



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

August 26, 2008

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Honesdale National Bank  
Charter Number: 644

733 Main Street  
Honesdale, PA 18431-0000

Office of the Comptroller of the Currency

NORTHERN PENNSYLVANIA  
60 Public Square Suite 602  
Wilkes-Barre, PA 18701

**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 Lending Test is rated: Outstanding.**

**The Community Development Test is rated: Satisfactory.**

The major factors supporting this rating include:

- The bank's quarterly average net loan-to-deposit ratio is reasonable and meets the standards for satisfactory performance;
- A substantial majority of the bank's loans were originated in the bank's assessment area;
- The bank's distribution of loans represents an excellent penetration among individuals of different income levels;
- The bank's distribution of loans represents an excellent dispersion throughout census tracts of different income levels;
- HNB's responsiveness to community development needs and opportunities in its assessment area is adequate in light of its capacity and area opportunities.

## **Scope of Examination**

Honesdale National Bank (HNB) was evaluated under the Intermediate Small Bank examination procedures, which include a lending test and a community development (CD) test. The lending test evaluates the bank's record of meeting the credit needs of its assessment area (AA) through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AA through CD lending, qualified investments, and community development services.

The evaluation period under the Lending Test covers the bank's performance from January 1, 2006 through June 30, 2008, as this is representative of its lending strategy since the last CRA examination. The evaluation period for the community development test is from May 10, 2004 through August 26, 2008.

HNB's primary loan product is home mortgage loans. HNB reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). Prior to this evaluation, we tested the accuracy of HNB's HMDA data. The results of this testing indicated the data was not reasonably accurate and could not be relied upon. HNB reviewed, corrected, and resubmitted their HMDA data. Therefore, we utilized the corrected HMDA data from January 1, 2006 through June 30, 2008 for this evaluation. Community Development (CD) loans, investments, and services submitted by management were also verified to ensure that they met the regulatory definition for community development.

## Description of Institution

Honesdale National Bank (HNB) is an independent, intrastate community bank, established in 1836, with its main office and headquarters in Honesdale, Pennsylvania. Honesdale is the county seat of Wayne County in northeastern Pennsylvania. As of June 30, 2008, HNB had total assets of \$460 million and tier one capital of \$49 million. HNB is a wholly owned subsidiary of HONAT Bancorp, Inc., a one-bank holding company headquartered in Honesdale, PA with consolidated assets of \$460 million. HONAT Bancorp, Inc. has no other subsidiaries. HNB does not have any subsidiaries or affiliates.

As of June 30, 2008, HNB operates eight full services offices and an operations center in Wayne, Pike, Susquehanna, and Lackawanna counties. HNB also operates a mortgage loan production office in Luzerne County. All eight offices have on-site automated teller machines (ATMs). HNB also maintains an off-site ATM at a local hospital. All branches offer extended Friday hours and Saturday morning hours. The Kingston Office was opened in a middle-income geography in 2007. There were no branches closed, and there were no mergers or acquisitions during the evaluation period.

HNB is a full service community bank offering a standard range of retail banking, commercial banking, and trust services. Its retail services include checking accounts, savings programs, money-market accounts, certificates of deposit, consumer loan programs, and residential mortgages. Its commercial services include business checking accounts, money-market accounts, commercial mortgages, lines or letters of credit, credit cards, and loans for equipment or capital improvements. In addition, HNB offers trust and investment services.

As of June 30, 2008, HNB reported net loans and leases of \$335 million or 73% of total assets. The loan portfolio is comprised as follows:

<b>Loan Portfolio Summary by Loan Product June 30, 2008</b>	
<b>Loan Category</b>	<b>% of Outstanding Dollars</b>
1-4 Family Residential Real Estate Loans	33%
Commercial Real Estate Loans	33%
Commercial & Industrial Loans	18%
Consumer Loans	13%
Agricultural and Municipal Loans	3%

Competition is average and includes local community banks and branches of larger regional and national banks. HNB's main competitors are: PNC Bank, NA, Wachovia Bank, NA, First National Community Bank, Manufacturers and Traders Trust Company, Community Bank, NA, Dime Bank, NBT Bank, NA, and Wayne Bank.

There are no financial or legal impediments to hinder HNB's ability to help meet the credit needs of the communities it services.

HNB's last Public Evaluation (PE), dated May 10, 2004, was rated Satisfactory.

## Description of Assessment Areas

HNB has three assessment areas (AAs) located in northeastern Pennsylvania. The AAs are described below.

### The Scranton - Wilkes-Barre MSA #42540 AA

HNB's first assessment area is the Scranton – Wilkes-Barre MSA #42540 AA.

Demographic Information for the Scranton – Wilkes-Barre MSA #42540 AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	168	0.60	12.50	74.40	12.50
Population by Geography	560,625	0.46	10.26	73.22	16.06
Owner-Occupied Housing by Geography	158,663	0.03	7.89	74.88	17.20
Businesses by Geography	36,614	3.37	10.35	69.63	16.65
Farms by Geography	787	0.13	3.56	71.28	25.03
Family Distribution by Income Level	148,520	19.02	18.75	22.88	39.34
Household Distribution by Income Level	56,099	0.37	14.68	75.22	9.73
Census Median Family Income (MFI)		43,893	Median Housing Value		87,298
HUD-Adjusted MFI: 2008		54,700	Unemployment Rate		
			Lackawanna		6.0%
			Luzerne		6.2%
			Wyoming		5.8%
Families Below the Poverty Level		12%			

Source: 2000 U.S. Census Data; 2008 HUD updated MFI; unemployment rate as of June 2008

The Scranton - Wilkes-Barre MSA #42540 AA is comprised of Lackawanna, Luzerne, and Wyoming Counties. HNB designated all the census tracts in Lackawanna, Luzerne, and Wyoming Counties as its AA. This AA meets the requirements of the regulation and does not arbitrarily exclude any low-or moderate-income areas.

Of the 168 census tracts, 1 or 0.60% is a low-income geography, 21 or 12.50% are moderate-income geographies, 125 or 74.40% are middle-income geographies, and 21 or 12.50% are upper-income geographies.

The 2000 U. S. Census reported the total population of the AA at 560,625. Within the AA, there are 148,520 families and 227,729 households. There are 252,761 housing units, of which, 63% are owner-occupied, 27% are rental-occupied, and 10% are vacant housing units. Approximately 0.03% of owner-occupied housing is located in the low-income geography, 7.89% is located in moderate-income geographies, 74.88% is

located in middle-income geographies, and 17.20% is located in upper-income geographies. The median housing cost is \$87,298.

The 2000 median income was \$43,893, and the 2008 HUD updated median family income is \$54,700. Approximately 19% of the families are low-income, 19% are moderate-income, 23% are middle-income, and 39% are upper-income. Approximately 12% are below the poverty level.

There are two full service branches located in this AA. During the evaluation period, one branch, the Kingston Office, was opened in a middle-income geography. Both branches offer a full line of traditional banking products and services have extended hours on Friday evening, and have Saturday morning hours. Both branches have automated teller machines (ATMs).

According to the June 30, 2008 FDIC Summary of Deposit Market Share report, HNB's deposit market share within this AA is 0.45%, ranking HNB 23 out of 26 institutions in the AA. HNB's primary competitors are: PNC Bank, NA (34 offices, 21.66% market share), Wachovia Bank, NA (18 offices, 13.23% market share), First National Community Bank (17 offices, 8.16% market share), Manufacturers and Traders Trust Company (18 offices, 8.10% market share), and Community Bank, NA (22 offices, 7.55% market share).

The economy is characterized as stable. The major industries in Lackawanna County are finance, insurance, real estate, tourism, and health services, and the major employers are AOL/Time Warner, Arlington Industries, Inc., AT&T, and Casket Shells, Inc. The major industries in Luzerne County are manufacturing and retail trade, and the major employers are Altadis USA, Bemis Co., Inc., Best Foods Baking Co., Blue Cross/Blue Shield/NEPA, and Boscov's. The major industries in Wyoming County are agriculture, services and hospitality, and the major employers are Ace-Robbins, Inc., Beverly Enterprises, Bricks Market, Inc., Campos Express & Leasing, Inc. and Community Bank & Trust.

According to the June 2008 Bureau of Labor Statistics data, the unemployment rates for the counties within the bank's assessment are as follows: Lackawanna County is 6.0%, Luzerne County is 6.2%, and Wyoming County is 5.8%. The Pennsylvania state unemployment rate was 5.2%, and the national unemployment rate was 5.5%.

During the examination, we contacted a community organization whose primary purpose is affordable housing. We determined through this community contact and our internal research that opportunities exist for community development lending, investments, and services. According to the community contact, the primary needs of the area include: home purchase and home repair loans with reduced rates and favorable terms, reduced points, and closing cost assistance, loans, grants, and donations to organizations that provide affordable housing. Because federal funding is not sufficient, the development of a consortium of banks that could pull their money together to provide funding to organizations that develop affordable housing, and the development of a committee that includes, but is not limited to, banks, local organizations, and realtors is needed. This committee could meet quarterly to discuss

affordable housing needs, how to meet these needs, and what bank programs are available for low- and moderate-income people. The community contact indicated the financial institutions are active and have been meeting the needs of the area.

**Wayne & Susquehanna Counties - Non-MSA AA**

HNB’s second assessment area is the Wayne & Susquehanna Counties – Non-MSA AA.

Demographic Information for the Wayne & Susquehanna Counties – Non-MSA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	25	0.00	0.00	100.00	0.00
Population by Geography	89,960	0.00	0.00	100.00	0.00
Owner-Occupied Housing by Geography	27,916	0.00	0.00	100.00	0.00
Businesses by Geography	6,112	0.00	0.00	100.00	0.00
Farms by Geography	344	0.00	0.00	100.00	0.00
Family Distribution by Income Level	24,777	19.11	20.48	24.45	35.95
Household Distribution by Income Level	9,810	0.00	0.00	100.00	0.00
Census Median Family Income (MFI)		41,475	Median Housing Value		96,639
HUD-Adjusted MFI: 2008		51,500	Unemployment Rate		
			Wayne	4.6%	
			Susquehanna	5.1%	
Families Below the Poverty Level		12%			

Source: 2000 U.S. Census Data; 2008 HUD updated MFI; unemployment rate as of June 2008

This AA contains all twenty five census tracts in Wayne & Susquehanna Counties. Wayne County consists of 14 middle-income geographies, and Susquehanna County has 11 middle-income geographies. All 11 census tracts in Susquehanna County are middle-income geographies that have been classified as distressed and underserved non-metropolitan middle-income geographies. The AA meets the requirements of the regulation and does not arbitrarily exclude any low-or moderate-income areas.

The 2000 U. S. Census reported the total population of the AA at 89,960. Within the AA, there are 24,777 families and 34,843 households. There are 52,422 housing units, of which, 53% are owner-occupied, 13% are rental-occupied, and 34% are vacant housing units. The median housing cost is \$96,639.

The 2000 median income was \$41,475, and the 2008 HUD updated median family income is \$51,500. Approximately 19% of the families are low-income, 20% are moderate-income, 25% are middle-income, and 36% are upper-income. Approximately 12% are below the poverty level.

There are four full service branches located in this AA, all located in middle-income geographies. One of the four branches is located in a designated distressed and

underserved middle-income geography in Susquehanna County. All four branches have automated teller machines (ATMs), offer a full line of traditional banking products and services, have extended hours on Friday evening, and have Saturday morning hours.

According to the June 30, 2008 FDIC Summary of Deposit Market Share report, HNB's deposit market share within this AA is 18.36%, ranking it 1<sup>st</sup> out of 13 institutions in the AA. HNB's primary competitors are: Dime Bank (4 offices, 16.24% market share), NBT Bank, NA (11 offices, 15.87% market share), Wayne Bank (6 offices, 13.78% market share), and Peoples National Bank (5 offices, 12.46% market share).

The economy in this AA is stable. The major employment sectors in Wayne County are healthcare, tourism, and agriculture. The major employers are: Caesars Cove Haven, DSFI, Ellen Memorial Health Care Center, and Hanson Aggregates. The major employment sectors for Susquehanna County are health care facilities, school districts, and state and local governments. The major employers are: Barnes Kasson Hospital, Montrose Area School District, PA state government, and Elk Lake School District.

According to the June 2008 Bureau of Labor Statistics data, the unemployment rate for Wayne County was 4.60% and the unemployment rate for Susquehanna County was 5.1%. The Pennsylvania state unemployment rate was 5.2%, and the national unemployment rate was 5.5%.

During the examination, we contacted one community organization whose primary purpose is economic development. We determined through this community contact and through our internal research that opportunities exist for community development lending, investments, and services, but they are limited. According to the community contact, the primary needs of the area are financing and education for small businesses and start-up businesses and providing financial assistance through serving on the board of directors for local organizations whose primary purpose is economic development. The community contact indicated the local financial institutions are active in the community and have been meeting the needs of the area.

**Newark-Union NJ-PA MD #35084 AA**

The bank's third AA is a portion of the Newark-Union NJ-PA MD #35084, which is part of the broader New York – Northern New Jersey – Long Island, NY-NJ-PA MSA #35620.

<b>Demographic Information for the Newark-Union NJ-PA MD #35084 AA</b>					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	8	0.00	87.50	12.50	0.00
Population by Geography	46,302	0.00	75.85	24.15	0.00
Owner-Occupied Housing by Geography	14,787	0.00	76.83	23.17	0.00
Businesses by Geography	3,320	0.00	67.65	32.35	0.00

Farms by Geography	79	0.00	72.15	27.85	0.00
Family Distribution by Income Level	13,083	29.29	28.33	23.07	19.31
Household Distribution by Income Level	7,539	0.00	80.04	19.96	0.00
Census Median Family Income (MFI)	68,424	Median Housing Value		117,402	
HUD-Adjusted MFI: 2008	84,300	Unemployment Rate Pike County		6.2%	
Families Below the Poverty Level	7%				

Source: 2000 U.S. Census Data; 2008 HUD updated MFI; unemployment rate as of June 2008

The Newark-Union NJ-PA MD #35084 is comprised of Pike County in Pennsylvania and Essex, Hunterdon, Morris, Sussex, and Union Counties in New Jersey. HNB designated all eight census tracts in Pike County, Pennsylvania as its AA. Of the eight census tracts, 7 or 87.50% are moderate-income and 1 or 12.50% is middle-income. There were no low-income or upper-income geographies in the AA. The counties of Essex, Hunterdon, Morris, Sussex, and Union Counties in New Jersey were excluded because the bank does not operate in the state of New Jersey. This AA meets the requirements of the regulation and does not arbitrarily exclude any low-or moderate-income areas.

The 2000 U. S. Census reported the total population of the AA at 46,302. Within the AA, there are 13,083 families and 17,447 households. There are 34,681 housing units, of which, 43% are owner-occupied, 8% are rental-occupied, and 50% are vacant housing units. Approximately 77% of owner-occupied housing is located in moderate-income geographies and 23% is located in middle-income geographies. The median housing cost is \$117,402.

The 2000 median income was \$68,424, and the 2008 HUD updated median family income is \$84,300. Approximately 29% of the families are low-income, 28% are moderate-income, 23% are middle-income, and 19% are upper-income. Approximately 7% of households are below the poverty level.

There are two full service branches located in moderate-income geographies this AA. Both branches have automated teller machines (ATMs), offer a full line of traditional banking products and services, have extended hours on Friday evening, and have Saturday morning hours.

According to the June 30, 2008 FDIC Summary of Deposit Market Share report, HNB's deposit market share within the New York – Northern New Jersey - Long Island, NY-NJ-PA MSA #35620 is 0% and HNB is ranked 217 out of 243 institutions in this MSA. According to June 30, 2008 FDIC Summary of Deposit Market Share report, HNB's deposit market share within their AA, Pike County is 6.49%, ranking HNB 6 out of 7 institutions in the AA. HNB's primary competitors in Pike County are: Wachovia Bank, NA (4 offices, 35.19% market share), Wayne Bank (3 offices, 17.33% market share), Dime Bank (2 offices, 14.97% market share), Citizens Bank of PA (2 offices, 14.79% market share), and NBT Bank, NA (2 offices, 11.16% market share).



The economy in this AA is characterized as growing. Pike County is considered the county with the highest population growth rate in Pennsylvania. The population growth is attributed to the influx of people relocating to Pike County from New York and New Jersey because Pike County's cost of living is lower than either New York or New Jersey. The major employment sectors are services, hospitality, tourism, retail and wholesale trade. The major employers are: Woodloch Pines, Inc., Wal-Mart, Inc., Altec Lansing Technology, Inc., and Pocomt Resort and Conference Center.

According to the June 2008 Bureau of Labor Statistics data, the unemployment rate for Pike County was 6.2%, the Pennsylvania state unemployment rate was 5.2%, and the national unemployment rate was 5.5%.

During the examination, we contacted one community organizations whose primary purpose is to provide community services. We determined through this community contact and through our internal research that opportunities exist for community development grants, donations, and services. According to the community contact, the primary needs of the area are: donations and grants to local community organizations that provide affordable housing and community services because federal and state funding is limited, increased marketing and advertising of homebuyer loan programs, the development of money management seminars targeted to low- and moderate-income people, increased involvement with the local economic development agencies, loan programs, and assistance to help the local economic development agencies fund the infrastructure needs of the community, small business loans, and small business educational seminars. The community contact indicated the local financial institutions are active in the community and have been helping to meet the needs of the area.

## **Conclusions with Respect to Performance Tests**

HNB's performance under the Lending Test is Outstanding. HNB's quarterly average net loan-to-deposit ratio is reasonable. A substantial majority of HNB's home mortgage loans were made within the bank's assessment area. HNB was found to have excellent penetration among borrowers of different income levels. HNB was found to have excellent dispersion throughout census tracts of different income levels.

All criteria of the Lending Test are documented below.

### **LENDING TEST**

#### **Loan-to-Deposit Ratio**

HNB's quarterly average net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and the credit needs of the AA. HNB's loan-to-deposit ratio meets the standards for satisfactory performance. The bank's quarterly average net loan-to-deposit ratio over the eighteen quarters since the last CRA examination was 81.35%. During this time period, the ratio ranged from a quarterly low of 76.17% to a quarterly

high of 85.69%. HNB’s quarterly average net loan-to-deposit ratio compares favorably with other national financial institutions of similar size, and it compares favorably with nine similarly sized and situated national banks. The quarterly average net loan-to-deposit ratio for national institutions of similar size was 86.52% over the same 18 quarters. The ratios ranged from a quarterly low of 82.20% to a quarterly high of 90.97% during that time period. The quarterly average net loan-to-deposit ratio for a custom peer group of nine similarly sized and situated banks was 81.71% over the same 18 quarters. The ratio ranged from a quarterly low of 78.57% to a quarterly high of 87.00% during that time period.

**Lending in Assessment Area**

A substantial majority of HNB’s home mortgage loans were made within the bank’s assessment area, and this exceeds the standard for satisfactory performance. During the evaluation period, 92% of the number and 91% of the dollar amount of total home mortgage loans were made within the bank’s assessment area. The following table details the bank’s lending within the AA by number and dollar amount of loans.

<b>Table 1 - Lending in AA</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	804	88.16	108	11.84	912	94,475	88.63	12,122	11.37	106,597
Home Improvement	256	96.24	10	3.76	266	10,843	94.69	608	5.31	11,451
Home Refinance	437	96.04	18	3.96	455	43,467	95.05	2,262	4.95	45,729
Totals	1,497	91.67	136	8.33	1,633	148,785	90.85	14,992	9.15	163,777

Source: HNB’s HMDA data 1/1/06-06/30/08

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

The distribution of loans reflects excellent penetration among individuals of different income levels, and HNB’s record of lending to borrowers of different incomes exceeds the standard for satisfactory performance.

**The Scranton - Wilkes-Barre MSA #42540 AA**

The distribution of loans reflects excellent penetration among individuals of different income levels, and HNB’s record of lending to borrowers of different incomes exceeds the standard for satisfactory performance.

Our analysis, takes into consideration the lack of affordability of a low-income family to purchase a home. The average median housing value in this AA was \$87,298. According the 2008 HUD adjusted median family income; a low-income family earned

less than \$27,350. Additionally, 12% of households in the AA are below the poverty level. This lack of affordability limits the opportunity for home purchase, home improvement, and home refinance lending to low-income families; therefore, we placed more emphasis on the banks moderate-income performance.

The percentage of home purchase loans made to low-income borrowers is lower than the percentage of low-income families in the AA. The percentage of home purchase loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the AA. HNB’s market share of home purchase loans to both low- and moderate-income borrowers exceeds the bank’s overall market share of home purchase loans in the AA.

The percentage of home improvement loans made to low-income borrowers is significantly lower than the percentage of low-income families in the AA. The percentage of home improvement loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

The percentage of home refinance loans made to low-income borrowers is significantly lower than the percentage of low-income families in the AA. The percentage of home refinance loans made to moderate-income borrowers meets the percentage of moderate-income families in the AA. HNB’s market share of home refinance loans to moderate-income borrowers exceeds the bank’s overall market share of home refinance loans in the AA.

The following table shows the distribution of home loan products among borrowers of different income levels for the period of January 1, 2006 through June 30, 2008 as compared to the percent of families in each income category.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans: The Scranton - Wilkes-Barre MSA #42540 AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	19.02	13.68	18.75	30.04	22.88	32.29	39.34	23.99
Home Improvement	19.02	5.00	18.75	20.00	22.88	35.00	39.34	40.00
Home Refinance	19.02	7.32	18.75	18.70	22.88	32.52	39.34	41.46

Source: HNB’s HMDA data 1/1/2006- 06/30/2008; 2000 U.S. Census data

### **Wayne & Susquehanna Counties - Non-MSA AA**

The distribution of loans reflects reasonable penetration among individuals of different income levels, and HNB’s record of lending to borrowers of different incomes meets the standard for satisfactory performance.

In our analysis, we took into consideration the lack of affordability for a low-income family to purchase a home. The average median housing value in this AA was \$96,639. According to the 2008 HUD adjusted median family income; a low-income family earned less than \$25,750. Additionally, 12% of households in the AA are below the poverty level. This lack of affordability limits the opportunity for home purchase, home improvement, and home refinance lending to low-income families; therefore, we placed more emphasis on the bank's moderate-income performance.

The percentage of home purchase loans made to low-income borrowers is significantly lower than the percentage of low-income families in the AA. The percentage of home purchase loans made to moderate-income borrowers meets the percentage of moderate-income families in the AA. HNB's market share of home purchase loans to both low- and moderate-income borrowers exceeds the bank's overall market share of home purchase loans in the AA.

The percentage of home improvement loans made to low-income borrowers is significantly lower than the percentage of low-income families in the AA. The percentage of home improvement loans made to moderate-income borrowers is near the percentage of moderate-income families in the AA.

The percentage of home refinance loans made to low-income borrowers is significantly lower than the percentage of low-income families in the AA. The percentage of home refinance loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

The following table shows the distribution of home loan products among borrowers of different income levels for the period of January 1, 2006 through June 30, 2008 as compared to the percent of families in each income category.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans: Wayne &amp; Susquehanna Counties - Non-MSA AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	19.11	9.27	20.48	20.77	24.45	31.95	35.95	38.02
Home Improvement	19.11	7.57	20.48	17.30	24.45	31.89	35.95	43.24
Home Refinance	19.11	4.63	20.48	21.00	24.45	30.25	35.95	44.13

Source: HNB's HMDA data 1/1/2006- 06/30/2008; 2000 U.S. Census data

**Newark-Union NJ-PA MD #35084 AA**

The distribution of loans reflects excellent penetration among individuals of different income levels, and HNB's record of lending to borrowers of different incomes exceeds

the standard for satisfactory performance.

The percentage of home purchase loans made to low-income borrowers is lower than the percentage of low-income families in the AA. The percentage of home purchase loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the AA. HNB’s market share of home purchase loans to both low- and moderate-income borrowers exceeds the bank’s overall market share of home purchase loans in the AA.

The percentage of home improvement loans made to low-income borrowers meets the percentage of low-income families in the AA. The percentage of home improvement loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

The percentage of home refinance loans made to low-income borrowers is lower than the percentage of low-income families in the AA. The percentage of home refinance loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

The following table shows the distribution of home loan products among borrowers of different income levels for the period of January 1, 2006 through June 30, 2008 as compared to the percent of families in each income category.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans: Newark-Union NJ-PA MD #35084 AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	29.29	20.93	28.33	37.21	23.07	20.93	19.31	20.93
Home Improvement	29.29	28.57	28.33	42.86	23.07	14.29	19.31	14.29
Home Refinance	29.29	26.32	28.33	31.58	23.07	21.05	19.31	21.05

Source: HNB’s HMDA data 1/1/2006- 06/30/2008; 2000 U.S. Census data

**Geographic Distribution of Loans**

The geographic distribution of loans reflects excellent dispersion throughout census tracts of different income levels, and HNB’s performance exceeds the standard for satisfactory performance. There were no conspicuous gaps identified within HNB’s AA.

**The Scranton - Wilkes-Barre MSA #42540 AA**

The geographic distribution of loans reflects reasonable dispersion throughout census tracts of different income levels, and HNB’s performance meets the standard for

satisfactory performance.

There are only 48 owner-occupied housing units located in low-income geographies in the AA; therefore, lending opportunities are extremely limited and an analysis of lending in low-income geographies would not be meaningful and was not performed.

The percentage of home purchase loans made in moderate-income geographies is near to the percentage of owner-occupied housing units in these geographies. The percentage of home improvement loans made in moderate-income geographies exceeds the percentage of owner-occupied housing units in these geographies. The percentage of home refinance loans made in moderate-income geographies approximates the percentage of owner-occupied housing units in these geographies.

The following table details the bank’s performance as compared to the percentage of owner-occupied housing units in each census tract income level for the period of January 1, 2006 through June 30, 2008.

<b>Table 3 – Geographic Distribution of Residential Real Estate Loans: The Scranton - Wilkes-Barre MSA #42540 AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.03	0.00	7.89	6.73	74.88	73.54	17.20	19.73
Home Improvement	0.03	0.00	7.89	8.33	74.88	86.67	17.20	5.00
Home Refinance	0.03	0.00	7.89	7.26	74.88	73.39	17.20	19.35

Source: HNB’s HMDA data 1/1/2006 - 06/30/2008; 2000 U.S. Census data

**Wayne & Susquehanna Counties - Non-MSA AA**

There are no low- or moderate-income geographies in the AA; therefore, an analysis of lending in low- and moderate-income geographies would not be meaningful and was not performed.

The following table details the bank’s performance as compared to the percentage of owner-occupied housing units in each census tract income level for the period of January 1, 2006 through June 30, 2008.

<b>Table 3 – Geographic Distribution of Residential Real Estate Loans Wayne &amp; Susquehanna Counties - Non-MSA AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00	0.00	0.00	0.00	100.00	100.00	0.00	0.00
Home Improvement	0.00	0.00	0.00	0.00	100.00	100.00	0.00	0.00
Home Refinance	0.00	0.00	0.00	0.00	100.00	100.00	0.00	0.00

Source: HNB's HMDA data 1/1/2006 - 06/30/2008; 2000 U.S. Census data

**Newark-Union NJ-PA MD #35084 AA**

The geographic distribution of loans reflects excellent dispersion throughout census tracts of different income levels, and HNB's performance exceeds the standard for satisfactory performance.

There are no low-income geographies in the AA; therefore, an analysis of lending in low-income geographies would not be meaningful and was not performed.

The percentage of home purchase loans made in moderate-income geographies exceeds the percentage of owner-occupied housing units in these geographies. The percentage of home improvement loans made in moderate-income geographies exceeds the percentage of owner-occupied housing units in these geographies. The percentage of home refinance loans made in moderate-income geographies exceeds the percentage of owner-occupied housing units in these geographies.

The following table details the bank's performance as compared to the percentage of owner-occupied housing units in each census tract income level for the period of January 1, 2006 through June 30, 2008.

<b>Table 3 – Geographic Distribution of Residential Real Estate Loans Newark-Union NJ-PA MD #35084 AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00	0.00	76.83	93.02	23.17	6.98	0.00	0.00
Home Improvement	0.00	0.00	76.83	100.00	23.17	0.00	0.00	0.00
Home Refinance	0.00	0.00	76.83	94.74	23.17	5.26	0.00	0.00

Source: HNB's HMDA data 1/1/2006 - 06/30/2008; 2000 U.S. Census data

## **Responses to Complaints**

HNB has not received any CRA complaints during this evaluation period.

## **COMMUNITY DEVELOPMENT TEST**

The Community Development test is rated Satisfactory. HNB's community development activities demonstrate adequate responsiveness to the Community Development needs of its AA, when considering the bank's capacity, its performance context, and the availability of community development opportunities in the bank's AA.

### **The Scranton - Wilkes-Barre MSA #42540 AA**

#### **Number and Amount of Community Development Loans**

No Community Development loans were originated or purchased during the evaluation period.

#### **Number and Amount of Qualified Investments**

In 2007, HNB made a \$2.5 million investment in a twenty one unit housing project for low- and moderate-income elderly residents in Lackawanna County. As of the examination date, HNB funded \$1.8 million, and the remaining \$709 thousand was unfunded.

In addition, HNB made one donation for \$1 thousand to an organization whose primary purpose is to provide community services to low- and moderate-income individuals.

#### **Extent to Which the Bank Provides Community Development Services**

No community development services were provided during the evaluation period.

#### **Responsiveness to Community Development Needs**

HNB's community development activities, as a whole, demonstrate adequate responsiveness to the community development needs of its Scranton – Wilkes-Barre MSA #42540 AA, especially when considering the bank's capacity, its performance context, and the availability of community development opportunities in the bank's AA.

### **Wayne & Susquehanna Counties - Non-MSA AA**

#### **Number and Amount of Community Development Loans**



During 2007, HNB originated and funded a \$50 thousand line of credit to a local non-profit organization whose primary purpose is affordable housing for low- and moderate-income individuals and families.

HNB originated a \$50 thousand line of credit to a local organization in 2004 and renewed it annually. This local organization provides community services and employment to low- and moderate-income individuals.

### **Number and Amount of Qualified Investments**

HNB made two investments for a total of \$1.9 million during the evaluation period. In 2006, HNB made a \$1.5 million investment in a non-profit organization whose primary purpose is to provide community services to low- and moderate-income seniors who live in senior housing facilities. HNB's investment benefited a 121 bed senior housing facility in Wayne County and a 132 bed facility in Susquehanna County. In 2007, HNB made a \$400 thousand investment in a non-profit organization whose primary purpose is to provide community services to low- and moderate-income seniors who live in senior housing facilities. HNB's investment benefited a 50 bed senior housing facility in Wayne County.

In addition, HNB made seven donations and grants for a total of \$1.8 thousand to three different non-profit organizations that provide affordable housing and community services to low- and moderate-income individuals and families.

### **Extent to Which the Bank Provides Community Development Services**

During the evaluation period, three officers provided financial and technical expertise to three different community development organizations.

One officer provided financial and technical expertise by serving as the President of the Board of Directors for a non-profit organization that provides affordable housing to low- and moderate-income individuals and families.

One officer provided financial and technical expertise by serving on the Board of Directors for a local assisted living facility whose residents are primarily low- and moderate-income.

One officer provided financial and technical expertise by serving on the Board of Directors for a local organization that provides community services and employment opportunities for low- and moderate-income people.

In addition, bank employees participated in three homebuyer seminars during the evaluation period. The purpose of the seminars was to assist low- and moderate-income families understand the mortgage process, evaluate their current financial situation, and make recommendations to help them obtain a mortgage.

## **Responsiveness to Community Development Needs**

HNB's community development activities, as a whole, demonstrate excellent responsiveness to the community development needs of its Wayne & Susquehanna Counties – Non-MSA AA, especially when considering the bank's capacity, its performance context, and the availability of community development opportunities in the bank's AA.

### **Newark-Union NJ-PA MD #35084 AA**

#### **Number and Amount of Community Development Loans**

No community development loans were originated or purchased during the evaluation period.

#### **Number and Amount of Qualified Investments**

No qualified investment, grants, or donations were made during the evaluation period.

#### **Extent to Which the Bank Provides Community Development Services**

Bank employees participated in three homebuyer seminars during the evaluation period. The purpose of the seminars was to assist low- and moderate-income families understand the mortgage process, evaluate their current financial situation, and make recommendations to help them obtain a mortgage.

HNB's has two full service branches in this AA, and both of these branches are located in moderate-income geographies. By operating these two moderate-income branches, HNB is helping to provide retail and community development services to the lower-income areas of the AA.

## **Responsiveness to Community Development Needs**

HNB's community development activities, as a whole, demonstrate poor responsiveness to the community development needs of its Newark-Union NJ-PA MD #35084 AA, especially when considering the bank's capacity, its performance context, and the availability of community development opportunities in the bank's AA.

## **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.