



PUBLIC DISCLOSURE

August 05, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Northumberland National Bank
Charter Number 7005

245 Front Street Northumberland, PA 17857

Office of the Comptroller of the Currency

1150 Northbrook Drive Suite 303 Trevoise, PA 19053

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 Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

Summarize the major factors supporting the institution's rating.

- Northumberland National Bank's (NNB) quarterly average net loan-to-deposit (LTD) ratio is reasonable and meets the standards for satisfactory performance;
- A majority of NNB's loans were originated in the bank's assessment area (AA);
- NNB's distribution of loans represents a reasonable penetration among individuals of different income levels;
- NNB's distribution of loans represents a reasonable dispersion throughout census tracts (CTs) of different income levels; and
- The level of responsiveness to community development (CD) needs of the AA through CD lending, qualified investments, and CD services is adequate.

Scope of Examination

NNB was evaluated under the Intermediate Small Bank (ISB) examination procedures, which include a lending test and a CD test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AA through CD lending, qualified investments, and CD services.

The evaluation period under the lending test covers the bank's performance from January 1, 2012 through December 31, 2013. The evaluation period for the CD test is from May 31, 2011 through August 5, 2015.

NNB's primary loan products are home mortgage loans. NNB operates in a Non-MSA; therefore, the bank is not required to collect and report Home Mortgage Disclosure Act (HMDA) loan data; however the bank does report such data. Prior to this evaluation, we tested the accuracy of NNB's HMDA data, and found it to be reasonably accurate and reliable for this evaluation. Therefore, the lending test includes all HMDA data from January 1, 2012 through December 31, 2013. We verified CD loans, investments, and services submitted by management to ensure that they meet the regulatory definition for community development.

Changes affecting the data used to evaluate CRA performance have been phased in over several years as federal banking agencies adapt to the most recent census data. These changes continue to impact CRA Performance Evaluation (PE) analyses. Effective January 1, 2012, the Office of Management and Budget (OMB) revised the

definition and boundaries of Metropolitan Area (MA) census tracts. Thus, a CRA PE would require two separate analysis, i.e. one for the Jan. 1, 2011 to December 31, 2011 performance period, and another for the January 1, 2012 to December 31, 2013 performance period. However, this PE was reviewed using a Limited Data Analysis, evaluating only the data from January 1, 2012 to December 31, 2013. The OCC considers this approach reasonable for NNB based on its activity. Bank management concurs with the exclusion of the 2011 data.

Description of Institution

NNB is an intrastate community bank headquartered in Northumberland, Pennsylvania and chartered in 1903. As of June 30, 2015, NNB has total assets of \$478 million and tier one capital of \$48 million. NNB is wholly owned by Northumberland Bancorp, a one-bank holding company located at the same address with consolidated assets of \$478 million. The bank does not have any subsidiaries or affiliates.

As of June 30, 2015, NNB operates six full service branches and one limited service branch. NNB's main office is in Northumberland. Other branches are located in Sunbury, Hummel's Wharf, Trevorton, and Middleburg. NNB's limited service branch is a drive-up facility, located in close proximity to its main office, servicing the automobile banking needs of the main office. In October 2015, NNB relocated a branch from Weis Markets at the Susquehanna Valley Mall to a free-standing branch in Selinsgrove, PA. All branches have automated teller machines (ATMs) that are available 24/7. All branches offer extended hours on Thursdays and Fridays, and all locations are open on Saturday. There were no mergers or acquisitions during the evaluation period ended August 5, 2015.

NNB is a full service community bank offering a standard range of retail banking, commercial banking, and trust services. It services low- and moderate-income individuals by offering free checking with no minimum balance requirement or monthly service fee. The free checking account includes free ATM card, free phone or internet banking, and free bill pay service. Savings accounts do not require a minimum deposit and do not charge a monthly service fee. IRA accounts have a low opening threshold of \$100. The bank also provides competitive interest rates and terms for unsecured signature loans. NNB also provides secondary market mortgage loans, which can provide terms up to 40 years, and limited down payments. NNB offers Pennsylvania Housing Finance Agency (PHFA) loans, which address the needs of low- and moderate-income individuals as well as first time homebuyers. PHFA can provide down payment and closing cost assistance and Purchase Improvement Loans. These loans fund improvements at purchase, which increase value, and provide comprehensive house counseling. NNB granted approximately \$1.4 million of PHFA loans during the evaluation period. These loans are not included in the CD test.

NNB services the needs of small business through its commercial services, which include business deposit accounts, revolving lines of credit, commercial loans, and commercial mortgages. On their website, the bank advertises “.... we will work with Economic Development Agencies to tailor a mix of government loan programs and conventional bank financing to the needs of your business.” NNB also assists in providing rental housing by offering residential investment financing. NNB has a comprehensive and interactive website at www.norrybank.com which describes the bank’s services, products, locations, fees, hour, etc.

As of June 30, 2015, NNB reported net loans and leases of \$279 million, or 58.4% of total assets. Table 1 below provides details of the composition of the loan portfolio as of June 30, 2015. NNB’s primary lending activity from January 1, 2012 through December 31, 2013 was home mortgage lending, which are loans secured by 1st liens on 1-4 family properties.

Table 1 - Loan Distribution As of June 30, 2015			
Loan Category	Amount (\$000's)	Percent of Total Loans	Percent of Total Assets
Construction Loans	\$1,490	0.53%	0.31%
Revolving Line secured by 1-4 family properties	\$9,797	3.51%	2.05%
Mortgages secured by 1 st liens on 1-4 family properties	\$147,799	52.92%	30.92%
Loans secured by junior liens on 1-4 family properties	\$28,997	10.38%	6.07%
Commercial Real Estate (Owner and non-owner occ.)	\$20,681	7.40%	4.33%
Commercial and Industrial Loans	\$44,852	16.06%	9.38%
Consumer Loans	\$4,450	1.59%	0.93%
Multi Family	\$5,908	2.12%	1.24%
Agg and Secured by Farm Land	\$7,371	2.64%	1.54%
Loans to Municipalities	\$7,959	2.85%	1.67%
Total	\$279,304	100%	58.43%

Source: June 30, 2015 Call Report

Competition in the AA is strong and includes local community banks and branches of larger regional banks. NNB’s main competitors are Mifflinburg Bank & Trust Co., West Milton State Bank, Swineford National Bank, Susquehanna Bank, M&T Bank, and First National Bank of Pennsylvania.

There are no financial or legal impediments to NNB’s ability to meet the credit and CD needs of its AA.

NNB’s was rated Satisfactory in its prior Public Evaluation dated May 31, 2011.

Description of Assessment Area

NNB has a single AA located in north central Pennsylvania. NNB’s AA is a combination of twenty-eight CTs located in Northumberland, Montour, Snyder, and Union Counties in Pennsylvania. Since all of the counties are homogenous and located in non-

metropolitan statistical areas (non-MSAs), they were combined for analysis purposes. NNB’s AA demographic details are in Table 2.

Table 2: Demographic Information for the Northumberland, Montour, Snyder, and Union Counties AA – Non-MSA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	28	3.57	10.71	60.71	17.86
Population by Geography	126,838	1.52	7.81	66.71	20.36
Owner-Occupied Housing by Geography	34,772	0.03	6.10	69.22	24.62
Businesses by Geography	9,498	0.21	8.49	69.05	22.06
Farms by Geography	647	0.00	1.08	80.99	17.93
Family Distribution by Income Level	33,474	17.34	20.02	22.48	40.15
Census Median Family Income (MFI)		41,475	Median Housing Value		127,426
Median Family Income (MFI) HUD-Adjusted MFI: 2013		\$52,966 \$55,300	Unemployment Rate Northumberland Snyder Union Montour		5.9 5.1 5.2 4.8
Families Below the Poverty Level		12.00			

Source: 2010 U.S. Census Data; 2013 HUD updated MFI;
Source: US Bureau of Labor Statistics - Unemployment rates as of June 2015.

The twenty-eight CTs include three tracts in Montour County, ten in Northumberland County, eight in Snyder County, and seven in Union County. The AA contains five upper-income CTs (17.86%), seventeen middle-income tracts (60.71%), three moderate-income tracts (10.71%), and only one low-income tract (3.57%). There are also two tracts for which the Office of Management and Budget (OMB) has not assigned income ratings (7.14%).

The bank adjusted its AA at the prior performance evaluation in order to more accurately reflect and include additional geographies where the bank has substantial lending and deposits. The AA includes whole geographies and towns, all of which are in non-MSAs. The bank selected the counties where it has its main offices, branches, and deposit-taking ATMs (Northumberland and Snyder) as well as certain CTs in surrounding counties (Union/Montour) where the bank does not have branches or ATMs, but originates loans and deposits.

The bank includes the following counties and portions of counties in its AA:

Northumberland:

Management utilizes only the northern half of Northumberland County in the design of its AA. The bank has chosen the northern section of the county because three of the branches are located in this section. The southern section of the county is distant from these branches. In addition, the natural boundary of the Susquehanna River separates

the southern section of the county from any branches in Snyder County since there is no convenient mode of crossing.

Montour County:

The bank has no branches in Montour County, and unitizes only the southern portion of the county in its AA. Since the southern portion of Montour County is adjacent to Northumberland County, the Northumberland branches can service the area. Management does not utilize the northern section of Montour County due to distance from its Northumberland branch systems and the large amount of rural land and state game lands in the northern section of Montour County.

Snyder County:

The bank has four branches in Snyder County, which is adjacent and west of Northumberland County. The bank utilizes the entire county in the design of its AA.

Union County:

There are no branches in Union County, and the bank utilizes a small section of the county, which is contiguous to Northumberland and Snyder Counties. The bank does not include the northwest section of the county due to the natural barrier of the Appalachian Mountain Range and state game lands.

The AA does not reflect illegal discrimination and does not arbitrarily exclude any low- or moderate- income area(s).

According to the 2010 U.S. Census data, the AA had a total population of 126,838. The AA contains 33,474 families and 17.34% are low-income, 20.02% are moderate-income, 22.48% are middle-income, and 40.15% are upper-income. Twelve percent of the households in the AA are below the poverty level. The 2012 median family income was \$52,966, and the 2013 HUD updated median family income is \$55,300.

The 2010 U.S. Census data reported 53,595 housing units in the AA. Approximately 64.88% are owner-occupied, 26.29% are rental occupied, and 8.83% are vacant housing units. Of 34,772 owner-occupied housing units, 0.03% are located in low-income geographies, 6.10% are located in moderate-income geographies, 69.22% are located in middle-income geographies, 24.63% are located in upper-income geographies, and 0.03% are located in geographies that are not assigned income levels. The median housing value is \$127,426.

The counties that comprise the bank's AA are part of a region known as the Greater Susquehanna Valley. It is primarily rural in nature and large portions of land in Union and Snyder counties are state forestland. The Susquehanna River runs through the AA, and collectively Northumberland, Snyder and Union counties are known as the Susquehanna River Valley. The area is located within close proximity to Interstate 81,

Interstate 80, and U.S. Routes 11 and 15; and other major highways. New York City, Philadelphia, Baltimore, and Washington, D.C. are within a three-to-four hour drive of the Susquehanna River Valley, and the Harrisburg International Airport is located within an hour drive.

The local economy is slowly recovering from the past recession. A varied economic base includes healthcare, manufacturing, retail trade, educational institutions and agribusiness as the primary economic activities. The area's natural resources have made it a leader in the wood manufacturing industry and the wood industry remains one of the largest employers in Snyder County. Some of the companies located in the area are Heister House Millworks, Inc., Bingaman & Son Lumber Co., Inc., Wood-Mode, Inc. (custom cabinetry), Stanley Woodworking (custom and stock wood components and moldings) and Conestoga Wood Specialties Corp. (custom wood doors and components for the kitchen cabinet industry). There are two major educational institutions in the area including Bucknell University in Lewisburg and Susquehanna University in Selinsgrove. These educational institutions have helped stabilize the economy in this area. Three hospitals, Sunbury Community Hospital, Geisinger Medical Center and Evangelical Community Hospital are also top employers. Finally, the life sciences, high technology, and advanced manufacturing industries are steadily growing.

Major employers in the AA include:

- Northumberland County – Collins and Aikman; Kraft General Foods of Canada, and Beldin.
- Snyder County – Wood-Mode, Inc., State Government, and Susquehanna University.
- Union County – Federal Government, Bucknell University, and Evangelical Community Hospital.
- Montour County – Geisinger Medical Center, Geisinger System Services, Geisinger Services.

According to the Bureau of Labor Statistics, the June 30, 2015 non-seasonally adjusted unemployment rate was 4.8% for Montour County, 5.2% for Union County, 5.1% for Snyder County, and 5.9% for Northumberland County. The Pennsylvania unemployment rate was 5.4%, and the national unemployment rate was 5.3%.

Competition for both loans and deposits is strong in the counties. Based on the June 30, 2014 FDIC Summary of Deposit Market Share report, NNB ranks 1st with a 14.94% deposit market share in the Montour, Northumberland, Snyder, and Union counties. Susquehanna Bank ranks 2nd with 12 offices within the AA, and a 12.62% deposit market share. Manufacturers & Traders Trust Company ranks 3rd with 11 offices and an 11.96% deposit market share. West Milton State Bank ranks 4th with 5 offices and a 9.90% deposit market share, and Mifflinburg Bank & Trust ranks 5th with 5 offices and an 8.3% deposit market share.

A community contact was conducted with an individual from a non-profit organization located in Sunbury, Pennsylvania in conjunction with this evaluation. The individual indicated that the AA economy was affected by the recession, but not as badly as metropolitan areas. Competition to participate in CD and other credit-related projects is strong due to limited opportunities and competitive pressures. The contact stated that additional credit products targeted to borrowers with negligible incomes are needed as well as credit education and credit counseling programs. The community contact indicated that the local financial institutions largely have been meeting the needs of the community.

Conclusions with Respect to Performance Tests

NNB's performance under the lending test is satisfactory. NNB's quarterly average net LTD ratio is reasonable. A majority of NNB's home mortgage loans were made within the bank's AA. NNB was found to have reasonable penetration among borrowers of different income levels, as well as reasonable dispersion throughout CTs of different income levels. All criteria for the lending test are documented below.

LENDING TEST

Loan-to-Deposit Ratio

NNB's quarterly average net LTD ratio is reasonable given the bank's size, financial condition, and the credit needs of the AA. The ratio meets the standards for satisfactory performance. A review of NNB's Call Reports for the last 17 quarters since the last CRA examination indicates the average LTD ratio was 61%. During this time-period, the ratio ranged from a quarterly low of 56% to a quarterly high of 65%.

NNB's primary loan product is home mortgages. The LTD ratio, as defined by net loans/total deposits, does not fully reflect NNB's lending activity. NNB sells all 30-year fixed, all 15-year fixed, and all PHFA mortgages to the secondary market. During the evaluation period, the bank sold a significant number of mortgages, which would have increased their LTD ratio had such loans been retained.

Lending in Assessment Area

A majority of NNB's home mortgage loans were made inside the bank's AA, and this meets the standard for satisfactory performance. During the evaluation period, 88.56% of total home mortgage loans were made within the bank's AA. Table 3 details the bank's lending within the AA.

Table 3 - Lending in NNB's AA										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	406	87.88	56	12.12	462	46,513	87.65	6,548	12.35	53,061
Home Improvement	227	88.59	26	10.28	253	10,736	85.44	1,830	14.56	12,566
Home Refinance	745	89.72	96	11.41	841	61,943	86.10	10,003	13.90	71,946
Total	1,378	88.56	178	11.44	1,556	119,192	86.64	18,381	13.36	137,573

Source: 2012 and 2013 FNBH HMDA-LARs and 2010 U.S. Census data

Lending to Borrowers of Different Incomes

The distribution of loans reflects reasonable penetration among individuals of different income levels, and NNB's record of lending to borrowers of different incomes meets the standard for satisfactory performance.

In our analysis, we took into consideration the lack of affordability for a low-income family to purchase a home. Based on the updated 2013 HUD adjusted median housing value statistics, the average median housing value in the AA was \$127,426. According to the 2013 HUD adjusted median family income statistics, a low-income family earned less than \$27,650, while a moderate-income family earned less than \$44,240. Furthermore, 12.00% of households in the AA are below the poverty level. This lack of affordability limits the opportunity for home purchase, home improvement, and home refinance lending to low-income families; therefore, we placed more emphasis on the bank's moderate-income performance.

The percentage of home purchase loans made to low-income borrowers is significantly lower than the percentage of low-income families in the AA. The percentage of home purchase loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

The percentage of home improvement loans made to low-income borrowers is significantly lower than the percentage of low-income families in the AA. The percentage of home improvement loans made to moderate-income borrowers is lower than the percentage of moderate-income families in the AA.

The percentage of home refinance loans made to low-income borrowers is significantly lower than the percentage of low-income families in the AA. The percentage of home refinance loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

The following table 4 shows the distribution of home loan products made within the AA among borrowers of different income levels for the period of January 1, 2012 through December 31, 2013 as compared to the percent of families in each income category.

Table 4 - Borrower Distribution of Residential Real Estate 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
Home Purchase	17.34	8.99	20.02	23.98	22.48	31.61	40.15	35.42
Home Improvement	17.34	7.01	20.02	15.89	22.48	26.64	40.15	50.47
Home Refinance	17.34	4.75	20.02	26.99	22.48	27.61	40.15	40.64

Source: 2012 and 2013 FNBHMDA-LARs and 2010 U.S. Census data

Geographic Distribution of Loans

The geographic distribution of loans reflects a reasonable dispersion throughout census tracts of different income levels, and NNB's performance meets the standard for satisfactory performance. Our conclusion is reflective of the fact there is only one low-income CT within the AA, which accounts for only 3.57% of all owner-occupied housing units. There were no conspicuous gaps identified within NNB's AA.

The percentage of home purchase loans made in low- and moderate-income geographies exceeds the percentage of owner-occupied housing units in these geographies.

The percentage of home improvement loans made in low-income geographies exceeds the percentage of owner-occupied housing units in low-income geographies. The percentage of home improvement loans made in moderate-income geographies is near to the percentage of owner-occupied housing units in moderate-income geographies

There were no home refinance loans made in low-income geographies. The percentage of home refinance loans made in moderate-income geographies exceeds the percentage of owner-occupied housing units in moderate-income geographies.

The following table 5 details the bank's performance as compared to the percentage of owner-occupied housing units in each census tract income level for the period of January 1, 2012 through December 31, 2013.

Table 5 - Geographic Distribution of Residential Real Estate Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.03	0.27	6.10	7.03	69.24	78.11	24.63	14.59
Home Improvement	0.03	0.46	6.10	5.50	69.24	77.52	24.63	16.51
Home Refinance	0.03	0.00	6.10	6.56	69.24	78.84	24.63	14.61

Source: 2012 and 2013 FNBM HMDA-LARs and 2010 U.S. Census data

Responses to Complaints

NNB has not received any CRA complaints during this evaluation period.

COMMUNITY DEVELOPMENT TEST

The Community Development (CD) Test is rated satisfactory. The bank's level of responsiveness to CD needs of the AA through CD lending, qualified investments, and CD services is adequate. The qualified investment analysis considered AA needs and opportunities identified by community organizations.

Number and Amount of Community Development Loans

NNB originated two CD loans totaling approximately \$2.7 million during the evaluation period. The loans are described below:

- NNB originated a \$150 thousand loan to finance construction of an addition to an existing living facility in the Borough of Northumberland. The units are located in a moderate-income geography, and all units are occupied by low- and moderate-income tenants.
- NNB originated a \$2.5 million loan to make improvements to the municipal waste transfer station in Sunbury, where NNB's two moderate-income geographies are located. The loan request promotes economic development by enabling the entity to remain with Sunbury thereby supporting permanent job creation and resident retention.

Number and Amount of Qualified Investments

There were no investments made during the evaluation period. NNB made twenty donations for a total of \$278 thousand to twelve different qualified community development organizations that promoted economic development and provided community services to low- and moderate-income individuals in the AA. Included in this total was a \$50 thousand contribution in 2014 to a personal health care facility that provides assisted living for low- and moderate-income seniors. NNB has committed to funding \$300 thousand to this organization over a six year period with the first donation of \$50 thousand beginning in year 2014 and continuing thereafter for the next five consecutive years.

Extent to Which the Bank Provides Community Development Services

During the evaluation period, several bank officers, employees, and Board members provided financial and technical expertise to seven different qualified community development organizations. The following details the community development services that were provided during the evaluation period:

- One employee provides financial expertise by serving as a Board member of an organization that provides low- and moderate-income individuals with affordable housing.
- One officer provides financial expertise by serving on the Board of Directors for an organization that provides health and dental care to low- and moderate-income children.
- One officer provides financial expertise by serving on the Board of Directors for a non-profit organization. This non-profit organization provides assistance to various community organizations that provide community services to primarily low- and moderate-income individuals and families.
- One employee serves as a Board member and provides technical expertise to three local organizations that assist low- and moderate-income individuals obtain affordable housing.
- One employee serves as Treasurer for a local revitalization organization that is dedicated to promoting economic development opportunities and spurring neighborhood reinvestment within the City of Sunbury, which is located in a moderate-income tract.
- One employee serves as Secretary and a Board member for a local rotary club that is dedicated to provide financial services to low- and moderate-income individuals in the City of Shamokin Dam.

- One employee serves as Treasurer for a local organization that is dedicated to promoting ethical standards in business and professions within the City of Selinsgrove.
- Two employees serves as Treasurer and a Board member for a local nonprofit organization that is dedicated to providing financial, housing and medical assistance to low- and moderate-income individuals in the City of Sunbury.
- One employee serves as Assistant Treasurer and a Board member for a local nonprofit organization that is dedicated to providing community services targeted to low- and moderate-income individuals in the City of Sunbury.
- One Board member provides financial expertise by assisting a non-profit organization with fundraising activities. This non-profit assists various community organizations that provide community services to primarily low- and moderate-income individuals.
- One Board member provides financial expertise by serving on a committee whose primary purpose is to provide program funding to local organizations that promote community services and educational opportunities for primarily low- and moderate-income individuals.
- Four employees provide technical expertise to local organizations that assist low- and moderate-income individuals obtain and maintain affordable housing.

Responsiveness to Community Development Needs

NNB's CD activities, as a whole, demonstrate adequate responsiveness to the CD needs of its AA, especially when considering the bank's capacity, its performance context, and the availability of CD opportunities in the bank's AA.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), or 12 CFR 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance. We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.