

Comptroller of the Currency
Administrator of National Banks

Northeastern District
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PUBLIC DISCLOSURE

May 17, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Merchants National Bank
Charter Number: 4513**

**25 Broadway
Bangor, Pennsylvania 18013**

**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 **Merchants National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **May 17, 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 42% has improved;
- ! A substantial majority of the Home Mortgage Disclosure Act (HMDA) reportable loans originated during the evaluation period are in the bank's assessment area; and
- ! There is a good penetration of loans to individuals of different income levels and a majority of the bank's commercial lending is to small businesses.

DESCRIPTION OF INSTITUTION

Merchants National Bank (MNB) is a \$193 million institution situated in eastern Pennsylvania. It is a subsidiary of MNB Corporation, a one bank holding company. The bank has no operating subsidiaries. The bank operates four full service offices and three automated teller machines in Northampton County. Since our last examination, the Wind Gap, PA office was opened in December 1997. Major competitors include branches of much larger regional banks such as Summit Bank, PNC, and First Union Bank.

Primary loan products include fixed rate residential mortgages, small business loans, and consumer installment loans. The loan portfolio represents 31% of total assets. A breakdown of the portfolio as of March 31, 1999 is as follows: 68% residential mortgages, 20% commercial and commercial real estate loans, 10% consumer installment loans, and 2% agricultural credits. MNB offers online banking through its Internet web site. Customers may open deposit accounts, obtain loan applications, and review loan and deposit rates online. There are no legal or financial impediments which would hinder the bank's ability to help meet the credit needs of its community. MNB received a satisfactory rating in the last CRA performance evaluation dated March 22, 1996.

DESCRIPTION OF ASSESSMENT AREA

MNB's assessment area (AA) includes eleven middle-income census tracts (CTs) in Northampton County and is part of the Allentown-Bethlehem-Easton Metropolitan Statistical Area (MSA 240). The population of the assessment area is 48,293. Fifteen percent of the families residing in the assessment area are low-income, 20% are moderate-income, 29% percent are middle-income, and 36% are upper-income families. The updated HUD median family income of \$47,600 is applicable to this area.

Employment in the local area is primarily in manufacturing and locally owned retail businesses. However, most of the population travels to Allentown or New Jersey for work. As of March 1999, the unemployment rate for Northampton County was 4.3%. This is similar to the state average of 4.8%. Major employers include Lehigh Valley Hospital, Air Products & Chemicals Inc., AT&T, Pennsylvania Power & Light Co., and Mack Trucks Inc.

Credit needs in the local area were determined during this examination by contacting an area development corporation. They stated that the primary credit need in the area is for small business loans. We also reviewed prior community contacts made by our agency and other regulatory agencies. These contacts indicated that there is a need for home improvement loans and small business loans. MNB is still involved in the Roseto-Bangor HOME program which is a special program offering home improvement loans to residents of Roseto and Bangor. Also, a majority of MNB's commercial lending is to small businesses.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Please note that for purposes of this review the evaluation period covers loan activity from January 1, 1996 through December 31, 1998. Dollar amounts within the tables in this report are in thousands (000) unless otherwise indicated.

Loan to Deposit Ratio

Our analysis of the loan to deposit ratio indicates that an average ratio of 42% has been maintained since the last CRA examination. This ratio is an improvement over the prior evaluation's average of 39%, but it is still well below both national and local peer banks which have average ratios of 70% and 86%, respectively. Currently, the bank is in a state of transition with four new board members and a new management team. Management has developed strategies to improve the volume of loans originated. Recently, new commercial and consumer loan officers were hired, a new branch is scheduled to open, and Internet banking has been introduced. Initial attempts to originate additional loan volume have shown positive results.

Lending in Assessment Area

We analyzed the bank's record of lending in their assessment area using information from the 1996, 1997, and 1998 Home Mortgage Disclosure Act Loan Application Registers (HMDA-LAR). The results of our review, shown in the table below, indicate that MNB has an excellent record of lending in their AA. Market share statistics derived from HMDA loan originations show that MNB is ranked seventh in mortgage lending in their area with a market share of 3.05% for 1997. Competition in this area is strong with the top mortgage lender having a market share of only 4.62%.

HMDA Reportable Loan Originations During the Evaluation Period				
	#	%	\$	%
Inside AA	239	93	12,552	86
Outside AA	19	7	2,000	14
Total	258	100	14,552	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 noted above. The following tables show that MNB's volume of lending is

representative of the demographic composition of the AA. The first table shows all mortgage loans originated during the evaluation period by income category of the borrower. The second table shows this same information for each type of mortgage product. Market share information for 1997 shows that MNB is ranked tenth in lending to low- and moderate-income applicants in their area with a market share of 3.04%. Overall, MNB's record of lending to borrowers of different income levels is good.

HMDA Reportable Loan Originations by Level of Borrower Income					
Income Category	#	%	\$	%	% of Families in AA
Low	18	8	431	3	15
Moderate	58	24	2,478	20	20
Middle	84	35	4,589	37	29
Upper	69	29	4,513	36	36
NA*	10	4	541	4	0
Total	239	100	12,552	100	100

* Income not available

HMDA Reportable Loan Originations by Product Type												
	Home Purchase				Home Improvement				Refinance			
	#	%	\$	%	#	%	\$	%	#	%	\$	%
Low	2	5	68	2	11	15	248	17	5	4	115	1
Moderate	12	27	841	25	17	24	320	23	29	24	1,317	17
Middle	20	44	1,476	44	21	30	338	24	43	35	2,775	36
Upper	10	22	861	26	19	27	468	33	40	33	3,184	41
NA*	1	2	100	3	3	4	38	3	6	4	403	5
Total	45	100	3,346	100	71	100	1,412	100	123	100	7,794	100

* Income not available

MNB has a good record of lending to small businesses. We sampled 20 commercial loans originated during the evaluation period. A small business is defined as a business with gross annual revenues \leq \$1 million. The following table shows that a majority of the bank's lending is to small businesses.

Distribution of Small Business Loans by Business Size				
Gross Annual Revenues	#	%	\$	%
\leq \$1 million	11	55	1,474	64
> \$1 million	9	45	845	36
Total	20	100	2,319	100

Geographic Distribution of Loans

The geographic distribution of lending in the assessment area was not reviewed because the analysis would not be meaningful. There are no low- or moderate-income geographies in the assessment area. This area consists of eleven middle-income CTs.

Compliance with Antidiscrimination Laws

No substantive violations of antidiscrimination laws and regulations were noted during the concurrent fair lending examination. This examination included a review of loan terms offered to approved single females who obtained refinanced mortgages compared to our sample of married, approved applicants who obtained this same type of credit. Terms evaluated include maturity, interest rate, points, and other fees charged.

Scope of Examination

Time Period Reviewed	January 1, 1996 through December 31, 1998
Financial Institution	The Merchants National Bank
Products Reviewed	Mortgage and small business loans
Assessment Area	Upper portion of Northampton County
Type of Examination	On-site
Branches Visited	Main Office, Bangor, Pa.