

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **First National Community Bank**, hereafter referred to as **FNCB**, prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency.

The evaluation represents the OCC's current assessment and rating of the institution's CRA performance based on an examination conducted as of **March 10, 1997**. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under 5 performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating:

Based on the findings presented below, this institution is rated: "SATISFACTORY RECORD OF MEETING COMMUNITY CREDIT NEEDS."

BACKGROUND INFORMATION:

BANK PROFILE

First National Community Bank (FNCB) is a \$372 million independent, community bank headquartered in Dunmore, Pennsylvania. FNCB operates seven full service offices, including the main office. FNCB's community consists of Luzerne and Lackawanna counties in the Scranton, Wilkes-Barre, Hazleton MSA (MSA 7560.) FNCB operates three automated teller machines (ATMs) and seven drive-up facilities.

FNCB serves both the commercial and retail segments of the community. Recent growth has been concentrated in retail products such as indirect auto lending and direct consumer lending. However, commercial and residential real estate loans have also increased in the past year. Composition of the loan portfolio is as follows: 46% commercial credits, 39% one-to-four family real estate loans, and 15% instalment loans. Competition is strong due to the presence of several local community banks and branches of regional banks.

COMMUNITY PROFILE

The bank's delineated community consists of 167 census tracts (CTs). Two CTs are low-income, 21 CTs are moderate-income, 125 CTs are middle-income, and 19 CTs are upper-income. The median family income for FNCB's delineated community is \$35,900. The percentage of low-, moderate-, middle-, and upper-income families living within the assessment area totals 19%, 18%, 24%, and 39%, respectively. Area population totals 547,188. Owner occupied housing equals 63% of total housing units, while rental housing accounts for 29% of available units. The median housing value in the area is \$54,400. The economic profile of the region is diverse with employment provided by light industries, health care facilities, several universities, and service industries. Tourism provides additional job

opportunities at such sites as a sports stadium, ski resorts, and hotels. Unemployment in the bank's community continues to exceed the state level.

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

- **FNCB has a good record of maintaining regular contacts with its community to determine credit needs, including low- and moderate-income neighborhoods (LMI).**

Senior management participates in local housing assistance groups such as the Scranton Office of Economic Community Development's (OECD) First Time Home buyers Program, the Scranton Neighborhood Housing Association, and Habitat for Humanity. Officers are also involved with small business and economic revitalization organizations such as local Chambers of Commerce, the OECD of Luzerne County, the Greater Wilkes-Barre Industrial Fund, and the Scranton Chamber of Commerce Women's Network. Bank personnel at all levels are active in establishing and maintaining communication with civic, religious, and community service groups. Employees discuss bank services and products in various forums with the community-at-large. Finally, loan officers remain aware of local needs and discuss bank programs through regular calling efforts. Through these contacts, FNCB is able to stay abreast of local needs and communicate available services and products to area consumers and businesses.

The CRA officer and committee regularly review demographic data for their area. In fact, the CRA officer has been involved with the Federal Reserve Bank's development of a community profile for lenders in the bank's community. Review of this information assists management in determining possible credit and service needs of the communities they serve.

Assessment Factor C - The extent of participation by the institution's Board of Directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

- **CRA is routinely considered in the Board of Director's planning process. The Board and senior management are generally involved in the CRA process and activities.**

A CRA program defining objectives, general goals, and methods for assessing effectiveness is in place. A CRA policy has been approved and adequate support for training has been provided. The CRA officer provides a semiannual report to the Board, which details relevant CRA performance. In addition, the internal auditor performs an annual CRA self-assessment, ensures that technical requirements of the Act are met, and reports on overall CRA performance to the Board. Additionally, members of the Board participate in numerous organizations whose activities are aimed at improving the local community. The CRA committee performs an ongoing analysis of the disposition of loan applications. Through this review, the committee identified a need for and has developed an internal first time home buyers program and a home improvement loan product. Both programs will be targeted to LMI families.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

- **FNCB's marketing program adequately informs all segments of the community of their general financial products and services.**

The Board has implemented a sound marketing program to promote the bank's credit products. Advertising is widely circulated through media that includes newspapers, direct mail campaigns, lobby displays, statement stuffers, seminars, and occasional radio and television campaigns. Marketing strategies are effective in stimulating awareness of credit services throughout the bank's communities. Loan officers provide assistance to individuals and groups in understanding and applying for credit, as needed.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

- **FNCB makes satisfactory efforts to address identified community credit needs through the origination of small business and residential real estate loans. A substantial majority of loans were made within the delineated community.**

FNCB's loan-to-deposit ratio is 81%. In addition, over the past two years, the bank has sold 144 real estate loans totaling \$11 million to Freddie Mac. Furthermore, 83% of the number of all loans made in 1995 and 81% of loans made in 1996 were within the assessment area. The dollar amount of loans extended in the community was 91% in 1995 and 85% in 1996.

Excluding indirect loans, these percentages would be higher. Primary demand has been for commercial and consumer loans with a focus on indirect lending by management. Loan originations increased in 1996, both in dollar amount and number of credits, as displayed in the table which follows.

Loan Originations (000s)								
	1995				1996			
	#	%	\$	%	#	%	\$	%
Mortgage	127	4%	12,000	12%	179	5%	16,600	15%
Commercial	522	15%	54,500	55%	477	12%	55,200	50%
Direct Consumer	1,060	30%	12,300	12%	1,013	27%	14,400	13%
Indirect Consumer	1,804	51%	21,100	21%	2,114	56%	25,100	22%
Total	3,513	100%	99,900	100%	3,783	100%	111,300	100%

Conversations with management and public contacts indicate that there is a need for small business and commercial loans. During the past two years, 53% of the bank's loan originations were commercial credits. In 1996, management began tracking their small business lending, defined as those businesses with gross annual revenues of \$1 million or less. Of the 441 business loans where income information was available, 345 or 78% were to small businesses.

Because of the volume of growth in indirect auto lending, we reviewed a sample of these credits to determine borrower income distribution. Our sample of 87 loans represented 4% of total indirect originations in 1996. The distribution of these credits was as follows: 10% to low-income families, 39% to moderate-income families, 31% to middle-income families and 20% to upper-income families. The bank's record of lending to LMI families exceeds the percentage of these families residing in the area, which is 19% and 18%, respectively.

The effects of flooding in 1996 on certain portions of FNCB's community were harsh, resulting in extensive flood damage. In response, the bank developed and promoted innovative credit programs: a 90 day payment extension on existing loans at no additional cost, and personal and home equity term loans at 75 basis points below FNCB's normal rates. The number of persons who took advantage of these programs was not tracked by management. FNCB's loan officers also offer flexible lending standards for lower income individuals experiencing financial difficulty due to unfortunate events.

Home Mortgage Disclosure Act (HMDA) loans represented approximately 18% of total loan originations for 1996. In 1995, 96% of HMDA originations were in the bank's defined trade area and for 1996, the percentage was 94%. The bank's record of originating HMDA loans within its assessment area to families of varying income levels is presented in the following table.

HMDA Loan Originations (000)									
	1995				1996				
	#	%	\$	%	#	%	\$	%	Family Income Distribution
Low	5	3%	87	1%	10	3%	258	1%	19%
Moderate	26	13%	1,106	8%	29	9%	1,049	5%	18%
Middle	45	22%	2,213	15%	72	22%	2,875	15%	24%
Upper	112	56%	10,012	70%	201	62%	14,251	72%	39%
N/A	12	6%	894	6%	13	4%	1,289	7%	0%
Total	200	100%	14,312	100%	325	100%	19,722	100%	100%

HMDA lending to low-income families is low in comparison to the percentage of these families living in the area, while lending to upper-income persons exceeds the demographic percentages for the whole community. Management stated that the primary reason for these differences is that the majority of the people living in the area surrounding their main office are middle- and upper-income.

In an effort to increase lending to LMI persons, the bank has participated in the Scranton Office of Economic and Community Development Council's First Time Home Buyer's Program. In 1995, five loans totaling \$202,800 were originated. In 1996, three loans totaling \$146,650 were made. In total, since January 1993, the bank has made 21 loans for a total of \$808,000 under this program, which benefits low- to moderate-income first time home buyers. In an effort to reach additional LMI families needing HMDA loans, the bank has initiated their own first time Home buyer's program.

Assessment Factor J - The institution's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

- **FNCB generally participates in governmentally insured, guaranteed, or subsidized loan programs when an identified credit need exists.**

The bank is an approved lender for the Small Business Administration (SBA). In 1995, three SBA loans were granted for \$171,300. In 1996, the bank originated six new SBA credits

totaling \$492,800. FNCB participates in the SBA's low documentation program and several other programs. The bank also originates student loans through the Pennsylvania Higher Education Assistance Agency (PHEAA). FNCB originated 288 student loans in 1996 totaling \$979,497. In 1995, the bank originated 330 student loans totaling \$1,041,771. In addition, management participates in the FHA Title I home improvement loan program. Under this program, FNCB made 6 loans for \$54,646 in 1995 and 5 loans for \$52,217 in 1996.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Reasonableness of Delineated Community

- **FNCB's community delineation is reasonable and includes LMI areas.**

FNCB's delineated community is reasonable and does not arbitrarily exclude LMI neighborhoods. Five of the bank's branches, including the main office, are located in middle-income census tracts. These are the Dickson City, Dunmore, Kingston, Pittston, and the Fashion Mall/Scranton branches. The Spruce Street/Scranton office is located in a low-income commercial tract and the Wilkes-Barre branch is located in a moderate-income commercial census tract. The bank's defined trade area is all of Lackawanna and Luzerne counties.

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

- **The geographic distribution of FNCB's credit extensions, applications, and denials demonstrates a reasonable penetration of its local community, including LMI neighborhoods.**

Of the bank's 167 census tracts, 1% are low-income, 13% are moderate-income, 75% are middle-income, and 11% are upper-income. Management performed a review of their geographic distribution of credit applications for 1996. The following table presents the geographic distribution analysis of all of the bank's loans by income level of census tracts. The categories are presented according to management's internal definition of each type of credit. Therefore, instalment loan totals also include some loans normally included in the HMDA loan totals.

Geographic Distribution of All Loan Originations By Income Level of Census Tracts 12/31/96 - (By percentage of total loans)								
	Low		Moderate		Middle		Upper	
	\$	#	\$	#	\$	#	\$	#
Mortgage	1%	1%	1%	2%	61%	67%	38%	30%
Commercial	5%	6%	8%	6%	73%	68%	15%	20%
Direct Consumer	0%	1%	5%	4%	69%	77%	26%	18%
Indirect Consumer	0%	0%	6%	6%	76%	76%	17%	17%
Total	3%	1%	6%	6%	71%	75%	20%	18%
Distribution of Census Tracts	1%		13%		75%		11%	

We also analyzed the geographic distribution of the bank's HMDA loan originations separately, for the years ended 1995 and 1996. The following table presents this analysis.

HMDA Loan Originations By Income Level of Census Tracts (000s)									
	1995				1996				Income Distribution of CTs
	#	%	\$	%	#	%	\$	%	
Low	4	2%	196	1%	0	0%	0	0%	1%
Moderate	9	5%	544	4%	16	5%	833	4%	13%
Middle	132	66%	8,002	56%	223	69%	11,094	56%	75%
Upper	55	27%	5,570	39%	86	26%	7,795	40%	11%

HMDA Loan Originations By Income Level of Census Tracts (000s)									
1995					1996				
Total	200	100%	14,312	100%	325	100%	19,722	100%	100%

The bank's older offices, including the main office in Dunmore, are mainly located in middle-income census tracts. Therefore, as expected, the majority of the bank's HMDA lending activity originates from middle-income tracts. The percentage of HMDA lending in LMI tracts is less than the percentage of these tracts in the assessment area. Demographic information regarding the bank's LMI tracts offers further explanation. For example, several of the LMI tracts are in commercial areas where the majority of the housing is rental. Other tracts consist mainly of local universities and related student housing units, or are primarily made up of low-income housing developments. These facts explain why the bank's record of making consumer and small business loans in LMI tracts is better than the record of HMDA lending in these tracts.

Denied HMDA loans are geographically disbursed in a similar pattern as approved credits. There were 28 HMDA loans denied in 1996. Of these 28 denials, none were from low-income tracts, 4% were from moderate-income tracts, 89% were from middle-income tracts, and 7% were from upper-income tracts. In 1995, FNCB denied 11 HMDA loans in their assessment area. Of these 11 denials, 9% were from low-income tracts, 9% were from moderate-income tracts, 36% were from middle-income tracts, and 46% were from upper-income tracts.

Assessment Factor G - Institution's record of opening and closing offices and providing services at offices.

- **FNCB offices are reasonably accessible to all segments of the local community.**

FNCB's office locations and business hours provide ready access to the bank's services. Each branch is full service and has a drive-in. There are also three ATMs available. Since the last examination in January of 1995, FNCB expanded its branch network by opening two new offices. These are the Pittston office, opened in April 1995, and the Kingston branch, opened in September 1996. Both offices are in middle-income census tracts. The bank has a branch closing policy, but no branches have been closed to date.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

- **FNCB generally solicits credit applications from all segments of its local community including LMI neighborhoods.**

No instances of prescreening or discriminating practices were detected during our review. Credit applications are accepted from all segments of the bank's community. Policies, procedures, reviews, and training are in place to assure that FNCB does not illegally discourage applicants from obtaining credit.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

- **No evidence of discriminatory practices were found during the concurrent fair lending examination.**

A Fair Lending examination was performed in conjunction with this CRA review. No evidence of discriminatory treatment was detected.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

- **FNCB is generally aware of community development programs and periodically participates in these programs.**

Formal community development (CD) activities, including CD loan and investments, are pursued as they become available. Examples of management's CD activities, including one CD investment, are highlighted below.

Office of Economic and Community Development of Luzerne County: The bank became involved with this organization in late 1995. During 1996, the bank originated one loan totaling \$400,000 to a local business. The purpose of this organization is to provide for small business development and economic revitalization in Luzerne County.

Scranton Neighborhood Housing Lenders Consortium First Home Loan Program: (SNHLC) FNCB has provided \$300,000 to this organization over the past three years, through \$100,000 annual lines of credit. The SNHLC acts as a group to provide real estate loans to first time Home buyers. As each loan is made, each bank

contributes a portion of the loan amount by allowing SNHLC to draw on the lines of credit. For 1996, portions of 22 loans totaling \$96,980 were drawn on the bank's line of credit. The bank's CRA officer is active with this organization as a member of the lender consortium. Along with other participating lenders, he assisted the SNHLC with the development of the initial lending standards for the consortium.

Hotel Jermyn Renovation Tax Credit Investment: In June 1996, FNCB made an investment of \$67,500 in the Hotel Jermyn renovation project. The hotel is being converted to a 85-unit apartment building to provide affordable housing for elderly and disabled persons on fixed incomes. The project was financed under the Pennsylvania Department of Community Affairs, who has provided tax credit support.

The bank also originated a \$2 million dollar loan to the Wilkes-Barre Industrial Development Authority for the benefit of a local health care services organization. The funds will finance construction of a Medical Access Center in Wilkes-Barre, which will house various non-profit affiliated entities and for-profit doctors.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

- **FNCB's efforts to meet community credit needs are consistent with their size, resources, and financial condition.**

The bank is financially sound and considered well capitalized by regulatory standards. At the present time, there are no apparent impediments that would affect the bank's ability to help fund the credit needs of its community.

Assessment Factor L - Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

- **FNCB is engaged in other activities which benefit their community that are not covered under other assessment factors.**

Services and products geared towards LMI individuals include senior checking accounts, discount checking accounts, youth savings accounts, small business checking accounts, and food stamp distribution. Donations are regularly made to local not-for-profit organizations, and totaled \$29,000 for 1996. Of that amount, \$10,000 was donated to organizations which benefit lower income individuals.

FNCB has also made a number of tax-free loans to local municipalities, school districts, counseling, and fire fighting organizations. Loans to non-profit organizations total \$2 million as of year-end 1996, while tax free loans total \$6 million. While these loans do not qualify as community development loans under the new CRA regulations, they are examples of FNCB's support of organizations which provide vital services to their community. FNCB continues to seek other methods to help their community.