

Northeastern District
1114 Avenue of the Americas, Suite 300
New York, New York 10036

PUBLIC DISCLOSURE

November 1, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Port Allegany
Charter Number 3877
64 Main Street
Port Allegany, Pennsylvania 16743**

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

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

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the CRA performance of the **First National Bank of Port Allegany** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **November 1, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.*

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

The factors supporting the bank's overall rating include:

- A good average loan to deposit ratio compared to the bank's peer group;
- A majority of loans are made in the bank's assessment area;
- A reasonable loan penetration among individuals of different income levels; and
- A good record of lending to small businesses.

DEFINITIONS AND COMMON ABBREVIATIONS

The following terms and abbreviations are used throughout this Performance Evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Community Reinvestment Act (CRA) - The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Metropolitan Statistical Area (MSA) - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Census Tract - Small, locally defined statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogeneous populations. A census tract has defined boundaries per ten-year census and an average population of 4,000.

Home Mortgage Disclosure Act (HMDA) - A statute that requires certain mortgage lenders that do business or have banking offices in a MSA to file annual summary reports of their mortgage lending activity. The report includes such data as the race, gender and the income of the applicants, the amount of the loan requested, and its disposition (e.g., approved, denied, withdrawn).

Median Family Income (MFI) - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of census tracts. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Low-Income - Income levels that are less than 50% of the MFI.

Moderate-Income - Income levels that are at least 50% and less than 80% of the MFI.

Middle-Income - Income levels that are at least 80% and less than 120% of the MFI.

Upper-Income - Income levels that are 120% or more of the MFI.

Small Business Loans - Loans with an original amount of \$1 million or less for which the bank may be required to collect and report certain monitoring data under the CRA regulation.

DESCRIPTION OF INSTITUTION

The First National Bank of Port Allegany (FNBPA) is a \$68 million independent community bank established in 1888. The bank, headquartered in Port Allegany, operates in a rural section of northwestern Pennsylvania, at the easternmost border of McKean County. There are no metropolitan statistical areas (MSAs) within the bank's trade area.

In addition to the main office, FNBPA operates two full service branch offices. One is located at the Lillibridge Plaza in Port Allegany. The other branch is located in Coudersport and was opened in August of 1997. These two offices have automatic teller machines (ATMs), drive-up facilities, and offer Saturday business hours. The bank also maintains an Internet web site at www.fnbpa.com, providing product information.

A variety of loan and deposit products are available to consumers and businesses. As of the most recent call report dated September 30, 1999, net loans to total assets equaled 64%. Primary loan products include financing for home purchase, debt consolidation/refinancing, and small business loans. A breakdown of the portfolio is as follows: 48% residential mortgages, 31% commercial mortgages, 5% other commercial loans, 2% loans to municipalities, and 14% consumer installment loans. Agricultural lending is minimal. FNBPA services its entire loan portfolio and does not sell any residential mortgage loans on the secondary mortgage market.

Major competitors in McKean and Potter counties include Citizens Trust Company, Hamlin Bank & Trust Company, First Citizens National Bank, National City Bank, Northwest Savings Bank, and branches of First Union National Bank. Other competitors include two credit unions and several insurance companies. As of June 30, 1998, FNBPA's market share of all deposits held by FDIC-insured institutions operating in McKean and Potter Counties was 9.36% and 3.54%, respectively.

There are no legal or financial impediments that would hinder the bank's ability to help meet the credit needs of its community. At the last CRA examination, dated September 22, 1997, FNBPA received a "Satisfactory" rating.

DESCRIPTION OF ASSESSMENT AREA

FNBPA's assessment area (AA) meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies. The AA is comprised of seven census tracts in a non-MSA region of Pennsylvania. Two of the tracts are located in McKean County; three tracts are in Potter County; and the remaining two tracts are in Cameron County. With the exception of one moderate-income tract in Cameron County, all census tracts are designated as middle-income. There are no low-income geographies in the AA.

The population of the AA is 27,037 and includes 10,385 households. There are 7,526 families residing in the AA. The percentage of families by income level is: 21% low-income; 22% moderate-income; 25% middle-income; and 32% upper-income. The 1999 updated median family income for the AA is \$35,200. A family would be considered low-income with an annual income of \$17,600 or less. Additionally, 14% of all households in the AA have incomes below the poverty level.

There are 15,800 housing units in the AA. Of these, 50% are owner occupied homes, 16% are rental units, and 34% are vacant housing units. Seventy-eight percent of available housing are 1-4 family units, 3% are multi-family, and 19% are mobile homes. The average cost of housing in the AA is \$40,320 and monthly rents average \$288. The average year in which homes were built is 1953.

The AA is predominately rural with a stable economic climate. According to 1998 business demographics, there are 1,069 commercial businesses and 62 farms in the AA. Small businesses (those with revenues less than \$1 million) represent 91% of the 924 businesses that reported revenues. Small farms represent 95% of the total farms in the AA. Approximately 78% of the businesses reported having less than ten employees.

The primary industries in this AA are services, retail trade, and transportation/communication. Some of the larger employers in the area include Ball-Foster Glass Container Company, Pittsburgh Corning Corporation, Adelphia Communications, Hyperion Communications, and Sinter Metals. School districts and local, state, and federal government also provide considerable employment opportunities. During September 1999, the Pennsylvania statewide unemployment rate was 4.3%. The unemployment rates for the counties in the AA are: McKean 4.7%, Potter 4.5%, and Cameron 8.6%.

Determination of Community Credit Needs

Community Contacts

Credit needs in the AA area were determined by contacting a local real estate agent. The realtor indicated that the economy was generally stable with the Coudersport area experiencing rapid growth. The contact indicated that most credit needs were being met by the local financial institutions. However, home affordability for first time homebuyers and the availability of financing for start-up small businesses were two areas where credit needs could be better met according to the agent.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

SCOPE OF EXAMINATION

This examination covered the period from October 1, 1997 to November 1, 1999. Consumer home purchase and refinance loans were selected as the primary loan products reviewed because of their origination volume. A sample of business loans was also selected to determine the volume of small business lending activity.

During the period covered by this examination, approximately 45% of the number of all home loan applications originated by FNBPA were purchase money mortgages and 48% were refinance loans. This is an estimate based on home loan applications processed during 1997 and 1999. FNBPA failed to maintain an accurate accounting of home loan activity during 1998. Our analysis is based on a sample of 40 home loans originated during the examination period.

We also sampled twenty business loans solely to determine the size of the business. Since small businesses are defined as having gross revenues of \$1 million or less, we performed a review of the loan sample's financial statements. Since there are no low-income tracts and only one moderate-income tract, we did not perform a geographic distribution of small business and small farm loans.

All dollar amounts in the tables within this report are in thousands (\$000s) unless otherwise indicated.

Loan to Deposit Analysis

The loan to deposit ratio meets the standards for satisfactory performance. It is reasonable given the bank's size, financial condition, and AA credit needs. The bank's loan to deposit ratio, averaged over the previous eight quarters since the last CRA review, is 74%. This compares favorably to the local peer average of 72%. The peer group consists of local financial institutions similarly situated in location and asset size.

Lending in Assessment Area

The bank's lending in the AA exceeds the standards for satisfactory performance. Our file sample indicates that 100% of the loans we reviewed were originated within FNBPA's AA. Our sample included 42 residential real estate loans totaling \$1,532,328 originated during the examination period. Our sample of small business loans indicated that all loans of this type were originated in the AA.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

Lending to borrowers of different incomes and businesses of different sizes meets the standards for satisfactory performance. The primary product lines reviewed were purchase money mortgages, refinance loans, and small business loans, as previously mentioned. The table below depicts the distribution of the 40 home mortgage loans we sampled to borrowers of different income levels residing in the AA.

Purchase Mortgage & Refinance Loan Originations by Level of Borrower Income in the AA					
Income Category	Purchase Money Mortgages		Refinance Loans		Percentage of Families Within AA
	#/%	\$/%	#/%	\$/%	
Low	1/5	62/7	7/35	87/14	21
Moderate	6/30	178/21	4/20	100/16	22
Middle	7/35	269/31	4/20	135/21	25
Upper	6/30	353/41	5/25	319/50	32
Total	20/100	862/100	20/100	641/100	100

Disparity in the low-income category regarding purchase money mortgages is noted. The table indicates that, although 21% of the families residing in the AA are low-income families, only 5% by number and 7% by dollar volume of the loans sampled were to these families. In response and as noted earlier, a low-income family has average annual earnings of \$17,600 or less. With housing costs averaging over \$40,000 it is financially difficult for low-income families to afford average priced homes in the AA. In addition, several loans in our sample were originated with the applicant's parents acting as co-borrowers. The combined incomes on these loans positioned the borrowers into the middle- and upper-income ranges. This mitigates the lower level of home purchase loan originations to low-income individuals.

Refinance activity to low- and moderate-income borrowers is proportionate to the AA demographics. The lower interest rate environment over the past few years has fostered an increase in refinance and debt consolidation loans throughout the AA's income range.

Lending to Small Businesses

FNBPA has a good record of lending to small businesses. As indicated earlier, businesses are considered to be small businesses if their gross revenues are \$1 million or less. Our sample of 20 business loans originated during the assessment period disclosed that 90% were made to small businesses.

Geographic Distribution of Loans

An analysis of the geographic distribution of loans throughout FNBPA's assessment area is not meaningful. There are no low-income census tracts and only one moderate-income tract in the bank's AA. Our limited loan sample included one loan that was originated in the moderate-income geography.

Response to Complaints

During the evaluation period, FNBPA did not receive any complaints about its performance in meeting AA credit needs.

Record of Compliance with Anti-discrimination Laws

The concurrent fair lending examination that we performed did not identify any violations of the substantive provisions of the antidiscrimination laws and regulations. In addition, no evidence was found of discriminatory or other illegal practices. Our fair lending examination focused on an analysis of the bank's underwriting standards as they relate to Regulation B.