



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

Public Disclosure

September 8, 1998

Community Reinvestment Act Performance Evaluation

**Dauphin National Bank
Charter Number: 11512
P.O. Box 174
Dauphin, Pennsylvania 17018**

**Comptroller of the Currency
Northern Pennsylvania Field Office
100 Hazle Street
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 CRA performance of **Dauphin National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **September 8, 1998**. 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**.

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

- A strong loan-to-deposit ratio of 75% since the last examination dated August 12, 1996;
- A majority of the HMDA reportable lending is within the Assessment Area;
- Lending to borrowers of different income levels and to businesses of different sizes is good, and
- Geographic distribution of HMDA loans is reasonable.

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

| Small Institution Assessment Criteria | Dauphin 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

Dauphin National Bank (DNB) is a wholly owned subsidiary of Dauphin Bancorp, Inc. (DBI), a one-bank holding company with total assets of \$46 million.

As of June 30, 1998, DNB had total assets of \$46 million. DNB is a full service bank, offering a wide range of loan and deposit products. The bank operates four full service branches and two locations that are ATM and night depository locations only. Two of the full service branches offer ATM services and two offer drive-up facilities. The branches all offer Saturday and evening hours during the week. All bank facilities are in Dauphin County. DNB also maintains an informational Internet website and offers telephone banking services and PC banking services with 24 hour access.

A breakdown of assets as a percentage of total assets is as follows: loans represent 62%, interest-bearing bank balances and federal funds sold represent 16%, securities represent 11%, and the remaining assets 11%. Construction and development loans approximate 4% of the loan portfolio. The remainder is comprised by 50% one-to-four family residential, 7% multifamily, 29% non-farm non-residential, 5% commercial and industrial, and 5% loans to individuals. Competition in the bank's market area is strong, consisting of large regional banks, mortgage companies, and community banks.

There are no financial or legal impediments that would prevent the institution from helping to meet the credit needs of the Assessment Area (AA).

Description of Assessment Area

DNB defines its AA as 30 census tracts within the Harrisburg-Lebanon-Carlisle Metropolitan Statistical Area (MSA) in Dauphin County. The MSA census median family income is \$37,389 and the MSA updated median family income is \$46,500. The population of the AA approximates 121,000 individuals. The weighted average median housing cost is \$63,442 and the weighted average median year built is 1955. The AA meets the regulatory guideline and does not arbitrarily exclude any low- or moderate-income geographies.

DNB's market share of deposits for all FDIC-insured institutions as of June 30, 1997 is 0.95%. Major employers in the area include the Commonwealth of Pennsylvania, Pennsylvania State University, Hershey Foods, AMP, and the Harrisburg Polyclinic Medical Center. As of July 31, 1998, the civilian labor force unemployment rate for Pennsylvania is 4.8% and for the MSA is 3.0%.

The following table denotes the makeup of the AA.

| ASSESSMENT AREA DEMOGRAPHICS | | | |
|-------------------------------------|-----------------------------|-------------------------------|---|
| Designation | # Census Tracts/BNAs | % of Total Tracts/BNAs | % of Households in the Tracts/BNAs |
| Low | 4 | 13 | 12 |
| Moderate | 9 | 30 | 20 |
| Middle | 14 | 47 | 54 |
| Upper | 3 | 10 | 14 |
| Total | 30 | 100 | 100 |

Determination of Community Credit Needs

Community Contacts

During the examination, one housing-related community group was contacted and three other housing and community development community group contact forms were reviewed. The credit needs of the AA are determined to be for housing and small business. There is a specific need for financial institutions to develop underwriting standards to better enable LMI individuals to qualify for housing loans. The community contacts also indicated that there was an insufficient housing stock that was decent, safe, and affordable for low-income individuals. Management has identified similar credit needs within its AA, with primary lending being housing and small business related.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

SCOPE OF REVIEW

This examination covered the time period from January 1, 1997 to June 30, 1998 for all Home Mortgage Disclosure Act (HMDA) reportable loans. Small business loan data is based on the information found in the call report dated June 30, 1998. All dollar amounts listed in tables in this report are in thousands unless otherwise noted.

LOAN-TO-DEPOSIT RATIO

The average loan-to-deposit ratio, calculated since the previous CRA examination dated August 12, 1996, is 75%. This ratio compares favorably to the peer ratio of 68% as of June 30, 1998.

LENDING WITHIN THE ASSESSMENT AREA

A majority of the bank's HMDA lending is within the AA. Please refer to the chart below. DNB is not required to collect data on other types of loans and therefore only HMDA data

was utilized. HMDA loans, 1-4 family and multi-family, represent 57% of the loan portfolio.

| HMDA Lending within the AA | | | | |
|-----------------------------------|-------------|-----------|--------------------------|-----------|
| | 1997 | | Year-to-Date 1998 | |
| | # | \$ | # | \$ |
| Total Originations | 40 | 4,412 | 18 | 1,380 |
| Originations in AA | 26 | 1,783 | 12 | 779 |
| % Origination in AA | 65% | 40% | 67% | 56% |

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

The table below depicts the distribution of lending to borrowers of different income levels. DNB has a reasonable distribution of credit to moderate-income borrowers. Distribution of credit to low-income borrowers appears weak. However, due to the lack of decent, safe affordable housing stock for low-income individuals (as verified by the community contacts), it is reasonable to expect that DNB's lending pattern would not be similar to the demographics of the AA.

| Borrower Distribution of HMDA Loans by Income | | | | | |
|--|------------------|-------------------|------------------|-------------------|--------------------------------|
| INCOME | 1997 | | YTD 1998 | | % of Families within AA |
| | # Lns / % | \$ Amt / % | # Lns / % | \$ Amt / % | |
| Low | 2 / 8 | 77 / 4 | 1 / 8 | 8 / 1 | 21 |
| Moderate | 6 / 23 | 197 / 11 | 2 / 17 | 60 / 8 | 18 |
| Middle | 4 / 15 | 218 / 12 | 4 / 33 | 342 / 44 | 25 |
| Upper | 13 / 50 | 1,191 / 67 | 5 / 42 | 369 / 47 | 36 |
| NA | 1 / 4 | 100 / 6 | NA | NA | NA |
| Total | 26 / 100 | 1,783 / 100 | 12 / 100 | 779 / 100 | 100 |

DNB's 1997 overall market share, based on HMDA originations, is 0.69%. The bank's market share based on HMDA originations for low-income and moderate-income borrowers is 0.47% and 0.68%, respectively. Overall market share data compares favorably to moderate-income market share and reasonably well to the low-income market share given the lack of affordable housing stock available.

In conjunction with its correspondent Atlantic Central Bankers Bank, DNB offers a first time home buyers program. The program offers up to a 30 year fixed rate mortgage loan with up to a 97% loan-to-value ratio. Private mortgage insurance may be required and attendance at a home ownership course is required.

The CRA regulation indicates that loan size generally correlates to the size of the business and farm. A small business or small farm is defined as one with \$1 million or less in annual revenues. DNB does not track small business and small farm loan originations. As a result, quarterly call report data is used as a proxy to measure the volume of loans originated to small businesses and small farms. The following chart depicts small business and small farm loans outstanding based on loan size as submitted in the bank's June 30, 1998 call report.

| Distribution of Small Business/Small Farm Loans by Loan Size from June 30, 1998 Call Report | | | | |
|--|-----------------------|--------------------|-------------------|--------------------|
| Loan Size | Small Business | | Small Farm | |
| | # / % | \$ Amt. / % | # / % | \$ Amt. / % |
| < = \$100 | 79 / 67 | 1,786 / 19 | 0 / 0 | 0 / 0 |
| > \$100 < = \$250 | 22 / 19 | 2,347 / 26 | 1 / 50 | 105 / 24 |
| > \$250 < = \$1,000 | 17 / 14 | 5,077 / 55 | 1 / 50 | 329 / 76 |
| Total | 118 / 100 | 9,210 / 100 | 2 / 100 | 434 / 100 |

As of June 30, 1998, 100% of all loans to commercial entities and farms were to small businesses and small farms.

GEOGRAPHIC DISTRIBUTION OF LOANS

The table below depicts the geographic distribution of HMDA loans. DNB's lending pattern in moderate-income tracts is good. Lending in low-income tracts appears weak. However, there are several mitigating factors which need to be considered when evaluating the bank's performance. As indicated earlier, there is a lack of affordable housing stock for low-income individuals. Three of the four full service branches are

located in middle-income tracts and the fourth is in an upper-income tract. All low- and moderate-income tracts are in the City of Harrisburg and are located approximately five to ten miles from three of the four branches and three miles from the fourth branch. Finally, competition in the area from other financial institutions is very strong and given DNB's total asset size of \$46 million, the bank's ability to reach these low- and moderate-income tracts is limited. As a result, lending to low- and moderate-income tracts is considered reasonable.

| Geographic Distribution of HMDA Loans | | | | | |
|--|------------------|-----------------|------------------|-----------------|--|
| Census Tracts | 1997 | | YTD 1998 | | % Owner-Occupied Households in AA |
| | # Loans/% | \$ Amt/% | # Loans/% | \$ Amt/% | |
| Low | 1 / 4 | 58 / 3 | 0 / 0 | 0 / 0 | 7 |
| Moderate | 4 / 15 | 472 / 27 | 3 / 25 | 216 / 28 | 15 |
| Middle | 18 / 69 | 965 / 54 | 7 / 58 | 271 / 35 | 58 |
| Upper | 3 / 12 | 288 / 16 | 2 / 17 | 292 / 37 | 20 |
| Total | 26 / 100 | 1,783 / 100 | 12 / 100 | 779 / 100 | 100 |

DNB's 1997 overall market share, based on HMDA originations, is 0.69%. Market share in low- and moderate-income tracts is 0.75% and 0.63%, respectively. Overall market share data compares favorably to both low- and moderate-income market share data. Market share data supports that DNB's lending in low- and moderate-income tracts is reasonable.

Responses to Complaints

No complaints were received during this period.

Fair Lending

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

Scope of Examination

| | | | |
|--|---------------------------------------|-------------------------|--------------------------|
| Time Period Reviewed | 1/1/97 to 6/30/98 | | |
| Financial institution | Products reviewed | | |
| Dauphin National Bank | Small Business, Small Farm, Mortgages | | |
| List of Assessment Areas and Type of Examination | | | |
| Assessment Area | Type of Exam | Branches Visited | Other Information |
| Pennsylvania MSA - 3240 - Harrisburg-Lebanon-Carlisle | On-site | None | Not applicable |