



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

April 12, 2010

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Kishacoquillas Valley National Bank of Belleville  
Charter Number: 10128

4255 East Main Street  
Belleville, PA 17004-0000

Office of the Comptroller of the Currency

WESTERN PENNSYLVANIA (PITTSBURGH) Field Office  
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**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.**

The major factors that support this rating include:

- Kishacoquillas Valley National Bank's (KVNB's) lending activity is more than reasonable as evidenced by its loan to deposit (LTD) ratio.
- KVNB originates a substantial majority of its residential real estate and business loans within its combined assessment areas (AAs).
- KVNB's record of lending demonstrates reasonable penetration among borrowers of different income levels and businesses of different sizes.
- KVNB's record of lending demonstrates reasonable dispersion among AA geographies.
- KVNB demonstrates adequate responsiveness to AA community development needs.

**Scope of the Examination**

KVNB's performance relative to the Community Reinvestment Act (CRA) was evaluated using the Intermediate Small Bank (ISB) examination procedures. The ISB procedures include a lending test and a community development (CD) test. The lending test evaluates the bank's record of meeting the credit needs of its AAs through its lending activities. The CD test evaluates the bank's responsiveness to the CD needs of its AAs through its CD activities including loans, investments and services.

KVNB's record of originating residential real estate and business loans was evaluated over the period between January 1, 2007 and December 31, 2009. Residential real estate loans include home purchase, home improvement and home mortgage refinance loans. KVNB's record of residential real estate and business lending were evaluated because they represent KVNB's primary loan products and are reflective of KVNB's business strategy over the period since the previous CRA examination. KVNB's responsiveness to CD needs was evaluated over the period between November 26, 2006 and April 14, 2009. The evaluation period for CD performance represents the time period between the start of KVNB's last CRA exam and the start of its current CRA exam. CD performance is evaluated through a review of KVNB's CD loans, investments and services and the responsiveness of these activities to AA needs.

This time period is representative of KVNB's lending activities and business strategy since the last CRA evaluation.

## **Description of Institution**

The Kishacoquillas Valley National Bank (KVNB) is an independent, intrastate community bank. KVNB's headquarters and main office are located in Belleville, Pennsylvania. KVNB is a wholly owned subsidiary of Kish Bancorp, Inc. Kish Bancorp Inc. is a holding company which in addition to KVNB also functions as the parent company to Kish Financial Group and Kish Travel Services. Kish Bancorp is also headquartered in Belleville Pennsylvania. Belleville is situated in Mifflin County in central Pennsylvania. Mifflin County is a predominately rural area located approximately 30 miles east of State College, Pennsylvania and 60 miles northwest of Harrisburg, Pennsylvania.

As of December 31, 2009, KVNB reported total assets of \$523 million, deposits of \$408 million, and Tier One Capital of \$41 million. Net loans and leases totaled \$374 million. KVNB's primary loan products, consistent with its business strategy, are commercial loans (49.61%) and residential real estate loans (36.91%). The remainder of KVNB's loan portfolio consists of municipal loans (6.02%), farmland (5.06%), and other consumer loans (2.40%).

KVNB operates its branch network within portions of four adjacent counties in Central Pennsylvania. The counties include: Mifflin, Huntingdon, Juniata and Centre. KVNB operates eleven full service branches, including five offices in Mifflin County and three offices each in Centre and Huntingdon Counties. Over the evaluation period, KVNB opened two new branch offices. The branches were opened during 2008 and 2009 and both are situated in Centre County, middle-income geographies. Over the period, KVNB did not close any branches but during 2009 KVNB closed a loan production office located in State College, Centre County.

In addition to the eleven full service branches, KVNB operates a financial center and an operations and technology center in Mifflin County. Branch office hours vary nominally. Ten of the twelve branches offices offer drive-thru and ATM services. In addition to its network of branch offices, KVNB offers telephone and internet banking.

There are no legal or financial circumstances which would impede KVNB's ability to help meet the credit needs of its AAs. KVNB's last Performance Evaluation (PE), dated December 18, 2002, assigned an overall CRA rating of "Satisfactory."

## **Description of Assessment Areas**

KVNB has identified two AAs. KVNB's AAs are situated immediately adjacent to one another within central Pennsylvania. The combined AAs are comprised of forty-two selected geographies. The geographies are located within Mifflin, Huntingdon, Juniata and Centre counties. Mifflin, Huntingdon and Juniata counties are not located within a Metropolitan Statistical Area (MSA.) Centre County is located within the State College MSA (44300.) Therefore, KVNB operates within a Pennsylvania non-MSA AA and a State College MSA AA. All of KVNB's branch offices and ATMs are located within its AAs. KVNB's AAs meet

regulatory requirements and do not arbitrarily exclude any low-or moderate-income geographies.

## **Pennsylvania non-MSA AA**

KVNB's Pennsylvania non-MSA AA is predominantly rural and agricultural in nature. The Pennsylvania non-MSA AA consists of selected whole contiguous geographies located within the central Pennsylvania counties of Mifflin, Huntingdon and Juniata. KVNB's Pennsylvania non-MSA AA geographies total nineteen. Of the nineteen geographies that comprise KVNB's Pennsylvania non-MSA AA, two and seventeen are classified as moderate-and middle-income, respectively. Of the nineteen Pennsylvania non-MSA AA geographies, none are classified as low-or upper-income.

For KVNB's Pennsylvania non-MSA AA, 2000 census data reports a total population of 80,615, total households of 30,546 and total families of 21,599. HUD data updated for 2009 reports the Pennsylvania non-MSA median family income to be \$53,800. Demographic information derived from annually updated HUD data, also reports of total AA families, 18%, 21%, 26% and 35% are classified as low-, moderate-, middle- and upper-income respectively.

For the Pennsylvania non-MSA AA, the majority of AA households (71%) were supported by wage or salaried jobs. Of AA households, 16% report persons over sixty five, 19% report retired residents, 33% derive income from social security and 12% subsist below poverty level. Housing stock consists primarily of older homes with a median year built of 1958 and a median housing value of \$75,819. Of total Pennsylvania non-MSA housing, the census reports 58%, 20% and 12% are owner-occupied, rental and vacant units respectively.

These AA demographic factors impact loan demand for residential mortgage loans. Particularly affected is loan demand from low-and moderate-income borrowers impacted by issues concerning housing availability and affordability.

According to 2009 business demographic data, 5,316 businesses operate within KVNB's Pennsylvania non-MSA AA, of which 374 are farms. Small Pennsylvania non-MSA AA businesses, which report revenues less than or equal to \$1 million, total 3,988 and represent 75% of all AA businesses. Approximately 68% of Pennsylvania non-MSA AA businesses report having four or fewer employees. Area industry is centered in services (42%) and retail trade (16%). Remaining area industry is comprised of construction (8%), non-classifiable establishments (7%), manufacturing (5%), finance, insurance and real estate (5%), transportation and communication (5%) wholesale trade (4%), and public administration (3%). As of February 2010, the average unemployment rate for the three counties of 11.9% exceeded the national unemployment rate of 9.8%.

KVNB has a significant presence in its Pennsylvania non-MSA AA. Over the evaluation period, according to FDIC market share reports, KVNB ranked first for deposit market share among financial institutions taking deposits from within its Pennsylvania non-MSA AA. Specifically, KVNB has garnered over 20% of the total dollar amount of Pennsylvania non-MSA deposits.

KVNB encounters competition within its Pennsylvania non-MSA AA for both deposits and loans.

**KVNB Pennsylvania Non-MSA AA 2009**

Demographic Information for Full Scope Area: Kish NonMSA AA 2009						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	19	0.00	10.53	89.47	0.00	0.00
Population by Geography	80,615	0.00	8.10	91.90	0.00	0.00
Owner-Occupied Housing by Geography	22,776	0.00	5.82	94.18	0.00	0.00
Business by Geography	4,942	0.00	8.98	91.02	0.00	0.00
Farms by Geography	374	0.00	1.34	98.66	0.00	0.00
Family Distribution by Income Level	21,599	18.10	20.68	26.22	35.00	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	8,376	0.00	11.88	88.12	0.00	0.00
Median Family Income HUD Adjusted Median Family Income for 2009 Households Below Poverty Level		41,475 53,800 12%	Median Housing Value Unemployment Rate (February 2010 BLS.gov)	75,819 11.9%		

(\*) The NA category consists of geographies that have not been assigned an income classification. Source: 2000 US Census and 2009 HUD updated Median Family Income.

Area competition is considered to be very strong and emanates from local community banks, regional banks, national non-bank financial institutions and mortgage companies. Specifically, Pennsylvania non-MSA AA competition emanates primarily from several local and regional financial institutions, some of which have been established in the area for many years. Local competitors operating in excess of seven branch offices within the Pennsylvania non-MSA AA include Juniata Valley Bank and First National Bank of Pennsylvania. Additional competitors also operating multiple branch offices within the AA include First National Bank of Mifflintown, Community State Bank of Orbisonia, Mifflin County Savings Bank, Northwest Savings Bank, and Clearfield Bank & Trust Co. KVNB also competes for loans with several larger multi-state financial institutions, national mortgage and credit card companies.

Examiners contacted the Director of a local county planning and development department. The director indicated that Mifflin County as a result of the economic downturn has lost a significant number of employers over recent years. The director also indicated that as a result of changes to NAFTA, jobs have also been lost to Mexico. The director advised that the Mifflin County poverty rate of 12% is one of the highest in Pennsylvania. The contact identified area credit needs as home purchase, refinance and other home equity products. The contact also identified a small demand for business loans which has declined with the local economy.

The department is involved with multiple community development projects, three of which are related to housing or small business development/rehabilitation. One of the programs is designed to provide low-cost financing to local small businesses and assisting the businesses and

retaining employment opportunities for low-income workers. The contact identified KVNB as the only bank participating in this program. Specifically, KVNB has serviced loans originated through the program. Another program is designed to provide low-cost financing to local agricultural businesses. The contact identified KVNB as the only bank participating in this program. The program has originated one loan to date for which KVNB provided 50% of the financing.

## **State College MSA AA**

KVNB's State College MSA AA is comparatively more urban and more commercial in nature than KVNB's Pennsylvania non-MSA AA. KVNB's State College MSA AA consists of selected whole contiguous geographies located within central Pennsylvania's Centre County. KVNB's State College MSA AA geographies total twenty-three. Of the twenty-three State College MSA AA geographies: two, three, seven and ten are classified as low-, moderate, middle-and upper-income respectively. Of the twenty-three State College MSA AA geographies, one of the geographies is not classified for income purposes. The AA complies with regulatory requirements and does not arbitrarily exclude low-or moderate-income geographies.

KVNB operates three branches within its State College MSA which were opened in 2008 and 2009. KVNB previously operated a loan production office in the State College MSA which was closed in 2008. The State College MSA is situated within Centre County Pennsylvania.

For KVNB's State College MSA AA, 2000 census data reports a total population of 112,794, total households of 40,259 and total families of 22,084. HUD data updated for 2009 reports the State College MSA AA median family income to be \$65,800. Demographic information derived from annually updated HUD data, also reports that of total AA families, 9%, 13%, 30%, 43% and 4% were classified as low-, moderate-, middle-, upper-income and not classified, respectively.

For KVNB's State College MSA AA, the majority of AA households (82%) were supported by wage or salaried jobs. Of AA households, 9% report persons over sixty five, 15% report retired residents, 20% derive income from social security and 19% subsist below poverty level. Housing stock consists primarily of older homes with median year built of 1970 and a median housing value of \$124,902. Of total State College MSA AA housing, 52% is owner-occupied.

These AA demographic factors impact loan demand for residential mortgage loans. Particularly affected is loan demand from low-and moderate-income borrowers impacted by issues concerning housing availability and affordability. Additionally, a significant level of competition emanates from other financial institutions with significant market share in the State College MSA AA, where KVNB does not historically have a strong presence.

According to 2009 business demographic data, 8,291 businesses operate within KVNB's State College MSA AA, of which 318 are farms. Small State College MSA AA businesses, which report revenues less than or equal to \$1million, total 5,962 and represent 71% of total businesses.

Approximately 64% of State College AA businesses reported having fewer than four employees. Area industry is centered in services (50%) and retail trade (15%). Remaining area industry is comprised of non-classifiable businesses (7%), finance, insurance and real estate (7%), construction (6%), agriculture, forestry and fishing (4%), manufacturing (4%), transportation and communication (3%), wholesale trade (3%) and public administration (1.5%).

The dominant area employer in the area is Pennsylvania State University, which as of 2009, employed 23,091 workers. Other major area employers include Mount Nittany Medical center employing 1,353 workers and Wal-Mart Stores employing 805 workers. Primarily as a result of the stabilizing influence of Pennsylvania State University on the local economy as of February 2010, the unemployment rate for Centre County of 6.8% was below the national unemployment rate of 9.8%.

KVNB has a far less significant presence in its State College MSA AA than in its Pennsylvania non-MSA AA. Over the evaluation period, according to FDIC market share reports, KVNB ranked tenth for deposit market share among financial institutions taking deposits from within its State College MSA AA. Specifically, KVNB has garnered less than 3% of the total dollar amount of State College MSA deposits. KVNB encounters significant competition within its Pennsylvania non-MSA AA for both deposits and loans.

**State College MSA AA 2009**

Demographic Information for Full Scope Area: Kish MSA AA 2009						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	23	8.70	13.04	30.43	43.48	4.35
Population by Geography	112,794	8.80	11.54	38.62	36.24	4.80
Owner-Occupied Housing by Geography	22,387	0.21	9.65	46.48	43.66	0.00
Business by Geography	7,973	13.51	6.70	40.05	39.37	0.38
Farms by Geography	318	1.26	12.89	51.26	34.59	0.00
Family Distribution by Income Level	22,084	16.51	17.70	22.12	43.68	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	7,554	3.16	16.56	52.20	28.08	0.00
Median Family Income HUD Adjusted Median Family Income for 2009 Households Below Poverty Level		50,572 65,800 19%	Median Housing Value Unemployment Rate (Feb 2010 BLS.gov)		124,902 6.8%	

(\*) The NA category consists of geographies that have not been assigned an income classification. Source: 2000 US Census and 2009 HUD updated Median Family Income.

Area competition is considered to be very strong and emanates from local community banks, regional banks, national non-bank financial institutions, and mortgage companies. Specifically, First National Bank of Pennsylvania and M&T Trust operate 18 and 10 branch offices within the State College MSA respectively. Other banks operating more than 5 branch offices include National Penn Bank, PNC Bank, Northwest Savings Bank, and Citizens Bank of PA. Additional competitors also operate multiple branch offices in the State College MSA AA. KVNB also competes for loans with several larger multi-state financial institutions and national mortgage and credit card companies.

## **Conclusions with Respect to Performance Criteria**

### **LENDING TEST**

KVNB's performance with regard to the Lending Test is "Satisfactory."

KVNB's level of lending activity is reasonable as evidenced by its LTD ratio which compares favorably to the LTD ratio of a custom peer group of banks. KVNB originates a substantial majority of its residential real estate and business loans within its combined AAs. KVNB's record of lending demonstrates reasonable penetration among borrowers of different income levels and businesses of different sizes. KVNB's record of lending also demonstrates reasonable dispersion among AA geographies.

When arriving at the Lending Test conclusions, more weight was placed on KVNB's performance in its Pennsylvania non-MSA AA than in its State College MSA AA since this is the AA in which KVNB operates the majority of its branch offices, derives the majority of its deposits and originates the majority of its loans.

Also for the Lending Test, consideration was given to the fact the KVNB's Pennsylvania non-MSA AA is comprised primarily of middle-income geographies, few moderate income geographies and no low-income geographies. A relatively minimal number of owner occupied housing units and businesses are located within the non-MSA AAs moderate-income geographies. Therefore, appropriate emphasis was placed on KVNB's record of originating loans among AA geographies relative to its record of originating loans to AA borrowers of different income levels. KVNB's overall rating is the consolidation of conclusions reached for each test in the Pennsylvania non-MSA AA with consideration for KVNB's performance in its State College MSA AA.

### **Loan-to-Deposit Ratio**

KVNB's LTD ratio is more than reasonable as evidenced by its favorable comparison to the LTD ratio exhibited by peer banks over the same period.

To assess KVNB's lending activity, we compared KVNB's reported average LTD ratio over the evaluation period against the reported average LTD ratio reported by its custom peer group over the same period. The local peer group consisted of twenty-three Pennsylvania banks with assets totaling between \$253 million and \$947 million. The thirteen quarter average LTD ratio was calculated using financial data reported over the period since the previous CRA evaluation. KVNB reported a thirteen quarter average LTD ratio of 91.70%. Over the period, KVNB's LTD ranged from 87.94% to 94.67%. In comparison, the customer peer group reported for the same time period, an average LTD ratio of 78.88%.

## **Lending in Assessment Area**

KVNB's originated a substantial majority of its residential real estate and business loans within its combined AAs.

The evaluation of KVNB's record of lending within its AAs was performed at the bank level. In order to perform the evaluation we measured and analyzed KVNB's record of originating residential real estate and business loans within its combined AAs over the evaluation period since these loans represent KVNB's primary loan products.

We analyzed residential real estate loan data collected and reported over the period by KVNB in accordance with Home Mortgage Disclosure Act (HMDA) requirements. KVNB's residential real estate loan data includes loans originated for the purposes of home purchase, home improvement and home mortgage refinance. We also analyzed business loan data by collecting information from a random sample of business loans originated by KVNB over the period.

HMDA data reported by KVNB revealed that 88.83% by number and 86.78% by dollar of residential real estate loans were originated within KVNB's combined AAs. The sample of KVNB's business loans revealed that 88.90% by number and 89.26% by dollar were originated within KVNB's combined AAs.

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

KVNB's record of lending demonstrates reasonable penetration among AA borrowers of different income levels and AA businesses of different sizes.

### **Pennsylvania non-MSA AA**

#### ***Residential Real Estate Loans***

KVNB's record of residential real estate lending demonstrates reasonable penetration among

Pennsylvania non-MSA AA borrowers of different income levels considering the demographic context in which KVNB operates.

Residential real estate data collected and reported over the evaluation period by KVNB in accordance with HMDA requirements was analyzed.

The following table details the distribution of residential mortgage loans originated by KVNB over the period among AA borrowers of different income levels.

<b>Borrower Distribution of Residential Real Estate Loans in PA non-MSA AA</b>								
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	18.10	8.03	20.68	21.10	26.22	25.69	35.00	45.18
Home Improvement	18.10	6.80	20.68	24.27	26.22	30.58	35.00	38.35
Home Refinance	18.10	5.28	20.68	21.54	26.22	26.42	35.00	46.75

Source: 2000 US Census; HMDA Data January 1, 2007-December 31, 2009

The percentage of residential real estate loans originated by KVNB to low-income AA borrowers is significantly below the percentage of low-income AA families. However, the percentage of residential real estate loans originated to moderate-income AA borrowers exceeds the percentage of moderate-income AA families.

KVNB’s opportunities to originate residential mortgage loans within its Pennsylvania non-MSA AA particularly to low-income AA borrowers may be impacted by affordability issues and demographic factors. U.S. Census data for 2000 reports that for the Pennsylvania non-MSA AA, the median cost of housing is \$75,819. Annually updated HUD data reports the AA median family income to be \$53,800. Low-income AA families by definition have annual incomes below \$26,900. Additionally, of AA households, 16% report persons over sixty five, 19% report retired residents, 33% derive income from social security and 12% subsist below poverty level.

***Business Loans***

KVNB’s record of business lending demonstrates excellent penetration among Pennsylvania non-MSA AA businesses of different sizes considering the demographic context in which KVNB operates.

Business loan data collected from a sample of business loans originated by KVNB over the

period was analyzed.

The following table details the distribution of business loans originated by KVNB among AA businesses of different sizes.

<b>Borrower Distribution of Loans to Businesses in PA non-MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	73.33%	4.86%	21.81%	100%
% of Bank Loans in AA by #	77.55%	22.45%	0%	100%
% of Bank Loans in AA by \$	65.08%	34.92	0%	100%

Source: 2000 US Census; KVNB Loan Sample from January 1, 2007 – December 31, 2009

The percentage of businesses loans originated by KVNB to small AA businesses exceeds the percentage of AA businesses classified as small. Of AA businesses, 73% are classified as small. Small businesses are defined as businesses reporting gross annual revenues of \$1 million or less. Comparatively, based on the sample of business loans within its Pennsylvania non-MSA AA, KVNB originated 78% of its business loans to small AA businesses.

## State College MSA AA

### *Residential Real Estate Loans*

KVNB’s record of residential real estate lending demonstrates poor penetration among State College AA borrowers of different income levels

Residential real estate loan data collected and reported over the evaluation period by KVNB in accordance with HMDA requirements was analyzed.

The following table details the distribution of residential mortgage loans originated by KVNB among AA borrowers of different income levels.

<b>Borrower Distribution of Residential Real Estate Loans in State College MSA AA</b>								
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	16.51	4.12	17.70	12.37	22.12	18.56	43.68	64.95

Home Improvement	16.51	8.33	17.70	8.33	22.12	16.67	43.68	66.67
Home Refinance	16.51	3.45	17.70	10.34	22.12	12.07	43.68	74.14

Source: 2000 US Census; HMDA Data 1/1/2007-12/31/2009

The percentage of residential mortgage loans originated by KVNB to low-and moderate income AA borrowers is significantly lower than the percentage of low and moderate-income AA families.

KVNB's opportunities to originate residential mortgage loans within its State College MSA AA may be impacted by affordability issues and demographic factors. U.S. Census data for 2000 reports that for the State College MSA AA, the median cost of housing is \$124,902. Annually updated HUD data reports the AA median family income to be \$59,200. Low-and moderate-income AA income by definition have annual incomes below \$32,900 and \$52,640 respectively. Additionally, of AA households, 9% report persons over sixty five, 15% report retired residents, 20% derive income from social security and 19% subsist below poverty level.

KVNB also does not have a significant presence within its State College MSA AA as demonstrated by its recent entry into the State College market and nominal market share. KVNB's State College MSA AA represents a relatively new market for KVNB. Prior to 2008, KVNB operated a single branch within its State College MSA AA. During 2008 and 2009, KVNB opened two new additional branches within the AA. KVNB also encounters significant competition for loans and deposits within its State College MSA AA. KVNB's deposit market for State College remains nominal at approximately 3%.

### ***Business Loans***

KVNB's record of business lending demonstrates reasonable penetration among State College MSA AA businesses of different sizes considering the demographic context in which KVNB operates.

Business loan data collected from a sample of business loans originated by KVNB over the period was analyzed.

The following table details the distribution of loans to businesses originated by KVNB among AA businesses of different sizes.

<b>Borrower Distribution of Loans to Businesses in State College MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	70.85%	5.14%	24.01%	100%
% of Bank Loans in AA by \$	35.77%	63.97%	.25%	100%
% of Bank Loans in AA by #	59.46%	37.84%	2.70%	100%

*Source: 2000 US Census Data; KVNB Loan Sample from January 1, 2007 – December 31, 2009*

The percentage of business loans originated by KVNB to small AA businesses is below the percentage of AA businesses classified as small. Of AA businesses, 71% are classified as small. Small businesses are defined as businesses reporting gross annual revenues of \$1 million or less. Comparatively, based on the sample of business loans to businesses, within its State College MSA AA, KVNB originated 60% of its business loans to small AA businesses.

However, KVNB is responsive to the needs of State College MSA AA small businesses. A significant percentage of business loans originated by KVNB to State College MSA AA businesses represent the smaller dollar amounts needed by small AA businesses. Specifically, of the sampled business loans originated by KVNB within its State College MSA AA, 74% were originated for dollar amounts of \$100,000 or less.

Additionally, KVNB does not have a significant presence within its State College MSA AA as demonstrated by its recent entry into the State College market and nominal market share. KVNB's State College AA represents a relatively new market for KVNB. Prior to 2008, KVNB operated a single branch within its State College MSA AA. During 2008 and 2009, KVNB opened two new additional branches within the AA. KVNB also encounters significant competition for loans and deposits within its State College AA. KVNB's deposit market for State College remains nominal at approximately 3%.

### **Geographic Distribution of Loans**

KVNB's record of lending demonstrates reasonable dispersion among AA geographies. No conspicuous gaps or areas of low penetration were identified.

#### **Pennsylvania non-MSA AA**

##### ***Residential Real Estate Loans***

KVNB's record of residential real estate lending demonstrates excellent dispersion among Pennsylvania non-MSA AA geographies.

Residential real estate loan data collected and reported over the evaluation period by KVNB in accordance with HMDA requirements was analyzed.

The following table details the distribution of residential real estate loans originated by KVNB among AA geographies.

<b>Geographic Distribution of Residential Real Estate Loans in Pennsylvania non-MSA AA</b>								
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	0	5.82	6.03	94.18	93.97	0	0
Home Improvement	0	0	5.82	5.74	94.18	94.26	0	0
Home Refinance	0	0	5.82	4.28	94.18	95.72	0	0

Source: 2000 US Census; HMDA Data January 1, 2007-December 31, 2009

The percentage of home purchase loans originated by KVNB in moderate-income Pennsylvania AA geographies exceeds the percentage of owner-occupied housing units located within these geographies. The percentages of home improvement and home mortgage refinance loans originated by KVNB in moderate-income AA geographies are near to the percentage of owner-occupied housing located within these geographies. There are no low-income geographies within KVNB's Pennsylvania non-MSA AA.

### ***Business Loans***

KVNB's record of business lending demonstrates reasonable dispersion among Pennsylvania non-MSA AA geographies.

Business data collected and sampled from business loans originated by KVNB over the period was analyzed.

The following table details the distribution of business loans originated by KVNB among AA geographies.

<b>Geographic Distribution of Business Loans in Pennsylvania non-MSA AA</b>								
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
Business Loans	0%	0%	8.98%	6.12%	91.02%	93.9%	0%	0%

KVNB’s record of originating business loans within moderate-income AA geographies is near the percentage of businesses located within moderate-income AA geographies. The PA non-MSA AA does not contain any low-income geographies

**State College MSA AA**

***Residential Real Estate Loans***

KVNB’s record of residential real estate lending demonstrates poor dispersion among State College MSA AA geographies considering the demographic context in which KVNB operates.

The following table details the distribution of residential mortgage loans originated by KVNB over the evaluation period among AA geographies.

<b>Geographic Distribution of Residential Real Estate Loans in State College MSA AA</b>								
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	.21%	1%	9.65%	8%	46.48%	25%	43.66%	66%
Home Improvement	.21%	0%	9.65%	0%	46.48%	53.85%	43.66%	46.15%
Home Refinance	.21%	0%	9.65%	4.84%	46.48%	35.48%	43.66%	59.68%

*Source: 2000 US Census; HMDA Data January 1, 2007-December 31, 2009*

The percentage of home purchase loans originated by KVNB in moderate-income AA geographies is near the percentage of owner-occupied housing units located within these geographies. The percentage of home mortgage refinance loans originated by KVNB in moderate-income AA geographies is below the percentage of owner-occupied housing located within these geographies. KVNB did not originate any home improvement loans within moderate-income State College MSA AA geographies during the evaluation period.

State College MSA AA demographic information derived from 2000 census data reports that of all owner-occupied housing available within the AA, less than 1% and less than 10% is located within low-and moderate-income AA geographies respectively. Conversely, the vast majority of all owner-occupied housing is located in the AA’s middle-and upper-income geographies.

Additionally, KVNB’s opportunities to originate residential mortgage loans within its State College MSA AA may be impacted by affordability issues and demographic factors. U.S. Census data for 2000 reports that for the State College MSA AA, the median cost of housing is \$124,902. Annually updated HUD data reports the AA median family income to be \$59,200. Low-and moderate-income AA income by definition have annual incomes below \$32,900 and

\$52,640 respectively. Additionally, of AA households, 9% report persons over sixty five, 15% report retired residents, 20% derive income from social security and 19% subsist below poverty level.

KVNB also does not have a significant presence within its State College MSA AA as demonstrated by its recent entry into the State College market and nominal market share. KVNB’s State College MSA AA represents a relatively new market for KVNB. Prior to 2008, KVNB operated a single branch within its State College MSA AA. During 2008 and 2009, KVNB opened two new additional branches within the AA. KVNB also encounters significant competition for loans and deposits within its State College MSA AA. KVNB’s deposit market for State College remains nominal at approximately 3%.

***Business Loans***

KVNB’s record of business lending demonstrates excellent dispersion among State College MSA AA geographies considering the demographic context in which KVNB operates.

Business data collected and sampled from business loans originated by KVNB over the period was analyzed.

The following table details the distribution of small loans to businesses originated by KVNB among AA geographies

<b>Geographic Distribution of Business Loans in State College -MSA AA</b>								
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
Business Loans	13.51%	8.11%	6.7%	13.51%	40.05%	43.24%	39.37%	32.43%

KVNB’s record of originating business loans within low-income AA geographies is below the percentage of businesses located within low-income AA geographies. However, KVNB’s record of originating business loans within moderate-income AA geographies significantly exceeds the percentage of businesses located within moderate-income AA geographies. KVNB’s record of originating business loans within moderate-income AA is near the percentage of businesses located within moderate-income AA geographies.

**Responses to Complaints**

There were no complaints received by the bank or Office of the Comptroller of the Currency regarding CRA during the evaluation period.

## **COMMUNITY DEVELOPMENT TEST**

KVNB's performance with regard to the CD Test is "Satisfactory."

KVNB's CD activities demonstrate adequate responsiveness to AA CD needs considering the context in which KVNB operates including limited opportunities for engaging in CD activities.

### **Number and Amount of Community Development Loans**

#### **Pennsylvania non-MSA AA**

KVNB's record of originating CD loans within its Pennsylvania non-MSA AA demonstrates excellent responsiveness to AA needs.

Limited opportunities for CD lending exist within KVNB's Pennsylvania non-MSA AA. Competition to originate CD loans emanates from both large regional financial institutions and other area community banks and is considered to be strong.

In March of 2008, KVNB originated a \$2,750,000 CD loan to Mifflin Juniata Special Needs Center Inc in Lewistown. The purpose of the loan was for "COMPASS" building construction. The determination of the location of the COMPASS development considered the number of low- and moderate-income area residents in the Lewistown area. A borough plan identified an area poverty level of 35%. The development provides space for tenants that provide services targeted to low- and moderate income individuals. Building tenants include: the Abuse Network, Mifflin Juniata Dental Clinic and Mifflin Juniata Special Needs Center, Inc.

During the evaluation period, KVNB also originated a \$302,000 loan with a CD purpose to Mifflin Juniata Dental Clinic, Inc. The dental clinic provides dental services to low- and moderate-income residents in KVNB's non-MSA AA.

#### **State College MSA AA**

KVNB's record of originating CD loans within its State College MSA AA demonstrates poor responsiveness to AA needs.

Limited opportunities for CD lending exist within KVNB's State College MSA AA. Competition to originate CD loans emanates from both large regional financial institutions and other area community banks and is considered to be strong.

Nevertheless, KVNB did not originate any CD loans over the evaluation period which benefitted its State College MSA AA.

## **Number and Amount of Qualified Investments**

### **Pennsylvania non-MSA AA**

KVNB's record of funding CD investments within its Pennsylvania non-MSA AA demonstrates poor responsiveness to AA needs.

KVNB funded five CD donations totaling \$2,655 to Huntingdon and Centre County Habitat for Humanity.

### **State College MSA AA**

KVNB's record of funding CD investments within its State College MSA AA demonstrates poor responsiveness to AA needs.

KVNB funded three donations for \$2,100 to Centre Volunteers in Medicine.

## **Extent to which the Bank Provides Community Development Services**

### **Pennsylvania non-MSA AA**

KVNB's record of participating in CD services within its Pennsylvania non-MSA AA demonstrates poor responsiveness to AA needs.

A KVNB employee serves as Treasurer for the local chapter of Habitat for Humanity. The mission of Habit for Humanity is to provide housing and home renovations for low- income AA families.

KVNB operates eight of its eleven full service branch offices within its Pennsylvania non-MSA AA. Of these eight AA branches, all are located within middle-income AA geographies. The Pennsylvania non-MSA AA contains no low-income geographies. In comparison, of the Pennsylvania non-MSA AA population 8% and 92% reside moderate-and middle-income AA geographies respectively. The remainder and vast majority of the AA population, resides within middle-and upper-income AA geographies.

Although KVNB does not operate any of its branch offices physically within a moderate-income Pennsylvania non-MSA AA geography, the two moderate-income AA geographies are situated in close proximity to one of KVNB's branch offices.

KVNB's hours of operation, products and services are comparable among AA branch offices. KVNB's operating hours and services between Monday and Friday are supplemented by Saturday morning hours at all but two Pennsylvania non-MSA AA branch offices. KVNB's ATM network offers alternative delivery systems for delivering retail-banking services. KVNB also maintains an Internet website.

### **State College MSA AA**

KVNB's record of participating in CD services within its State College MSA AA demonstrates adequate responsiveness to AA needs.

A KVNB employee serves on the finance committee of Centre Volunteers in Medicine. The group provides free primary and preventative medical and dental care and flu services to Centre County residents without health insurance. Individuals must have income less than or equal to 200% of the federal poverty guidelines to qualify.

An employee of KVNB serves on the Board of Directors of the American Dream Housing Fund. The organization's mission is to create a self sustaining fund to facilitate loans to bridge the gap between renting and owning a home for low-and moderate-income workers. The fund provides no interest down payment assistance loans to qualified low-and moderate-income borrowers who buy or who work in Centre County.

KVNB opened two State College MSA AA branch offices during the evaluation period. Both new KVNB branch offices were opened in middle-income AA geographies. KVNB does not operate any branch offices in low-or moderate-income State College MSA AA geographies. Of the State College MSA AA population, just 9% and 12, reside in low-and moderate-income AA geographies. The remainder and vast majority of the AA population 39% and 36% respectively however reside within middle-and upper-income AA geographies.

KVNB's hours of operation, products and services are comparable among AA branch offices. KVNB's operating hours and services between Monday and Friday are supplemented by Saturday morning hours at all State College MSA AA branch offices. KVNB's ATM network offers alternative delivery systems for delivering retail-banking services. KVNB also maintains an Internet website.

### **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

Summarize the major factors supporting the institution's rating.

- Factors supporting the bank's rating should be briefly summarized in bullet format.

The summary should highlight only the primary reasons for the rating. It is not necessary to address all performance criteria in the summary.

- When evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs has been identified in the supervisory process, the conclusion must include a statement if the rating was influenced by this evidence. The conclusion should not mention any technical violations.
- This performance evaluation (PE) format is for EV purposes and does not include detailed guidance. Refer to the Small Bank Training and Tool Kit for guidance on writing the performance evaluation. The kit is available on the Compliance Policy intranet page under CRA.