



Comptroller of the Currency
Administrator of National Banks

Northeastern District
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PUBLIC DISCLOSURE

October 7, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Fredericksburg
Charter Number: 8783**

**147 South Pine Grove Street
Fredericksburg, Pennsylvania 17026**

**Office of the Comptroller of the Currency
Northeastern Pennsylvania Duty Station
100 Hazle Street, Suite 202
Wilkes-Barre, Pennsylvania 18702**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **The First National Bank of Fredericksburg** prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of October 7, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The primary factors supporting the bank's overall rating include:

- The average loan to deposit ratio is reasonable at 74%;
- The majority of HMDA (Home Mortgage Disclosure Act) reportable loans originated during the examination period are in the bank's assessment area;
- Loans originated in the assessment area are reasonably distributed among geographies with different income characteristics;
- There is a good penetration of loans to individuals of different income levels; and
- Substantially all of the bank's commercial lending is to small businesses and small farms.

The following table indicates the performance level of The First National Bank of Fredericksburg with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>First National Bank of Fredericksburg</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints received since the prior examination.		

DESCRIPTION OF INSTITUTION

First National Bank of Fredericksburg (FNB) is an \$89 million institution located in south central Pennsylvania. The bank operates six full service offices and four automatic teller machines located in northern Lebanon County, southern Schuylkill County, and western Berks County. One branch was opened in September of 1995 at the Lebanon Valley Mall. Major competitors include several local community banks and branches of larger regional institutions.

Primary loan products include fixed rate and adjustable rate residential mortgages, small business and agricultural loans, and consumer installment loans. The bank offers residential mortgage loans with a low down payment requirement when private mortgage insurance is obtained. They also offer loans through the first time home buyers program sponsored by the Lebanon County Housing and Redevelopment Authority. The loan portfolio represents 66% of total assets. A breakdown of the portfolio as of June 30, 1996 is as follows: 56% residential mortgages, 25% commercial loans, 14% agricultural credits, and 5% consumer installment loans. There are no legal or financial impediments which would hinder the bank's ability to help meet the credit needs of its community.

DESCRIPTION OF ASSESSMENT AREA

FNB's assessment area meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income areas. The assessment area includes 23 census tracts and block numbering areas (BNAs) in portions of Lebanon, Berks, and Schuylkill counties. The population of the assessment area is approximately 98,000. Nineteen percent of the families residing in the assessment area are low-income, twenty-three percent are moderate-income, twenty-eight percent are middle-income, and thirty percent are upper-income families.

The census tracts in Lebanon County are part of the Harrisburg-Lebanon-Carlisle Metropolitan Statistical Area (MSA). The income levels of these census tracts include three moderate- and fourteen middle-income tracts. The median family income of this MSA is \$43,400. The two census tracts in Berks County are part of the Reading MSA. Both are middle-income tracts. The median family income of this MSA is \$43,100. There are four block numbering areas in Schuylkill County. This is a non-MSA area. Three are middle-income BNAs and one is an upper-income BNA. The statewide non-metropolitan median family income of \$32,800 applies to this area.

The local area is primarily rural and is known for dairy and poultry farming. However, most residents travel outside the area for work where employment opportunities are centered in manufacturing, retail trade, and government employment due to the close proximity of the larger cities of Harrisburg and Reading.

Credit needs of the community were determined during this examination by reviewing reports from local community contacts made by other regulatory agencies. These contacts indicated

that there is a need for affordable housing and credit counseling in the local area. FNB is addressing these needs by participating in the Affordable Housing Council and the First Time Home Buyers Program offered through the Lebanon County Housing and Redevelopment Authority.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

For purposes of the following discussion, the term “year-to-date” or the abbreviation YTD refers to information as of August 31, 1996.

Loan to Deposit Ratio

Our analysis of the loan to deposit ratio indicates that the average ratio of 74%, which has been maintained over the past two years, is reasonable. This ratio has remained stable and is similar to both local and national peer banks which have average ratios of 70% and 68%, respectively.

Lending in Assessment Area

We analyzed the bank’s record of lending in their assessment area using information on the HMDA Loan Application Register (HMDA-LAR). The following table indicates that a majority of HMDA reportable loan originations during the examination period (1994 to year-to-date 1996) are in the assessment area. This reflects a good response to local community housing credit needs.

HMDA Reportable Loan Originations For Years 1994 - YTD 1996				
	# of Loans	%	\$ Amount (000s)	%
Inside Assessment Area	128	81	6,994	76
Outside Assessment Area	31	19	2,267	24
Total	159	100	9,261	100

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The bank's record of lending to borrowers of different income levels was evaluated using information from the 1994, 1995, and YTD 1996 HMDA-LARs. The following table shows that FNB's volume of lending is representative of the demographic composition of the assessment area.

HMDA Reportable Loan Originations by Level of Borrower Income For Years 1994 - YTD 1996							
Income Category	YTD 1996		1995		1994		% of Families Within Assessmen t Area
	# of Originations	%	# of Originations	%	# of Originations	%	
Low	1	5	6	9	2	3	19
Moderate	7	37	15	22	23	32	23
Middle	4	21	28	41	27	37	28
Upper	7	37	19	28	20	28	30
Total	19	100	68	100	72	100	100

FNB is responsive to the credit needs of small businesses and farms in its community. We used data from the June 30, 1996 Call Report to evaluate the bank's record of lending to small businesses. For this analysis, a small business loan is defined as a loan with an original amount of less than \$1 million. A small farm loan is an agricultural loan made for less than \$500 thousand. As of June 30, 1996, 100% of the commercial, commercial real estate, and agricultural loans were made to small businesses and small farms.

Geographic Distribution of Loans

We reviewed the geographic distribution of the bank's lending using 1994, 1995, and YTD 1996 HMDA reportable loan originations. A majority of the census tracts and BNAs in the assessment area are middle- and upper-income, with no low-income and only three moderate-income tracts. The following table indicates a reasonable penetration of loan originations to various income census tracts and BNAs. The moderate-income tracts have a low volume of activity because of their location in the city of Lebanon. FNB's branches are not located in these tracts. In addition, these areas are also serviced by other financial institutions.

HMDA Reportable Loan Originations by Census Tract Characteristic For Years 1994 - YTD 1996					
Census Tract Characteristic	# of Loans	%	\$ Amount (000s)	%	Census Tracts within Assessment Area
Low	0	0	0	0	0
Moderate	4	3	138	2	3
Middle	121	95	6,689	96	19
Upper	3	2	167	2	1
Total	128	100	6,994	100	23

Compliance with Antidiscrimination Laws

No substantive violations of antidiscrimination laws and regulations were noted during the concurrent fair lending examination.

CONCLUSIONS WITH RESPECT TO PERFORMANCE IN METROPOLITAN STATISTICAL AREAS (MSA) AND NON-METROPOLITAN STATISTICAL AREAS (NON-MSA)

FNB’s assessment area consists of portions of the Harrisburg-Lebanon-Carlisle MSA (MSA 3240), the Reading MSA (MSA 6680), and a non-MSA area in Schuylkill County. A summary of the bank’s performance in each of these areas is provided below.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MSA 3240

FNB defines its assessment area within the Harrisburg-Lebanon-Carlisle MSA as seventeen census tracts in Lebanon County. The bank operates four full service offices and four automatic teller machines positioned in northern Lebanon County.

FNB’s performance is strongest in this portion of the assessment area because a majority of the branches and 75% of the assessment area’s population are in this MSA. Our analysis shows that a majority of HMDA reportable loan originations in the assessment area (76%) were in Lebanon County during 1994, 1995, and year to date 1996. The bank’s record of lending to borrowers of different income levels in Lebanon County is reasonable, as depicted in the following table.

HMDA Reportable Loan Originations by Level of Borrower Income For Lebanon County							
Income Category	YTD 1996		1995		1994		% of Families Within Lebanon County
	# of Originations	%	# of Originations	%	# of Originations	%	
Low	1	7	6	11	1	2	21
Moderate	7	50	13	25	20	44	24
Middle	3	22	22	41	17	38	28
Upper	3	21	12	23	7	16	27
Total	14	100	53	100	45	100	100

The bank’s assessment area in this MSA comprises three moderate-income and fourteen middle-income census tracts. The geographic distribution of loan originations during the examination period is commensurate with the census tract characteristics of this county. Four

percent by number of originations are in moderate-income tracts and ninety-six percent are in middle-income tracts.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MSA 6680

FNB defines its assessment area within the Reading MSA as two census tracts in Berks County. The bank operates one full service office positioned in western Berks County.

FNB's performance in this portion of the assessment area is reasonable based on the number of offices in this county. In addition, only 13% of the assessment area's population resides in this MSA. Our analysis shows that twenty percent of HMDA reportable loan originations in the assessment area were in Berks County during 1994, 1995, and year to date 1996. The bank's record of lending to borrowers of different income levels in this MSA is reasonable based on the income characteristics of the area. During the examination period, three percent of the HMDA reportable loan originations were to low-income borrowers, sixteen percent were to moderate-income borrowers, twenty nine percent were to middle-income borrowers, and fifty-two percent were to upper-income borrowers residing in Berks County. There are no low- or moderate-income census tracts within this bank's assessment area in Berks County. Therefore, an analysis of the geographic distribution of loans would not be meaningful and was not performed.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN SCHUYLKILL COUNTY

FNB includes four BNAs in Schuylkill County (non-MSA) in its assessment area. The bank operates one full service office in the southern portion of the county.

FNB's performance in this portion of the assessment area is reasonable based on the number of offices in this county. In addition, only 12% of the assessment area's population resides in this area. During the examination period, four percent of the HMDA reportable loan originations in the assessment area were in Schuylkill County. FNB's record of lending to borrowers of different income levels in this area is reasonable given the fact that only a small percentage of their lending activity is generated in Schuylkill County. Furthermore, there are no low- or moderate-income BNAs in this area. Out of the fifteen HMDA reportable loans originated in Schuylkill County during the examination period, seven were to middle-income borrowers and eight were to upper-income borrowers. Since there are no low- or moderate-income BNAs within the bank's assessment area in Schuylkill County, an analysis of the geographic distribution of loans would not be meaningful and was not performed.