



**SMALL BANK**

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

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## **PUBLIC DISCLOSURE**

**October 19, 2004**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The Gratz National Bank  
Charter Number 14301**

**Market Street, P. O. Box 159  
Gratz, PA 17030**

**Comptroller of the Currency  
Northern Pennsylvania Field Office  
100 Hazle Street, Suite 202  
Wilkes-Barre, PA 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 meets the 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 incomes meets the standards for satisfactory performance;
- The geographic distribution of loans in the Metropolitan Statistical Area (MSA) AA meets the standards for satisfactory performance; and
- The bank has had no consumer complaints regarding its community reinvestment performance.

## **DESCRIPTION OF INSTITUTION**

The Gratz National Bank (GNB), founded in 1934, is an independent intrastate community bank located in central Pennsylvania. GNB is the only bank of the parent holding company, GNB Financial Services, Inc. GNB and GNB Financial Services, Inc. have total assets of \$93 million as of June 30, 2004. The bank has two offices: the main office in Gratz (upper Dauphin County), and a branch in Valley View (western Schuylkill County). GNB is a full-service retail bank serving three contiguous counties. Both offices have drive-up facilities with Saturday hours and extended hours two nights per week. There are extended lobby hours on Friday. The automated teller machines (ATM) are located at the main office in Gratz and at two mini-markets in Valley View and Loyalton. GNB's primary competition is from Community Banks and Mid Penn Bank.

Mid Penn's headquarters is in Millersburg, about fifteen miles west of Gratz. The asset size and branch network of each of these competitors is considerably larger than GNB.

At June 30, 2004, GNB reported \$59 million in net loans and \$79 million in total deposits. Net loans represent 63% of total assets. Major loan products include fixed rate residential mortgages, small agricultural loans, and commercial loans. The primary lending product is residential mortgage loans, which was the primary business focus of the bank during a majority of the evaluation period. Just recently, GNB is experiencing a growing demand for small agricultural loans. Residential real estate loans represent 67% of the loan portfolio, followed by small agricultural loans at 17%, commercial loans at 13%, and 3% in consumer installment

loans. Net Tier 1 Capital is \$11 million as of that same date.

The bank has a website which offers information on branch hours of service and bank products. Telephone banking is also available. Products include low cost Pay As You Go checking to consumers with no minimum balance requirements or monthly fees, and a variety of mortgage products including “Do-It-Yourself” construction mortgages and creative blanket mortgages. Employees are also involved in the Tri-Valley Volunteer Home Care Banking program. Bank employees assist residents in balancing their checkbooks, paying bills, and other money related concerns. GNB 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, 2004 FDIC/OTS Summary of Deposits Market Share Report, GNB ranked 18<sup>th</sup> out of 32 institutions in the Harrisburg-Lebanon-Carlisle, PA MSA with 0.71% of deposits. Manufacturers and Traders Trust Company ranked first with 34 offices in the MSA and 15.51% of the deposits. Other financial institutions include Waypoint Bank, in second place, with 23 offices and 15.44% of the deposits, and PNC Bank, N.A., ranked third with 29 offices and 11.74% of the deposits. In Dauphin County, GNB ranked 11<sup>th</sup> out of 19 banks with 1.38% of deposits. Waypoint Bank ranked first with 9 offices and 18.39% of the deposits, and Wachovia Bank N.A. ranked second with 7 offices and 14.91% of the deposits. In Schuylkill County, GNB ranked 15<sup>th</sup> out of 18 banks with 1.11% of the deposits. Wachovia Bank NA ranked first with 12 offices and 20.04% of the deposits, and Manufacturers and Traders Trust Company ranked second with 17.43% of deposits.

The evaluation period for the Lending Test for home mortgages reported under the Home Mortgage Disclosure Act (HMDA) is from January 1, 2000 through June 30, 2004.

GNB's last Public Evaluation (PE) was dated March 1, 1999 and the overall CRA rating assigned was **Satisfactory**. No branches were opened or closed since the last evaluation period.

## **DESCRIPTION OF ASSESSMENT AREAS**

GNB 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 six census tracts (CTs) in the Harrisburg-Lebanon-Carlisle MSA (MSA 3240) based on the pre-2004 MSA changes. All of the CTs are located in upper Dauphin County. *Based on 1990 Census data*, GNB's AA included one moderate-income CT (17%) and five middle-income CTs (83%). There are no low- or upper-income tracts in the AA. The total population in the AA is 23,962 and the median cost of housing in the AA is \$53,450. The percentage of households below the poverty level is 8%. The AA's population was comprised of 6,773 families with the following family income distribution: 19% are low-income, 25% are moderate-income, 30% are middle-income, and 26% are upper-income. The Updated Median Family Income for 2002 is \$55,400.

The 2004 MSA changes did not affect the bank's assessment area boundary. *Based on 2000 Census data*, this AA includes two moderate-income CT (33%) and four middle-income CTs

(67%). There are no low- or upper-income tracts in the AA. The total population in the AA is 23,710 and the median cost of housing in the AA is \$80,283. The percentage of households below the poverty level is 9%. The AA's population is comprised of 6,773 families with the following family income distribution: 22% are low-income, 23% are moderate-income, 27% are middle-income, and 28% are upper-income. The Updated Median Family Income for 2004 is \$61,400.

The **second assessment area** includes one block-numbering area (BNA) in lower Northumberland County and four BNA's in western Schuylkill County. These are non-metropolitan areas (non-MSA). *Based on 1990 Census Data*, all the BNAs in the non-MSA AA are middle-income. There are no low-, moderate-, or upper-income tracts in the non-MSA AA. The total population in the AA is 19,583 and the median cost of housing is \$39,279. The percentage of households below the poverty level is 9%. The non-MSA population is comprised of 5,609 families with the following family income distribution: 15% are low-income, 20% are moderate-income, 29% are middle-income and 36% are upper-income. The Median Family Income for 2002 is \$41,400.

*Based on 2000 Census Data*, all the BNAs in the non-MSA AA are middle-income. There are no low-, moderate-, or upper-income tracts in the non-MSA AA. The total population in the non-MSA AA is 19,467 and the median cost of housing is \$68,001. The percentage of households below the poverty level is 8%. The non-MSA population is comprised of 5,361 families with the following family income distribution: 16% are low-income, 20% are moderate-income, 27% are middle-income and 37% are upper-income. The Updated Median Family Income for 2004 is \$48,200.

As of September 30, 2004, the Pennsylvania average state unemployment rate is 4.9%. The Harrisburg-Lebanon-Carlisle MSA rate falls below the state average at 3.3%, while Northumberland and Schuylkill Counties are above average at 6.1% and 7.2% respectively.

The major employers in Dauphin County are the Commonwealth of Pennsylvania, Milton S. Hershey, Hershey Foods Corporation, Pinnacle Health System, and Herco Inc. The majority of local residents travel to Harrisburg for employment.

Major employers in Northumberland County are county government, Weis Markets, Conagra Grocery Products, Merck & Co. Inc., and the Pennsylvania Department of Corrections.

Major employers in Schuylkill County are ALCOA Extrusions Inc., Department of Corrections, Pottsville and Good Samaritan Regional Hospitals, and county government.

The local area is primarily agricultural and employment in the immediate area is in the farming industry. The major non-farm employers in the Gratz area are Reeds Inn and Metal Industries' corporate office, and manufacturing plants in Gratz and Elizabethville. Other nearby employment opportunities in Schuylkill County include Metal Industries manufacturing plant in Hegins, Papetti's egg processing plant in Klingerstown, and Sterman-Masser, Inc. in Sacramento, the largest potato grower in the state.

In 2002, 125 lenders originated HMDA loans in the MSA AA, according to the HMDA Peer Mortgage Data. GNB ranked fourth in the MSA AA with a market share of 2.89%. Community Banks ranked first with a market share of 26.36%. Mid Penn Bank ranked second with a market share of 8.93%. Of the 93 lenders that originated HMDA loans in the non-MSA AA, GNB ranked third with a market share of 10%. Community Banks ranked first with a market share of 28%. Mid Penn Bank ranked second with a market share of 12%.

## **Community Contact**

Community contacts were made with the Gratz Borough Council President, a small business owner, and a retired Gratz resident, to ascertain their perspective on the community profile and performance of local financial institutions in the community. All three described the AAs as having a generally stable economy with modest growth and relatively unchanged population mix.

The Gratz Borough Council President indicated that council is looking into the necessary requirements, and possible available funding, for re-zoning areas to multi-family properties to provide additional low-to-moderate income family and elderly housing, a need also identified by the other contacts. All three contacts could not identify unmet credit needs, as financial institutions are perceived as being able to meet the various credit needs in the community.

## **Community Development Loans**

During the evaluation period, GNB provided interim financing for the Gratz Borough Municipal Authority's sewage construction project. Funds were used for the initial construction of the sewage collection, transmission, treatment and disposal system in the borough of Gratz.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

The evaluation period covered lending activity for home mortgage loans (purchase money, refinance, and home improvement loans) reported under the Home Mortgage Disclosure Act (HMDA) from January 1, 2000 through June 30, 2004. These loans were the only products reviewed due to the business focus of the bank during this evaluation period.

### **Loan-to-Deposit Ratio**

An analysis of GNB's loan-to-deposit ratios from the first quarter of 2000 through the second quarter of 2004 reveals that the bank meets the standards for satisfactory performance. The bank's average loan-to-deposit ratio for these 18 quarters was 72.59%, ranging from 69.25% to 76.15%. This ratio is similar to the average quarterly ratios of similarly situated banks in Pennsylvania with similar asset size. The custom peer average was 72.75%, with average ratios during the period ranging from 66.12% to 78.01%. The local peer consisted of Pennsylvania banks with total assets between \$50 million and \$100 million.

## Lending in Assessment Area

A substantial majority of the home mortgage loans originated during the evaluation period were within the AAs. GNB exceeds the standards for satisfactory performance for lending in their AAs. An analysis of the HMDA data from both evaluation periods disclosed that 96% of the loans were originated in both AAs.

The following tables are an analysis of the distribution of home mortgage loans inside and outside of the bank's AAs.

<b>HOME MORTGAGE LOANS ORIGINATED DURING EVALUATION PERIOD 01/01/00 THROUGH 12/31/02</b>				
	<i>INSIDE ASSESSMENT AREAS</i>		<i>OUTSIDE ASSESSMENT AREAS</i>	
	<b># Loans</b>	<b>\$(000)</b>	<b># Loans</b>	<b>\$(000)</b>
<b>Home Purchase Loans</b>	95	7,145	5	734
<b>Home Refinance Loans</b>	112	5,455	3	156
<b>Home Improvement Loans</b>	114	3,851	6	115
<b>Multifamily</b>	0	0	0	0
<b>Total Loans</b>	321	16,451	14	1,005
<b>Percentage</b>	<b>96%</b>	<b>94%</b>	<b>4%</b>	<b>6%</b>

Source: 2000-2002 GNB HMDA-LAR

<b>HOME MORTGAGE LOANS ORIGINATED DURING EVALUATION PERIOD 01/01/03 THROUGH 06/30/04</b>				
	<i>INSIDE ASSESSMENT AREAS</i>		<i>OUTSIDE ASSESSMENT AREAS</i>	
	<b># Loans</b>	<b>\$(000)</b>	<b># Loans</b>	<b>\$(000)</b>
<b>Home Purchase Loans</b>	34	3,943	4	446
<b>Home Refinance Loans</b>	52	2,372	1	300
<b>Home Improvement Loans</b>	96	5,398	2	86
<b>Multifamily</b>	0	0	0	0
<b>Total Loans</b>	182	11,713	7	832
<b>Percentage</b>	<b>96%</b>	<b>93%</b>	<b>4%</b>	<b>7%</b>

Source: 2003-2004 GNB HMDA-LAR

## **Lending to Borrowers of Different Incomes**

GNB's record of lending to borrowers of different incomes exceeds the standard for satisfactory performance. *Based on the 1990 Census Data*, the level of home mortgage loans originated to low- and moderate-income borrowers **in the MSA AA** is greater than the percentage of low-and moderate-income families for the MSA AA. When considering the affordability of housing in the MSA AA, this performance is excellent. The median cost of housing in the MSA AA is \$53,450 based on 1990 U.S. Census data. The HUD updated median family income for 2002 is \$55,400. This means that a low-income person earns less than \$27,700 in the MSA AA.

*Based on 2000 Census Data*, the level of home mortgage loans originated to low- and moderate-income borrowers **in the MSA AA** is greater than the percentage of low-and moderate-income families for the MSA AA. Again, when considering the affordability of housing in the MSA AA, this performance is excellent. The median cost of housing increased fifty percent in the MSA AA and is \$80,283 based on 2000 U.S. Census data. The HUD updated median family income for 2004 is \$61,400. This means that a low-income person earns less than \$30,700 in the MSA AA. Based on both these statistics, it would be difficult for a low-income individual to purchase housing in the MSA AA.

*Based on 1990 Census Data*, the level of home mortgage loans originated to low-income borrowers **in the non-MSA AA** is less than the percentage of low-income families for the non-MSA AA. The level of home mortgage loans originated to moderate-income borrowers in the non-MSA AA is similar to the percentage of moderate-income families for the non-MSA AA. When considering the affordability of housing in the non-MSA AA, however, this performance is adequate. The median cost of housing in the non-MSA AA is \$39,279 based on 1990 U.S. Census data. The HUD updated median family income for 2002 is \$41,400. This means that a low-income person earns less than \$20,700 in the non-MSA AA.

*Based on 2000 Census Data*, the level of home mortgage loans originated to low-income borrowers **in the non-MSA AA** is less than the percentage of low-income families for the non-MSA AA. The level of home mortgage loans originated to moderate-income borrowers in the non-MSA AA is similar to the percentage of moderate-income families for the non-MSA AA. Again, when considering the affordability of housing in the non-MSA AA, this performance is adequate. The median cost of housing in the non-MSA AA increased over 70% in the non-MSA AA and is \$68,001 based on 2000 U.S. Census data. The HUD updated median family income for 2004 is \$48,200. This means that a low-income person earns less than \$24,1000 in the non-MSA AA. Based on both these statistics, it would be difficult for a low-income family to purchase housing in the non-MSA.

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

Borrower Distribution of Home Mortgage Loans Gratz-MSA AA (Dauphin County) 01/01/00 THROUGH 12/31/02					
Income Level	# of Loans	% of Loans	\$ (000) of Loans	% of \$ of Loans	Income Level of Families in AA
Low	23	22.1%	1,157	18.0%	19.46%
Moderate	34	32.7%	2,222	34.5%	24.54%
Middle	29	27.9%	1,590	24.7%	29.81%
Upper	18	17.3%	1,464	22.8%	26.19%
<b>Total</b>	<b>104</b>	<b>100.00%</b>	<b>6,433</b>	<b>100.00%</b>	<b>100.00%</b>

Source: 2000-2002 GNB HMDA-LAR

Borrower Distribution of Home Mortgage Loans Gratz-Non-MSA AA (Northumberland and Schuylkill Counties) 01/01/00 THROUGH 12/31/02					
Income Level	# of Loans	% of Loans	\$ (000) of Loans	% of \$ of Loans	Income Level of Families in AA
Low	13	6.0%	504	5.03%	15.19%
Moderate	40	18.4%	1,586	15.83%	19.72%
Middle	69	31.8%	3,105	31.00%	29.08%
Upper	95	43.8%	4,823	48.14%	36.01%
<b>Total</b>	<b>217</b>	<b>100.00%</b>	<b>10,018</b>	<b>100.00%</b>	<b>100.00%</b>

Source: 2000-2002 GNB HMDA-LAR

Borrower Distribution of Home Mortgage Loans Gratz-MSA AA (Dauphin County) 01/01/03 THROUGH 06/30/04					
Income Level	# of Loans	% of Loans	\$ (000) of Loans	% of \$ of Loans	Income Level of Families in AA
Low	20	27.0%	1,344	26.22%	21.87%
Moderate	26	35.1%	1,565	30.53%	23.64%
Middle	21	28.4%	1,481	28.89%	26.87%
Upper	7	9.5%	736	14.36%	27.62%
<b>Total</b>	<b>74</b>	<b>100.00%</b>	<b>5,126</b>	<b>100.00%</b>	<b>100.00%</b>

Source: 2003-2004 GNB HMDA-LAR

<b>Borrower Distribution of Home Mortgage Loans</b> <b>Gratz-Non-MSA (Northumberland and Schuylkill Counties)</b> <b>01/01/03 THROUGH 06/30/04</b>					
<b>Income Level</b>	<b># of Loans</b>	<b>% of Loans</b>	<b>\$ (000) of Loans</b>	<b>% of \$ of Loans</b>	<b>Income Level of Families in AA</b>
<b>Low</b>	10	9.2%	462	4.1%	16.07%
<b>Moderate</b>	22	20.4%	783	22.6%	19.88%
<b>Middle</b>	38	35.2%	2,326	31.9%	27.49%
<b>Upper</b>	38	35.2%	3,016	41.4%	36.56%
<b>Total</b>	<b>102</b>	<b>100.00%</b>	<b>6,587</b>	<b>100.00%</b>	<b>100.00%</b>

Source: 2003-2004 GNB HMDA-LAR

### Geographic Distribution of Loans

The geographic distribution of loans in the MSA AA meets the standards for satisfactory performance. There are no low-income geographies in the MSA AA. *Based on 1990 Census Data*, one of the six CTs in the MSA AA is moderate-income. The percentage of loans originated by GNB from 1/1/00 to 12/31/03 in the moderate-income geographies exceeds the percentage of owner-occupied units in the MSA AA. *Based on 2000 Census Data*, two of the six CTs in the MSA AA are moderate-income. The percentage of loans originated by GNB from 1/1/03 to 6/30/04 in the moderate-income geographies, however, falls below the percentage of owner-occupied units in the MSA AA. Over the past year and a half, lending opportunities for GNB in these moderate-income tracts has been very rate competitive with several of the other community banks in MSA AA.

There are no low- or moderate-income BNAs in the bank's non-MSA AA; therefore, a geographic analysis is not meaningful. Please refer to the following table for the geographic distribution of home mortgage loans in the MSA AA.

<b>Geographic Distribution of Home Mortgage Loans</b> <b>Gratz-MSA AA (Dauphin County)</b> <b>01/01/00 THROUGH 12/31/02</b>					
<b>Census Tract</b>	<b># of Loans</b>	<b>% of Total Loans</b>	<b>\$ (000) of Total Loans</b>	<b>% of \$ of Total Loans</b>	<b>% of Owner-Occupied Units</b>
Low	N/A	N/A	N/A	N/A	N/A
Moderate	60	57.7%	2,934	45.61%	12.99%
Middle	44	42.3%	3,499	54.39%	87.01%
Upper	N/A	N/A	N/A	N/A	N/A
<b>Total</b>	<b>104</b>	<b>100.00%</b>	<b>6,433</b>	<b>100.00%</b>	<b>100.00%</b>

Source: 2000-2002 GNB HMDA-LAR

<b>Geographic Distribution of Home Mortgage Loans</b> <b>Gratz-MSA AA (Dauphin County)</b> <b>01/01/03 THROUGH 06/30/04</b>					
<b>Census Tract</b>	<b># of Loans</b>	<b>% of Total Loans</b>	<b>\$ (000) of Total Loans</b>	<b>% of \$ of Total Loans</b>	<b>% of Owner-Occupied Units</b>
Low	N/A	N/A	N/A	N/A	N/A
Moderate	6	8.1%	393	7.67%	24.90%
Middle	68	91.9%	4,733	92.33%	75.10%
Upper	N/A	N/A	N/A	N/A	N/A
<b>Total</b>	<b>74</b>	<b>100.00%</b>	<b>5,126</b>	<b>100.00%</b>	<b>100.00%</b>

Source: 2003-2004 GNB HMDA-LAR

### **Responses to Complaints**

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

### **Fair Lending Review**

An analysis of the most recent available public comments and consumer complaint information was performed according to the Office of the Comptroller of the Currency's risk-based fair lending approach.