



# INTERMEDIATE SMALL BANK

---

Comptroller of the Currency  
Administrator of National Banks

---

Washington, DC 20219

## PUBLIC DISCLOSURE

July 16, 2012

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Farmers National Bank of Emlenton  
Charter Number 5481

612 Main Street,  
P.O. Box D  
Emlenton, PA 16373

Office of the Comptroller of the Currency

WESTERN PENNSYLVANIA (Pittsburgh) Field Office  
4075 Monroeville Boulevard Building 2, 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, 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**

- The Farmers National Bank of Emlenton's ("FNBE's") record of originating loans is reasonable, as evidenced by its loan-to-deposit (LTD) ratio compared to the LTD ratio of its peers.
- FNBE originated a majority of its residential mortgage and business loans within its combined assessment areas ("AAs").
- FNBE's record of originating residential mortgage and business loans reflects reasonable penetration among borrowers of different income levels and businesses of different sizes.
- FNBE's record of originating residential mortgage loans reflects reasonable dispersion among AA geographies. The bank's record of originating business loans reflects a poor dispersion among AA geographies.
- FNBE's record of engaging in Community Development (CD) activities is adequately responsive to the CD needs of its AAs.

## **Scope of Examination**

We conducted an examination of FNBE for the purpose of evaluating its performance relative to the Community Reinvestment Act (CRA). FNBE's CRA performance 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 AAs through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AAs through funding CD loans, investments and services.

FNBE's primary loan products consist of residential mortgage and business loans. Residential mortgage loans include home purchase, home improvement, and home mortgage refinance loans. FNBE's record of originating mortgage and business loans was evaluated over the period between January 1, 2009 and December 31, 2011. The evaluation period relative to FNBE's lending performance represents the three most recent years of FNBE's loan data, since census bureau data is not yet available for 2012. This is considered to be representative of its lending strategy since its most recent CRA performance evaluation.

In order to evaluate FNBE's record of originating residential mortgage loans, we analyzed loan data FNBE collected and reported in accordance with Home Mortgage Disclosure Act (HMDA) requirements. In order to ensure the reliability of HMDA loan data, we performed a data integrity examination during the first quarter of 2012.

In conjunction with the data integrity examination, we evaluated processes employed by FNBE to ensure the accuracy of collected HMDA data and tested a sample of FNBE's reported HMDA loans. Specifically, we tested the accuracy of FNBE's HMDA loan data by comparing it against corresponding loan file documentation. The data integrity examination revealed that FNBE's publicly available HMDA loan data could be relied upon for the purposes of this CRA evaluation.

The data integrity examination revealed that FNBE did not collect and report geographic information for loans originated in non-MSA (Metropolitan Statistical Areas.) Therefore, in order to analyze FNBE's record of originating residential mortgage loans in its non-MSA AA, we collected data from a random sample of residential mortgage loans originated by FNBE during the evaluation period.

In order to evaluate FNBE's record of originating business loans, we collected data from a random sample of business loans originated by FNBE during the evaluation period.

FNBE's record of community development performance was evaluated over the period between March 24, 2008 and July 16, 2012. This period represents the time between FNBE's last CRA examination and the start of its current CRA examination. CD related activities include CD loans, investments and services.

## **Description of Institution**

FNBE is an intrastate community bank. FNBE's headquarters and main office are located in Emlenton, Pennsylvania. FNBE is a wholly owned subsidiary of Emclair Financial Corporation, a one-bank holding company also located in Emlenton. Emlenton is situated in Venango County in Western Pennsylvania, approximately 95 miles northeast of Pittsburgh, Pennsylvania. FNBE is a full service bank that offers a wide range of traditional deposit and loan products.

As of December 31, 2011, FNBE's assets totaled \$488.9 million, net loans and leases totaled \$317.2 million, investments totaled \$146.1 million, deposits totaled \$416.5 million and tier one capital totaled \$42.0 million. Net loans and leases represented 64.9% of total assets. Strategically, FNBE's primary lending focus is residential real estate followed by business lending. The table below details FNBE's loan portfolio composition as of December 31, 2011.

Loan Category	\$ (000)	%
Loans secured by real estate		
1-4 family closed-end first liens	131,127	41%
Nonfarm nonresidential	83,094	26%
1-4 family closed-end junior liens	16,294	5%
Construction	4,228	1%
1-4 family revolving	15,499	5%
Farmland	213	0%
Multifamily residential property	10,982	4%
Commercial and Industrial loans	30,569	10%
Consumer loans	10,301	3%
Other loans	250	0%
Loans to finance agricultural production	11	0%
Obligations	<u>14,613</u>	<u>5%</u>
<b>Total</b>	<b>317,181</b>	<b>100%</b>

FBNE operates thirteen full service offices within adjacent counties situated in western Pennsylvania. Branch offices are located in Bon Aire, Brookville, Clarion, Cranberry, DuBois, East Brady, Eau Claire, Emlenton, Grove City, Knox, Meridian, Ridgway, and Titusville in Pennsylvania. FNBE acquired the new branch in Titusville, Crawford County, Pennsylvania in September 2009. FNBE did not close any branches during the evaluation period.

FNBE's retail branch network operates between the hours of 9:00 a.m. and 4:00 p.m. Monday through Friday. Saturday hours are offered at nine of FNBE's thirteen offices. FNBE operates drive-through facilities in Bon Aire, Brookville, Clarion, Cranberry, DuBois, Eau Clair, Emlenton, Grove City, Knox, Meridian and Titusville. FNBE's eleven drive-through facilities operate between hours ranging from 8:30 a.m. to 4:30 p.m., and on Friday as late as 7:00 p.m. FNBE also operates automated teller machines at each branch with drive-through facilities.

There are no factors, legal or otherwise, that would hinder FNBE's ability to help meet the credit needs of its AAs. FNBE's most recent Performance Evaluation was dated April 21, 2008 for which a "Satisfactory" CRA rating was assigned.

## Description of Assessment Area(s)

FNBE operated within three AAs over the evaluation period. The Venango AA is a non-MSA, the Butler AA is in the Pittsburgh MSA, and the Mercer AA is in the Youngstown-Warren-Boardman, OH-Pennsylvania MSA. All three AAs are located in northwestern Pennsylvania.

The Venango AA consists of six adjacent non-MSA counties, which are Clarion, Clearfield, Crawford, Elk, Jefferson and Venango Counties. The two other AAs are the Butler AA, which consists of Butler County, and the Mercer AA, consisting of Mercer County.

FNBE's Venango AA and Butler AA are the AAs in which it has historically operated and has a more significant presence. These are also the AAs in which FNBE operates the majority of its offices, derives the most of its deposits and originates the majority of its loans. In arriving at the overall conclusions for FNBE's performance in each of its AAs, more weight was placed on FNBE's performance in its Venango AA and Butler AA than its Mercer AA.

FNBE's branch offices and ATMs are located within its designated AAs. FNBE's AAs meet regulatory requirements and do not arbitrarily exclude any low- or moderate-income geographies.

### **Venango AA**

FNBE's Venango AA was expanded from five counties to six counties, since the previous performance evaluation, and it now consists of the six non-MSA counties of Clarion, Clearfield, Crawford, Elk, Jefferson, and Venango Counties. The Titusville Office was opened in Crawford County in August 2009. The six counties are situated in the northern portion of western Pennsylvania, and are predominantly rural in nature. FNBE's physical presence in its Venango AA, consists of a branch network comprised of nine (9) retail office locations, and includes its main office and headquarters. AA geographies are contiguous and consistent with CRA regulatory requirements. Low- and moderate-income geographies are not arbitrarily excluded from the AA.

According to Federal Financial Institutions Examination Council 2011 Census Reports, the six counties comprising the Venango AA consist of eighty-six (86) geographies. Of the 86 geographies that comprise FNBE's Venango AA, seven (7), seventy-four (74) and five (5) are classified as moderate, middle, and upper-income, respectively. None of the Venango AA geographies are classified as low-income. Of the total AA population, 5.85% percent resides in the seven moderate-income AA geographies. Of total owner-occupied AA housing, 4.81% percent is located within the AA's moderate-income geographies. 4.81% of housing units in moderate-income geographies in the AA consists of owner-occupied housing.

For FNBE's Venango AA, 2000 census data, updated for 2011, reports a total population of 354,122, with total households of 138,787 and total families of 72,384. U.S. Department of Housing and Urban Development (HUD) data reports the median family income to be \$41,475. Demographic information derived from annually updated HUD data also reports that of total AA families, 19.26%, 20.56%, 24.56%, and 35.62% are of low, moderate, middle, and upper-income, respectively.

For FNBE's Venango AA, the majority of households (70.38%) are supported by wage or salaried jobs. 16.50% of Venango AA households, report persons over sixty-five, 33.51% derive income from social security and 12.39% are below poverty level. The 2000 census data, updated for 2011, reports that, of total Venango AA housing units, 63.82% were owner-occupied, and the median housing value equaled \$64,350. Housing stock consists primarily of older homes, with 1957 as the median year built. These AA demographic factors impact loan demand for residential mortgage loans. Particularly affected is residential mortgage demand from low- and moderate-income borrowers impacted by issues concerning housing availability and affordability.

According to the 2011 Business Geodemographic data, 29,418 businesses operate within FNBE's Venango AA, of which 1,150 are farms. Of Venango AA businesses, non-farm businesses which report revenues of less than or equal to \$1 million total, represent 64.24% of total AA businesses. Approximately 61.90% of Venango AA businesses reported having four employees or less. Of Venango AA businesses, 40.04% are classified as services, 12.55% are classified as retail trade and 17.48% are not classified. Additional Venango AA businesses are classified as follows: construction (6.84%), manufacturing (4.64%), finance, insurance and real estate (4.36%), transportation and communication (4.23%), agriculture, forestry and fishing (3.91%), wholesale trade (3.23%), public administration (2.33%), and mining (.40%).

As of May 2012, for the Counties of Venango, Clearfield, Elk, Jefferson, Clarion, and Crawford the unemployment rate was recorded at 6.8%, 7.9%, 6.1%, 6.9%, 8.0% and 6.6% respectively. The state average unemployment was 7.4% and the national average was 8.2%. Large Venango AA employers include Pennsylvania State Government, Pennsylvania State System of Higher Education, Wal-Mart, Elk Regional Health Center, and Owens-Brockway Glass Container, Inc. Large Venango AA employers also include local hospitals: UPMC Northwest, DuBois Regional Medical Center, Clearfield Hospital, Punxsutawney Area Hospital, Meadville Medical Center, and Clarion Hospital), and school districts: Franklin Area SD, DuBois Area SD, Crawford Central SD, and Punxsutawney Area SD.

FNBE encounters strong AA competition. Within its Venango AA, competition consists of 146 branches of FDIC insured institutions representing eighteen (18) banks of various asset sizes (6 national banks, and 12 state chartered banks, including two trust companies). Competition also emanates from multi-billion dollar banks headquartered in nearby Pittsburgh and Cleveland Ohio, which have a strong presence in western Pennsylvania. Although competition from the larger multi-state banks and other regional and local financial institutions is strong, FNBE benefits from its long time historical presence in its Venango AA.

### **Butler AA**

FNBE's Butler AA consists of Butler County in its entirety, which represents one of the seven counties that comprise the Pittsburgh MSA. Butler County is situated in the northern section of the Pittsburgh MSA. According to the Butler County Chamber of

Commerce, Butler County is the fastest growing county in southwestern Pennsylvania. FNBE's physical presence in its Butler AA consists of a branch network comprised of three (3) retail branch office locations. AA geographies are contiguous and consistent with CRA regulatory requirements. Low- and moderate-income geographies are not arbitrarily excluded from the AA.

Butler County consists of thirty-nine (39) geographies. Of the 39 geographies that comprise Butler County, five (5), twenty-six (26) and eight (8) are classified as moderate-, middle- and upper-income respectively. None of the Butler AA geographies are classified as low-income. Of the total AA population, 12.82% reside in the five moderate-income AA geographies. 6.03% of the total number of housing units in moderate-income geographies in the AA is owner-occupied housing.

For FNBE's Butler AA, 2000 census data reports a total population of 174,083, total households of 65,929 and total families of 47,032. HUD data updated for 2007 reports the median family income to be \$57,900. Demographic information derived from annually updated HUD data reports that for total AA families: 15.81%, 17.31%, 22.80%, and 44.08% are of low-, moderate-, middle- and upper-income respectively.

For FNBE's Butler AA, the majority of households (76.34%) were supported by wage or salaried jobs. For the same period, for Butler AA households, 14.26% report persons over sixty-five, 27.6% derive income from social security and 9.43% are below poverty level. Updated census data also reports that for 2011, for total Butler County Area AA housing units, 73.35% were owner occupied and the median housing value equaled \$109,166. Housing stock consists primarily of older homes, with the median year built of 1969. These AA demographic factors impact loan demand for residential mortgage loans. Particularly affected is residential mortgage demand from low- and moderate-income borrowers impacted by issues concerning housing availability and affordability.

According to the 2011 Business Geodemographic data, 19,305 businesses operate within FNBE's Butler AA, of which 685 are farms. Of Butler AA businesses, non-farm businesses which report revenues of less than or equal to \$1 million total, represent 61.24% of total AA businesses. Approximately 59.49% of Butler AA businesses reported having four employees or less. Of Butler AA businesses, 38.83% are classified as services, 10.23% are classified as retail trade, and 23.19% are not classified. Additional Butler AA businesses are classified as follows: construction (7.79%), finance, insurance and real estate (5.48%), wholesale trade (3.62%), agriculture forestry and fishing (3.55%), manufacturing (3.27%), transportation and communication (2.88%) and public administration (1.03%).

As of May 2012 the Butler AA unemployment rate was recorded at 5.8%. This unemployment rate is lower than both the state average of 7.4% and the national average of 8.2%. Large Butler AA employers include Westinghouse Electric Co, U. S. Federal Government, Butler Healthcare Providers, AK Steel Corporation, and Wal-Mart. Two school districts (Butler Area School District and Seneca Valley School District), and the Pennsylvania State System of Higher Education are also major employers.

FNBE encounters strong AA competition. Butler AA competition consists of seventy-nine (79) branches of FDIC insured institutions representing seventeen banks of various asset sizes. Competition also emanates from multi-billion dollar banks headquartered in nearby Pittsburgh and Cleveland Ohio, which have a strong presence in Western Pennsylvania.

Examiners initiated contact with one community based organization within FNBE's Butler County AA. Specifically, examiners contacted the executive director of the County Housing Authority, which serves low- and moderate-income residents of Butler County. The community contact described the area as growing in population in the southern part of the county and little to no population growth in the northern part of the county, primarily the City of Butler. The community contact indicated there is a need for workforce rental housing and affordable housing preservation for Butler City residents. There is such a demand for affordable housing that there is a waiting list for affordable housing programs in the area. The community contact further commented credit needs that have not been adequately satisfied by area financial institutions include providing residents with loans that are affordable. The organization is currently seeking funds for various projects for neighborhood revitalization and affordable housing development. Banks have been involved in various projects taken on by the authority including line of credit financing, land and building acquisition, construction and development financing. Banks are active in conducting outreach to housing authority clients, partnering with the organization to provide credit restoration and first time home buyer education.

### **Mercer AA**

FNBE's Mercer AA consists of Mercer County in its entirety, which consists of one of the three counties that comprise the Youngstown-Warren-Boardman, OH-PA MSA, which includes Mahoning and Trumbull Counties in Ohio, and Mercer County in Pennsylvania.

Mercer County is situated in the northwestern section of Pennsylvania. FNBE's physical presence in its Mercer AA, consists of one retail office located in the southeastern portion of Mercer County. AA geographies are contiguous and consistent with CRA regulatory requirements. Low- and moderate-income geographies are located in the southwestern part of the county, and are not arbitrarily excluded from the AA.

Mercer County consists of thirty-four (34) geographies. Of the 34 geographies that comprise Mercer County, three (3), seven (7) and, twenty-two (22), and two (2) are classified as low, moderate, middle and upper-income respectively. Of the total AA population, 8.82% reside in low-income geographies, and 20.59% reside in the seven moderate-income AA geographies. 32.86% percent of total AA owner-occupied housing is located within the AA's low-income geographies, and 53.04% is within moderate-income geographies. Of the housing units in low- and moderate-income geographies, 1.77% and 9.50% is owner-occupied, respectively.

Mercer County's 2000 census data reports a total population of 120,293, total households of 46,755 and total families of 32,494. HUD data updated for 2011 reports the median family income to be \$42,232. Demographic information derived from annually updated HUD data, also reports that of total AA families, 2.82%, 11.17%, 78.89%, and 7.12% are of low-, moderate-, middle- and upper-income respectively.

For FNBE's Mercer AA, the majority of households (71.17%) were supported by wage or salaried jobs. For the same period, for Mercer AA households, 18.07% report persons over sixty-five, 34.79% derive income from social security, and 11.03% are below poverty level. Updated census data reports that for 2011, for total Mercer County Area AA housing units, 71.43% were owner occupied and the median housing valued equaled \$74,304. Housing stock consists primarily of older homes with the median year built of 1957. These AA demographic factors impact loan demand for residential mortgage loans. Particularly affected is residential mortgage demand from low- and moderate-income borrowers impacted by issues concerning housing availability and affordability.

According to the 2011 business demographic data, 10,108 businesses operate within FNBE's Mercer AA, of which 390 are farms. Of Mercer AA businesses, non-farm businesses which report revenues of less than or equal to \$1 million total, represent 67.62% of total AA businesses. Approximately 62.42% of Mercer AA businesses reported having four employees or less. Of Mercer AA businesses, 42.56% are classified as services, 12.99% are classified as retail trade, and 16.98% are not classified. Additional Mercer AA businesses are classified as follows: construction (6.37%), finance, insurance and real estate (5.31%), agriculture, forestry and fishing (3.86%), manufacturing (3.73%), wholesale trade (3.29%), transportation and communication (3.19%), public administration (1.61%), and mining (.11%).

As of May 2012 the Mercer AA unemployment rate was recorded at 8.0%. This unemployment rate was higher than the state average of 7.4% and lower than the national average of 8.2%. Large Mercer AA employers include Sharon Regional Health System, UPMC Horizon, General Electric, Pennsylvania State Government, John Maneely Company, and Wal-Mart.

FNBE encounters strong AA competition. Mercer AA competition consists of forty-nine (49) branches of FDIC insured institutions representing eight (8) banks of various asset sizes (4 national banks, 4 state chartered banks). Competition also emanates from multi-billion dollar banks headquartered in Pittsburgh and Erie, Pennsylvania, which have a strong presence in northwestern Pennsylvania.

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

FNBE's performance under the lending test is satisfactory. FNBE's record of originating loans reflected reasonable penetration among borrowers of different income levels and businesses of different sizes. FNBE's record of originating loans reflected reasonable dispersion among AA geographies. Only one of FNBE's AAs contained low-income

geographies, and the AA's moderate-income geographies contained a minimal proportion of the AA's owner-occupied housing and businesses. Therefore FNBE's record of originating loans among borrowers of different income levels and businesses of different sizes received more weight than FNBE's record of originating loans among AA geographies.

All criteria for the lending test are documented below.

## **LENDING TEST**

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

FNBE's LTD ratio, compared to the average LTD ratio exhibited by peer banks over the same period, is reasonable.

The analysis of FNBE's record of lending, demonstrated by its ratio of loans to deposits, was performed at the bank level. FNBE's average LTD ratio over the evaluation period was compared to the average LTD ratio demonstrated by a peer group of similarly situated financial institutions over the same period. Similarly situated financial institutions included seven banks with assets between \$100 million and \$500 million, operating within a four county area in Western Pennsylvania.

Lending activity over the evaluation period was measured by comparing the sixteen quarter average LTDs reported by FNBE and its local peer group. The sixteen quarter average LTD was calculated using financial data reported since the previous evaluation. Specifically, the calculation included quarter end financial data reported for each of the sixteen quarters from June 30, 2008 through March 31, 2012.

FNBE's LTD ratio ranged from a low of 69.19% as of June 30, 2011 to a high of 93.79% as of June 30, 2008. FNBE's average LTD ratio was 79.71%. FNBE's average LTD ratio exceeds the average LTD ratio of its local peer group, which was 73%.

### **Lending in Assessment Area**

FNBE originated a majority of its residential real estate and business loans inside its combined AAs.

In order to evaluate FNBE's lending in its AA, we measured and analyzed its record, over the evaluation period, of originating loans inside versus outside its combined AAs. Specifically, we measured and analyzed FNBE's record of originating residential mortgage and business loans within its combined AAs, since these loans constitute FNBE's primary loan products.

We measured and analyzed residential real estate and business loans originated by FNBE during 2009, 2010 and 2011. FNBE's residential real estate loan originations included loans for purposes of home purchase, home improvement, and home

refinance. FNBE's residential real estate lending was analyzed using the HMDA data it originated, collected and reported over the period. FNBE's business data was analyzed using a sample of sixty (60) randomly selected business loans it originated over the period.

The analysis of FNBE's residential real estate data revealed that 84.00% of home mortgage loans FNBE originated in 2009, 2010, and 2011 were originated within the combined AAs. Similarly, an analysis of a sample of business loans FNBE originated over the period revealed that 100% of those business loans were originated within FNBE's combined AAs.

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

FNBE's record of originating residential mortgage loans reflects a reasonable penetration among Venango and Butler AAs, but poor penetration in the Mercer AA. Although FNBE's record of originating business loans reflects an excellent penetration among businesses of different sizes considering the number of small business loans originated in the three combined AAs, it reflects a poor penetration relative to the percentage of small business loans originated considering the dollar amount. More weight was placed on percentage of loans originated to small businesses by number, than the percentage of loans originated to small businesses by dollar amount. Considering that a significant percentage of business loans originated by FNBE to combined AA businesses represent the smaller dollar amounts of \$100,000 or less needed by small businesses in the combined AAs, which demonstrates that FNBE is responsive to the needs of combined AA small businesses, and therefore meets the standard for satisfactory performance.

#### Performance in the Venango AA

FNBE's record of originating residential mortgage loans reflects reasonable penetration among Venango AA borrowers of different income levels, but poor penetration to businesses of different sizes.

#### *Residential Mortgage Lending*

Data collected through a sample of 60 residential mortgage loans originated by FNBE in its Venango AA was analyzed. The analysis was performed to obtain geodemographic data for originations in the Venango non-MSA AA, in order to assess FNBE's record of distributing its residential mortgage loan originations among Venango AA borrowers of different income levels, and to determine the geographic distribution of loan originations in the Venango AA.

Opportunities to originate residential mortgage loans within the Venango AA may be impacted by demographics, including the extent to which the Venango AA population is age 65 or older, retired, eligible for social security and/or below poverty level.

Demographic data compiled during the 2000 U. S. Census, updated for 2011, for FNBE’s Venango AA reports the income level of AA families as follows:

- 19.26% of AA families are low-income families
- 20.56% of AA families are moderate-income families
- 24.56% of AA families are middle-income families
- 35.62% of AA families are upper-income families

The following table details the distribution of residential mortgage loans originated by FNBE during the evaluation period to borrowers of different income levels within the Venango AA.

Borrower Distribution of Residential Mortgage Loans in the Venango AA								
Loan Type	Low-Income Families		Moderate-Income Families		Middle-Income Families		Upper-Income Families	
	% Families	% BANK # Loans	% Families	% BANK # Loans	% Families	% BANK # Loans	% Families	% BANK # Loans
Home Purchase	19.26%	11.54%	20.56%	15.38%	24.56%	42.31%	35.62%	30.77%
Home Improvement	19.26%	0%	20.56%	35.71%	24.56%	14.29%	35.62%	50.00%
Home Mortgage Refinance	19.26%	5.00%	20.56%	25.00%	24.56%	15.00%	35.62%	55.00%

Source: Residential Real Estate Data from 1/1/09 through 12/31/2011; 2000 U.S. Census data, updated for 2011.

19.26% of Venango AA families are classified as low-income and 20.56% are classified as moderate-income AA families. FNBE’s loan originations in the Venango AA for home purchases and home mortgage refinances to low-income borrowers were 11.54% and 5.00%, respectively. Originations to moderate-income borrowers for home purchase, home improvement and home mortgage refinance loans were 15.38%, 35.71% and 25.00%, respectively.

Although FNBE’s record of originating loans to low-income borrowers in the Venango AA, for home purchase, home improvement and home mortgage refinance, is significantly below the percentage of families in the Venango AA classified as low-income, more weight was placed on lending to moderate-income borrowers. Considering the number of loans originated to low-income borrowers and moderate-income borrowers, 77.78% were to moderate-income borrowers. FNBE averaged 25.36% in loan originations to moderate-income borrowers, which exceeds the 20.56%

of families in the Venango AA classified as moderate-income. Overall, FNBE’s record of originating residential mortgage loans exceeds the standard for satisfactory performance, and reflects reasonable penetration among Venango AA borrowers of different income levels.

*Business Lending*

Data collected through a sample of twenty (20) business loans originated by FNBE in its Venango AA was analyzed. The analysis was performed to assess FNBE’s record of distributing its business loan originations among Venango AA businesses of different sizes.

The 2011 Business Geodemographic Data for FNBE’s Venango AA indicates that for AA businesses which reported annual revenues, revenue was recorded as follows:

- 64.24% of AA businesses report annual revenues < or = \$1 million
- 6.70% of AA businesses report annual revenues > than \$1 million
- 29.06% of AA businesses did not report annual revenues

Small businesses are defined as businesses with gross annual revenues less than or equal to one million dollars.

The following table details the distribution of business loans originated by FNBE during the evaluation period to businesses of different sizes within the Venango AA.

<b>Borrower Distribution Of Loans To Small Businesses in the Venango AA</b>				
<b>Business Revenues (or Sales)</b>	<b>&lt; or = \$1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>Not Reported</b>	<b>Total</b>
<b>% of AA Businesses by #</b>	<b>67.51%</b>	<b>3.43%</b>	<b>29.06%</b>	<b>100%</b>
<b>% of Bank Loans in AA by #</b>	<b>90.00%</b>	<b>10.00%</b>	<b>N/A</b>	<b>100%</b>
<b>% of Bank Loans in AA by \$</b>	<b>38.40%</b>	<b>61.60%</b>	<b>N/A</b>	<b>100%</b>

*Source: business loan data sampled from 1/1/09 through 12/31/2011; Dun & Bradstreet data*

Venango AA demographic information derived from Dun and Bradstreet reports that of all AA businesses 67.51% reported revenue amounts which classified them as small businesses.

The percentage of business loans originated by FNBE to small AA businesses by number is above the percentage of loans to AA businesses classified as small businesses. There are 67.51% of AA businesses that are classified as small, and, within its Venango AA, FNBE originated 90% of its business loans by number to small AA businesses. In terms of dollars, however, FNBE originated only 38.40% of its business loans to small businesses. More weight was placed on percentage of loans originated to small businesses by number, than the percentage of loans originated to small businesses by dollar amount. Considering that a significant percentage of business loans originated by FNBE to Venango AA businesses represents the smaller dollar

amounts of \$100,000 or less needed by small businesses in the AA. Specifically, of the sampled business loans originated by FNBE within its Venango AA, 50% were originated for dollar amounts of \$100,000 or less, which demonstrates that FNBE is responsive to the needs of Venango AA small businesses and, therefore, meets the standard for satisfactory performance.

### Performance in the Butler AA

FNBE's record of originating residential mortgage and business loans reflects reasonable penetration among Butler AA borrowers of different income levels, but reflects a poor penetration relative to businesses of different sizes.

#### *Residential Mortgage Lending*

Data collected and reported in accordance with HMDA requirements representing residential mortgage loans originated by FNBE in its Butler AA was analyzed. The analysis was performed to assess FNBE's record of distributing its residential mortgage loan originations among Butler AA borrowers of different income levels.

Demographic data compiled during the 2000 census for FNBE's Butler AA reports income level of AA families as follows:

- 15.81% of AA families are low-income families
- 17.31% of AA families are moderate-income families
- 22.80% of AA families are middle-income families
- 44.08% of AA families are upper-income families

Low-income Butler AA families are defined as families with annual incomes below \$28,950. Moderate-income Butler AA families are defined as families with annual incomes between \$28,950 and \$46,320.

The following table details the distribution of residential mortgage loans originated by FNBE during the evaluation period to borrowers of different income levels within the Butler AA.

<b>Borrower Distribution of Residential Mortgage Loans in the Butler AA</b>								
<b>Loan Type</b>	<b>Low-Income Families</b>		<b>Moderate-Income Families</b>		<b>Middle-Income Families</b>		<b>Upper-Income Families</b>	
	<b>% Families</b>	<b>% BANK # Loans</b>	<b>% Families</b>	<b>% BANK # Loans</b>	<b>% Families</b>	<b>% BANK # Loans</b>	<b>% Families</b>	<b>% BANK # Loans</b>
<b>Home Purchase</b>	15.81%	8.00%	17.31%	24.00%	22.80%	28.00%	44.08%	40.00%
<b>Home Improvement</b>	15.81%	17.5%	17.31%	27.50%	22.80%	30.00%	44.08%	25.00%
<b>Home Mortgage Refinance</b>	15.81%	11.11%	17.31%	25.93%	22.80%	25.00%	44.08%	37.96%

Source: HMDA data for 2009 - 2011; HUD-updated 2000 U.S. Census data

FNBE's record of originating home purchase loans and home mortgage refinance loans to low-income Butler AA borrowers is below the percentage of AA families classified as low-income, but originations for home improvement loans to low-income borrowers exceeds the percentage of AA families classified as low-income.

The bank's record of originating home purchase loans, home improvement loans, and home mortgage refinances to moderate-income Butler AA borrowers is above the percentage of AA families classified as moderate-income.

Of Butler AA families, 15.81% are classified as low-income and 17.31% are classified as moderate-income AA families. Comparatively, FNBE's originations in the Butler AA for home purchase, home improvement, and home mortgage refinances to low-income borrowers was 8.00%, 17.5% and 11.11%, respectively. Originations to moderate-income borrowers for home purchase, home improvement, and home mortgage refinance loans was 24.00%, 27.50% and 25.93%, respectively.

Although FNBE's record of originating loans to low-income borrowers in the Butler AA for home purchase loans and home mortgage refinance loans is below the percentage of low-income families in the AA, the bank's record of originating home improvement loans in the Butler AA exceeds the percentage of AA families classified as low-income.

FNBE's record of originating loans to moderate-income borrowers in the Butler AA for home purchase loans, home improvement loans, and home mortgage loan refinances exceeds the percentage of AA families classified as moderate-income.

Overall, FNBE’s average percentage relative to the number of loans originated for home purchase, home improvement, and home mortgage refinance to combined low- and moderate-income borrowers in the Butler AA, at 19.01%, exceeds the standard for satisfactory performance, considering that the average percentage of the combined percentage of low-income families (15.81%) and moderate-income families (17.31%) in the AA is 16.45%.

Opportunities to originate residential mortgage loans within the Butler AA may be impacted by demographics, including a median housing cost of \$109,166, and also an aging population, considering that 14.26% of the Venango AA population is over 65 years of age, 19.94% are retired, 27.64% are eligible for social security, and 9.43% are below poverty level.

*Business Lending*

Data collected through a sample of twenty (20) business loans originated by FNBE in its Butler AA was analyzed. The analysis was performed to assess FNBE’s record of distributing its business loan originations among Butler AA businesses of different sizes.

Demographic data compiled during the 2000 census for FNBE’s Butler AA indicates that of AA businesses which reported annual revenues, revenue was recorded as follows:

- 67.23% of AA businesses report annual revenues < or = \$1 million
- 6.25% of AA businesses report annual revenues > than \$1 million
- 26.52% of AA businesses did not report annual revenues

The following table details the distribution of business loans originated by FNBE during the evaluation period to businesses of different sizes within the Butler AA.

<b>Borrower Distribution Of Loans To Small Businesses in the Butler AA</b>				
<b>Business Revenues (or Sales)</b>	<b>&lt; or = \$1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>Not Reported</b>	<b>Total</b>
<b>% of AA Businesses by #</b>	<b>67%</b>	<b>6%</b>	<b>27%</b>	<b>100%</b>
<b>% of Bank Loans in AA by #</b>	<b>75%</b>	<b>25%</b>	<b>N/A</b>	<b>100%</b>
<b>% of Bank Loans in AA by \$</b>	<b>11%</b>	<b>89%</b>	<b>N/A</b>	<b>100%</b>

*Source: business loan data sampled from 2004-2006; Dun & Bradstreet data*

Butler AA demographic information derived from Dun and Bradstreet reports that of all AA businesses, 67.23% reported revenue amounts which classified them as small. Comparatively, of business loans originated by FNBE to businesses during the evaluation period, 67% of business loans were originated to Butler AA small businesses.

The percentage of small business loans originated by FNBE in the Butler AA by number exceeds the percentage of AA loans to businesses by number. In terms of dollars, FNBE originated only 11% of its business loans to small businesses in the Butler AA.

More weight was placed on percentage of loans originated to small businesses by number, than the percentage of loans originated to small businesses by dollar amount. Considering that a significant percentage of business loans originated by FNBE to Butler AA businesses represents the smaller dollar amounts of \$100,000 or less needed by small businesses in the AA. Specifically, of the sampled business loans originated by FNBE within its Butler AA, 55% were originated for dollar amounts of \$100,000 or less, which demonstrates that FNBE is responsive to the needs of Butler AA small businesses and, therefore, meets the standard for satisfactory performance

### Performance in the Mercer AA

FNBE's record of originating residential mortgage and business loans reflects a poor penetration among Mercer AA borrowers of different income levels and businesses of different sizes.

Although FNBE's record for originating residential mortgage loans and loans to small businesses in the Mercer AA does not meet the standard for satisfactory performance, more weight is being placed on its performance in the Venango and Butler AAs, since that is where FNBE operates the majority of its offices, and originates most of its loans.

### *Residential Mortgage Lending*

Data collected and reported in accordance with HMDA requirements representing residential mortgage loans originated by FNBE in its Mercer AA was analyzed. The analysis was performed to assess FNBE's record of distributing its residential mortgage loan originations among Mercer AA borrowers of different income levels.

Demographic data compiled during the 2000 census for FNBE's Mercer AA reports income level of AA families as follows:

- 2.82% of AA families are low-income families
- 11.17% of AA families are moderate-income families
- 78.89% of AA families are middle-income families
- 7.12% of AA families are upper-income families

Low-income Mercer AA families are defined as families with annual incomes below \$21,287. Moderate-income Mercer AA families are defined as families with annual incomes between \$21,287 and \$34,058.

The following table details the distribution of residential mortgage loans originated by FNBE during the evaluation period to borrowers of different income levels within the Mercer AA.

Borrower Distribution of Residential Mortgage Loans in the Mercer AA								
Loan Type	Low-Income Families		Moderate-Income Families		Middle-Income Families		Upper-Income Families	
	% Families	% BANK # Loans	% Families	% BANK # Loans	% Families	% BANK # Loans	% Families	% BANK # Loans
Home Purchase	2.82%	0.00%	11.17%	4.17%	78.89%	20.83%	7.12%	75.00%
Home Improvement	2.82%	0.00%	11.17%	0.00%	78.89%	0.00%	7.12%	0.00%
Home Mortgage Refinance	2.82%	5.00%	11.17%	15.00%	78.89%	25.00%	7.12%	55.00%

Source: HMDA data for 2009-2011; HUD-updated 2000 U.S. Census data

Of the Mercer AA families, 2.82% and 11.17% are classified as low- and moderate-income AA families respectively. Comparatively, there were no home purchase loans originated for low-income borrowers, and 5.00% of home mortgage refinances were originated to low-income borrowers in the Mercer AA. There were no home improvement loans originated by FNBE in the Mercer AA during the review period.

Considering home purchase loans and home mortgage refinance loans originated by FNBE within its Mercer AA, 4.17% and 15.00%, respectively, were originated to moderate-income AA borrowers.

FNBE’s record of originating home purchase, and home mortgage refinance loans to low-income Mercer AA borrowers is below the percentage of AA families classified as low-income. FNBE’s record of originating home purchase, and home mortgage refinance loans to moderate-income Mercer AA borrowers are also below the percentage of AA families classified as moderate-income. Overall, FNBE’s number of loans originated to combined low- and moderate-income borrowers in the Mercer AA does not meet the standard for satisfactory performance.

Opportunities to originate residential mortgage loans within the Mercer AA may be impacted by demographics including the median housing cost of \$74,304, and also that 18.07% of the Mercer AA population is over the age of 65, 24.22% are retired, 34.79% are eligible for social security, and 11.03% are below poverty level.

*Business Lending*

Data collected through a sample of twenty (20) business loans originated by FNBE in its Mercer AA was analyzed. The analysis was performed to assess FNBE’s record of distributing its business loan originations among Mercer AA businesses of different sizes.

Demographic data compiled during the 2000 census for FNBE’s Mercer AA, indicates that of AA businesses which reported annual revenues, revenue was recorded as follows:

- 65.28% of AA businesses report annual revenues < or = \$1 million
- 6.87% of AA businesses report annual revenues > than \$1 million
- 27.85% of AA businesses did not report annual revenues

The following table details the distribution of business loans originated by FNBE during the evaluation period to businesses of different sizes within the Mercer AA.

<b>Borrower Distribution Of Loans To Small Businesses in the Mercer AA</b>				
<b>Business Revenues (or Sales)</b>	<b>&lt; or = \$1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>Not Reported</b>	<b>Total</b>
<b>% of AA Businesses by #</b>	<b>65%</b>	<b>7%</b>	<b>28%</b>	<b>100%</b>
<b>% of Bank Loans in AA by #</b>	<b>75%</b>	<b>25%</b>	<b>N/A</b>	<b>100%</b>
<b>% of Bank Loans in AA by \$</b>	<b>21%</b>	<b>79%</b>	<b>N/A</b>	<b>100%</b>

*Source: business loan data sampled from 2004-2006; Dun & Bradstreet data*

Mercer AA demographic information derived from Dun and Bradstreet reports that of all AA businesses, 65.28% reported revenue amounts which classified them as small. Comparatively, of business loans originated by FNBE to businesses during the evaluation period, 75% of business loans were originated to Mercer AA small businesses.

The percentage of small business loans originated by FNBE in the Mercer AA by number exceeds the percentage of AA loans to businesses by number. In terms of dollars, the chart above reflects that FNBE originated only 21% of its business loans to small businesses in the Mercer AA. More weight was placed on percentage of loans originated to small businesses by number, than the percentage of loans originated to small businesses by dollar amount. Considering that a significant percentage of business loans originated by FNBE to Mercer AA businesses represents the smaller dollar amounts of \$100,000 or less needed by small businesses in the AA. Specifically, of the sampled business loans originated by FNBE within its Mercer AA, 60% were originated for dollar amounts of \$100,000 or less, which demonstrates that FNBE is responsive to the needs of Mercer AA small businesses and, therefore, meets the standard for satisfactory performance.

## **Geographic Distribution of Loans**

### Performance in the Venango AA

FNBE's record of originating loans reflects a reasonable dispersion among Venango AA geographies for residential loans but a poor dispersion for small business loans.

#### *Residential Mortgage Lending*

Data collected through a sample of 60 residential mortgage loans originated by FNBE in its Venango AA was analyzed. The analysis was performed to assess FNBE's record of dispersing its residential real estate loan originations among Venango AA geographies.

Demographic data compiled during the 2000 U.S. Census, updated for 2011, for FNBE's Venango AA reports that AA owner-occupied housing is dispersed among AA geographies as follows:

- 4.81% of AA owner occupied housing is located in moderate-income AA geographies.
- 87.98% of AA owner occupied housing is located in middle-income AA geographies.
- 7.21% of AA owner occupied housing is located in upper-income AA geographies.

Venango AA demographic information derived from 2000 Census data, updated for 2011, reports that of all owner-occupied housing available within the AA, less than 6% is located within the AA's moderate-income geographies. The vast majority of all AA owner-occupied housing is located in the AA's middle and upper-income geographies. Comparatively, of residential real estate loans originated by FNBE in its Venango AA, 8.33% were originated in FNBE's moderate-income geographies.

The following table details the distribution of residential mortgage loans originated by FNBE during the evaluation period in its Venango AA geographies.

Geographic Distribution of Residential Mortgage Loans in the Venango AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner-Occupied Housing	% of Number of Loans	% of AA Owner-Occupied Housing	% of Number of Loans	% of AA Owner-Occupied Housing	% of Number of Loans	% of AA Owner-Occupied Housing	% of Number of Loans
Home Purchase	0.00%	0.00%	4.81%	0.00%	87.98%	100.00%	7.21%	0.00%
Home Improvement	0.00%	0.00%	4.81%	12.50%	87.98%	87.50%	7.21%	0.00%
Home Mortgage Refinance	0.00%	0.00%	4.81%	17.65%	87.98%	82.35%	7.21%	0.00%

Source: Residential Real Estate Data sampled from 1/1/09 through 12/31/2011; 2000 U.S. Census data, updated for 2011.

FNBE’s record of originating home improvement mortgage loans, and home mortgage refinance loans in moderate-income Venango AA geographies is above the percentage of AA owner-occupied housing located in those moderate-income geographies. However, FNBE’s record of originating home purchase loans in moderate-income AA geographies is below the percentage of AA owner-occupied housing located in those moderate-income geographies. Considering that the average percentage relative to the number of home purchase, home improvement, and home mortgage refinance loans originated by FNBE in moderate-income geographies of the Venango AA was 10.05%, compared with the moderate-income owner-occupied housing, which averaged 4.81%, FNBE exceeds the standard for satisfactory performance.

Opportunities to originate residential mortgage loans within the moderate-income Venango AA geographies may be impacted by demographics including the location of the moderate-income Venango AA geographies. FNBE branch locations are not situated in close proximity to Venango AA’s moderate-income geographies. Also FNBE encounters strong competition in Venango and Jefferson Counties, further impacting its ability to originate residential mortgage loans in these geographies

*Small Business Lending*

Data collected through a sample of business loans originated by FNBE in its Venango AA was analyzed. The analysis was performed to assess FNBE’s record of dispersing its business loan originations among Venango AA geographies.

Business Geodemographic Data for 2011 for FNBE's Venango AA reports that AA businesses are dispersed among AA geographies as follows:

- 8.14% of AA businesses are located in moderate-income AA geographies.
- 86.05% of AA businesses are located in middle-income AA geographies.
- 5.81% of AA businesses are located in upper-income AA geographies.

Venango AA demographic information derived from 2000 census data reports that of all businesses within the AA, less than 9% are located within the AA's moderate-income geographies. The vast majority of all AA businesses are located in the AA's middle and upper-income geographies. Comparatively, of business loans originated by FNBE in its Venango AA, none were originated in the AA's moderate-income geographies.

FNBE's record of originating business loans in moderate-income AA geographies is less than the percentage of AA businesses located in those moderate-income geographies. FNBE does not have adequate dispersion of loans to small businesses in moderate-income geographies of the Venango AA, and does not meet the standard for satisfactory performance.

Opportunities to originate business loans within the moderate-income Venango AA geographies may be impacted by demographics including the location of the moderate-income Venango AA geographies. FNBE branch locations are not situated in close proximity to Venango AA's moderate-income geographies. Also FNBE encounters strong competition in Venango and Jefferson Counties, further impacting its ability to originate business loans in these geographies.

#### Performance in the Butler AA

FNBE's record of originating residential mortgage loans reflects reasonable dispersion among Butler AA geographies, but a poor dispersion for small business loans.

#### *Residential Real Estate Lending*

Data collected through a sample of residential mortgage loans originated by FNBE in its Butler AA was analyzed. The analysis was performed to assess FNBE's record of dispersing its residential mortgage loan originations among Butler AA geographies.

Demographic data compiled during the 2000 U.S. census for FNBE's Butler AA reports that AA owner-occupied housing is dispersed among AA geographies as follows:

- 6.03% of AA owner occupied housing is located in moderate-income AA geographies.
- 69.43% of AA owner occupied housing is located in middle-income AA geographies.
- 24.54% of AA owner occupied housing is located in upper-income AA geographies.

Butler AA demographic information derived from 2000 census data reports that of all owner-occupied housing available within the AA, 6.03% is located within the AA's moderate-income geographies. The vast majority of all AA owner-occupied housing is

located in the AA’s middle and upper-income geographies. No home purchase loans were originated in moderate-income geographies. Comparatively, of home improvement, and home mortgage refinance loans originated by FNBE in its Butler AA, 11.25%, and 4.63%, respectively, were originated in FNBE’s moderate-income geographies.

The following table details the distribution of residential mortgage loans originated by FNBE during the evaluation period in its Butler AA geographies.

Geographic Distribution of Residential Mortgage Loans in the Butler AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner-Occupied Housing	% of Number of Loans	% of AA Owner-Occupied Housing	% of Number of Loans	% of AA Owner-Occupied Housing	% of Number of Loans	% of AA Owner-Occupied Housing	% of Number of Loans
Home Purchase	0.00%	0.00%	6.03%	0.00%	69.43%	98.18%	24.54%	1.82%
Home Improvement	0.00%	0.00%	6.03%	11.25%	69.43%	85.00%	24.54%	3.75%
Home Mortgage Refinance	0.00%	0.00%	6.03%	4.63%	69.43%	91.67%	24.54%	3.70%

Source: Residential Real Estate Data sampled from 1/1/09 through 12/31/2011; HUD-updated 2000 U.S. Census data

FNBE’s record of originating home purchase and home mortgage refinance loans in moderate-income AA geographies is less than the percentage of Butler AA owner-occupied housing located in the moderate-income AA geographies. FNBE’s record of originating home improvement loans in moderate-income AA geographies exceeds the percentage of Butler AA owner-occupied housing located in those moderate-income geographies. Considering that the average percentage relative to the number of home purchase, home improvement, and home mortgage refinance loans originated by FNBE in moderate-income geographies of the Butler AA was 5.29%, compared with the moderate-income owner-occupied housing, which averaged 6.03%, FNBE meets the standard for satisfactory performance.

Opportunities to originate residential mortgage loans within the moderate-income Butler AA geographies may be impacted by demographics including the location of the moderate-income Butler AA geographies. FNBE branch locations are situated in northern Butler County, however, Butler AA’s moderate-income geographies are

situated in southern Butler County closer to the more heavily banked Pittsburgh market, further impacting FNBE's ability to originate residential mortgage loans in these geographies.

### *Small Business Lending*

Data collected through a sample of business loans originated by FNBE in its Butler AA was analyzed. The analysis was performed to assess FNBE's record of dispersing its business loan originations among Butler AA geographies.

Demographic data compiled during the 2000 U.S. census for FNBE's Butler AA reports that AA businesses are dispersed among AA geographies as follows:

- 12.82% of AA businesses are located in moderate-income AA geographies.
- 66.67% of AA businesses are located in middle-income AA geographies.
- 20.51% of AA businesses are located in upper-income AA geographies.

Butler AA demographic information derived from 2000 census data reports that of all businesses within the AA, less than 13% are located within the AA's moderate-income geographies. The vast majority of all AA businesses are located in the AA's middle- and upper-income geographies. Comparatively, of business originated by FNBE in its Butler AA, none were originated in the AA's moderate-income geographies.

FNBE's record of originating business loans in moderate-income AA geographies is less than the percentage of AA businesses located in those moderate-income geographies. FNBE does not have adequate dispersion of loans to small businesses in moderate-income geographies of the Butler AA, and does not meet the standard for satisfactory performance.

Opportunities to originate business loans within the moderate-income Butler AA geographies may be impacted by demographics including the location of the moderate-income Butler AA geographies. FNBE branch locations are situated in northern Butler County, however, Butler AA's moderate-income geographies are situated in southern Butler County closer to the more heavily banked Pittsburgh market, further impacting FNBE's ability to originate business loans in these geographies.

### Performance in the Mercer AA

FNBE's record of originating residential mortgage and business loans reflects a poor dispersion among Mercer AA geographies.

### *Residential Real Estate Lending*

Data collected through a sample of residential mortgage loans originated by FNBE in its Mercer AA was analyzed. The analysis was performed to assess FNBE's record of dispersing its residential mortgage loan originations among Mercer AA geographies.

Demographic data compiled during the 2000 U.S. census for FNBE’s Mercer AA reports that AA owner-occupied housing is dispersed among AA geographies as follows:

- 1.77% of AA owner occupied housing is located in low-income AA geographies.
- 9.50% of AA owner occupied housing is located in moderate-income AA geographies.
- 81.27% of AA owner occupied housing is located in middle-income AA geographies.
- 7.45% of AA owner occupied housing is located in upper-income AA geographies.

Mercer AA demographic information derived from 2000 census data reports that of all owner-occupied housing available within the AA, less than 2% is located within the AAs low-income geographies, and less than 10% is located within the AA’s moderate-income geographies. The vast majority of all AA owner-occupied housing is located in the AA’s middle and upper-income geographies. No home purchase loans, home improvement loans, or home mortgage refinances were originated in low-income or moderate-income geographies.

The following table details the distribution of residential mortgage loans originated by FNBE during the evaluation period in its Mercer AA geographies.

Geographic Distribution of Residential Mortgage Loans in the Mercer AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner-Occupied Housing	% of Number of Loans	% of AA Owner-Occupied Housing	% of Number of Loans	% of AA Owner-Occupied Housing	% of Number of Loans	% of AA Owner-Occupied Housing	% of Number of Loans
Home Purchase	1.77%	0.00%	9.50%	0.00%	81.27%	100.00%	7.45%	0.00%
Home Improvement	1.77%	0.00%	9.50%	0.00%	81.27%	0.00%	7.45%	0.00%
Home Mortgage Refinance	1.77%	0.00%	9.50%	0.00%	81.27%	100.00%	7.45%	0.00%

Source: Residential Real Estate Data sampled from 1/1/09 through 12/31/2011; HUD-updated 2000 U.S. Census data

FNBE’s record of originating home purchase loans, home improvement loans, and home mortgage refinance loans in low-and moderate-income AA geographies is substantially less than the percentage of Mercer AA owner-occupied housing located in the low-and moderate-income AA geographies. No loans were originated in low- or moderate-income geographies in the Mercer AA, so FNBE does not meet the standard for satisfactory performance.

Opportunities to originate residential mortgage loans within the low- and moderate-income Mercer AA geographies may be impacted by demographics including the location of the branch office, and the location of the low- and moderate-income AA geographies. The FNBE branch location is situated in southeastern Mercer County; however, the Mercer AA's low- and moderate-income geographies are situated in southwestern Mercer County, which impacts FNBE's ability to originate residential mortgage loans in these geographies.

### *Small Business Lending*

Data collected through a sample of business loans originated by FNBE in its Mercer AA was analyzed. The analysis was performed to assess FNBE's record of dispersing its business loan originations among Mercer AA geographies.

Demographic data compiled during the 2000 U.S. census for FNBE's Mercer AA reports that AA businesses are dispersed among AA geographies as follows:

- 8.82% of AA businesses are located in low-income AA geographies.
- 20.59% of AA businesses are located in moderate-income AA geographies.
- 64.71% of AA businesses are located in middle-income AA geographies.
- 5.88% of AA businesses are located in upper-income AA geographies.

Mercer AA demographic information derived from 2000 census data reports that of all businesses within the AA, less than 9% are located within the AA's low-income geographies, and less than 21% are located within moderate-income geographies. The vast majority of all AA businesses are located in the AA's middle and upper-income geographies. Comparatively, of business loans originated by FNBE in its Mercer AA, none were originated in the AA's low- and moderate-income geographies.

FNBE's record of originating business loans in low- and moderate-income AA geographies is less than the percentage of AA businesses located in those moderate-income geographies. FNBE does not have adequate dispersion of loans to small businesses in moderate-income geographies of the Mercer AA, and does not meet the standard for satisfactory performance.

Opportunities to originate business loans within the low- and moderate-income Mercer AA geographies may be impacted by demographics including the location of the geographies. The FNBE branch location is situated in southeastern Mercer County; however, Mercer AA's low- and moderate-income geographies are situated in southwestern Mercer County, which impacts FNBE's ability to originate business loans in these geographies.

### **Responses to Complaints**

The OCC received four CRA-related consumer complaints, which were filed with the Customer Assistance Group (CAG) since the last CRA examination. FNBE responded to and resolved all complaints, and all cases have been closed by the CAG.

## **COMMUNITY DEVELOPMENT TEST**

The Community Development Test is rated satisfactory, since FNBE demonstrates an adequate responsiveness to the community development needs of its AAs. During the evaluation period, FNBE originated ten (10) community development loans for a total of \$3.3 million, and the bank also contributed \$137,265 in CD donations, both of which have increased from the prior evaluation period. FNBE representatives also participated in a variety of CD services which benefited its AAs. FNBE's level of CD activities is adequate considering its size and capacity, and the CD needs and opportunities of its combined AAs.

### Performance in the Venango AA

FNBE has demonstrated adequate responsiveness to the CD needs of this AA, considering its performance context and the needs and opportunities within the AA.

### Performance in the Butler AA

FNBE has demonstrated adequate responsiveness to the CD needs of this AA, considering its performance context and the needs and opportunities within the AA.

### Performance in the Mercer AA

Since limited opportunities existed for originating CD loans in the Mercer AA, FNBE has demonstrated adequate responsiveness to the CD needs of this AA, considering its performance context and the needs and opportunities within the AA.

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

FNBE demonstrate adequate responsiveness relative to the number and amount of community development loans originated in the Venango and Butler AAs. Less weight was placed on FNBE's community development performance in the Mercer AA, since it has only one branch office in the AA, and there are limited opportunities for FNBE to participate in community development activities.

### Performance in the Venango AA

Limited opportunities for CD lending exist within FBNE's Venango AA. Competition from both large regional and other area financial institutions for originating CD loans is considered to be very strong.

FNBE originated \$2.6 million in CD loans within its Venango AA over the evaluation period. In June 2009 the bank originated a \$457,000 loan to a Borough in Clarion County, Pennsylvania whose median income ranges between 53% and 79% of the

county's median income. The funds were used to improve the local sewage treatment plant and revitalize an area serving the moderate-income population.

In April 2010 FNBE originated a \$2,306,000 loan for construction financing of an office building to an association in Forest County, Pennsylvania that provides services to area residents, regardless of their ability to pay. Forest County, Pennsylvania is considered to be a distressed and underserved community. An additional \$300,000 loan for working capital was also provided to the association in November 2010.

FNBE demonstrate adequate responsiveness relative to the number and amount of community development loans originated in the Venango AA.

#### Performance in the Butler AA

Limited opportunities for CD lending exist within FNBE's Butler AA. Competition from both large regional and other area community financial institutions for originating CD loans is considered to be very strong. The local county and city non-profit organizations including the housing and redevelopment authorities increasingly use tax credit and bond issues to finance larger CD projects. Consequently, the housing and redevelopment authorities seek to meet funding needs for smaller dollar amount projects through smaller banks.

FNBE originated a loan of \$100,000 in October 2008 to a redevelopment authority in Butler County to fund construction cost overruns associated with ballpark construction, and additional loans for \$7,937 and \$3,635 in April 2011 for forbearance payments on existing loans. The purpose for the ballpark construction was to revitalize a low-income neighborhood and to create jobs in the area.

The bank originated loans for \$21,600, \$46,600, and \$43,200 in August, September, and November 2012, respectively, to a housing complex in Butler County for the purchase of three HUD rental properties which were located in moderate-income areas.

Another loan for \$32,000 was originated by FNBE to individuals purchasing residential HUD rental property located in a moderate-income geography in Butler County.

FNBE demonstrate adequate responsiveness relative to the number and amount of community development loans originated in the Butler AA.

#### Performance in the Mercer AA

FNBE did not originate any CD loans in this AA during the evaluation period. Although FNBE has not demonstrated adequate responsiveness relative to the number and amount of community development loans originated in the Mercer AA, in arriving at the overall conclusions for FNBE's performance in each of its AAs, more weight was placed on the bank's performance in its Venango and Butler AAs than its Mercer AA.

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

FNBE, over the evaluation period, extended numerous grants and donations which benefited its combined AAs and other areas, and demonstrated adequate responsiveness relative to the number and amount of qualified investments.

### Performance in the Venango AA

FNBE extended eleven (11) grants and donations in response to Venango AA community needs. The eleven donations totaled \$16,627. The majority of the funds were given to non-profit organizations that focused on various CD initiatives, including serving the needs of low and moderate-income AA residents.

FNBE demonstrate adequate responsiveness relative to the number and amount of qualified investments in the Venango AA.

### Performance in the Butler AA

FNBE extended four (4) grants and donations in response to Butler AA community needs. The four donations totaled \$100. The majority of the funds were given to non-profit organizations that focused on various CD initiatives, including serving the needs of low-and moderate-income AA residents.

Additionally, donations FNBE funded within its Venango AA have the potential to benefit its Butler AA. Some Venango AA donations funded CD activities that extended into FNBE's Butler AA.

FNBE also funded a CD donation which benefited a designated disaster area outside of its AAs. Specifically, in October 2005 FNBE donated \$1,200 to contribute to the cost of relief supply delivery. The contribution contributed to providing supplies to facilitate clean-up efforts in response to damage caused by Hurricane Katrina.

FNBE demonstrated adequate responsiveness relative to the number and amount of qualified investments in the Butler AA.

### Performance in the Mercer AA

FNBE did not have any qualified CD investments extended in this AA during the evaluation period, and has demonstrated poor responsiveness relative to the number and amount of qualified investments. In arriving at the overall conclusions for FNBE's performance in each of its AAs, more weight was placed on the bank's performance in its Venango and Butler AAs than its Mercer AA.

### Other Qualified Investments

FNBE purchased three certificates of deposits for a total of \$744,000 from three minority-owned out-of-state banks, which are considered qualified CD investments.

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

FNBE representatives demonstrated adequate responsiveness relative to the provision of CD services over the evaluation period, and participated in a variety of CD services which were responsive to its Venango AA and Butler AA needs.

### Performance in the Venango AA

FNBE representatives participated in a variety of CD services which were responsive to its Venango AA needs. Among CD services in which FNBE representatives participated within its Venango AA are those described below. FNBE's DuBois Office in Clearfield County is located in a moderate-income geography, and it is the only office located in a low- or moderate-income geography.

An FNBE AVP/Branch Manager serves on the board of a local foundation, and provides financial guidance and assistance, in a county listed as distressed and underserved.

A Branch Manager of the bank serves as President of the Knox Bah-Humbug Society. He provides his leadership and managerial skills to this society, which provides Christmas gifts and clothing for low- and moderate-income children and families. Donations to this organization are also used for medical emergencies at local schools, and eyeglasses for needy children.

An FNBE Vice President of Business Development is the President of the Bah-Humbug Society of Emlenton located in the Venango AA. He provides his leadership and managerial skills to this society, which provides Christmas gifts and clothing for low- and moderate-income children and families. Donations to this organization are also used for medical emergencies at local schools, and eyeglasses for needy children.

An FNBE representative for the bank serves as Secretary for a non-profit economic development organization in the Venango AA.

An FNBE representative is a board member, and sits on the Health and Finance Committee for United Way in a city where 91% of the residents are low- and moderate-income.

An FNBE AVP/Branch Manager provides oversight in her capacity as a member of the Board of Directors of a local county development board. The representative participates in the decision making process for project approval and start-up funding for small businesses.

A Vice-Chairman/SVP of Community and Business Development for the bank provides expert advice and assistance on financial matters to an in-home health services organization that services a community that is designated as distressed and underserved.

An SVP/Director of FNBE is a committee member of a Venango AA United-Way that is located in a low- and-moderate-income area.

FNBE's SVP/Corporate Banking serves as President of the Bah-Humbug Society of Emlenton. He provides his leadership and managerial skills to this society, which provides Christmas gifts and clothing for low- and moderate-income children and families. Donations to this organization are also used for medical emergencies at local schools, and eyeglasses for needy children.

The SVP/Chief Lending Officer of the bank is a member of the Emlenton Bah-Humbug Society, which provides funds to help with medical emergencies, and eyeglasses for needy children and low- and moderate-income families.

An FNBE Assistant Vice President/Communications Officer serves as a voting Loan Committee Member for a regional planning commission. The commission provides federal and state loans to Venango AA businesses, which helps to create and retain area jobs.

The AVP/Regional Manager of the bank is the Treasurer and a board member of the United-Way of DuBois, Pennsylvania that is located in a low- and-moderate-income area in the Venango AA. He provides advice and assistance on financial matters and performs budget reviews and analysis.

The Regional Manager of the FNBE is a board member of the United Way of Venango, Pennsylvania that is located in a low- and-moderate-income area in the Venango AA. He provides advice and assistance on financial matters, and performs budget reviews and analysis.

FNBE's Regional Manager is a board member of the United Way of Titusville, Pennsylvania that is located in a low- and-moderate-income area in the Venango AA. He provides advice and assistance on financial matters.

FNBE demonstrated adequate response relative to the provision of community development services in the Venango AA.

#### Performance in the Butler AA

FNBE's President/CEO serves on the Board of Directors of a local county Community Development Corporation ("CDC") located in its Butler AA. The CDC provides financing for small businesses and contributes to area job creation and retention. The CDC also

assists in the strategic placement and subsidized operation of business incubators and multi-occupancy buildings that provide start-up companies with operating space and management technical assistance.

The SVP/COO of FNBE is the Board Chair and committee member of the Butler County United Way. She provides expert advice and assistance on financial matters for the agency, which delivers quality services in the human service area in a county where the majority of individuals serviced meet low and moderate-income guidelines.

The VP Operations is a Public Relations Committee member of the Butler County Community Development Corporation (CDC), and she provides expert financial advice and assistance on financial matters. The CDC provides financing for small area businesses and contributes to job creation and retention in the Butler AA.

A commercial lender for FNBE is a board member on the Butler County CDC, and he provides expert financial advice and assistance on financial matters.

FNBE's Commercial Lender provides expert advice and assistance on financial matters as a director of United Way of Butler County, which serves low- and moderate-income individuals in the Butler AA.

FNBE demonstrated adequate response relative to the provision of community development services in the Butler AA.

#### Performance in the Mercer AA

FNBE demonstrated a poor response relative to the provision of community development services in the Mercer AA during the evaluation period. In arriving at the overall conclusions for FNBE's performance in its Mercer AA, more weight was placed on the bank's performance in its Venango and Butler AAs than its Mercer AA since FNBE operates only one office in the Mercer AA.

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

#### Performance in the Venango AA

FNBE's CD activities demonstrate adequate responsiveness to the needs and opportunities in its Venango AA.

FNBE originated three CD loans for a total of \$3,063,000 which benefited its Venango AA. FNBE provided nineteen CD donations totaling \$75,765 to organizations that provide community services within its Venango AA. Thirteen FNBE representatives also participated in a variety of CD services which benefited its Venango AA.

### Performance in the Butler AA

FNBE's CD activities demonstrate adequate responsiveness to the needs and opportunities in its Butler AA.

FNBE originated seven CD loans for a total of \$254,972, which benefited its Butler AA. FNBE provided five CD donations totaling \$61,500 to organizations that provide community services within its Butler AA. Five FNBE's representatives also participated in a variety of CD services which benefited its Butler AA.

### Performance in the Mercer AA

FNBE demonstrated poor responsiveness relative to responding to community development needs in the Mercer AA. In arriving at the overall conclusions relative to FNBE's response to the credit needs of the Mercer AA, more weight was placed on the bank's participation in its Venango and Butler AAs than its Mercer AA, since FNBE operates only one office in the Mercer AA.

## **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices in relation to FNBE helping meet community credit needs.