



## **PUBLIC DISCLOSURE**

February 13, 2017

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

The Mars National Bank  
Charter Number 5599

145 Grand Avenue, Mars, PA 16046

Office of the Comptroller of the Currency

Corporate One Office Park, Bldg 24075 Monroeville Blvd, Suite 300, Monroeville, PA 15146-2529

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, and should not 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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## **Overall CRA Rating: Satisfactory**

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Outstanding.**

The institution's overall CRA rating is satisfactory. The major factors supporting the institution's overall CRA, Lending Test, and Community Development test ratings are:

- The Mars National Bank's (MNB) average loan-to-deposit ratio in the evaluation period is more than reasonable compared with that of its custom peer group of banks.
- MNB originated a majority of its residential real estate and small business loans inside its assessment area (AA).
- MNB's record of originating residential real estate loans to borrowers of different income levels is reasonable.
- MNB's record of originating small business loans reflects a reasonable penetration of borrowers of different income levels and to businesses of different sizes.
- MNB's record of originating residential real estate loans reflects a reasonable dispersion among AA geographies of different income levels.
- MNB's record of originating small business loans reflects a reasonable dispersion among AA geographies of different income levels.
- MNB's community development (CD) performance demonstrates an excellent responsiveness to the CD needs of the AA through CD lending, investments and services.

## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Census Tract (CT):** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community Development:** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

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

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor

vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Full Review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

**Home Mortgage Loans:** Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited Review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Median Family Income (MFI):** The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level 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.

**Metropolitan Area (MA):** Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget and any other area designated as such by the appropriate federal financial supervisory agency.

**Metropolitan Division:** As defined by Office of Management and Budget, a county or group of counties within a Metropolitan Statistical Area that contains a population of at least 2.5 million. A Metropolitan Division consists of one or more counties that represent an employment center or centers, plus adjacent counties associated with the main county or counties through commuting ties.

**Metropolitan Statistical Area:** An area, defined by the Office of Management and Budget, as having at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other Products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated Area:** A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

**Small Loan(s) to Business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

**Small Loan(s) to Farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Tier One Capital:** The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

**Upper-Income:** Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

## Description of Institution

MNB is an intrastate community bank. Mars National Bancorp, Inc. is the bank holding company and wholly owns MNB. MNB's headquarters and main office are located in Mars, Pennsylvania. The borough of Mars is located in Butler County in Western Pennsylvania. Mars, PA is located only four (4) miles from Cranberry Township, a business hub near Routes 79, 19, 228 and the Pennsylvania Turnpike. Butler County is located approximately 30 miles northeast of Pittsburgh, Pennsylvania. MNB's assessment area includes middle and southern Butler County, portions of eastern Beaver and northern Allegheny Counties, which are contiguous to Butler County.

As of December 31, 2015, MNB's assets totaled \$356.9 million, with deposits that totaled \$296.2 million and tier 1 capital that totaled \$34.5 million. Net loans and leases totaled \$222.0 million, representing 62.2 percent of total assets. Assets included total investments of \$111.4 million, residential real estate loans of \$122.6 million, commercial loans of \$98.7 million, and individual loans of \$3.1 million. The remainder of MNB's asset mix consisted of \$23.5 million in cash and other assets. Residential (1-4 family) mortgage loans represent 54.6 percent of MNB's loan portfolio. Commercial mortgages, commercial and industrial loans, and other commercial loans represent 44.0 percent. Consumer loans were 1.4 percent of net loans and leases. MNB also sold longer-term residential mortgage loans to the secondary market in 2014 and 2015 for \$13.3 million and \$24.4 million, respectively. More detail on the bank's practice of selling longer-term residential mortgage loans to the secondary market is in the Lending Test section of this document. Residential mortgages and loans to small businesses are and continue to be MNB's primary lending focus. These products comprise the majority of MNB's loan portfolio.

MNB operates five (5) full-service, retail branch offices. MNB's retail branch office network is primarily located within Butler County with four (4) of the bank's retail branches being located within southern Butler county. One (1) retail branch is located in Allegheny County. MNB did not open or close any branches during the evaluation period and there has been no merger or acquisition activity. MNB's infrastructure and product offerings help MNB meet credit and CD needs in its AA.

There are no factors, legal or otherwise, that hindered MNB's ability to help meet the credit needs of its AA. MNB's last Performance Evaluation, dated January 6, 2014, assigned a "Satisfactory" CRA rating to the bank.

## **Scope of the Evaluation**

### **Evaluation Period/Products Evaluated**

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 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. Both tests were full-scope reviews.

MNB's primary loan products consist of residential real estate mortgages and small business loans. MNB's lending performance, measured by origination data of residential mortgages and loans to small businesses, was evaluated over the period between January 1, 2014 and December 31, 2015. Residential mortgage lending includes home purchase, home improvement and home mortgage refinance loans. Small business lending includes loans to businesses with annual revenue under \$1 million.

MNB's record of CD performance was evaluated over the period between January 6, 2014 and December 31, 2015. The evaluation period for MNB's CD performance represents the time period between the end of MNB's last CRA Performance Evaluation to the end of 2015. The scope of the CD performance evaluation ends on the same date as the lending performance evaluation period. CD-related activities included in this evaluation were CD loans, investments, donations, and services.

### **Data Integrity**

In order to evaluate MNB's record of originating residential mortgage loans, we analyzed loan data collected and reported by MNB in accordance with Home Mortgage Disclosure Act (HMDA) requirements. We performed a data integrity review to ensure the reliability of the bank's HMDA loan data.

We assessed processes employed by MNB to ensure the accurate and complete reporting of HMDA data. We tested the accuracy of MNB's HMDA loan data by comparing a sample of 60 reported loans in 2014 and 60 reported loans in 2015 with MNB's loan file documentation. The data integrity review revealed that MNB's publicly available HMDA loan data could be relied upon for the purposes of this CRA Performance Evaluation.

In order to evaluate MNB's record of originating small business loans, we collected and analyzed data from the bank's report of loans to small businesses originated by MNB during the evaluation period from January 1, 2014 through December 31, 2015. We sampled 20 small business loans in 2014 and 20 small business loans in 2015. We used the small business loan samples to validate the reported geographic location of

the small business loans and the accuracy of each borrower's gross annual revenues used to designate the borrower as a small business. This validation revealed MNB's small business loan data could be relied upon for the purposes of this CRA Performance Evaluation.

### **Selection of Areas for Full-Scope Review**

MNB has one AA. We performed a full-scope review for this AA.

### **Ratings**

The bank's overall rating is based solely on the full-scope review of its sole AA.

### **Other**

As part of our evaluation, we contacted two different representatives from two different community development entities in Butler County remotely via telephone. One individual represented a government agency focused on housing and redevelopment. The other individual represented a non-profit focused on economic development.

The contacts noted that overall, banks in the AA have been responsive to the economic development needs of the community, particularly in the southwestern part of the county where growth has been the fastest. One contact noted credit for some homebuyers, however, has been difficult to obtain from financial institutions. The contact stated there is a general lack of affordable housing in the fastest growing areas of southwestern Butler County compared to more rural areas of northern Butler County. Across Butler County, one contact stated there is a need for more financing for property improvements and revitalization. The contact noted much of this financing is dependent on the availability of tax credit projects and the ability of the smaller banks to handle larger loans. In addition, the contact noted a lack of government financing to support transportation infrastructure because of state budgetary constraints.

MNB's record of qualifying CD activity in the evaluation period includes activities that target the identified CD needs in the bank's AA.

## **Description of Assessment Area**

MNB has identified seventy-one (71) whole contiguous census tracts or geographies as its AA. There were no material changes in MNB's AA since the last evaluation. All of the AA census tracts are located within three adjacent counties in Pennsylvania. Specifically, the AA includes Southern Butler County, the eastern portion of Beaver County, and the northern edge of Allegheny County. The majority of census tracts are located in Butler County, which contains 34 census tracts. There are 5 census tracts located in Beaver County and 32 census tracts located in Allegheny County.

The AA is comprised primarily of middle- and upper- income census tracts, which total 33 and 31, respectively. MNB's AA contains one low- income and 6 moderate-income census tracts. None of the census tracts are designated as distressed or underserved using Federal Financial Institutions Examination Council (FFIEC) data for 2015. MNB's entire AA is located within the Pittsburgh Metropolitan Statistical Area (MSA). MNB's AA was delineated by including whole geographies in which the bank has its branch locations. MNB's AA includes the surrounding geographies in which MNB originated a substantial portion of its loans or expected to reasonably be able to serve. 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 National Bank 2014-2015						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	71	1.41	8.45	46.48	43.66	0.00
Population by Geography	302,312	1.18	6.27	40.20	52.34	0.00
Owner-Occupied Housing by Geography	93,383	0.61	4.55	42.71	52.13	0.00
Business by Geography	24,344	1.23	5.29	35.08	58.40	0.00
Farms by Geography	839	0.12	2.38	57.09	40.41	0.00
Family Distribution by Income Level	82,738	12.50	14.51	20.62	52.37	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	22,353	2.30	11.78	52.15	33.77	0.00
Median Family Income FFIEC Adjusted Median Family Income for 2015		\$62,376 \$69,700	Median Housing Value Unemployment Rates:** Pennsylvania Allegheny County Beaver County Butler County		\$176,747 4.1% 3.8% 4.8% 3.8%	
Households Below Poverty Level		6.5%				

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

\*\*Unemployment rates are per the US Bureau of Labor Statistics as of December 2015.

Source: 2010 US Census and 2015 FFIEC updated MFI

For MNB's AA, the 2010 census reports a total population of 302,312, total families of 82,738 and total owner-occupied households of 93,383.

Of the 125,179 total AA housing units, 74.6 percent are owner occupied, 17.9 percent are rental occupied, and 7.5 percent are vacant. Of AA owner-occupied housing, 0.6 percent is located within low-income census tracts and 4.6 percent is located within moderate-income census tracts. The median housing value in MNB's AA is \$176,747. The housing supply in Butler County, MNB's largest portion of its AA, consists primarily of newer homes, those built in 1970 or later.

FFIEC data updated for 2015, reports the Pittsburgh, PA MSA median family income to be \$69,700. Of AA families, 12.5 percent, 14.5 percent, 20.6 percent, and 52.4 percent are classified as low-, moderate-, middle- and upper-income, respectively. In the AA, 6.5 percent of the population subsists below the poverty level. These AA demographic factors significantly impact housing affordability and corresponding residential mortgage loan demand from low- and moderate-income AA residents.

The Pittsburgh metropolitan area, which is inclusive of MNB's AA, is a diversified metropolitan area. The Pittsburgh metropolitan area is in a business expansion cycle per a September 2016 Moody's Analytics economic report. According to the 2015 Dun &

Bradstreet business demographic data, 25,183 businesses operate within MNB’s AA, of which 839 are farms. MNB did not have any agricultural loans at the end of the evaluation period. Area businesses by industry type are centered in services (52.8 percent) and retail trade (12.3 percent).

Major employers within MNB’s AA include public and private entities across multiple industries. Employment within MNB’s AA is diversified with retail, manufacturing, services, and healthcare opportunities. Unemployment rates reported as of December 2015, from the Bureau of Labor Statistics for Allegheny, Beaver and Butler Counties were 3.8 percent, 4.8 percent, and 3.8 percent, respectively. These rates are comparable to the State unemployment rate of 4.1 percent for the same time period. To keep comparison consistent across the political subdivisions, this data reflects non-seasonally adjusted unemployment data. Seasonally adjusted data for all political subdivisions was not available.

Top 5 Employers by County: 3 <sup>rd</sup> Quarter 2015*			
Rank	Allegheny	Beaver	Butler
1.	UPMC Presbyterian Shadyside	Valley Medical Facilities, Inc.	Federal Government
2.	University of Pittsburgh	FirstEnergy Nuclear Operating, Co.	Westinghouse Electric Co, LLC
3.	Federal Government	Wal-Mart Associates, Inc.	Butler Healthcare Providers
4.	PNC Bank, NA	Passavant Memorial Homes	AK Steel Corporation
5.	Giant Eagle	Beaver County	Walmart Associates, Inc.

\*Source: Pennsylvania Center for Workforce Information & Analysis

In MNB’s AA, the southern portion of Butler County is the most economically active and continues to rebound from the most recent recession. According to the County of Butler Comprehensive Annual Financial Report (CAFR) for 2015, the population in Butler County increased just under 1 percent from 2013 to 2015 to 186,818. The Townships of Cranberry, Adams, Middlesex, Clinton, and Buffalo are anticipating accelerated growth as they add infrastructure supportive of population growth resulting primarily from an influx of residents moving from neighboring counties, per the CAFR. Butler County has continued to gain population during the last decade, with the County’s population growing by more than five percent in the last census. The southern portion of the County has been experiencing considerable growth since the completion of Route 28 and Interstate 279, with the most notable growth seen in the areas surrounding Interstate 79 and Route 228.

AA banking competition is strong. MNB’s AA contains branches from large financial institutions, savings institutions, and community banks. FDIC deposit market share reports as of June 30, 2016, indicate PNC Bank, NA, the Bank of New York Mellon, and BNY Mellon, NA had a 52.0 percent, 10.3 percent, and 8.4 percent deposit share in the three counties that contain the bank’s AA, respectively. In the same market area, MNB

is ranked 19<sup>th</sup> out of 38 financial institutions with 0.3 percent of deposit market share. Southwestern Butler County is MNB's primary market area and where MNB has the highest deposit market share. In Butler County only, MNB's ranks 7<sup>th</sup> of 16 total depository institutions with offices in Butler County for total deposit volume. This translates to MNB having 5.4 percent of all deposit volume in Butler County. Competition in residential mortgage lending is also strong and dominated by larger lenders in the AA. Wells Fargo Bank, NA, Dollar Bank, FSB, and PNC Bank, NA had a 10.0 percent, 8.2 percent, and 7.6 percent mortgage market share, respectively, in the 1-4 family residential mortgage market during 2015. MNB is ranked 14<sup>th</sup> in the residential mortgage market with a 1.5 percent market share by number of loans.

Discussions with management confirmed that within the AA, credit needs continue to be concentrated primarily in residential mortgages. Small business loans remain a focus and a credit need in the AA, but management noted creditworthy small business borrowers are limited. Management noted significant competition from other larger regional banks with a larger footprint and more product offerings as the primary competition for both lending products..

## **Discriminatory or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c) and 195.28(c), in determining a national bank's (bank) or federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development (HUD), and the Consumer Financial Protection Bureau (CFPB).

The OCC did not identify evidence of discriminatory or other illegal credit practices with respect to this institution.

The OCC will consider any evidence of discriminatory or other illegal credit practices relative to this institution that other regulators may provide to the OCC before the end of the institution's next Performance Evaluation in that subsequent evaluation, even if the information provided concerns activities that occurred during the evaluation period addressed in this Performance Evaluation.

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

The conclusion of MNB's performance relies exclusively on the full-scope review of the bank's performance in its sole AA.

We considered the lending and CD tests equally when assigning MNB's overall Performance Evaluation rating. For the lending test conclusion, more weight was placed on MNB's record of residential real estate lending compared to its small business lending in the evaluation period. Even though both types of credit are primary products for the bank, MNB's focus is on originating residential real estate loans to meet demand for this type of credit in its AA. For the CD test, more weight was given to the bank's record of CD loan and investment activity.

We also considered MNB's performance context in its AA. Major factors influencing MNB's ability to meet the credit and CD needs in its AA include strong competition from larger lenders, the economic environment in the evaluation period, and MNB's opportunity to meet credit and community development needs in the AA.

### **LENDING TEST**

The Lending Test is rated Satisfactory.

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

MNB's loan-to-deposit (LTD) ratio is more than reasonable as compared to the average LTD ratio exhibited by peer banks over the same period.

MNB's quarterly average LTD ratio is more than reasonable compared to similarly-situated financial institutions operating in the same AA, within the context of competitive factors present. MNB's average quarterly LTD ratio for the evaluation period is 66.9 percent. This ratio is higher than the quarterly average LTD ratio for similarly situated financial institutions at 65.4 percent. The bank's minimum and maximum average quarterly LTD was 52.8 and 75.8 percent, respectively. Quarterly LTD ratios for similarly situated institutions in the evaluation period ranged from a minimum of 15.1 percent to a maximum of 108.3 percent. Similarly situated financial institutions included Pennsylvania banks with assets between \$150.0 million and \$750.0 million, with banking headquarters located in counties MNB considers in its AA. MNB sold \$13.3 million in residential mortgage loans in 2014 and \$24.4 million in loans in 2015. If the sold mortgage loans had remained on the bank's balance sheet, MNB's quarterly average LTD ratio would be higher. An analysis of what the LTD ratio would be if the bank did not sell mortgage loans would be speculative because of assumptions of principal pay downs and payoffs on these loans.

We measured lending activity by comparing LTD ratios reported by MNB and its local peer group within the same evaluation period. We calculated the average LTD over the past 13 quarters using financial data reported since the previous evaluation. The calculation included quarter end financial data reported for each of the 13 quarters from the fourth quarter of 2013 through the fourth quarter of 2016. The LTD ratio is calculated on a bank-wide basis.

## Lending in Assessment Area

MNB originated a majority of its residential mortgage loans and small business loans inside its AA.

In order to evaluate MNB's lending in its AA over the evaluation period, we measured and analyzed MNB's record of originating loans inside compared to those originated outside of its AA. We compared the number and volume of residential and small business loans originated within the AA to the number and volume of loans outside of the AA. This analysis considered MNB's lending record on a bank-wide basis. Residential and business lending constitutes MNB's primary loan products.

We measured and analyzed residential real estate and small business loans originated by MNB during 2014 and 2015. MNB's residential real estate loan originations included loans for purposes of home purchase, home improvement, and home refinance. We also analyzed loans to small businesses by collecting data from the small business loans originated by MNB during the same evaluation period.

The analysis of MNB's residential real estate loans originated during the evaluation period shows that 544 HMDA-reportable loans were originated, for a total of \$99.9 million. Out of the total HMDA-reportable loans, 310 or 57.0 percent of those residential mortgage loans were originated inside the AA, resulting in a total volume of lending in the AA of \$50.4 million or 50.4 percent of the dollar volume of residential mortgage loans. There were 234 mortgage loans or 43.0 percent of total loans originated outside the AA, for a total volume of \$49.5 million or 49.6 percent of the dollar volume of residential mortgage loans.

Loan Type	Number of Loans				Total	Dollars of Loans (000s)				Total
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Purchase	125	44.2	158	55.4	283	26.8	44.2	33.4	55.8	\$60.7
Home Improvement	65	73.9	23	26.1	88	4.5	61.8	2.8	38.2	\$7.7
Refinance	120	69.4	53	30.6	173	19.0	59.7	12.8	40.3	\$31.9
Totals	310	57.0	234	43.0	544	50.4	50.4	49.5	49.6	\$99.9

Source: MNB's HMDA reportable data for 2014-2015

An analysis of 46 total MNB-originated loans to small businesses in the same time period revealed that 28 small business loans or 60.9 percent were originated within the AA, for a total volume of \$3.6 million.

### **Lending to Borrowers of Different Incomes and to Businesses of Different Sizes**

MNB's record of originating residential real estate loans to borrowers of different incomes and loans to businesses of different sizes reflects a reasonable penetration among AA borrowers.

### **Residential Real Estate Lending**

MNB's record of originating residential real estate loans to borrowers reflects a reasonable penetration among AA borrowers of different income levels.

Data collected and reported by MNB in accordance with HMDA requirements was analyzed. The analysis was performed to assess MNB's record of distributing its residential real estate loan originations among AA borrowers of different income levels. We placed more weight on home purchase and home mortgage refinance loans because these types of loans represent 243 (78 percent) of the 310 home loans originated during the evaluation period.

Demographic data compiled during the 2010 census for MNB's AA reports income levels of AA families outlined below in Table 2. Of the total families in MNB's AA, 12.5 percent of AA families are low-income families and 14.5 percent of AA families are moderate-income families.

Low-income AA families, by definition, are families with annual incomes below \$34,850. Moderate-income AA families are families with annual incomes between \$34,850 and \$55,760.

Table 2 details the distribution of residential real estate loans originated by MNB during the evaluation period in its AA, among borrowers of different income levels:

Table 2 – Borrower Distribution of Residential Real Estate Loans in MNB’s AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Bank Loans	% of AA Families	% of Bank Loans	% of AA Families	% of Bank Loans	% of AA Families	% of Bank Loans
Home Purchase	12.50%	3.39%	14.51%	10.17%	20.62%	24.58%	52.37%	61.86%
Home Improvement	12.50%	6.15%	14.51%	27.69%	20.62%	20.00%	52.37%	46.15%
Home Mortgage Refinance	12.50%	0.85%	14.51%	12.71%	20.62%	29.66%	52.37%	56.78%

Source: MNB’s HMDA reportable data for 2014-2015; 2010 U.S. Census data.

The percentage of home purchase loans and home mortgage refinance loans to low-income families is significantly lower than the percentage of low-income families in the AA. The percentage of home improvement loans originated to low-income families is lower than the percentage of low-income families in the AA. The percentage of home purchase loans and home mortgage refinance loans to moderate-income families is near to the percentage of moderate-income families in the AA. The percentage of home improvement loans exceeds the percentage of moderate-income families in the AA.

Several factors contribute to the lower level of penetration to low-income families in the AA. Competition in the market is strong and dominated by larger lenders with an expanded loan product selection. During the evaluation period, MNB’s home mortgage product offering did not offer some products its larger competitors did, such as a First Time Homebuyers Program, Federal Housing Administration, or U.S. Department of Veterans Affairs (VA) financing. These are lending products which meet the credit needs of some low- and moderate-income home buyers. Other financial institutions in MNB’s market area offer these special financing programs.

Renting is also a cost effective alternative to home ownership for some potential low- or moderate-income borrowers. Of the total housing units in the AA, 19.6 percent of the housing units are rental occupied units. About 8.7 percent of the rental units are vacant. These two factors provide more competition among landlords attempting to fill vacancies in rental units, resulting in lower rental costs for tenants. Lower rental rates compared to a monthly mortgage could possibly reduce the desire for home ownership among low- and moderate-income families in the AA. For example, the weighted average monthly gross rent is \$763. Comparing this monthly housing cost to what a monthly mortgage payment would be, inclusive of taxes, insurance, and maintenance

costs at current interest rates using the weighted average cost of median housing of \$176,747, home ownership costs would be significantly higher.

### Small Business Lending

MNB's record of originating business purpose loans to businesses of different sizes within the AA reflects a reasonable penetration.

Data collected from MNB's small business loans originated in the AA was analyzed. The analysis was performed to assess MNB's record of distributing its small business loan originations to businesses of different sizes.

Table 3A details the distribution of business purpose loans MNB originated during the evaluation period in its AA, among businesses with gross annual revenues above and below \$1,000,000:

Table 3A – Borrower Distribution of Loans to Businesses in MNB's AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	80.5%	5.0%	14.6%	100.0%
% of Bank Loans in AA by #	49.1%	50.9%	0.0%	100.0%
% of Bank Loans in AA by \$	39.7%	60.3%	0.0%	100.0%

Source: Dun & Bradstreet as of June 2015; MNB Business Lending Data 2014 & 2015

The percentage of business-purpose loans MNB originated to small businesses is lower than the percentage of small businesses in the AA. Specifically, MNB originated 28 small business loans within the AA, or 49.1 percent, out of 57 total business-purpose loans originated inside and outside of the AA in the evaluation period.

Table 3B illustrates the distribution of business purpose loans MNB originated during the evaluation period inside its AA to small business by loan size:

Table 3B – Borrower Distribution of Loans to Businesses by Loan Size in AA				
Loan Size	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	17	60.71%	973,052	27.28%
\$100,001 - \$250,000	8	28.57%	1,322,939	37.08%
\$250,001 - \$500,000	3	10.71%	1,271,500	35.64%
\$500,001 - \$1,000,000	0	0.00%	0	0.00%
Over \$1,000,000	0	0.00%	0	0.00%

Source: MNB Business Lending Data 2014 & 2015

The low penetration noted above is compensated by the fact that more than half of the business purpose loans MNB made to small businesses represent the smaller dollar amounts needed by small businesses. Of the 28 small business loans originated by MNB within the AA, 17 (60.7 percent) were originated for dollar amounts of \$100,000 or less.

### **Geographic Distribution of Loans**

MNB's record of originating residential mortgage and small business loans reflects a reasonable dispersion among AA geographies with different income levels.

### **Residential Real Estate Lending**

MNB demonstrated a reasonable dispersion in its origination of residential real estate loans to geographies of different levels within the AA.

Data collected and reported by MNB in accordance with HMDA requirements was analyzed. The analysis was performed to assess MNB's record of distributing its residential real estate loan originations among AA geographies of different income levels. We placed more weight on home purchase and home mortgage refinance loans given these types of loans represent 243 (78 percent) of the 310 home loans originated during the evaluation period.

Demographic data compiled during the 2010 U.S. census indicates that a very low amount of owner-occupied housing is located in low- and moderate-income geographies in MNB's AA. Of all of the owner-occupied housing units in the AA, only 0.6 percent are located in low-income geographies and 4.6 percent are located in moderate-income geographies.

Table 4A details the distribution of residential real estate loans originated by MNB during the evaluation period in its AA geographies of different income levels:

Table 4A – Geographic Distribution of Residential Real Estate Loans in MNB’s AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Bank Loans	% of AA Owner Occupied Housing	% of Bank Loans	% of AA Owner Occupied Housing	% of Bank Loans	% of AA Owner Occupied Housing	% of Bank Loans
Home Purchase	0.61%	0.00%	4.55%	1.61%	42.71%	26.61%	52.13%	71.77%
Home Improvement	0.61%	0.00%	4.55%	1.54%	42.71%	56.93%	52.13%	41.54%
Home Refinance	0.61%	0.00%	4.55%	0.00%	42.71%	53.78%	52.13%	46.22%

Source: Data reported under HMDA; 2010 U.S. Census data.

MNB did not originate any home purchase, home improvement, and home mortgage refinance loans within low-income AA geographies. There is only one 1 low-income census tract in the AA, which provides very little opportunity for MNB to originate loans. In addition, less than one 1 percent of owner-occupied housing is located in the low-income geography. These factors significantly limit MNB’s opportunity to originate mortgage loans in this geography.

MNB’s record of originating home purchase and home improvement loans within moderate-income AA geographies is lower than the ratio of owner-occupied housing available within moderate-income AA geographies. MNB’s did not originate any home-mortgage refinance loans within moderate-income geographies in the AA. There are only six moderate-income census tracts in the AA. In addition, less than five percent of owner-occupied housing is located in moderate-income geographies. These factors significantly limit MNB’s opportunity to originate mortgage loans in this geography.

**Small Business Lending**

MNB’s record of originating business purpose loans to small businesses among geographies of different income levels within the AA reflects a reasonable dispersion.

Data collected from MNB’s small business loans originated in the AA was analyzed. The analysis was performed to assess MNB’s record of distributing its small business loan originations among AA geographies of different income levels. We analyzed the bank’s lending relationship with 46 small business loans.

Demographic data compiled during the 2010 U.S. census indicates that a very low number of small businesses are located in low- and moderate-income geographies in MNB’s AA. Of all small businesses in the AA, only 1.0 percent are located in low-income geographies and 4.9 percent are located in moderate-income geographies.

Table 4B details the geographic dispersion of business purpose loans MNB originated during the evaluation period in its AA by geographic income level:

Table 4B – Geographic Distribution of Business Loans to Small Business								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Small Businesses	% of # of Bank Loans	% of AA Small Businesses	% of # of Bank Loans	% of AA Small Businesses	% of # of Bank Loans	% of AA Small Businesses	% of # of Bank Loans
Small Business	1.04%	3.57%	4.86%	0.00%	35.62%	42.86%	58.48%	53.57%

Source: 2010 U.S. Census data; MNB Business Lending Data 2014 & 2015

MNB’s record of originating business purpose loans in the low-income AA geography exceeds the ratio of small businesses located in the low-income AA geography. MNB did not originate any small business loans in any moderate-income AA geographies. MNB has very little opportunity to originate business loans in low- and moderate-income geographies because less than six percent of all business in the AA are located within these areas. In addition, the AA has only one low-income geography and 6 moderate-income geographies.

### Responses to Complaints

There were no consumer complaints regarding the bank’s CRA performance or complaints indicating illegal or discriminatory lending practices during this evaluation.

## **COMMUNITY DEVELOPMENT TEST**

MNB's CD performance represents an excellent responsiveness to the CD needs of its AA through CD loans, qualified investments, and CD services. MNB's performance considers the bank's capacity as well as the need and availability of such CD opportunities in its AA.

### **Number and Amount of Community Development Loans**

MNB's CD lending record reflects excellent responsiveness to identifying and addressing the credit needs in the bank's AA.

MNB originated five CD loans to 3 borrowers totaling \$605,500 during the evaluation period. The CD loans were responsive to community needs inside and outside of the bank's AA. MNB's AA is located entirely in the Pittsburgh MSA, but does not include the entire Pittsburgh MSA. The AA includes portions of three counties, but no county in its entirety. Because of MNB's smaller and focused AA boundaries, consisting of portions, but not the entirety of three counties, the qualifying loans MNB originated were to borrowers that service communities inside as well as outside the bank's AA, and virtually always contained within the Pittsburgh MSA.

The five CD loans were originated to help fulfill a range of community needs, including affordable housing and community service organizations. The CD loans MNB originated that would not otherwise be identified as a small business loan are described below:

- MNB originated \$500,000 in loans to an organization that provides positive influences and mentoring programs for at risk children and families. The vast majority of children and families that receive services from the organization are low- or moderate-income.
- MNB originated \$75,500 in loans to a non-profit organization that serves people in need. The organization builds and repairs homes for needy households. The organization's typical client household has an annual income of less than \$20,000 a year.
- MNB originated a \$30,000 loan to an organization that provides affordable housing targeted to qualified low- or moderate-income individuals.

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

The number and dollar amount of investments and donations inside, or inside and outside, MNB's AA demonstrates excellent responsiveness to CD needs in the AA. MNB had a limited amount of opportunity to make qualified investments and donations inside its AA during the evaluation period. This is because MNB's smaller and focused

AA includes portions of three counties, but not the entirety of any of the 3 counties. However, MNB did fund several qualified investments within the Pittsburgh MSA and the broader state of Pennsylvania during the evaluation period. MNB's portfolio included 14 qualifying investments totaling \$6,610,878. Of the total, MNB purchased nine investments for \$5,746,176 in the evaluation period. The remaining balance of the investments by dollar and number were purchased in the prior evaluation period but still represent MNB's principal investment balance. The qualified investments are described below:

- Six Pennsylvania Housing Finance Agency (PHFA) revenue bonds with a book value of \$1.36 million. The PHFA works to provide affordable homeownership and rental apartment options for senior adults, low- and moderate-income families, and people with special housing needs.
- Four municipal bonds with a book value of \$759,634. The municipal bonds are for school districts that are located in the Pittsburgh MSA and elsewhere in the State of Pennsylvania outside the AA. The majority of children attending the school districts qualify for free or reduced lunch, which is a proxy to designate the beneficiaries as low- or moderate-income.
- Four mortgage-backed securities (MBS) with a book value of \$4.49 million. Each MBS is comprised entirely of mortgages to low- or moderate-income borrowers. All are located inside the Pittsburgh MSA.

During the evaluation period, MNB made 57 qualifying donations totaling \$51,872 to 12 organizations that help provide community services to low-to-moderate income individuals and families. Of the total donations, MNB funded twenty CD donations totaling \$10,150 inside its AA. MNB made 34 donations totaling \$39,268 to entities whose mission is focused inside and outside of MNB's AA. MNB made three donations totaling \$2,454 to entities who focus their mission outside of MNB's AA.

A significant number of the qualifying donations were to organizations with a community development focus to areas inside as well as outside of MNB's AA. The lack of more qualified donations exclusively inside MNB's AA is because of MNB's smaller and focused AA boundaries, consisting of portions, but not the entirety of three (3) counties. The vast majority of the qualifying donations were to entities that operated inside, or inside and outside, MNB's AA, and were still contained in the Pittsburgh MSA.

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

MNB demonstrates an excellent responsiveness to the CD service needs in its AA.

During the evaluation period, ten MNB employees volunteered their financial expertise and leadership services to 10 qualifying organizations serving the AA and surrounding areas. Because of MNB's smaller and focused AA consisting only of portions of three contiguous counties, a significant number of the CD qualifying services were with organizations that provide community services to areas inside, as well outside, MNB's

AA. Two employees provided financial services to 2 different organizations located inside and serving MNB's AA. Nine employees provided financial services to 8 different organizations that provide services to areas inside and outside MNB's AA. A few of the CD services in which MNB employees participated are described below:

- A MNB employee serves on the finance committee for a community development corporation (CDC) located within the bank's AA. The employee spends approximately 12 hours per year attending meetings.
- A MNB employee provides financial and banking expertise as a board member of a community center in Butler County. The employee volunteers approximately 40 hours per year attending 8 board meetings. The community center is located within the bank's AA and predominately serves low- and moderate-income individuals in MNB's AA.
- A MNB employee provides services to a non-profit mission that serves people in need. The employee, as a representative for the Federal Home Loan Bank (FHLB) Affordable Housing Plan, spends approximately 25 hours per year assisting with submitting applications and advance requests, helping facilitate dispute resolution between low- and moderate-income households and the FHLB, assisting with sales between low- and moderate-income households, and assisting with grant payback processes.
- A MNB employee provides financial services to an economic development organization. As a member of the organization's loan and risk rating committee, the employee approves loan applications and reviews risk ratings assigned to loans. The employee volunteers approximately 40 hours attending 26 loan conference calls and 4 risk rating meetings per year.

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

MNB demonstrates excellent responsiveness to CD lending, investment, and service needs in its AA by originating various CD loans, funding qualified investments, and performing CD services.

MNB's retail branch office network is located within Butler County and Allegheny County. MNB operates five full service retail branches; 4 in Butler County and 1 in Allegheny County. Two branches are located within middle-income census tracts and 3 branches are located within upper-income tracts. There is only one low-income census tract and 6 moderate census tracts within MNB's AA.