



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

March 29, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Union National Bank of Mount Carmel
Charter Number 8393**

**Third And Oak Streets
Mount Carmel, PA 17851**

**Comptroller of the Currency
Northern Pennsylvania Field Office
100 Hazle Street, Suite 202
Wilkes-Barre, Pennsylvania 18702**

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 overall rating is based on the following factors:

- The loan-to-deposit ratio exceeds standards for satisfactory performance;
- A substantial majority of the bank's loans are originated in its assessment areas (AAs);
- The bank's record of lending to borrowers of different income meets the standards for satisfactory performance;
- The geographic distribution of loans in the non-Metropolitan Statistical Area (MSA) AA exceeds standards for satisfactory performance; and
- The bank has had no consumer complaints regarding its community reinvestment performance.

DESCRIPTION OF INSTITUTION

The Union National Bank of Mount Carmel (UNB), founded in 1906, is an independent intrastate community bank located in central Pennsylvania. UNB is the only bank of the parent holding company, UNB Corp., Mount Carmel, Pennsylvania. UNB Corp. also owns 100% of UNB Delacorp, a non-bank subsidiary whose primary function is buying and selling securities. UNB and UNB Corp. have total assets of nearly \$99 million as of December 31, 2003. The bank has two offices: the main office in Mount Carmel, Northumberland County, and a branch in Numidia, Columbia County. UNB is a full-service retail bank. Both offices have ATMs and drive-up facilities. Both locations offer extended business hours one night per week, and Saturday hours. Products include free checking to consumers with no minimum balance requirements, a first-time homebuyers product, and mortgages with private mortgage insurance.

At December 31, 2003, UNB reported \$58 million in net loans and \$89 million in total deposits. Major loan products include fixed rate residential mortgages, small business loans, and consumer installment loans. The loan portfolio represents 59% of total assets. The breakdown of the loan portfolio at December 31, 2003 is as follows: residential real estate (62%), commercial loans (31%), and installment (7%). The bank maintains a website, currently under construction, which offers information on branch hours of service and bank products. UNB does not have any legal or financial condition restrictions that would impede their ability to help meet the credit needs of their communities.

According to the June 30, 2003 FDIC/OTS Summary of Deposits Market Share Report, UNB ranked fifth out of 17 institutions in Northumberland County with 6.70% of deposits. First Susquehanna Bank & Trust ranked first with six offices in the county and 18.21% of the deposits. Other financial institutions include Manufacturers & Traders Trust Co., ranked second with four offices and 17.29% of the deposits, and Northumberland National Bank ranked third with two offices and 11.78% of deposits.

In Columbia County, UNB ranked ninth out of nine institutions with 1.69% of deposits. The First National Bank of Berwick ranked first with five offices in the county and 26.58% of the deposits. Other financial institutions include First Columbia Bank & Trust Company, ranked second with eight offices and 21.85% of the deposits, and Columbia County Farmers National Bank, ranked third with six offices and 20.22% of the deposits.

The evaluation period for the Lending Test for home mortgages reported under the Home Mortgage Disclosure Act (HMDA) is from August 10, 1999 through December 31, 2002.

UNB's last Public Evaluation (PE) is dated August 9, 1999 and the overall CRA rating assigned was **Satisfactory**. Since the previous PE, UNB has not opened or closed any branches.

DESCRIPTION OF ASSESSMENT AREAS

UNB has two assessment areas (AAs). Both AAs meet regulatory requirements and do not arbitrarily exclude low- or moderate-income geographies.

The first assessment area includes sixteen block-numbering areas (BNAs) in central and southern Northumberland County. This area is a non-metropolitan statistical area (non-MSA). There are no low-income tracts in this non-MSA AA. The total population in this non-MSA AA is 59,773 according to the 1990 U.S. Census. The non-MSA AA's population is comprised of 17,169 families with the following family income distribution: 20% are low-income, 22% are moderate-income, 24% are middle-income, and 34% are upper-income. The median cost of housing in this non-MSA AA is \$36,759. The Updated Median Family Income for 2002 is \$41,100. The percentage of households below the poverty level is 13%.

In the second assessment area, UNB has identified seven census tracts (CTs) in the Scranton-Wilkes-Barre-Hazleton MSA (MSA 7560) based on the pre-2004 MSA changes. All seven of the CTs are located in southern Columbia County and are middle-income. There are no low- or moderate-income CTs in the MSA AA. The total population in this MSA AA is 28,493 according to the 1990 U.S. Census. The MSA AA's population is comprised of 6,777 families with the following family income distribution: 16% are low-income, 21% are moderate-income, 28% are middle-income, and 35% are upper-income. The median cost of housing in this MSA AA is \$55,453. The Updated Median Family Income for 2002 is \$45,100. The percentage of households below the poverty level is 13%.

Both AAs are rural with small towns and villages throughout. Northumberland County government has experienced financial difficulties and the outlook for improvement will be dependant upon outside help in the form of state-guaranteed loans and grants and Keystone Opportunity Zone (KOZ) designations. Major employers in Northumberland County are county government, Weis Markets, Conagra Grocery Products, Merck & Co. Inc., Department of Corrections, and Fleetwood Motor Homes of PA, Inc. Prospects for additional local employment opportunities appear good. Reinhart, a national food distributor announced the building of a major distribution center in the Coal Township-Mount Carmel Township area, bringing with it two other potential industrial/commercial enterprises. Major employers in Columbia County are Bloomsburg University, Wise Foods, Inc., Del Monte Corporation, Magee Rieter Automotive Systems, and CHS Berwick Hospital Corp. Most residents need to travel outside Mount Carmel and Numidia for work, even as far as Harrisburg. As of January 31, 2004, the unemployment rate was 8.1% and 9.2% in Northumberland and Columbia counties, respectively, above the state average of 5.7%. The unemployment rate in the SWBH MSA was also above the state average at 6.2%.

In 2002, 105 lenders originated HMDA loans in the MSA AA, according to the HMDA Peer Mortgage Data. UNB ranked nineteenth in the MSA AA with a market share of 1.39%. First Columbia Bank & Trust Co. ranked first with a market share of 18.15%. Of the 118 lenders that originated HMDA loans in the non-MSA AA, UNB ranked fifth with a market share of 4.55%. First Susquehanna Bank ranked first with a market share of 15.26%. Other competitors consisted of large national banks and mortgage companies, large regional banks, local community banks, and mortgage brokers with nationwide sources of funding.

Community Contact

A community contact was made with the Northumberland County Planning Commission Program Coordinator. Through the “Eligible Homebuyers Assistance Program”, the County of Northumberland will provide up to \$3,500 assistance to eligible low- or moderate-income persons who want to purchase homes in the County. The County will utilize funds provided by the Pennsylvania Department of Community and Economic Development as well as County Home Partnership funding sources as they become available. Funds may be used to pay for down payment and or closing costs for the purchase of a new or used home in Northumberland County. UNB of Mount Carmel refers potential homebuyers to the county for this program.

A contact was also made with the Mount Carmel Borough and Mount Carmel Township Housing Program Coordinator. The Susquehanna Economic Development Authority – Council of Government (SEDA-COG) provides the expertise to the Housing Program Coordinator to apply for the state funding for two housing programs. Funding for both programs is provided through the Pennsylvania Department of Community and Economic Development.

The first program, called the “Owner Occupied Housing Rehabilitation Program”, is available to low-income eligible homeowners living in Mount Carmel Borough or Mount Carmel Township. The purpose of the program is to provide grant funding up to \$25,000 to homeowners for housing rehabilitation to correct major housing code violations. An additional \$10,000 is available for lead paint removal. The program has been in effect since 1992 and 135 homes have been rehabilitated. There are no banks directly involved in this program, however UNB of

Mount Carmel refers low-income homeowners to the program for assistance.

The second program is named the “Mount Carmel Borough Home Buyer Rehabilitation Program”. It is available to eligible low-income individuals. The purpose of the program is to encourage individuals to buy homes in Mount Carmel Borough by providing funding for housing rehabilitation to correct the major housing code violations of the home to be purchased. The potential homeowner does not have to already live in Mount Carmel. The Borough determines income eligibility. If approved, they go to one of the four following banks to be approved as creditworthy to receive a mortgage loan: UNB of Mount Carmel, FNB Bank (Danville), Wachovia Bank, N.A., and First Susquehanna Bank & Trust. There is a 3% equity requirement. An approved potential buyer must attend classes provided through People for Progress to learn how to budget money and maintain a house. Only when those three steps are completed can the potential homeowner using this program look for a vacant home in Mount Carmel Borough. Then the funding and process for rehabilitation is the same as the “Owner Occupied Housing Rehabilitation Program.” The program started in 2004. UNB of Mount Carmel has already taken seven applications and approved one loan under this new rehabilitation program.

The contacts could not identify unmet credit needs, as financial institutions were perceived as being able to meet the various credit needs in the community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The evaluation period covered lending activity for home mortgages (purchase money, refinance and home improvement loans) reported under the Home Mortgage Disclosure Act (HMDA) from August 10, 1999 through December 31, 2002.

Loan-to-Deposit (LTD) Ratio

An analysis of UNB's quarterly loan-to-deposit ratios from the third quarter of 1999 through the fourth quarter of 2003 reveals that the bank exceeds the standards for satisfactory performance. The bank's average LTD ratio for these 18 quarters was 80.39%, ranging from a low of 64.15% to a high of 91.29%. This average ratio is higher than the average quarterly ratios of similarly situated banks in Pennsylvania with similar asset size. The custom peer average was 74.45%, with average ratios during the period ranging from 71.29% to 79.08%. The local peer consisted of Pennsylvania banks with total assets between \$50 million and \$150 million.

Lending in Assessment Areas

A substantial majority of the home mortgage loans originated during the evaluation period were within the AAs. UNB exceeds the standards for satisfactory performance for lending in their AAs. An analysis of the HMDA data disclosed that 87% of the loans were originated in the AAs.

The following table presents an analysis of the distribution of home mortgage loans inside and outside of the bank's AAs. For purposes of determining lending in the AAs, the data from Northumberland and Columbia County is combined.

HOME MORTGAGE LOANS ORIGINATED DURING EVALUATION PERIOD 08/10/99 THROUGH 12/31/02				
	<i>INSIDE ASSESSMENT AREAS</i>		<i>OUTSIDE ASSESSMENT AREAS</i>	
	# Loans	\$(000)	# Loans	\$(000)
Home Purchase Loans	193	11,052	39	3,284
Home Refinance Loans	284	10,565	37	2,364
Home Improvement Loans	114	3,246	12	314
Multifamily	0	0	0	0
Total Loans	591	24,863	88	5,962
Percentage	87%	81%	13%	19%

Source: 1999-2002 UNB HMDA-LARs

Lending to Borrowers of Different Incomes

UNB's record of lending to borrowers of different incomes meets the standard for satisfactory performance. We analyzed the distribution of lending for each assessment area separately and compared it to the demographics of that area.

The level of home mortgage loans originated to low-income borrowers in the MSA AA is less than the percentage of low-income families for the MSA AA. The level of home mortgages to moderate-income borrowers is near to the percentage of moderate-income families for the MSA AA. When considering the affordability of housing in the MSA AA, however, this performance is good. The median cost of housing in the MSA AA is \$55,453, based on 1990 U.S. Census data. The HUD updated median family income for 2002 is \$45,100. This means that a low-income person in the MSA AA earns less than \$22,550. Based on these statistics, it would be difficult for a low-income individual to purchase housing in the MSA AA. In 2002, of the 30 lenders to low-income individuals in the MSA AA, UNB ranked sixth with a market share of 5.06%. Of the 49 lenders to moderate-income individuals in the MSA AA, UNB ranked sixteenth with a market share of 1.57%

The level of home mortgage loans originated to low-income borrowers in the non-MSA AA meets the percentage of low-income families for the non-MSA AA. When considering the affordability of housing in the non-MSA AA, however, this performance is also good. The median cost of housing in the non-MSA AA is \$36,759, based on 1990 U.S. Census data. The HUD updated median family income for 2002 is \$41,100. This means that a low-income person in the non-MSA AA earns less than \$20,550. Based on these statistics, it would be difficult for a low-income individual to purchase housing in the non-MSA AA. In 2002, of the 34 lenders to low-income individuals in the non-MSA AA, UNB ranked fourth with a market share of 7.58%. The level of home mortgage loans originated to moderate-income borrowers in the non-MSA

AA meets the percentage of moderate-income families for the non-MSA AA. Of the 62 lenders to moderate-income individuals in the non-MSA AA, UNB ranked fifth with a market share of 6.6%.

The following tables summarize the analysis of the distribution of home mortgage loans by borrower income level.

Borrower Distribution of Home Mortgage Loans Mount Carmel-MSA AA (Columbia County) 08/10/99 THROUGH 12/31/02					
Income Level	# of Loans	% of Loans	\$ (000) of Loans	% of \$ of Loans	Income Level of Families in AA
Low	12	11.2%	374	6.2%	15.54%
Moderate	20	18.7%	774	12.7%	21.23%
Middle	30	28.0%	1,364	22.5%	27.98%
Upper	45	42.1%	3,556	58.6%	34.85%
Total	107	100.00%	6,068	100.00%	100.00%

Source: 1999-2002 UNB HMDA-LARs

Borrower Distribution of Home Mortgage Loans Mount Carmel-Non-MSA AA (Northumberland County) 08/10/99 THROUGH 12/31/02					
Income Level	# of Loans	% of Loans	\$ (000) of Loans	% of \$ of Loans	Income Level of Families in AA
Low	50	10.3%	950	5.1%	19.54%
Moderate	105	21.7%	3,067	16.3%	22.07%
Middle	134	27.7%	5,252	27.9%	23.94%
Upper	195	40.3%	9,526	50.7%	34.45%
Total	484	100.00%	18,795	100.00%	100.00%

Source: 1999-2002 UNB HMDA-LARs

Geographic Distribution of Loans

The geographic distribution of loans in the MSA AA (Columbia County) was not evaluated because all the CTs in the area are middle-income and the analysis would not be meaningful. The geographic distribution of loans in the non-MSA AA exceeds the standard for satisfactory performance. There are no low-income geographies in the non-MSA AA. Five of the sixteen BNAs in the non-MSA AA are moderate-income. The percentage of loans originated in the moderate-income geography exceeds the percentage of owner-occupied units in the non-MSA AA. Of the 74 lenders to the moderate-income tracts, UNB ranked fourth with 8.21% of the

market share. Please refer to the following table for the geographic distribution of home mortgage loans.

Geographic Distribution of Home Mortgage Loans Mount Carmel-Non-MSA (Northumberland County) 08/10/99 THROUGH 12/31/02					
Census Tract	# of Loans	% of Total Loans	\$ (000) of Total Loans	% of \$ of Total Loans	% of Owner-Occupied Units
Low	N/A	N/A	N/A	N/A	N/A
Moderate	226	46.7%	5,474	29.12%	30.52%
Middle	253	52.3%	13,030	69.33%	64.18%
Upper	5	1.0	291	1.55%	5.30%
Total	484	100.00%	18,795	100.00%	100.00%

Source: 1999-2002 UNB HMDA-LARs

Responses to Complaints

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

Fair Lending Review

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