



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

January 7, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Hoblitzell National Bank of Hyndman
Charter Number 6615**

**P.O. Box 667, Center & Market
Hyndman, PA 15545**

**Comptroller of the Currency
Western Pennsylvania-Pittsburgh Field Office
4075 Monroeville Boulevard Building 2, Suite 300
Monroeville, PA 15146**

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.

TABLE OF CONTENTS

| | |
|--|---|
| General Information | 1 |
| Institution's CRA Rating | 1 |
| Description of Institution | 1 |
| Description of Assessment Areas | 2 |
| CRA Rating for the State of Pennsylvania | 4 |
| CRA Rating for the State of Maryland | 6 |

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 **Hoblitzell National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **January 7, 2002**. 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 overall rating are:

- The bank's average loan-to-deposit ratio for the prior 19 quarters is more than reasonable.
- The majority of the bank's loans are originated in the assessment areas.
- The bank's record of lending to borrowers of different incomes is reasonable.
- The geographic distribution of loans in the assessment areas is reasonable.
- There have not been any complaints about the bank's performance in helping to meet the credit needs of its assessment areas.

DESCRIPTION OF INSTITUTION

Hoblitzell National Bank ("HNB") is a \$51 million interstate community bank headquartered in Hyndman, Pennsylvania. The bank is not a member of a holding company. HNB has two branch offices in Hyndman and one branch office in LaVale, Maryland. The branch office in Maryland was opened in 1997. The bank also has a drive-up location in Hyndman.

HNB is a consumer-oriented bank. Residential mortgages and consumer loans comprise the majority of loans in the loan portfolio. As of September 30, 2001, net loans represented 81 percent of total assets. Gross loans totaling \$41.4 million were comprised of the following:

| LOAN PORTFOLIO COMPOSITION AS OF 9-30-01 | | |
|--|-----------------|-------------------|
| | \$ (000) | Percentage |
| Loans to Individuals | 5,671 | 14% |
| Real Estate Loans Secured by 1-4 family residential property | 28,964 | 70% |
| Other Real Estate Loans | 4,888 | 12% |
| Commercial Loans | 1,855 | 4% |
| Other Loans | 17 | Less than 1% |
| TOTAL LOANS | 41,395 | 100% |

Source: FFIEC Consolidated Report of Condition

HNB has designated assessment areas (AAs) in Bedford County, Pennsylvania and Alleghany County, Maryland. Please refer to **Description of Assessment Areas** for details. The bank purchases home mortgage loans originated outside of its AAs due to the weak demand for mortgage loans in the Bedford County AA. Competition in the Bedford County AA comes from a \$2 billion commercial bank headquartered in Johnstown, Pennsylvania and a large savings bank headquartered in Altoona, Pennsylvania. The bank competes with numerous financial institutions in its Alleghany County AA. Strong competition is received from several credit unions and large commercial banks. Loan demand for home mortgage loans in the Bedford County AA is weak. HNB therefore purchases home mortgage loans originated outside of its AAs. There are no financial or legal impediments to the bank's ability to help meet the credit needs of its AAs. HNB was rated "Satisfactory" at its last CRA examination dated March 10, 1997.

DESCRIPTION OF ASSESSMENT AREAS (AAs)

HNB has delineated two AAs. The AAs include three block-numbering areas (BNAs) in Bedford County, Pennsylvania (Bedford AA) and Allegany County (Allegany AA) in Maryland. The Bedford AA is not located in a metropolitan statistical area (MSA). The Allegany AA is part of the multi-state MSA 1900 Cumberland, Md.-West Virginia. The AAs meet regulatory requirements and do not arbitrarily exclude low- or moderate-income geographies. A geography is defined as a census tract or a block numbering area delineated by the U.S. Bureau of the Census in the most recent decennial census.

The Bedford AA is a rural community located in southern Bedford County on the Maryland border. Municipalities located in the AA include Hyndman Borough, Bedford Borough, and Manns Choice Borough. The three BNAs are all classified as moderate-income. There are 13,923 residents in the AA. The 1990 median family income (MFI) is \$28,934. The HUD adjusted MFI for 2001 is \$39,200. The median housing cost is \$48,969. (The MFI and median housing cost are at the county level.) Owner-occupied housing units represent 80 percent of the total housing units. Low- and moderate-income families comprise 20.10 percent and 22.25

percent, respectively, of the population. The percentage of households below the poverty level is 13.86 percent. Bedford County ranked 58th out of 67 counties in Pennsylvania with an

unemployment rate of 7.1 percent as of December 31, 2001. The county unemployment rate compares to 4.5 percent statewide and 5.4 percent nationally. There are two HNB branches located in Bedford County. Loan demand in the Bedford AA is primarily for consumer loans. The economy in Bedford County is considered to be stable. Manufacturing and retail trade comprise the largest employment sectors by industry. Some of the larger employers in Bedford County are JLG Industries, Wal-Mart Associates (distribution center), Hedstrom Corporation, and Kennametals, Inc. Community contacts were held with government agencies representing economic development and housing. Financing to develop small businesses was identified as a credit need.

The Allegany County AA is located in northwestern Maryland bordering Pennsylvania. Allegany County is part of the multi-state MSA 1900 Cumberland, Md.-West Virginia. There are 74,946 residents in Allegany County. Cumberland is the population center of the county. The bank does not have an office in Cumberland. There are 25 geographies in Allegany County. The distribution by income level is as follows: 1 low-income, 3 moderate-income, 18 middle-income, and 3 upper-income. The 1990 MFI is \$27,016. The HUD adjusted MFI for 2001 is \$37,600. The median housing cost is \$46,277. Owner-occupied housing units represent 91 percent of total housing units. Low- and moderate-income families comprise 20.35 percent and 17.98 percent, respectively, of the total population. The percentage of households below the poverty level is 16.87 percent. The rate of unemployment in Allegany County as of December 31, 2001 is 6.5 percent. The statewide unemployment rate was 4.1 percent. HNB opened a branch in the community of LaVale, Maryland in 1997. LaVale is a community of 5,814 residents. There are no low- or moderate-income geographies in LaVale. The majority of its residents are classified as middle- and upper-income. Banking competition in the Allegany County AA is strong. HNB competes with several large credit unions and commercial banks. The size of these banks and credit unions combined with HNB's limited number of branches (1) in the Allegany County AA hinders its ability to compete for loans. Competition for mortgage lending is especially strong.

Economic conditions in the Allegany County AA are reported to be improving. Major employers in the area include Westvaco Corporation, CSX Corporation, and Western Maryland Health Systems. A community contact was held with a housing agency from the Cumberland area. A credit need for home improvement loans were identified.

| | |
|--|--|
| CRA Rating for the State of Pennsylvania: | Satisfactory |
| Loan to Deposit Ratio | Exceeds the Standard for Satisfactory |
| Lending in the Assessment Area | Satisfactory |
| Lending to Borrowers of Different Incomes | Satisfactory |

Conclusions with Respect to Performance Criteria

We sampled 46 home mortgage loans and 20 consumer loans originated in the years 2000 and 2001 to assess the volume of lending in the AAs. Twenty home mortgage loans and 20 consumer loans were sampled to assess lending to borrowers of different incomes. Loan demand for home mortgage loans in the AA is low. Home mortgage loans were not separated among home purchase loans, home mortgage refinance loans, and home improvement loans because the volume of these loans is insufficient to make a separate analysis meaningful. Emphasis was placed on consumer lending activity in the AA.

Loan-to-Deposit Ratio

HNB's loan-to-deposit (LTD) ratio is more than reasonable. The LTD ratio is assessed at the bank level. The quarter average for the previous 19 quarters is 92 percent. This compares favorably to the quarter average LTD of 70 percent for peer banks over the same period. Peer banks used for this analysis were determined on a national level by the Federal Financial Institutions Council (FFIEC). HNB's peer banks are defined as banks with assets between \$50 million and \$100 million, three or more branches, and located in a non-metropolitan area.

Lending in Assessment Areas (AAs)

The majority of the bank's loan originations are in its AAs. The lending in AAs is assessed at the bank level. Our review included a sample of 46 home mortgage loans and 20 consumer loans. Refer to the table below for the distribution of loans in the AAs.

| | INSIDE ASSESSMENT AREAS | | | | OUTSIDE ASSESSMENT AREAS | | | |
|--|-------------------------|---|----------|---|--------------------------|---|----------|---|
| | # | % | \$(000s) | % | # | % | \$(000s) | % |

| | | | | | | | | |
|----------------------------|----|----|-------|----|----|----|-------|----|
| Consumer Loans | 17 | 85 | 232 | 89 | 3 | 15 | 29 | 11 |
| Home Mortgage Loans | 24 | 52 | 1,315 | 31 | 22 | 48 | 2,974 | 69 |
| Total Volume | 41 | 62 | 1,547 | 34 | 25 | 38 | 3,003 | 66 |

Source: Bank Records

Loans to Borrowers of Different Incomes

The distribution of loans to borrowers of different incomes is reasonable. Of the 20 consumer loans sampled, 30 percent were made to low-income borrowers. This exceeds the percentage of low-income families in the AA. The percentage of consumer loans made to moderate-income borrowers is less than percentage of moderate-income families in the AA. However, the percentage of the dollar amount of loans to moderate-income borrowers is equal to the percentage of moderate-income families in the AA.

| Borrower Distribution of Consumer Loans | | | | | |
|--|-------------------|-------------------|--------------------------|-------------------------|---------------------------------------|
| Income Level Of Borrower | # of Loans | % of Loans | \$ (000) of Loans | % of \$ of Loans | Income Level of Families in AA |
| Low | 6 | 30 | 67 | 23 | 20.10 |
| Moderate | 3 | 15 | 63 | 22 | 22.25 |
| Middle | 8 | 40 | 132 | 45 | 25.03 |
| Upper | 3 | 15 | 29 | 10 | 32.62 |
| Total | 20 | 100.00 | 291 | 100.00 | 100.00 |

Source: Bank records

Loan demand for home mortgage loans in the Bedford AA is low. The AA is comprised mainly of sparsely populated villages with an older population. A discussion with management revealed that housing construction in the AA has been minimal in recent years. Loan demand among low-income residents is very low. The AA has a high incidence of poverty with 14 percent of the households below the poverty level. The sample of 20 home mortgages did not identify any home mortgage loan originations to low-income borrowers. The percentage of loans to moderate-income borrowers is near to the percentage of moderate-income families in the AA. Refer to the table below for details.

| Borrower Distribution of Home Mortgage Loans | | | | | |
|---|-------------------|-------------------|--------------------------|-------------------------|---------------------------------------|
| Income Level Of Borrower | # of Loans | % of Loans | \$ (000) of Loans | % of \$ of Loans | Income Level of Families in AA |
| Low | 0 | 0 | 0 | 0 | 20.10 |
| Moderate | 3 | 15 | 123 | 5 | 22.25 |
| Middle | 4 | 20 | 408 | 15 | 25.03 |
| Upper | 13 | 65 | 1,049 | 80 | 32.62 |
| Total | 20 | 100.00 | 1,604 | 100.00 | 100.00 |

Source: Bank records

Geographic Distribution of Loans

The AA does not include any low- or moderate-income geographies. A geographic analysis of the distribution of loans would therefore not be meaningful.

STATE RATING

CRA Rating for the State of Maryland:

Satisfactory

Loan to Deposit Ratio

Exceeds the Standard for Satisfactory

Lending in the Assessment Area

Satisfactory

Lending to Borrowers of Different Incomes

Satisfactory

Conclusions with Respect to Performance Criteria

We sampled 46 home mortgage loans and 20 consumer loans originated in the AA for the period January 1, 1997 through September 30, 2001 to assess the volume of lending in the AAs. Twenty home mortgage loans and 20 consumer loans were sampled to assess lending to borrowers of different incomes. Loan demand for home mortgage loans in the AA is low. Home mortgage loans were not separated among home purchase loans, home mortgage refinance loans, and home improvement loans because the volume of these loans is insufficient to make a separate analysis meaningful. Emphasis was placed on consumer lending activity in the AA.

Loan-to-Deposit Ratio

HNB's loan-to-deposit (LTD) ratio is more than reasonable. The LTD ratio is assessed at the bank level. The quarter average for the previous 19 quarters is 92 percent. This compares favorably to the quarter average LTD of 70 percent for peer banks over the same period.

Lending in Assessment Areas (AAs)

The majority of the bank's loan originations are in its AAs. The lending in AAs is assessed at the bank level. Our review included a sample of 46 home mortgage loans and 20 consumer loans. Refer to the table below for the distribution of loans in the AAs.

| | INSIDE ASSESSMENT AREAS | | | | OUTSIDE ASSESSMENT AREAS | | | |
|----------------------------|-------------------------|----|----------|----|--------------------------|----|----------|----|
| | # | % | \$(000s) | % | # | % | \$(000s) | % |
| Consumer Loans | 17 | 85 | 232 | 89 | 3 | 15 | 29 | 11 |
| Home Mortgage Loans | 24 | 52 | 1,315 | 31 | 22 | 48 | 2,974 | 69 |
| Total Volume | 41 | 62 | 1,547 | 34 | 25 | 38 | 3,003 | 66 |

Source: Bank Records

Loans to Borrowers of Different Incomes

The distribution of loans to borrowers of different incomes is reasonable. The distribution of home mortgage loans to low-income borrowers is below the percentage of families classified as low-income in the AA. The percentage of home mortgage loans to moderate-income borrowers is near to the percentage of moderate-income families in the AA. The AA has a high incidence of poverty with 17 percent of the households below the poverty level. HNB receives strong competition from numerous financial institutions in the AA for mortgage loan originations among low- and moderate-income borrowers. Low-cost mortgages offered by larger financial institutions and state-sponsored mortgage programs targeting low- and moderate-income borrowers affect the bank's ability to compete in the AA. While the HNB has delineated the entire county of Allegany, it has only one branch in the community of LaVale. The majority of the residents of LaVale are classified as upper-income.

| Borrower Distribution of Home Mortgage Loans | | | | | |
|---|-------------------|-------------------|--------------------------|-------------------------|---------------------------------------|
| Income Level Of Borrower | # of Loans | % of Loans | \$ (000) of Loans | % of \$ of Loans | Income Level of Families in AA |
| Low | 2 | 10 | 94 | 6 | 20.35 |
| Moderate | 3 | 15 | 93 | 6 | 17.98 |
| Middle | 3 | 15 | 185 | 11 | 22.50 |
| Upper | 12 | 60 | 1,243 | 77 | 39.17 |
| Total | 20 | 100.00 | 1,615 | 100.00 | 100.00 |

Source: Bank Records

The level of originations of consumer loans to moderate-income borrowers exceeds the level of moderate-income families in the AA. The level of consumer loans originated to low-income borrowers is less than the percentage of low-income borrowers in the AA.

| Borrower Distribution of Consumer Loans | | | | | |
|--|-------------------|-------------------|--------------------------|-------------------------|---------------------------------------|
| Income Level Of Borrower | # of Loans | % of Loans | \$ (000) of Loans | % of \$ of Loans | Income Level of Families in AA |
| Low | 1 | 5 | 27 | 9 | 20.35 |
| Moderate | 6 | 30 | 49 | 17 | 17.98 |
| Middle | 4 | 20 | 77 | 27 | 22.50 |
| Upper | 9 | 45 | 138 | 47 | 39.17 |
| Total | 20 | 100.00 | 291 | 100.00 | 100.00 |

Source: Bank Records

Geographic Distribution of Loans

The geographic distribution of loans in the AA is reasonable. The percentage of home mortgage loans originated in moderate-income geographies exceeds the percentage of owner-occupied units in those geographies.

| Geographic Distribution of Home Mortgage Loans | | | | | |
|---|-------------------|-------------------------|--------------------------------|-------------------------------|----------------------------------|
| Income Level of Census Tract | # of Loans | % of Total Loans | \$ (000) of Total Loans | % of \$ of Total Loans | % of Owner-Occupied Units |
| Low | 0 | 0 | 0 | 0 | 0.16 |
| Moderate | 3 | 15 | 220 | 14 | 9.88 |
| Middle | 14 | 70 | 1,148 | 71 | 69.36 |
| Upper | 3 | 15 | 247 | 15 | 20.6 |
| Total | 20 | 100.00 | 1,615 | 100.00 | 100.00 |

Source: Bank Records

The percentage of consumer loans originated in low- and moderate-income geographies exceeds the percentage of households in the respective geographies.

| Geographic Distribution of Consumer Loans | | | | | |
|--|-------------------|-------------------|--------------------------|-------------------------|---------------------------------------|
| Income Level Of Census Tract | # of Loans | % of Loans | \$ (000) of Loans | % of \$ of Loans | Percentage of Households in AA |
| Low | 1 | 5 | 27 | 9 | 1.27 |
| Moderate | 6 | 30 | 49 | 17 | 13.92 |
| Middle | 4 | 20 | 77 | 27 | 67.13 |
| Upper | 9 | 45 | 138 | 47 | 17.68 |
| Total | 20 | 100.00 | 291 | 100.00 | 100.00 |

Source: Bank Records

Response to Complaints

There were no complaints received since the prior CRA examination.

Fair Lending Review

An analysis of 1997 through 2001 public comments and consumer complaint information was performed according to the OCC's risk-based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in 1997.