
Comptroller of the Currency
Administrator of National Banks

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

PUBLIC DISCLOSURE

August 1, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Merchants National Bank
Charter Number 5073

222 Market Street
Kittanning, Pennsylvania 16201

Office of the Comptroller of the Currency
Pittsburgh Duty Station
Corporate One Office Park
4075 Monroeville Blvd, Suite 300
Monroeville, Pennsylvania 15146-2529

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 Merchants National Bank prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of August 1, 1996. 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.

The following explains the primary factors supporting the bank's CRA:

- ▶ An average loan to deposit ratio of 54% for the past eight quarters beginning June 30, 1994;
- ▶ Eighty-one percent of lending by dollar amount is within the assessment area;
- ▶ Lending to borrowers of different income levels is adequate;
- ▶ The distribution of lending by geography is good, with the majority of loans disbursed within the moderate income block numbering area; and
- ▶ The bank's lending to small businesses throughout the assessment area is strong.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>MERCHANTS NATIONAL BANK</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

The Merchants National Bank (MNB) is a \$109 million bank located approximately 49 miles northeast of Pittsburgh in the town of Kittanning. It is wholly owned by Merchants Bancorp of Pennsylvania, Inc., a one bank holding company. The bank has

four offices, with the main office located in downtown Kittanning, two other branches located in Kittanning, and one located in nearby Worthington. The bank has five automated teller machines (ATM's). Competition is fairly intense in the area. Kittanning has a total of six banks, three of which are headquartered there and include MNB. The other three are branches of other community banks in the county or area regional banks.

MNB offers a wide variety of mortgage, instalment, and commercial loan products. As of March 31, 1996 the bank's loan portfolio of \$52 million (comprising 47% of total assets) is made up of 70% consumer mortgage and instalment loans. The remaining 30% of the loan portfolio comprises commercial and commercial real estate loans. Loan demand has been fairly flat, with no growth in the loan portfolio for the past year. Weak loan demand has been caused by persistently high unemployment high competition in the area. The bank does not sell any of its mortgages on the secondary market. MNB purchases participations from other banks in large commercial credits. These participations currently total \$5.1 million. There are no legal impediments which would hinder the bank in meeting the credit needs of its assessment area.

DESCRIPTION OF ASSESSMENT AREA

MNB's assessment area comprises 7 block numbering areas (BNA's) located in central Armstrong County, Pennsylvania and 1 census tract located in adjacent Butler County. The 7 BNA's in Armstrong County are not within a Metropolitan Statistical Area (MSA). The census tract located in Butler County is in MSA #6280. The bank's four offices are all in Armstrong County, outside of an MSA. Within the assessment area are 1 moderate income BNA, 6 middle income BNA's, and 1 middle income census tract. There are no low or upper income areas within the bank's assessment area. The median family income for the assessment area is \$29,415. The total population of the assessment area is 37,785, with Kittanning (bank headquarters and Armstrong County seat) having a total population of 7,430. The assessment area complies with CRA and does not arbitrarily exclude any low or moderate income geographies.

There is no principal industry in the local economy, but rather a variety of different industries including mushroom farming, machine shops, retail, medical, financial services, and other manufacturing and mining. Some of the largest employers in the area are Creekside Mushrooms, Elger, and the Armstrong County Memorial Hospital. Despite the presence of a variety of industries, the area continues to exhibit ongoing high unemployment. The unemployment rate as of May 1996 was 8.3%, which compares unfavorably to the state at 5.9% and the nation at 5.4%. Upgrades and improvements to the infrastructure in order to attract industry, and home improvement loans were found to be the main needs of the area, as determined through community contact interviews.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

LOAN TO DEPOSIT RATIO

MNB's average loan to deposit ratio for the past 8 quarters was 54%. We compared this ratio to the ratios of two similarly situated banks in the assessment area. Their loan to deposit ratios ranged from 24% to 27%.

LENDING IN ASSESSMENT AREA

The distribution of a sample of MNB's loan products shows that an average of 81% by dollar volume are made within the assessment area. This percentage varies by product, but most show that the majority of lending is made within the central Armstrong county area. The focus of our review was all purchase and refinanced mortgages and instalment loans made from January 1995 through March 1996, as these products make up the majority of MNB's loan portfolio. We used a combination of management reports and loan files to assess our sample. Please refer to the table below for percentages of different loan products within the assessment area.

Percentage of Lending Within Assessment Area: 1/95-3/96		
	Number of Loans	Dollar Amount
Purchase/Refinance	75%	81%
Instalment	66%	80%
Average	71%	81%

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

MNB's lending to low and moderate income individuals is reasonable. For the time period beginning January 1995 and ending March 31, 1996, we found that 7% (2) of the 27 purchase and refinanced mortgages were made to low income individuals. An additional 4% (1) were made to moderate income individuals, 26% (7) to middle income, and 63% (17) to upper income. For instalment credit totaling 789 loans, loans to low income individuals totaled 12% (91). Instalment loans made to moderate income individuals totaled 23% (185); to middle income, 18% (142); and to upper income, 47% (371). The actual percentages of low, moderate, middle, and upper income individuals in the assessment area total 18%, 20%, 24%, and 38% respectively.

MNB does a significant volume of its commercial lending to small businesses. Of the total new business loans made during January 1995 through March 31, 1996 (62), 93% (58) were made to small businesses. A small business is any business which makes less than \$1 million per year in gross annual revenues.

GEOGRAPHIC DISTRIBUTION

MNB has a very good distribution of lending by geography. An analysis of management reports and loan files shows the majority of loans made in the moderate income BNA as compared to the 6 middle income BNA's and 1 census tract. Our analysis showed 55% of loans in the assessment area being made in the moderate income BNA, with the remaining 45% made among the 7 middle income BNA's and census tract.

We found no violations of the substantive provisions of the antidiscrimination laws and regulations.