



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

July 27, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Lilly
Charter Number 8450

500 Main Street
Lilly, PA 15938

Office of the 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.

The major factors supporting the institution's rating include:

- The bank's loan-to-deposit (LTD) ratio is reasonable given its size, financial condition, assessment area (AA) credit needs, and relevant competitive factors;
- The bank originated a substantial majority of its loans within its AA; and
- The bank's record of distributing loan originations among AA borrowers of different income levels is reasonable.

SCOPE OF EXAMINATION

The First National Bank of Lilly (FNB Lilly) was evaluated under the Small Bank Community Reinvestment Act (CRA) examination procedures. The bank's primary loan products are residential mortgage and consumer loans. The bank's record of originating residential and consumer loans was evaluated for the time period between January 1, 2007 and March 31, 2009. This time period is considered to be representative of the bank's lending strategy since the last CRA examination. More weight was placed on the bank's record of originating residential mortgage loans than its record of originating consumer loans since residential mortgage loans represent a greater portion of the bank's loan portfolio.

DESCRIPTION OF INSTITUTION

FNB Lilly is a \$23 million, independently owned, full service financial institution, operating a single office located at 500 Main Street in Lilly, Pennsylvania. The bank's trade area, within which a majority of its loans are originated, encompasses the area within a five to eight mile radius of the bank's office. The bank did not open or close any branch offices during the evaluation period.

FNB Lilly offers standard bank products and services to meet the loan and deposit needs of local consumers and businesses. The bank provides customers with detailed information concerning its loan and deposit, products and services at its office location.

The bank operates during normal business hours between Monday and Friday. The bank provides extended hours at its drive-up facility on weekdays with the exception of Thursdays, when it closes early. The bank also provides customers with access to deposits through its on-site, automated teller machine (ATM.)

As of March 31, 2009, FNB Lilly reported net loans of \$7.5 million, total deposits of \$19.7 million and net tier one capital of \$3.3 million. Net loans represented 32% of total assets. The bank's loan portfolio consists of residential real estate loans (62%), consumer loans (32%), municipal loans (5%), commercial and industrial loans (1%). The bank's strategic focus is meeting the banking needs of its community.

According to the FDIC's Summary of Deposits Market Share Report, dated June 30, 2008, in Cambria County of thirteen deposit taking financial institutions, FNB Lilly ranked twelfth with 0.79% of deposits. Ameriserv Financial Bank ranked first with 21.76% of the deposits and ten offices. FNB of PA, First Commonwealth Bank and 1st Summit Bank garnered 19.75%, 17.66% and 13.13% of county deposits, respectively. FNB of PA operates twenty-two branch offices in Cambria County while Ameriserv, First Commonwealth Bank and 1st Summit Bank each operate ten branch offices.

There are no legal or financial factors impeding the bank's ability to help meet the credit needs in its AA. At the prior CRA examination dated November 3, 2003, FNB Lilly was assigned a "Satisfactory" rating.

DESCRIPTION OF FNB Lilly AA

Demographic Information for Full Scope Area: Lilly AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	4	0.00	0.00	100.00	0.00	0.00
Population by Geography	15,789	0.00	0.00	100.00	0.00	0.00
Owner-Occupied Housing by Geography	4,518	0.00	0.00	100.00	0.00	0.00
Business by Geography	719	0.00	0.00	100.00	0.00	0.00
Farms by Geography	25	0.00	0.00	100.00	0.00	0.00
Family Distribution by Income Level	3,889	14.35	20.21	24.09	41.35	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	1,344	0.00	0.00	100.00	0.00	0.00
Median Family Income		37,765	Median Housing Value		61,800	
HUD Adjusted Median Family Income for 2008		49,000	Unemployment Rate (2000 US Census)		3.54%	
Households Below Poverty Level		12%				

(*) The NA category consists of geographies that have not been assigned an income classification.
 Source: 2000 US Census and 2009 HUD updated MFI

FNB Lilly has designated as its AA, four whole, contiguous census tracts (CTs) located in northern Cambria County within the Johnstown Metropolitan Statistical Area (MSA). The AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies. All four CTs are classified as middle-income. Northern Cambria County is primarily rural in nature and the economy is contracting.

For FNB Lilly's AA, 2000 U.S. census data reports total families of 3,889 and a total population of 15,789 which represents a decline from the 1990 U.S. Census population measurement of 16,016. HUD data updated for 2009 reports the Johnstown MSA median family income to be \$37,765. Demographic information derived from annually updated HUD data also reports that of total AA families 14%, 20%, 24% and 41% are

classified as low-, moderate-, middle- and upper-income respectively. Of AA households, 12.50% are below the poverty level and the median housing value is \$61,008.

For Cambria County, as of June 2009, the preliminary unemployment rate was reported to be 9.1%. The Cambria County unemployment rate is slightly lower than the Johnstown MSA unemployment rate of 9.4% and higher than the Pennsylvania state unemployment rate of 8.3%. Major AA employers include: Conemaugh Valley Memorial Hospital, Wal-Mart, technology corporations, and colleges. Leading AA industries include state and local government and general medical and surgical hospitals.

According to Home Mortgage Disclosure Act (HMDA) peer mortgage data, during 2007 in FNB Lilly's AA, eighty-two lenders originated HMDA reportable loans. Area competition is considered to be strong and emanates from large regional banks and mortgage companies with nationwide sources of funding. Competitors include 1st Summit Bank, FNB of PA and Mainline National Bank, which rank as the top three lenders having garnered loan market share of 11.05%, 8.48%, and 6.51% respectively. FNB Lilly is not a HMDA reporter and therefore the bank is not ranked on HMDA loan market share reports.

A recent community contact identified an AA need for credit availability for individuals with limited ability to obtain financing. The community contact also mentioned that local banks with hometown banking relationships continue to provide credit in the communities it serves.

Sampling

In order to evaluate FNB Lilly's record of lending, we collected and analyzed data from a random sample of residential mortgage and consumer loans originated by the bank during the evaluation period. Residential mortgage and consumer loans were selected for analysis since these loans comprise the largest portions of the bank's loan portfolio and are considered to be FNB Lilly's primary loan products. An initial sample of fifty-seven residential mortgage and consumer loans was analyzed in order to measure the bank's record of lending inside its AA. Twenty-three residential mortgage loans and twenty-four consumer loans originated within the bank's AA were analyzed to measure the bank's record of originating loans among AA borrowers of different income levels. More weight was placed on the bank's record of originating residential mortgage loans than its record of originating consumer loans since residential mortgage loans represent a greater portion of the bank's loan portfolio.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

FNB Lilly's performance under the lending test is considered to be "Satisfactory." FNB Lilly's LTD ratio compares reasonably to its peer group considering demographic, market and economic constraints. FNB Lilly originated a substantial majority of

sampled loans within its AA. And FNB Lilly's sampled loan originations represented reasonable distribution among AA borrowers of different income levels.

Loan-to-Deposit Ratio

FNB Lilly's level of lending activity, measured by its LTD ratio is considered to be reasonable and meets the standard for satisfactory performance considering demographic, market and economic constraints. FNB Lilly's record of lending is measured by its LTD ratio and evaluated by comparing it against the average LTD ratio of a local peer group of similarly situated banks.

FNB Lilly's LTD ratio over the evaluation period was calculated using financial data reported since the previous evaluation and was inclusive of twenty-seven quarter-end LTD ratios. FNB Lilly's LTD ratio over the evaluation period averaged 35% and as of March 31, 2009 equaled 38%. The custom peer LTD over the same period averaged 65% and ranged from 36% to 92%. The custom peer group consisted of similarly sized banks.

FNB Lilly competes for loans with larger financial institutions, three of which have garnered the top three area market share positions. These larger loan originators have the capacity to offer a greater variety of loan products, more competitive loan terms and operate a greater number, more accessible and visible area branch offices. Competitors also operate branches in more densely populated areas, near other retail activity with accessibility to major thoroughfares.

Historically residential real estate loan demand emanating from AA residents has been impacted by sewage system needs in the borough of Lilly. Since the completion of the sewage system in Lilly borough, FNB Lilly originated forty-one loans to borrowers for the purpose of financing sewage connection costs. Additionally, demand for smaller dollar, consumer loans only slightly offsets less demand for larger dollar residential mortgage loans. Overall, FNB Lilly's record of converting loan applications to loan originations is positive. The bank declined just sixteen and seven loan applications during 2008 and 2007 respectively.

Additionally, 2000 U.S. census information reported that of AA housing 73% is owner-occupied compared to 20% which is rental. Demand for residential real estate related lending is impacted by AA demographics. Of AA households, 27% report retired residents, 39% derive income from social security and 13% subsist below the poverty level.

FNB Lilly's lending opportunities are impacted by area loan demand and competition. FNB Lilly encounters competition from other, larger loan originators and loan demand is impacted by housing availability and affordability.

Lending in Assessment Area

FNB Lilly originated a substantial majority of sampled residential real estate and consumer loans within its AA. Of sampled residential real estate and consumer loans, 77% and 79% respectively were originated within the bank's AA.

Lending to Borrowers of Different Incomes

FNB Lilly's record of distributing residential real estate and consumer loans among AA borrowers of different income levels is reasonable.

As detailed in the table below, of sampled residential real estate loans originated by FNB Lilly within its AA, 13.04% and 13.04% were originated to low-income and moderate-income AA borrowers respectively. FNB Lilly's record of originating residential mortgage loans to low-income AA borrowers is near to the percentage of AA families classified as low-income. FNB Lilly's record of originating residential real estate loans to moderate-income AA borrowers however, exceeds the percentage of AA families classified as moderate-income.

Of sampled residential real estate loans, 90% were originated for dollar amounts less than or equal to \$100,000, and 47% were originated for dollar amounts less than or equal to \$50,000. Real estate loans under \$100,000 and \$50,000 are originated for the relatively smaller dollar amounts generally requested by low-and moderate-income borrowers. These smaller dollar amount mortgage originations represent the bank's responsiveness to the credit needs of low-and moderate-income AA borrowers.

As detailed in the table below, of sampled consumer loans originated by FNB Lilly within its AA, 13.04% and 13.04% were originated to low-income and moderate-income AA borrowers respectively. FNB Lilly's record of originating consumer loans to low-income AA borrowers is near to the percentage of AA families classified as low-income. FNB Lilly's record of originating consumer loans to moderate-income AA borrowers however, is lower than the percentage of AA families classified as moderate-income.

Of sampled consumer loans, 63% were originated for amounts less than or equal to \$10,000, and 44% were originated for amounts less than or equal to \$5,000. Consumer loans under \$10,000 and \$5,000 are originated for the relatively smaller dollar amounts generally requested by low-and moderate-income borrowers. These smaller dollar amount consumer loan originations represent the bank's responsiveness to the credit needs of low-and moderate-income AA borrowers.

Borrower Distribution of Residential Real Estate Loans and Consumer Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Residential Real Estate	14.35	13.04	20.21	21.74	24.09	30.43	41.35	34.78
Consumer Loans	14.35	13.04	20.21	13.04	24.09	39.13	41.35	34.78

Source: 2007-2009 Sample.

FNB's Lilly's record of originating residential mortgage and consumer loans is considered to be reasonable considering the bank's limited market presence, significant competition, and local economic conditions.

Geographic Distribution of Loans

FNB Lilly's AA consists only of middle-income CTs. Therefore an analysis of the geographic distribution of loans among AA CTs of different income levels would not have been meaningful and was not performed.

Responses to Complaints

FNB Lilly did not receive any complaints about its performance in helping to meet credit needs in the assessment area during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

