

Northeastern District
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PUBLIC DISCLOSURE

January 4, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Grange National Bank
Charter Number: 8845**

**198 East Tioga Street
Tunkhannock, Pennsylvania 18657**

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

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of the **Grange National Bank**, prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of January 4, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated **SATISFACTORY**.

The primary factors supporting the bank's overall rating include:

- The average loan to deposit ratio of 67% is reasonable;
- A substantial majority of Home Mortgage Disclosure Act (HMDA) reportable loans originated during the examination period are in the bank's assessment area;
- The geographic distribution of HMDA loans in the assessment area is reasonable; and
- There is a reasonable penetration of loans to individuals of different income levels, and substantially all of the bank's commercial lending is to small businesses and small farms.

The following table indicates the performance level of the Grange National Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	Grange National Bank PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints received since the prior examination.		

DESCRIPTION OF INSTITUTION

Established in 1907, the Grange National Bank (GNB) is a \$141 million institution situated in northeastern Pennsylvania and headquartered in Wyoming County. It is a wholly owned subsidiary of Grange National Banc Corp., a one bank holding company. The Grange National Insurance Agency is the bank's only operating subsidiary. GNB operates ten full service offices and three automated teller machines (ATM) in Wyoming, Luzerne, Susquehanna, and Bradford counties. Three of the offices were opened since December of 1996. GNB's headquarters are located in Wyoming County. All of the offices have drive-in facilities and extended evening and weekend hours. GNB also offers a telephone banking services system and maintains an Internet website for informational purposes only.

Major competitors include First Union, PNC, Mellon, and many regional and small community banks. As of June 30, 1998, GNB's market share of all deposits held by FDIC-insured institutions operating in Pennsylvania was 0.07%. Also as of that date, the bank's deposit market share in Wyoming County was 29%, 1% in Luzerne County, 4% in Susquehanna County, and 1% in Bradford County.

Primary loan products include fixed rate and adjustable rate residential mortgages, small business loans and consumer installment loans. The loan portfolio represents 61% of total assets. A breakdown of the portfolio as of September 30, 1998 is as follows: 54% residential mortgages, 32% commercial and commercial real estate loans, 2% agriculture loans, and 12% consumer installment loans.

There are no legal or financial impediments which would hinder the bank's ability to help meet the credit needs of its community. As of the last CRA examination, dated September 3, 1996, the institution was rated "outstanding".

DESCRIPTION OF ASSESSMENT AREA

GNB's assessment area (AA) meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income (LMI) geographical areas. The AA includes sixty-seven census tracts (CTs) and twelve block numbering areas (BNAs) located in Wyoming County and portions of Luzerne, Lackawanna, Susquehanna, and Bradford counties. The population of the AA is 262,950. Eighteen percent of the families residing in the AA are low-income, eighteen percent are moderate-income, twenty-four percent are middle-income, and forty percent are upper-income families.

The sixty-seven census tracts in Wyoming, northern Luzerne, and northwestern Lackawanna counties are located in the Scranton/Wilkes-Barre/Hazleton Metropolitan Statistical Area (MSA 7560). GNB's headquarters are located in this MSA. Population in these tracts is 214,379. The income levels of these census tracts include seven moderate-

income, fifty-two middle-income and eight upper-income tracts. There are no low-income tracts. GNB operates seven full service offices and three ATMs in the MSA. One of the bank's branch offices and its on-site ATM is located in a moderate-income tract in this MSA.

With the bank's recent expansion in Luzerne County, the bank's AA has more suburban areas and includes part of the city of Wilkes-Barre. However, the local area is primarily rural with lumbering, sand and stone mining, and manufacturing as the main industries. Agriculture has been on the decline in the area in recent years. According to the Pennsylvania Department of Labor and Industry, unemployment in the Scranton/Wilkes-Barre/Hazleton MSA is consistently above state and national averages. As of November 30, 1998, the Pennsylvania state unemployment rate was at 4.3%, while the MSA was at 5.6%. For this same period, Wyoming County's rate was at 5.6%. In Luzerne County, the unemployment rate was at 6.2%, with the Lackawanna County rate at 4.9%.

Major employers in Wyoming County include Procter & Gamble Paper Products, the Tunkhannock Area School District, Tyler Memorial Hospital, Inland Industrial Contractors, and Penns' Best Inc. In Luzerne County, major employers include the federal, state, and local governments; Wilkes-Barre General Hospital; and Techneglas, Inc. Lackawanna County's major employers are the state government, WEA Manufacturing East, Allied Services Foundation, the Community Medical Center, and Mercy Hospital.

Another part of the AA is a non-MSA consisting of parts of western Susquehanna County and eastern Bradford County. Twelve BNAs make up this area which has a population of 48,571. All of the BNAs are middle-income tracts. Nineteen percent of the families residing in the AA are low-income, nineteen percent are moderate-income, twenty-three percent are middle-income, and thirty-nine percent are upper-income. The statewide non-metropolitan median family income of \$35,200 applies to this area. The average housing cost is \$58,272. The median year homes were built is 1962. GNB operates three full service branches in these counties.

Unemployment in Susquehanna County is at 4.5%, while Bradford County is at 4.1%. Major employers in Susquehanna County include U.S. Assemblies of Hallstead, the Barnes-Kasson County Hospital, the Montrose Area School District, state government, and Susquehanna County. In Bradford County, major employers are the Robert Packer Hospital, Osram Sylvania, Taylor Packing Company, E.I. DuPont de Nemours and Company, and Bradford County.

ASSESSMENT AREA DEMOGRAPHICS		
Designation	# Census Tracts/BNAs	% of Total
Low	0	0
Moderate	7	9
Middle	64	81
Upper	8	10
Total	79	100

Determination of Community Credit Needs

Community Contacts

Credit needs in the local area were determined during this examination by contacting the director of a local county's housing authority. This contact indicated that the need for improvements in the area's road, sewer, and water systems is a significant problem, as is the deterioration of the boroughs' business bases in the county. The director indicated that, while the housing situation was relatively stable, further development and the ability to attract new business and light industry continues to be difficult because of the poor infrastructure. Bank management had also stated that these are the most important issues in the area. The contact also stated that GNB had taken the lead in revitalizing the Laceyville "downtown" area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

SCOPE OF REVIEW

Please note that for purposes of this review the examination period covers all Home Mortgage Disclosure Act (HMDA) reportable loan activity from January 1, 1997 through September 30, 1998. Small business loan data is based on the information found within the call report dated June 30, 1998. All dollar amounts in the tables within this report are in thousands unless otherwise noted.

LOAN TO DEPOSIT RATIO

Our analysis of GNB's loan to deposit ratio indicates that the quarterly average ratio of 67%, which has been maintained over the past two years since the previous examination,

is reasonable. This ratio has remained stable, ranging between 65% and 70%. The ratio is slightly lower than national peer banks which have an average ratio of 70% and also is lower than local peer banks which have an average ratio of 73%.

Lending in Assessment Area

We analyzed the bank's record of lending in their AA using information on HMDA Loan Application Registers (HMDA-LAR) from 1997 and year-to-date 1998. Since the bank did not encode all of the geographies and incomes for their originations, a sample of loans was taken. For 1997, eighty percent of all HMDA reportable loans were included in the sample and for the 1998 time period, eighty-four percent of all HMDA reportable loans were included. The following table indicates that a substantial majority of HMDA reportable loan originations during the examination period are in GNB's AA. This sample was considered sufficient to support GNB's strong lending performance within their AA.

HMDA Reportable Loan Originations								
	1997				1/1/98-9/30/98			
	#	%	\$	%	#	%	\$	%
Inside AA	192	97	8,979	96	170	99	8,272	99
Outside AA	6	3	348	4	2	1	31	1
Total	198	100	9,327	100	172	100	8,303	100

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The bank's record of lending to borrowers of different income levels was evaluated using the same HMDA information indicated above. We analyzed the income distribution of lending for the AA and compared it to the demographics of that area. The following tables show that GNB's volume of lending is representative of the demographic composition of the entire AA, except for low-income borrowers. Competition for these loans is strong with many large regional banks offering special "affordable housing programs" targeted to low-income applicants; given the bank's concentration of offices in middle-income areas, their lending to all income levels is considered reasonable. In addition, unlike their larger competitors, the bank has no minimum loan amount as part of their lending policy which encourages applicants of all income levels to borrow. Also, they offer single-wide mobile home loans and mortgages, a loan product which very few banks in the area offer. This benefits LMI individuals in attaining basic home ownership.

HMDA Reportable Loan Originations by Level of Borrower Income in the AA									
Income Category	1997				1/1/98-9/30/98				% of Families Within AA
	#	%	\$	%	#	%	\$	%	
Low	18	9	540	6	19	11	537	7	18
Moderate	40	21	1,538	17	29	17	923	11	18
Middle	58	30	2,478	28	39	23	1,902	23	24
Upper	76	40	4,423	49	83	49	4,910	59	40
Total	192	100	8,979	100	170	100	8,272	100	100

GNB is responsive to the credit needs of small businesses and farms in its community. They are a very active Small Business Administration lender. We used the "currently outstanding" loan data from the June 30, 1998 call report to evaluate the bank's record of lending to small businesses and farms. For this analysis, a small business loan is defined as a loan with an original amount of less than \$1 million and a small farm loan is an agricultural loan made for less than \$500 thousand. The following table shows GNB's record of lending to small businesses and small farms. Note that a large majority are very small loans with average original amounts of less than \$25 thousand.

Distribution of Small Business/Small Farm Loans by Loan Size from June 30, 1998 Call Report				
Loan Size	Small Business		Small Farm	
	#/%	\$/%	#/%	\$/%
≤ \$100M	408/83	9,195/42	35/85	807/51
> \$100M ≤ \$250M	61/12	7,006/32	6/15	771/49
> \$250M ≤ \$1,000M	26/5	5,821/26	0/0	0/0
Total	495/100	22,022/100	41/100	1,578/100

Geographic Distribution of Loans

The following table depicts the geographic distribution of HMDA loans. As was stated previously, there are no low-income census tracts and only seven moderate-income census tracts in the bank's AA. GNB's geographic distribution of loans is satisfactory and has improved in 1998.

Geographic Distribution of HMDA Reportable Loan Originations by Census Tract Characteristic in AA					
Census Tracts	1997		1/1/98-9/30/98		% Owner- Occupied Households in AA
	#/%	\$/%	#/%	\$/%	
Low	0/0	0/0	0/0	0/0	0%
Moderate	3/2	153/2	6/4	243/3	5%
Middle	159/82	7,557/84	122/71	5,886/71	78%
Upper	30/16	1,269/14	42/25	2,143/26	17%
Total	192/100	8,979/100	170/100	8,272/100	100%

Responses to Complaints

No complaints were received during this period by GNB regarding its performance in meeting the credit needs of its AA.

Fair Lending Review

The Fair Lending Review performed in conjunction with this CRA examination did not identify any violations of antidiscrimination laws and regulations.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MSA 7560

GNB defines its AA within the Scranton/Wilkes-Barre/Hazleton MSA as all seven CTs in Wyoming County, fifty-seven CTs in northern Luzerne County, and three CTs in northwestern Lackawanna County. Seven of the CTs are moderate-income tracts, fifty-two are middle-income tracts and eight are upper-income tracts. There are no low-income tracts.

Eighty-two percent of the population in the bank's AA resides in this MSA. The median family income in this MSA is \$38,900. Average housing costs are \$63,045 with 1951 as the median year built. The bank operates four full service offices and one ATM in Wyoming County, and three full service offices and two ATMs in Luzerne County. GNB has no branch presence in Lackawanna County.

The bank's performance with respect to HMDA loan originations in this MSA is illustrated in the following table. GNB's loan activity in this MSA represents fifty-six percent of the total number of HMDA originations within its AA reported in 1997 and fifty-seven percent of the year-to-date 1998 HMDA originations. The originations are reasonably representative of the demographics within the MSA, with the bank's performance improving in lending to low-income borrowers in 1998.

HMDA Reportable Loan Originations by Level of Borrower Income in MSA 7560									
Income Category	1997				1/1/98-9/30/98				% of Families Within AA
	#	%	\$	%	#	%	\$	%	
Low	12	9	275	4	16	14	596	11	18
Moderate	33	24	1,135	18	20	17	621	12	18
Middle	42	30	1,790	28	24	21	1,052	20	24
Upper	53	37	3,186	50	56	48	3,005	57	40
Total	140	100	6,386	100	116	100	5,274	100	100

Geographic Distribution

The following table depicts the lending pattern throughout the MSA based on the level of income for each census tract compared to the owner occupied housing within those areas.

The level of lending within moderate-income tracts is poor for 1997, but has improved for year-to-date 1998 and is in line with the percentage of owner-occupied households when compared to the number of loans originated.

Geographic Distribution of HMDA Loans in MSA 7560					
Census Tracts	1997		1/1/98-9/30/98		% Owner-Occupied Households in AA
	# Loans / %	\$ Amt / %	# Loans / %	\$ Amt / %	
Low	0/0	0/0	0/0	0/0	0
Moderate	3/2	153/2	6/5	243/5	6
Middle	107/76	4,964/78	68/59	2,888/55	73
Upper	30/22	1,269/20	42/36	2,143/40	21
Total	140/100	6,386/100	116/100	5,274/100	100

Scope of Examination

Time Period Reviewed	1/1/97 to 9/30/98		
Financial institution	Products reviewed		
Grange National Bank	Small business, Small farm, HMDA Reportable Loans		
List of Assessment Areas and Type of Examination			
Assessment Area	Type of Exam	Branches Visited	Other Information
Pennsylvania MSA - 7560 (Scranton/Wilkes-Barre/Hazleton Non-MSA - Susquehanna and Bradford Counties	on-site	Tunkhannock Office	Not applicable