



## **INTERMEDIATE SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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### **PUBLIC DISCLOSURE**

**November 20, 2006**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The Mars National Bank  
Charter Number 5599**

**145 Grand Avenue  
Mars, PA 16046**

**Comptroller of the Currency  
Western Pennsylvania (Pittsburgh)  
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.**

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

The Lending Test is rated: **SATISFACTORY**.

The Community Development Test is rated: **SATISFACTORY**.

The major factors that support this rating include:

- The bank's average loan-to-deposit (LTD) ratio is reasonable compared to similarly situated institutions and within the context of relevant competitive factors in the bank's assessment area (AA).
- The bank originated a substantial majority of its loans within its AA.
- MNB's distribution of lending reflects excellent penetration to borrowers of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA.
- The bank demonstrates satisfactory responsiveness to community development needs.

## **SCOPE OF EXAMINATION**

This Community Reinvestment Act ("CRA") examination covers the bank's performance from October 1, 2000 through September 30, 2006. Mars National Bank's performance under the Lending and Community Development Tests was assessed. To evaluate the bank's performance under the Lending Test, we reviewed home purchase, home improvement and home refinance loans reported under the Home Mortgage Disclosure Act ("HMDA") for years 2004, 2005 through to September 30, 2006. In addition, we reviewed data on small loans to businesses the bank collected under the CRA for calendar years 2004 and 2005. We conducted Data Integrity reviews of the HMDA and CRA data and found the information to be accurate and reliable for use in this examination. To evaluate the bank's performance under the Community Development Test, we reviewed community development loans, investments originated and services provided October 1, 2000 through September 30, 2006.

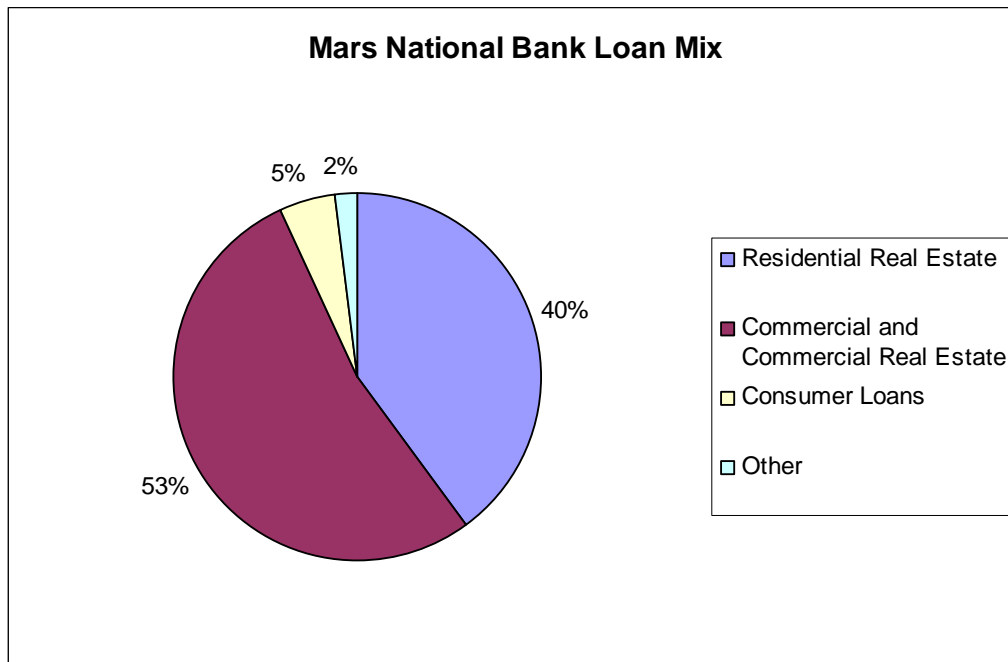
## **DESCRIPTION OF INSTITUTION**

### **Description of Institution**

Mars National Bank ("MNB") is a \$273 million, independently owned community bank. The bank is headquartered approximately 20 miles north of Pittsburgh, Pennsylvania in the borough of Mars, Butler County, Pennsylvania. MNB serves customers in Southern Butler, Eastern Beaver and Northern Allegheny counties with four full service branches and one drive thru branch. In addition to the branch network, the bank offers telephone and internet banking. MNB operates five automated teller machines ("ATMs") located at each of the branches. MNB is a full service bank that offers a range of loan and deposit products. Loan products include

residential real estate mortgages, commercial and consumer loans. MNB received a satisfactory rating as a result of the previous CRA evaluation, which was conducted as of September 30, 2000. There are no financial or legal impediments that would preclude MNB from lending to or meeting community investment or development service needs.

Historically, the bank’s primary business strategy has been residential mortgage lending but more recently it has been increasing its focus on commercial lending. As of September 30, 2006, net loans represent 50% of Mars National Bank’s total assets. The bank’s loan portfolio by dollar volume is comprised of 53% commercial and commercial real estate, 40% residential real estate, 5% consumer and 2% other loans.



For purposes of this evaluation, we considered loans to businesses and residential mortgage related loans as primary bank products. Based on information made available by the bank on the number and dollar volume of loans originated during the evaluation period, business and residential mortgage related loans comprised 62% and 25% of the dollar volume of loans originated as well as 24% and 43% of the number of loans, respectively.

## **DESCRIPTION OF MNB’s ASSESSMENT AREA (“AA”)**

MNB has identified 73 whole contiguous census tracts (“CTs”) or geographies as its AA. All of the AA CTs are located within three adjacent counties in Pennsylvania. Specifically, the AA includes the northwestern portion of Allegheny County, the southern portion of Butler County, and the eastern edge of Beaver County. The majority of CTs are located in Allegheny and Butler Counties, which contain 33 and 29 CTs, respectively. The remaining 11 CTs are located in Beaver County.

The AA is comprised primarily of upper- and middle- income CTs which total 35 and 31, or 48% and 42%, respectively. The remaining CTs, which are moderate, total 7 or 10%. The bank's AA contains no low-income CTs. MNB's entire AA is located within the Pittsburgh Metropolitan Statistical Area ("MSA"). The bank operates its main office and three branch offices in Butler County and one branch office in Allegheny County. The bank's AA was derived by including whole CTs located within a ten mile radius of each branch. The AA complies with all regulatory requirements and does not arbitrarily exclude low- or moderate-income areas.

Demographic information derived from annually updated HUD data was employed to analyze the bank's lending distribution among borrowers of different income levels. HUD data updated for 2006 reports the median family income for the bank's AA to be \$57,400. Demographic data reported during the 2000 census was employed to analyze the bank's lending distribution among AA geographies. The 2000 census reports the population of MNB's AA to be 324,088. Owner occupied housing represents 77% of housing and the median housing value equals \$120,763. The majority or 77% of households are supported by wage or salaried jobs. Six percent (6%) of households are considered to be at or below poverty level.

The bank's AA has experienced a population growth of approximately 8% over the past decade. The development of Routes 8 and 79 improved access to downtown Pittsburgh, PA. Southern Butler and northern Allegheny County have benefited from an influx of new residents which has resulted in an increase in home building and support businesses (i.e., landscaping, furniture) that contribute to area's economic development. Economic activity and growth is also reflected in the extent of commercial real estate development with large national restaurant and retail chains entering northern Allegheny County and the Cranberry area of southern Butler County. In contrast, the City of Butler has not benefited substantially from economic growth in the Cranberry area of southern Butler County and has not recovered from the closing of industrial businesses in the 1980's. The city of Butler is working to attract small businesses.

Employment within the AA is diversified. Major industries are services 40%, retail trade 16% and construction 10%. Bank management informed us that major employers within MNB's AA include various hospitals, a community college, a manufacturing company and a national airline. Current unemployment in the AA is low at 1.8% and well below the national and state unemployment rates of 4.4% and 4.3%, respectively. MNB management advised that economic conditions in the AA are generally favorable, especially in northern Allegheny and Cranberry area of southern Butler County.

Banking related competition is strong. The northern Allegheny County market in particular is heavily banked, housing branches of larger financial institutions, savings institutions and community banks with which MNB competes. In addition, regional and national mortgage brokers have a strong presence and garner significant market share. Discussion with management confirmed that within the AA, credit needs continue to be concentrated primarily in residential mortgage and small business lending.

Examiners contacted a representative of an organization that supports the development of affordable housing as well as the rehabilitation of homes for low income individuals. The contact identified no specific credit needs; however, identified the rehabilitation of homes as a

community need due to the aging house stock, which reportedly has an average age of 60 years. The contact described the performance of MNB as favorable in working with their organization.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Lending Test**

MNB meets the standard for satisfactory performance under the lending test.

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

- MNB's quarterly average loan to deposit ratio ("LTD") meets the standard for satisfactory performance.

MNB's quarterly average LTD ratio is reasonable compared to similarly situated financial institutions within the context of competitive factors present in the market that the bank operates. MNB's quarterly average LTD ratio since the last CRA examination is 59%. This ratio is below the average LTD ratio for similarly situated financial institutions at 69%. Similarly situated financial institutions included Pennsylvania banks with assets below \$500 million, operating within the same three counties and/or contiguous counties as MNB. Since April 2005, MNB originated and sold approximately \$5MM in 30 year residential mortgages over the evaluation period which has the affect of lowering the bank's LTD ratio.

### **Lending in Assessment Area**

- The level of lending inside the bank's AA meets the standard for satisfactory performance as a majority of loans were originated within the AA.

A substantial majority of loans were originated inside the bank's AA. For the evaluation period, a blended average of residential mortgage and small business loans of 90% and 83%, by count and dollar amount respectively, of loans were originated inside the bank's AA. By loan type, residential mortgage loans comprised 91% and 78%, by count and dollar amount respectively, of loans originated inside the bank's AA. Small business loans comprised 89% and 88%, by count and dollar amount respectively, of loans originated inside the bank's AAs.

<b>Table 1 - Lending in MNB's AA</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		#	%	#	%	
Residential	340	91.2	33	8.9	373	\$18,181	77.7	\$5,210	22.3	\$23,391
Small Business	231	89.2	28	10.8	259	\$21,988	87.6	\$3,125	12.4	\$25,113
Totals	571	90.2	61	9.8	632	\$40,169	82.7	\$8,335	17.4	\$48,504

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

- MNB's lending to borrowers of different income levels and businesses of different sizes exceeds the standard for satisfactory performance.

The distribution of borrowers reflects, given the demographics of the AA, excellent penetration among individuals of different income levels. The distribution of HMDA loans is excellent. The level of home purchase, home improvement and home refinance loans originated by MNB compares favorably to the proportion of low- and moderate-income families in the AA, 12% and 14% respectively.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in MNB's AA</b>									
Borrower Income Level	Low		Moderate		Middle		Upper		
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	
Home Purchase	12.07	13.46	14.45	23.08	21.11	21.15	52.38	42.31	
Home Improvement	12.07	17.11	14.45	19.25	21.11	28.34	52.38	35.29	
Home Refinance	12.07	13.64	14.45	22.73	21.11	31.82	52.38	31.82	

Source: HMDA loan data reported 2004, 2005 and year to date 9/30/06; U.S. Census data.

The bank's distribution of small loans (loans \$1 million or less) to businesses that are small (those with less than \$1 million in gross annual revenues) is excellent. The bank made proportionately more loans to small businesses than those businesses represent in the population. Sixty-seven percent of small loans to businesses were made to small businesses which represent 64% of AA businesses.

## Geographic Distribution of Loans

- MNB’s distribution of residential mortgage and small business loans among various geographies meets the standard for satisfactory performance.

The geographic distribution of residential real estate loans reflects reasonable dispersion throughout the AA within the context of the competitive factors present in MNB’s AA. While overall lending in moderate-income geographies is below the percentage of owner-occupied housing, the vast majority, 96% of owner-occupied housing available within the AA, is located in the middle- and upper-income geographies. In addition, MNB’s ability to originate residential real estate loans in moderate-income geographies is impacted by the locations of the moderate-income geographies and the level of competition existing in those locations. Of the seven (7) moderate-income geographies in the bank’s AA, five (5) are concentrated in the City of Butler and two are concentrated in Harmony Township, Beaver County. MNB operates branch offices that are approximately six and eight miles from the City of Butler and Harmony Township, respectively. Competition from other financial institutions is strong in the moderate-income geographies. Eight institutions operate a total of ten branches in the City of Butler moderate-income geographies and four institutions operate branches in Harmony Township.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% 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
Home Purchase	0	0	4.4	0	40.40	51.85	55.19	48.15
Home Improvement	0	0	4.4	0	40.40	47.12	55.19	52.88
Home Refinance	0	0	4.4	2.11	40.40	48.42	55.19	49.47
TOTAL HMDA	0	0	4.4	.50	40.40	48.23	55.19	51.27

*Source: HMDA loan data reported in 2004, 2005 and year-to-date 9/30/06. U.S. Census Data.*

The geographic distribution of small loans to businesses reflects reasonable dispersion throughout the AA within the context of the competitive factors present in MNB’s AA. The bank made few small loans, 1.73% in comparison to the 7.89% of businesses located within moderate-income geographies, as MNB faces strong competition from other financial institutions within these geographies. In addition, as discussed above, the location of the bank’s branches which are six to eight miles from the moderate-income geographies, impacts the number of loans originated.

## Responses to Complaints

There were no complaints regarding the bank's CRA performance during the evaluation period.

### **Community Development Test**

MNB's community development performance in the AA demonstrates satisfactory responsiveness to community development needs through qualified community development loans, investments and services, considering the bank's capacity and the need and availability of such opportunities for community development in the bank's AA.

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

The number and amount of the bank's community development loans are satisfactory based on the opportunities for community development lending, the overall demographics, economics and competition from other financial institutions in the AA for these types of loans. During the performance period, MNB originated sixteen loans totaling \$1,102,555 to five organizations that provide services to low- and moderate-income members of the community. All five organizations are located and operate within the bank's AA. In September 2006, the bank approved a \$1,250,000 participation in a loan to a redevelopment authority for the purpose of revitalizing a moderate-income geography with the bank's AA. In addition, the bank originated three loans totaling \$196,400 to a limited partnership for the renovation of homes to accommodate disabled low -income individuals outside of the AA.

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

The bank's number and amount of qualified investments and contributions in the AA are satisfactory based on the overall demographics of the area, the economics of the area, and the competition from other financial institutions for these types of investments. During the evaluation period, MNB made donations totaling \$26,335 to organizations that provide community development services benefiting low- and moderate- income individuals.

#### *Extent To Which The Bank Provides Community Development Services*

The bank's efforts to provide community development services are satisfactory. During the evaluation period, four bank officers provided community development services to organizations located and operating within the bank's AA. One bank officer provided technical services to three non-profit organizations. This technical service included assistance in applying for grants from the Federal Home Loan Bank's Affordable Housing Program. One bank officer provides technical assistance on financial matters to two non-profit organizations. One bank officer participated in a real estate lending seminar sponsored by a redevelopment authority located in the bank's AA. The seminar focused on educating low-and moderate-income individuals on how to qualify for a residential mortgage loan. The bank in conjunction with a chamber of commerce located in the AA sponsored an educational seminar targeted to small business owners. During this seminar, two bank officers provided training on how to qualify for a business loan.



MNB offers a low-cost checking account for consumers and a wide range of consumer and business transaction, savings, and credit products. To broaden access to bank products and services, MNB offers telephone and Internet banking.

**Bank’s responsiveness, through community development activities, to community development lending, investment, and services needs**

The bank’s responsiveness to community development lending, investment and service needs is satisfactory. The development of community services, and the active participation in community development lending are a direct result of the involvement of bank directors, management, and employees in community development organizations, foundations and groups.

Community organizations with whom bank employees are involved include, but are not limited to the following: Butler County Chamber of Commerce; Butler County Redevelopment Authority; Butler County United Way; Cranberry Area Chamber of Commerce; Habitat for Humanity of Butler County, Butler and Southwest Chapters); Hosanna Industries, Inc.; Lifesteps of Butler County, Inc.; Lighthouse Family Ministries; Mars Area Chamber of Commerce; Mars Area Redevelopment Authority; Network of Hope; North Allegheny Chamber of Commerce; Pine Richland Youth Center; and Vision Early Childhood Center Mars.

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

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