
Comptroller of the Currency
Administrator of National Banks

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

PUBLIC DISCLOSURE

March 3, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of North East
Charter Number 7064**

**14 South Main Street
North East, Maryland 21901**

**Office of the Comptroller of the Currency
1025 Connecticut Avenue, N.W., Suite 708
Washington, DC 20036**

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 **First National Bank of North East** prepared by **the Comptroller of the Currency**, the institution's supervisory agency, as of March 3, 1997. 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 bank's performance meets the standards for a "Satisfactory" rating and is supported by the factors listed below.

- The loan-to-deposit ratio is reasonable based on the bank's size, financial condition, and assessment area credit needs.
- A large majority of loans lie in the bank's assessment area.
- The distribution of loans reflects sufficient penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>(NAME OF FINANCIAL INSTITUTION)</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	There have since the	been no last exam.	complaints

DESCRIPTION OF INSTITUTION

First National Bank of North East is a \$67 million community bank located in North East, Maryland. The bank operates three full-service branch offices and one office with

a drive-up facility in Cecil County. A deposit-taking ATM is located at the Perryville branch office. The bank offers a full array of products and services including residential real estate, mobile home and Small Business Administration loans. A broad selection of small business loans are also available such as demand and time notes, instalment, lines of credit, and letters of credit. Community development loans for residential and business purposes are made available through direct lending or through associations with state and local authorities. The loan portfolio mix includes residential real estate - 50%, commercial real estate - 30%, commercial and industrial - 11%, and consumer loans - 6%. There are no constraints affecting the bank's ability to meet community credit needs. First National Bank of North East has not closed or opened any offices since our last examination. However, the lobby of the Route 40 branch was closed in December 1995 but several drive-in lanes and a free standing ATM remain in that location.

DESCRIPTION OF CECIL COUNTY

The bank's assessment area includes Cecil County, which is bordered by Pennsylvania to the north and Delaware to the east. The branch offices are situated throughout the county and follow Interstate 95 and Route 40 which represent the major transportation corridors through the county. The assessment area consists of fifteen census tracts. The area does not arbitrarily exclude any low- or moderate income areas. The median family income is \$40,689. Tract characteristics are shown below.

Census Tract Make Up By Income

	LOW	MODERATE	MIDDLE	UPPER
Population	0%	13%	80%	7%

Cecil County is a bedroom community situated between Baltimore and Philadelphia. The population of the county is 71,347 according to the most recent census data. Although 50% of the residents commute outside of the county to work, major employers such as W.L. Gore and Associates, DuPont, Terumo Medical, Thiokol Corporation, Montell USA, Ionics Inc, Fleming Companies, Konica, Air Products and Johnson Controls operate in Cecil County. A representative of Cecil County was consulted to obtain information on community development initiatives. County officials and a local utility company have been working to construct a pipeline that would bring water, sewer and natural gas service to the Interstate 95/U.S. Route 40 corridor that is designated for future industrial and commercial development according to the comprehensive plan. A bond issue will generate needed funds for infrastructure improvements that will prompt commercial development and enhance the county's tax

base. The county plans to establish an enterprise zone to assist the start-up of new and relocating businesses.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan to Deposit Ratio

The bank’s loan to deposit ratio is reasonable. The average for the last eight quarters is 69% and is in line with peer banks. The ratio at 12/31/96 of 76% reflects increased lending activity due to higher overall loan demand and greater emphasis on marketing activities.

Comparison of Loans Extended Inside and Outside of the Assessment Area

Lending activity is concentrated within the assessment area. A report produced by management revealed 90% of loans are located within the assessment area. The chart below indicates the concentration by loan types within the assessment area.

LOAN TYPE	% IN ASSESSMENT AREA
Real Estate	88%
Installment	95%
Home Equity	94%

Distribution of Credit within the Assessment Area by Borrower Income

The bank’s lending record to low and moderate borrowers is satisfactory. The table below shows the results of an analysis of HMDA data for 1995 and 1996. It reveals percentages of originations by borrower income similar to the percentage of family income within each tract.

HMDA Loan Originations in Assessment Area by Income Category of Borrower

	LOW	MODERATE	MIDDLE	UPPER
1995	18%	32%	25%	25%
1996	13%	21%	27%	39%

% of Families in Cecil Cty. (by category)	21%	21%	28%	30%
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In addition, small business loans represent a large percentage of the bank's business lending. A trial balance of business loans originated in 1996 was generated and reviewed by the bank's senior credit officer to determine those businesses with annual revenues under \$1 million. The resulting figure indicates 95% of the number of loans settled in 1996 are to small businesses.

Additional support is provided by statistics in the 6/30/96 Call Report which show small business loans accounted for 40% of the bank's loan portfolio. Further segregation of these loans reveals 20% were for amounts \$100 thousand and less, 31% for amounts between \$100 thousand and \$250 thousand, and 49% for amounts of more than \$250 thousand through \$1 million.

Distribution of Credit Within the Assessment Area by Geography

The distribution of loans is reasonable based on the demographics of the assessment area. There are no low income and only two moderate income census tracts in Cecil County. Loans were originated in all census tracts within the assessment area. There were higher loan volumes in census tracts closest to branch locations.

A review of HMDA reportable loans indicate satisfactory loan distribution by census tract income levels. The 1995 and 1996 HMDA LAR revealed loans to borrowers in moderate income census tracts were 8% which is consistent with demographic characteristics.

Responses to Complaints

There have been no written complaints relating to the bank's CRA performance.

Fair Lending

We conducted a fair lending review as part of our consumer compliance examination. No violations of the substantive provisions of antidiscrimination laws and regulations were noted. Lending policies, procedures and training initiatives provide adequate guidance to lending staff. Comprehensive audits are performed regularly to ensure compliance with fair lending regulations.