



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

January 04, 2010

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Mars National Bank  
Charter Number: 5599

145 Grand Avenue  
Mars, PA 16046-0000

Office of the Comptroller of the Currency

WESTERN PENNSYLVANIA (PITTSBURGH) Field Office  
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**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 Lending Test is rated: Satisfactory.**  
**The Community Development Test is rated: Satisfactory.**

- Mars National Bank's ("MNB's") average loan-to-deposit ("LTD") ratio is reasonable compared to similarly situated institutions and within the context of relevant competitive factors in the bank's assessment area ("AA").
- MNB originated a majority of its residential mortgages within its AA.
- MNB's record of originating residential mortgages reflects reasonable penetration among AA borrowers of different income levels.
- MNB's record of originating residential mortgages reflects reasonable dispersion among AA geographies of different income levels.
- MNB demonstrates adequate responsiveness to AA community development needs.

## Scope of Examination

MNB's performance relative to the Community Reinvestment Act ("CRA") was evaluated under the Intermediate Small Bank ("ISB") examination procedures. The ISB procedures include a lending test and a community development ("CD") test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The CD test evaluates the bank's responsiveness to CD needs of its AA through funding CD loans and investments and participating in CD services.

The lending test covers the bank's performance from October 1, 2006 through September 30, 2009, as that period is considered representative of its lending strategy since the last CRA examination. MNB's primary loan products are residential mortgages. Residential mortgage loans include: home purchase, home improvement and home mortgage refinance loans. Residential mortgage loans were determined to be MNB's primary loan product over the evaluation period since they accounted for 53% of all loan originations by dollar amount and 66% of loans by volume.

<b>Loan Originations by Loan Product January 1, 2007 through June 30, 2009</b>				
<b>Loan Product</b>	<b>\$ (000)</b>	<b>%</b>	<b>#</b>	<b>%</b>
Residential Mortgages	\$90,604	53%	940	66%
Consumer Loans	\$1,924	1%	183	13%
Commercial Loans	\$78,141	46%	312	22%

*Source: Bank Records from January 1, 2007 – June 30, 2009*

To evaluate the bank's performance under the Lending Test, we reviewed residential mortgage loans reported under the Home Mortgage Disclosure Act ("HMDA") for years 2007, 2008, and through September 30, 2009. We conducted a data integrity review of the bank's reported HMDA data to ensure the reliability of the HMDA loan data. During the data integrity review, we also evaluated processes employed by MNB to ensure the accuracy of collected HMDA data and tested a sample of sixty (60) of MNB's reported HMDA loans. Specifically, we tested the accuracy of the HMDA loan data by comparing it against corresponding loan file documentation. The data integrity examination revealed that MNB's publicly available HMDA loan data could be relied upon for the purposes of this CRA evaluation.

To evaluate the MNB's performance under the Community Development Test, we reviewed all CD loans, investments originated and services provided from October 1, 2006 through January 2, 2010. This period represents the time between MNB's last CRA exam and the start of its current CRA exam.

## Description of Institution

Mars National Bank is an independently-owned intrastate community bank headquartered in Mars, PA. The bank is situated approximately 20 miles north of Pittsburgh, Pennsylvania in the borough of Mars in Butler County, Pennsylvania. As of September 30, 2009, MNB had total assets of \$324 million, net loans and leases of \$145 million, total investments of \$163 million, total deposits of \$285 million, and tier one capital of \$34 million. MNB's primary lending focus is residential mortgages followed by business lending. The table below details MNB's loan portfolio composition as of September 30, 2009.

Loan Category	\$ (000)	%
Loans Secured By Real Estate		
1-4 Family Construction	2,223	2%
1-4 Family Revolving	9,179	6%
1-4 Family Closed-End First Liens	23,769	16%
1-4 Family Closed-End Junior Liens	17,738	12%
Nonfarm Nonresidential	58,594	40%
Loans to Finance Agricultural Production	92	0%
Commercial and Industrial Loans	25,210	17%
Consumer Loans	7,174	5%
Loans to States and Political Subdivisions in the U.S	2,687	2%
Other Loans	223	0%
<b>Total</b>	<b>146,889</b>	<b>100%</b>

*Source: Report of Condition, September 30, 2009*

MNB serves customers in Southern Butler, Eastern Beaver and Northern Allegheny counties with six (6) full service branches and one (1) drive-thru branch. Branch offices are located in Mars, Cranberry Township, Adams Township (2), Penn Township, Richland Township, and Russellton Pennsylvania. Since the last CRA examination, the bank has opened two (2) new branch offices. These branches are located in Russellton and Adams Township, Pennsylvania and were opened in August 2007 and October 2008, respectively.

In addition to the branch network, the bank offers telephone and internet banking. MNB operates seven (7) automated teller machines ("ATMs") located at each of the branches. MNB did not close any branches during the evaluation period. There have not been any major changes in the bank's corporate structure, including merger or acquisition activities, since the last CRA examination.

There are no financial or legal impediments to MNB's ability to meet the credit and community development needs in its AA. The bank was rated Satisfactory at their last CRA evaluation conducted as of November 20, 2006.

## Description of Assessment Area(s)

MNB has identified fifty-eight (58) whole contiguous census tracts (“CTs”) or geographies as its AA. All of the AA CTs are located within three adjacent counties in Pennsylvania. Specifically, the AA includes the northwestern portion of Allegheny County, the southern portion of Butler County, and the eastern edge of Beaver County. The majority of CTs are located in Allegheny and Butler Counties, which contain twenty-three (23) and thirty (30) CTs, respectively. The remaining five (5) CTs are located in Beaver County.

The AA is comprised primarily of upper- and middle- income CTs which total twenty-nine (29) and twenty-four (24), respectively. The remaining five (5) CTs classified as moderate-income. MNB’s AA contains no low-income CTs. MNB’s entire AA is located within the Pittsburgh Metropolitan Statistical Area (“MSA”). MNB’s AA was delineated by selecting whole CTs generally located within a ten (10) mile radius of each branch office. The AA complies with all regulatory requirements and does not arbitrarily exclude low- or moderate-income areas.

The following table outlines basic demographic data for MNB’s AA:

Demographic Information for Full Scope Area: Mars 2009						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	58	0.00	8.62	41.38	50.00	0.00
Population by Geography	255,163	0.00	5.77	38.24	55.99	0.00
Owner-Occupied Housing by Geography	78,411	0.00	3.94	39.45	56.61	0.00
Business by Geography	20,394	0.00	6.28	34.20	59.52	0.00
Farms by Geography	691	0.00	1.16	57.89	40.96	0.00
Family Distribution by Income Level	71,186	12.06	14.09	20.37	53.48	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	18,617	0.00	11.01	49.18	39.81	0.00
Median Family Income HUD Adjusted Median Family Income for 2009 Households Below Poverty Level		\$47,195 \$62,500 6%	Median Housing Value Unemployment Rate (December 2009)		\$127,407 8.9%	

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2000 US Census and 2009 HUD updated MFI

For MNB’s AA, the 2000 census reports a total population of 255,163, total families of 71,186, and total households of 96,115. Of 107,373 total AA housing units, 73% are owner occupied, 16% are rentals and 5% are vacant. Of AA owner-occupied housing, 3.94% is located within moderate-income CTs. The housing stock consists primarily of older homes built in 1969 with a median housing value of \$127,407.

HUD, updated for 2009, reports the AA's median family income to be \$62,500. Of AA families, 12.06%, 14.09%, 20.37% and 53.48% are classified as low-, moderate-, middle- and upper-income respectively. Of total AA households, 6% subsist below the poverty level. These AA demographic factors impact housing affordability and corresponding residential mortgage loan demand from low- and moderate-income AA residents.

MNB operates six (6) full service branches and one drive-thru branch. MNB's main branch office and four (4) branch offices are located in Butler County. MNB's remaining two (2) branch offices are located in Allegheny County. MNB opened the Heritage Creek and Russellton branches during the evaluation period.

Although the local economy experienced some growth during the evaluation period, recent deterioration in national and regional economic conditions has resulted in economic contraction locally. MNB management advised that area economic conditions are generally favorable, especially in northern Allegheny County and the Cranberry area of southern Butler County. According to the 2009 business demographic data, 21,085 businesses operate within MNB's AA, of which 691 are farms. Area industry is centered in services (46.87%) and retail trade (13.95%).

Major employers within MNB's AA include various hospitals and nursing or assisted living facilities, Butler County Community College, and Westinghouse Corporation. Additionally, a significant number of AA residents work in the City of Pittsburgh and the surrounding area. Employment within the MNB's AA is diversified. Unemployment rates reported as of November 2009, for Allegheny, Butler and Beaver Counties were 4.9%, 4.3% and 5.3% respectively. These rates represent lower levels of unemployment than the state average of 8.5 % and the national average of 10%.

Area banking competition is strong. The northern Allegheny County market in particular is heavily banked, housing branches of larger financial institutions, savings institutions and community banks. In addition, regional and national mortgage brokers have a strong presence and garner significant market share. Discussion with management confirmed that within the AA, credit needs continue to be concentrated primarily in residential mortgage and small business lending.

As part of the evaluation, contact was made with a community-based organization representing local community development. The contact noted that the local economy has declined over the last year but in many cases not to the extent seen in other parts of the country. Banking and credit needs are centered in affordable housing and small business lending. Overall, our contact felt that area banks meet the needs of the local communities.

## **Conclusions with Respect to Performance Tests**

MNB's performance under the lending test is satisfactory. MNB's LTD ratio is reasonable, and MNB originated a majority of residential mortgages within its AA. MNB's record of originating residential mortgage loans reflects reasonable penetration among AA borrowers and reasonable dispersion among AA CTs.

MNB's AA contains no low-income CTs. And of all AA owner-occupied housing, less than 4% is located within the AA's moderate-income CTs. Therefore, more weight was placed on MNB's record of originating residential mortgages among AA borrowers of different income levels than among AA CTs.

### **LENDING TEST**

MNB's performance under the Lending Test is considered to be "Satisfactory." MNB's LTD ratio is reasonable and MNB originated the majority of its residential mortgages within the AA. MNB's record of distributing residential mortgage originations among AA borrowers and CTs of different income levels is also reasonable.

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

MNB's quarterly average LTD ratio meets the standard for satisfactory performance. MNB's quarterly average LTD ratio compares reasonably to the LTD ratios of similarly situated financial institutions considering the competitive context in which MNB operates. MNB's LTD ratio, calculated as an average of the LTD ratio for each quarter-end over the evaluation period, equals 57%. Comparatively, the average of quarter-end LTD ratios calculated for similarly situated financial institutions over the same period equals 75%. Similarly situated financial institutions included national, state, and savings banks operating within the three (3) Pennsylvania counties in which MNB operates and adjacent counties. MNB's LTD ratio has been impacted by its practice of originating and selling thirty (30)-year residential mortgages on the second market. Since year-end 2007 sales of mortgages originated by MNB have totaled approximately \$56 million.

## Lending in Assessment Area

MNB's record of originating residential mortgage loans within its AA meets the standard for satisfactory performance since over the evaluation period MNB originated a majority of its residential mortgage loans within its AA. Specifically, of the total number of residential mortgages originated by MNB over the period, a majority 64.5% were originated within MNB's AA.

	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		#	%	#	%	
Home Purchase	53	38.13%	86	61.87%	139	\$9,214	35.34%	\$16,855	64.66%	\$26,069
Home Refinance	144	57.60%	106	42.40%	250	\$22,567	46.53%	\$25,931	53.47%	\$48,498
Home Improvement	164	96.47%	6	3.53%	170	\$6,276	98.52%	\$94	1.48%	\$6,370
Totals	361	64.58%	198	35.42%	559	\$38,057	47.02%	\$42,880	52.98%	\$80,937

Source: MNB HMDA data 2007 thru September 30, 2009

## Lending to Borrowers of Different Incomes

MNB's record of originating residential mortgages among AA borrowers of different income levels meets the standard for satisfactory performance. The distribution of MNB's residential mortgage originations reflects reasonable penetration among the AA's borrowers considering the context in which MNB operates.

MNB's record of originating home purchase and home refinance loans to low-income AA borrowers is below the percentage of low-income AA families. However, MNB's record of originating home improvement loans to low-income borrowers mirrors the percentage of low-income AA families. Additionally, MNB's record of originating home refinance loans to moderate-income AA borrowers is below the percentage of moderate-income AA families. However, MNB's record of originating home purchase and home improvement loans to moderate-income borrowers exceeds the percentage of moderate-income AA families.

Opportunities to originate residential mortgages within MNB's AA may be impacted by demographic factors include the extent to which the AA population is age 65 or older, retired, eligible for social security and/or at or below poverty level. Opportunities to originate residential mortgages within the AA may also be impacted by housing affordability and banking competition. U.S. Census data for 2000 reports the median cost of housing with MNB's AA to be \$127,407.

The 2009 HUD updated median family income is \$62,500, indicating that low-and moderate-income AA families by definition are families with annual incomes below \$31,250 and \$50,000 respectively.

The following table details the distribution of residential mortgage loans originated by MNB during the evaluation period among AA borrowers.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in MNB's 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
Home Purchase	12.06	3.77	14.09	16.98	20.37	18.87	53.48	60.38
Home Improvement	12.06	12.66	14.09	17.09	20.37	28.48	53.48	41.77
Home Refinance	12.06	5.80	14.09	10.14	20.37	26.81	53.48	57.25

*Source: HMDA loan data reported 2007 through September 30, 2009; U.S. Census data.*

### **Geographic Distribution of Loans**

MNB's record of originating residential mortgages among AA CTs of different income levels meets the standard for satisfactory performance. The distribution of MNB's residential mortgage originations reflects reasonable dispersion among the AA's CTs considering the context in which MNB operates.

MNB's record of originating home purchase, home improvement and home refinance loans within moderate-income AA CTs is below the percentage of AA owner-occupied housing within these CTs.

Opportunities to originate residential mortgages within MNB's AA are impacted by demographic factors including the extent to which AA owner-occupied housing is located within moderate-income AA CTs and the location of those CTs relative to MNB's branch offices. U.S. Census data for 2000 reports that, of all owner-occupied housing available within the AA, less than 4% is located within the AA's moderate-income CTs. The vast majority (over 96%) of all owner-occupied housing is located in the AA's middle and upper-income CTs. The AA does not contain any low-income CTs.

Additionally, all five (5) of the moderate-income AA CTs are concentrated in the City of Butler. MNB's presence emanates historically from the City of Mars and MNB's branch offices are situated approximately eight (8) miles from the City of Butler. Additionally, competition from other financial institutions is particularly strong in the City of Butler. Eight (8) institutions operate multiple branches in Butler and in proximity to the AA's moderate-income CTs. One of those institutions is a community bank which is headquartered in and has a strong historical presence in Butler.

The following table details the distribution of residential mortgage loans originated by MNB during the evaluation period among AA CTs.

<b>Table 3 - Geographic Distribution of Residential Real Estate Loans in MNB's AA.</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% Owner Occupied Units	% of Number of Loans	% Owner Occupied Units	% of Number of Loans	% Owner Occupied Units	% of Number of Loans	% Owner Occupied Units	% of Number of Loans
Home Purchase	0%	0%	3.94%	0%	39.45%	37.74%	56.61%	62.26%
Home Improvement	0%	0%	3.94%	0.61%	39.45%	49.39%	56.61%	50.00%
Home Refinance	0%	0%	3.94%	2.11%	39.45%	38.73%	56.61%	59.15%

*Source: HMDA loan data reported 2007, 2008 and year to date 9/30/09; U.S. Census data.*

## Responses to Complaints

There were no complaints received by the bank or the Office of the Comptroller of the Currency regarding CRA during the evaluation period.

## COMMUNITY DEVELOPMENT TEST

The CD test is rated Satisfactory. MNB's CD activities demonstrate adequate responsiveness to AA CD needs considering the context in which MNB operates its capacity for CD involvement and the availability of CD opportunities.

### Number and Amount of Community Development Loans

Over the evaluation period within its AA, MNB originated eight (8) CD loans totaling \$912,213.

MNB originated the following CD loans during the evaluation period:

- MNB originated a loan totaling \$190,000 to a foundation offering a variety of housing and other basic services targeted to low-income AA residents. The purpose of the loan was to finance purchasing and improving a building to facilitate expanding the foundation's operations. Additionally, MNB originated two (2) separate loans totaling \$310,000 to the same foundation for the operational purposes.
- MNB originated three (3) separate loans totaling \$62,213 to a corporation which offers various health and social services targeted to low-and moderate-income AA residents. The purpose of the loans was to fund the purchase of automobiles.
- MNB originated two (2) separate loans to a local redevelopment authority for the purpose of constructing a community park and recreational area within a moderate-income AA CT.

## **Number and Amount of Qualified Investments**

Over the evaluation period within its AA, MNB funded sixty-nine (69) CD donations totaling \$114,166.

Donations supported organizations that promote economic development, provide scholarships for low- and moderate- income individuals, and provide food and housing to individuals in need. MNB also made an investment outside of their AA in a \$107,307 western Pennsylvania, school district bond. The bond was issued for the purpose of constructing a new elementary school serving low- and moderate-income area residents.

## **Extent to Which the Bank Provides Community Development Services**

MNB offers a low-cost checking account for consumers, cash advance services for unemployment benefits attached to a debit card, and low-balance savings accounts. To broaden access to bank products and services, MNB offers alternative delivery systems including ATMs, telephone banking, online banking, and bank by mail.

Over the evaluation period, within its AA, MNB representatives participated in a variety of CD services which were responsive to its AA needs. The descriptions below detail some of the CD service activities.

- An MNB officer serves on a Federal Home Loan Bank financial institutions committee which supports affordable housing by developing and/or promoting secondary market programs.
- An MNB officer acts in a technical capacity by providing loan review expertise to a regional development funding corporation.
- Two (2) MNB officers provide technical expertise to an affordable housing program operating in Western Pennsylvania which has the potential to directly benefit low- and moderate-income AA residents.
- An MNB bank officer served on the Board of Directors of and provides technical expertise to a local county CD corporation. The corporation provides financing for small area businesses and contributes to area job creation and retention. The CD corporation assists in the strategic placement and subsidized operation of business incubators and multi-occupancy buildings that provide start-up companies with operating space and technical management assistance.
- An MNB officer serves on the Board of Directors and provides technical assistance on financial matters to a local organization which targets low- and moderate-income AA residents to whom it provides various CD services including counseling, mentoring and youth programs.

- An MNB officer serves on a community advisory committee and as co-chairman of an annual fundraising event for a health system that provides local residents in need with no-cost health care.

In addition, various bank officers and employees have also been involved in CD activities that include, but are not limited to the following: Habitat for Humanity of Butler County, (Butler and Southwest Chapters); Hosanna Industries, Inc.; Lifesteps of Butler County, Inc.; Lighthouse Family Ministries; Mars Area Redevelopment Authority; Network of Hope; and various, local Chambers of Commerce and Pine Richland Youth Center.

### **Responsiveness to Community Development Needs**

Given the bank's capacity and availability of CD opportunities in the AA, the bank demonstrates adequate responsiveness to CD needs in its AA through CD loans, qualified investments and participating in CD services.

### **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.