer Loans	4%
Other Loans	<1%

Competition is average and includes local community banks and branches of larger regional banks. NNB's main competitors are: M&T Bank, Susquehanna Bank, and Omega bank.

There are no financial or legal impediments to hinder NNB's ability to help meet the credit needs of the communities it services.

NNB's last Public Evaluation (PE), dated January 6, 2003, was rated Satisfactory.

Description of Assessment Area

NNB has one assessment area (AA) located in central Pennsylvania, which is described below.

Demographic Information for the Northumberland, Montour, Snyder, and Union Counties AA – Non-MSA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	20	0.00	10.00	60.00	30.00
Population by Geography	99,865	0.00	6.63	63.88	29.48
Owner-Occupied Housing by Geography	26,594	0.00	4.97	64.48	30.56
Businesses by Geography	5,408	0.00	7.97	59.49	32.54
Farms by Geography	287	0.00	1.74	70.03	28.22
Family Distribution by Income Level	25,647	14.78	18.18	23.64	43.40
Household Distribution by Income Level	8,453	0.00	10.30	69.57	20.12
Census Median Family Income (MFI)	41,475	Median Housing Value		91,213	
HUD-Adjusted MFI: 2007	49,800	Unemployment Rate			
		Northumberland		5.0%	
		Snyder		4.9%	
		Union		4.9%	
		Montour		3.8%	
Families Below the Poverty Level	10%				

Source: 2000 U.S. Census Data; 2007 HUD updated MFI; unemployment rate as of December 2007

The Northumberland, Montour, Snyder, and Union Counties AA – Non-MSA consists of 20 census tracts located in Northumberland, Montour, Snyder, and Union counties in Pennsylvania. NNB designated 3 of the 4 census tracts in Montour County, 10 of the 24 census tracts in Northumberland County, 4 of the 7 census tracts in Snyder County, and 3 of the 7 census tracts in Union County. NNB designated only the portion of these counties that the bank could reasonably service. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income areas.

Of the 20 census tracts, 2 or 10% are moderate-income geographies, 12 or 60% are middle-income geographies, and 6 or 30% are upper-income geographies. There are no low-income geographies.

The 2000 U. S. Census reported the total population of the AA at 99,865. Within the AA, there are 37,819 households and 25,647 families. There are 40,565 housing units, of which, 66% are owner-occupied, 28% are rental-occupied, and 7% are vacant housing units. Approximately 5% of owner-occupied housing is located in moderate-

income geographies, 64% is located in middle-income geographies, and 31% is located in upper-income geographies. The median housing cost is \$91,213.

The 2000 median income was \$41,475, and the 2007 HUD updated median family income is \$49,800. Approximately 15% of the families are low-income, 18% are moderate-income, 24% are middle-income, and 43% are upper-income. Approximately 10% of households are below the poverty level.

NNB has the second largest deposit market share within its assessment area, which includes portions of Montour, Northumberland, Snyder, and Union counties. NNB's deposit market share within its AA is 12.31%. NNB's main competitors are: M&T Bank with 12.82% of the deposit market share, Susquehanna Bank with 11.74% and Omega bank with 8.66%. NNB has the strongest presence in the Snyder and Northumberland counties with a deposit market share of 23.19% and 15.73%, respectively.

The economy of the bank's assessment area is relatively stable. The counties that comprise the bank's assessment area are part of a region known as the Greater Susquehanna Valley, which is a rural area within central Pennsylvania located within close proximity to major highways such as I-81, I-80, and Routes 11 and 15. In addition, the Harrisburg International Airport is located within an hour drive.

The economic base is varied with healthcare, manufacturing, retail trade and agribusiness as the primary economic activities. The area includes two universities: Susquehanna University and Bucknell University, which are top employers. Two hospitals are located nearby: Geisinger Medical Center and Evangelical Community Hospital, which are also top employers. Other firms include: Wood Mode Inc. and Conestoga Wood Inc., Weis Markets, and Merck and Co.

According to the Bureau of Labor Statistics data from December 2007, the unemployment rates for the counties within the bank's assessment area are as follows: Montour, 3.8%; Northumberland, 5%; Snyder 4.9%; Union 4.9%. The Pennsylvania state unemployment rate was 4.4%, and the national unemployment rate was 4.6%.

In conducting the assessment of the bank's performance, we contacted a local non-profit organization whose primary purpose is to provide affordable housing. The contact indicated there was a need for more affordable housing for low- and moderate-income individuals and families. The major need in the area is affordable housing due to the number of low- and moderate-income elderly unable to afford the utility costs of their homes. The identified community development services include: credit education and credit counseling, first time home buyer programs, and closing cost assistance for low- and moderate-income individuals. The contact stated that while banks may be offering first time home buyer programs, they are generally not advertised. Finally, the contact indicated there are ample opportunities for community development loans, donations, and services.

Conclusions with Respect to Performance Tests

NNB's performance under the Lending Test is Satisfactory. NNB's quarterly average

net loan-to-deposit ratio is reasonable. A majority of NNB's home mortgage loans were made within the bank's assessment area. NNB was found to have reasonable penetration among borrowers of different income levels. NNB was found to have excellent dispersion throughout census tracts of different income levels.

All criteria of the Lending Test are documented below.

LENDING TEST

Loan-to-Deposit Ratio

NNB's quarterly average net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and the credit needs of the AA. The loan-to-deposit ratio meets the standards for satisfactory performance. The bank's quarterly average net loan-to-deposit ratio over the twenty quarters since the last CRA examination was 61.61%. During this time period, the ratio ranged from a quarterly low of 58.06% to a quarterly high of 68.50%.

The quarterly average net loan-to-deposit ratio for national institutions of similar size was 77.77% over the same 20 quarters. The ratios ranged from a quarterly low of 73.99% to a quarterly high of 82.17% during that time period. The quarterly average net loan-to-deposit ratio for a custom peer group of nine similarly sized and situated banks was 76.17% over the same 20 quarters. The ratio ranged from a quarterly low of 70.82% to a quarterly high of 80.47% during that time period.

The bank's quarterly average net loan-to-deposit ratio is less favorable than the other financial institutions of similar size, but it is reasonable when taking into consideration the bank's deposit pricing and activity during the last twenty quarters. During the evaluation period, NNB's higher than average deposit rates generated significant deposit growth. While the bank was actively lending within their assessment area, NNB's loan growth could not keep pace with the significant influx of deposits. As a result, NNB's quarterly average net loan-to-deposit ratio is low. While the average ratio is low, it has been increasing over the last two years.

Lending in Assessment Area

A majority of NNB's home mortgage loans were made within the bank's assessment area, and this meets the standard for satisfactory performance. During the evaluation period, 78.83% of the number and 77.08% of the dollar amount of total home mortgage loans were made within the bank's assessment area. The following table details the bank's lending within the AA by number and dollar amount of loans.

Table 1 - Lending in AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	395	77.45	115	22.55	510	35,478	78.27	9,849	21.73	45,327
Home Improvement	266	78.47	73	21.53	339	12,389	73.10	4,560	26.90	16,949
Home Refinance	441	80.33	108	19.67	549	33,265	77.39	9,721	22.61	42,986
Totals	1,102	78.83	296	21.17	1,398	81,132	77.08	24,130	22.92	105,262

Source: NNB's HMDA data 1/1/05-12/31/07

Lending to Borrowers of Different Incomes

The distribution of loans reflects reasonable penetration among individuals of different income levels, and NNB's record of lending to borrowers of different incomes meets the standard for satisfactory performance.

In our analysis, we took into consideration the lack of affordability for a low-income family to purchase a home. Based on the updated 2007 HUD adjusted median housing value statistics the average median housing value in the AA was \$91,123. According the HUD adjusted median family income statistics a low-income family earned less than \$24,900, while a moderate-income family earned less than \$39,840. Furthermore, 10% of households in the AA are below the poverty level. This lack of affordability limits the opportunity for home purchase, home improvement, and home refinance lending to low-income families; therefore, we placed more emphasis on the banks moderate-income performance.

The percentage of home purchase loans made to low-income borrowers is lower than the percentage of low-income families in the AA. The percentage of home purchase loans made to moderate-income borrowers exceeds the percentage of moderate-income borrowers in the AA.

The percentage of home improvement loans made to low-income borrowers is lower than the percentage of low-income families in the AA. The percentage of home improvement loans made to moderate-income borrowers is near the percentage of moderate-income borrowers in the AA.

The percentage of home refinance loans made to low-income borrowers is significantly lower than the percentage of low-income families in the AA. The percentage of home refinance loans made to moderate-income borrowers is slightly less than the percentage of moderate-income borrowers in the AA.

The following table shows the distribution of home loan products among borrowers of different income levels for the period of January 1, 2005 through December 31, 2007 as compared to the percent of families in each income category.

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	14.78	8.31	18.18	19.74	23.64	32.21	43.40	39.74
Home Improvement	14.78	7.35	18.18	14.69	23.64	29.39	23.64	48.57
Home Refinance	14.78	4.37	18.18	16.02	23.64	23.64	23.64	43.40

Source: NNB's HMDA data 1/1/2005 - 12/31/2007; 2000 U.S. Census data

Geographic Distribution of Loans

The geographic distribution of loans reflects excellent dispersion throughout census tracts of different income levels, and NNB's performance exceeds the standard for satisfactory performance. There were no conspicuous gaps identified within NNB's AA.

There are no low-income geographies in the AA; therefore, an analysis of lending in low-income geographies would not be meaningful and was not performed.

The percentage of home purchase loans made in moderate-income geographies exceeds the percentage of owner-occupied housing units in these geographies. The percentage of home improvement loans made in moderate-income geographies exceeds the percentage of owner-occupied housing units in these geographies. The percentage of home refinance loans made in moderate-income geographies exceeds the percentage of owner-occupied housing units in these geographies.

The following table 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, 2005 through December 31, 2007.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00	0.00	4.97	10.15	64.48	75.38	30.56	14.47
Home Improvement	0.00	0.00	4.97	9.40	64.48	73.68	30.56	16.92
Home Refinance	0.00	0.00	4.97	11.34	64.48	77.78	30.56	10.88

Source: NNB'S HMDA data 1/1/2005 - 12/31/2007; 2000 U.S. Census data

Responses to Complaints

NNB has not received any CRA complaints during this evaluation period.

COMMUNITY DEVELOPMENT TEST

The Community Development Test is rated Satisfactory. NNB's community development activities demonstrate adequate responsiveness to the community development needs of its AA, when considering the bank's capacity, its performance context, and the availability of community development opportunities in the bank's AA.

Number and Amount of Community Development Loans

NNB originated a \$100 thousand line of credit to a local industrial development corporation that promotes economic development by assisting local small businesses and attracting new small businesses to the local area.

Number and Amount of Qualified Investments

There were no investments made during the evaluation period. NNB made twenty-four donations for a total of \$54 thousand to six different qualified community development organizations that promoted economic development and provided community services to low- and moderate-income individuals in the AA.

Extent to Which the Bank Provides Community Development Services

During the evaluation period, six officers, employees, and Board members provided financial and technical expertise to nine qualified community development organizations. The following details the community development services that were provided during the evaluation period:

- One officer provides financial expertise by serving on the Board of Directors for a non-profit organization. This non-profit organization provides assistance to various community organizations that provide community services primarily to low- and moderate-income individuals and families.
- One employee provides technical expertise and knowledge of loan programs available to low- and moderate-income individuals to two different organizations that assist low- and moderate-income individuals obtain affordable housing.
- One employee provides financial expertise by serving as a Board member of an organization that provides low- and moderate-income individuals with affordable housing.
- One officer provides financial expertise by serving on the Board of Directors for an organization that provides health and dental care to low- and moderate-

income children who are unable to afford it.

- One employee provided financial and technical expertise to a non-profit organization made up of individuals and business people who are interested in preserving and promoting the business and economic interest of Sunbury, a moderate-income geography.
- A Board member provides financial expertise by assisting a non-profit organization with fundraising activities. This non-profit assists various community organizations that provide community services primarily to low- and moderate-income individuals.
- A Board member provides financial expertise through fundraising activities for a non-profit organization that provides affordable housing to low- and moderate-income individuals.
- A member of the Board of Directors provided financial expertise by serving on a committee for an organization that exclusively funds programs for low- and moderate-income individuals.
- A member of the Board of Directors provides financial expertise by serving on a committee whose primary purpose is to provide program funding to local organizations that provide community services primarily to low- and moderate-income individuals and families.
- A Board member provided financial and management expertise by serving on the Board of a local organization. This organization's primary mission is community and economic development of the Greater Susquehanna Valley region, and a majority of the services provided by this organization benefit local small businesses.

During the evaluation period, NNB opened one branch in Sunbury, which is a moderate-income area in the bank's assessment area. The opening of this branch is an indication the bank is helping to provide retail and community development services to the lower-income areas of the AA.

Responsiveness to Community Development Needs

NNB's community development activities, as a whole, demonstrate adequate responsiveness to the community development needs of its AA, especially when considering the bank's capacity, its performance context, and the availability of community development opportunities in the bank's AA.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discrimination or other illegal credit practices.