



SMALL BANK

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

PUBLIC DISCLOSURE

July 12, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Fredericksburg
Charter Number 8783**

**147 South Pine Grove Street
Fredericksburg, PA 17026**

**Comptroller of the Currency
Northern Pennsylvania Field Office
100 Hazle Street Suite 202
Wilkes-Barre, PA 18702**

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 overall rating is based on the following factors:

- The average loan to deposit ratio is 73.95% and meets the standards for satisfactory performance;
- A substantial majority of the home mortgages were originated within its assessment areas (AAs);
- The bank's record of lending to borrowers of different incomes meets the standards for satisfactory performance; and
- The geographic distribution of loans meets the standards for satisfactory performance.

DESCRIPTION OF INSTITUTION

First National Bank of Fredericksburg (FNB), founded in 1907, is a \$146 million independent intrastate community bank located in central Pennsylvania. The bank operates eight full-service offices, including the Schuylkill Haven office, which opened in August 2003. Four of the offices have drive-in facilities and all have extended evening and weekend hours. FNB also offers telephone and Internet banking services.

Primary loan products include fixed rate and adjustable rate residential mortgages, small business and agricultural loans, and consumer installment loans. As of June 30, 2004, net loans represented 64% of average assets. A breakdown of the loan portfolio is as follows: 45% residential mortgages, 36% commercial and commercial real estate loans, 7% consumer installment loans, and 12% agricultural loans. The bank's net Tier 1 Capital as of this date was \$12.9 million.

According to the June 30, 2003 FDIC/OTS Summary of Deposits Market Share Report, in **Lebanon County**, FNB ranked seventh out of nine institutions with a 6.16% market share of deposits and five offices. Lebanon Valley Farmers Bank ranked first with 34.17% of deposits and fourteen offices, and Wachovia Bank, N.A. ranked second with 17.46% of deposits and eight offices. FNB ranks 12th out of 219 lenders in this AA for home mortgage loans, with 2.71% market share.

In **Berks County**, FNB ranked fifteenth out of nineteen institutions with 0.37% of the deposit market share and one office. Sovereign Bank ranked first with 24.30% market share of deposits and fourteen offices, and National Penn Bank ranked second with 16.16% deposit market share and nineteen offices. FNB ranks 12th out of 113 lenders in this AA for home mortgage loans, with 2.38% of the market share.

In **Schuylkill County**, FNB ranked fifteenth out of eighteen institutions with 0.85% of deposit

market share and two offices. Wachovia Bank, N.A. ranked first with 19.85% market share and twelve offices. Manufacturers & Traders Trust Company ranked second with 18.79% of market share and fourteen offices. FNB ranks 11th out of 127 lenders in this AA for home mortgage loans, with 2.48% of the market share.

There are no legal or financial impediments that would hinder the bank's ability to help meet the credit needs of the communities it serves.

FNB's last Public Evaluation (PE) is dated October 26, 1998 and the overall CRA rating assigned was **Satisfactory**.

DESCRIPTION OF ASSESSMENT AREA

FNB has three assessment areas (AAs). All meet regulatory requirements and do not arbitrarily exclude any low- or moderate-income geographies.

Lebanon AA - This assessment area includes 28 census tracts (CTs) in northern Lebanon County and is part of the Harrisburg-Lebanon-Carlisle Metropolitan Statistical Area (MSA). The bank's headquarters is located in this AA. The AA contains no low-income CTs, 4 moderate-income CTs, 23 middle-income CTs, and 1 upper-income CT. According to the 1990 U.S. Census, the total population of this AA is 113,744. The AA's population is comprised of 31,293 families with the following family income distribution: 17.69% are low-income, 22.65% are moderate-income, 29.01% are middle-income, and 30.65% are upper-income. The median cost of housing in this AA is \$69,495. The Updated Median Family Income for 2002 is \$55,400. The percentage of households below the poverty level is 7%. Major employers in Lebanon County are Good Samaritan and Philhaven hospitals, Farmers Pride, and federal and local government offices.

Berks AA - This AA comprises 3 census tracts in western Berks County, which is part of the Reading MSA. All of the tracts in this AA are middle-income tracts. According to 1990 U.S. Census data, the total population in this AA is 18,045. The AA's population is comprised of 4,987 families with the following family income distribution: 15.24% are low-income, 21.01% are moderate-income, 30.14% are middle-income, and 33.61% are upper-income. The median cost of housing in this AA is \$79,526. The Updated Median Family Income for 2002 is \$53,300. The percentage of households below the poverty level is 5%. Major employers in Berks County are East Penn Manufacturing, The Reading Hospital and Medical Center, the Berks County Services Center, the Reading School District, and Boscov's Department Store.

Schuylkill AA - This AA consists of 7 census tracts in the non-MSA area of southern Schuylkill County. This AA includes no low- or moderate-income tracts. Five of the tracts are middle-income tracts, and two are upper-income tracts. According to 1990 U.S. Census data, the total population of this AA is 25,701. The AA's population is comprised of 7,290 families with the following family income distribution: 13.92% low-income, 16.13% moderate-income, 24.42% middle-income, and 45.53% upper-income. The median cost of housing in this AA is \$56,212. The Updated Median Family Income for 2002 is \$41,100. The percentage of households below the poverty level is 8%. Major employers in Schuylkill County are Alcoa Extrusions, the Pottsville Hospital, Lowe's Home Centers, and state and local government.

The bank's AAs are primarily rural and small town. The local area is known mainly for dairy and poultry farming. Most residents travel outside the area to Reading and Harrisburg for work where employment opportunities exist mainly in government (Harrisburg is the state capital of Pennsylvania) and manufacturing. According to the Pennsylvania Department of Labor and Industry, unemployment in the Harrisburg-Lebanon-Carlisle MSA is generally consistently below state averages, while unemployment in the Reading MSA is generally consistently above state averages. The 2003 Pennsylvania state unemployment rate was 5.6%; unemployment in the Harrisburg-Lebanon-Carlisle MSA was 3.8% while in the Reading MSA the unemployment rate was 6.2%.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Community Contact

A community contact was made with an officer of the Lebanon County Redevelopment Authority. The Redevelopment Authority primarily serves the needs of northern Lebanon County. Under the "First Time Homebuyers Assistance Program", the Redevelopment Authority will provide down-payment assistance up to 17% of the purchase price as down-payment assistance to eligible low- or moderate-income persons. FNB is one of six participating institutions to which the Authority refers pre-screened applicants. The authority pre-qualifies eligible applicants based on income, credit, and assets. Eligible applicants are individuals who earn less than 80% of the County's designated median income. The contact stated that FNB has been an active member of the program for approximately eight years. FNB also participates in the Affordable Housing Council to provide homebuyer education services. FNB is an active member and provides both financial support and employee participation by providing employees to lead education seminars.

The contacts could not identify any un-met credit needs within the community. Financial institutions were perceived as being able to meet the various credit needs of the community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The evaluation period covered lending activity for home mortgages (purchase money, refinance, and home improvement loans) reported under the Home Mortgage Disclosure Act (HMDA) from January 1, 1999 through December 31, 2002.

Loan-to-Deposit Ratio

An analysis of FNB's quarterly loan-to-deposit ratios from fourth quarter 1998 through the fourth quarter 2002 reveals that the bank meets the standards for satisfactory performance. The bank's average loan-to-deposit ratio for these seventeen quarters was 73.95%, ranging from a low of 69.11% to a high of 78.96%. This average ratio is substantially similar to the average quarterly ratios of similarly situated banks in Pennsylvania with similar asset size. The custom peer average was 75.71%, with average ratios during the period ranging from 68.97% to 80.00%.

Lending in Assessment Areas

A substantial portion of the home mortgage loans originated during the evaluation period was within the AAs. FNB exceeds the standards for satisfactory performance for lending in their AAs. An analysis of HMDA data disclosed that 97% of the loans were originated in the AAs.

The following table presents an analysis of the distribution of home mortgage loans inside and outside the bank's AAs. For purposes of determining lending in the AAs, the data from all three AAs is combined.

HOME MORTGAGE LOANS ORIGINATED DURING EVALUATION PERIOD 1/1/99 THROUGH 12/31/02				
	<i>INSIDE ASSESSMENT AREAS</i>		<i>OUTSIDE ASSESSMENT AREAS</i>	
	# Loans	\$(000)	# Loans	\$(000)
Home Purchase Loans	221	16,784	12	736
Home Refinance Loans	379	18,835	10	477
Multifamily	0	0	0	0
Home Improvement	197	4,177	5	157
Total Loans	797	39,796	27	1,370
Percentage	97%	97%	3%	3%

Lending to Borrowers of Different Incomes

FNB's record of lending to borrowers of different incomes meets the standards for satisfactory performance. We analyzed the distribution of lending for each assessment area separately and compared it to the demographics of that area.

The level of home mortgage loans originated to low-income borrowers in the **Lebanon AA** is less than the percentage of low-income families in the AA. The level of home mortgages to moderate-income borrowers meets the percentage of moderate-income families in the AA. When considering the affordability of housing in the AA, this performance is satisfactory. The median cost of housing in the AA is \$69,495, based on 1990 U.S. Census data. The HUD Updated Median Family Income for 2002 is \$55,400. This means that a low-income individual in the AA earns less than \$27,700. Of the total households in this AA, 7% have incomes below the poverty level. Based on these statistics, it would be difficult for low-income individuals to purchase housing in the AA.

The level of home mortgage loans originated to low-income borrowers in the **Berks AA** meets the percentage of low-income families in the AA. The level of home mortgage loans to moderate-income borrowers exceeds the percentage of moderate-income families in the AA. The median cost of housing in the MSA AA is \$79,526, based on 1990 U.S. Census data. The HUD Updated Median Family Income for 2002 is \$53,300.

FNB did not originate any mortgage loans to low-income borrowers in the **Schuylkill AA**. The level of home mortgages to moderate-income borrowers is less than the percentage of moderate-income families in the AA. When considering the affordability of housing in the AA combined with an 8% poverty level, this performance is adequate. The median cost of housing in the AA is \$56,212, based on 1990 U.S. Census data. The HUD Updated Median Family Income for 2002 is \$41,100. This means that a low-income individual in the AA earns less than \$20,550. Based on these statistics, it would be difficult for a low-income individual to purchase housing in the AA.

The following tables summarize the analysis of the distribution of home mortgage loans for each AA by borrower income level.

Borrower Distribution of Home Mortgage Loans in Lebanon AA					
1/1/99 THROUGH 12/31/02					
Income Level	# of Loans	% of # of Loans	\$ (000) of Loans	% of \$ of Loans	Income Level of Families in AA
Low	79	12.7%	2,497	7.9%	17.69%
Moderate	143	23.0%	6,416	20.2%	22.65%
Middle	206	33.2%	8,973	28.2%	29.01%
Upper	192	30.9%	13,833	43.5%	30.65%
Income Not Available	1	0.2%	78	0.2%	0%
Total	621	100.00%	31,797	100%	100%

Borrower Distribution of Home Mortgage Loans in Berks AA					
1/1/99 THROUGH 12/31/02					
Income Level	# Of Loans	% of # of Loans	\$ (000) of Loans	% of \$ of Loans	Income Level of Families in AA
Low	16	15.4%	436	9.6%	15.24%
Moderate	28	26.9%	1,161	25.4%	21.01%
Middle	33	31.7%	1,593	34.9%	30.14%
Upper	27	26.0%	1,373	30.1%	33.61%
Income Not Available	0	0.0%	0	0.0%	0%
Total	104	100.00%	4,563	100%	100%

Borrower Distribution of Home Mortgage Loans in Schuylkill AA					
1/1/99 THROUGH 12/31/02					
Income Level	# of Loans	% of Loans	\$ (000) of Loans	% of \$ of Loans	Income Level of Families in AA
Low	0	0.0%	0	0.0%	13.92%
Moderate	4	5.6%	205	6.0%	16.13%
Middle	22	30.6%	787	23.0%	24.42%
Upper	46	63.9%	2,444	71.0%	45.53%
Income Not Available	0	0.0%	0	0.0%	0%
Total	72	100.0%	3,436	100.0%	100.0%

Geographic Distribution of Loans

The bank's geographic distribution of home purchase, home improvement, and home refinance mortgages meets the standards for satisfactory performance, when performance context issues are considered.

The geographic distribution of loans in the **Lebanon AA** meets the standards for satisfactory performance. There are no low-income geographies located in this AA. Four of the 28 CTs located in this AA are moderate-income tracts. None of FNB's branches located in the AA are situated in any of the moderate-income geographies. Less than 50% of the housing in these moderate-income tracts is owner-occupied, so there is limited opportunity for home mortgages. The poverty level in the moderate-income tracts is high, at 15%, making it difficult for individuals to purchase a home even if one was available. Additionally, there is strong competition for loans in this AA, with competitors Wachovia Bank, Lebanon Valley Farmers Bank, Waypoint Bank, and Jonestown Bank all located within close proximity to each other.

The geographic distribution of loans in the Berks AA and the Schuylkill AA were not evaluated because these areas contain no low- or moderate-income census tracts. An analysis of the geographic distribution of loans would not be meaningful.

Please refer to the following table for the geographic distribution of home mortgage loans.

Geographic Distribution of Home Mortgage Loans in Lebanon AA 1/1/99 THROUGH 12/31/02					
Income Level	# of Loans	% of \$ of Loans	\$ (000) of Loans	% of \$ of Loans	% of Owner-Occupied Units
Low	0	0.0%	0	0%	0.0%
Moderate	69	11.1%	2,322	7.3%	47.92%
Middle	550	88.6%	29,251	91.9%	71.72%
Upper	2	0.3%	224	0.8%	82.93%
Total	621	100.0%	31,797	100.0%	100.0%

Responses to Complaints

The bank has not received any CRA-related consumer complaints since the last CRA examination.

Fair Lending Review

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