



Public Disclosure

October 13, 1998

Community Reinvestment Act Performance Evaluation

LA Bank, N.A.
Charter Number 9886

P. O. Box 67
Route 191
Lake Ariel, Pennsylvania 18436

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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 **LA Bank, N.A.** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **October 13, 1998**. 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 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 CFR Part 25.

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

Factors supporting the bank's overall rating include:

- A high percentage of HMDA and small business loans granted within the assessment areas;
- A good geographic distribution of HMDA loans within the assessment areas;
- A good distribution of loans among borrowers of different income levels and to businesses of different sizes;
- A good response to community credit needs, including flexible and innovative products;
- Good access to delivery systems for all segments of the assessment areas, including low- and moderate-income areas; and
- An adequate level of community development services.

The following table indicates the performance level of **LA Bank, N.A.** with respect to the lending, investment, and service tests.

Performance Levels	LA Bank, N.A. Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X		X
Low Satisfactory			
Needs to Improve		X	
Substantial Noncompliance			

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

Description of Institution

LA Bank, N.A. (LA), founded in 1910, is a full service banking institution headquartered in Lake Ariel, Wayne County, Pennsylvania. It is a wholly owned subsidiary of Lake Ariel Bancorp, Inc., also headquartered in Lake Ariel.

LA's total assets were \$423 million as of June 30, 1998. Net loans, as of that date, were \$215 million and comprised 52% of average assets. As of June 30, 1998, the loan mix was as follows: 76% residential real estate, 11% commercial loans, and 13% loans to individuals. LA has twenty full service branches; fifteen have drive-through facilities and nineteen have automated teller machines (ATMs). Two additional ATMs are located at remote sites. Branches and ATMs are located throughout Wayne, Lackawanna, Pike, and Monroe counties in Pennsylvania. The bank maintains an informational Web site on the Internet, but no transactions may be processed there. LA operates two subsidiaries: LA Lease, Inc., which offers leasing opportunities for equipment, machinery, and vehicles; and Ariel Financial Services, Inc., which offers alternative investment services to customers.

There are no financial or legal impediments that would prevent the institution from helping to meet the credit needs of the assessment area.

Description of Assessment Area(s) (AAs)

LA has three AAs which meet regulatory guidelines and do not arbitrarily exclude any low- and moderate-income (LMI) areas. Combined, the AAs are in Northeastern Pennsylvania,

encompassing parts of Wayne, Lackawanna, Pike, and Monroe counties. One AA, a portion of Lackawanna County, is in the Scranton/Wilkes-Barre/Hazleton Metropolitan Statistical Area (MSA #7560); the second AA, a portion of Pike County, is in the Newburgh, New York-PA Metropolitan Statistical Area (MSA #5660); and the third AA comprises parts of the remaining contiguous counties of Wayne and Monroe in a non-MSA. For a description of the MSA AAs, refer to the **MSA Performance Conclusions** at the end of this Performance Evaluation.

Combined, the AAs contain 77 block numbering areas (BNAs) and census tracts (CTs). Total population is 170,000. The median housing cost is \$90,000 and the average year built is 1962. The MSA/non-MSA's updated median family income is \$38,712 and the MSA/non-MSA census median family income is \$31,760. LA's market share of deposits for all FDIC-insured institutions in Pennsylvania is 0.16% as of June 30, 1997.

The non-MSA AA is part of Wayne and Monroe counties. LA operates four branches and four ATMs in Wayne County, and two branches and two ATMs in Monroe County. This AA has fifteen BNAs, with no low-income (0%), no moderate-income (0%), ten middle-income (67%), and five upper-income (33%) tracts. Total population is 79,000. The median housing cost is \$109,000 and the average year built is 1975. The statewide non-MSA updated median family income is \$35,200. Major employers in this area include the United States Government, Pennsylvania State Government, Roadway Express, Wayne Memorial Hospital, and the Pocono Medical Center. Wayne County's unemployment rate is 4.7% and Monroe County's rate is 5.7%, as of August 31, 1998, according to the Pennsylvania Department of Labor and Industry. The unemployment rate for the Commonwealth of Pennsylvania as of August 31, 1998 is 4.2%. LA's market share of deposits for all FDIC-insured institutions in Wayne County is 10.53%, as of June 30, 1997. The market share in Monroe County for the same time period is 0.37%. The following table depicts CT/BNA distribution in the AAs.

COMBINED ASSESSMENT AREA DEMOGRAPHICS			
Designation	# CTs/BNAs	% of Total CTs/BNAs	% of Households in the CTs/BNAs
Low	2	3	1
Moderate	10	13	8
Middle	54	70	68
Upper	11	14	23
Total	77	100	100

Determination of Community Credit Needs

Community Contacts

During the examination, one community group was contacted and a recent community contact was reviewed. The groups address housing needs within the AAs and focus on the needs of LMI individuals in particular. The groups expressed the opinion that the general banking and credit needs are being met within the AAs. The credit needs presented by the community groups were consistent with the credit needs identified by management.

Management, through its involvement with various community groups, has determined that affordable housing and small business lending are the primary credit needs in their AAs.

Conclusions with Respect to Performance Tests

Scope of Review

This review covered the time period from January 1, 1997 to June 30, 1998 for all Home Mortgage Disclosure Act (HMDA) loans, small business loans, community development loans, investments, and services. All dollar amounts within the tables in this report are in thousands, unless otherwise indicated. For discussion purposes, BNAs and CTs are hereafter referred to as census tracts, or tracts.

LENDING TEST

Performance Criteria

Lending Activity

LA is responsive to the credit needs of the community. Management's lending focus is 1-4 family residential (HMDA reportable) loans, commercial lending, and loans to individuals (consumer loans). LA is the number five HMDA lender (out of 317 lenders) within its AAs and the bank is the number one HMDA lender for conventional home purchase mortgages within its AAs. Management is actively involved with various community organizations that focus on housing and credit needs. The paragraphs and tables below more fully describe the bank's performance and activities within the defined AAs.

Lending Concentration within the Assessment Area

The following table depicts LA's lending within its AAs as a percentage of all loans originated as HMDA and small business reportable. The table reflects a high level of lending within the AAs for both HMDA and small business loans. During the evaluation period, the bank did not make any small farm loans.

HMDA and Small Business Loan Originations within the AAs for Calendar year 1997 and 1/1/98-6/30/98								
Loan Type	1997				1/1/98-6/30/98			
	# Loans	%	\$ Amt	%	# Loans	%	\$ Amt	%
HMDA	530	91	41,073	91	394	85	31,970	83
Small Business Loans	375	88	29,201	85	170	81	11,337	77
Total	905	90	70,274	89	564	83	43,307	82

In 1997, overall HMDA lending in the AAs was 91%, with the following breakdown in originations: 51% home purchase, 30% refinance, and 19% home improvement loans. In YTD 1998, overall HMDA lending in the AAs is 85%, with the following breakdown in originations: 33% home purchase, 50% refinance, and 17% home improvement loans. The slight decline in lending in the AAs in YTD 1998 has occurred because of the hiring of mortgage loan originators and new business development personnel to begin establishing a presence in the markets where the bank is expanding its branch network, and the ensuing lag time.

Geographic Distribution

LA's level of HMDA lending within LMI tracts is good. The table below depicts the bank's lending pattern throughout the AAs based on the level of income for each census tract compared to the owner occupied housing within those same areas.

Geographic Distribution of HMDA Loans					
Census Tracts	1997		1/1/98-6/30/98		% Owner-Occupied Households in AA
	# Loans/%	\$ Amt/%	# Loans/%	\$ Amt/%	
Low	7 / 1	401 / 1	8 / 2	470 / 1	0
Moderate	44 / 8	2,911 / 7	41 / 10	3,303 / 10	7
Middle	384 / 73	28,902 / 70	276 / 70	21,656 / 68	69
Upper	95 / 18	8,859 / 22	69 / 18	6,541 / 21	24
Total	530 / 100	41,073 / 100	394 / 100	31,970 / 100	100

The following table depicts the distribution of small business loans throughout the AAs based on percentage of businesses and farms in each census tract. LA's distribution of small business loans within moderate-income tracts is reasonable, comparing very favorably in 1997 and YTD 1998. The small business lending in the two low-income tracts appears to reflect poor penetration in the AA, however, these tracts are in the middle of the downtown Scranton business district, an area dominated by the Steamtown Historical District, the Steamtown Mall, parking garages, and area banks, which limits the opportunities for lending to small businesses.

Farm lending is limited in the AAs because farmers are served by the Farm Credit Administration.

Geographic Distribution of Small Business Loans					
Census Tract	1997		1/1/98-6/30/98		% Businesses in each CT/ BNA
	# / %	\$ / %	# / %	\$ / %	
Low	6 / 2	192 / 1	2 / 1	322 / 3	6
Moderate	58 / 15	5,048 / 17	14 / 8	597 / 5	6
Middle	244 / 65	15,393 / 53	129 / 76	9,079 / 80	62
Upper	67 / 18	8,568 / 29	25 / 15	1,339 / 12	26
Total	375 / 100	29,201 / 100	170 / 100	11,377/100	100

Borrower Characteristics

LA's level of lending to moderate-income individuals is good. The 1997 HMDA market share data reveals that LA is the number four lender to both low- and moderate-income individuals within its defined AAs. LA has an overall market share of 3.66% based on originations within the AAs. LA's market share of low-income borrowers is 4.87% (ranked number three in its AA) and moderate-income borrowers is 4.37% (ranked number four in its AA).

The following table depicts the bank's lending patterns based on the borrower's income level compared to the percentage of families within the AAs. LA's lending to LMI individuals compared to the percentage of LMI families within the AAs is good. Management stated that a large percentage of the low-income individuals within the AAs are senior citizens who already own homes or live in senior citizen housing complexes and do not purchase or need to refinance their homes. Demographic data supports that there is a large population of senior citizens. Persons more than 65 years of age represent 18% of the population and 44% of the low-income population. Therefore, because of the

high percentage of low-income individuals who already own homes or live in housing complexes, the opportunity to lend to low-income individuals is limited in the AAs.

Borrower Distribution of HMDA Loans by Income					
INCOME	1997		1/1/98-6/30/98		% of Families within AAs
	# Lns / %	\$ Amt / %	# Lns / %	\$ Amt / %	
Low	45 / 8	1,360 / 3	29 / 7	1,114 / 4	17
Moderate	110 / 21	5,341 / 13	62 / 16	3,621 / 11	18
Middle	132 / 25	9,803 / 24	105 / 27	6,784 / 21	24
Upper	243 / 46	24,569 / 60	198 / 50	20,451 / 64	41
Total	530 / 100	41,073 / 100	394 / 100	31,970 / 100	100

The table below reflects that LA does an excellent job of lending to small businesses. In 1997, the majority (89%) of the bank's commercial lending was to small businesses, i.e., those with revenues of \$1 million or less. For the first half of 1998, 91% of commercial loans are to small businesses.

Further, LA's lending patterns are good when compared to the number of small businesses in the AA. Small businesses represent 78% of the businesses in the area, businesses with revenues more than \$1 million represent 8%, and businesses not reporting revenues represent 14%. LA's lending to small businesses was 89% in 1997 and 91% in YTD 1998.

Distribution of Business Loans by Revenue Size within AAs				
Business Revenue Size	1997		1/1/98-6/30/98	
	# Loans / %	\$ Amt. / %	# Loans / %	\$ Amt. / %
0 < \$1 million	335 / 89	19,429 / 67	155 / 91	8,372 / 74
> \$1 million	40 / 11	9,772 / 33	15 / 9	2,965 / 26
Total	375 / 100	29,201 / 100	170 / 100	11,337 / 100

The following table represents LA's small business lending pattern by size of loan. The bank's pattern of granting small dollar loans, i.e., loan size of less than \$100,000, is good.

Distribution of Small Business Loans by Loan Size				
Loan Size	1997		1/1/98-6/30/98	
	# / %	\$ Amt. / %	# / %	\$ Amt. / %
< = \$100	305 / 81	9,445 / 32	138 / 81	3,981 / 35
> \$100 < = \$250	42 / 11	7,181 / 25	25 / 15	4,136 / 36
> \$250 < = \$1,000	28 / 8	12,575 / 43	7 / 4	3,220 / 29
Total	375 / 100	29,201 / 100	170 / 100	11,337 / 100

Community Development Lending

LA has an excellent level of community development lending in relation to its overall asset size. Opportunities for community development lending within the AAs are good.

LA participates in a consortium of neighborhood housing lenders in the City of Scranton in Lackawanna County. As of the evaluation date, 42 loans were originated for a total of \$157,000. These loans are for first-time home buyers who wish to purchase and rehabilitate existing homes in the city. LMI individuals are eligible only after completing an extensive screening and counseling process.

The bank participates with the Pike County Planning and Development Authority to rehabilitate residential real estate. The county provides grant money and the bank provides financing to LMI individuals who are remodeling deteriorated primary homes. Twenty-six loans were originated for a total of \$286,000.

In late 1997, LA provided an \$800,000 line of credit to a non-profit organization located in the City of Scranton for the renovation of the organization's headquarters. The line of credit will be repaid by a \$350,000 grant from the City of Scranton's Office of Economic and Community Development, a \$200,000 grant from a private foundation, a small commercial loan, and a capital campaign drive estimated to raise the balance. The organization administers various social services for Lackawanna County's low-income population, including after-school and evening programs for low-income youth, day care for low-income families, used clothing center, Feed-a-Friend food basket program, and crisis intervention programs for needy families. The organization also operates an apartment complex for low-income disabled residents.

Innovative or Flexible Lending Practices

LA has several flexible mortgage programs:

- 1) 5% down payment with Private Mortgage Insurance (PMI);
- 2) A seven-year balloon mortgage with a lower interest rate than traditional fixed rate mortgages and therefore, a lower monthly payment;
- 3) One year, three year, and five year adjustable rate mortgages which offer initially discounted interest rates in order to provide lower payments at the start of the mortgage;
- 4) A "Welcome Neighbor" mortgage program for LMI families who are first time home buyers. This program offers discounted rates and fees and allows a minimum down payment of 3% from the applicant; and
- 5) Reverse mortgages for senior citizens. LA is one of the very few institutions in the area to offer this type of loan which allows senior citizens to remain in their homes and receive a monthly payment from equity conversion.

LA is also involved with an agency in the City of Scranton which assists low- and moderate-income individuals who are interested in becoming first time home owners. The bank works with a consortium of other local lenders in underwriting and funding these loans.

Small business customers have a variety of loan and leasing options available to them. Besides the traditional lines of credit, term loans, and real estate loans, the bank offers all types of leasing programs and offers the LowDoc program from the Small Business Administration.

INVESTMENT TEST

LA has a poor level of qualified donations based upon their capacity and financial condition. Investment opportunities, outside grants, and donations are limited in their AAs, however, there are opportunities in broader statewide programs which management elected not to become involved with in order to better focus on the AAs defined above.

Contributions to community groups in response to their general needs are made on a regular basis. CRA qualified donations totaled \$6,000 thus far in 1998, and \$4,000 in 1997.

SERVICE TEST

LA's delivery systems are accessible to all portions of their AAs. Branch hours are reasonable and convenient to all customers. A list of branch hours is available in the public file.

The bank has opened five new branch locations since October of 1997 and no branch offices have been closed. Services are similar at all branches, with two branches located

in Wal-Mart stores. LA has a total of 20 community offices and 21 ATMs. Nineteen of the community offices have extended hours, i.e., after 5:00 p.m., at least one day during the week and have Saturday hours (including branches in the LMI geographies). The two Wal-Mart offices also have Sunday hours. The following chart indicates where branches and banking facilities are located throughout the four counties.

DISTRIBUTION OF DELIVERY SYSTEMS (Branches and Remote ATM Facilities)				
Census Tracts	Branches	Non-Branch ATM Facilities	Drive Up Facilities	CTs in the AAs
	# / %	# / %	# / %	# / %
Low	2 / 10	1 / 50	0 / 0	2 / 3
Moderate	2 / 10	0 / 0	1 / 7	10 / 13
Middle	12 / 60	1 / 50	10 / 67	54 / 70
Upper	4 / 20	0 / 0	4 / 26	11 / 14
Total	20 / 100	2 / 100	15 / 100	77 / 100

LA offers a common set of financial services to all of its customers. Services include a wide range of products including loan and deposit services. Services are designed for both retail and business customers, including small businesses. The bank also offers an automated telephone direct dial access system for customers to obtain information regarding their deposit or loan accounts. Customers may also transfer funds from one account to another and make loan payments by using this service. The system is available 24 hours a day, seven days a week.

Community Development Services

LA provides an adequate level of community development services. Primary services include providing financial expertise to a variety of community service and development organizations through board and committee memberships.

The bank is actively involved in a lender's housing consortium which provides funding to LMI individuals who wish to purchase residences in the City of Scranton. A member of management serves on the lending committee that underwrites these loans.

An officer serves as the vice president of the board of directors for a nonprofit neighborhood center which provides counseling and social services to LMI individuals in Lackawanna County. This board oversees the financial distribution of government and private funds for housing, health, and welfare programs that the organization offers. The

LA officer also serves as the vice president of the board of directors for the neighborhood housing corporation which this nonprofit operates.

Management supports a three-county human services organization which provides housing, welfare, and social services to LMI individuals in the area. An officer serves as a board member in this organization and oversees the financial activities of the group.

FAIR LENDING REVIEW

A concurrent fair lending review did not identify any violations of antidiscrimination laws and regulations. LA's fair lending internal controls, reviews, and training programs are effective.

Metropolitan Statistical Areas

Conclusions with Respect to Performance Tests MSA 7560 - Scranton/Wilkes-Barre/Hazleton

MSA Results

Examination results within the MSA are consistent with the overall results for the bank.

Description of the MSA

This AA consists of a portion of Lackawanna County. The AA has 53 CTs, with the following breakdown:

ASSESSMENT AREA DEMOGRAPHICS FOR LACKAWANNA COUNTY			
Designation	# CTs	% of Total Tracts	% of Households in the Tracts
Low	2	4	2
Moderate	6	11	9
Middle	39	74	73
Upper	6	11	16
Total	53	100	100

There are nine branches and eleven ATMs in the county. Total population is 198,000. The median housing cost is \$66,988 and the median year built is 1949. The updated MSA median family income is \$38,900 and the MSA census median family income is \$30,676. As of June 30, 1997, LA's market share of deposits for all FDIC-insured institutions in Lackawanna County was 4.30% as of June 30, 1997. Major employers in this area are the Pennsylvania State Government, WEA Manufacturing East, Allied Services Foundation, Community Medical Center, and Mercy Hospital. As of August 31, 1998, the unemployment rate for Lackawanna County is 5.3% according to the Pennsylvania Department of Labor and Industry. LA's administrative offices are centralized in this county in the City of Scranton.

LENDING TEST

Lending Concentration within the Assessment Area

The following table reflects lending within Lackawanna County. This is a highly competitive banking area with PNC, Mellon, and First Union having a major presence in the area.

LOAN ACTIVITY IN THE MSA COMPARED TO THE OVERALL AA in 1997 & 1/1/98-6/30/98				
Loan Products	#	% of Total AA loans	\$ Amount	% of Total AA loans
HMDA	423	46	32,088	44
Small Businesses	260	53	16,343	59
Total	683	48	48,431	48

Note: There are no farm loans in Lackawanna County.

Geographic Distribution

The table below depicts the lending pattern throughout the AA based on the level of income for each census tract compared to the owner-occupied housing within those areas. Within the AA there are only two low-income tracts; these are located in the downtown Scranton business district previously described. The level of lending within LMI tracts is good for 1997 and for the first half of 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 the MSA					
Census Tracts	1997		1/1/98-6/30/98		% Owner- Occupied Households in AA
	# Loans / %	\$ Amt / %	# Loans / %	\$ Amt / %	
Low	7 / 3	401 / 2	8 / 4	470 / 3	0
Moderate	11 / 4	589 / 3	10 / 6	452 / 4	6
Middle	162 / 66	11,376 / 62	109 / 62	7,995 / 59	77
Upper	66 / 27	6,128 / 33	50 / 28	4,677 / 34	17
Total	246 / 100	18,494 / 100	177 / 100	13,594 / 100	100

The following table depicts the distribution of small business loans throughout the AA based on the percentage of businesses in each census tract. Again, LA's distribution of small business loans within moderate-income tracts is good. Competition for small business loans is strong and opportunities are limited.

Geographic Distribution of Small Business Loans for the MSA					
Census Tract	1997		1/1/98-6/30/98		% Small Businesses in each CT
	# / %	\$ / %	# / %	\$ / %	
Low	6 / 3	192 / 1	2 / 2	322 / 5	10
Moderate	36 / 17	3,616 / 19	7 / 8	266 / 4	8
Middle	116 / 56	8,687 / 45	60 / 66	4,492 / 70	62
Upper	51 / 24	6,671 / 35	22 / 24	1,295 / 21	20
Total	209 / 100	19,166 / 100	91 / 100	6,375 / 100	100

Borrower Characteristics

The table below depicts the bank's lending patterns based on the borrower's income level in comparison to the percentage of families within the AA. LA's lending to moderate-income individuals is acceptable when compared to the percentage of moderate-income families within the AA. Management believes the erosion of the LMI percentages in YTD 1998 is due to the downturn in interest rates. Higher income, rate-sensitive borrowers with larger loan amount requests have increased the refinances from 31% of all HMDA reportable loans in 1997 to 59% in YTD 1998 in this MSA.

Borrower Distribution of HMDA Loans by Income in the MSA					
INCOME	1997		1/1/98-6/30/98		% of Families within AA
	# Lns / %	\$ Amt / %	# Lns / %	\$ Amt / %	
Low	16 / 7	478 / 3	10 / 6	319 / 2	18
Moderate	60 / 24	2,777 / 15	23 / 13	1,326 / 10	18
Middle	60 / 24	3,730 / 20	48 / 27	2,901 / 21	24
Upper	110 / 45	11,509 / 62	96 / 54	9,048 / 67	40
Total	246 / 100	18,494 / 100	177 / 100	13,594 / 100	100

The following table indicates that LA does a good job at lending to small businesses. Further, lending patterns compare favorably to the number of small businesses in the AA. Small businesses represent 77% of businesses in the area, businesses with revenues more than \$1 million represent 9%, and businesses not reporting revenues represent 14%.

Distribution of Business Loans by Revenue Size within the MSA				
Business Revenue Size	1997		1/1/98 - 6/30/98	
	# Loans / %	\$ Amt. / %	# Loans / %	\$ Amt. / %
0 < \$1 million	179 / 86	11,879 / 62	81 / 89	4,464 / 70
> \$1 million	30 / 14	7,287 / 38	10 / 11	1,911 / 30
Total	209 / 100	19,166 / 100	91 / 100	6,375 / 100

The table below represents LA's small business lending pattern by loan size in this MSA. The bank's pattern of lending for small loan amounts is good. The average small business loan amount in 1997 was \$66,000 and up to midyear 1998 the average loan size was \$55,000.

Distribution of Small Business Loans by Loan Size in the MSA				
Loan Size	1997		1/1/98-6/30/98	
	# / %	\$ Amt. / %	# / %	\$ Amt. / %
< = \$100	161 / 77	5,124 / 27	72 / 79	2,128 / 33
> \$100 < = \$250	28 / 13	4,887 / 25	15 / 17	2,562 / 40
> \$250 < = \$1,000	20 / 10	9,155 / 48	4 / 4	1,685 / 27
Total	209 / 100	19,166 / 100	91 / 100	6,375 / 100

Community Development Lending

Refer to previous comments on **Community Development Lending**, which address all AAs and applies to Lackawanna County.

Innovative or Flexible Lending Practices

Refer to previous comments on **Innovative or Flexible Lending Practices**, which address all AAs and applies to Lackawanna County.

INVESTMENT TEST

LA has a poor level of qualified donations. Donations in this MSA were \$2,000 in 1997 and \$5,000 in YTD 1998.

SERVICE TEST

Services offered are consistent with those offered throughout the AAs. Refer to the overall comments regarding **Service Test** performance. LA does an excellent job in providing delivery systems in the LMI areas of this MSA.

DISTRIBUTION OF DELIVERY SYSTEMS WITHIN THE MSA (Branches and Remote ATM Facilities)				
Census Tracts	Branches	Non-Branch ATM Facilities	Drive Up Facilities	CTs in the AAs
	# / %	# / %	# / %	# / %
Low	2 / 22	1 / 50	0 / 0	2 / 4
Moderate	1 / 11	0 / 0	1 / 17	6 / 11
Middle	4 / 45	1 / 50	3 / 50	39 / 74
Upper	2 / 22	0 / 0	2 / 33	6 / 11
Total	9 / 100	2 / 100	6 / 100	53 / 100

Metropolitan Statistical Areas

Conclusions with Respect to Performance Tests MSA 5660 - Newburgh, NY-PA

MSA Results

Examination results within the MSA are consistent with the overall results for the bank.

Description of the MSA

This AA consists of a portion of Pike County. This AA has nine CTs, with the following breakdown:

ASSESSMENT AREA DEMOGRAPHICS FOR PIKE COUNTY			
Designation	# CTs	% of Total Tracts	% of Households in the Tracts
Low	0	0	0
Moderate	4	44	27
Middle	5	56	73
Upper	0	0	0
Total	9	100	100

Pike County is a predominantly rural area with several vacation resorts and many second home communities. Many residents commute to large metropolitan areas in New York and New Jersey for employment. LA has five branches and four ATMs in the county. Total population is 28,000. The median housing cost is \$117,463 and the median year built is 1975. The updated MSA median family income is \$52,500 and the MSA census median family income is \$42,859. As of June 30, 1997, LA's market share of deposits for all FDIC-insured institutions in Pike County was 19.92% as of June 30, 1997. Major employers in this area are Woodloch Pines, Inc., the Delaware Valley School District, Pike County, and Wal-Mart. As of August 31, 1998, the unemployment rate for Pike County is 3.6% according to the Pennsylvania Department of Labor and Industry.

LENDING TEST

Lending Concentration within the Assessment Area

The following table reflects lending within Pike County which is consistent with the bank's presence in the county.

LOAN ACTIVITY IN THE MSA COMPARED TO THE OVERALL AA in 1997 & 1/1/98-6/30/98				
Loan Products	#	% of Total AA loans	\$ Amount	% of Total AA loans
HMDA	224	24	19,699	27
Small Businesses	212	43	6,585	24
Total	436	31	26,284	26

Note: There are no farm loans in Pike County.

Geographic Distribution

The table below depicts the lending pattern throughout the AA based on the level of income for each census tract compared to the owner-occupied housing within those areas. Within the AA there are no low-income tracts. The level of lending within moderate-income tracts is good for 1997 and for the first half of 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					
Census Tracts	1997		1/1/98-6/30/98		% Owner-Occupied Households in AA
	# Loans / %	\$ Amt / %	# Loans / %	\$ Amt / %	
Low	0 / 0	0 / 0	0 / 0	0 / 0	0
Moderate	33 / 26	2,322 / 20	31 / 33	2,851 / 35	27
Middle	96 / 74	9,219 / 80	64 / 67	5,307 / 65	73
Upper	0 / 0	0 / 0	0 / 0	0 / 0	0
Total	129 / 100	11,541 / 100	95 / 100	8,158 / 100	100

The following table depicts the distribution of small business loans throughout the AA based on percentage of businesses in each census tract. LA's distribution of small business loans within moderate-income tracts is good.

Geographic Distribution of Small Business Loans for the MSA					
Census Tract	1997		1/1/98-6/30/98		% Small Businesses in each CT
	# / %	\$ / %	# / %	\$ / %	
Low	0 / 0	0 / 0	0 / 0	0 / 0	0
Moderate	22 / 24	1,432 / 27	7 / 18	331 / 15	21
Middle	70 / 76	3,889 / 73	32 / 82	1,897 / 85	79
Upper	0 / 0	0 / 0	0 / 0	0 / 0	0
Total	92 / 100	5,321 / 100	39 / 100	2,228 / 100	100

Borrower Characteristics

The table below depicts the bank's lending patterns based on the borrower's income level in comparison to the percentage of families within the AA. LA's lending to moderate-income individuals is good compared to the percentage of moderate-income families within the AA. Limited housing opportunities exist for low-income individuals since the median housing cost is higher when compared to surrounding areas. Therefore, limited lending opportunities exist for the bank with this income group.

Borrower Distribution of HMDA Loans by Income in the MSA					
INCOME	1997		1/1/98-6/30/98		% of Families within AA
	# Lns / %	\$ Amt / %	# Lns / %	\$ Amt / %	
Low	18 / 14	631 / 5	10 / 11	450 / 6	26
Moderate	23 / 18	1,385 / 12	23 / 24	1,660 / 20	24
Middle	41 / 32	4,115 / 36	27 / 28	1,949 / 24	27
Upper	47 / 36	5,410 / 47	35 / 37	4,099 / 50	23
Total	129 / 100	11,541 / 100	95 / 100	8,158 / 100	100

The following table suggests that LA does an excellent job of lending to small businesses in the MSA. Further, LA's lending patterns compare favorably to the number of small businesses in the AA. Small businesses represent 78% of the businesses in the area, businesses with revenues more than \$1 million represent 6%, and businesses not reporting revenues represent 16%.

Distribution of Business Loans by Revenue Size within the MSA				
Business Revenue Size	1997		1/1/98 - 6/30/98	
	# Loans / %	\$ Amt. / %	# Loans / %	\$ Amt. / %
0 < \$1 million	87 / 95	4,371 / 82	38 / 97	2,214 / 99
> \$1 million	5 / 5	950 / 18	1 / 3	14 / 1
Total	92 / 100	5,321 / 100	39 / 100	2,228 / 100

The following chart represents LA's small business lending pattern by loan size in this MSA. The bank's pattern of lending for small loan amounts is good. The average small business loan amount in 1997 was \$58,000 and up to midyear 1998 the average loan size was \$57,000.

Distribution of Small Business Loans by Loan Size in the MSA				
Loan Size	1997		1/1/98-6/30/98	
	# / %	\$ Amt. / %	# / %	\$ Amt. / %
< = \$100	81 / 88	2,320 / 44	32 / 82	858 / 38
> \$100 < = \$250	6 / 7	1,001 / 19	6 / 15	950 / 43
> \$250 < = \$1,000	5 / 5	2,000 / 37	1 / 3	420 / 19
Total	92 / 100	5,321 / 100	39 / 100	2,228 / 100

Community Development Lending

Refer to previous comments on **Community Development Lending**, which addresses all AAs and applies to Pike County.

Innovative or Flexible Lending Practices

Refer to previous comments on **Innovative or Flexible Lending Practices**, which addresses all AAs and applies to Pike County.

INVESTMENT TEST

LA has a poor level of qualified donations in this area. Qualified donations in 1997 were \$1,000 and year to date in 1998 was \$500.

SERVICE TEST

Services offered are consistent with those offered throughout the AAs. Refer to the overall comments regarding **Service Test** performance.

DISTRIBUTION OF DELIVERY SYSTEMS WITHIN THE MSA (Branches and Remote ATM Facilities)				
Census Tracts	Branches	Non-Branch ATM Facilities	Drive Up Facilities	CTs in the AAs
	# / %	# / %	# / %	# / %
Low	0 / 0	0 / 0	0 / 0	0 / 0
Moderate	1 / 20	0 / 0	0 / 0	4 / 44
Middle	4 / 80	0 / 0	4 / 100	5 / 56
Upper	0 / 0	0 / 0	0 / 0	0 / 0
Total	5 / 100	0 / 100	4 / 100	9 / 100

Scope of Examination

Time Period Reviewed	1/1/97 to 6/30/98		
Financial institution LA Bank, N.A.	Products reviewed HMDA and small business loans, investments and services		
List of Assessment Areas and Type of Examination			
Assessment Area	Type of Exam	Branches Visited	Other Information
Pennsylvania			
- MSA 7560 - Scranton/Wilkes-Barre/Hazleton	on-site	Scranton	Not Applicable
- MSA 5660 -Newburgh, NY-PA (Pike County)	on-site	None	Not Applicable
- Non-MSA - Wayne and Monroe counties	on-site	None	Not Applicable