



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

May 10, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Farmers National Bank of Kittanning
Charter Number 3104**

**201 Market Street
Kittanning, PA 16201**

**Assistant Deputy Comptroller James Calhoun
Comptroller of the Currency
Western Pennsylvania
4075 Monroeville Boulevard Building 2, Suite 300
Monroeville, PA 15146**

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.

THE FARMERS NATIONAL BANK OF KITTANNING'S CRA RATING

This institution is rated Satisfactory.

The major factors that support this rating include:

- A majority of the loans are made within the assessment area (AA) and meet the standard for satisfactory performance.
- Lending to borrowers of different incomes and to businesses of different sizes meets the standard for satisfactory performance.
- The overall distribution of sampled residential mortgage, consumer, and business purpose loans among AA geographies of different income levels meets the standard for satisfactory performance.
- The loan-to-deposit ratio meets the standard for satisfactory performance.
- The bank has not received any consumer complaints regarding Community Reinvestment Act (CRA) performance.

The Farmers National Bank of Kittanning, Pennsylvania is committed to serving the community. This is demonstrated by satisfactory lending performance as described in this Public Disclosure.

DESCRIPTION OF THE FARMERS NATIONAL BANK OF KITTANNING

The Farmers National Bank of Kittanning (FNB) is headquartered in Kittanning, Pennsylvania. The bank is wholly owned by F&A Financial Corporation, a one-bank holding company. At December 31, 2003, the holding company had total assets of \$147 million. FNB operates a full service bank in Kittanning at 201 Market Street. Branches are located in Kittanning at 4 Hilltop Plaza and in West Kittanning at 409 Butler Road. The branch at 4 Hilltop Plaza was opened after the previous CRA examination as a result of the purchase of the Pennwood Savings Bank. The branch located at 125 Market Street in downtown Kittanning was acquired during the purchase of the Pennwood Savings Bank and was subsequently closed due to the proximity to FNB's main office. FNB's primary focus is to provide a full range of traditional banking services to the community in and around Kittanning. FNB meets the loan and deposit needs of the local community by providing various loan and deposit products, and other financial services. FNB also has one Automatic Teller Machine (ATM) located in West Kittanning.

As of December 31, 2003, FNB reported \$147 million in total assets, with approximately two-thirds of the assets in various types of loans to individuals and small businesses. At year-end December 2003, FNB reported the loan totals listed in the table below.

Loan Category	\$ (000)	%
Commercial Real Estate/Commercial Loans	46,577	48%
Residential Real Estate Loans	41,072	43%
Consumer Loans	5,294	6%
Other Loans	2,935	3%
Total	\$95,878	100%

FNB received an overall rating of "Satisfactory" at the previous Community Reinvestment Act Examination dated October 4, 1999. There are no legal or financial impediments to prevent FNB from meeting the credit needs of the designated AA. Since the last CRA Examination, FNB has maintained commercial lending levels and has significantly increased residential real estate lending activity.

DESCRIPTION OF THE FNB OF KITTANNING ASSESSMENT AREA

FNB's AA meets the requirements of the regulation and does not arbitrarily exclude low or moderate-income areas. The AA includes all 19 Census Tracts of Armstrong County located in Southwest Pennsylvania. In May 2002, FNB added eight Census Tracts to the AA. The new Census Tracts are located in Westmoreland County and Butler County. The new Census Tracts include 8012, 8013, 8014, 8015, and 8016 in Westmoreland County and 9113, 9114, and 9127 in Butler County. FNB is located in Census Tract 9811 in Armstrong County.

The total population of the AA is 73,478 according to the 1990 census. Although there are no low and only three moderate-income census tracts in the AA, there are low- and moderate-income families located throughout the AA. Of the 28,361 households, 13 percent are below the poverty level. The median housing value is \$44,104 with the median age of housing stock at 52 years. The unemployment rate for Butler County is 6.7%, Armstrong County is 6.1% and Westmoreland County is 5.2%.

The local economic conditions remain challenging with area job losses mounting. The economy had been reliant on area mining businesses. Currently the largest employers in the area are the Armstrong County Memorial Hospital, the Armstrong School District, Eljer Plumbingware, Inc. (which has recently announced a significant reduction in local jobs), Creekside Mushrooms, Ltd., and the Armstrong County Government. FNB's major competitors include several similar sized community banks located in or near the AA. The table below summarizes some the key AA characteristics.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
Population	
Number of Families	21,065
Number of Households	28,361
Geographies	
Number of Census Tracts/BNA	19
% Low-Income Census Tracts/BNA	0
% Moderate-Income Census Tracts/BNA	16%
% Middle-Income Census Tracts/BNA	84%
% Upper-Income Census Tracts/BNA	0
Median Family Income (MFI)	
HUD-Updated Median Family Income	\$41,100
Economic Indicators	
Unemployment Rate	Approximately 6%
Median Housing Value	\$44,104
% of Households Below Poverty Level	13%

Source: Data from 1990 US Census.

Two community contacts were conducted in the bank's AA to help ascertain the credit needs of the community. According to the first contact, the General Manager of the Leader Times, the immediate credit needs of the community are being met. The contact indicated that the most immediate economic concern is to attract new businesses to generate additional jobs. The job market is tightening and the area population base is aging as younger workers are moving or will need to move out of the area to find work. The contact further stated that this bank and the other financial institutions in the area are actively involved in the community. The second contact, the Executive Director of the Armstrong County Department of Planning and Development, also stated this bank and the other locally owned banks have been very involved in community activities including providing financing to attract new businesses. The contact stated the local economy is challenging. New job creation is declining and additional companies are needed to diversify area employment opportunities.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

This Performance Evaluation (PE) assesses FNB's performance focusing primarily on five performance criteria: the loan-to-deposit ratio; lending in the AA; lending to borrowers of different incomes and to businesses of different sizes; geographic distribution of loans; and, responses to complaints.

To evaluate FNB's lending performance, a random sample of 75 loans was reviewed. Major loan products offered by the bank were sampled and consisted of 25 residential real estate loans, 25 consumer loans, and 25 business loans, originated between December 31, 1999 and December 31, 2002. This time frame was selected due to the change in demographics from the 1990 Census to the 2000 Census. The 2000 Census primarily relates data to loans made after 2003. FNB originated many more loans in the three years prior to 2003, than in the shorter time frame since. The AA analyzed by this PE was all of Armstrong County. Please refer to the *Description of the FNB of Kittanning AA* section above for additional information.

Based on the analysis and consistent with available resources and capabilities, FNB is meeting the credit needs of the AA area in a satisfactory manner.

Loan-to-Deposit Ratio

The loan-to-deposit (LTD) ratio meets the standard for satisfactory performance. This determination is based on FNB's quarterly average loan to deposit ratio of 74 percent since the last PE. The actual ratio at December 31, 2003 is 71 percent but the average position is higher. FNB's loan-to-deposit ratio has been trending upward recently reaching a high of 81 percent on December 31, 2002. However, the LTD ratio for the last quarter of 2003 reflected a steep decline. This decline is due to some very large deposits that were only in the bank for a short time in the fourth quarter of 2003 and left the bank early in 2004. Also, other recent deposit increases were primarily due to the fluctuations in the rates of return in alternative products, i.e. the stock market.

The average loan-to-deposit ratio for the 16 banks headquartered in the AA and contiguous counties at December 31, 2003 is 75 percent, with average ratios ranging from 50 percent to 102 percent. The average loan-to-deposit ratio for the banks considered to be the primary competitors in the trade area (listed below) is 72 percent.

Institution	Assets as of (12/31/03) (000's)	Average LTD Ratio
<i>The Farmers National Bank of Kittanning</i>	<i>\$146,654</i>	<i>74%</i>
Merchants National Bank of Kittanning	\$149,301	64%
Apollo Trust Company	\$125,986	65%
The Marion Center National Bank	\$187,402	70%
Elderton State Bank	\$132,598	90%

Lending in Assessment Area

FNB's lending in the AA meets the standard for satisfactory performance. A majority of credit is extended within the AA. The number of credits extended and the accompanying percentage is illustrated in the table below.

TOTAL LOANS REVIEWED										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	15	60%	10	40%	25	\$705	53%	\$618	47%	\$1,323
Commercial	14	56%	11	44%	25	\$1,556	46%	\$1,804	54%	\$3,360
Consumer	20	80%	5	20%	25	\$662	56%	\$102	44%	\$764
Totals	49	65%	26	35%	75	\$2,923	54%	\$2,524	46%	\$5,447

Source: Data from sample of loans.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

FNB's overall distribution of loans by borrower income levels meets the standard for satisfactory performance. The following tables represent the distribution of lending based on the sample of residential real estate, consumer, and business loans located in the AA.

FNB's distribution of residential real estate and consumer loans by income level is satisfactory. The percentage of the number of residential real estate loans to low-income and moderate-income borrowers approximates the percentage of low-income and moderate-income families in the AA. FNB's performance is satisfactory in light of the fact that 37 percent of the households in the AA receive social security and 13 percent have incomes below the poverty level.

Borrower Distribution of Residential Real Estate Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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
Residential Loans	20%	7%	21%	33%	24%	20%	35%	40%

Source: Loan sample.

Borrower Distribution of Consumer Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	25%	16%	18%	16%	19%	37%	38%	31%

Source: Loan sample.

FNB's loan distribution to small businesses is satisfactory. The percentage of bank loans to businesses with revenues less than \$1 million is approximately the same as the percentage of businesses with revenues less than \$1 million located in the AA.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	73%	4%	23%	100%
% of Bank Loans in AA by #	71%	29%	0%	100%
% of Bank Loans in AA by \$	52%	48%	0%	100%

Source: Loan sample.

Geographic Distribution of Loans

FNB's overall geographic distribution of loans meets the standard for satisfactory performance. The following tables represent the geographic distribution of lending based on the sample of residential real estate, consumer, and business loans located in the AA.

FNB's distribution of residential real estate loans among AA geographies exceeds the standard for satisfactory performance. Geographic distribution of real estate mortgage loans in moderate-income census tract exceeds the percentage of owner occupied units.

Geographic Distribution of Residential Real Estate Loans								
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
Residential Loans	N/A	N/A	12%	20%	88%	80%	N/A	N/A

Source: Loan sample.

FNB's distribution of consumer loans among AA geographies does not meet the standard for satisfactory performance. Geographic distribution of consumer loans in the moderate-income census tract is lower than the percentage of moderate-income households. Two key factors mitigate the lack of consumer loans in the moderate-income census tracts. The AA includes only three moderate-income census tracts including one located in downtown Kittanning. The need for consumer loans in this well established area of retail stores and financial institutions is low. The other two moderate-income census tracts are located several miles away from FNB's offices.

Geographic Distribution of Consumer Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	N/A	N/A	15%	5%	85%	95%	N/A	N/A

Source: Loan sample.

FNB's distribution of business loans among AA geographies does not meet the standard for satisfactory performance. Geographic distribution of business loans in the moderate-income census tract is lower than the percentage of businesses located in the census tract. Several factors mitigate the lack of business loans in the moderate-income census tracts. The AA includes only three moderate-income census tracts including one located in downtown Kittanning. The need for business loans in this well established area of retail stores and financial institutions is low. The other two moderate- income census tracts are located several miles away from FNB's offices.

Geographic Distribution of Loans to Businesses								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	N/A	N/A	39%	21%	61%	79%	N/A	N/A

Source: Indicate source, i.e., loan sample or data collected by bank; U.S. Census data.

Responses to Complaints

FNB has not received any complaints regarding their performance in helping to meet AA credit needs during this evaluation period.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

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