

Public Disclosure

March 26, 1997

Community Reinvestment Act
Performance Evaluation

Ephrata National Bank
Charter Number: 2515

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Ephrata, Pennsylvania 17522

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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 CRA performance of Ephrata National Bank prepared by the Comptroller of the Currency, the institution's supervisory agency, as of March 26, 1997. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

Institution's CRA Rating: This institution is rated Satisfactory.

Ephrata National Bank demonstrates good responsiveness to the credit needs of its assessment area. The bank's performance in helping to meet the credit needs of its assessment area within the Lancaster MSA is consistent with its overall performance. The following are the primary factors supporting the bank's overall rating.

A substantial majority of loans are made within the assessment area.

The number and amount of loans originated reflects a good responsiveness to the credit needs in the assessment area.

The geographic distribution of loans is reasonable.

There is a good distribution of loans among borrowers of different income levels, and businesses and farms of different sizes.

There is an excellent record of serving the credit needs of small businesses and farms, and a good record of serving the credit needs of low- and moderate-income individuals.

There is an adequate level of community development investments given the opportunities in the assessment area.

Service delivery systems are accessible to geographies and individuals of different income levels and there is a good level of community development services.

The following table indicates the performance level of Ephrata National Bank with respect to the lending, investment, and service tests.

Performance Levels

Ephrata National Bank

Performance Tests

Lending Test*
Investment
Test
Test

Service

Outstanding

High satisfactory

x

x

Low satisfactory

x

Needs to improve

Substantial noncompliance

* Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

Scope of the Examination

This evaluation of Ephrata National Bank's CRA performance covers the period from January 1995 through December 1996. The analysis is based on the bank's Home Mortgage Disclosure Act - Loan Activity Reports (HMDA-LAR), and Data Collection Registers. Specific loan products evaluated include: HMDA-reportable loans (i.e., home purchase mortgage, refinance and home improvement loans), loans to small businesses and farms, home equity loans, motor vehicle loans, and other secured and unsecured consumer loans.

Description of Institution

Ephrata National Bank (ENB) is an independent, full service bank headquartered in Ephrata, Pennsylvania. As of December 31, 1996, ENB reported assets totaling \$294.7 million, including loans of \$167.4 million and deposits of \$250.7 million. In addition to its main office, ENB operates three full-service branch offices and one drive-up facility all located in northern Lancaster County and within the Lancaster Metropolitan Statistical area. There are no financial or legal obstacles impacting ENB's ability to help meet its community's credit needs.

At year-end 1996, ENB's loan portfolio was composed primarily of real estate loans, with 45% for 1-4 family residential purposes and 25% for commercial purposes. Ten percent (10%) of the portfolio consisted of loans secured by farmland. Commercial and individual loans other than real estate secured represented 7% and 6% of the portfolio, respectively. The remainder was comprised of 5% construction and development loans, 1% agricultural loans not secured by farmland, and 1% multifamily loans. All loans are retained by the bank and are not sold in the secondary market.

Description of Assessment Area

ENB has defined one assessment area which covers parts of three Metropolitan Statistical Areas (MSAs): Lancaster, Reading, and Harrisburg-Lebanon; and contains a total of 47 census tracts. Most (34) of the census tracts are in northern Lancaster County, with the remaining in the southern portions of Berks County (7 tracts) and Lebanon County (6 tracts). There are no low- or moderate-income census tracts, with 91% of the census tracts designated as middle-income and the remaining 9% as upper-income. ENB's assessment area complies with CRA guidelines and does not arbitrarily exclude low- and moderate-income areas.

Based on 1990 census data, ENB's assessment area has a population of 223,988, that includes total families of 62,211. The median family income for the assessment area averages to \$37,734. Housing units total 81,885 of which 85% are one-to-four family units.

The regional economy has experienced moderate growth in the last decade, with continued moderate growth anticipated through 1999. The region has a diversified, growth-oriented employment base dominated by services, manufacturing, and wholesale and retail trade. During the last decade, the largest employment gains were in the service and construction industries. ENB competes with ten financial institutions who maintain banking offices in its primary market area of northern Lancaster County. The bank had 25% of the total deposits in this market in both 1995 and 1996.

Mortgage financing, and small business and agricultural loans are the primary credit needs of the bank's assessment area.

Conclusions with Respect to Performance Tests

LENDING TEST

Lending Activity

ENB originates a high percentage of loans in its assessment area. For 1996, 95% of the total number and 94% of the total dollar volume of loans were within the bank's assessment area. The following table provides a breakdown of loan volumes within ENB's assessment area by product category.

Table 1. Lending Volumes

1995
1996
#
\$(000's)
#
\$(000's)

HMDA:

Home Purchase

85
6,926
91
6,669

Refinance

62
4,173
134
9,044

Home Improvement

105
1,518
122
2,573

Multifamily

2
138
3
699

Small Business

NA
NA
327
20,593

Small Farm

NA
NA
120

4,417

Consumer*

NA

NA

1,484

17,937

* Includes home equity, other secured and unsecured and motor vehicle loans considered at bank request

NA - data on loan originations is not available

Based on most recent market data, ENB was responsible for 5% of the total number of HMDA loan originations in its assessment area during 1995, placing it fourth among top lenders. ENB experienced a 38% increase in the number of HMDA loans it originated from 1995 to 1996, which was largely attributed to mortgage refinance loans.

ENB's loan-to-deposit (LTD) ratio averaged 66% over the past two years compared to averages of 69% for peer banks nationwide and 75% for a group of local bank peers. The bank's LTD has increased steadily over the past two years. ENB has a history of conservative lending practices which in a highly competitive lending environment causes it to under perform its local peers.

Geographic Distribution

ENB's loans are reasonably distributed throughout its assessment area. The large majority of the bank's census tracts are middle income, and there are no census tracts designated as low- or moderate-income. For 1996, 99% of the total number of loans originated (consists of HMDA reported, small business, small farm and consumer loans) were in middle income census tracts. This approximates the proportion of census tracts in the assessment area that are middle income.

Borrower Characteristics

ENB's lending patterns reflect reasonable distribution among retail borrowers of different income levels. HMDA-reported loan originations by income level of borrower are presented in the following table for the years 1995 and 1996. The table also presents for comparison data on the percentage of families in the bank's assessment area that are low-, moderate-, middle- and upper-income.

Table 2. HMDA Loans by Borrower Income Level

Low
 Moderate
 Middle
 Upper

 %
 #
 %
 #
 %
 #
 %

1995
 14
 6%
 54
 21%
 83
 33%
 94
 37%

1996
 23
 7%
 81
 23%
 122
 35%
 121
 35%

Total
 Families
 12%

19%
30%
40%

Note: Percentage (%) column represents the percentage of total HMDA loans for each year.

The data shows that the percentage of loans to moderate-, middle- and upper-income individuals closely approximated the percentage of families in these income categories. Although increasing slightly from 1995 to 1996, the percentage for lending to low-income individuals was much lower than the percentage for total families that were low income. However, the bank's analysis of consumer loans not subject to HMDA revealed a higher percentage (17%) of loan originations to low income borrowers for 1996. The percentage of consumer loans originated to borrowers with moderate- middle- and upper-incomes closely approximated the percentage of families in these income categories at 21%, 25% and 37%, respectively. Based on our testing, there are no discrepancies in the bank's analysis of consumer loans.

A high percentage of ENB's commercial loans are to small sized businesses and farms. Eighty-eight percent of ENB's commercial loan originations in 1996 were to businesses with annual revenues totaling \$1 million or less. All but one agricultural loan originated in 1996 were to farms with annual revenues of \$500 thousand or less. The following table provides a breakdown by original loan amount of business and farm loans originated in the bank's assessment area during 1996.

Table 3. Business and Farm Loans

Original Loan Amounts
Business Loans
Farm Loans

\$(000's)

\$(000's)

Less than \$100,000
279
7,914
112

2,706

\$100,000 to \$250,000

32
5,502
6
911

\$250,000 to \$500,000

13
4,297
1
275

Greater than \$500,000

3
2,880
1
525

Total

327
20,593
120
4,417

Community Development Lending

No loans have been originated in ENB's assessment area that qualify as community development. Opportunities for such lending are few given the lack of low- or moderate-income areas in northern Lancaster County.

INVESTMENT TEST

There are few community development investment opportunities within ENB's assessment area due to the lack of low- or moderate-income areas. Over the past two years, ENB contributed \$13,200 to several organizations whose programs support housing and services for low- and moderate-income individuals, as well as assistance to small businesses and farms in and around the bank's assessment area. Several noteworthy organizations which received

funding include: Tabor Community Services, a provider of consumer credit and housing counseling services, and developer of low-income housing; ASSETS, a provider of small loans, business training and mentoring services to low- and moderate-income entrepreneurs in the process of beginning or expanding a micro enterprise; and Lancaster Housing Opportunity Partnership, a provider of certified home buyer training, loan assistance for down payment and closing costs, and support for affordable housing development.

SERVICE TEST

Retail Banking Services

ENB's branch offices are all located in middle-income census tracts and are reasonably accessible to all parts of the assessment area. Full banking services are available at all office locations. Office hours meet the convenience and needs of the community and include extended weekday and Saturday hours. The bank provides alternative systems for delivering retail banking services to its community, including banking by telephone and mail, and automatic teller machines.

ENB conducted a survey of its customers in 1996 to determine the effectiveness of the financial products offered and whether there are any unmet needs. The bank has responded by offering a home equity credit line.

Community Development Services

Senior management lends its financial expertise through its membership in several organizations, notably the Lancaster County Hospital Authority which provides low interest loans to local health care providers, and the Farm and Home Foundation of Lancaster County which provides services to the local agricultural community.

FAIR LENDING ANALYSIS

A concurrent fair lending examination found no evidence of discriminatory or other illegal credit practices.