



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 29, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank Of Liverpool
Charter Number 8326**

**104 N. Front Street
Liverpool, PA 17045**

**Comptroller of the Currency
Northern Pennsylvania Field Office
100 Hazle Street, Suite 202
Wilkes-Barre, PA 18702**

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.

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INSTITUTION'S CRA RATING

This institution is rated Outstanding.

The overall rating is based on the following factors:

- The bank's loan-to-deposit ratio is more than reasonable and exceeds the standard for satisfactory performance.
- A substantial majority of the home purchase and refinancing loans originated during the evaluation period were within the assessment area.
- The bank's record of lending to borrowers of different incomes is excellent.

DESCRIPTION OF INSTITUTION

The First National Bank of Liverpool (FNBL) is a \$27 million independent institution located in Liverpool, Pennsylvania, only ten miles north of Harrisburg, the state capital. FNBL's sole office and automated teller machine (ATM) are located in Liverpool, in Perry County. Vartan Financial Corp. (Vartan) owns 39% of FNBL stock, though it is noted that no common products or services are shared with Vartan's other subsidiary bank, Vartan National Bank. There are no known legal, financial, or other factors that would impede the bank's ability to help meet the credit needs in its assessment area.

As of June 30, 2002, FNBL reported \$19 million in net loans and \$24 million in total deposits. The loan portfolio represents approximately 66% of total assets, with the portfolio breakdown as follows: real estate loans 88%; installment loans 7%; and commercial credits 5%. The bank's primary lending product is residential mortgage loans, which is the bank's primary business focus. Opportunities for commercial lending remain limited due to FNBL's rural location. Several neighboring community banks and branches of larger regional institutions provide strong competition for loans and deposits.

The evaluation period for the Lending Test is from January 1, 2000 through June 30, 2002. Due to the bank's asset size, it is not required to report home loan data required by the Home Mortgage Disclosure Act (HMDA). For sampling purposes, we reviewed the bank's report of new loans from January 1, 2000 through June 30, 2002 to determine the bank's primary products.

This report showed the bank's primary products as home purchase loans and mortgage refinancings. Our evaluation of lending discussed throughout this Performance Evaluation is based on a sample of these loans as dictated by the *Comptroller's Handbook, Sampling Methodologies*. The loan sample is representative of the bank's lending activities since the last examination.

FNBL's last Public Evaluation (PE) was dated January 10, 1997 and the overall CRA rating assigned was Satisfactory. No branches have opened or closed since the last PE.

DESCRIPTION OF ASSESSMENT AREA

FNBL's assessment area (AA) consists of four census tracts in Perry County, which is part of the Harrisburg-Lebanon-Carlisle MSA 3240, as well as two block-numbering areas (BNAs) in neighboring Juniata County and three BNAs in neighboring Snyder County. While FNBL's one branch is located in the MSA, an analysis of both loan and deposit patterns indicates that inclusion of parts of Juniata and Snyder counties does not significantly exceed the boundaries of the MSA as described by the regulation. (Both census tracts and BNAs will be hereafter referred to as 'tracts'.) All tracts in the AA are middle-income tracts. There are no low- or moderate-income tracts. The AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies. As noted earlier, Liverpool is located only 10 miles from the state capital in Harrisburg.

The population of the AA is 44,156 as of the 1990 U.S. Census. The unemployment rate for Perry County as of May 2002 was 3.9%, much lower than the statewide rate of 5.7% and approximately equal to that of the MSA. The median cost of housing in the AA is \$57,116. The Updated Median Family Income for 2001 is \$47,455. The percentage of households below the poverty level is 10.26%. The AA's population is comprised of 12,423 families with the following family income distribution: 18.13% are low-income, 23.26% are moderate-income, 27.91% are middle-income, and 30.71% are upper-income. Renters occupy 19.86% of housing units; 72.52 % of housing units are owner-occupied; and 7.63% are vacant. Single-family dwellings account for 79.15% of housing units. Mobile home units account for 15.34% of total housing units.

Top employers in Perry County are the HE Rohrer Bus Service, two local school districts, Excel Homes, and the PA state government. Juniata County's largest employers are Empire Kosher Poultry, Inc., Triangle Pacific Corporation, the local school district, Zimmerman Truck Lines, and Brookline at Mifflintown, Inc. Wood-Mode Incorporated, Susquehanna University, The JPM Company, Conestoga Wood Specialties Corp., and the PA state government are the top employers in Snyder County.

According to the June 30, 2001 FDIC/OTS Summary of Deposits Market Share Report, FNBL ranked 12th out of 16 institutions in Perry, Juniata, and Snyder counties, with 1.78% of deposits. SunBank ranks first with 27 offices and 14.26% market share. It should be noted that the bank shows no out-of-market deposits. Since the bank is not a HMDA reporter, we cannot comment on the bank's market share of lending in the AA. However, a report run for all lenders in the assessment area shows that there are a total of 177 lenders (that report HMDA data) in the area that are competing for loans.

A community contact was made with a local real estate agent. The contact identified both home purchase loans and refinancings as the primary credit need of the community. The contact could not identify unmet credit needs, as financial institutions were perceived as meeting the various credit needs in the AA. Customers typically finance their purchases through banks and mortgage companies. The interviewee indicated the proportion of financing through banks vs. mortgage companies as fairly even.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The evaluation period covered lending activity for home purchase and refinancing loans from January 1, 2000 through June 30, 2002. These loans were the only products reviewed due to the business focus of the bank and the large percentage of the bank's loan portfolio comprised of home mortgage loans.

Loan-to-Deposit Ratio

FNBL's loan-to-deposit ratio is more than reasonable and exceeds the standard for satisfactory performance. The bank's average loan-to-deposit ratio for the last twenty-one quarters, since the last CRA exam, was 76.28%. The average ratio for the current year and the two prior years is 75.73%. Both of these ratios exceed the average ratio of similarly situated banks in a custom peer group of one-office banks in Pennsylvania as of March 31, 2002, which is 69.21%.

Lending in Assessment Area

A substantial majority of the home purchase and refinancing loans originated during the evaluation period were within the AA. FNBL exceeds the standard for satisfactory performance for lending in the AA. An analysis of the sample data disclosed that, by number, 87% of home purchase loans and 93% of refinancings were originated in the AA. The following table is an analysis of the distribution of home purchase and refinance loans.

Table 1 – Lending in the Assessment Area										
Loan Type	Number of loans					Dollars of loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$(000)	%	\$(000)	%	
Home purchase	20	38.46	3	5.77	23	1,187	39.50	149	4.96	1,366
Refinances	27	51.92	2	5.77	29	1,599	53.21	40	1.33	1,639
Totals	47	90.38	5	9.62	52	2,786	92.71	189	6.29	3,005

Source: loan sample

Lending to Borrowers of Different Incomes

FNBL's record of lending to borrowers of different incomes exceeds the standard for satisfactory performance. The level of both home purchase loans and refinance loans originated to low-income borrowers is less than the percentage of low-income families in the AA. This

performance in considered to be excellent, however, for the following reasons:

- the bank is only \$27 million in assets and is in a rural location;
- the percentage of households with incomes below the poverty level, at 10.26%, is significant when compared to the fact that 18.13% of families in the assessment area are low-income; and
- there is a lack of formal affordable housing programs aimed specifically at the low-income borrower.

The percentage of loans made to moderate-income borrowers significantly exceeds the percentage of moderate-income families in the AA. This performance is excellent.

The following table is an analysis of the distribution of home purchase and refinance loans by borrower income level.

Table 2 – Borrower Distribution of Residential Real Estate Loans in the Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of Number	% of AA families	% of Number	% of AA families	% of Number	% of AA families	% of Number	% of AA families
Home purchase	15.00	18.13	40.00	23.26	10.00	27.91	35.00	30.71
Refinance	11.10	18.13	33.30	23.26	22.20	27.91	33.30	30.71

Source: loan sample, 1990 U.S. Census data

Geographic Distribution of Loans

All the geographies contained in the assessment area are middle-income tracts, so a geographic analysis would not be meaningful.

Responses to Complaints

The bank has not received any CRA-related consumer complaints since the last CRA examination.

Fair Lending Review

An analysis of the bank’s most recent public comments and consumer complaint information was performed according to the OCC’s risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 1997. No violations of the substantive provisions of the anti-discrimination laws and regulations were identified.