
Comptroller of the Currency
Administrator of National Banks

LARGE BANK

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PUBLIC DISCLOSURE

November 30, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Citizens National Bank
Charter No. 8854
P.O. Box 250 Main Street
Evans City, Pennsylvania 16033

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

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

TABLE OF CONTENTS

General Information

3

Performance Context

5

Conclusions with Respect to Performance Tests

Lending Test

7

Investment Test

12

Service Test

12

Fair Lending Review

14

MSA 6280 Conclusions

14

NON-MSA Conclusions

14

Appendix

16

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 **Citizens National Bank of Evans City** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **November 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 the 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.

The following table indicates the performance level of **Citizens National Bank of Evans City (ACNB®)** with respect to the lending, investment, and service tests.

Performance Levels	Citizens National Bank of Evans City Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High satisfactory	X		X
Low satisfactory			
Needs to improve		X	
Substantial noncompliance			

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

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

Primary factors which support the bank=s rating are:

- C A substantial majority of loans originated are within the assessment area.
- C The bank has a good record of lending to borrowers of different income levels and throughout the different geographic areas by income levels in its assessment area.
- C The bank=s lending to small businesses within its assessment area is strong.
- C The bank provides retail delivery systems that are accessible to essentially all portions of its assessment area.
- C Community development services are adequate.

PERFORMANCE CONTEXT

Description of Institution

Citizens National Bank (CNB) is a \$338 million bank headquartered in Evans City, Pennsylvania. CNB is a wholly-owned subsidiary of Citizens, Inc. CNB operates thirteen branch offices in Allegheny (2), Armstrong (1) and Butler (10) Counties. (Refer to the **Service Test** section of this report for a detailed description of the branch locations.) CNB is a full service bank offering retail banking products such as demand, savings, and time deposits; residential real estate loans and consumer loans; and commercial loan products. The bank receives strong competition from branches of larger Pittsburgh, Pa. financial institutions and from other local community banks. As of September 30, 1998, gross loans totaled \$207 million. The loan portfolio, as a percentage of gross loans, is comprised as follows: 26% residential mortgage loans, 56% commercial loans, 15% consumer loans, and 3% all other types of loans. (Source: Call Report at the close of business September 30, 1998). The bank is primarily a commercial lender. There are no financial or legal impediments which would hinder the bank's ability to meet the credit needs of its assessment area.

Description of Assessment Area (AAA⁺)

CNB's AA consists of the entire county of Butler and portions of Allegheny, Beaver, and Armstrong Counties. With the exception of one Block Numbering Area (BNA) located in Armstrong County, all of the AA is within the Pittsburgh MSA. **Reference to census tracts (CT=s) throughout this document will include the one BNA.**

All segments of the AA are contiguous and are consistent with CRA regulatory requirements. Low- and moderate-income areas are not arbitrarily excluded from the AA. As seen in Table 1, there are no low-income census tracts and three moderate-income CTs.

Table 1 Income Levels and Homeownership in the Assessment Area					
Income Levels of CTs	# of CTs in AA	% of Total CTs	Households (HH) in AA	% of HH in AA	% of Owner Occupied Housing Units in AA
Low-Income	0	0%	0	0%	0%
Moderate-Income	3	5%	4,590	6%	3%
Middle-Income	31	60%	49,251	64%	65%
Upper-Income	18	35%	22,895	30%	32%
Total	52	100%	76,736	100%	100%

Pittsburgh Metropolitan Statical Area (AMSA®)

The section of the AA within the Pittsburgh MSA consists of fifty-one CTs. Butler County comprises the vast majority of the AA. A substantial portion of the AA is rural. Commerce is primarily manufacturing, agriculture, and some mining. There are, however, segments of the northern part of the AA where the infrastructure hampers economic and industrial growth. Economic development is spearheaded by the private, nonprofit Community Development Corporation (ACDC®) of Butler County. A community contact was held with the CDC to determine lending and investment opportunities in the AA. The credit needs identified were primarily sources of funding for small businesses to promote economic development. There were no identified community-based organizations promoting housing or economic development. County government does not have an economic development agency.

The southern most area of the County, such as Cranberry Township, is transforming into a bedroom community for nearby Pittsburgh. Since the mid-1980's the County's population has increased approximately 5%. In addition to Cranberry Township, population growth has been experienced in Buffalo Township. The AA's geographic distribution by income levels is as follows: no low-income CTs; three moderate-income CTs; thirty one middle-income CTs; and eighteen upper-income CTs. The median family income as of the 1990 U.S. Census is 32,787. The updated 1998 updated median family income is \$40,900. Per capita income growth this decade lags that of the 1980's due to the shift in employment from manufacturing to service industries.

Large employers in the area are Armco (Steel) Advanced Materials Corporation, Penn United Technologies, and Mine Safety Appliances Company. Ninety-one percent of the businesses are classified as small businesses. The unemployed labor percentage in Butler County of 2.70% is

consistent throughout the AA (with the exception of Armstrong County). A growing number of residents work outside of the AA. There are 210,165 persons in this section of the AA. Of the 80,237 total housing units, 60,167 (75%) are owner-occupied

Non-MSA

Armstrong County

The bank has delineated one BNA in Armstrong County as part of its AA. This is the only segment of the CNB's AA which is not in the Pittsburgh MSA. The bank has one branch within Armstrong County. The population of the area is 3,733. There are 1,307 households. The statewide non-MSA median family income as of the 1990 U. S. Census is \$28,934. The 1998 updated statewide non-MSA median family income is \$35,200. Credit needs, demographics, and employment are similar to the majority segment of the AA. Of the 1,854 housing units, 1,085 (59%) are owner-occupied.

LENDING TEST

Scope of Examination

We assessed CNB's performance under the new CRA regulation for the period of January 1, 1997 to September 30, 1998 for loans reportable under HMDA. Small business loans were assessed for the same period.

Lending Activity

The bank has demonstrated a good level of response to the identified credit needs of its community. Of the 471 small business loans originated over the period under review 408 or 87% were originated within the AA. In addition, all of the small business loans originated were to businesses with revenues of less than \$1 million. A majority of loans reportable under the Home Mortgage Disclosure Act (HMDA) loans are originated within the AA.

Assessment Area Concentration

Table 2 shows that the bank has a strong record of originating loans within its assessment area.

Table 2 Ratio of Loans Inside the Assessment Areas						
	HMDA Loans 1997	HMDA Loans 1998 (Jan-Sept)	Total	Small Business Loans 1997	Small Business Loans 1998 (Jan-Sept)	Total
Number						
# of Loans Inside the AAs	287	233	520	233	175	408
Total # of Loans	323	259	582	275	196	471
% of Loans Inside/ Total # of Loans	89%	90%	89%	85%	89%	87%
Dollars (in \$000's)						
\$ of Loans Inside the AAs	11,197	11,890	23,087	20,200	16,153	36,353
Total \$ of Loans	13,668	19,058	32,726	27,900	18,146	46,046
% of \$ Amount of Loans Inside AAs/Total \$ of Loans	82%	62%	71%	72%	89%	79%

Geographic Distribution

The bank also has a strong record of originating loans reportable under HMDA throughout the AA. CNB's record of originating HMDA loans in moderate-income areas exceeds that of peer lenders in the AA and compares favorably to the 3% owner occupied housing units in moderate income CTs. Table 3 shows the distribution of HMDA loans within the AA. Table 3 shows the distribution of HMDA loans within the AA.

Table 3 TOTAL HMDA LOAN ORIGINATIONS-GEODISTRIBUTION IN AA						
1998 (Jan-Sept)			1997			
Type of Census Tracts %	# Loans % Total	\$(000s) % Total	# Loans % Total	\$ Loans % Total	Geodistribution (%) of Other Area Financial Institutions	
					#	\$
Low 0%	0 0%	0 0%	0 0%	0 0%	0%	0%
Moderate 5%	9 4%	264 2%	16 6%	449 4%	3%	2%
Middle 60%	180 77%	8,937 75%	208 72%	7,408 66%	54%	43%
Upper 35%	44 19%	2,689 23%	63 22%	3,340 30%	43%	55%
Total 100%	233 100%	11,890 100%	287 100%	11,197 100%	100%	100%

The geographic distribution at the CT level for small business loans was collected and reported during our evaluation period, as required. However, all of the small business data was not available to us for analysis purposes, due to software problems. However, we did have 1997 data to determine that the small business loans originated in moderate income census tracts in Butler County was good. Butler County represents the majority of the bank's assessment area and includes all three moderate income census tracts. CNB originated 189 (81%) representing \$14,847 (74%), in Butler County. Twelve percent of the loans by number and dollars were made in the moderate income census tracts which compare favorably to the businesses in these tracts. Businesses in moderate income census tracts represent 13% of all businesses in Butler County.

Borrowers= Profile

HMDA Loans

CNB has demonstrated a good record for lending to borrowers of all income levels. As noted in Table 4 below, the bank's record of originating loans to low- and moderate-income borrowers exceeded that of peer lenders in 1997.

Table 4 Borrower Distribution of HMDA Loans					
	1998 (Jan-Sept)		1997		
Income Level of Families in AA	Number (#) of Loans in AA	Percentage of Total # in AA	Number (#) of Loans in AA	Percentage of Loans in AA	Borrowers= Profile (%) of Other Financial Institutions
Low 15%	9	4%	24	8%	7%
Moderate 16%	41	18%	65	23%	15%
Middle 23%	76	33%	76	26%	23%
Upper 46%	105	45%	120	42%	46%
N.A. 0%	2	0%	2	1%	9%
Total 100%	233	100%	287	100%	100%

Small Business Lending

The bank has proven to be equally effective in lending to small businesses of various sizes (based on revenues) and credit needs (based on loan sizes). Table 5 shows that all of the small business loan originations within the AA were to businesses with revenues of less than \$1 million.

Table 5 Loans to Small Businesses with Revenues less than \$1 Million Jan 1, 1997 to Sept. 30, 1998			
Number	% of Total # of Small Business Loans in AAs	\$ Amount (in \$000)	% of Total \$ of Small Business Loans in AAs
408	100%	36,353	100%

The bank also has an excellent record of lending to businesses in various loan amounts. The majority of small business loans originated within the AAs were for amounts less than \$100,000. Table 6 shows the breakdown of loan origination amounts in the AA.

Table 6 Loans to Small Businesses by Loan Amount at Origination Jan 1, 1997 to Sept. 30, 1998				
Amount	Number	% of Total # of Loans in AAs	Amount	% of Total \$ Amount of Loans in AAs
Less than \$100,000	328	80%	11,013	30%
Between \$100,000 and \$250,000	44	11%	7,769	21%
Greater than \$250,000	36	9%	17,571	49%
Total	408	100%	36,353	100%

Community Development Lending

Most of the institution's community development lending has been reported under small business lending.

Innovative and Flexible Lending Programs

The bank has originated two mortgage loan products designed to assist low- and moderate-income borrowers. One of the programs is the Affordable Mortgage Program. This is a residential mortgage loan product with the following characteristics: (1) minimal closing costs, (2) a lower down payment, (3) flexible underwriting, and (4) no origination fee and a lower rate of interest. CNB has originated ten loans for \$437 thousand since the prior CRA examination. The second program, Butler County Homebuyer Program, is a joint program developed in conjunction with the Housing Authority of Butler County. The program was developed to promote and develop first-time Homeownership. CNB has committed \$1 million to the mortgage loan pool for applicants. The program was implemented August 1998. There have been no loan originations under the program to date.

INVESTMENT TEST

The level of community development investment is low based upon the financial capacity of the bank. Traditional investment opportunities are considered to be limited, however, management needs to explore investment opportunities at a statewide or broader level, which include the assessment area.

Investments made by CNB have been limited to donations. Qualified contributions totaling \$16,550 were made to the following types of entities:

- C Donations of \$12,500 were made to entities involved in small business development.
- C A donation of \$1,500 was made to the local housing authority.
- C A donation of \$2,550 was made to a local community development corporation.

SERVICE TEST

CNB=s provides retail delivery systems that are accessible to essentially all portions of its assessment area through its branch and automatic teller machine (ATM) network. The bank provides services which enhance the community=s accessibility to credit. The institution provides an adequate level of community development services.

The bank has a good branch distribution, operating 13 branches within the AA. CNB=s branch distribution compares favorably to the geographies within the AA. Table 7 illustrates the distribution of branches by CT income levels.

Income Levels of CT=s	# of CT=s in AA	% of Total CT=s	# of Branches	% of Branches
Low-Income	0	0	N.A.	N.A.
Moderate-Income	3	5%	2	15%
Middle-Income	31	60%	7	54%
Upper-Income	18	35%	4	31%
Total	52	100%	13	100%

The bank offers drive-thru services at eleven (85%) of its branches. Ten full service ATMs are available throughout the AA. Seven of the ATMs are full service and three are cash only. Three (30%) of the ATMs are located in moderate income census tracts, two full service ATMs and one cash

only.

Lobby and drive-thru hours are appropriate for the community. Branches in Chicora, Clearview Mall, Wexford, Zelenople, T-Bones, Evans City, Moraine Point, and Saxonburg offer extended hours and Saturday service.

The bank also offers a telephone banking service which provides customers with balance information, deposit rates, the ability to transfer funds and applying for a loan. There is no fee for this service.

The three moderate-income CTs are located in the City of Butler. The bank operates four branches in and around this area, including a newly renovated office in the downtown district. A branch was opened in Saxonburg (middle-income CT) in 1997. CNB has not closed any branches since the last examination. A policy is in place that addresses the steps the bank will take before a branch is closed.

Services are tailored to the convenience and needs of the community. All branches are full service and offer full array of checking, savings, money market, and investment accounts. Loan services are offered at each branch and the bank accepts customer utility payments and grocery food stamps. The following low cost deposit services are offered by CNB:

- C Budget Checking - an affordable checking account with no minimum balance requirements for those who write less than nine checks per month. This account also has direct debit capability for loan payments.
- C Student Checking - a no minimum deposit, no minimum balance, no monthly service charge account. This account allows unlimited check writing and comes with a debit card.
- C Worry Free Checking - offers the same advantages of student checking, but is available to all depositors and requires an annual fee.

In 1998, the bank took a leadership role in developing a surcharge free ATM alliance of 25 area financial institutions. The program, is known as the **Freedom ATM Alliance.** The program is scheduled to begin January 1999 and includes approximately 20 financial institutions. This program is specifically targeted to community banks and reduces the cost of ATM transactions within the community. Members of the Freedom Alliance have agreed not to surcharge each other's customers.

Community Development Services

Community development services consist primarily of bank employees' involvement in community development activities. The bank's participation in qualified community development services follows:

- C A senior vice president is a member of the Butler County Housing Authority Family Self-Sufficiency Advisory Board of Directors. The purpose of the Board is to assist low-income clients of the Authority become economically self-sufficient. The bank's representative serves as a financial advisor.

- C An executive vice president is a board member and treasurer of the Community Development Corporation (CDC) of Butler County. The CDC's mission is to promote economic growth in the County. The bank's representative has been instrumental in the CDC's plans to develop a former industrial site.

CNB has hosted seminars promoting home ownership. The bank has also participated in the First Time Homebuyers Seminar sponsored by the Butler County Housing Authority.

FAIR LENDING REVIEW

CNB is in substantial compliance with the provisions of the antidiscrimination laws and regulations. A fair lending examination performed concurrently with this CRA examination did not reveal any discriminatory treatment or illegal practices.

Pittsburgh MSA (# 6280) Conclusion with Respect to Performance Tests

CNB's performance in the Pittsburgh MSA represents 99% of the institution's overall performance. The Pittsburgh MSA includes fifty-one of the fifty-two CTs in the AA. The bank's overall rating is based on its performance in this MSA. Please refer to the overall performance section for details.

Non-MSA

Armstrong County

Armstrong County comprises a very small portion of the entire AA. The one BNA in Armstrong County is located in a middle-income geography. The 1,307 households in the county represent 2% of the total households in the combined bank AA. There are no unique credit needs identified in this segment of the AA. CNB operates one branch in Armstrong County.

LENDING TEST

The bank demonstrated a good record for lending to borrowers of different income levels. (Small business lending data was collected by the bank but was not available for analysis due to software problems.) The bank originated 25 loans reportable under HMDA during the period under review in this middle income BNA. The distribution of these loans to borrowers of different income levels follows:

Table 8 Borrower Distribution of HMDA Loans					
	1998 (Jan-Sept)		1997		
Income Level of Families in AA	Number (#) of Loans in AA	Percentage of Total # in AA	Number (#) of Loans in AA	Percentage of Loans in AA	Borrowers= Profile (%) of Other Financial Institutions
Low 26%	0	0	1	8%	17%
Moderate 18%	3	25%	5	38%	14%
Middle 21%	4	33%	4	31%	26%
Upper 35%	5	42%	3	23%	34%
N.A. 0%	0	0%	0	0%	9%
Total 100%	12	100%	13	100%	100%

Note: There were 35 loan originations in 1997 by other financial institutions.

Overall conclusions reached with regards to the **Investment** and **Service Tests** are the same for Armstrong County. **Refer to overall performance section of this report for details.**

Appendix A: Scope of Examination

Time Period Reviewed	1/1/97-9/30/98		
Financial institution Citizens National Bank			Products reviewed HMDA-reportable loans and small business loans
List of Assessment Areas and Type of Examination			
Assessment Area	Type of Exam	Branches Visited	Other Information
Butler County, Allegheny County Census Tracts 4080.01, 4080.02, 4090.00, 4100.00, 4110.00, 4120.01, 4120.02, 4131.00 (Pittsburgh MSA); BNA 9803.00 (non-MSA)	on-site	Lyndora Office	None.

