
Comptroller of the Currency
Administrator of National Banks

Northeastern District
1114 Avenue of the Americas, Suite 3900
New York, New York 10036

PUBLIC DISCLOSURE

March 31, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Newport
Charter Number: 4917
P.O. Box 8, Center Square
Newport, Pennsylvania 17074**

**Office of the Comptroller of the Currency
Wilkes-Barre 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 **First National Bank of Newport** prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of March 31, 1997. 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.

This overall rating is supported by the following factors:

- The bank extends credit to individuals at all income levels.
- Nearly all loans reviewed during this examination originated within the assessment area.
- The bank exhibits a good record of lending to small businesses.
- The bank's average loan to deposit ratio since the last CRA examination is 62%.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>First National Bank of Newport</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	Not a meaningful analysis		
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

First National Bank of Newport's (FNBN) assets totaled nearly \$70 million on March 31, 1997. The bank operates three full service offices in Perry County, Pennsylvania, including the main office in Newport and branches in Duncannon and Howe Township. The branch in Howe Township opened April 1, 1996 in the Red Hill Shopping Center, approximately one mile from the main office. All locations have automatic teller machines. The bank's primary loan products are residential mortgages, small business loans, and personal loans. The loan portfolio represents 58% of total assets. The portfolio is composed of 80% residential mortgages, 11% small business loans, 5% consumer loans and 4% small farm loans. FNBN's competitors are First National Bank of Liverpool, First National Bank of Marysville, Juniata Valley Bank, Bank of Landisburg, First National Bank of Mifflintown, PNC, and Farmers Trust Bank. There are no known legal or financial impediments to prevent FNBN from meeting the credit needs of its community.

DESCRIPTION OF ASSESSMENT AREA

FNBN's assessment area meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies. Their assessment area includes all of rural Perry County. The county is located northwest of Harrisburg and is included in the Harrisburg-Lebanon-Carlisle MSA 3240. The assessment area consists of nine census tracts; there are no low-income tracts, eight tracts are middle-income, one is moderate-income, and there are no upper-income tracts. The total population of the assessment area is 41,172 according to 1990 census data. The median family income is \$31,594. The local economy is generally stable. The Perry County unemployment rate, at 2%, is less than state and national averages. According to bank management, there are no major industries within the county and 69% of the labor force commutes to Dauphin or Cumberland county for employment. Small businesses, financial services, and agriculture comprise local employment opportunities. The largest employers within the county are Rhorer Bus Service and school districts. Bank management feels that the community's credit needs are housing, small business, and small personal loans. According to a local community group, more affordable rental housing is needed in the county.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan to Deposit Ratio

The bank's loan to deposit ratio over the past two years is 62% compared to the national peer average of 68%. This ratio is reasonable considering the bank's conservative lending practices. Also, their loan to deposit ratio decreased in 1995 when FNBN experienced sizeable deposit growth because of a merger between local competitors.

Lending in Assessment Area

We found that the vast majority of loan originations during 1995 and 1996 were within the bank's assessment area. We analyzed the bank's Home Mortgage Disclosure Act (HMDA) reportable loan originations because they account for the majority of loan originations and the loans' locations are tracked. The table below shows that over 90% of HMDA loan originations were within the bank's assessment area.

LENDING IN ASSESSMENT AREA				
1995 and 1996 HMDA LOAN ORIGINATIONS				
	Number of Loans	%	Dollar Amount of Loans (\$000's)	%
Inside AA	269	95%	\$12,484	92%
Outside AA	13	5%	\$1,065	8%
Total	282	100%	\$13,549	100%

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

The bank's record of lending to borrowers of different income levels was evaluated using HMDA reportable loans originated during 1995 and 1996. We concluded that FNBN's volume of lending is representative of the demographic composition of the assessment area. The analysis of the number of loans originated presents a better indication of the bank's lending practices because the dollar volume analysis is skewed by high dollar originations to upper-income borrowers. The table below includes originations within the assessment area according to the income level of the borrower.

ANALYSIS OF LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS			
DEMOGRAPHIC INFORMATION		1995 and 1996 HMDA LOAN ORIGINATIONS WITHIN ASSESSMENT AREA	
Income Level of Borrower	Families in Assessment Area according to Income Level	Dollar Amount of Loans	Number of Loans
Low	19%	6%	13%
Moderate	24%	16%	22%
Middle	30%	27%	29%
Upper	27%	51%	36%
Total	100%	100%	100%

FNBN has a good record of meeting the credit needs of small businesses within its community. According to data on the June 30, 1996 call report, all commercial loans outstanding on that date were to small businesses and small farms. This data includes 46 commercial loans totaling \$2.9 million and 9 farmland loans totaling \$1.3 million.

Geographic Distribution of Loans

An analysis of the geographic distribution of loans was not performed because eight of the nine census tracts within the assessment area(89%) are middle-income tracts. The remaining tract is a moderate-income tract. Nearly all HMDA loan originations during the past two years were in middle-income tracts.

Compliance with Antidiscrimination Laws

A fair lending review performed in conjunction with this CRA examination revealed satisfactory compliance with fair lending regulations. We noted no practices intended to discourage or impede potential borrowers from applying for credit.