



**SMALL BANK**

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

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## **PUBLIC DISCLOSURE**

**September 03, 2006**

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

**Portage National Bank  
Charter Number 14490**

**737 Main Street  
Portage, PA 15946**

**Comptroller of the Currency  
Western Pennsylvania  
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.**

## 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 Portage National Bank, prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of September 3, 2006. 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:

- A satisfactory record of lending to borrowers of different income levels and a good record of lending to businesses of different sizes.
- A satisfactory distribution of home mortgage and business loans among low- and moderate-income geographies.
- A good record of community development lending.

## **DESCRIPTION OF INSTITUTION**

Portage National Bank (PNB) is a \$219 million intrastate community bank. PNB is a wholly owned subsidiary of a one-bank holding company, Mainline Bancorp, located in Cambria County, PA. The bank is headquartered approximately 80 miles east of Pittsburgh, in the town of Portage, PA. PNB operates its headquarters and nine branch offices within Cambria County and one branch office within Blair County. Branch locations include two each in Portage, Johnstown and Ebensburg, and one branch in each of Summerhill, Gallitzin, Loretto and Altoona locations. ATMs are located at seven of these facilities. Since the last CRA examination, PNB opened an office in Altoona, PA on May 13, 2005 and relocated the Giant Eagle Office to Richland Galleria in Johnstown on September 12, 2005.

PNB is a full service community bank offering a range of deposit and loan products. Loan products include residential real estate mortgages, individual installment, and commercial loans. PNB received a satisfactory rating as a result of the previous CRA evaluation, which was conducted as of January 2, 2001.

Net loans represent 54% of PNB's assets. PNB's loan portfolio is broken down by dollar volume as follows: 49% residential real estate loans, 34% commercial and commercial real estate loans, 10% in consumer loans and the remainder in other loan types including home equity and municipal loans. There are no financial or legal impediments that would preclude PNB from lending.

## **DESCRIPTION OF BANK'S ASSESSMENT AREA**

PNB has two assessment areas (AA). The AAs include the Johnstown Metropolitan Statistical Area (MSA), which contains the whole of Cambria County, and the Altoona MSA, which comprises the whole of Blair County. The AA meets the criteria of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

The Johnstown MSA has 48 whole, contiguous census tracts (CTs) or geographies. The MSA is comprised primarily of middle-income CTs totaling 30 or 63% of the CTs. Moderate-income totals 10 or 21% of the CTs and upper-income includes 6 or 12% of the CTs. There are only 2 or 4% low-income CTs in the Johnstown MSA. Low- and moderate-income census tracts are situated in the southwestern corner of Cambria County in the Johnstown area. The population of Johnstown MSA is 152,598. The income level of this population is principally middle-income (71%) with moderate- and upper-income level at 15% and 12% respectively. Only 2% of the population is within low-income level.

U.S. Census data for 2000 reports the updated median family income for the Johnstown MSA at \$38,747. Owner occupied housing represents 69% of all housing and the median housing value equals \$61,571 in Johnstown. The majority (66%) of the MSA's households are supported by wage or salaried jobs. However, 13% of the households are below poverty level.

The Altoona MSA has 34 whole, contiguous census tracts or geographies. Altoona MSA is primarily comprised of middle-income CTs totaling 25 or 74%. Moderate-income totals 6 or 17% of the CTs and upper-income totals 2 or 6% of the CTs. The Altoona MSA contains only one or 3% low-income CT. The population of Altoona MSA is 129,144. The income level of this population is primarily middle-income and is as follows: 73% middle-income, 16% moderate-income, 9% upper-income, and only 1% low-income level.

The U.S. Census data for 2000 reports the updated median family income for the Altoona MSA at \$40,507. Owner occupied housing represents 68% of all housing and the median housing value equals \$71,123 in the MSA. The majority (72%) of the MSA's households are supported by wage or salaried jobs. However, 13% of the households are below poverty level.

Improvement in the AAs' economic condition continues to lag behind the state of Pennsylvania as a whole. The area has not recovered from the collapse of the steel and coal mining industries from the 1970s forward. Unemployment rates for 2005 in the Johnstown and Altoona MSAs were higher at 6.1% and 5.2%, respectively, than the state of Pennsylvania, 5%. The AAs' commercial activity has shifted from heavier industries to service and retail trade, government and lighter manufacturing. As a result, previously higher-wage, manufacturing jobs were replaced by lower-pay, service jobs. Employment is diversified with dominant employers being hospitals and school districts.

Competition is strong within the bank's AAs. Both the Johnstown and the Altoona markets are heavily banked, housing branches from financial institutions and savings institutions, with which PNB competes. Credit needs continue to be concentrated primarily in business and low cost residential mortgage lending.

## **COMMUNITY CONTACT INFORMATION**

Information obtained from local economic development entities indicates that small business lending is an identified community credit need. Area banks are supportive of a variety of economic development activities.

## **SAMPLING**

PNB loan information was collected through Home Mortgage Disclosure Act (HMDA) data reported by the bank and a random sampling of 20 business loans originated over the evaluation period. Analysis of the reported HMDA data and business loan sample was employed to assess PNB's lending performance inside its AA as well as its lending distribution among borrowers of different income levels, businesses of different sizes and AA geographies.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

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

The loan to deposit ratio meets the standard for satisfactory performance, and is consistent with the average loan to deposit ratio exhibited by peer banks over the evaluation period.

PNB's current loan to deposit ratio is 66.31%. Similarly, PNB's loan to deposit ratio over the previous 22 quarters averaged 65.13%. This level of lending is consistent with level of lending achieved by the bank's peer group, which averaged 71.93% over the same 22 quarters. The peer group included all banks with under \$250 million in total assets located in Pennsylvania and West Virginia. PNB's current loan to deposit ratio represents an increasing trend with lending at 62.94% as of June 30, 2006.

### **Lending in Assessment Area**

Lending in the AA exceeds the standard for satisfactory performance since a substantial majority of HMDA reportable and sampled business loans were originated within the bank's AA.

An analysis of bank reported HMDA loans originated from the period January 1, 2004 through June 30, 2006 indicated that 92% of HMDA loans by volume and 89% of HMDA loans by dollar were originated within PNB's AA. An analysis of sampled business loans indicated that 85% of business loans by volume and 90% of business loans by dollar were originated within PNB's AA.

The following table details the bank's record of HMDA lending over the period, inside and outside PNB's AA.

HMDA Lending: Inside and Outside the Assessment Area - \$ (000's)

Loan Type	Inside the Assessment Area		Outside the Assessment Area	
	###	\$\$\$	###	\$\$\$
<b>Home Purchase</b>	156	\$12,622	17	\$2,582
	<b>90%</b>	<b>83%</b>	10%	17%
<b>Refinance</b>	365	\$21,195	32	\$2,071
	<b>92%</b>	<b>91%</b>	8%	9%
<b>Home Improvement</b>	439	\$13,243	34	\$1,288
	<b>93%</b>	<b>91%</b>	7%	9%

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

PNB's lending to borrowers of different income levels and businesses of different sizes meets identified community credit needs and the standard for satisfactory performance.

#### HMDA Lending to Borrowers of Different Income Levels

PNB's record of lending to borrowers of different income levels is satisfactory considering AA demographics.

The percentage of home purchase lending to moderate-income borrowers exceeds the percentage of moderate-income families in the Altoona MSA. The percentage of home purchase lending to moderate-income borrowers in the Johnstown MSA nears the percentage of moderate-income families. The percentage of home purchase lending to low-income borrowers in both the Johnstown MSA and the Altoona MSA is below the percentage of low-income families.

The percentage of home improvement lending to low-income borrowers is near to the percentage of low-income families in the Altoona MSA. The percentage of home improvement lending to moderate-income borrowers is near to the percentage of moderate-income families in the Johnstown MSA. The percentages of home improvement lending to low-income borrowers in the Johnstown MSA and moderate-income borrowers in the Altoona MSA are below the percentage of low-income families and moderate-income families, in those respective MSA's.

The percentage of home refinance loans to moderate-income borrowers mirrors the percentage of moderate-income families in the Johnstown MSA. The percentage of home refinance loans to moderate-income borrowers is well below the percentage of moderate income families in the Altoona MSA. The percentage of home refinance loans to low-income borrowers is below the percentage of low-income families in the both the Johnstown MSA and the Altoona MSA.

The tables below detail PNB's lending activity to borrowers of different income levels to families of different income levels over the evaluation period.

<b>Home Purchase</b>										
<b>MSA</b>	<b>Total</b>		<b>Low-Income Borrowers</b>		<b>Moderate-Income Borrowers</b>		<b>Middle-Income Borrowers</b>		<b>Upper-Income Borrowers</b>	
	#	% of Total	% of Families	% of PNB Loans	% of Families	% of PNB Loans	% of Families	% of PNB Loans	% of Families	% of PNB Loans
<b>Johnstown</b>	106	91.38	17.49	8.00	19.68	12.00	23.76	19.00	39.06	61.00
<b>Altoona</b>	10	8.62	18.13	0.00	19.05	37.50	24.47	0.00	38.35	62.50

<b>Home Improvement</b>										
<b>MSA</b>	<b>Total</b>		<b>Low-Income Borrowers</b>		<b>Moderate-Income Borrowers</b>		<b>Middle-Income Borrowers</b>		<b>Upper-Income Borrowers</b>	
	#	% of Total	% of Families	% of PNB Loans	% of Families	% of PNB Loans	% of Families	% of PNB Loans	% of Families	% of PNB Loans
<b>Johnstown</b>	355	98.07	17.49	9.35	19.68	16.15	23.76	24.93	39.06	49.58
<b>Altoona</b>	7	1.93	18.13	14.29	19.05	0.00	24.47	28.57	38.35	57.14

<b>Home Refinance</b>										
<b>MSA</b>	<b>Total</b>		<b>Low-Income Borrowers</b>		<b>Moderate-Income Borrowers</b>		<b>Middle-Income Borrowers</b>		<b>Upper-Income Borrowers</b>	
	#	% of Total	% of Families	% of PNB Loans	% of Families	% of PNB Loans	% of Families	% of PNB Loans	% of Families	% of PNB Loans
<b>Johnstown</b>	258	87.76	17.49	6.61	19.68	17.12	23.76	22.18	39.06	54.09
<b>Altoona</b>	36	12.24	18.13	5.71	19.05	5.71	24.47	17.14	38.35	71.43

PNB's ability to extend housing loans is hampered by the demographics of the AA in which it operates. The population of the Johnstown MSA, which comprises the substantial majority of the bank's lending, is weighted towards senior retired persons and social security recipients. In

addition, the Johnstown MSA has a high poverty rate and a low percentage of vacant housing units. The table below details 2000 census data for both the Johnstown MSA and the Altoona MSA.

	Housing Data		Population		
	% of Vacant Housing Units	Median Housing Cost	% Social Security	% Retirement	% Below Poverty Level
<b>Johnstown MSA</b>	8%	\$61,571	39%	27%	13%
<b>Altoona MSA</b>	6%	\$71,123	34%	18%	13%

### Lending to Businesses of Different Sizes

PNB's lending to businesses of different sizes is good given the AA demographics.

PNB originates a substantial majority of its loans to small businesses. Small businesses are defined as those businesses with annual gross revenues of less than or equal to \$1 million. Demographic data reported and compiled under the 2006 Business Geodemographic Data indicates that 92% of reported businesses in the Johnstown MSA report revenues equal to or less than \$1 million. Demographics in the Altoona MSA are similar with 90% of reported businesses reporting revenues equal to or less than \$1 million. The Johnstown and Altoona commercial lending markets are highly competitive. A variety of bank and non-bank financial institutions vie for the limited lending opportunities available in the market. The findings from our sample of 20 business loans originated in the AA are detailed in the table below.

	PNB		Johnstown MSA		Altoona MSA	
	###	% of Businesses	###	% of Businesses	###	% of Businesses
<b>Revenues &lt;= \$1 million</b>	17	85%	4,973	92%	4,197	90%
<b>Revenues &gt; \$1 million</b>	3	15%	451	8%	449	10%

### **Geographic Distribution of Loans**

PNB's distribution of HMDA and business loans among various geographies meets the standard for satisfactory performance.

Demographic data compiled as part of the 2000 census geographically delineates the CTs of the Johnstown MSA and the Altoona MSA as follows:

	Lower		Moderate		Middle		Upper	
	1	2.94%	6	17.65%	25	73.53%	2	5.88%
<b>Johnstown MSA</b>	1	2.94%	6	17.65%	25	73.53%	2	5.88%
<b>Altoona MSA</b>	2	4.17%	10	20.83%	30	62.50%	6	12.50%

### HMDA Lending Geographic Distribution

The percentage of home purchase and home improvement loans originated within moderate-income tracts of the Altoona MSA exceeds the percentage of owner occupied housing in those

tracts. The percentage of home refinance loans originated within the Altoona moderate-income tracts is near to the percentage of owner occupied housing in those tracts. The percentage of all HMDA loans originated in low-income tracts within the Johnstown MSA and the Altoona MSA are near to the percentage of owner occupied housing in those tracts. The percentage of home purchase, home improvement, and home refinance loans originated in the Johnstown MSA is below the percentage of owner occupied housing in those tracts.

PNB's geographic distribution of HMDA loans is reasonable considering AA demographics. The percentage of low-income families residing within the low-income CTs and the moderate-income CTs of the Johnstown MSA is 59% and 32%, respectively. With a HUD updated median family income at \$46,100 the median income for a low-income family is less than \$23,050. Given a weighted average cost of housing of \$61,571, the ability of low-income families to finance housing is limited. In addition, the percentage of households living below poverty levels in the Johnstown MSA low-income and moderate-income CTs is high at 7% and 21%, respectively. Lastly, the percentage of owner occupied housing available in the low-income and moderate-income CTs of the Johnstown MSA is limited at .61% and 10.39%, respectively. The demographics for the Altoona MSA are similar to the Johnstown MSA.

The table below details PNB's home purchase, home improvement, and home refinance lending during the period.

<b>Home Purchase</b>										
<b>MSA</b>	<b>Total</b>		<b>Low-Income CTs</b>		<b>Moderate-Income CTs</b>		<b>Middle-Income CTs</b>		<b>Upper-Income CTs</b>	
	#	% of Total	% of Owner Occupied Units	% of PNB Loans	% of Owner Occupied Units	% of PNB Loans	% of Owner Occupied Units	% of PNB Loans	% of Owner Occupied Units	% of PNB Loans
<b>Johnstown</b>	106	91.38	0.61	0.00	10.39	3.77	73.59	80.19	15.40	16.04
<b>Altoona</b>	10	8.62	0.17	0.00	13.78	30.00	76.33	50.00	9.73	20.00

<b>Home Improvement</b>										
<b>MSA</b>	<b>Total</b>		<b>Low-Income CTs</b>		<b>Moderate-Income CTs</b>		<b>Middle-Income CTs</b>		<b>Upper-Income CTs</b>	
	#	% of Total	% of Owner Occupied Units	% of PNB Loans	% of Owner Occupied Units	% of PNB Loans	% of Owner Occupied Units	% of PNB Loans	% of Owner Occupied Units	% of PNB Loans
<b>Johnstown</b>	355	98.07	0.61	0.00	10.39	2.54	73.59	83.38	15.40	14.08
<b>Altoona</b>	7	1.93	0.17	0.00	13.78	14.29	76.33	71.43	9.73	14.29

<b>Home Refinance</b>										
<b>MSA</b>	<b>Total</b>		<b>Low-Income CTs</b>		<b>Moderate-Income CTs</b>		<b>Middle-Income CTs</b>		<b>Upper-Income CTs</b>	
	#	% of Total	% of Owner	% of PNB	% of Owner	% of PNB	% of Owner	% of PNB	% of Owner	% of PNB



			Occupied Units	Loans	Occupied Units	Loans	Occupied Units	Loans	Occupied Units	Loans
<b>Johnstown</b>	258	87.76	0.61	0.00	10.39	2.71	73.59	83.33	15.40	13.95
<b>Altoona</b>	36	12.24	0.17	0.00	13.78	11.11	76.33	52.78	9.73	36.11

PNB's origination of multi-family housing has a neutral impact on the distribution of loans among geographies of different income levels. The bank originated two multi-family home loans in the AA for the period January 1, 2004 through June 30, 2006. One of these loans was made in a moderate-income CT within the Altoona MSA. The other multi-family loan was made in a middle-income CT within the Johnstown MSA.

### Business Geographic Lending

PNB's geographic distribution of business loans throughout the AA is reasonable considering AA demographics. Our sample of business lending indicates that PNB origination of loans to businesses in low-income tracts and moderate-income tracts is near to the percentage of businesses in tracts in the combined Johnstown MSA and Altoona MSA. PNB's ability to generate business lending among the low-income and moderate-income tracts in both the Johnstown MSA and the Altoona MSA is hampered by significant competition from financial institutions of all sizes, non-profit economic development entities, and a variety of non-bank institutions.

The table below details the geographic distribution of loans to small businesses within the Johnstown MSA and Altoona MSA.

	<b>PNB</b>		<b>Johnstown MSA</b>		<b>Altoona MSA</b>	
	<b>###</b>	<b>% of Businesses</b>	<b>###</b>	<b>% of Businesses</b>	<b>###</b>	<b>% of Businesses</b>
<b>Low-Income</b>	0	0	568	7.61	315	4.94
<b>Moderate-Income</b>	1	5.00	725	9.71	1,181	18.51
<b>Middle Income</b>	17	85.00	5,004	67.04	4,155	65.10
<b>Upper-Income</b>	2	10.00	1,167	15.64	731	11.45

### **Community Development Lending**

PNB's record of community development lending positively impacts the performance evaluation.

PNB originated five loans totaling \$2,340,000 to local townships and boroughs to improve infrastructure and facilitate affordable housing or economic development projects. These communities are designated as rural underserved, distressed, or targeted economic development zones. The bank also originated two loans totaling \$1,835,000 for the construction of affordable housing for mentally handicapped persons in which a majority of the residents are low-income or moderate-income. A single loan for \$500,000 was originated to support a county buyout of a local nursing home in which the majority of residents are low-income or moderate-income. In addition, PNB originated four loans totaling \$563,500 in loans to public and private entities to facilitate affordable housing. These loans are also included in the bank's record of lending to

small businesses.

### **Responses to Complaints**

No complaints have been received since the last examination.

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

We found no evidence of illegal discrimination or other illegal credit practices. The bank has appropriate policies, procedures and training programs in place to prevent discriminatory or other illegal credit practices.