



Public Disclosure

March 30, 1998

Community Reinvestment Act Performance Evaluation

**The First National Bank of Jermyn
Charter Number - 6158
Post Office Box C
645 Washington Avenue
Jermyn, Pennsylvania 18433**

**Office of the Comptroller of the Currency
Northern Pennsylvania Field Office
100 Hazle Street
Wilkes-Barre, Pennsylvania 18702**

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 CRA performance of **The First National Bank of Jermyn** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **March 30, 1998**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all, of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

Institution's CRA Rating: This institution is rated **Satisfactory**.

Factors supporting the overall bank's rating include:

- An excellent percentage, 88% or better, of HMDA and small business loans made within the assessment area;
- An acceptable geographic distribution of loans within the assessment area;
- An adequate distribution of loans among borrowers of different income levels and to businesses of different sizes;
- An adequate level of community development lending;
- A good response to community credit needs;
- An acceptable level of community contributions and response to credit needs;
- Good access to delivery systems for all segments of the assessment areas;
- A reasonable level of community development services; and,
- A reasonable level of investments based on opportunities in the assessment area.

The following table indicates the performance level of **The First National Bank of Jermyn** with respect to the lending, investment, and service tests.

Performance Levels	Name of Financial Institution Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High satisfactory			
Low satisfactory	X	X	X
Needs to improve			
Substantial noncompliance			

* Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

Description of Institution

The First National Bank of Jermyn (FNBJ) is the principal subsidiary of The First Jermyn Corp. (FJC). FJC is headquartered in Jermyn, Pennsylvania and is a one bank holding company with total assets of \$318 million as of June 30, 1997.

As of December 31, 1997, FNBJ had total assets of \$326 million. Total loans represent 62% of average assets and securities represent 31% of average assets. FNBJ is a full service community bank, including deposit, safekeeping, and loan functions through its branch system. Loan services include 1-4 family mortgages (52% of average gross loans), home equity loans (2% of average gross loans), consumer loans (16% of average gross loans), and commercial loans (30% of average gross loans). There are no financial or legal impediments that would prevent the bank from meeting the credit needs of the community.

The bank offers a full range of credit products, including residential mortgages, home equity, housing rehabilitation, first time home buyers, home improvement, personal, auto, and collateral loans. Management offers zero point and 95% loan-to-value mortgages with Private Mortgage Insurance (PMI). For 1996, FNBJ was the number one HMDA lender in Lackawanna County and the ninth largest lender in the low- and moderate- income areas in the county. Total HMDA loans originated in 1996, 1997, and 1998 total 774 at \$39,838 thousand, 324 at \$12,987 thousand, and 87 at \$4,268 thousand, respectively.

FNBJ operates six offices in Lackawanna County, Pennsylvania. The branches are in the following locations: Carbondale, Daleville, Jermyn, Jessup, and two branches in Scranton (Keyser Oak Plaza and Minooka sections). All six offices have drive up facilities and ATMs. There are no remote drive up facilities or ATMs. Business hours at all offices are 9:00 a.m. to 5:00 p.m. Monday through Thursday and 9:00 a.m. to 6:00 p.m. on Friday. Business hours at the drive up

facilities are 8:00 a.m. to 6:00 p.m. Monday through Friday, and drive up facilities are open on Saturday from 8:00 a.m. to 1:00 p.m. The Daleville branch office is also open on Saturday from 9:00 a.m. to 1:00 p.m.

Competition is strong and is provided from larger regional institutions and community banks in FNBJ’s assessment area. Community bank competitors include NBO National Bank, First National Community Bank, Old Forge Bank, LA Bank, Penn Security, The Fidelity Deposit and Discount Bank, and Pioneer American Bank.

DESCRIPTION OF ASSESSMENT AREA (AA)

FNBJ has one assessment area and it is defined as all of Lackawanna County, located in MSA 7560. MSA 7560 consists of a total of four counties and is a relatively small MSA in comparison to other Pennsylvania MSAs. There are 60 census tracts within Lackawanna County. The AA meets regulatory guidelines and does not arbitrarily exclude any low- or moderate-income areas (LMI). The LMI tracts are primarily located in the City of Scranton and one moderate tract north and east of Scranton in Carbondale. When viewing a map of the assessment area, the low- and moderate-income tracts are small in size in comparison to the middle- and upper-income tracts; the low- and moderate-tracts represent less than 5% of the total geographic area. The table below depicts the demographics of the assessment area.

ASSESSMENT AREA DEMOGRAPHICS			
Designation	# Census Tracts	% of Total Tracts	% of Households in the Tracts
Low	2	3%	2%
Moderate	6	10%	8%
Middle	45	75%	74%
Upper	7	12%	16%
Total	60	100%	100%

The total population in the AA is 219 thousand. The population in the low-income tracts totals three thousand and in the moderate-income tracts eighteen thousand. The percentage of families within in the assessment area is as follows: 18% low-income families, 18% moderate-income families, 24% middle-income families, and 40% upper-income families. The median family income is \$37,700. The median age of housing stock is 50 years and the median cost is \$67,269. The housing unit breakdown for the AA is as follows: 61% owner occupied; 32% rental units; and 7% vacant units.

The major employers in the AA are Lackawanna County, the City of Scranton, the University of Scranton, hospitals (Mercy, Allied, Community Medical Center, and Merion Community), and Thomas Consumer Electronics. Other employers include a variety of small businesses.

Contact with community groups indicated that there is a need for first time home buyers' products and pre-purchase counseling throughout Lackawanna County, which is being provided by institutions in the assessment area. However, the community groups also indicated that all banks need to better advertise first time home buyers' programs and pre-purchase programs. Community groups indicated that FNBJ is very active in the community and participates in credit counseling classes and first time home buyer programs.

Conclusions with Respect to Performance Tests

Scope of Review

This review covered the time period from January 1, 1996 to March 30, 1998 for all Home Mortgage Disclosure Act (HMDA) reported loans and small business and community development loans. At management's request consumer loans were reviewed. For consumer loans, the period of review covered from January 1, 1997 to March 30, 1998. Also, community development investments and services were reviewed.

LENDING TEST

Performance Criteria

Lending activity

A majority of FNBJ's commercial loan originations are to small businesses. In addition to HMDA and small business lending, the loan portfolio includes a variety of consumer products.

Management is responsive to the credit needs of the community and is actively involved in various community organizations that offer credit counseling and assistance to first time home buyers. Management also offers a variety of other consumer products, as well as loans to small businesses.

Assessment area concentration

HMDA, Small Business, & Consumer Loans in AA for 1996, 1997 & 1998												
Loan Type	1996 inside AA				1997 inside AA				1998 inside AA			
	# Lns	%	\$ Amt	%	# Lns	%	\$ Amt	%	# Lns	%	\$ Amt	%
HMDA	701	91	35,215	88	291	90	11,413	88	76	87	3,761	88
Sm. Bus.	85	98	7,782	93	110	91	14,150	91	22	92	3,321	99
Cons.	NA	NA	NA	NA	1403	77	NA	NA	245	74	NA	NA

Note: Dollar amounts are in thousands. NA = Not Available. Sm. Bus. = Small Business. Cons. = Consumer.

The above table above depicts FNB's lending within its AA. The table reflects an excellent level of lending within the AA for both HMDA and small business. Consumer lending within the AA for is adequate.

Geographic distribution of loans

Geographic Distribution of HMDA Loans							
	1996		1997		Jan. to Mar. 1998		% owner occupied Housing in AA
	# Lns / %	\$Amt / %	#Lns/%	\$Amt / %	#Lns/%	\$Amt/%	
Low	0 / 0	0 / 0	0 / 0	0 / 0	0 / 0	0 / 0	0
Mod.	16 / 2	485 / 1	11 / 4	386 / 3	5 / 6	185 / 5	6
Mid.	566 / 81	26,387 / 75	247 / 85	9,052 / 80	59 / 78	2,738 / 73	77
Up.	119 / 17	8,343 / 24	33 / 11	1,975 / 17	12 / 16	838 / 22	17
Total	701 / 100	35,215/100	291/ 100	11,413/100	76 / 100	3,761/100	100

Note: Dollar amount in thousands.

The above table depicts where loans are located within each category of census tracts. There is very little home ownership in the low- and moderate-income tracts and as a result there is no residential lending in the low-income tracts. FNB has increased lending in the moderate-income tract areas through increased efforts. From 1996 to 1998, management has educated loan officers on how to better qualify mortgage loan applicants, particularly those who are low- and moderate-

income individuals. Currently, lending in low- and moderate-income tracts reflects a distribution similar to the home ownership in each of the census tracts.

Management has not yet determined the reason for the decline in HMDA lending levels from 1996 to 1997. Lending levels decreased in all mortgage lending products (ie: purchase, refinance, and home improvement loans). Management speculates that the reasons may be that several new mortgage companies started operations in the area and FNBJ does not participate in any telemarketing programs. Throughout 1997, management strived to remain competitive in the mortgage area with rates, points, and down payments.

Geographic Distribution of Small Business Loans						
	1996		1997		Jan. to Mar. 1998	
CTs	# Lns/%	\$Amt/%	#Lns/%	\$Amt/%	#Lns/%	\$Amt/%
Low	2 / 2	45 / 0	2 / 2	73 / 1	1 / 5	65 / 2
Mod.	1 / 1	750 / 10	3 / 3	578 / 4	0 / 0	0 / 0
Mid.	75 / 89	6,240 / 80	91 / 82	11,934 / 91	20 / 90	2,906 / 87
Up.	7 / 8	747 / 10	14 / 13	565 / 4	1 / 5	350 / 11
Total	85 / 100	7,782 / 100	110 / 100	13,150 / 100	22 / 100	3,321 / 100

Note: Dollar amount in thousands. CTs = Census Tracts. Table is small business only, as no farm loans were originated.

The above table represents the distribution of small business loans throughout the AA. There is no small farm lending in the AA. As can be seen, most of FNBJ's business lending is concentrated in middle-income tracts, which are located in the area north of Scranton toward the bank's main office in Jermyn, Pennsylvania. The low- and moderate-income tracts in the AA are located in the heart of the City of Scranton, with the exception of one small moderate-income tract in Carbondale, Pennsylvania. The low- and moderate-tracts represent a very small geographic area in comparison to the remaining areas. Further, the primary businesses in the low- and moderate-income tracts are county and city governments, hospitals, the University of Scranton, other banks, bars, restaurants, and hotels. As a result, there is little opportunity for FNBJ to lend in low- and moderate-income areas.

As a comparison, the following data represents all small business lending within Lackawanna County for 1996.

- Low-income tracts total 137 loans (7%) at \$5,817 thousand (5%).
- Moderate-income tract totals 94 loans (5%) at \$5,797 thousand (5%).
- Middle-income tracts total 1,376 loans (70%) at \$84,816 thousand (71%).
- Upper-income tracts total 363 loans (18%) at \$22,120 thousand (19%).

FNBJ's small business lending distribution is reasonable when compared to all small business lending within Lackawanna County.

Geographic Distribution of Consumer Loans					
	1997		1998		% Census Tracts
Census Tracts	# of Loans	%	# of Loans	%	
Low	4	0	2	1	3
Moderate	69	5	16	7	10
Middle	1075	77	187	76	75
Upper	255	18	40	16	12
NA	0	0	0	0	0
Total	1,403	100	245	100	100

The above table depicts the distribution of consumer loans throughout the AA. Again, FNBJ has improved lending in the low- and moderate-income tracts.

Borrower's profile

Borrower Distribution of HMDA Loans by Income							
Income	1996		1997		Jan. to Mar. 1998		% of Families within AA
	# Lns/%	\$Amt./%	#Lns/%	\$Amt./%	#Lns/%	\$Amt./%	
Low	31 / 4	601 / 2	20 / 7	429 / 4	7 / 8	203 / 6	18
Mod.	85 / 12	2,720 / 8	49 / 17	1,350 / 12	21 / 28	7,243 / 25	18
Mid.	221 / 32	9,210 / 26	75 / 26	2,458 / 21	18 / 24	749 / 20	24
Up.	350 / 50	22,268 / 63	136 / 46	6,532 / 57	30 / 40	1,856 / 49	40
NA	14 / 2	416 / 1	11 / 4	644 / 6	0 / 0	0 / 0	0 / 0
Total	701 / 100	35,215 / 100	291 / 100	11,413 / 100	76 / 100	10,051 / 100	100

The above table depicts FNBJ's lending pattern to individuals of different income levels. Management has also improved its lending patterns to low- and moderate-income individuals through its efforts to better educate lenders and help borrowers. Currently, the level of lending to moderate-income borrowers exceeds the population of moderate-income individuals. For low-income individuals, lending levels continue to improve. There is the potential for the bank to help low-income individuals finance housing. However, management indicates that many of the low-income individuals, even with the help of affordable housing programs and credit counseling, still cannot afford housing. Low-income individuals are those with income of less than \$18,850. The median housing cost is \$67 thousand; when compared to a low-income individual's income purchasing a home is difficult.

Distribution of Small Business Loans by Size within Assessment Area						
Loan Size	1996		1997		January - March 1998	
	# Lns / %	\$Amt. /%	# Lns /%	\$Amt. /%	# Lns /%	\$Amt /%
<=\$100	70 / 82	2,321 / 30	79 / 72	2,321 / 18	16 / 73	353 / 11
>\$100<\$250	5 / 6	776 / 10	17 / 15	2,900 / 22	2 / 9	290 / 9
>\$250	10 / 12	4,685 / 60	14 / 13	7,929 / 60	4 / 18	2,678 / 80
Total	85 / 100	7,782 / 100	110 / 100	13,150 / 100	22 / 100	3,321 / 100

Note: Dollars are in thousands.

The above table represents small businesses loans by loan size. For comparison purposes, the following data is provided for all small business lending within the Lackawanna County for 1996.

- Loans equal to or less than \$100,000 at origination totaled 1,728 loans (88%) at \$38,831 thousand (33%).
- Loans more than \$100,000 but less than or equal to \$250,000 at origination total 142 loans (7%) at \$24,592 thousand (21%).
- Loans more than \$250,000 at origination total 100 loans (5%) at \$55,127 thousand (46%).

FNBJ's small business loan originations are a reasonable reflection of all small business lending within Lackawanna County.

In the commercial lending area, approximately 75%, 52%, and 77% of all originations for 1996, 1997 and 1998, respectively, were to small businesses. Small businesses are defined are those businesses with revenues of \$1 million or less.

Borrower Distribution of Consumer Loans by Income
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Census Tracts	1997		Jan. - Mar. 1998		% of Families within AA
	# of Loans	%	# of Loans	%	
Low	286	20	50	20	18
Moderate	376	27	76	31	18
Middle	333	24	56	23	24
Upper	307	22	60	25	40
NA	101	7	3	1	0
Total	1,403	100	245	100	100

The table above indicates that FNBJ has a good distribution pattern to low- and moderate-income individuals for consumer products. Lending to low- and moderate-income individuals exceeds the percentage of low- and moderate-income individuals within the AA.

Product innovation

FNBJ offers a First Time Home Buyers product. Additionally, since the bank is a community institution, management has the flexibility to work with borrowers individually to accommodate their needs.

Community development lending activities

FNBJ originates an adequate level of community development loans. Community development loans are those that do not meet the definition of home mortgage, small business or small farm loans, but do meet the definition of community development contained in the CRA regulation (12 C.F.R 25.12(h)). FNBJ has originated three loans, each at \$100,000 for a total of \$300,000, to a local community housing organization. The funds are used by the housing organization to provide loans to first time home buyers who are low- or moderate-income individuals. In addition, FNBJ donated funds for the operating cost of this program. More detail regarding this donation is outlined under the Investments Test section that follows.

INVESTMENT TEST

FNBJ has an adequate level of community development investments given the limited opportunities within the AA. While parts of Lackawanna County, notably the City of Scranton, are in a revitalization mode, opportunities for FNBJ still remain limited. The primary reasons that opportunities are limited are that many of the projects are federally funded, and the larger banks that operate within Lackawanna County typically purchase whole investment issues, leaving no opportunities for the local community banks in the area.

FNBJ's total contributions during the assessment period are \$17,450 to nine organizations. All of the contributions meet the definition of a qualified investment and are in the AA. CRA related

contributions follow:

Name	1996	1997	1998
Economic Development Corp.	\$100	\$250	
Family Services of Lackawanna County	500	250	250
Friends of the Poor	500	500	
Catherine McAuley Center	500	500	500
Scranton Neighborhood Housing Service	6,500	6,500	
United Neighborhood Centers	100	100	
Consumer Credit Counseling	100	0	
Dept. Of Veterans Affairs	0	100	
Lackawanna Home Builders Assoc.	<u>200</u>	<u>0</u>	
Total	\$ 8,500	\$8,200	\$750

SERVICE TEST

FNBJ's delivery systems are accessible to all portions of their AA. The bank has not closed any offices in the last two years and has opened one branch (Daleville) in the same time frame. The Daleville branch is located within a middle-income tract.

The bank has six offices. All have drive ups and 24 hour ATMs. There are no remote ATM facilities. Three of the six branches border on the low- and moderate-income geographies. As noted above, the low- and moderate-income geographies are small tracts, representing less than 5% of the total geography of Lackawanna County, and only 10% of the population lives within the low- and moderate-income tracts.

Distribution of Delivery Systems		
	Branches and ATMs	Number & % of Census Tracts in AA
Census Tracts	# / %	# / %
Low	0 / 0	2 / 3
Moderate	0 / 0	6 / 10
Middle	6 / 100	45 / 75
Upper	0 / 0	7 / 12
Total	6 / 100	60 / 100

Business hours are reasonable, with all branches having evening and Saturday hours.

Management offers a full range of services to all members of the community, including credit

counseling and various loans and deposit products.

Community Development Services

FNBJ provides a reasonable level of community development services, which include those targeted to low- and moderate-income individuals and areas, as well as to small businesses.

The following is a list and description of the community development services provided throughout the AA:

- **Neighborhood Housing of Scranton (NHS)** - An employee of the bank, in his capacity as a bank employee, serves as the Treasurer of the Board Directors. In summary, the mission statement is to revitalize Scranton neighborhoods by promoting home ownership and rehabilitation. To accomplish this, NHS gathers funds through a Lender Consortium (FNBJ is a member), for the purpose of providing funds, education and technical assistance to low- and moderate-income groups.
- **Employment Opportunity Training Center** - An employee of the bank, in his capacity as a bank employee, serves on the Board of Directors. This organization strives to reach out to the community and provide training to low- and moderate- income individuals in an attempt for them to obtain and keep gainful employment.
- **Carbondale 2000** - Management is committed to participating in the Carbondale Community Development Corporation to review a proposed housing program. The principal purpose of the organization is to have a positive impact on the housing fabric within the Carbondale community. A segment of Carbondale, approximately one half of the city, is located in a moderate-income tract.

FAIR LENDING EXAMINATION

A concurrent fair lending examination did not reveal any violations of the antidiscrimination laws and regulations.

SCOPE OF EXAMINATION

Time Period Reviewed	May 1, 1996 through March 30, 1998
Financial Institution	First National Bank of Jermyn
Products Reviewed	Mortgage, small business, community development loans, and consumer loans per management's request.
Assessment Area	Lackawanna County
Type of Examination	On-site
Branches Visited	Main Office, Jermyn, Pa.