



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

April 21, 2008

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Farmers National Bank of Emlenton  
Charter Number: 5481

612 Main Street, P.O. Box D  
Emlenton, PA 16373-0000

Office of the Comptroller of the Currency

WESTERN PENNSYLVANIA (Pittsburgh)  
4075 Monroeville Boulevard Building 2, Suite 300  
Monroeville, PA 15146-2529

**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: Satisfactory.**

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

- Farmers National Bank of Emlenton's ("FNBE's") record of originating loans is more than reasonable as evidenced by its loan-to-deposit (LTD) ratio compared to the LTD ratio of its peers.
- FNBE originated a majority of its residential mortgage and business loans within its combined assessment areas ("AAs").
- FNBE's record of originating residential mortgage and business loans reflects good penetration among borrowers of different income levels and businesses of different sizes.
- FNBE's record of originating residential mortgage and business loans reflects adequate dispersion among AA geographies.
- FNBE's record of engaging in community development (CD) activities is adequately responsive to the CD needs of its AAs.

## **Scope of Examination**

We conducted an examination of FNBE for the purpose of evaluating its performance relative to the Community Reinvestment Act (CRA). FNBE's CRA performance was evaluated under the Intermediate Small Bank (ISB) examination procedures. The ISB procedures 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 areas (AAs) through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AAs through funding CD loans, investments and services.

FNBE's primary loan products consist of residential mortgage and business loans. Residential mortgage loans include home purchase, home improvement and home mortgage refinance loans. FNBE's record of originating mortgage and business loans was evaluated over the period between January 1, 2006 and March 24, 2008. The evaluation period relative to FNBE's lending performance represents the current year and two most recent previous years of FNBE's loan data and is considered to be representative of its lending strategy since the last CRA examination.

In order to evaluate FNBE's record of originating residential mortgage loans, we analyzed loan data FNBE collected and reported in accordance with Home Mortgage Disclosure Act (HMDA) requirements. In order to ensure the reliability of HMDA loan data, we performed a data integrity examination during the first quarter of 2008.

In conjunction with the data integrity examination, we evaluated processes employed by FNBE to ensure the accuracy of collected HMDA data and tested a sample of FNBE's

reported HMDA loans. Specifically, we tested the accuracy of FNBE's HMDA loan data by comparing it against corresponding loan file documentation. The data integrity examination revealed that FNBE's publicly available HMDA loan data could be relied upon for the purposes of this CRA evaluation.

The data integrity examination revealed that FNBE did not collect and report geographic information for loans originated in non-MSA (Metropolitan Statistical Areas.) Therefore, in order to analyze the FNBE's record of originating residential mortgage loans in its non-MSA AA, we collected data from a random sample of residential mortgage loans originated by FNBE during the evaluation period.

In order to evaluate FNBE's record of originating business loans, we collected data from a random sample of business loans originated by FNBE during the evaluation period.

FNBE's record of community development (CD) performance was evaluated over the period between September 24, 2002 and March 24, 2008. This period represents the time between FNBE's last CRA exam and the start of its current CRA exam. CD related activities include CD loans, investments and services.

## **Description of Institution**

FNBE is an interstate community bank. FNBE's headquarters and main office are located in Emlenton, Pennsylvania. FNBE is a wholly owned subsidiary of Emclare Financial Corporation, a one-bank holding company also located in Emlenton. Emlenton is situated in Venango County in Western Pennsylvania. Emlenton is situated near Route 80, approximately 95 miles northeast of Pittsburgh, Pennsylvania. FNBE is a full service bank that offers a wide range of traditional deposit and loan products.

As of December 31, 2007, FNBE's assets totaled \$309.7 million, net loans and leases totaled \$230.9 million, investments totaled \$48.8 million, deposits totaled \$244.3 million and tier one capital totaled \$21.3 million. Net loans and leases represented 73.79% of total assets. Strategically, FNBE's primary lending focus is residential real estate followed by business lending. The table below details FNBE's loan portfolio composition as of December 31, 2007.

Loan Category	\$ (000)	%
Loans secured by real estate		
1-4 family closed-end first liens	64,800	28%
Nonfarm nonresidential	64,078	27%
1-4 family closed-end junior liens	45,816	20%
Construction	7,962	3%
1-4 family revolving	3,610	2%
Farmland*	285	0%
Multifamily residential property	180	0%
Commercial and Industrial loans	30,664	13%
Consumer loans	9,493	4%
Other loans	6,184	3%
Loans to finance agricultural production	4	0%
<b>Total</b>	<b>233,076</b>	<b>100%</b>

FBNE operates twelve full service offices within adjacent counties situated in western Pennsylvania. Branch offices are located in Bon Aire, Brookville, Clarion, Cranberry, DuBois, East Brady, Eau Claire, Emlenton, Grove City, Knox, Meridian and Ridgway, Pennsylvania. FNBE opened new branches in Cranberry Township, Venango County Pennsylvania and Grove City, Mercer County Pennsylvania in November 2006 and April 2008, respectively. FNBE did not close any branches during the evaluation period.

FNBE's retail branch network operates between the hours of 9:00 am and 4:00 pm Monday through Friday. Of FNBE's twelve branch offices, Saturday hours are offered at nine branches. FNBE operates drive-thru facilities in Bon Aire, Brookville, Clarion, Cranberry, DuBois, Eau Clair, Emlenton, Grove City, Knox, and Meridian Pennsylvania. FNBE's drive-thru facilities operate between hours ranging from 8:30 am to as late as 7:00 pm. FNBE also operates automated teller machines (ATMs) at each branch with drive-thru facilities.

There are no factors, legal or otherwise, that would hinder FNBE's ability to help meet the credit needs of its AA's. FNBE's most recent Public Evaluation (PE) was dated May 5, 2004 for which a "Satisfactory" CRA rating was assigned.

## Description of Assessment Area(s)

Over the evaluation period, FNBE has operated within two AAs. The two AAs consist of six adjacent northwestern Pennsylvania counties in their entirety. Of the six counties, five are adjacent to one another and are not located in an MSA (Metropolitan Statistical Area). The other county represents one of six counties that comprise the Pittsburgh MSA. FNBE's five adjacent non-MSA counties comprise its Pennsylvania Venango AA and the Pittsburgh MSA county comprises its Butler AA.

FNBE added an additional AA as a result of a branch office opening in Mercer County in April 2008. The AA was added since the branch is located in the Youngstown-Warren,

Ohio MSA. Since, however, the AA was not added until recently and FNBE was not operating branch offices within the AA over the evaluation period, FNBE did not have CRA performance within this AA to evaluate in conjunction with this examination. For purposes of this examination, we evaluated FNBE's CRA performance over the evaluation period within its Venango and Butler AAs.

FNBE's Venango AA is the AA in which FNBE has historically operated and has a more significant presence. FNBE's Venango AA is the AA in which it operates the majority of its offices, derives the majority of its deposits and originates the majority of its loans. In arriving at the overall conclusions for FNBE's performance in each of its AAs, more weight was placed on FNBE's performance in its Venango AA than its Butler AA.

FNBE's branch offices and ATMs are located within its designated AAs. FNBE's AAs meet regulatory requirements and do not arbitrarily exclude any low or moderate-income geographies.

### **Venango AA**

FNBE's Venango AA consists of the five non-MSA counties of Venango, Clearfield, Elk, Jefferson, and Clarion. The five counties are situated in the northern portion of western Pennsylvania. These counties are predominantly rural in nature. FNBE's physical presence in its Venango AA, consists of a branch network comprised of eight (8) retail branch office locations and includes its main office and headquarters. AA geographies are contiguous and consistent with CRA regulatory requirements. Low and moderate-income geographies are not arbitrarily excluded from the AA.

The five counties comprising the Venango AA consist of sixty-six (66) geographies. Of the 66 geographies that comprise FNBE's Venango AA, six (6), fifty-six (56) and four (4) are classified as moderate, middle and upper-income respectively. None of the Venango AA geographies are classified as low-income. Of the total AA population, 9.09% percent resides in the five moderate-income AA geographies. Of total owner-occupied AA housing, just 5.67% percent is located within the AA's moderate-income geographies.

For FNBE's Venango AA, 2000 census data reports a total population of 263,756, total households of 104,092 and total families of 72,384. HUD data updated for 2007 reports the median family income to be \$49,800. Demographic information derived from annually updated HUD data, also reports that of total AA families, 19.55%, 20.62%, 24.88%, and 34.95% are of low, moderate, middle and upper-income respectively.

For FNBE's Venango AA, the majority of households (70.19%) were supported by wage or salaried jobs. For the same period, of Venango AA households, 16.83% report persons over sixty-five, 33.83% derive income from social security and 12.46% are below poverty level. The 2000 census data also reports that for 2007, of total Venango AA housing units, 64.55% were owner-occupied and the median housing value equaled \$62,632. Housing stock consists primarily of older homes with the median year built of 1956. These AA demographic factors impact loan demand for residential mortgage

loans. Particularly affected is residential mortgage demand from low and moderate income borrowers impacted by issues concerning housing availability and affordability.

According to the 2007 business demographic data, 10,964 businesses operate within FNBE's Venango AA, of which 487 are farms. Of Venango AA businesses, non-farm businesses which report revenues of less than or equal to \$1 million total, represent 67.23% of total AA businesses. Approximately 60.89% of Venango AA businesses reported having less than four employees. Of Venango AA businesses, 34.14% are classified as services, 15.52% are classified as retail trade and 11.15% are not classified. Additional Venango AA businesses are classified as follows: construction (11.15%), finance, insurance and real estate (6.21%), wholesale trade (5.33%) manufacturing (5.28%), agriculture forestry and fishing (4.44%), transportation and communication (3.86%), public administration (1.55%), and mining (.24%).

As of December 31, 2007, for the Counties of Venango, Clearfield, Elk, Jefferson, and Clarion, the unemployment rate was recorded at 4.8%, 5.4%, 4.5%, 4.6%, and 4.5% respectively. These unemployment rates represent higher levels of unemployment than rates reporting both the state average of 4.1% and the national average of 4.6%. Large Venango AA employers include Pennsylvania State Government, Wal-Mart Associates, Inc, Elk Regional Health Center, Inc, Owens-Brockway Glass Container, Inc, and Clarion University. Large Venango AA employers also include local hospitals (UPMC Northwest, DuBois Regional Medical Center, Clearfield Hospital, Punxsutawney Area Hospital, and Clarion Hospital) and school districts (Franklin Area SD, DuBois Area SD, and Punxsutawney Area SD).

FNBE encounters strong AA competition. Within its Venango AA, competition consists of 111 branches of FDIC insured institutions representing sixteen (16) banks of various asset sizes (5 national banks, 7 state banks, 2 savings and loans, and 2 trust companies). Competition also emanates from multi-billion dollar banks headquartered in nearby Pittsburgh and Cleveland Ohio, which have a strong presence in western Pennsylvania. Although competition emanating from the larger multi state banks and other regional and local financial institutions is strong, FNBE benefits from its long time historical presence in its Venango AA.

Examiners initiated contact with two (2) community based organizations representing a local borough and a local community economic development corporation. One contact described a community need for improvement of the hundred year old infrastructure supporting the City of Emlenton's water and sewage systems. The contact explained that these systems are privately owned impacting the availability of state and federal funding. Both contacts described local financial institutions as responsive to community needs for credit and community development.

## **Butler AA**

FNBE's Butler AA consists of Butler County in its entirety which represents one of the six counties which comprise the Pittsburgh MSA. Butler County is situated in the northern section of the Pittsburgh MSA. According to the Butler County Chamber of Commerce, Butler County is the fastest growing county in southwestern Pennsylvania.

FNBE's physical presence in its Butler AA, consists of a branch network comprised of four (4) retail branch office locations. AA geographies are contiguous and consistent with CRA regulatory requirements. Low and moderate-income geographies are not arbitrarily excluded from the AA.

Butler County consists of thirty-nine (39) geographies. Of the 39 geographies that comprise FNBE's Butler AA, five (5), twenty-six (26) and eight (8) are classified as moderate, middle and upper-income respectively. None of the Butler AA geographies are classified as low income. Of the total AA population, 12.82% reside in the five moderate-income AA geographies. And of total owner-occupied AA housing, just 6.03% percent is located within the AA's moderate-income geographies.

For FNBE's Butler AA, 2000 census data reports a total population of 174,083, total households of 65,929 and total families of 47,032. HUD data updated for 2007 reports the median family income to be \$57,900. Demographic information derived from annually updated HUD data, also reports that of total AA families, 15.81%, 17.31%, 22.80%, and 44.08% are of low, moderate, middle and upper-income respectively.

For FNBE's Butler AA, the majority of households (78.7%) were supported by wage or salaried jobs. For the same period, of Butler AA households, 24.7% report persons over sixty-five, 27.6% derive income from social security and 6.1% are below poverty level. The 2000 census data also reports that for 2007, of total Butler County Area AA housing units, 77.9% were owner occupied and the median housing valued equaled \$121,357. Housing stock consists primarily of older homes with the median year built of 1969. These AA demographic factors impact loan demand for residential mortgage loans. Particularly affected is residential mortgage demand from low and moderate-income borrowers impacted by issues concerning housing availability and affordability.

According to the 2007 business demographic data, 14,774 businesses operate within FNBE's Butler AA, of which 555 are farms. Of Butler AA businesses, non-farm businesses which report revenues of less than or equal to \$1 million total, represent 67.74% of total AA businesses. Approximately 58.21% of Butler AA businesses reported having less than four employees. Of Butler AA businesses, 34.14% are classified as services, 18.39% are classified as retail trade and 12.05% are not classified. Additional Butler AA businesses are classified as follows: construction (7.99%), manufacturing (5.64%) transportation and communication (5.59%), finance, insurance and real estate (5.10%) agriculture forestry and fishing (3.76%) wholesale trade (3.68%) public administration (2.93%), and mining (.73%).

As of December 31, 2007, the Butler AA unemployment rate was recorded at 3.8%. This unemployment rate is lower than both the state average of 4.1% and the national average of 4.6%. Large Butler AA employers include the United States Federal Government, Butler Healthcare Providers, AK Steel Corporation, Cellco Partnerships, and Butler Area School District.

FNBE encounters strong AA competition. Butler AA competition consists of seventy-four (74) branches of FDIC insured institutions representing seventeen (17) banks of various asset sizes (7 national banks, 4 state banks, and 6 savings and loan banks).

Competition also emanates from multi-billion dollar banks headquartered in nearby Pittsburgh and Cleveland Ohio, which have a strong presence in western Pennsylvania.

Examiners initiated contact with one community based organization within FNBE's Butler County AA. Specifically, examiners contacted the executive director of the County Housing Authority serving low and moderate income residents of Butler County. The community contact described the area as growing in population in the northern part of the county and little to no population growth in the southern part of the county, primarily the City of Butler. The community contact indicated there is a need for work force rental housing and affordable housing preservation for Butler City residents. There is such a demand for affordable housing that there is a waiting list for affordable housing programs in the area. The community contact further commented the credit needs that have not been adequately satisfied by area financial institutions include providing residents with loans that are affordable. The organization is currently seeking funds for various projects for neighborhood revitalization and affordable housing development. Banks have been involved in various projects taken on by the authority including line of credit financing, land and building acquisition, construction and development financing. Banks are active in conducting outreach to the housing authority clients, partnering with the organization to provide credit restoration and first time home buyer education.

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

FNBE's performance under the lending test is satisfactory. FNBE's record of originating loans reflected good penetration among borrowers of different income levels and businesses of different sizes. FNBE's record of originating loans reflected adequate dispersion among AA geographies. FNBE's AAs did not contain low-income geographies and the AA's moderate-income geographies contained a minimal proportion of the AA's owner-occupied housing and businesses. Therefore FNBE's record of originating loans among borrowers of different income levels and businesses of different sizes received more weight than FNBE's record of originating loans among AA geographies.

All criteria of the lending test are documented below.

### **LENDING TEST**

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

FNBE's Loan to Deposit (LTD) ratio as compared to the average LTD ratio exhibited by peer banks over the same period is more than reasonable.

The analysis of FNBE's record of lending, demonstrated by its ratio of loans to deposits was performed at the bank level. FNBE's average LTD ratio over the evaluation period was compared to the average LTD ratio demonstrated by a peer group of similarly



situated financial institutions over the same period. Similarly situated financial institutions included nineteen banks with assets between \$100 million and \$500 million, operating within a twenty-two county area in Western Pennsylvania.

Lending activity over the evaluation period was measured by comparing the sixteen quarter average, LTDs reported by FNBE and its local peer group. The sixteen quarter average LTD was calculated using financial data reported since the previous evaluation. Specifically, the calculation included quarter end financial data reported for each of the fifteen quarters from 3/31/04 through 12/31/07.

FNBE's LTD ratio ranged from a low of 77.27% as of December 31, 2004 to a high of 96.25% as of September 30, 2007. FNBE's LTD ratio was 94.54%. FNBE's average LTD ratio of 85% exceeds the average LTD ratio of its local peer group, which was 72%.

### **Lending in Assessment Area**

FNBE originated a majority of its residential real estate and business loans inside of its combined AAs.

In order to evaluate FNBE's lending in its AA, we measured and analyzed its record, over the evaluation period, of originating loans inside versus outside of its combined AAs. Specifically, we measured and analyzed FNBE's record of originating residential mortgage and business loans within its combined AAs, since these loans are considered to constitute FNBE's primary loan products.

We measured and analyzed residential real estate and business loans originated by FNBE during 2006, 2007 and year to date 2008. FNBE's residential real estate loan originations included loans for purposes of home purchase, home improvement, and home refinance. FNBE's residential real estate lending was analyzed using the HMDA data it originated, collected and reported over the period. FNBE's business data was analyzed using a sample of sixty (60) randomly selected business loans it originated over the period.

The analysis of FNBE's residential real estate data revealed that all of the residential real estate loans FNBE originated in 2006, 2007, and year to date 2008, that 97% of home mortgage loans were originated within the combined AAs. Similarly, an analysis of small business loans FNBE originated over the period revealed that 92% of business loans were originated within FNBE's combined AAs.

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

FNBE's record of originating residential mortgage and business loans reflects good penetration among Venango and Butler AA borrowers of different income levels and AA businesses of different sizes.

## Performance in the Venango AA

FNBE's record of originating residential mortgage and business loans reflects reasonable penetration among Venango AA borrowers of different income levels and businesses of different sizes.

### *Residential Mortgage Lending*

Data collected through a sample of 250 residential mortgage loans originated by FNBE in its Venango AA was analyzed. The analysis was performed to assess FNBE's record of distributing its residential mortgage loan originations among Venango AA borrowers of different income levels.

Demographic data compiled during the 2000 census for FNBE's Venango AA reports the income level of AA families as follows:

- 19.55% of AA families are low-income families
- 20.62% of AA families are moderate-income families
- 24.88% of AA families are middle-income families
- 34.95% of AA families are upper-income families

Low-income Venango AA families are defined as families with annual incomes below \$24,999. Moderate-income Butler AA families are defined as families with annual incomes between \$25,300 and \$39,840.

The following table details the distribution of residential mortgage loans originated by FNBE during the evaluation period to borrowers of different income levels within the Venango AA.

<b>Borrower Distribution of Residential Mortgage Loans in the Venango AA</b>								
<b>Loan Type</b>	<b>Low-Income Families</b>		<b>Moderate-Income Families</b>		<b>Middle-Income Families</b>		<b>Upper-Income Families</b>	
	<b>% Families</b>	<b>% BANK # Loans</b>	<b>% Families</b>	<b>% BANK # Loans</b>	<b>% Families</b>	<b>% BANK # Loans</b>	<b>% Families</b>	<b>% BANK # Loans</b>
<b>Home Purchase</b>	19.55%	4.04%	20.62%	25.25%	24.88%	19.19%	34.95%	49.49%
<b>Home Improvement</b>	19.55%	13.04%	20.62%	14.13%	24.88%	27.17%	34.95%	44.57%
<b>Home Mortgage Refinance</b>	19.55%	12.50%	20.62%	20.31%	24.88%	18.75%	34.95%	45.31%

*Source: Residential Real Estate Data from 1/1/08 through 3/24/08; HUD-updated 2000 U.S. Census data*

FNBE's record of originating home purchase, home improvement and home mortgage refinance loans to low-income Venango AA borrowers is below the percentage of AA families classified as low-income.

Of Venango AA families, 19.55% and 20.62% are classified as low and moderate-

income AA families respectively. Comparatively, of home purchase, home improvement and home mortgage refinance loans originated by FNBE within its Venango AA, 4.04%, 13.04% and 12.50% respectively were originated to low-income AA borrowers.

Similarly, FNBE’s record of originating home improvement loans to moderate-income Venango AA borrowers is below the percentage of AA families classified as moderate-income. Of home purchase, home improvement and home mortgage refinance loans originated by FNBE within its Venango AA, 25.25%, 14.13% and 20.31% respectively were originated to moderate-income AA borrowers. However, FNBE’s record of originating home mortgage refinance loans to moderate-income AA borrowers is near to the percentage of AA families classified as moderate-income. FNBE’s record of originating home purchase loans to moderate-income AA borrowers exceeds the percentage of AA families classified as moderate-income,

Opportunities to originate residential mortgage loans within the Venango AA may be impacted by demographics including the extent to which the Venango AA population is age 65 or older, retired, eligible for social security and/or below poverty level.

*Businesses Lending*

Data collected through a sample of twenty (20) business loans originated by FNBE in its Venango AA was analyzed. The analysis was performed to assess FNBE’s record of distributing its business loan originations among Venango AA businesses of different sizes.

Demographic data compiled during the 2000 census for FNBE’s Venango AA, indicates that of AA businesses, which reported annual revenues, revenue was recorded as follows:

- 64.74% of AA business report annual revenues < or = \$1 million
- 6.94% of AA business report annual revenues > than \$1 million
- 29.33% or 4,170 of AA businesses did not report annual revenues

Small businesses are defined as businesses with gross annual revenues of one million dollars or less.

The following table details the distribution of business loans originated by FNBE during the evaluation period to businesses of different sizes within the Venango AA.

<b>Borrower Distribution Of Loans To Small Businesses in the Venango AA</b>				
<b>Business Revenues (or Sales)</b>	<b>&lt; \$1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>Not Reported</b>	<b>Total</b>
<b>% of AA Businesses by #</b>	<b>66%</b>	<b>6%</b>	<b>28%</b>	<b>100%</b>
<b>% of Bank Loans in AA by #</b>	<b>75%</b>	<b>25%</b>	<b>N/A</b>	<b>100%</b>
<b>% of Bank Loans in AA by \$</b>	<b>54%</b>	<b>46%</b>	<b>N/A</b>	<b>100%</b>

*Source: business loan data sampled from 1/1/08 through 3/24/08; Dun & Bradstreet data*

Venango AA demographic information derived from Dunn and Bradstreet reports that of all AA businesses, 64.74% reported revenue amounts which classified them as small. Comparatively, of business loans originated by FNBE to businesses during the evaluation period, 75% of business loans were originated to Venango AA small businesses.

FNBE has demonstrated responsiveness to the needs of Venango AA small businesses. The vast majority of business loans originated by FNBE to AA businesses represent the smaller dollar amounts needed by small AA businesses. For example, of analyzed AA business loans 75% were originated for dollar amounts of \$100,000 or less.

### Performance in the Butler AA

FNBE's record of originating residential mortgage and business loans reflects good penetration among Butler AA borrowers of different income levels and businesses of different sizes.

#### *Residential Mortgage Lending*

Data collected and reported in accordance with HMDA requirements representing residential mortgage loans originated by FNBE in its Butler AA was analyzed. The analysis was performed to assess FNBE's record of distributing its residential mortgage loan originations among Butler AA borrowers of different income levels.

Demographic data compiled during the 2000 census for FNBE's Butler AA reports income level of AA families as follows:

- 15.81% of AA families are low-income families
- 17.31% of AA families are moderate-income families
- 22.80% of AA families are middle-income families
- 44.08% of AA families are upper-income families

Low-income Butler AA families are defined as families with annual incomes below \$28,950. Moderate-income Butler AA families are defined as families with annual incomes between \$28,950 and \$46,320.

The following table details the distribution of residential mortgage loans originated by FNBE during the evaluation period to borrowers of different income levels within the Butler AA.

Borrower Distribution of Residential Mortgage Loans in the Butler AA								
Loan Type	Low-Income Families		Moderate-Income Families		Middle-Income Families		Upper-Income Families	
	% Families	% BANK # Loans	% Families	% BANK # Loans	% Families	% BANK # Loans	% Families	% BANK # Loans
Home Purchase	15.81%	9.80%	17.31%	21.57%	24.88%	19.19%	34.95%	49.49%
Home Improvement	15.81%	16.85%	17.31%	21.35%	24.88%	27.17%	34.95%	44.57%
Home Mortgage Refinance	15.81%	10.96%	17.31%	21.92%	24.88%	18.75%	34.95%	45.31%

Source: HMDA data for 2006-2007; HUD-updated 2000 U.S. Census data

Of Butler AA families, 15.81% and 17.31% are classified as low and moderate-income AA families respectively. Comparatively, of home purchase, home improvement and home mortgage refinance loans originated by FNBE within its Butler AA 9.80%, 16.85% and 10.96% respectively were originated to low-income AA borrowers. Of home purchase, home improvement and home mortgage refinance loans originated by FNBE within its Butler AA, 21.57%, 21.35% and 21.92% respectively were originated to moderate-income AA borrowers.

FNBE's record of originating home purchase, and home mortgage refinance loans to low-income Butler AA borrowers is below the percentage of AA families classified as low-income. FNBE's record of originating home purchase, home improvement and home mortgage refinance loans to moderate-income Butler AA borrowers exceeds the percentage of AA families classified as moderate-income.

Opportunities to originate residential mortgage loans within the Butler AA may be impacted by demographics including a median housing cost of \$109,966 in addition to the extent to which the Venango AA population is age 65 or older, retired, eligible for social security and/or at or below poverty level.

### *Businesses Lending*

Data collected through a sample of twenty (20) business loans originated by FNBE in its Butler AA was analyzed. The analysis was performed to assess FNBE's record of distributing its business loan originations among Butler AA businesses of different sizes.

Demographic data compiled during the 2000 census for FNBE's Butler AA, indicates that of AA businesses, which reported annual revenues, revenue was recorded as follows:

- 67.23% of Butler business report annual revenues < or = \$1 million
- 6.25% of Butler business report annual revenues > than \$1 million
- 26.52% or 4,170 of AA businesses did not report annual revenues

Small businesses are businesses with gross annual revenues of one million dollars or less.

The following table details the distribution of business loans originated by FNBE during the evaluation period to businesses of different sizes within the Butler AA.

<b>Borrower Distribution Of Loans To Small Businesses in the Butler AA</b>				
<b>Business Revenues (or Sales)</b>	<b>&lt; \$1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>Not Reported</b>	<b>Total</b>
<b>% of AA Businesses by #</b>	<b>68%</b>	<b>7%</b>	<b>25%</b>	<b>100%</b>
<b>% of Bank Loans in AA by #</b>	<b>65%</b>	<b>35%</b>	<b>N/A</b>	<b>100%</b>
<b>% of Bank Loans in AA by \$</b>	<b>63%</b>	<b>36%</b>	<b>N/A</b>	<b>100%</b>

*Source: business loan data sampled from 2004-2006; Dun & Bradstreet data*

Butler AA demographic information derived from Dunn and Bradstreet reports that of all AA businesses, 67.23% reported revenue amounts which classified them as small. Comparatively, of business loans originated by FNBE to businesses during the evaluation period, 65% of business loans were originated to Butler AA small businesses.

FNBE has demonstrated responsiveness to the needs of Butler AA small businesses. The vast majority of business loans originated by FNBE to AA businesses represent the smaller dollar amounts needed by small AA businesses. For example, of analyzed AA business purpose loans 85% were originated for dollar amounts of \$100,000 or less.

### **Geographic Distribution of Loans**

FNBE's record of originating residential mortgage and business loans reflects adequate dispersion among Venango and Butler AA geographies.

#### Performance in the Venango AA

FNBE's record of originating loans reflects a reasonable dispersion among Venango AA geographies.

#### *Residential Mortgage Lending*

Data collected through a sample of 181 residential mortgage loans originated by FNBE in its Venango AA was analyzed. The analysis was performed to assess FNBE's record of dispersing its residential real estate loan originations among Venango AA geographies.

Demographic data compiled during the 2000 U.S. census for FNBE's Venango AA reports that AA owner-occupied housing is disbursed among AA geographies as follows:

- 5.67% of AA owner occupied housing is located in moderate-income AA geographies.
- 85.94% of AA owner occupied housing is located in middle-income AA geographies.
- 8.38% of AA owner occupied housing is located in upper-income AA geographies.

Venango AA demographic information derived from 2000 census data reports that of all owner-occupied housing available within the AA, less than 6% is located within the AA’s moderate-income geographies. The vast majority of all AA owner-occupied housing is located in the AA’s middle and upper-income geographies. Comparatively, of residential real estate loans originated by FNBE in its Venango AA, 2% were originated in FNBE’s moderate-income geographies.

The following table details the distribution of residential mortgage loans originated by FNBE during the evaluation period in its Venango AA geographies.

<b>Geographic Distribution of Residential Mortgage Loans in the Venango AA</b>								
<b>Census Tract Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
<b>Loan Type</b>	% 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
<b>Home Purchase</b>	0%	0%	6%	6.15%	86%	81.54%	8%	12.31%
<b>Home Improvement</b>	0%	0%	6%	6.35%	86%	90.48%	8%	3.17%
<b>Home Mortgage Refinance</b>	0%	0%	6%	0.00%	86%	90.57%	8%	9.43%

Source: Residential Real Estate Data sampled from 1/1/08 through 3/24/08; HUD-updated 2000 U.S. Census data

FNBE’s record of originating home purchase and home improvement mortgage loans in moderate-income AA geographies reflects the percentage of AA owner-occupied housing located in those moderate-income geographies. However, FNBE’s record of originating home mortgage refinance loans in moderate-income AA geographies is below the percentage of AA owner-occupied housing located in those moderate-income geographies.

Opportunities to originate residential mortgage loans within the moderate-income Venango AA geographies may be impacted by demographics including the location of the moderate-income Venango AA geographies. FNBE branch locations are not situated in close proximity to Venango AA’s moderate-income geographies. Also FNBE encounters strong competition in Venango and Jefferson Counties, further impacting its ability to originate residential mortgage loans in these geographies

*Small Business Lending*

Data collected through a sample of business loans originated by FNBE in its Venango AA was analyzed. The analysis was performed to assess FNBE’s record of dispersing its business loan originations among Venango AA geographies.

Demographic data compiled during the 2000 U.S. census for FNBE's Venango AA reports that AA businesses are disbursed among AA geographies as follows:

- 9.09% of AA businesses are located in moderate-income AA geographies.
- 84.85% of AA businesses are located in middle-income AA geographies.
- 6.06% of AA businesses are located in upper-income AA geographies.

Venango AA demographic information derived from 2000 census data reports that of all businesses within the AA, less than 10% are located within the AA's moderate-income geographies. The vast majority of all AA businesses are located in the AA's middle and upper-income geographies. Comparatively, of business originated by FNBE in its Venango AA, none were originated in the AA's moderate-income geographies.

FNBE's record of originating business loans in moderate-income AA geographies is less than the percentage of AA businesses located in those moderate-income geographies.

Opportunities to originate business loans within the moderate-income Venango AA geographies may be impacted by demographics including the location of the moderate-income Venango AA geographies. FNBE branch locations are not situated in close proximity to Venango AA's moderate-income geographies. Also FNBE encounters strong competition in Venango and Jefferson Counties, further impacting its ability to originate business loans in these geographies.

### Performance in the Butler AA

FNBE's record of originating residential mortgage and business loans reflects reasonable dispersion among Butler AA geographies.

#### *Residential Real Estate Lending*

Data collected through a sample of residential mortgage loans originated by FNBE in its Butler AA was analyzed. The analysis was performed to assess FNBE's record of dispersing its residential mortgage loan originations among Butler AA geographies.

Demographic data compiled during the 2000 U.S. census for FNBE's Butler AA reports that AA owner-occupied housing is disbursed among AA geographies as follows:

- 6.03% of AA owner occupied housing is located in moderate-income AA geographies.
- 69.43% of AA owner occupied housing is located in middle-income AA geographies.
- 24.54% of AA owner occupied housing is located in upper-income AA geographies.

Butler AA demographic information derived from 2000 census data reports that of all owner-occupied housing available within the AA, 6% is located within the AA's moderate-income geographies. The vast majority of all AA owner-occupied housing is located in the AA's middle and upper-income geographies. Comparatively, of home purchase, home improvement and home mortgage refinance loans originated by FNBE in its Butler AA, 16.98%, 5.62%, and 8.22% were originated in FNBE's moderate-income geographies.



The following table details the distribution of residential mortgage loans originated by FNBE during the evaluation period in its Butler AA geographies.

<b>Geographic Distribution of Residential Mortgage Loans in the Butler AA</b>								
<b>Census Tract Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
<b>Loan Type</b>	% 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
<b>Home Purchase</b>	0%	0%	6.03%	16.98%	69.43%	79.25%	24.54%	3.77%
<b>Home Improvement</b>	0%	0%	6.03%	5.62%	69.43%	87.64	24.54%	6.74
<b>Home Mortgage Refinance</b>	0%	0%	6.03%	8.22%	69.43%	91.78	24.54%	0.00

Source: Residential Real Estate Data sampled from 1/1/08 through 3/24/08; HUD-updated 2000 U.S. Census data

FNBE’s record of originating home purchase and home mortgage refinance loans in moderate-income AA geographies exceeds the percentage of AA owner-occupied housing located in those moderate-income geographies. FNBE’s record of originating home improvement loans in moderate-income AA geographies is near to the percentage of AA owner-occupied housing located in those moderate-income geographies.

Opportunities to originate residential mortgage loans within the moderate-income Butler AA geographies may be impacted by demographics including the location of the moderate-income Butler AA geographies. FNBE branch locations are situated in northern Butler County adjacent to its Venango AA. However, Butler AA’s moderate-income geographies are situated in southern Butler County closer to the more heavily banked Pittsburgh market, further impacting FNBE’s ability to originate residential mortgage loans in these geographies.

### *Small Business Lending*

Data collected through a sample of business loans originated by FNBE in its Butler AA was analyzed. The analysis was performed to assess FNBE’s record of dispersing its business loan originations among Butler AA geographies.

Demographic data compiled during the 2000 U.S. census for FNBE’s Butler AA reports that AA businesses are disbursed among AA geographies as follows:

- 12.82% of AA businesses are located in moderate-income AA geographies.
- 66.67% of AA businesses are located in middle-income AA geographies.
- 20.51% of AA businesses are located in upper-income AA geographies.

Butler AA demographic information derived from 2000 census data reports that of all businesses within the AA, less than 13% are located within the AA’s moderate-income

geographies. The vast majority of all AA businesses are located in the AA's middle and upper-income geographies. Comparatively, of business originated by FNBE in its Butler AA, none were originated in the AA's moderate-income geographies.

FNBE's record of originating business loans in moderate-income AA geographies is less than the percentage of AA businesses located in those moderate-income geographies.

Opportunities to originate business loans within the moderate-income Butler AA geographies may be impacted by demographics including the location of the moderate-income Butler AA geographies. FNBE branch locations are situated in northern Butler County adjacent to its Venango AA. However, Butler AA's moderate-income geographies are situated in southern Butler County closer to the more heavily banked Pittsburgh market, further impacting FNBE's ability to originate business loans in these geographies.

### **Responses to Complaints**

Neither the bank nor the OCC have received any CRA-related complaints since the last CRA examination. Therefore, this criterion is not meaningful.

## **COMMUNITY DEVELOPMENT TEST**

The Community Development (CD) Test is rated satisfactory. During the evaluation period, FNBE purchased a 1/5 participating interest, totaling \$250,000 in a CD loan, contributed, \$16,427 in CD donations and FNBE representatives also participated in a variety of CD services which benefited its AAs. FNBE's level of CD activities is adequate considering its size and capacity and the CD needs and opportunities of its AAs.

### Performance in the Venango AA

FNBE has demonstrated adequate responsiveness to the community development needs of this AA, considering its performance context and the needs and opportunities within the AA.

### Performance in the Butler AA

FNBE has demonstrated adequate responsiveness to the community development needs of this AA, considering its performance context and the needs and opportunities within the AA.

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

### Performance in the Venango AA

Limited opportunities for CD lending exist within FBNE's Venango AA. Competition from both large regional and other area financial institutions for originating CD loans is considered to be very strong.

FNBE did not originate any CD loans within its Venango AA over the evaluation period.

FNBE did however originate within its Venango AA, small business loans that had a CD purpose.

In April and November of 2004, FNBE originated two loans for \$127,200 and \$80,000 respectively. The loans were originated to a Clarion County organization that provides housing and care to disabled low-and moderate-income residents. Loan proceeds were used to purchase residential properties for use as transitional/independent housing.

### Performance in the Butler AA

Limited opportunities for CD lending exist within FNBE's Butler AA. Competition from both large regional and other area community financial institutions for originating CD loans is considered to be very strong. The local county and city non-profit organizations including the housing and redevelopment authorities increasingly use tax credit and bond issues to finance larger CD projects. Consequently, the housing and redevelopment authorities seek to meet funding needs for smaller dollar amount projects through smaller banks.

Despite limited area CD opportunities, FNBE purchased a participating interest in a CD loan which benefited its Butler AA.

Specifically, in August 2007, FNBE purchased a 1/5 participating interest, equaling \$250,000 in a loan which totaled \$1,250,000. The loan proceeds were for the purpose of financing improvements to an existing baseball stadium in a moderate-income Butler AA geography. The baseball stadium and related improvements are part of a redevelopment zone project in the City of Butler.

FNBE also originated a CD loan which did not directly benefit its AAs. The CD loan however had the potential to benefit FNBE's Butler AA. The loan was actually originated in adjacent Lawrence County just a few miles from FNBE's Butler AA.

Specifically, in November of 2007, FNBE originated the loan for \$3,250,000. The loan proceeds were used for the renovation of existing city buildings. Property was renovated to house a call center projected to create 300 area jobs. Loan proceeds would serve to stabilize and revitalize and redevelop the area.

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

FNBE, over the evaluation period, extended numerous grants and donations which benefited its Venango AA.

### Performance in the Venango AA

FNB extended eleven (11) grants and donations in response to Venango AA community needs. The eleven donations totaled \$16,627. The majority of the funds were given to non-profit organizations that focused on various CD initiatives, including serving the needs of low and moderate-income AA residents.

### Performance in the Butler AA

FNB extended four (4) grants and donations in response to Butler AA community needs. The four donations totaled \$100. The majority of the funds were given to non-profit organizations that focused on various CD initiatives, including serving the needs of low and moderate-income AA residents.

Additionally donations FNBE funded within its Venango AA have the potential to benefit its Butler AA. Some Venango AA donations funded CD activities that extended into FNBE's Butler AA.

FNBE also funded a CD donation which benefited a designated disaster area outside of its AAs. Specifically in October 2005, FNBE donated \$1,200 to contribute to the cost of relief supply delivery. The contribution contributed to providing supplies to facilitate clean-up efforts in response to damage caused by Hurricane Katrina.

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

FNBE representatives, over the evaluation period, participated in a variety of CD services which were responsive to its Venango and Butler AA needs.

### Performance in the Venango AA

FNBE representatives, participated in a variety of CD services which were responsive to its Venango AA needs. Among CD services in which FNBE representatives participated within its Venango AA are those described below.

An FNBE Assistant Vice President/Communications Officer serves as a voting Loan Committee Member for a regional planning commission. The commission provides federal and state loans to Venango AA businesses, which helps to create and retain area jobs.

An FNBE Vice President and an Assistant Vice President both serve as area presidents for a local organization of that provides clothing and funding for medical expenses to

children of low and moderate-income AA families. The representatives provide leadership and managerial expertise to the organization.

An FNBE Vice President of Business Development is the President of the Bah-Humbug Society of Emlenton located in the Venango AA. He provides his leadership and managerial skills to this society, which provides Christmas gifts and clothing for low and moderate-income children and families. Donations to this organization are also used for medical emergencies at local schools for needy children, such as to provide eyeglasses.

An FNB Assistant Vice President/Branch Manager provides leadership in his capacity as president for a Venango AA charitable organization. The organization provides clothing for children in low and moderate income AA families.

An FNBE representative provides oversight in his capacity as a member of the Board of Directors of a local hospital foundation. The representative assists in fund raising efforts and allocation decisions. The mission of the foundation in part is to provide for quality patient care, technical resources and health care education through the distribution of financial assistance within the AA.

An FNBE representative provides financial expertise in his capacity as a member of the finance committee of an innovative service learning program. The representative provides technical assistance regarding financial matters, invests funds and explains employee benefits and insurance. The representative provides learning assistance to low and moderate-income AA residents relating to human needs, adult education, and at risk youth.

An FNBE representative provides oversight in his capacity as member of the Board of Directors of a local School District Education Foundation. The representative provides technical assistance on financial matters regarding scholarships for students and grants for faculty to perform studies regarding education improvement. Among the programs, is one which supports students who require assistance in order to participate in District programs.

An FNBE representative provides oversight in her capacity as a member of the Board of Directors of a local county development board. The representative participates in the decision making process for project approval and start-up funding for small businesses.

An FNBE representative provides oversight in her capacity as a member of the Board of Directors of a local organization. The representative provides the organization with expertise on financial matters. The organization provides assistance and aid to a local community program that provides food for low and moderate-income residents.

An FNBE representative participates in a local homebuyers program. The representative provides information regarding loan programs that assist first time homebuyers achieve home ownership. The representative also educated local real estate agents on available bank loan programs.

An FNBE representative provides leadership in his capacity as vice president for a

chamber of commerce that is located within and serves a local downtown area targeted for revitalization. The representative promotes the participation of local businesses in the organization for revitalizing the community.

#### Performance in the Butler AA

FNBE representatives participated in CD services which were responsive to its Butler AA needs. Among CD services in which FNBE representatives participated within its Butler AA are those described below.

FNBE's President/CEO serves on the Board of Directors of a local county Community Development Corporation ("CDC") located in its Butler AA. The CDC provides financing for small businesses and contributes to area job creation and retention. The CDC also assists in the strategic placement and subsidized operation of business incubators and multi-occupancy buildings that provide start-up companies with operating space and management technical assistance.

An FNB Assistant Vice President (AVP)/Branch Manager participates in a Homebuyers Fair on behalf of a local Butler AA Housing Authority. The AVP/Branch Manager provides information on housing products and teaches a public class instructing participants on understanding financing options and obtaining financing

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

#### Performance in the Venango AA

FNBE's CD activities demonstrate adequate responsiveness to the needs and opportunities in its Venango AA. FNBE did not originate any CD loans which benefited its Venango AA. However, FNBE did originate two small business loans with a CD purpose. FNBE did fund \$16,327 in CD donations to organizations that provide community services within its Venango AA. FNBE's representatives also participated in a variety of CD services which benefited its Venango AA.

#### Performance in the Butler AA

FNBE's CD activities demonstrate adequate responsiveness to the needs and opportunities in its Butler AA. FNBE funded \$100 in CD donations to organizations that provide community services within its Venango AA. Additionally donations FNBE funded within its Venango AA have the potential to benefit its Butler AA. FNBE did however, purchase a 1/5 participating interest, totaling \$250,000 in a CD loan, which benefited its Butler AA. FNBE representatives also participated in CD services which benefited its Butler AA.

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

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