



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

July 20, 2009

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

Community National Bank of Northwestern Pennsylvania  
Charter Number 13871

53 East State Street  
Albion, PA 16401-0097

Office of the Comptroller of the Currency

Western Pennsylvania (Pittsburgh) Field Office  
4075 Monroeville Boulevard Building 2, Suite 300  
Monroeville, PA. 15146-2529

**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 major factors supporting the institution's rating include:

- The loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, assessment area (AA) credit needs, and relevant competitive factors;
- A substantial majority of the bank's loans were originated within the designated assessment area; and
- The overall borrower distribution of mortgage loans reflects reasonable penetration.

**SCOPE OF EXAMINATION**

The Community Reinvestment Act (CRA) activities of Community National Bank of Northwestern, PA (CNB) were reviewed using the Small Bank CRA examination procedures. Our review covered the bank's performance from January 1, 2007 through June 30, 2009, as this is representative of its lending strategy since the last CRA examination. Real estate mortgage loans were determined to be the bank's primary loan product and were reviewed as part of this examination. In order to assess the bank's lending activity, we selected a random sample of 30 residential mortgage loans originated between January 1, 2007 and June 30, 2009.

**DESCRIPTION OF INSTITUTION**

CNB is a \$72.2 million independent, intrastate community bank chartered in 1933. The bank is headquartered in the town of Albion, which is located in Erie County in northwestern Pennsylvania. Albion is located approximately 30 miles southwest of Erie, Pennsylvania and approximately 118 miles northwest of Pittsburgh, Pennsylvania. The bank does not operate any subsidiaries.

The bank's primary operating area is the southern central and western portions of Erie County, Pennsylvania. Including its main branch in Albion PA, CNB operates five full service branches located in West Springfield, Cranesville, Edinboro, and Erie (Millcreek Township). There have been no branch openings or closings since the last exam.

CNB currently operates six ATMs. One walk-up ATM is located at each of the Albion, Edinboro, and West Springfield branch locations. The Edinboro branch also has one drive-up ATM and the Erie branch location has two drive-up ATMs. CNB does not operate an ATM at Cranesville branch because of its close proximity to the Albion office.

CNB is a community bank that offers basic retail loan and deposit products, with a strong focus on residential real estate. CNB offers a variety of deposit products to meet

consumer and commercial banking needs. The bank's Internet website provides detailed information on products and services for both consumers and businesses. Banking services are standard with the addition of on-line banking with bill payment options.

As of June 30, 2009, CNB reported \$34 million in loans, \$54 million in deposits, and net tier one capital of \$15 million. Net loans represent approximately 47% of CNB's assets. CNB's loan portfolio consists of residential real estate (83%), commercial loans (13%), and consumer loans (4%). Home mortgages are the bank's primary product.

Banking competition in the bank's market is strong. Competitors include several large regional banks and credit unions.

There are no financial or legal circumstances impeding the bank's ability to help meet the credit needs in its assessment area. CNB received a "Satisfactory" rating as a result of the previous CRA evaluation, which was completed May 10, 2005.

## DESCRIPTION OF ASSESSMENT AREA

CNB has designated one assessment area (AA). CNB's AA consists of 70 of the 72 census tracts within the Erie Metropolitan Statistical Area (MSA) 21500. Two of the census tracts in the northeastern part of the Erie MSA are excluded because CNB could not reasonably service these areas based on the location of their current branches. CNB's AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies.

The following information in **Table 1** describes this area.

Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	70	7.14	18.57	51.43	22.86	0.00
Population by Geography	270,646	4.56	14.92	54.65	25.87	0.00
Owner-Occupied Housing by Geography	70,989	1.50	8.99	59.95	29.56	0.00
Business by Geography	15,274	7.31	13.38	56.55	22.76	0.00
Farms by Geography	486	1.65	2.67	75.31	20.37	0.00
Family Distribution by Income Level	68,874	18.27	18.76	23.41	39.56	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	25,503	6.82	21.30	55.24	16.65	0.00
Median Family Income		44,825	Median Housing Value	84,505		
HUD Adjusted Median Family Income for 2009		56,800	Unemployment Rate	9.7%		
Households Below Poverty Level		11.66%				

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 US Census and 2009 HUD updated MFI; Unemployment rate from June 2009 Bureau of Labor Statistics

Based on the 2000 U.S. census data, the bank's AA includes five (7.14%) low-income geographies, 13 (18.57%) moderate-income geographies, 36 (51.43%) middle-income geographies, and 16 (22.86%) upper-income geographies.

According to the 2000 U.S. census data, the AA had a total population of 270,646. There are 68,874 families in the AA and 18.27% are low-income, 18.76% are moderate-income, 23.41% are middle-income, and 39.56% are upper-income. There are 102,602 households in the AA, and 11.66% of households are below the poverty level. The 2009 HUD updated MSA median family income is \$56,800.

The 2000 U.S. census data also reported 110,140 housing units in the AA and 64% of housing units were owner occupied. Approximately 2% of owner-occupied housing is located in low-income geographies, 9% in moderate-income geographies, 60% in middle-income geographies, and 29% in upper-income geographies. The median housing value equaled \$84,505.

CNB's Erie AA is predominantly rural and agricultural. The geographical area immediately surrounding the City of Erie, however, is more urban and more commercial than the majority of the AA. Large employers include the Erie Insurance Group, General Electric Company, Hamot Medical Center, St. Vincent Hospital, Erie County, the state of Pennsylvania, and Gannon University. A Pennsylvania State Correctional Facility and Edinboro State University also operate in Erie County. Erie AA employment is derived predominantly from the service industry. Retail trade and to a lesser extent insurance, finance, real estate and manufacturing also support Erie County employment. According to the Bureau of Labor Statistics, as of June 2009, the Erie, PA unemployment rate was 9.7%, the Pennsylvania unemployment rate was 8.4%, and the national unemployment rate was 9.5%

The Erie economy has become stagnant, and has recently seen slight contraction. A major cause of this is the area's largest employer, GE Transportation, began downsizing. Additionally, manufacturing has declined and had a substantial affect on the area and will continue to cause job loss. Education and healthcare continue to be prominent industries in the area and will help to mitigate large contraction in the near-term. Erie has some of the best hospitals in the country and these boast strong employment numbers. However, in the long-term it will be difficult for Erie to grow as it is difficult to attract high-skilled workers due to the lack of high-paying industries.

Banking competition in the bank's market is strong. Competitors include several large regional banks and credit unions. According to the June 30, 2008 FDIC Summary of Deposit Market Share report, CNB's deposit market share within the Erie MSA is 1.74%, ranking it eighth among ten institutions. CNB's primary competitors are: PNC Bank, NA (16 offices, 25.43% market share), Northwest Savings Bank (21 offices, 22.62% market share) and National City Bank (11 offices, 14.22% market share). However, the Erie Community Credit Union is a large player in the market as well, with membership open to anyone that works or lives in Erie County. County NB recently opened a commercial lending office and is marketing themselves under the name of Erie Bank.

As part of this examination, we contacted a local economic development organization. The organization works in conjunction with other local and state economic development

organizations, as well as with municipalities and governmental entities, to provide the programs, products, and services that companies need to be successful. The contact stated that the area has a need for small business lending and affordable housing development. The contact states that banks can participate in the various projects in the local area through business lending and homeownership education.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

CNB's performance under the lending test is "Satisfactory". CNB's loan-to-deposit ratio is reasonable. A substantial majority of CNB's primary loan products were originated within the bank's AA. CNB's record of lending to borrowers of different incomes is reasonable and meets the standard for satisfactory performance. The geographic distribution of loans in the AA reflects poor dispersion throughout census tracts of different income levels. All criteria of the lending test are documented below.

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

CNB's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs, and it meets the standard for satisfactory performance. The bank's quarterly average net loan-to-deposit ratio was 65% over the last 16 quarters since the prior CRA examination. The bank's loan-to-deposit ratio ranged from 57% to 69% during this period.

The bank's quarterly average net loan-to-deposit ratio is slightly below that of similarly sized and situated financial institutions in Pennsylvania, Ohio and New York. The quarterly average net loan-to-deposit ratio for these similarly sized and situated financial institutions was 68% over the same 16 quarter period, ranging from 56% to 84%. Even though CNB's quarterly average net loan-to-deposit ratio is slightly lower than its peer group, it remains reasonable given the demographic context in which the bank operates and the bank's overall lending volume.

### **Lending in Assessment Area**

A substantial majority of CNB's home mortgage loans were made within the bank's AA, and CNB exceeds the standard for satisfactory performance. Based on our sample of 30 home mortgage loans, 27 or 90% were originated inside the AA.

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

The distribution of loans reflects reasonable penetration among borrowers of different incomes, meeting the standard for satisfactory performance.

The percentage of home mortgage loans originated to low-income borrowers is significantly lower than the percentage of low-income families in the AA. When considering the affordability of housing in the AA, this performance is reasonable. The median cost of housing in the AA is \$84,505, and a low-income family earns less than \$28,400. Additionally, 11.66% of households within the AA are below the poverty level

and there is a high unemployment rate within the AA. Based on these statistics, it would be difficult for low-income borrowers to purchase housing in the AA and this limits the opportunities for residential mortgage lending to low-income borrowers. Therefore, we placed more emphasis on the moderate-income performance.

The distribution of mortgage loans to moderate-income exceeds the percentage of moderate-income families in the AA.

**Table 2** shows the distribution of home loan products among borrowers of different income levels as compared to the percent of families in each income category.

<b>Table 2 - Borrower Distribution of Mortgage Loans CNB AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Mortgage loans	18.27%	7.41%	18.76%	22.22%	23.41%	25.93%	37.68%	44.44%

### **Geographic Distribution of Loans**

The geographic distribution of loans reflects poor dispersion throughout CNB’s AA and does not meet the standard for satisfactory performance. Based on our loan sample, there were no loans originated within the low- or moderate-income geographies in the AA.

### **Responses to Complaints**

CNB did not receive any complaints about its performance in helping to meet credit needs in the assessment area during this evaluation period.

### **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.