

**Large Bank**

**PUBLIC DISCLOSURE**

December 21, 1998

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

First National Bank of Herminie  
Charter Number: 10188

First Financial Center  
Irwin, Pennsylvania 15642

Office of the Comptroller of the Currency  
Pittsburgh Field Office  
4075 Monroeville Boulevard, Suite 300  
Monroeville, Pennsylvania 15146

**NOTE: This evaluation is not, nor should 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 Herminie prepared by Office of the Comptroller of the Currency, the institution's supervisory agency, as of December 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.

First National Bank of Herminie lending volumes are reasonable given their size and product base. The distribution of lending to consumer, mortgage and small business customers is satisfactory. The bank has a representative level of lending in their assessment area.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>(NAME OF FINANCIAL INSTITUTION)</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 were received since the prior examination.		

## **DESCRIPTION OF INSTITUTION**

First National Bank of Herminie (FNBH) is a \$247 million bank headquartered in Herminie, Pennsylvania. The bank is owned by FNH Corporation, a one-bank holding company. The bank offers retail insurance products under its subsidiary First Insurance Management. The bank is a full service financial institution. The bank's financial condition, asset size, and product offerings do not limit its ability to meet the community's credit needs. Individuals can refer to the bank's CRA Public File for a list of specific products and services available from the bank.

The bank's credit products focus on residential real estate, consumer, and small business. FNBH has 40% of its loan portfolio *dollar amount* in residential real estate loans, 28% in consumer loans, and 32% in commercial loans.

The bank's administrative offices are in Irwin, located 20 miles east of Pittsburgh. All nine bank branches are located in the southwest corner of Westmoreland County. FNBH has one branch in each of Herminie and Irwin, with two branches in North Huntingdon and five branches in the Greensburg area. Most recently, FNBH opened the Jacktown Office in the North Huntingdon area in 1997. In addition to automated teller machines (ATMs) available at each branch, the bank operates eight full-service ATMs offsite. These offsite ATMs are located in Jeannette, Herminie, Manor, Irwin (2), Greensburg, Export and Madison. All of the bank's branches and ATMs are located within their assessment area.

The bank's primary competitors range from the local community banks of Irwin Bank and Trust, Southwest National Bank and Commercial National Bank to the larger regional banks of National City Bank, Mellon Bank and PNC Bank.

## **DESCRIPTION OF BANKS ASSESSMENT AREA**

The bank's assessment area is comprised of whole, contiguous census tracts within Westmoreland and Allegheny Counties and complies with the requirements of the Community Reinvestment Act. The defined area approximates a five mile radius around each of the bank's branches and does not arbitrarily exclude low- or moderate-income census tracts. The assessment area includes only 46 of the census tracts within the Pittsburgh Metropolitan Statistical Area (MSA). Of those 46 census tracts, 38 are in the central to southwest corner of Westmoreland County and include the townships of Salem, Hempfield, Unity, Trafford, Penn, Jeannette, Manor, North Huntingdon, Irwin, North Irwin, Adamsburg, Greensburg, Southwest Greensburg, Youngwood, Arona,

Sewickley, Madison, Hunker, Sutersville, Rostraver, West Newton, South Huntingdon, Smithton, Mount Pleasant, and Unity. There 8 are census tracts on the southeastern edge of Allegheny County in the assessment area, including the townships of Elizabeth, Lincoln, Versailles, North Versailles and White Oak.

The number of census tracts by income level are as follows:

<b>Census Tract</b>	<b>Number</b>	<b>Percentage</b>
<b>Low</b>	0	0%
<b>Moderate</b>	6	13.0%
<b>Middle</b>	38	82.6%
<b>Upper</b>	2	4.4%
<b>Total</b>	46	100.0%

Refer to the Public File for a map outlining this assessment area. Greensburg, which contains several bank branches, is the most heavily populated area in Westmoreland County and is also the county seat. The assessment area had a 1990 census population of approximately 220,058 which has increased since then. The housing industry is growing in Westmoreland County with lower property tax rates than neighboring Allegheny County. This lower taxation combined with the availability of land for new development is turning western Westmoreland County into a bedroom community of Pittsburgh. Many residents commute into Allegheny County where primary employment fields include government, health care and education.

The 1990 median family income for the assessment area is \$32,628. The number of families by income level are as follows:

<b>Family Income</b>	<b>Number</b>	<b>Percentage</b>
<b>Low</b>	11,182	17.7%
<b>Moderate</b>	12,613	20.0%
<b>Middle</b>	15,779	24.9%
<b>Upper</b>	23,657	37.4%

<b>Total</b>	63,231	100.0%
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Over a third (41.0%) of all households receive social security or some form of public assistance.

Economic conditions within the bank's assessment area are relatively stable, with some minor slow-down in the manufacturing sector. Since the collapse of the steel and mining industries during the previous two decades, no dominant industries or employers have emerged. As a result, a significant number of businesses are in the service (41%) or retail (21%) sector. More than three-fourths of all business generate sales less than \$1 million annually. Large employers in the area include Sony, the Elliot company and Westinghouse.

The bank has identified the significant community credit needs to be consumer automobile and home equity lending, in addition to small business loans. Examiners contacted a member of the Westmoreland Economic Development Corporation (WEDC). The organization's purpose and mission is to provide financial counseling or assistance for start-up businesses for economic development and to retain quality jobs. The WEDC has developed four programs in response to the business lending needs of the community. These programs are either through the Small Business Administration or have developed or expanded area loan funds. Several area banks provide funding for these programs. The WEDC believes that primary credit needs of the community are being met, but additional credit counseling is a need in the community.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

### Loan to Deposit Analysis

The bank's overall lending is reasonable and reflects a satisfactory response to the assessment area credit needs. Its September 30, 1998 loan to deposit ratio was 66.9%.

This is comparable to three similarly situated banks in Allegheny and Westmoreland Counties having a loan to deposit ratio range between 68.6% and 74.6% for the same time period. The quarterly average ratio for the bank since the last examination is 67.0%, where the average ratio for comparable banks was 70.6%.

### Lending in Assessment Area

A large majority of the bank's loan originations are to borrowers within its assessment area. Examiners compiled information on all home loans originated in 1997 and a

sample of 58 consumer loans originated in 1998. The following table details originations within the assessment area:

<b>1997-1998</b>		<b>Dollar</b>		<b>Volume</b>	
<b>Sample</b>	<b>Total (in millions)</b>	<b>Percentage in Assessment Area</b>	<b>Total</b>	<b>Percentage In Assessment Area</b>	
<b>Home Mortgage</b>	10.2	81.2%	323	85.5%	
<b>Consumer</b>	NA*	NA*	32	55.2%	

\* Since we pulled a sample of consumer loans, the overall dollar amount was not relevant.

The significantly lower percentage of consumer lending in the bank's assessment area is due to a majority (83%) of these loans being indirect automobile financing, which typically results in dealer networks covering large geographical areas.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The bank's lending shows a reasonable penetration among low- and moderate-income individuals and small businesses. As previously stated, census data for 1990 indicates low- and moderate-income families represent 17.7% and 20.0%, respectively of the total number of families in the assessment area. In 1990, 76% of reporting businesses in the assessment area had gross annual revenues less than \$1 million.

Examiners reviewed the same home loans originated in 1997 and sample of 58 consumer loans originated in 1998 as above. Using this sample, examiners noted that:

- ♀ 17.1% by volume and 8.8% by dollar of home mortgages were to either low-income or moderate-income individuals; and
- ♀ 22.4% by volume of consumer instalment loans were to either low-income or moderate-income individuals.

The following table details the dollar amount and number volume of home mortgage originations:

<b>Home Mortgage</b>	<b>Percent of Loans</b>	<b>Amount</b>		<b>Volume</b>	
		<b>Low</b>	<b>Moderate</b>	<b>Low</b>	<b>Moderate</b>
<b>Purchase</b>	<b>9.0%</b>	0.4%	0%	0.3%	0%
<b>Improvement</b>	<b>50.4%</b>	1.1%	2.8%	3.4%	7.1%
<b>Refinancing</b>	<b>40.6%</b>	1.1%	3.4%	1.9%	4.3%
<b>Total</b>	<b>100.0%</b>	<b>2.6%</b>	<b>6.2%</b>	<b>5.6%</b>	<b>11.5%</b>

While there is a discrepancy in the volume of home loans to low- and moderate-income families, only 73% of housing units are owner-occupied. The bank has found that the majority of their lending is with borrowers already in their homes through home improvement or refinancing loans. The bank refers the majority of their first mortgage lending to a third-party provider, and that information is not included here. The bank has been able to achieve a higher penetration of loans to low- and moderate-income individuals through their consumer lending activities with 22.4% of lending to low- and moderate-income individuals.

Lending to small businesses is consistent with the demographic make-up of the assessment area, where 76% of all businesses have annual sales less than \$1 million. Since the bank does not aggregate the sales of their commercial customers, as a proxy we evaluated lending relationships with less than \$1 million in borrowings to determine lending to small businesses. Our proxy resulted in loans to small businesses comprising over 85% of the commercial loan portfolio relationships. FNBH identified \$284 thousand in small business agricultural lending as of the September 30, 1998.

#### Geographic Distribution of Lending

The bank's geographic distribution of loans demonstrates reasonable dispersion among census tracts of different income levels. As previously stated, 13% of the census tracts



are moderate-income tracts, while 87% of the census tracts are middle- or upper-income tracts.

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To analyze the distribution of bank lending among census tracts, the examiners reviewed all home mortgages originated in 1997 and the same sample of 32 consumer loans originated in the assessment area. The following chart depicts the originations within census tract income level:

	Amount		Volume	
	Moderate	Middle/ Upper	Moderate	Middle/ Upper
<b>Home Mortgage</b>	8.5%	91.5%	7.7%	92.3%
<b>Consumer</b>	NA	NA	6.3%	93.4%

The discrepancy in lending between moderate-income census tracts and the overall distribution of census tracts may be explained by FNBH's branch locations. Four of the six census tracts include the cities of Jeannette and Greensburg. Both areas are heavily banked, but FNBH does not have branches in either city area. Jeannette has offices of PNC Bank, National City Bank and Three Rivers Banks within town. Greensburg is similar, with branches of PNC Bank, Mellon Bank, National City Bank, Dollar Bank, Southwest Bank, Commercial National Bank, Laurel Bank, Standard Bank and S&T Bank within the city. FNBH has branches in the Greensburg area, but these are on the outskirts of town. West Newton and Irwin are the other two moderate-income census tracts. FNBH does not have any branches within either of these center cities. West Newton has National City Bank and Commercial National Bank and Irwin has National City Bank and Irwin Bank & Trust within the main section of town.

Response to Complaints

The bank has not received any complaints have been since the last examination.

Record of Compliance with Antidiscrimination Laws

Examiners found no substantive violations of the antidiscrimination laws and regulations. The bank has appropriate policies, procedures and training programs in place to prevent discriminatory or other illegal credit practices.