



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

October 04, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First United National Bank
Charter Number 9480**

**Routes 157 And 208
Fryburg, PA 16326**

**Comptroller of the Currency
Western Pennsylvania (Pittsburgh)
4075 Monroeville Boulevard Building 2, Suite 300
Monroeville, PA 15146**

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 major factors that support this rating include:

- First United National Bank's (FUNB) record of lending to businesses of different sizes exceeds the standard for satisfactory performance.
- FUNB's record of lending to borrowers of different income levels meets the standard for satisfactory performance.
- FUNB's distribution of business loans and home mortgage refinance loans among geographies meets the standard for satisfactory performance.
- Lending activity throughout the evaluation period is satisfactory.
- Home mortgage refinance lending and business purpose lending within the assessment area is satisfactory.

DESCRIPTION OF FUNB

FUNB is a \$162 million, intrastate community bank, with branches located in Clarion, Franklin, and Venango Counties Pennsylvania. FUNB is a wholly owned subsidiary of Fryburg Banking Company, a one-bank holding company. FUNB is headquartered in the town of Fryburg, in Clarion County Pennsylvania. Clarion County is situated in north central Pennsylvania. The town of Fryburg is located north of Interstate 80 approximately 60 miles east of Erie, Pennsylvania. FUNB is a full service community bank offering a range of deposit and loan products. Loan products include residential real estate mortgages, commercial loans, and consumer loans. FUNB has not opened or closed any branches since the previous evaluation. FUNB received a satisfactory rating as a result of the previous Community Reinvestment Act (CRA) evaluation, which was conducted as of May 18, 1999.

FUNB's primary business focus is local commercial and residential real estate lending. Over the evaluation period, FUNB's primary residential mortgage lending product has been home refinance loans. As of June 30, 2004, net loans represented 73% of FUNB's assets. FUNB's loan portfolio by dollar volume consists of: 54% residential real estate secured, 22% commercial real estate and commercial loans, 21% individual loans and the remainder in other loan types including multifamily real estate secured, construction, and home equity loans. There are no financial or legal impediments that would preclude FUNB from lending.

DESCRIPTION OF FUNB's ASSESSMENT AREA (AA)

FUNB's AA includes all of Clarion County, Venango County, and Forest County. The AA also includes contiguous whole Census Tracts (CT) of Armstrong, Crawford, and Jefferson Counties. The AA is a non-metropolitan statistical area (Non-MSA), and includes 38 CTs. According to the 1990 U.S. Census Bureau, six CTs were designated as moderate-income and the remaining 32 CT's were designated as middle-income. FUNB's AA meets legal requirements and does not arbitrarily exclude low and moderate-income geographies.

FUNB operates five full service branch offices with Automated Teller Machines (ATM's) in its AA. Clarion County locations include Fryburg, Clarion, and New Bethlehem. Franklin County locations include Oil City and Franklin. A stand-alone full service ATM is located in Tionesta, Forest County. The branch in New Bethlehem and the stand alone ATM in Tionesta were both relocated during the evaluation period. The relocations were within the same CT and allowed for better consumer access with expanded facilities and additional hours. The Franklin branch is located in a moderate-income CT. The remaining branches are located in middle-income CT's.

Demographic information derived from annually updated Housing and Urban Development (HUD) data was used to analyze the bank's lending distribution among borrowers of different income levels. HUD data updated for 2003, reports the median family income for the bank's AA to be \$41,100. The distribution of families between CT's is as follows:

- 20% of families are in low-income CTs;
- 22% of families are in moderate-income CTs;
- 25% of families are in middle-income CTs; and
- 33% of families are in upper-income CTs.

Demographic data collected during the 1990 census is used to analyze the bank's lending distribution among AA geographies. FUNB's AA does not include any low-income or upper-income CTs. The distribution of owner occupied housing between CTs is as follows:

- 39% of owner occupied housing is in moderate-income CTs; and
- 61% of owner occupied housing is in middle-income CTs.

U.S. Census Bureau population for the entire AA is approximately 149,000. The AA's population demographic is typical for rural, north central Pennsylvania. The AA has a high level of retirees with 15% of the population over the age of 65 and 33% of households receiving social security. The area also has a high level of persons living below poverty level at 15% and 9% of households receiving public assistance. The workforce is dominated by service industry and manufacturing with wage and salary work reported at 70% by the 1990 Census Bureau. However, current unemployment data indicates that unemployment is moderately high at 6.3% in Venango County and 6.8% in Clarion County. Owner occupied housing is moderate at 57% with most housing designated as 1-4 family residential real estate. Vacant housing in the AA is high at 25%. 1990 Census Data reports an aging housing stock with a median year built of 1955 and a median housing value of approximately \$48,000. According to local realtors, median housing values for Clarion and Venango Counties have increased significantly and are currently \$89,000 and \$59,000, respectively.

FUNB's AA is predominantly rural with pockets of urban activity located in and around population centers such as Clarion, Fryburg, and Oil City. The City of Clarion includes a local university, hospitals, and state and county government. Various small self-employed service and light industry businesses are employed throughout the AA. According to bank management, major employers throughout the AA are heavy mining equipment manufacturing, modular home manufacturing, glass manufacturing, lumber processing, health care, and government.

FUNB includes only a small portion of Crawford, Armstrong, and Jefferson Counties in the AA. These CTs are in rural sections of those counties and do not include any major population centers. Economically, these areas are similar to Clarion and Venango Counties. Forest County

is the least populated county in Pennsylvania and is part of state and national forest lands.

Banking competition within FUNB's AA is significant. Competition consists of financial institutions, including banks and credit unions, similarly situated community banks and branches of larger financial institutions.

Economic development and housing needs in the AA include small loans to small businesses and residential mortgage loans. A significant credit need in the community is small loans to small businesses. Many area businesses are locally owned sole proprietorships that depend on local financial institutions to meet ongoing cash flow requirements. According to business information for 2002 under Dun & Bradstreet, 86% of businesses are single location establishments, more than 50% of businesses employ under 20 persons, and almost 75% report revenues under \$1 million. A community contact that was made with an economic development agency in Clarion County indicated that local banks are actively involved in meeting the community's credit needs.

Sampling Analysis

FUNB loan data was collected through a random sample of residential mortgage home refinance loans and commercial loans. Sampling followed regulatory guidelines for each area under consideration as follows:

- Lending in the AA was based on a sample of 20 home mortgage refinance loans and 20 business loans totaling \$1.4 million and \$2.4 million, respectively.
- The distribution of loans among borrowers of different income levels and the geographic distribution of loans was based on a sample of 42 home mortgage refinance loans and 20 business loans totaling \$2.7 million and \$2.4 million, respectively.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FUNB's loan to deposit ratio meets the standard for satisfactory performance. FUNB's average loan-to-deposit (LTD) over the evaluation period is comparable to peer banks.

FUNB's lending activity was assessed using an 18-quarter average and comparing to the average of five peer banks. The peer banks are all located in the five county areas that include FUNB's AA and have an asset size under \$200 million. FUNB's volume of lending is approximately midrange of peer banks and has been stable to declining. FUNB's average over the last 18 quarters is 78% compared to peer average of 76%. The peer bank's average range is from 63% to 90%. FUNB's actual LTD at June 30, 2004 was 77%.

Lending in Assessment Area

Lending in the AA meets the standard for satisfactory performance.

FUNB originated a majority of its home mortgage refinance within its AA and a substantial majority of its business loans within the AA.

An analysis of home mortgage refinance loans originated by FUNB over the evaluation period found that 85% by volume and 67% by dollar, respectively, were originated within FUNB's AA.

An analysis of business purpose loans originated by FUNB over the evaluation period found that 95% by volume and 99% by dollar, respectively, were originated within FUNB's AA.

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

Income Distribution of Residential Mortgage Lending

FUNB's record of lending to borrowers of different income levels meets the standard for satisfactory performance. The percentage of home mortgage refinance loans originated by number is below the percentage by number of both low-income and moderate-income families.

This level of residential mortgage lending to borrowers of different income levels is reasonable considering the demographic context in which FUNB operates. FUNB's ability to extend home mortgage refinance loans to low-income and moderate-income borrowers is hampered by AA population and housing demographics. However, FUNB has developed an alternative mortgage loan program to meet affordable housing needs in the AA.

Income Level	Low		Moderate		Middle		Upper	
	% Of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Home Mtg Refinance	20%	7%	22%	10%	25%	33%	33%	50%

Limited home mortgage refinance loan demand from low-income and moderate-income families may be attributed to senior, long time residents who have already owned and occupied residences in the area for many years. For this segment of the population, housing needs tend to shift from owner occupied housing to apartment living. The need for refinancing in the segment is limited. Therefore, the bank's opportunity to originate these types of loans to the senior population is limited.

The ability of low-income borrowers to refinance home mortgages is limited by the level of population living below poverty levels. It would be difficult for these borrowers to sustain a mortgage. Moderate-income borrowers ability to refinance is impacted by the rising cost of housing in relation to updated median family income. Updated median family income for

moderate-income borrowers is less than \$34,000 that may impact their ability to sustain a refinanced mortgage on a \$70,000 home.

FUNB offers an internally developed affordable mortgage program to low-income and moderate-income borrowers. The program offers reduced rates, reduced fees, and reduced down payment options. The program has seen increasing volume over the evaluation period demonstrating the bank’s commitment to provide affordable housing in the AA. Over the evaluation period, FUNB has originated 35 loans totaling \$1.1 million through this program.

Income Distribution of Business Purpose Lending

FUNB's record of lending to AA businesses of different sizes exceeds the standard for satisfactory performance.

The percentage of loans originated to small businesses exceeds the percentage of reported small businesses in the AA. The percentage of very small loans to businesses is high.

FUNB’s record of business lending among AA businesses of different sizes is good considering AA demographics. A sample of AA business purpose loans, originated by FUNB over the evaluation period, were reviewed to assess the bank's record of lending to AA small businesses. Loans to small businesses are defined as those loans made to business enterprises whose annual, gross revenues are \$1 million or less. AA small businesses, according to Dunn and Bradstreet, represent 73% of total AA businesses. FUNB originated 85% of business purpose loans to businesses with revenues of \$1 million or less.

Table 2 - Borrower Distribution of Loans to Businesses in FUNB AA			
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Not Reported
% of AA Businesses	73%	5%	22%
% of Bank Loans in AA by #	85%	15%	

FUNB also demonstrates a commitment to small business lending through its record of small dollar business loans. These loans meet a defined community credit need. Over the evaluation period FUNB originated 60% by number of small loans to businesses at \$100,000 or less.

Geographic Distribution of Loans

Geographic Distribution of Residential Mortgage Lending

FUNB’s record of home mortgage refinance lending among AA geographies meets the standard for satisfactory performance. The percentage of home mortgage refinance loans made within moderate-income CTs is well below the percentage of owner occupied housing in moderate-income CTs.

Table 3 – Geographic Distribution of Residential Real Estate Loans in FUNB AA								
	Low		Moderate		Middle		Upper	
	% of Owner Occupied Housing	% of # of Loans	% of Owner Occupied Housing	% of # of Loans	% of Owner Occupied Housing	% of # of Loans	% of Owner Occupied Housing	% of # of Loans
Home Mtg Refinance	N/A	N/A	39%	7%	61%	93%	NA	NA

The distribution of home mortgage refinance lending is considered reasonable given the AA’s moderate-income CT demographics. FUNB’s ability to originate home mortgage refinance loans is significantly impacted by high poverty levels and high levels of households receiving social security and public assistance. These economic factors combined with a high level of vacant housing and a low level of owner occupancy hamper the ability to lend in moderate-income CTs. The table below details 1990 US Census Bureau demographics that are specific to FUNB’s moderate-income geographies.

Table 4 – Moderate-Income Tract Demographics in FUNB AA			
Housing Type		Number of Households	
Owner Occupied Units	39%	Receiving Social Security	40%
Vacant Housing Units	43%	Receiving Public Assistance	14%
Total Households	7,330	Living Below Poverty Level	19%

Geographic Distribution of Business Lending

FUNB's record of business purpose lending among AA geographies meets the standard for satisfactory performance.

2002 demographic data compiled through Dun and Bradstreet indicates that 7,551 businesses are distributed throughout AA geographies as follows:

- 1,436 or 19% of businesses are located in moderate-income geographies; and
- 6,115 or 81% of businesses are located in middle-income geographies.

The percentage of business purpose loans originated in moderate-income geographies is near to the percentage of reported business in moderate-income geographies.

Table 5 - Geographic Distribution of Loans to Businesses FUNB AA								
	Low		Moderate		Middle		Upper	
	% of Businesses	% of # of Loans	% of Businesses	% of # of Loans	% of Businesses	% of # of Loans	% of Businesses	% of # of Loans
Business Loans	N/A	N/A	19%	20%	81%	80%	NA	NA

Responses to Complaints

No complaints have been received since the last examination.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.