

Northeastern District
1114 Avenue of the Americas, Suite 3900
New York, New York 10036

PUBLIC DISCLOSURE

February 1, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Berwick
Charter Number: 568
111 West Front Street
Berwick, Pennsylvania 18603-4737

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 Community Reinvestment Act (CRA) performance of **The First National Bank of Berwick** prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of February 1, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

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

The primary factors supporting the bank's overall rating include:

- ! The average loan to deposit ratio of 67% compares favorably with national peer group averages and while it is lower than local peer group averages, the bank actively sells residential mortgages on the secondary mortgage market;
- ! A majority of Home Mortgage Disclosure Act (HMDA) reportable loans originated during the examination period are in the bank's assessment area;
- ! The geographic distribution of HMDA loans in the assessment area is excellent; and
- ! There is an excellent penetration of loans to individuals of different income levels and substantially all of the bank's commercial lending is to small businesses.

The following table indicates the performance level of The First National Bank of Berwick with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>First National Bank of Berwick</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to businesses of Different sizes	X		
Geographic Distribution of Loans	X		
Response to Complaints	No complaints received since the prior examination.		

DESCRIPTION OF INSTITUTION

The First National Bank of Berwick (FNB) is a \$301 million institution situated in northeastern Pennsylvania, with its headquarters located in Columbia County. It is a wholly owned subsidiary of First Keystone Corporation, a one bank holding company. The bank has no operating subsidiaries. FNB operates eight full service offices and eleven automated teller machines (ATMs) in Columbia, Luzerne, and Montour counties. Two of the offices were opened since October of 1997. Six of the offices have drive-in facilities, all have extended evening hours, and five have weekend hours. FNB also offers a telephone banking services system, personal computer home banking, and maintains an Internet website for informational purposes only.

Major competitors include First Union, PNC, Mellon, and many regional and small community banks. As of June 30, 1998, FNB's market share of all deposits held by FDIC-insured institutions operating in Pennsylvania was 0.13%. Also as of that date, the bank's deposit market share in Columbia County was 26%, and 0.61% in Luzerne County. FNB first entered the Montour County market in November of 1998.

Primary loan products include fixed rate and adjustable rate residential mortgages, small business loans, and consumer installment loans. The loan portfolio represents 51% of total assets. A breakdown of the portfolio as of September 30, 1998 is as follows: 50% residential mortgages, 40% commercial and commercial real estate loans, and 10% consumer installment loans. Agricultural lending is minimal.

There are no legal or financial impediments which would hinder the bank's ability to help meet the credit needs of its community. As of the last CRA examination, dated April 11, 1996, the institution was rated "satisfactory."

DESCRIPTION OF ASSESSMENT AREA

FNB's assessment area (AA) meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income geographical areas. The AA includes 38 census tracts (CTs) and block numbering areas (BNAs) located in Columbia County, and portions of Luzerne, Montour, and Northumberland counties. The population of the AA is 131,137. Seventeen percent of the families residing in the AA are low-income, 21% percent are moderate-income, 25% are middle-income, and 37% are upper-income families.

The thirty-two CTs in Columbia and western Luzerne counties are part of the Scranton/Wilkes-Barre/Hazleton Metropolitan Statistical Area (MSA 7560). FNB's headquarters are located in this MSA. Population in these tracts is 106,454. The income levels of these CTs include six moderate-income, twenty-three middle-income and three upper-income tracts. There are no low-income tracts.

The remainder of the AA is a non-MSA consisting of Montour County and northern Northumberland County. Six BNAs make up this area which has a population of 24,683. Three of the BNAs are middle-income and the remaining three are upper-income. Twelve percent of the families residing in the AA are low-income, 18% are moderate-income, 22% are middle-income, and 48% are upper-income. The statewide non-metropolitan median family income of \$35,200 applies to this area. The average housing cost is \$60,844. The median year homes were built is 1956. FNB operates one full service branch and one ATM in Montour County.

The local area is primarily rural or suburban. According to the Pennsylvania Department of Labor and Industry, as of December 31, 1998, the Pennsylvania state unemployment rate was at 3.8% while Columbia County was at 5.4%. In Luzerne County, the unemployment rate was at 5.7%, with the Montour County rate at 2.2%, and in Northumberland County, the unemployment rate was at 4.5%.

Major employers in the Columbia County area include Wise Foods, Inc., Star-Kist Foods, Inc, Dixon University Center, Berwick Hospital Corporation, and Magee Rieter Automotive Systems. In Luzerne County, major employers include federal, state, and county government, Wilkes-Barre General Hospital, and Techneglas, Inc. Montour County's major employers include Geisinger Medical Center and System Services, state government, the Strick Corporation, Pennsylvania Power and Light Co., and Grandview Health Homes, Inc. In Northumberland County, major employers are Weis Markets, Inc., American Home Foods, Inc., state and county government, and H. H. Knoebel Sons, Inc.

ASSESSMENT AREA DEMOGRAPHICS		
Designation	# Census Tracts/BNAS	% of Total Tracts
Low	0	0
Moderate	6	16
Middle	26	68
Upper	6	16
Total	38	100

Determination of Community Credit Needs

Community Contacts

Credit needs in the local area were determined during this examination by contacting the executive director of a local industrial development group. This contact indicated that the

need for more businesses, and hence job creation, is a significant issue in the region. Loan programs which can attract new businesses and spur industrial development must be available. Bank management had also stated that these are important issues in the area and continues to address these matters.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

SCOPE OF REVIEW

Please note that for purposes of this review the examination period covers all Home Mortgage Disclosure Act (HMDA) reportable loan activity from January 1, 1997 through December 31, 1998. Small business loan data is based on the information found within the call report dated June 30, 1998. All dollar amounts listed in the tables within this report are in thousands unless otherwise noted.

LOAN TO DEPOSIT RATIO

Our analysis of FNB's loan to deposit ratio indicates that the quarterly average ratio of 67%, which has been maintained over the past two years since the previous examination, is comparable with the national peer average of 70%. FNB's ratio has remained stable, ranging between 64% and 70%, and the bank's asset/liability strategy and policy is to have the ratio remain below 75%. This ratio is lower than local peer banks which have an average ratio of 81%, however, the bank actively sells and services residential mortgage loans on the secondary mortgage market. FNB's loan to deposit ratio would be higher if these loans were still held in their portfolio.

Lending in Assessment Area

We analyzed the bank's record of lending in their AA using information on the 1997 and 1998 HMDA Loan Application Registers (HMDA-LARs). The following table indicates that a majority of HMDA reportable loan originations during the examination period are in FNB's AA. This reflects a good response to local community housing needs.

HMDA Reportable Loan Originations								
	1997				1998			
	#	%	\$	%	#	%	\$	%
Inside AA	276	90	8,449	92	228	88	8,539	88
Outside AA	30	10	710	8	31	12	1,195	12
Total	306	100	9,159	100	259	100	9,734	100

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The bank's record of lending to borrowers of different income levels was evaluated using the same HMDA information as in the above analysis. We analyzed the distribution of lending for the AA and compared it to the demographics of that area. The following tables show that FNB's volume of lending is representative of the demographic composition of the entire AA. Also, we noted that in 1997, FNB's overall AA market share, based on HMDA originations, was 8.91%. During that time, the bank's market share, also based on HMDA originations, for low-income borrowers was 17.07% and for moderate-income borrowers was 10.96%.

HMDA Reportable Loan Originations by Level of Borrower Income in the AA									
Income Category	1997				1998				% of Families Within AA
	#	%	\$	%	#	%	\$	%	
Low	42	15	472	6	36	16	438	5	17
Moderate	72	26	1,677	20	54	24	1,344	16	21
Middle	71	26	2,079	24	46	20	1,787	21	25
Upper	91	33	4,221	50	92	40	4,970	58	37
Total	276	100	8,449	100	228	100	8,539	100	100

Of the 155 lenders in the AA, FNB was ranked as the largest HMDA lender in the AA and the largest lender to low-income and moderate-income applicants. Overall, FNB's record of lending to borrowers of different income levels is excellent.

FNB offers a first time home buyers program. This program offers a thirty year maximum term, fixed rate mortgage with a loan-to-value ratio of up to 95%. Below market interest rates are offered and no points or origination fees are collected. A new construction mortgage plan is also offered through this program with reduced interest rates and reduced origination fees. Private mortgage insurance is required and the prospective borrower must complete a course in home ownership. The bank also participates in a county home buyer assistance program for low- and moderate-income home buyers. This program assists home buyers with closing costs and/or down payment funds in the form of grants.

FNB is responsive to the credit needs of small businesses and small farms in its community. We used the “currently outstanding” loan data from the June 30, 1998 call report to evaluate the bank’s record of lending to small businesses and small farms. For this analysis, a small business loan is defined as a loan with an original amount of less than \$1 million and a small farm loan is an agricultural loan made for less than \$500 thousand. The following table shows FNB’s record of lending to small businesses and small farms. Note that a large majority are very small loans with original amounts of less than \$16 thousand.

Distribution of Small Business/Small Farm Loans by Loan Size from June 30, 1998 Call Report				
Loan Size	Small Business		Small Farm	
	#/%	\$/%	#/%	\$/%
≤ \$100M	783/81	11,918/27	30/100	2,086/100
> \$100M ≤ \$250M	115/12	11,803/26	0/0	0/0
> \$250M ≤ \$1,000M	71/7	21,172/47	0/0	0/0
Total	969/100	44,893/100	30/100	2,086/100

The bank also offers a special program to extend funds to small businesses for start-up purposes and expansion reasons at favorable fixed rates. According to management, farms in the area are rapidly disappearing. The remaining local farmers usually use government loan programs for their credit needs.

Geographic Distribution of Loans

The following table depicts the geographic distribution of HMDA loans. As was stated previously, there are no low-income census tracts and only six moderate-income census tracts in the bank’s AA. Competition for these loans is strong with many community banks offering special “affordable housing programs” and, given the bank’s market share, their lending to all census tracts is considered excellent.

Geographic Distribution of HMDA Reportable Loan Originations by Census Tract Characteristic in AA					
Census Tracts	1997		1998		% Owner- Occupied Households in AA
	#/%	\$/%	#/%	\$/%	
Low	0/0	0/0	0/0	0/0	0%
Moderate	53/19	1,001/12	37/16	795/5	11%
Middle	207/75	6,743/80	182/80	8,643/54	73%
Upper	16/6	705/8	9/4	6,469/41	16%
Total	276/100	8,449/100	228/100	15,907/100	100%

Responses to Complaints

No complaints were received during this period by FNB regarding its performance in meeting the credit needs of its AA.

Fair Lending Review

A Fair Lending Review was performed in conjunction with this CRA examination and did not identify any violations of antidiscrimination laws and regulations.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MSA 7560

FNB defines its assessment area within the Scranton/Wilkes-Barre/Hazleton MSA as thirty-two census tracts in Columbia and Luzerne counties. Six of the census tracts are moderate-income tracts, twenty-three are middle-income tracts, and three are upper-income tracts. Eighteen percent of the households in this MSA are geographically located in the low-income tracts, 22% are in the moderate-income tracts, 26% are in the middle-income tracts, and 34% are in the upper-income tracts.

Eighty-one percent of the population in the bank's AA resides in this MSA. The median family income in this MSA is \$38,900. Average housing costs are \$54,911 with 1953 as the median year built. The bank operates seven full service offices and ten ATMs in these counties.

The bank's performance with respect to HMDA loan originations in this MSA is illustrated in the following table. The originations satisfactorily represent the demographics in the MSA.

HMDA Reportable Loan Originations by Level of Borrower Income in MSA 7560									
Income Category	1997				1998				% of Families Within AA
	#	%	\$	%	#	%	\$	%	
Low	42	15	472	6	36	16	438	5	18
Moderate	72	26	1,677	20	54	24	1,344	16	22
Middle	71	26	2,079	25	46	20	1,787	21	26
Upper	90	33	4,072	49	92	40	4,970	58	34
Total	275	100	8,300	100	228	100	8,539	100	100

Geographic Distribution

The following table depicts the lending pattern throughout the MSA based on the level of income for each census tract compared to the owner occupied housing within those areas. The level of lending within moderate-income tracts is excellent for 1997 and 1998, and is in line with the percentage of owner-occupied households when compared to the number of loans originated.

Geographic Distribution of HMDA Loans in MSA 7560					
Census Tracts	1997		1998		% Owner-Occupied Households in AA
	# Loans / %	\$ Amt / %	# Loans / %	\$ Amt / %	
Low	0/0	0/0	0/0	0/0	0
Moderate	53/19	1,001/12	37/16	1,115/13	13
Middle	207/75	6,743/81	182/80	6,584/77	79
Upper	15/6	556/7	9/4	840/10	8
Total	275/100	8,300/100	228/100	8,539/100	100

SCOPE OF EXAMINATION

Time Period Reviewed	1/1/97 to 12/31/98		
Financial institution	Products reviewed		
First National Bank of Berwick	Small business, Small farm, HMDA Reportable Loans		
List of Assessment Areas and Type of Examination			
Assessment Area	Type of Exam	Branches Visited	Other Information
Pennsylvania MSA - 7560 - Scranton/Wilkes- Barre/Hazleton Non-MSA - Montour County and northern Northumberland County	on-site	Main Office	Not applicable