



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

November 3, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Citizens National Bank Of Meyersdale
Charter Number 5833**

**135 Center Avenue
Meyersdale, PA 15552**

**Comptroller of the Currency
Western Pennsylvania Field Office
4075 Monroeville Boulevard Building 2, Suite 300
Monroeville, PA 15146**

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.

Citizens National Bank (CNB) is responsive to the credit needs of the community, including low- and moderate-income individuals. This satisfactory performance is supported by the following:

The bank's average loan-to-deposit ratio for the prior 16 quarters is reasonable at 61% and meets the standard for satisfactory performance.

CNB's lending within the assessment area is high at 90% over the past couple years for residential mortgage loans and 95% of the commercial loans sampled. This meets the standard for satisfactory performance.

The bank's record of lending to borrowers of different incomes and businesses of different sizes meets the standard for satisfactory performance.

DESCRIPTION OF INSTITUTION

Citizens National Bank (CNB) is a \$55 million community bank located in Meyersdale, Pennsylvania. CNB is independently operated out of a single main office. The bank offers one drive up facility and one ATM located next to the main office in Meyersdale. CNB offers a variety of consumer, commercial, and farm loans as well as deposit products. The bank's primary lending focus is residential real estate and commercial lending. CNB is the smallest institution within its assessment area. Two other financial institutions compete within the bank's assessment area, but they are significantly larger than CNB.

LOAN PORTFOLIO COMPOSITION AS OF DECEMBER 31, 2002

	\$(000)	Percentage
Loans to Individuals	4,248	16%
Residential Real Estate Loans	13,678	51%
Business Loans	5,560	21%
Agricultural Loans	2,845	11%
Other loans	142	1%
TOTAL LOANS	\$26,473	100%

There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs of its community. CNB was rated "Satisfactory" at its last Community Reinvestment Act (CRA) evaluation dated January 1, 1999. The evaluation period for this CRA evaluation is January 2, 1999 to December 31, 2002.

DESCRIPTION OF CNB's ASSESSMENT AREA

CNB's assessment area (AA) meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income geographies. CNB's AA is comprised of 11 census tracts located in Somerset County, which is within the Johnstown Metropolitan Statistical Area (MSA). All 11 tracts are identified as middle income per the 1990 Census Bureau. These tracts comprise the following townships: Allegheny, Brothersvalley, Black, Elk Lick, Fairhope, Greenville, Larimer, Milford, Northampton, Somerset, Southampton, Stoneycreek, and Summit.

The 1990 census reports the population of CNB's AA to be 38,115. Of the AA households, the majority (70%) of the AA households are supported by wage or salaried jobs, 32% derive income from social security, and 17% are retired residents.

Demographic information derived from the 1990 Census Data and annually updated Housing and Urban Development (HUD) was used to analyze the bank's lending distribution among borrowers of different income levels. The Johnstown MSA updated median family income is \$35,000. The percentage of families by income levels in these middle-income tracts is as follows: 18% are low-income families, 18% are moderate-income families, 25% are middle-income families, and 39% are upper-income families. The median housing value for the bank's AA area is \$49,275 with 65% being owner occupied, 23% being occupied by rental units, and 12% vacant units.

There are no housing developments located in Meyersdale as there is no sewage and water infrastructure. This has affected commercial and housing development for many years. Major employers in the area include International Trailers Inc, Meyersdale Hospital, a fire truck manufacturer and a state correctional facility.

The local economy is considered to be stable, but is historically less prosperous than the state or national economy. Current unemployment rates as of September 2003 for Somerset County are 5.7%. This percentage is in line with unemployment rate in the U.S. at 5.8% and over Pennsylvania's rate of 5.3%.

We contacted a member of the Somerset County Economic Development Council. Per our conversation, it was conveyed that the local financial institutions are meeting the primary credit needs of the community, which includes loans to small businesses. The individual also indicated that the banks in the area are supportive of economic development.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Sampling

Information from residential mortgage loans was captured and analyzed through the bank's Home Mortgage Disclosure Act Loan Application Register (HMDA-LAR). Business loan information was derived from a sample of business lending activity covering the evaluation period.

Loan-to-Deposit Ratio

CNB's record of lending activity is reasonable and meets the standard for satisfactory performance.

The bank's quarterly average loan to deposit ratio increased to 61% from 53% since the prior CRA examination. There are no similarly sized institutions within CNB's AA with which to compare loan volume. Comparative loan to deposit information based on banks with less than \$75MM in total assets located in Pennsylvania, West Virginia, and Ohio was used to assess the bank's performance with peer banks. This peer analysis included 15 banks. The quarterly average loan to deposit ratios for these peer banks was 64% for the same period and is comparable to CNB's lending activity. The quarterly average ratio was calculated using quarter end financial data from March 31, 1999 through December 31, 2002.

Lending in Assessment Area

CNB's record of lending within the AA meets the standard for satisfactory performance.

A substantial majority of the loan originations are within the AA. Our analysis of CNB's 2001 and 2002 HMDA-LAR indicates that 90% of mortgage originations were made to borrowers within the AA. Performance regarding lending to small businesses within its AA is similar at 95%.

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

CNB's record of lending to borrowers of different incomes meets the standard of satisfactory performance.

The percentage of home purchase residential real estate loans to low-income families is near to the percentage of low-income families in the AA. The percentage of home improvement and refinance loans to moderate-income families is near to the percentage of moderate-income families.

The percentage of home improvement and refinance loans to low-income families is below the percentage of low-income families. In addition, the percentage of home purchase loans to moderate-income families is below the percentage of moderate-income families.

The bank's record of originating home-related loans is considered to be reasonable given the AA demographics. The percentage of households below the poverty level is high at 15%. Sixteen percent of households in the bank's AA are persons over 65 years of age, and 17% of the AA households are comprised of retired residents. As stated previously, the percentage of households that rely on social security is also high at 32%. In many cases, the demand for loan related products to this segment is limited as many of the senior, long time residents have owned and occupied residences for many years.

Based on AA demographic information, 18% of families living in the AA were reported as low-

income and 18% were reported as moderate income. Low-income AA families by definition are families with annual incomes less than \$17,500. Moderate-income AA families by definition are families with annual incomes between \$17,500 and \$28,000. The median housing value in the assessment area is \$49,275. Housing costs and income demographics in the AA may impact the ability of low- and moderate-income families to purchase and re-finance homes. In addition, many low- and moderate-income individuals may not be able to afford a home improvement loan.

The bank’s ability to originate home purchase loans is also impacted by the lack of sewage infrastructure in Meyersdale, local economic conditions, and very limited new construction for housing.

Refer to the table below for the distribution of residential real estate loans by the income level of the borrowers.

Borrower income level	Low		Moderate		Middle		Upper	
	% of AA families	% of Number of Loans	% of AA families	% of Number of Loans	% of AA families	% of Number of Loans	% of AA families	% of Number of Loans
Home Purchase	17.64%	13.79%	18.31%	6.90%	25.26%	29.31%	38.79%	50.00%
Home Improvement	17.64%	5.45%	18.31%	14.55%	25.26%	43.64%	38.79%	36.36%
Refinance	17.64%	3.85%	18.31%	13.46%	25.26%	34.62%	38.79%	48.08%

Source: 2001 and 2002 HMDA-LAR and 1990 census

CNB’s record of lending to businesses of different sizes exceeds the standard for satisfactory performance. The distribution of loans to businesses of different sizes is good. The majority of sampled loans were made to businesses with revenues less than \$1MM.

Business Revenues (Sales)	<\$1,000,000	\$>1,000,000
% of AA Business Loans	73%	6%
% of Bank Loans In AA by #	76%	24%
% of Bank Loans in AA by \$	34%	66%

Source: Dunn and Bradstreet data and loan sample
21% of AA businesses did not report revenue data

Geographic Distribution of Loans

An analysis of the geographic distribution of the bank's loans among the 11 census tracts within the assessment area was not completed. This type of analysis would not be meaningful since all the census tracts are designated middle income.

Responses to Complaints

No complaints have been received since the last examination.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.