



Comptroller of the Currency
Administrator of National Banks

Small Bank

Northeastern District
1114 Avenue of the Americas, Suite 300
New York, New York 10036

PUBLIC DISCLOSURE

May 10, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Slippery Rock

**Charter Number 6483
100 South Main Street
Slippery Rock, PA 15057-1245**

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

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 Slippery Rock** prepared by **The Office of the Comptroller of the Currency** the institution's supervisory agency, as of May 10, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTIONS CRA RATING: This institution is rated **SATISFACTORY**

The primary factors supporting the bank's overall rating is include:

- The average loan to deposit ratio of 86% exceeds peer group averages.
- The majority of loans originated during the examination period are within the bank's assessment area.
- The distribution of loan originations to borrowers of various income levels and businesses of different sizes is reasonable with regard to area demographics.
- The geographic distribution of loan originations is reasonable with regard to area demographics.

DESCRIPTION OF INSTITUTION

First National Bank of Slippery Rock (FNB) is a \$211 million community bank located in the northwest portion of Butler County. The bank is headquartered a few miles from interstate 79 and approximately 50 miles north of Pittsburgh Pennsylvania. The bank is an affiliate of Slippery Rock Financial Corporation, a one-bank holding company located in Slippery Rock Pennsylvania. FNB is a full service bank offering a wide range of deposit and loan products. Product offerings include real estate mortgages, consumer and commercial loans.

The bank's loan portfolio is broken down by dollar as follows: 41% residential real estate, 21% commercial real estate, 19% consumer loans, 15% commercial loans, and 4% home equity loans. FNB has six branch locations. The main office houses one of two branches which are located in Slippery Rock Pennsylvania. Three additional branches which are also located in northwest Butler County, are situated in Prospect, Portersville, and Harrisville. One branch located in Mercer County is situated in Grove City. All branch locations are equipped with automatic teller machines (ATMs). Two additional ATMs are also located on the Slippery Rock University Campus.

Competition consists of a variety of other financial institutions. The most directly competitive market in which the bank operates is Grove City. Competitors include various banks and two local credit unions. Some larger financial institutions based in Pittsburgh Pennsylvania also have a presence within the bank's assessment areas.

DESCRIPTION OF BANK'S ASSESSMENT AREAS

FNB has identified two assessment areas. Both assessment areas meet the requirements of the regulation and do not arbitrarily exclude low or moderate income geographies. The two assessment areas are contiguous and are located in western Pennsylvania. The bank's assessment areas consist primarily of small towns and rural communities.

The larger assessment area contains twenty-seven contiguous geographies which are located within Butler, Lawrence, and Venango Counties. A total of twenty three geographies, which represent the majority of the geographies within the assessment area, are located in Butler County which is within the Pittsburgh Metropolitan Statistical Area (MSA). A total of four geographies, which represent the remainder of the geographies in the assessment area, are situated within Lawrence and Venango Counties which are not located within an MSA.

The four geographies, three of which are located in Lawrence County and one of which is located in Venango County do not extend substantially beyond the Pittsburgh MSA. In fact, the four geographies are adjacent to Butler County. Also, the four geographies are not substantial compared to the total number of geographies in the assessment area. They only represent 16% of the total geographies and 14.9% of the total population within the assessment area. Since the non-MSA geographies are not substantial in comparison to the MSA geographies, the geographies have been combined into a single assessment area and analyzed as such. The assessment area is comprised primarily of middle income geographies, but also includes a minimal number of moderate and upper income geographies.

The bank's smaller assessment area contains five geographies, all of which are located in Mercer County. The assessment area is comprised completely of middle income geographies. All of the geographies within the assessment area are located within the Sharon Metropolitan Statistical Area.

Bank management confirmed that education, retail trade and services, as well as, manufacturing continue to represent significant employment categories within the bank's trade area. Management advised that the economic condition in the assessment area has remained stable. Although some manufacturing jobs have been lost, employment opportunities remain available in the retail and service industries. Retail and service industry employment is supported by the Grove City outlet shopping center and nearby hotels and restaurants. Discussion with management confirmed that within the assessment areas, credit needs continue to be concentrated primarily in residential mortgage lending. The bank offers mortgage loan products with no application fee and 5% minimum down payment requirements. Community credit needs also encompass small business and consumer lending.

Examiners contacted the president of the local chapter of Habitat for Humanity, a local organization dedicated to assisting lower income individuals obtain affordable housing. The contact identified community credit needs for residential mortgage, home improvement and small business lending within the northwestern portion of Butler County. The contact stated that community needs for credit are generally being met. However, opportunities for banks to participate in the development of low and moderate income housing have been limited. The contact characterized FNB as a "community conscience" bank.

SAMPLING

Business, residential mortgage and consumer loan data was collected from the bank through a random sample of all residential mortgage loans, consumer and business loans originated during 1998. Data was collected for loan volume and dollars originated to borrowers located inside and outside the assessment areas. Since the bank has

experienced no significant changes in residential mortgage, consumer and business lending patterns during the years since the previous CRA evaluation, 1998 data was used to represent lending throughout the entire period.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan to Deposit Analysis

- The loan to deposit ratio is strong compared to local peer banks and remains stable.

FNB's loan to deposit ratio clearly demonstrates a commitment to lending to the community. The loan to deposit ratio over the past 12 quarters averages 86% and exceeds the peer average of 70%. The loan to deposit ratio is also stable with 1996, 1997, and 1998 year end ratios at 86%, 87%, and 85%, respectively. The local peer bank ratio included four local Pennsylvania banks with an asset size between \$155 and \$340 million and had a year end loan to deposit ratio of 74%.

Lending in Assessment Area

- The bank has achieved a good level of residential mortgage, consumer and business loan penetration within its assessment area.

The bank actively lends within its assessment areas. A majority of the residential mortgage, consumer and business loans originated were to borrowers located within its assessment areas. Residential mortgage and consumer loan originations to borrowers located within its assessment areas totaled 84% by volume and 87% by dollar of all loans originated during 1998.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

Overall FNB has demonstrated a reasonable degree of lending to small businesses and low and moderate income borrowers.

Business Lending

- FNB has demonstrated a commitment to small business lending by originating 84% of business loan volume to local small businesses.

Small business loans are defined as those loans made to enterprises with annual gross revenues of \$1 million or less. The volume of reporting businesses in the bank's assessment areas, with gross annual revenues less than \$1 million represent 91% of total businesses. Of all loans originated by FNB to businesses during 1998, 84% of the total number of business loans and 56% of total business loan dollars were originated to small businesses.

Residential Mortgage and Consumer Lending

- FNB's record of mortgage lending to low and moderate income families is reasonable with regard to area demographics.
- FNB's record of consumer lending to low and moderate income families compares favorably with area demographics.

Demographic data compiled during the 1990 census for the assessment area, indicates that low, moderate, middle, and upper income families located within the bank's assessment areas represent 18%, 19%, 25% and 38%, respectively of the population.

The bank's level of mortgage lending to low and moderate income level families reasonably reflects the demographic representation of low and moderate income families for the assessment areas. For example, during 1998, lending to low and moderate income borrowers represented 4% and 14% of mortgage loan volume and 3% and 8% of mortgage loan dollars, respectively.

FNB's level of consumer lending to borrowers of low and moderate income levels compares favorably with assessment area demographics. For example, during 1998 consumer lending to low and moderate income borrowers represented 22% and 30% of consumer loan volume and 9% and 14% of consumer loan dollars, respectively.

The following table details mortgage and instalment loans originated by FNB to low and moderate income borrowers.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS

	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Totals	
AA Families	18%		19%		25%		38%		100%	
	####	\$000	####	\$000	####	\$000	####	\$000	####	\$000
Mortgage Loans	2	\$131	7	\$336	15	\$1,065	26	\$2,557	50	\$4,089
	4%	3%	14%	8%	30%	26%	52%	63%	100%	100%
Consumer Loans	11	\$74	15	\$115	11	\$107	13	\$503	50	\$799
	22%	9%	30%	14%	22%	13%	26%	63%	100%	100%
Total Loans	13	\$205	22	\$451	26	\$1,172	39	\$3,060	83	\$4,888
	13%	4%	22%	9%	26%	24%	39%	63%	100%	100%

The bank's record of lending to small businesses reflects area demographics. For example, during 1998, lending to businesses with annual revenues of less than \$1 million represented 84% of business loan volume and 56% of business loan dollars respectively.

Geographic Distribution of Loans

- FNB's geographic distribution of residential mortgage and consumer loan originations is reasonable with regard to assessment area demographics.

Demographic data compiled during the 1990 census for the bank's assessment areas indicates that the assessment areas include 32 geographies; designated as follows:

- 9% moderate income geographies
- 75% middle income geographies
- 16% upper income geographies

The bank's level of mortgage loan originations to borrowers located within moderate, middle, and upper income geographies is reasonable as compared to assessment area demographics. For example, during 1998, the bank's loan originations to borrowers located within moderate, middle, and upper income geographies represented 4%, 91%, and 5% of mortgage loan volume and 4%, 91%, and 5% of mortgage loan dollars, respectively. In contrast, 1990 census data indicates that moderate, middle, and upper income geographies represent 9%, 75%, and 16% respectively of the total geographies within the assessment areas.

Similarly, the level of customer loan originations to borrowers located within moderate-income geographies is reflective of assessment area demographics. For example, during 1998, consumer loan originations to borrowers located within moderate, middle, and upper income geographies represented 2%, 98% and 0% of consumer loan dollars. Comparatively, demographic data indicates moderate, middle, and upper income geographies represent 9%, 75% and 16% of geographies within the assessment area.

The following table details the mortgage and instalment loans originated by FNB to borrowers located within the moderate-income geographies.

GEOGRAPHIC DISTRIBUTION OF LOANS

	Moderate Income Geographies		Middle Income Geographies		Upper Income Geographies		Total Geographies	
AA Geographies	3		25		5		32	
	9%		75%		16%		100%	
	####	\$\$\$\$	####	\$\$\$\$	####	\$\$\$\$	#####	\$\$\$\$\$
Residential Mortgage Loans	2	\$158	46	\$3,725	2	\$206	44	\$4089
	4%	4%	92%	91%	4%	5%	100%	100%
Consumer Loans	1	\$20	49	\$779	0	\$0	50	\$799
	2%	3%	98%	97%	0%	0%	100%	100%
Total Loans	3	\$178	95	\$4,504	2	\$206	83	\$4,888
	3%	4%	95%	92%	2%	4%	100%	100%

Response to Complaints

No complaints have been received since the last examination.

Record of Compliance with Antidiscrimination Laws

Examiners found no violations of the antidiscrimination laws, regulations, or other illegal practices.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN ASSESSMENT AREA 1

The larger assessment area contains twenty-seven contiguous geographies which are located within Butler, Lawrence, and Venango Counties. The assessment area is comprised primarily of middle income geographies, but also includes a minimal number of moderate and upper income geographies. A total of twenty three geographies, which represent the majority of the geographies within the assessment area, are located in Butler County which is within the Pittsburgh Metropolitan Statistical Area (MSA). The remaining four geographies, which area are situated within Lawrence and Venango Counties, are not located within an MSA. Since the non-MSA geographies are not substantial in comparison to the MSA geographies, the geographies have been combined in a single assessment area and analyzed as such.

FNB’s headquarters and four additional branches are located within this assessment area. The population of this assessment area, as of the 1990, census is 98,533. Demographic data collected during the 1990 census reports the weighted average median family income for the Pittsburgh MSA and the Pennsylvania non-MSA as \$40,900 and \$35,200, respectively. Demographic data collected during the 1990 census also reports that owner occupied housing represents 67% of housing units and the median housing value equals \$54,261.

The bank’s performance with respect to residential and consumer loan originations in this assessment area is illustrated in the following table. FNB’s loan originations are reasonably representative of the demographics in the assessment area.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS

	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Totals	
AA Families	18%		19%		25%		37%		100%	
	####	\$000	####	\$000	####	\$000	####	\$000	####	\$000
Mortgage Loans	2	\$131	3	\$151	9	\$680	19	\$1,803	33	\$2,765
	6%	5%	9%	5%	27%	25%	58%	65%	100%	100%
Consumer Loans	5	\$7	9	\$56	6	\$58	10	\$446	30	\$567
	22%	9%	30%	14%	22%	13%	26%	63%	100%	100%
Total Loans	7	\$138	12	\$207	15	\$738	29	\$2,249	63	\$3,332
	11%	4%	19%	6%	24%	22%	46%	67%	100%	100%

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN ASSESSMENT AREA 2

The bank’s smaller assessment area contains five geographies all of which are located in Mercer County. The assessment area is comprised completely of middle income geographies. All of the geographies within are located within the Sharon Metropolitan Statistical Area. One of FNB’s six branches is located within this assessment area. The population of this area, as of the 1990 census, was 22,039, with the weighted average median family income as \$35,000. Also, the census reports that owner occupied housing represents 69% of housing units and the median housing value equals \$48,926.

The bank’s performance with respect to residential and consumer loan originations in this assessment area is illustrated in the following table. FNBs lending pattern to all demographic categories is reasonable considering the bank’s limited presence in the assessment area.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS

	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Totals	
AA Families	15%		18%		27%		40%		100%	
	####	\$000	####	\$000	####	\$000	####	\$000	####	\$000
Mortgage Loans	0	\$0	4	\$185	6	\$385	2	\$265	12	\$835
	0%	0%	31%	21%	46%	44%	23%	35%	100%	100%
Consumer Loans	2	\$23	3	\$30	3	\$14	1	\$4	9	\$71
	22%	32%	33%	41%	33%	20%	11%	6%	100%	100%
Total Loans	2	\$23	7	\$215	9	\$399	3	\$269	21	\$906
	10%	3%	33%	24%	43%	44%	14%	30%	100%	100%

