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Comptroller of the Currency  
Administrator of National Banks

**Small Bank**

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Northeastern District  
1114 Avenue of the Americas, Suite 3900  
New York, New York 10036

## **Public Disclosure**

**September 13, 1999**

### **Community Reinvestment Act Performance Evaluation**

**Union National Community Bank  
Charter Number 1516  
101 East Main Street  
Mount Joy, Pennsylvania 17552**

**Office of the Comptroller of the Currency  
Eastern Pennsylvania Duty Station  
4 Greenwood Square, Suite 120  
3325 Street Road  
Bensalem, Pennsylvania 19020**

**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 **Union National Community Bank, Mount Joy, Pennsylvania** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **September 13, 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 following factors support the bank's overall rating.

- ! Lending to low- and moderate-income individuals and businesses of different sizes reflect good penetration based upon the demographics and credit needs of the assessment area.
- ! Loans originated in the assessment area reflect excellent penetration of geographies with different income characteristics.
- ! The average loan-to deposit ratio is more than reasonable given the size, financial condition and credit needs of the assessment area.
- ! A substantial majority of the Home Mortgage Disclosure Act (HMDA) reportable loans, and small business loans were originated within the bank's assessment area.

## **Scope of the Examination**

The evaluation of the Union National Community Bank (UNCB) performance covers the period from February 10, 1996 through September 13, 1999. The evaluation includes an analysis of UNCB's assessment area of northwestern Lancaster County. This analysis is based on the bank's HMDA Loan Activity Reports (HMDA-LAR) and Loan Registers. These reports were tested for accuracy during the examination.

We used the Small Bank CRA Procedures to complete this examination. According to regulation, the bank must exceed \$250 million in assets for at least two fiscal years prior to the examination in order to be subject to the Large Bank CRA procedures. Accordingly, UNCB was not required to collect data on small businesses and farms during the review period. Therefore, we based our evaluation of small business lending on a random sample of thirty commercial loans originating during 1999. Our sample totaled \$5,588,000 or approximately 10% of the commercial loan portfolio. Results of our commercial loan sample were used to determine the level of small business lending within the AA, and whether the borrowing entity qualified as a small business for the purpose of this review. We ascertained through management discussion that there have been no major changes in lending strategies or customer base during the review period and determined that the sample results are reflective of the bank's performance during this time frame.

## **Description of Institution**

UNCB, located in northwestern Lancaster County, is the wholly-owned subsidiary of Union National Financial Corporation. The bank is a full service financial institution with trust powers. The bank operates six banking offices. All are located in Lancaster County within a 10-15 mile radius of the main office. Each branch location is equipped with drive-up banking facilities including proprietary automated teller machines (ATMs). Extended lobby hours are available Thursday and Friday at all locations. Saturday hours are available at the Columbia, Elizabethtown and Manheim Offices. All drive-up facilities are open extended hours Monday - Saturday. UNCB also operates three off-premise ATM's in Elizabethtown, Mount Joy and Ronks townships. There have been no branch openings or closings since our prior examination. Major competitors include several large local community banks and branches of several regional institutions.

As of June 30, 1999, UNCB reported total assets of \$262 million, indicating 51% growth between evaluations. The balance sheet is centered in loans of \$168 million and deposits of \$206 million. UNCB's loan portfolio is comprised primarily (86%) of real estate secured loans. Loans secured by 1 - 4 family residential properties approximate 68% of all real estate secured loans and 59% of total loans. The remaining portfolio consists of consumer loans (6%) and commercial loans (8%).

There are no financial or legal impediments impacting UNCB's ability to help meet its community's credit needs. UNCB's last CRA assessment was performed on February 9, 1996. The bank received an **Outstanding** rating.

## **Description of Assessment Area (AA) - Northwest Lancaster County**

UNCB defines its AA as northwestern Lancaster county (MSA 4000) with peripheral encroachment into Dauphin/Lebanon (MSA 3240) and York (MSA 9780) counties. The AA consists of 36 census tracts reflecting no low income, two moderate, thirty middle, and four upper-income census tracts (CTs). Thus, the bank's AA is predominantly (94%) middle- to upper-income CTs with the remaining 6% designated as moderate-income CTs. The AA complies with the regulation and does not arbitrarily exclude low- or moderate-income areas. Based on 1990 census data, UNCB's AA has a population of 172,213 which includes 47,821 families and 64,680 households. The updated median family income for the AA averages \$48,106 and the median value of housing is \$87,739. The unemployment rate is 1.73%.

Housing units total 67,686 of which 81% are one-to-four families units. Owner occupied housing and rental occupied units reflect 68% and 27% of total AA housing units, respectively. Vacant housing units equal 5% of the total housing units.

The local economy is stable with unemployment among the lowest in the state. The AA benefits from a diversified economic base representing agriculture, manufacturing, service and retail trade interests. The AA also reflects increased development of farmland for commercial and residential purposes. Major employers include Amp, Inc., Armstrong World Industries, Inc., Lancaster Health Alliance, RR Donnelly & Sons Co., and the State of PA. There are 5,190 companies and 225 farms within the bank's assessment area of which 76% qualify as small businesses.

Management has identified housing related and small business lending as the primary credit needs of its assessment area. One community contact was made with a Mount Joy elected official. He agreed with managements assessment of community credit needs, and noted UNCB as being active in helping to meet those needs. To address community credit needs, the bank developed and/or participated in several lending programs to increase residential and small business lending. During the review period, the bank's First Time Buyers Program originated 35 loans approximating \$2,114,000. This program affords applicants a lower downpayment and amortization based on a ten year maturity with a thirty year payout. In addition, the bank offers the 7/23 mortgage program, a 7 year mortgage product with amortization based on a thirty year maturity. As a result, lower income levels are required to qualify for mortgages, thus increasing home ownership opportunities within the assessment area. This program originated 66 loans during the review period totaling \$6,900,000. UNCB has also originated 6 SBA Low Doc loans totaling \$379,000 during the review period.

**Conclusions with Respect to Performance Criteria**

**Loan to Deposit Ratio**

The average loan-to deposit ratio is more than reasonable given the size, financial condition and credit needs of the assessment area. UNCB's average loan-to-deposit ratio for the period (14 quarters) covered by this review is 82%. This ratio compares very favorably to the national peer average of 71%. We also compared the bank to all similarly sized institutions headquartered within MSA 4000. The average loan-to-deposit ratio for these institutions is 81%.

**Lending in Assessment Area**

UNCB exceeds the standards for satisfactory performance for lending in the AA. We analyzed the bank's HMDA-LARs for the review period, and the commercial loan sample, to determine the location of loan originations. As indicated in the tables below, UNCB originated a substantial majority of its HMDA related and small business loans within the assessment area.

<b>LENDING WITHIN THE ASSESSMENT AREA HMDA LOAN ORIGINATIONS 1/1/97 - 6/30/99</b>				
<b>Year</b>	<b># of Loans</b>	<b>% in AA</b>	<b>\$ Amount of Loans</b>	<b>% in AA</b>

				(000's)		
	In AA	Out of AA		In AA	Out of AA	
<b>1997</b>	332	14	96%	\$16,970	\$1,128	94%
<b>1998</b>	261	12	96%	\$15,681	\$725	96%
<b>YTD 6/30/99</b>	134	18	88%	\$7,619	\$1,397	85%
<b>TOTAL</b>	727	44	94%	\$40,270	\$3,250	93%

<b>SMALL BUSINESS LENDING - COMMERCIAL LOAN SAMPLE</b>						
Year	# of Loans		% in AA	\$ Amount of Loans (000's)		% in AA
	In AA	Out of AA		In AA	Out of AA	
<b>YTD - 7/30/99</b>	<b>26</b>	<b>4</b>	<b>87%</b>	<b>\$5,209</b>	<b>\$379</b>	<b>93%</b>

### 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 HMDA data and the results of our commercial loan sample. Our review indicated good penetration of lending to borrowers of different income levels, including low- and moderate-income borrowers. Specifically, the table below indicates, a high level of HMDA origination to low- and moderate-income borrowers when compared to the percentages of such families residing within the assessment area.

<b>Lending to Borrowers of Different Income Levels Within AA HMDA Loans From 1/1/1997 - 6/30/1999</b>							
	<b>1997</b>		<b>1998</b>		<b>Ytd 6/30/99</b>		
<b>Income</b>	\$ Amt	# of	\$ Amt	# of	\$ Amt	# of	<b>Total Families</b>
<b>Low</b>	4%	8%	7%	11%	4%	10%	13%
<b>Moderate</b>	19%	25%	15%	22%	15%	21%	18%
<b>Middle</b>	26%	30%	25%	28%	17%	23%	29%
<b>Upper</b>	49%	36%	52%	38%	59%	42%	40%
<b>NA</b>	2%	1%	1%	1%	5%	4%	---
<b>Total</b>	100%	100%	100%	100%	100%	100%	100%

### Lending to Small Businesses

Based upon our sample of commercial loans we evaluated UNCB's record of lending to small businesses. A small business is defined as a business with less than or equal to \$1 million in gross annual revenues. The bank's assessment area contains 4,185 companies which qualify as small businesses or 76% of total businesses within the bank's assessment area.

The bank is responsive to the credit needs of small businesses within its assessment area. Results of our sample review indicate 73% of the loans and 52% of the dollar amount originated were made to small businesses. Additionally, the majority of loans originated were to businesses with annual revenues of \$500,000 or less. Details of our sample review are illustrated in the table below.

<b>Lending to Business Of Different Sizes Within The Assessment Area Commercial Loan Sample (000's)</b>				
<b>Annual Revenue</b>	<b># Loans</b>	<b>% Total</b>	<b>\$ Loans</b>	<b>% Total</b>
Less than \$100,000	9	30%	\$1,358	24%
\$100,000-\$250,000	5	17%	\$ 855	15%
\$250,001-\$500,000	2	6%	\$ 136	3%
\$500,001- \$1million	6	20%	\$ 564	10%
More than \$1,000,000	8	27%	\$2,675	48%
<b>Total</b>	<b>30</b>	<b>100%</b>	<b>\$5,588</b>	<b>100%</b>

### **Geographic Distribution of Loans**

Our analysis of HMDA data indicates that UNCB has a excellent record of lending in geographies with various income characteristics. The data also indicates that the geographic distribution of loans is representative of the demographic composition of the assessment area. This is especially evident within the two moderate-income CTs. Despite low home ownership, loans originated within these CTs demonstrate the bank's effort to meet the credit needs of its entire assessment area.

<b>Geographic distribution of HMDA Loans Within Assessment Area</b>							
	<b>1997</b>		<b>1998</b>		<b>Ytd 6/30/99</b>		
<b>Income level of Census Tract</b>	<b>\$ Amt of Loans</b>	<b># of Loans</b>	<b>\$ Amt of Loans</b>	<b># of Loans</b>	<b>\$ Amt of Loans</b>	<b># of loans</b>	<b>% Owner Occupied Housing</b>
Low	0	0	0	0	0	0	0%
Moderate	7%	8%	14%	12%	7%	9%	3%
Middle	92%	90%	85%	87%	93%	91%	80%

Upper	1%	5%	1%	1%	0%	0%	17%
Total	100%	100%	100%	100%	100%	100%	100%

All of the loans selected as part of our business loan sample were located in middle income census tracts. These results are consistent with the census tract composition of the AA which is predominantly middle-income.

**Responses To Complaints**

The bank has not received any complaints since the last examination.

**Record of Compliance With Antidiscrimination Laws**

A fair lending examination was performed in conjunction with this CRA examination. We compared single white female applicants to single white male applicants seeking residential mortgages to test for discrimination on a prohibited basis. No disparate treatment was noted. In addition, no violations of the substantive provisions of antidiscrimination laws and regulations were identified.