



PUBLIC DISCLOSURE

September 21, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Mifflintown
Charter Number: 4039**

**Post Office Box 96
Mifflintown, Pennsylvania 17059**

**Office of the Comptroller of the Currency
Northern Pennsylvania Field Office
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 Mifflintown (FNB)** prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of September 21, 1998. 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 of 78% is above peer group averages;
- A substantial majority of HMDA (Home Mortgage Disclosure Act) reportable loans originated during the examination period are in the bank's assessment areas;
- The geographic distribution of HMDA loans in the Perry County Assessment Area is reasonable; and
- 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 Mifflintown with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>First National Bank of Mifflintown</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

The First National Bank of Mifflintown (FNB) is a \$119 million institution situated in central Pennsylvania. It is a subsidiary of First Community Financial Corporation, a one bank holding company. The bank operates seven full service offices and five automated teller machines located in Juniata County and Perry County. One branch was opened in September 1996 in New Bloomfield, PA. FNB is currently in the process of opening another branch in Loysville, PA. Both of these branches are located in Perry County. Major competitors include Juniata Valley Bank and Omega Bank; both are larger, local community banks.

Primary loan products include fixed rate and adjustable rate residential mortgages, small business and agricultural loans, and consumer installment loans. The loan portfolio represents 70% of total assets. A breakdown of the portfolio as of June 30, 1998 is as follows: 61% residential mortgages, 24% commercial and commercial real estate loans, 9% consumer installment loans, and 6% agricultural credits. 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 has two assessment areas (AAs). The first assessment area includes all of Juniata County, which encompasses four block numbering areas (BNAs). All of the BNAs are middle-income. The population of the AA is 20,625. Fifteen percent of the families residing in the AA are low-income, 22% are moderate-income, 27% are middle-income, and 36% are upper-income families. This area is a nonmetropolitan statistical area (nonMSA). The statewide nonmetropolitan median family income of \$35,200 is applicable to this area.

The second AA encompasses five census tracts (CTs) in Perry County. One CT is moderate-income (20%) and four CTs are middle-income (80%). The population of the AA is 22,887. Twenty-two percent of the families residing in the AA are low-income, 24% are moderate-income, 30% are middle-income, and 24% are upper-income. This area is part of the Harrisburg-Lebanon-Carlisle Metropolitan Statistical Area (MSA 3240). The updated HUD median family income for MSA 3240 is \$46,500. The 1990 MSA median family income is \$37,389.

The local area is primarily agricultural. Empire Kosher is the local major employer. Most residents travel outside the area to Lewistown and Harrisburg for work. Unemployment in Juniata County is consistently above the state average of 4.2% while Perry County is below average due to its proximity to Harrisburg. As of August 1998, unemployment for Juniata and Perry counties is 6.6% and 2.9%, respectively.

Credit needs in the local area were determined during this examination by contacting a representative of a local business organization. This contact indicated that affordable housing is not an issue in this area. The need for job creation is the most significant problem. Bank management agreed that this is the most important need in the area. This was validated by a survey completed by the Juniata County Government and Penn State Cooperative Extension. This survey indicated that the most severe problems identified by local residents were limited employment opportunities and low wage employment. Additionally, FNB maintains advisory boards at each of their branches which assist in determining local community needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Please note that for purposes of this review the examination period covers loan activity from January 1, 1996 through August 31, 1998.

Loan to Deposit Ratio

Our analysis of the loan to deposit ratio indicates that the average ratio of 78%, which has been maintained over the past two years, is reasonable. This ratio has remained stable, ranging between 77% and 80%, and is higher than national peer banks which have an average ratio of 71%.

Lending in AA

We analyzed the bank’s record of lending in their AAs using information on the 1996, 1997, and 1998 HMDA Loan Application Registers (HMDA-LARs). The following table indicates that a substantial majority of HMDA reportable loan originations during the examination period are in FNB’s AAs. Also, market share statistics derived from HMDA loan originations show that FNB is the top mortgage lender in their area with market shares of 17.86% and 24.79% for 1996 and 1997, respectively.

Mortgage Loan Originations												
	1998				1997				1996			
	#	%	\$ (000)	%	#	%	\$ (000)	%	#	%	\$ (000)	%
Inside AAs	197	91	10,813	90	322	95	15,438	96	294	95	13,022	96
Outside AAs	19	9	1,231	10	17	5	641	4	14	5	611	4
Total	216	100	12,044	100	339	100	16,079	100	308	100	13,633	100

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

HMDA Loans: The bank's record of lending to borrowers of different income levels was evaluated using the same HMDA information as in the above analysis. We analyzed the distribution of lending for each AA separately and compared it to the demographics of that area. The following tables show that FNB's volume of lending is representative of the demographic composition of the AAs for moderate-income borrowers. Lending to low-income borrowers is low compared to the demographic data, but market share information for 1996 and 1997 shows that FNB is ranked second in lending to low-income applicants with a market share of 10.76% and 18.37%, respectively. Also, we noted that in 1996 and 1997, 7% and 8%, respectively, of FNB's applications in both areas combined were from low-income borrowers. This is similar to the originations for those years, indicating that very few applications were denied. Overall, FNB's record of lending to borrowers of different income levels is satisfactory.

HMDA Reportable Loan Originations by Level of Borrower Income Juniata County AA							
Income Category	1998		1997		1996		% of Families Within AA
	# of Originations	%	# of Originations	%	# of Originations	%	
Low	6	4	19	7	8	3	15
Moderate	20	14	36	14	50	21	22
Middle	52	36	100	37	66	27	27
Upper	64	44	108	40	121	49	36
NA*	3	2	4	2	0	0	
Total	145	100	267	100	245	100	100

* Income information not available

**HMDA Reportable Loan Originations
by Level of Borrower Income
Perry County AA**

Income Category	1998		1997		1996		% of Families Within AA
	# of Originations	%	# of Originations	%	# of Originations	%	
Low	4	8	8	15	9	18	22
Moderate	11	21	18	33	13	27	24
Middle	21	40	20	36	15	31	30
Upper	15	29	8	14	11	22	24
NA*	1	2	1	2	1	2	
Total	52	100	55	100	49	100	100

* Income information not available

Small business and small farm loans: FNB is very responsive to the credit needs of small businesses and small farms in its community. We analyzed bank-generated reports showing commercial and agricultural loan originations during the evaluation period. The size of the loan was used as a proxy for the size of the business. For this analysis, a small business loan is defined as a loan with an original amount of less than \$1 million and a small farm loan is an agricultural loan made for less than \$500 thousand. All of the agricultural loans originated during the evaluation period were to small farms. Also, with the exception of one loan originated in 1997, all commercial loans were extended to small businesses. The following table shows FNB's record of lending to small businesses. Note that a large majority are very small loans with original amounts less than \$100 thousand.

Commercial Loan Originations By Size of Loan						
Loan Size (\$000s)	1998		1997		1996	
	#	%	#	%	#	%
≤ 100	91	96	108	89	50	94
101 - 250	3	3	9	7	2	4
251 - 500	1	1	3	2	1	2
501 - 1,000	0	0	1	1	0	0
> 1,000	0	0	1	1	0	0
Total	95	100	122	100	53	100

Geographic Distribution of Loans

The geographic distribution of loans in the Juniata County AA was not evaluated because all the BNAs in the area are middle-income and the analysis would not be meaningful. The geographic distribution of lending in the Perry County AA was reviewed using HMDA loan originations in that area for 1996, 1997, and 1998. There is one moderate-income tract and four middle-income tracts in this AA, with no low- or upper-income tracts. The following table indicates a good penetration of loan originations in the moderate-income CT.

HMDA Reportable Loan Originations by CT Characteristic Perry County AA							
CT Characteristic	1998		1997		1996		% CTs within AA
	#	%	#	%	#	%	
Low	0	0	0	0	0	0	0
Moderate	5	10	11	20	6	12	20%
Middle	47	90	44	80	43	88	80%
Upper	0	0	0	0	0	0	0
Total	52	100	55	100	49	100	100%

Compliance with Antidiscrimination Laws

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

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MSA 3240

FNB defines its AA within the Harrisburg-Lebanon-Carlisle MSA as five CTs in Perry County. The bank operates three full service offices and two automated teller machines positioned in central and northern Perry County.

Our analysis shows that a minority of all HMDA reportable loan originations were in Perry County during the evaluation period. For 1996, 1997, and 1998, the percentage of HMDA loan originations in the area were 17%, 17%, and 26%, respectively. This performance is reasonable because FNB has only recently developed a presence in this county. The first branch in this county was opened five years ago. The bank's record of lending to borrowers of different income levels in Perry County is good, as depicted in the table shown in the previous analysis. The bank's AA in this MSA consists of one moderate-income and four middle-income CTs. The geographic distribution of loan originations during the examination period is commensurate with the CT characteristics of this county. This was also depicted in a table in the above analysis.

Scope of Examination

Time Period Reviewed	January 1, 1996 through August 31, 1998
Financial Institution	First National Bank of Mifflintown
Products Reviewed	Mortgage, small business, and small farm loans
AAs	Juniata County and five CTs in Perry County
Type of Examination	On-site
Branches Visited	Main Office, Mifflintown, Pa.