



Comptroller of the Currency
Administrator of National Banks

LARGE BANK

Public Disclosure

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Community Reinvestment Act Performance Evaluation

**Keystone National Bank
Charter Number: 23176**

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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.

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Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this Performance Evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a legal definition.

Community Reinvestment Act (CRA) - The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of the local community, consistent with safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Metropolitan Statistical Area (MSA) - An area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Census Tract (CT) - Small, locally defined statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogeneous populations. A CT contains an average population of 4,000 and may have its boundaries defined with every ten-year census.

Home Mortgage Disclosure Act (HMDA) - A statute that requires certain mortgage lenders that do business or have banking offices in an MSA to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and income of applicants, the amount of the loan request, and its disposition (e.g., approved, denied, withdrawn).

Median Family Income (MFI) - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of census tracts. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level of category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Low-Income - Income levels that are less than 50% of the MFI.

Moderate-Income - Income levels that are at least 50% and less than 80% of the MFI.

Middle-Income - Income levels that are at least 80% and less than 120% of the MFI.

Upper-Income - Income levels that are 120% or more of MFI.

Small Business Loans - Loans with an original amount of \$1 million or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

Small Farm Loans - Loan with an original amount of \$500 thousand or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

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 **Keystone National Bank** prepared by the **Comptroller of the Currency**, the institution's supervisory agency, as of **May 11, 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 the 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 C.F.R. Part 25.

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

The primary factors supporting Keystone National Bank's overall rating include:

- ▶ A majority of home mortgage loans are within the assessment area;
- ▶ A reasonable geographic distribution of HMDA reportable loans;
- ▶ An adequate level of HMDA reportable loans distributed among borrowers of different income levels;
- ▶ An adequate level of community development services;
- ▶ An adequate level of qualified investments.

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

Performance Levels	Name of Financial Institution Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High satisfactory			
Low satisfactory	X	X	X
Needs to improve			
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

Keystone National Bank (KNB) is located in Lancaster, Pennsylvania, and is a subsidiary of Keystone Financial, Inc. (KFI), the fourth largest bank holding and financial services company headquartered in Pennsylvania, and as of March 31, 1998 had total assets of \$6.9 billion.

KFI operates six bank subsidiaries in Pennsylvania, and one in Maryland. In addition to traditional services provided by its community banks, KFI operates nonbanking subsidiaries that offer investment, life insurance and trust services.

KNB operates one office in an office park on the outskirts of Lancaster to service the needs of its customers who require a personal visit. However, KNB primarily interacts with its customers through alternative delivery channels via telephone, fax, mail, and in the near future, the Internet.

KNB originally started as Keystone Financial Mortgage Corporation (KFMC) in 1993, and was chartered as a national bank in January 1997. KFMC continues as a subsidiary of KNB. KNB total assets, including its subsidiary KFMC, were \$98 million as of March 31, 1998. Net loans, as of that date, were \$66 million and comprise 67% of total assets. Distribution of the loan portfolio as of March 31, 1998 is as follows: construction and development loans (56%), 1-4 family residential mortgages (38%), home equity loans (1%), and loans to individuals (5%). Lending activity of KNB, excluding KFMC, is centered in consumer loans.

KNB management has decided not to offer business credit as a product and to concentrate on developing a market for consumer loan products. KFMC is an active mortgage lender in the KNB AA.

Competition is strong for financial services within the AA with the presence of offices of large regional banks and local community banks. Non bank financial service providers, including mortgage and finance companies, also have a strong representation in the Lancaster area.

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

KNB has defined one assessment area (AA) which meets regulatory guidelines and does not arbitrarily exclude any low- and moderate-income areas (LMI). LMI is referred to throughout this document to describe low- and moderate-income geographies (census tracts.) Table one below reflects the demographics of the AA.

Table 1

ASSESSMENT AREA DEMOGRAPHICS			
<i>Designation</i>	<i># of Census Tracts</i>	<i>% of Total Tracts</i>	<i>% of Households Residing in the Census Tracts</i>
Low	2	3%	2%
Moderate	10	16%	14%
Middle	42	69%	71%
Upper	7	12%	13%
TOTAL	61	100%	100%

The AA is located in the Lancaster County, Pennsylvania Metropolitan Statistical Area (MSA 4000). The economy in this MSA has performed better than the state as a whole in the past three years. The economic base is supported by the presence of a strong retail trade, manufacturing and service businesses.

The AA consists of 61 of the 94 census tracts which comprise the MSA. The population of the AA is 269,906. Demographic data shows 103,569 households, of which 16% reside in low- and moderate-income census tracts. The updated median family income is \$46,200, with 15% of the families designated as low income and 18% moderate- income.

The housing market is strong, however, affordable housing is an issue, as higher income families are moving into the area from Philadelphia. Owner occupancy is 64% of the housing stock with lower and moderate income tracts having substantial rental occupancy. KNB has a low (1%) market share of deposits for all FDIC-insured institutions operating in Lancaster County. The low deposit market share is reflective of KNB's recent entry into the market and its one office location.

The median housing value in the AA is \$87,929. The median age of housing stock is 38 years. Total occupied housing units is 96%, with owner-occupied housing at 64% and rental occupied housing at 31%. Vacant housing units in the AA representing 4% of the available housing stock.

The major employers include, Armstrong Corporation, American Cork, Lancaster County Government, Lancaster School District, Lancaster General Hospital, and Hi Industries. The Pennsylvania state unemployment rate for March 1998 is 4.8% as reported by the U.S. Department of Labor, and the local unemployment rate is at a recent low of 2.6%.

Determination of Community Credit Needs

Bank management has identified affordable housing (including rehabilitation and new construction) and small business loans as the primary credit needs in the assessment area. Management meets regularly with community-based groups to discuss community credit needs.

Community Contacts

During the examination, two community groups were contacted. From those contacts, the following were identified by the groups as credit needs within KNB's AA: housing rehabilitation financing programs; multi-family construction; single family construction; and housing programs (pre-purchase counseling, budget counseling, mortgage education and awareness programs) to educate individuals on the available affordable housing programs. The credit needs presented by the community groups is consistent with needs identified by bank management.

Conclusions with Respect to Performance Tests

Scope of Review

Note: Keystone National Bank's 1997 HMDA data was filed inaccurately. The incorrect HMDA data has been published. Management provided us with the correct HMDA data during the examination, which we used in our analysis. The corrected HMDA data will be placed in the bank's public file, and Keystone National Bank has resubmitted the correct 1997 HMDA data.

The Lending Test review covers the calendar year 1997 and the first three months of 1998. The Lending Test is based on information contained in the Bank's Home Mortgage Disclosure Act Reports (HMDA). The Investment and Service Test review covers calendar year 1997 and the first three months of 1998.

Keystone Financial Mortgage Corporation (KFMC), a subsidiary of Keystone National Bank, Lancaster, Pennsylvania originated 246 mortgage loans representing \$29 million during the evaluation period in the AA. The lending activity of KFMC in KB's AA was not considered in the lending concentration analysis. These loans were considered in the lending analysis for geographic distribution and borrower income.

Lending Test

Lending Activity

KNB has a reasonable level of lending activity within the AA, when considering that the institution has only been in operation for 15 months and has one office. The bank's lending activity is responsive to some of the needs in the assessment area.

Assessment Area Concentration of Lending Activity

KNB has a reasonable volume of HMDA reportable loans within the assessment area. Lending by KNB during the evaluation period, which coincides with the number of months the bank has been in operation, for HMDA reportable loans have been limited to home improvement products. KNB has originated 52% of loan originations and 49% of the dollar amounts of loans within the AA. This low volume of activity is due to limited products and to some extent start up operations. Table 2 illustrates the bank's HMDA reportable lending of the bank during the evaluation period.

Table 2

HMDA Loan Originations January 1, 1997 through March 31, 1998								
Loan Type	Inside Assessment Area				Outside Assessment Area			
	# loans	%	\$ Amount	%	# loans	%	\$ Amount	%
1997	47	61	3,718,000	54	30	39	3,121,000	46
*1998	2	12	140,000	13	15	88	978,000	87
Total	49	52	3,858,000	49	45	48	4,099,000	51

Source: 1997 & 1998 KNB HMDA LAR

* First quarter 1998

Geographic Distribution

KNB and its affiliate KFMC have an adequate distribution of HMDA reportable loans. The low- and moderate-income census tracts in the AA have low owner occupancy rates at 1% for low and 9% for moderate census tracts, which reduce opportunities for home purchase and home improvement lending. Twenty-one loans were originated in low- and moderate-income tracts during the evaluation period which is 7% of the number of originations (295) and represents one million dollars in loans or 3% of total dollars of loans granted.

Table 3 illustrates the distribution of HMDA loans by income category of census tracts within the AA and provides comparisons to the percentage of tracts and owner occupancy rates.

Table 3

Geographic Distribution of HMDA Loans January 1, 1997 through March 31, 1998 Within Assessment Area				
Geography Income Level	% of Total Geographies	% of Owner Occupied Housing	% loans 1997	*% loans 1998
Low	3	1	1	0
Moderate	16	9	6	9
Middle	69	74	70	65
Upper	12	16	23	26
Total	100%	100%	100%	100%

Source: 1990 Census Bureau demographics and 1997 KNB and KFMC HMDA-LAR.

*First quarter 1998

Borrower Characteristics

KNB has an adequate record of originating loans to moderate income borrowers and a low percentage of loans to low income individuals. As illustrated in Table 4, a comparison to the percentage of families by income level indicates a close coverage factor at the moderate income level, as 18% of the families in the AA are at moderate income versus 15% in loan distribution to moderate income borrowers. At the low income level the percentage of families in that income category in the AA is 15% compared to 4% of loans originated during the evaluation period to low income borrowers.

The median housing cost in the AA is \$87,929 and median income \$46,200. This results in low income individuals at 50% of median income having an income of less than \$23,000 making it more difficult to support home purchases at median housing values.

Table 4

Borrower Distribution of HMDA Loans January 1, 1997 through March 31, 1998 Originations Within Assessment Area							
Borrower Income Level	% of Families by Income Level	1997		*1998		Evaluation Period	
		# loans	%	# loans	%	# loans	%
Low	15	10	4%	0	0%	10	4%
Moderate	18	40	17%	5	9%	45	15%
Middle	28	67	28%	25	44 %	92	31%
Upper	39	121	51%	27	47%	148	50%
Total	100%	238	100%	57	100%	295	100%

Source: KNB and KFMC 1997 and 1st quarter 1998 HMDA-LAR

*First quarter 1998

Community Development Lending

During the evaluation period, KNB did not originate any community development loans.

Innovative or Flexible Lending Practices

KNB or KMFC offers some flexible loan programs as described below:

Key Opportunity Mortgage Program - This KFMC product is available only to borrowers whose income is 100% or less of the area median family income. Interest rate discounts are offered to low- and moderate- income borrowers. Low income and moderate income borrowers receive 1.5% and 1% discount off the bank's regular mortgage rates, respectively. Borrowing is permitted for up to 95% of the value of the purchased property, and no points are charged. A special accommodation loan is available to these borrowers to cover closing costs and up to 2% of the 5% down payment. The interest rate on the accommodation loan is the same as the mortgage loan rate. The borrower's debt to income ratio can exceed the bank's regular debt to income ratio by as much as 4%.

Lease/Purchase Mortgage Program - This program is designed for first time home buyers who do not have the funds for closing costs or down payments. Individuals rent homes from a community group for a 2-5 year period, with the intent to assume the mortgage (mortgage obtained from KFMC) after the rental period. During the rental period, the tenants build equity and learn the responsibilities of homeownership.

INVESTMENT TEST

KNB has an adequate level of qualified investments of \$56,200 made during this review period when considering the strong competition for investments and the limited period of time that the bank has been in operation. The bank has invested in some of the opportunities in its assessment area. The qualified investments are responsive to the identified needs in the assessment area.

1997

The mortgage subsidiary, Keystone Financial Mortgage, contributed \$9,700 to a community organization that provides transitional housing to primarily low- and moderate-income individuals.

KNB made a qualified contribution of \$12,500 to a national housing organization. The contribution will help fund the construction of a single family home that will benefit low-and moderate-income individuals. This investment includes a broader statewide area that includes the bank's assessment area.

1998

KNB committed \$25,000 to sponsor the construction of a home by a local chapter of a national housing organization.

The bank committed \$9,000 to a local housing partnership for use in a loan pool for second mortgage downpayment loans for low- and moderate-income individuals.

SERVICE TEST

KNB operates one office in an office complex in Lancaster. However, this office is used to meet with customers that require a personal visit, Monday through Friday from 8:00 a.m. to 5:00 p.m. The office is located in a middle income census tract.

KNB primarily interacts with its customers through alternative delivery systems, such as the telephone, fax, mail. KNB offers a common set of financial services to all of its customers via its "Telephone Banking" service. This alternate delivery service is available 24 hours a day, 7 days a week, 365 days a year. Management has not yet assessed how their "alternative delivery systems" services LMI individuals. Services are designed for retail customers and include loan and deposit products. Trust and investment services are also available through the bank's holding company subsidiaries.

The bank's mortgage subsidiary offers several products designed to help meet the identified credit needs of LMI individuals in the AA. Products designed to assist retail customers include a first time home buyers program, a subprime credit program and an LMI mortgage product that assist borrowers with down payment and closing cost funds. Their "Direct Response Center" department allows mortgage applicants to apply for a loan and take their request to settlement strictly via the telephone, mail, fax and electronic mail.

COMMUNITY DEVELOPMENT SERVICES

KNB provides an adequate level of community development services. Primary services include providing financial expertise to several community service and development organizations. For example, bank employees have participated in providing housing related seminars to an organization that provides assistance to low-and moderate- income disabled individuals. A lender serves on the advisory council providing assistance regarding mortgage financing. KNB supports the following groups in providing financial assistance: Lancaster Housing Opportunity Partnership, Home for the Holidays (low- and moderate-income transitional housing), Harb-Adult, and Lancaster County Habitat for Humanity.

FAIR LENDING EXAMINATION

A concurrent fair lending review did not identify any violations of the various anti-discrimination laws and regulations. An effective system is in place to comply with fair lending regulations.

Scope of Examination

Time Period Reviewed	1/1/97 to 3/31/98		
Financial institution Keystone National Bank			Products reviewed home improvement loans
Affiliate(s)	Affiliate relationship		Products reviewed
Keystone Financial Mortgage Corporation	Bank Subsidiary		Mortgage Loans
List of Assessment Areas and Type of Examination			
Assessment Area	Type of Exam	Branches Visited	Other Information
Pennsylvania MSA Lancaster	on-site	one	none