



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

Cleveland Field Office
3 Summit Park Drive, Suite 530
Independence, Ohio 44131
(216) 447-8866
(216) 447-9335 (FAX)

Public Disclosure

October 31, 1998

Community Reinvestment Act Performance Evaluation

The National Bank of North East
Charter Number 9149
17 West Main Street
North East, PA 16428

Comptroller of the Currency
Cleveland Field Office
3 Summit Park Drive, Suite #530
Independence, Ohio 44131

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 CRA performance of the **National Bank of NorthEast** prepared by **The Comptroller of the Currency**, the institution's supervisory agency, as of October, 31, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

Institution's CRA Rating: This institution is rated **Satisfactory**.

- The bank's lending activity is satisfactory. The average loan-to-deposit ratio since the January 1996 examination is 73%. This compares favorably to the 69% ratio of similarly sized banks.
- A substantial majority of loans were originated inside the bank's assessment area (94%).
- The bank does a satisfactory job of lending to borrowers of different incomes.
- Small business lending is good. Businesses in the assessment area are primarily small business with annual revenues of \$1 million or less. A majority of the bank's business loans were in amounts of \$100 thousand or less.
- The geographic distribution of loans is limited. The volume of lending in low- income and moderate-income geographies (primarily Erie, PA) is less than the volume of such geographies in the assessment area. This is mitigated by impediments such as low owner-occupancy, high poverty/unemployment rates, and competition from larger institutions.
- The bank received no CRA-related complaints since the last examination.
- The bank is in compliance with the substantive provisions of the fair lending laws.

Description of Institution

The National Bank of NorthEast (NBNE) is a \$75 million financial institution located in North East, PA. It is owned by North East Bancshares, Inc., a one-bank holding company. NBNE operates two full service offices, the main office in North East, PA, and a full service branch in Harbor Creek. NBNE also operates a drive-in facility in North East, PA. The bank is a commercial and consumer lender. The composition of the loan portfolio is detailed below.

Loan Portfolio Composition September 30, 1998		
Loan Product	Outstanding Balances (\$000)	Percent of Loan Portfolio
Residential	\$15,418	31.3%
Consumer	\$8,721	17.7%
Commercial	\$21,543	43.7%
Other	\$2,248	4.6%
Total	\$49,272	100%

Source: 9/30/98 Call Report

NBNE also originates and sells fixed-rate real estate loans to The Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. From January 1996 through October 1998, NBNE originated and sold 167 fixed-rate loans totaling \$10 million.

Competition in the local market is strong. Competitors include Pittsburgh National Bank, National City Bank, Mellon Bank, Northwest Savings & Loan, and several credit unions. There are no legal or financial impediments limiting the bank's ability to meet community credit needs.

Description of Erie County

NBNE selected the eastern portion of Erie County as its assessment area. Erie County is designated as metropolitan statistical area (MSA) #2360. The MSA consists of a mix of urban and rural communities with many under 10,000 persons. The two largest municipalities in the MSA are the city of Erie and Millcreek Township, with populations of 109,000 and 47,000, respectively.

The 1998 HUD estimated median family income for 1998 is \$39,100. The median cost of housing is \$51,227, with the average home being built in 1954. The majority of housing is owner-occupied, one-to-four family homes (62%). The service industry employs the most workers, followed by retail, manufacturing, and government. Major employers are General Electric, Plastek Industries, Erie Insurance Group, International Paper, and Hamot and Gannon Hospitals.

The table below reflects unemployment trends in MSA #2360 and the state of Pennsylvania. This data shows that MSA #2360 experienced higher unemployment rates than the state during the review period. Unemployment decreased during 1998, reflecting improved economic conditions. Total employment in MSA #2360 has increased from 124,000 in January 1996 to 131,000 in September 1998. Most major industries experienced employment growth: Services 8.3%, Retail 5.7%, and government 11.2%. Manufacturing employment was unchanged.

Unemployment Trends 1996 - 1998		
Year	Pennsylvania	Erie MSA #2360
1996	5.3%	5.8%
1997	5.2%	5.9%
YTD Average 9/98	4.5%	5.3%

Source: U.S. Department of Labor, Bureau of Labor Statistics

The assessment area consists of 59 census tracts: 5 low-income (8%), 11 moderate-income (19%), 35 middle-income (59%), and 8 upper-income (14%). Low-income is defined as less than 50% of the MSA's median income. Moderate-income is defined as 50% to 79% of the median income. Middle-income is defined as 80% to 119% of the median income. Upper-income is defined as greater than 120% of the median income.

LOAN TO DEPOSIT RATIO

The average loan-to-deposit ratio since the January 1996 examination is 73%. This represents a small increase from its two year average of 70% at that time. In addition, NBNE sold 167 fixed-rate residential loans totaling \$10 million during this period, making their performance under this test even stronger. The bank's average loan-to-deposit ratio compares favorably to the 69% average ratio of similarly sized banks.

LENDING WITHIN THE ASSESSMENT AREA

The following table shows that NBNE makes a substantial majority of its residential loans within the assessment area.

Residential Lending Originations						
	Total Originations		Originations Inside Assessment Area			
Year	#	\$000	#	%	\$000	%
1996	121	\$5,760	114	94%	\$5,530	96%
1997	54	\$2,901	51	94%	\$2,771	95%
1998*	99	\$5,806	90	90%	\$5,361	92%
Total	274	\$14,467	255	93%	\$13,662	94%

* YTD 10/31/98

Source: HMDA Data

LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES OF DIFFERENT SIZES

Lending to borrowers of different incomes was analyzed using residential loan originations during 1996 through October 31, 1998. Lending to low-income borrowers was below the percentage of such borrowers in the assessment area. Lending to moderate-income borrowers exceeded the percentage of such borrowers in the assessment area.

Residential Lending Originations By Borrower Income 1996 - 1998					
Income Level	#	%	\$	%	Percent of Families in AA
Low-income	21	8.2%	\$520	3.8%	19.5%
Mod-income	53	20.8%	\$2,006	14.7%	18.3%
Middle-income	75	29.4%	\$3,754	27.5%	24.7%
Upper-income	104	40.8%	\$7,137	52.2%	37.4%
NA*	2	1%<	\$245	1.8%	0%
Total	255	100%	\$13,662	100%	100%

*Income data unavailable
Source: HMDA Data

Small Business Lending

Small Business Lending is good. Commercial lending represents 44% of the loan portfolio. Commercial lending is primarily in amounts of \$100,000 or less or to businesses with annual revenues of \$1 million or less. The bank's assessment area is primarily "small business." The following table is based on Regulatory Reports for June 1996 through June 1998.

Small Business Activity \$100,000 or Less				
Year	#	%	\$000	%
1996	158	81%	\$3,535	38%
1997	174	77%	\$4,281	35%
1998	200	77%	\$4,940	35%
Total	532	78%	\$12,756	36%

Source: Call Report data

GEOGRAPHIC DISTRIBUTION OF RESIDENTIAL LOANS

The geographic distribution of loans is limited. NBNE originated a majority of its loans in the middle-income geographies. Lending in low-income and moderate-income geographies is not commensurate with the volume of these geographies in the assessment area. The low level of lending in these areas is mitigated by impediments which include significantly higher unemployment and poverty rates, low owner occupancy, and competition from larger institutions.

Geographic Distribution of Residential Loans 1996 - 1998*					
Income Level	#	%	\$000	%	Percent of Geographies in AA
Low-income	1	1%<	\$50	1%<	8%
Mod-income	10	3.9%	\$504	3.6%	19%
Middle-income	224	87.8%	\$11,785	86.3%	59%
Upper-income	20	7.8%	\$1,323	9.7%	14%
Total	255	100.0%	\$13,662	100.0%	100%

* YTD 10/31/98

Source: HMDA data

Responses to complaints

The bank has not received any CRA related complaints since the last examination.

Compliance with anti-discrimination laws

The bank is in compliance with the substantive provisions of the fair lending laws. We reviewed a sample of 1998 consumer loan originations to determine whether credit standards were consistently applied and rates and terms offered were similar for different borrowers. We found no evidence of discriminatory practices.