



Comptroller of the Currency
Administrator of National Banks

Small Bank

PUBLIC DISCLOSURE

October 20, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Community National Bank of Northwestern Pennsylvania
Charter Number 13871**

**53 East State Street
Albion, Pennsylvania 16401**

Comptroller of the Currency

**Cleveland Field Office
Three Summit Park, Suite 530
Independence, Ohio 44131-6900**

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 Community Reinvestment Act (CRA) performance of the Community National Bank of Northwestern Pennsylvania, Albion, Pennsylvania (CNB) as prepared by **The Comptroller of the Currency**, the institution's supervisory agency, as of October 20, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25. The last CRA performance evaluation for this institution was prepared May 30, 1996 and resulted in a "Satisfactory" evaluation.*

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

While the bank's overall performance, during the review period, was sufficient to maintain a satisfactory rating, CNB's record of lending to borrowers of different income levels does not reflect the demographics of the bank's assessment area.

- The bank's quarterly loan to deposit ratios meet the standards for satisfactory performance.
- The bank's record of lending within its assessment area exceeds the standard for satisfactory performance.
- The bank's lending performance to borrowers of different income levels within the assessment area does not meet the standards for satisfactory performance.
- A geographic distribution of loan analysis was not applicable, as the bank's assessment area does not contain any low- or moderate-income census tracts or block numbering areas.
- No consumer complaints have been filed regarding the bank's performance under the Community Reinvestment Act.

DESCRIPTION OF INSTITUTION

Community National Bank of Northwestern Pennsylvania is a \$57.2 million dollar independent institution chartered in 1933. The bank has four (4) full service branches located in the central and western regions of Erie County, Pennsylvania. The main office is located in Albion; other branch locations include West Springfield, Cranesville and Edinboro. A new branch in Millcreek Township is scheduled to open during second quarter 2000. All branches have at least one ATM, with the exception of the Cranesville Office.

The bank is primarily a residential real estate lender. Based on call report data, the bank's net loan portfolio comprises 50% of the bank's total assets. As of June 1999, real estate lending of \$25.8 million represented 88% of the bank's total lending portfolio. Of this, \$21.6 million or 84% represents lending for 1-4 family residential real estate. Commercial lending of \$1.8 million and consumer installment lending of \$1.6 million represented 6% and 5% respectively. Agricultural and other lending represented only 1% or \$151 thousand dollars of the bank's loan portfolio.

There are no current financial or legal impediments that could prevent the bank from meeting its community credit needs.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area consists of eleven census tracts in Erie County located in the Erie County MSA 2360 and five block numbering areas in Crawford County, a non-MSA area. Of these geographies, 13 (81%) are middle-income and 3 (19%) are upper-income. The bank's assessment area does not contain any low- or moderate-income geographies. All bank branch offices and ATMs are located within the designated assessment area. The area is primarily rural, but a portion extends into the suburbs of the City of Erie. The assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

Due to the high percentage (31%) of non-MSA geographies included within the bank's assessment area, demographic characteristics regarding median family income for both the MSA and non-MSA areas were reviewed independently. The Department of HUD's 1999 updated median family income for assessment area geographies located in MSA 2360/Erie County is \$40,400. Non-MSA areas recorded a median family income of \$36,700. The 1990 Census Bureau lists the assessment area population at 75,754 persons, which comprises 19,649 families. Of these families, 15% are low-income, 18% are moderate-income, 26% are middle-income and 41% are upper-income. Twenty-six percent of the household income in this assessment area is derived from social security. Households with incomes below the poverty level are 12%, with 6% of the households relying on public assistance. Housing units consist of 73% owner-occupied. The housing units are primarily one-to-four family with a median housing value of \$57,022.

According to Business Demographic Data by Dunn and Bradstreet, during 1999, there were 2,711 businesses, including 272 agricultural-related entities, located within the assessment area. As of June 1999, the Erie and Crawford counties unemployment rate are 4.9% and 5.7%, respectively. Both are slightly higher than the state unemployment rate of 4.5%.

The Erie area once thrived from manufacturing and railroad-related industries. During the late 1970's and early 1980's, Erie experienced a decline in the manufacturing industries and population. A 1985 tornado continued to negatively impact the economic environment of the area. While previously depressed, the Erie area is currently experiencing an economic rebirth with the growing plastics industry and other diversified industries. Local industrial parks also serve as incubators to new businesses. Major employers in the area include the State Correctional Facility, Lesco Industries and The Edinboro State University.

Competition within the bank's assessment area is strong. No financial institutions of similar size operate within the bank's assessment area. There are, however, several branches of large institutions including PNC, National City, Northwest Savings and Bank of America. Competition from non-local mortgage companies and other entities is also steadily increasing.

A local governmental entity and a realtor's office were contacted during the examination. Both indicated that the existing housing stock is in good condition and not in need of rehabilitation. Further, residential sales are on the rise. The recent economic improvements have also initiated downtown revitalization projects by several local communities. These façade and infrastructure improvements are efforts to encourage service and retail business back to the community. Both groups indicated that the major credit needs of the assessment area include affordable residential mortgage loans and small business loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LOAN TO DEPOSIT RATIO

Community National Bank's loan to deposit ratio meets the standards for satisfactory performance. The average loan to deposit ratio for the quarters beginning January 1997 through June 1999 is 66.9%. This represents a notable increase since the previous examination average of 61.8%. No financial institutions of similar size operate within the bank's assessment area. Therefore, a comparison of local peer banks was not possible. In comparison to its national peer group of banks of similar size (70.0%), CNB's loan to deposit ratio appears reasonable.

LOAN TO DEPOSIT RATIO BY QUARTER											
	1Q97	2Q97	3Q97	4Q97	1Q98	2Q98	3Q98	4Q98	1Q99	2Q99	Average
CNB	64.2%	63.1%	65.4%	68.5%	69.1%	67.9%	69.1%	74.6%	62.8%	63.8%	66.9%
Peer*	69.9%	71.2%	70.5%	70.4%	69.3%	70.2%	70.2%	68.7%	69.2%	71.0%	70.0%

*Ratios represent a national peer comparison.

IN AND OUT RATIO

CNB's record of lending within its assessment area exceeds the standards for satisfactory performance. The bank made a substantial majority of its residential real estate loans within its assessment area. This Public Evaluation covers the bank's lending activity of HMDA loans for the period January 1997 through

June 1999. For the evaluation period, the bank originated 93% (207 loans) of its loans and 91% (\$14,514,000) of the loan dollars within the assessment area.

RECORD OF LENDING WITHIN ASSESSMENT AREA								
	Within Assessment Area				Outside Assessment Area			
	#	%	\$	%	#	%	\$	%
1997 HMDA Loans	68	93%	5159	92%	5	7%	419	8%
1998 HMDA Loans	88	95%	5301	94%	5	5%	344	6%
1999 HMDA Loans	5	90%	4054	87%	6	10%	595	13%
Total HMDA Loans	207	93%	14514	91%	16	7%	1358	9%

* Dollar amounts are as thousands.

DISTRIBUTION WITHIN THE ASSESSMENT AREA

CNB's primary lending focus is residential real estate. Home mortgage lending was identified as an important credit need by local community groups. This public evaluation covers the bank's lending activity of Home Mortgage Disclosure Act loans for the period of January 1997 through June 1999. The analysis reviews all categories of HMDA reportable loans.

Geographic Distribution of Loans

Community National Bank's assessment area contains no low- or moderate-income census tracts or block numbering areas. As such, a geographic distribution of credit analysis would not be meaningful.

Borrower Distribution of Loans

This analysis reviews the bank's lending performance of home purchase, home improvement and refinance loans to borrowers, by income level, living within the bank's assessment area. Based on the data reviewed, the bank's overall lending performance to borrowers of different income levels does not meet the standards for satisfactory performance. Performance with respect to specific mortgage products is reviewed in detail below.

HMDA BORROWER DISTRIBUTION*						
	Home Purchase		Home Improvement		Refinance	
	% bank loans	% families	% bank loans	% families	% bank loans	% families
Low	2.13%	14.98%	0%	14.98%	5.93%	14.98%
Moderate	14.89%	18.23%	12.50%	18.23%	12.59%	18.23%
Middle	34.04%	25.84%	29.17%	25.84%	27.41%	25.84%
Upper	48.94%	40.95%	58.33%	40.95%	54.07%	40.95%

*Based on 1999 HUD income and demographic data.

Overall, CNB's lending record to borrowers of different income levels does not meet the standards for satisfactory performance. The bank's lending performance to low- and moderate-income borrowers consistently falls short of the income level distribution throughout the assessment area. This shortcoming, however, is not reflected throughout the bank's entire loan portfolio. In fact, CNB exceeds lending distribution standards to middle- and upper-income borrowers for all residential mortgage categories. Further, as per the community contacts, residential mortgage transactions have increased steadily over the previous three years. This is reflected in the loan volume recorded throughout the bank's assessment area.

Although competition exists within the assessment area, CNB's weak performance can be partially attributed to the fact that the bank does not offer mortgage products specifically designed to address low-income or first-time mortgage borrower credit needs. Seven financial entities that originated real estate loans to low-income borrowers within the bank's assessment area were surveyed. Of these, all seven provided mortgage programs with reduced down payment requirements, flexibility with regard to private mortgage insurance and reduced closing costs based on the applicant income. Additionally, several offered products tailored to applicants with credit qualifications outside the standard underwriting guidelines.

Home Purchase Loans

CNB's distribution of home purchase loans to borrowers of different income levels does not reflect the demographics of the bank's assessment area. Home purchase lending to moderate-income borrowers is low, yet considered reasonable. Lending to low-income borrowers, however, is weak. While 15% of the assessment area is populated by low-income families, only 2% of the bank's home purchase loans were made to low-income borrowers. This represents 1 loan for \$35,000 out of \$3 million home purchase dollars lent during the review period. Peer data available for 1997 and 1998 shows that CNB's home purchase lending performance, for the combined years, represents only 1% of both the number and dollars lent to low-income applicants within the assessment area.

Home Improvement Loans

Like home purchase loans, CNB's distribution of home improvement loans to borrowers of different income levels does not reflect the demographics of the bank's assessment area. Home improvement lending to low-income borrowers is severely deficient. While 15% of the assessment area is populated by low-income families, none of the bank's home improvement loans were made to low-income borrowers. Lending to moderate-income borrowers is low, but considered adequate. Peer data available for 1997 and 1998 shows that CNB's home improvement lending performance, for the combined years, represents only 2% of the number and 4% of the dollars lent to moderate-income applicants within the assessment area.

Refinance Loans

CNB's distribution of residential refinance loans to borrowers of different income levels is adequate. Lending to low-income borrowers is low. Although refinance loans represent the bank's highest

penetration of mortgage products to low-income borrowers, the 6% distribution is significantly less than the percentage of low-income families within the assessment area. Of the \$9.4 million refinance dollars originated by the bank, only \$321,000 were to low-income borrowers. Refinance lending to moderate-income borrowers is low, yet considered reasonable. Peer data available for 1997 and 1998 shows that CNB's refinance lending performance, for the combined years, represents 9% of the number and 11% of the dollars lent to low-income applicants within the assessment area.

FAIR LENDING ANALYSIS

CNB is in substantial compliance with the provisions of anti-discrimination laws and regulations. An analysis performed during the recent consumer compliance examination did not reveal any discriminatory treatment or illegal practices.

RESPONSE TO COMPLAINTS

No consumer complaints have been filed regarding the bank's performance under the Community Reinvestment Act during this period.