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Comptroller of the Currency  
Washington, DC

## **Public Disclosure**

**February 2, 1998**

### **Community Reinvestment Act Performance Evaluation**

**Peoples National Bank of Susquehanna County  
Charter Number: 7702  
50 Main Street  
Hallstead, PA. 18822**

**Office of the Comptroller of the Currency  
Northern Pennsylvania Field Office  
100 Hazle Street, Suite 202  
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 **Peoples National Bank of Susquehanna County** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **February 2, 1998**. This agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area 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 CFR Part 25.*

**Institution's CRA Rating:**      This Institution is rated **SATISFACTORY**.

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

- Lending levels reflect reasonable responsiveness to the credit needs of the community. An average loan to deposit ratio of 63% supports this determination;
- A reasonable percentage of HMDA, small business, and small farm loans originated during the evaluation period are within the bank's assessment area; and
- HMDA, small business, and small farm loans originated during the evaluation period are reasonably distributed among borrowers of different income levels and businesses of different sizes.

The following table indicates the performance level of **Peoples National Bank of Susquehanna County** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	PEOPLES NATIONAL BANK of SUSQUEHANNA COUNTY 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 Businesses of Different Sizes		X	
Geographic Distribution of Loans	An analysis of the geographic distribution of loans originated by the bank is not meaningful.		
Responses to Customer Complaints	Appropriate action has been taken in response to complaints about performance in meeting assessment area credit needs.		

## Description of Institution

Peoples National Bank of Susquehanna County (PNB) is the principal subsidiary of its holding company, Peoples Financial Services Corporation. The bank is headquartered in Hallstead, Pennsylvania, a small, rural town located in the northeast corner of the state. The bank operates eight full service offices and five automated teller machines positioned throughout sections of Susquehanna and Wyoming Counties. Six of the bank's offices operate drive-up facilities. Three offices located in Tunkhannock, Meshoppen, and Springville were opened since the last CRA examination (May 1, 1995). The Tunkhannock and Meshoppen offices were purchased from Mellon Bank, NA during 1997.

Competition for loans is significant from offices of CoreStates Bank, NA, Community Bank and Trust, Grange National Bank, and Proctor and Gamble's employee credit union. There are no legal or financial factors that would impede the bank's ability to help meet the credit needs of its assessment area.

Since January 1, 1996, PNB grew by \$58 million to a bank with slightly more than \$228 million in total assets. Growth of \$27 million in loans, \$20 million in investments, and \$46 million in deposits occurred. Deposit growth of \$38 million was purchased from Mellon Bank, NA. Total loans outstanding at December 31, 1997 were \$127 million and investments totaled \$88 million at this date. Primary loan products include fixed and adjustable rate residential mortgages, small business and agricultural loans, and consumer installment and home equity loans. The following chart illustrates the bank's loan portfolio distribution at December 31, 1997:

<b>Loan Portfolio Distribution at December 31, 1997</b>		
<b>Loan Type</b>	<b>\$000</b>	<b>% of Portfolio</b>
Secured by 1-4 Family Residential Properties	70,632	56
Secured by Multifamily Properties	338	0
Consumer Loans to Individuals	16,035	13
Construction and Land Development Loans	9	0
Commercial and Industrial Loans	28,988	23
Secured by Farmland	2,723	2
Agricultural Production Loans	836	1
Loans to Municipalities	7,225	5
<b>Totals</b>	<b>126,786</b>	<b>100%</b>

## Description of Assessment Area

PNB's assessment area meets regulatory guidelines and does not arbitrarily exclude any low- and moderate- income census tracts or block numbering areas (BNAs). The assessment area is comprised of nine census tracts in the Scranton - Wilkes-Barre - Hazleton MSA 7560, one census tract in the Binghamton New York MSA 0960, and eleven BNAs in the non-MSA counties of Susquehanna and Wyoming. The bank has no branches in the Binghamton New York MSA. Economic conditions in the assessment area are stable. Demographics of the area are highlighted in the following table:

### Assessment Area Demographics

Characteristic	MSA 7560	MSA 0960	Non-MSA	Combined MSA & Non-MSA
# of Census Tracts:	9	1	11	21
Low Income	NA	NA	NA	NA
Moderate Income	NA	NA	NA	NA
Middle Income	89%	100%	92%	95%
Upper Income	11%	NA	8%	5%
Population	42,697	6,440	44,713	89,373
# of Families:	11,603	1,718	12,357	24,548
Low Income	14%	19%	20%	17%
Moderate Income	16%	18%	18%	17%
Middle Income	24%	29%	24%	24%
Upper Income	46%	34%	38%	42%
1990 U.S. Census Median Family Income	\$34,942	\$34,486	\$29,035	\$32,183
1997 HUD Median Family Income	\$37,700	\$41,000	\$34,500	\$36,029
Median Housing Value	\$80,664	\$67,600	\$65,894	\$72,787
Total Housing Units	17,434	2,643	22,507	40,983
Total Households	15,176	2,206	16,362	32,228

As indicated in the above table, there are no low- or moderate-income geographies in the bank's assessment area. Ninety-five percent of the combined census tracts and BNAs are middle-income tracts. The remaining five percent are considered to be upper-income tracts.

Eighty-nine thousand people live in the bank's assessment area. Thirty-four percent of the population residing in the area's middle- and upper-income geographies are low- and moderate-income families. Middle- and upper- income families comprise the majority (66%) of the inhabitants and the HUD median family income of the area is \$36 thousand.

Employment opportunities in the assessment area are limited. Although unemployment has stabilized, the 7% unemployment rate remains above the state average of 6%. A large segment of the population commutes outside the assessment area to Binghamton, New York in the north and Scranton in the south for employment opportunities. Downsizing of major industries in Binghamton over the past few years affected the assessment area's employment. Major employers include Barnes-Kasson Hospital, MATCO Industries, IBM, Proctor & Gamble, and seven local school districts.

Management determines the community's primary credit needs as residential housing, consumer credit, student loans, and small business loans. Our community contacts with two housing and redevelopment authorities operating within the assessment area corroborates the bank's determination.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE**

This review covered the time period from January 1, 1996 to December 31, 1997. All Home Mortgage Disclosure Act (HMDA), small business, small farm, and community development loans originated during this period were evaluated. Our loan review was assisted by bank management's compilation of data as required by the Community Reinvestment Act regulation. Investments purchased and matured and services provided over the time period were also reviewed.

### **Loan to Deposit Ratio**

PNB's loan-to-deposit ratio averaged 63% over the eight quarter period ending December 31, 1997. This ratio demonstrates a reasonable volume of lending. The ratio is increasing, but is somewhat lower than the national peer group average of 73% for the following reason. During the examination period, the bank purchased approximately \$38 million in deposits from Mellon Bank, NA. As a result, the average loan-to-deposit ratio was reduced by the volume of deposits purchased. Without these deposits, Peoples National Bank's average loan-to-deposit ratio would equal that of the national peer.

### **Community Development Lending**

Community development loans are those that have community development as their primary purpose. The CRA definition states that such loans must benefit the bank’s assessment area, provide affordable housing for LMI individuals, or provide services targeted to LMI individuals and LMI geographies. Based on our community contacts and the demographics of PNB’s assessment area, community development loan opportunities are limited.

PNB originated an adequate number of community development loans during this evaluation period. The following table identifies the types of community development loans the bank regularly originates. These loans are included in our following analyses of HMDA, small business, and small farm loans for lending in the assessment area and to borrowers and businesses of different incomes and size levels.

<b>Community Development Loans Originated 1/1/96 to 12/31/97</b>		
<b>Organization</b>	<b># of Loans</b>	<b>Amount in \$(000)</b>
Trehab Center First Time Home buyer Program	15	753
Farmers Home Administration	4	314
Small Business Administration	3	108
Susquehanna & Wyoming Counties Housing & Redevelopment Authority	13	22

**Qualified Investments:** Under the new CRA regulation, financial institutions can receive positive consideration for making “qualified investments”. A “qualified investment” is defined as a lawful investment that has community development as its primary purpose and benefits the bank’s assessment area. During the evaluation period PNB held \$730 thousand in qualified investments. Of this total, \$275 thousand provides funds for low- and moderate- income housing in Wayne County, and \$455 thousand provides funds to promote business development in the assessment area. The volume of qualified investments represents approximately 1% of the total investments held by the bank.

### **Lending in the Assessment Area**

As indicated by the table that follows, PNB demonstrates appropriate responsiveness to satisfying the credit needs within its assessment area. Our analysis of this performance criteria reveals that 89% of the loans originated during the evaluation period were within the bank's assessment area. The following table identifies the originations by number and dollar amount.

<b>Loan Originations in the Assessment Area from 1/1/96 to 12/31/97</b>				
<b>Loan Type</b>	<b># of Loans</b>	<b>%</b>	<b>Amount of Loans \$(000)</b>	<b>%</b>
<b>Real Estate Mortgage Loans</b>	<b>822</b>	<b>89</b>	<b>30,691</b>	<b>96</b>
<b>Small Business Loans</b>	<b>308</b>	<b>90</b>	<b>20,055</b>	<b>85</b>
<b>Small Farm Loans</b>	<b>47</b>	<b>87</b>	<b>1,509</b>	<b>99</b>
<b>Total Real Estate, Small Business, Small Farm Loans Originated in AA</b>	<b>1,177</b>	<b>89</b>	<b>52,255</b>	<b>82</b>
<b>Total Real Estate, Small Business, Small Farm Loans Originated</b>	<b>1,318</b>	<b>100</b>	<b>63,806</b>	<b>100</b>

On a combined basis for the review period, the number of real estate mortgages, small business loans, and small farm loans originated in the assessment area averaged 89%. This correlates to an average of 82% of the total dollar volume of the same types of loans originated within the assessment area. PNB's performance translates into a majority of the real estate, small business, and small farm loans originated during the examination period within the bank's assessment area.

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

PNB has a good record of lending to borrowers of all income levels and to businesses of all sizes. The following table shows the distribution of the number and dollar volume of all HMDA residential mortgage loans originated during the evaluation period compared to the distribution of families of different income levels residing within the assessment area.



<b>Total HMDA Loan Originations by Level of Borrower Income from 1/1/96 to 12/31/97</b>					
<b>Income Level</b>	<b># of Loans originated</b>	<b>%</b>	<b>\$ Volume of Loans (000)</b>	<b>%</b>	<b>% of Families Residing within the Assessment Area</b>
<b>Low</b>	81	9	1,599	5	17
<b>Moderate</b>	181	21	5,011	15	17
<b>Middle</b>	276	32	10,678	31	24
<b>Upper</b>	330	38	16,868	49	42
<b>Total*</b>	868	100	34,156	100	100

\* Total HMDA loans originated inside and outside of the assessment area.

The origination of HMDA loans is distributed proportionately to the number of families of different income levels residing in the assessment area. The results indicate that PNB's lending to low-, moderate-, middle-, and upper-income borrowers is reasonable based on the income demographics of the families residing within the area.

### **Small Business and Small Farm Loans**

The CRA regulation indicates that loan size generally correlates to the size of the business and farm borrower. A small business or small farm is defined as one with \$1 million or less in annual revenues. PNB does not track small business and small farm loan originations. As a result, quarterly Call Report data is used as a proxy to measure the volume of loans originated to small businesses and small farms. Small business and small farm loans for Call Report purposes do not include loans collateralized by real estate. The following chart depicts small business and small farm loans outstanding based upon loan size as submitted in the bank's June 30, 1997 Call Report.

<b>Small Business and Small Farm Loans Outstanding at June 30, 1997</b>						
<b>Original Amount of Loan</b>	<b>Small Business</b>			<b>Small Farm</b>		
	<b># of Loans</b>	<b>\$ (000)</b>	<b>% of Total \$</b>	<b># of Loans</b>	<b>\$ (000)</b>	<b>% of Total \$</b>
<b>Less than \$100 thousand</b>	250	7,952	32	57	1,344	41
<b>\$100 to \$200 thousand</b>	49	6,333	25	12	1,433	43
<b>\$251 thousand to \$1 million</b>	25	10,227	41	2	507	15
<b>Total Small Business &amp; Small Farm Loans</b>	324	24,512	98	71	3,284	99
<b>Total Commercial &amp; Farm Loans</b>	NA	25,108	100	NA	3,327	100

The table shows that 98% of the total commercial loans originated during the evaluation period were made to small businesses. Additionally, 99% of the farm loans were made to small farms.

### **Geographic Distribution of Loans**

PNB's assessment area does not include any low- or moderate-income geographies. As a result, the number and dollar amount of loans originated to low- and moderate-income geographies does not present a meaningful analysis for the geographic distribution of loans originated within the assessment area.

### **Responses to Complaints**

During the evaluation period, PNB received one complaint from a female loan applicant who was dissatisfied with the bank's application process. After reviewing the complaint and discussing the facts with bank management, it was determined that this was an isolated occurrence and not representative of the bank's general lending practices. Management responded effectively and encouraged the applicant to pursue a future relationship with the bank.

### **Fair Lending Review**

A fair lending review performed in conjunction with this CRA examination did not identify any violations of anti-discrimination laws and regulations. We noted no instances where PNB discouraged or impeded potential borrowers from applying for credit.

## **Metropolitan Statistical Areas Conclusions with Respect to Performance Tests in MSA #7560**

PNB's performance in MSA #7560 - Scranton/Wilkes-Barre/Hazleton is somewhat less than the bank's overall lending performance. The bank's assessment area has recently been expanded in this MSA due to the purchase of two branches in Tunkhannock and Meshoppen from Mellon Bank, NA. The bank operates three full service branch offices in MSA #7560. All branch offices are located in upper Wyoming County in the townships of Tunkhannock, Meshoppen, and Nicholson. Each office provides full banking services to a population of 42,697. The median HUD family income for the area is \$37,700.

The assessment area now includes nine census tracts in the northern portions of Lackawanna and Wyoming Counties. Four of these census tracts are located in Lackawanna County where three tracts are designated middle-income and one is an upper-income tract. The five other census tracts are located in Wyoming County where all are middle-income tracts. None of the census tracts are low- or moderate-income tracts.

**Lending Test:** Peoples National Bank's origination of HMDA loans in MSA 7560 is illustrated in the following table. The table shows loan originations made within this MSA to borrowers of different income levels compared to the percentage of families residing in the MSA categorized by their levels of income. The volume of the bank's originations is reasonable and generally representative of the demographics of the area. Lending to low- and moderate-income families residing in this MSA is currently below the demographic averages and is determined to be adequate.

Since the two branch offices located in Tunkhannock and Meshoppen were newly acquired, the bank's presence in this MSA has been short lived. Lending performance to all income categories is expected to improve over time as the bank expands its presence and builds on its lending base.

**HMDA Loans Originated in MSA 7560  
from 1/1/96 to 9/30/97**

<b>Income Level of Borrowers</b>	<b># of Loans Originated</b>	<b>%</b>	<b>Loans Originated \$(000)</b>	<b>%</b>	<b>% of Families Residing within MSA</b>
<b>Low</b>	5	6	59	1	14
<b>Moderate</b>	13	14	428	9	16
<b>Middle</b>	27	30	1,340	29	24
<b>Upper</b>	45	50	2,878	61	46
<b>Total</b>	90	100	4,705	100	100