
Comptroller of the Currency
Administrator of National Banks

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

PUBLIC DISCLOSURE

November 6, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Farmers National Bank
Charter No. 3104**

**Market & Jefferson Street
Kittanning, Pennsylvania 16201**

**Comptroller of the Currency
Pittsburgh Duty Station
4075 Monroeville Boulevard, Suite 300
Monroeville, Pennsylvania 15146-2529**

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 **Farmers National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of November 6, 1996. 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:

- An average loan to deposit ratio of 29% is less than reasonable compared to local peer group banks of 55%. However, the bank has shown a steady growth in loans since the beginning of 1995. The loan to deposit ratio was 33% as of September 30, 1996.
- A substantial majority of lending is in the assessment area.
- Loan distribution indicates an adequate penetration to low and moderate income level borrowers in 1995 and 1996.
- There is an excellent penetration of loans to small businesses.
- The geographic distribution of loans reflects adequate dispersion throughout the assessment area.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>Farmers National Bank</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	No complaints	received since the	prior examination.

DESCRIPTION OF INSTITUTION

Farmers National Bank (FNB) has total assets of \$75 million as of September 30, 1996. The bank is a one branch community bank located approximately 45 miles northeast of Pittsburgh in Kittanning, PA. The majority of FNB is owned by Farmers & Armstrong Financial, the bank's holding company. The bank primarily maintains the majority of its assets in the investment portfolio. However, since the arrival of President Robert Todd in July 1994, the bank has changed its focus to growing the loan portfolio. The bank offers a variety of mortgage, consumer, and commercial loan products. As of September 30, 1996, FNB's loan portfolio totaled \$21 million or 28% of total assets.

The loan portfolio breakdown as of September 30, 1996 is: 39% in 1-4 family residential, 13% non-farm non-residential, 2% farmland, 5% construction, 24% commercial, 15% consumer, and 2% municipal loans. The strategic plan calls for a gradual growth in loans over the next 5 years in an effort to reach a loan/deposit ratio of 50%. FNB currently operates in a highly competitive market. There are six financial institutions competing for a share of the market. The major competition is from branch offices of two large regional banks. Also, smaller local community banks compete aggressively for loan/deposit customers.

In addition to the loan products noted, FNB offers traditional deposit products. The bank has extended banking hours for the customer's convenience. The bank does not operate an automated teller machine. There has not been any merger or acquisition activity in the past 2 years.

DESCRIPTION OF ASSESSMENT AREA

FNB's assessment area is defined as Armstrong County that consists of nineteen block numbering areas (BNA's). Armstrong County is not within a Metropolitan Statistical Area (MSA). Within the assessment area are 3 moderate income BNA's (16%) and 16 middle income BNA's (84%). There are no low or upper income areas within the bank's assessment area. The state-wide non-metropolitan median family income for the area is \$32,800 and the total population of the assessment area is 72,726. The assessment area meets the regulatory guidelines and no low or moderate income areas are arbitrarily excluded. The unemployment rate in the bank's assessment area is high at 7%. Economic conditions are poor and competition in the area is strong. However, despite the poor economic conditions and strong competition, the bank has experienced a steady increase in the loan portfolio for the past two years. FNB does not have any financial or legal impediments that hinder its efforts to help meet the credit needs of its assessment area.

There is no principal industry in the local economy, but rather a variety of different industries including mushroom farming, steel production, machine shops, retail, medical, education and other manufacturing and mining. Major employers of Armstrong County are Allegheny Ludlum, Armstrong County School District, Eljer

Plumbing Products, Armstrong County Memorial Hospital, and R & P Coal Company.

Despite the presence of a variety of industries, the area continues to exhibit ongoing high unemployment. The unemployment rate as of October 1996 was 6.9%, which compares unfavorably to the state at 5.3% and the nation at 5.1%. Community contacts stated that a major need for the assessment area is upgrading and improving the infrastructure in order to attract industry. In addition, the community contacts noted that the credit needs of the community are well met by the local financial institutions.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan to Deposit Ratio

FNB's loan to deposit ratio is less than reasonable based on the peer average. The average loan to deposit ratio over the past six financial quarters is 29%. The loan to deposit ratio of local peer group banks is 55% as of June 30, 1996. FNB's loan to deposit ratio has historically been very low. In the past, management philosophy was very conservative and management was only willing to make low risk loans (ie. residential mortgage loans). The current management philosophy is to become an active lender in the community. The bank is actively taking steps to change its prior image and position itself as a hometown bank. FNB works with the local real estate agencies and provides flexible loan products to enhance credit availability in the assessment area. Although the assessment area's unemployment rate is high and economic conditions are poor, the bank's loan portfolio has grown 12% and 16% in 1995 and 1996 respectively. Management has made every effort to improve the bank's loan to deposit ratio over the last two years. As of September 30, 1996 the loan to deposit ratio was 33%.

The bank's strategic plan includes steady loan growth over the next 5 years. The focus will be on increasing the loan to deposit ratio to 50%. Management's intention is to continue growing loans over all types of lending categories, with specific emphasis on commercial and residential real estate lending.

Lending in Assessment Area

Our analysis revealed that a substantial majority of lending is in the assessment area: 98% of consumer loans and 79% of mortgage loans are made within the assessment area. The focus of our review was all mortgage loans originated and 16% of total consumer loans originated since March 1995. We used a combination of management reports and loan files to assess our sample. Management reports were tested for accuracy.

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

Loan distribution indicates a reasonable penetration to borrowers of different income levels. Loan originations made within the assessment area by income category of borrowers are described in the following tables. We sampled all of the mortgage loans and 54 (16%) of the 335 consumer loans originated since the March 1995 examination.

Our analysis revealed that 24% of mortgage loans and 69% of the consumer loans in our sample were to individuals with incomes less than 80 percent of the median income.

Lending to Borrowers of Different Income Levels: 3/95-7/96										
	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Total	
Area Demographic Characteristics	20%		21%		24%		35%		100%	
	#	%	#	%	#	%	#	%	#	%
Mortgage	4	14%	3	10%	8	28%	14	48%	23	100%
Consumer	21	39%	16	30%	12	22%	5	9%	54	100%

There is an excellent penetration of loans to small business. Information from the June 30, 1996 Call Report indicates that 100% of commercial lending is to small businesses. A small business loan is defined as a loan with an original amount of \$1 million or less. Total small business loans of \$6.2 million represent 34% of total gross loans and leases.

Small Business Loans By Size of Loan as of 6/30/96					
	Commercial Real Estate		Commercial Loans		% (by #)
Loan Size	#	\$(000)	#	\$(000)	
<\$100M	17	\$635	27	\$1,032	67%
\$100M-\$250M	8	\$1,156	7	\$752	23%
\$251M-\$1MM	4	\$1,213	3	\$1,413	10%
>\$1MM	0	\$0	0	\$0	0%
Totals	29	\$3,004	37	\$3,197	100%

Geographic Distribution of Loans

The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area. Our analysis revealed that 17% of all mortgage loans originated since March 1995 are made in the moderate income BNA's and 83% in the middle income BNA's. Also, based on our sampling, 15% of consumer loans are made in the moderate income BNA's and 85% in the middle income BNA's. These percentages are similar to

the geographic characteristics of the bank's assessment area (16% moderate income and 84% middle income BNA's).

No substantive violations of antidiscrimination laws and regulations were noted during the concurrent fair lending examination and FNB has not received any consumer complaints since the last CRA Examination.