



**LARGE BANK**

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

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**Public Disclosure**

**May 10, 2004**

**Community Reinvestment Act  
Performance Evaluation**

**The Honesdale National Bank  
Charter Number: 644**

**733 Main Street  
Honesdale, PA 18431**

**Office of the Comptroller of the Currency**

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**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, and should not 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.

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# Overall CRA Rating

**Institution's CRA Rating:** This institution is rated **Satisfactory**.

The following table indicates the performance level of **The Honesdale National Bank** with respect to the Lending, Investment, and Service Tests:

Performance Levels	The Honesdale National Bank Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X		
Low Satisfactory		X	X
Needs to Improve			
Substantial Noncompliance			

\* The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

The major factors that support this rating include:

- The bank's level of lending is satisfactory;
- A substantial majority of home mortgage loans and small loans to businesses are originated within the assessment areas (AAs);
- The geographic distribution of home mortgage and small loans to businesses is satisfactory; and
- The bank provides a good level of community development services in its AA.

## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Block Numbering Area (BNA):** A statistical subdivision of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. A BNA does not cross county lines.

**Census Tract (CT):** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community Development:** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

**Community Reinvestment Act (CRA):** the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male household and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Full Review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A census tract or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn).

**Home Mortgage Loans:** such loans include home purchase and home improvement loans, as defined in the HMDA regulation. This definition also includes loans for multifamily (five or more families) dwellings, loans for the purchase of manufactured homes and refinancing of home improvement and home purchase loans.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited Review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Median Family Income (MFI):** The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

**Metropolitan Area (MA):** Any primary metropolitan area (PMA), metropolitan area (MA), or consolidated metropolitan area (CMA), as defined by the Office of Management and Budget, with a population of 250,000 or more, and any other area designated as such by the appropriate federal financial supervisory agency.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other Products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated Area:** A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

**Small Loan(s) to Business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

**Small Loan(s) to Farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Tier One Capital:** The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

**Upper-Income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.

## Description of Institution

The Honesdale National Bank (HNB) is an independent, intrastate community bank, established in 1836, with its main office and headquarters in Honesdale, Pennsylvania. Honesdale is the county seat of Wayne County in northeastern Pennsylvania. The bank has seven full-service offices and an operations center located in Wayne, Pike, Susquehanna, and Lackawanna counties. HNB also operates a mortgage loan production office in Luzerne County. All of the seven offices have on-site automated teller machines (ATMs). HNB also maintains an off-site ATM at a local hospital and has a mobile ATM.

HNB's primary products include commercial loans, residential mortgages and consumer installment loans. The bank also offers full trust services and sales of nondeposit investment products. HNB is a wholly owned subsidiary of HONAT Bancorp, Inc., also headquartered in Honesdale. HONAT Bancorp, Inc. is a \$331 million holding company with no other subsidiaries.

As of December 31, 2003, total bank assets were also \$331 million. Total net loans were \$219 million, and total deposits were \$294 million. Also as of December 31, 2003, net loans and leases represented 66% of total assets. This loan portfolio is comprised of residential mortgages (34%), commercial loans (50%), and consumer loans (16%). Net tier one capital was \$29 million as of December 31, 2003. Competition in the area is very strong and includes local community banks, regional banks, national non-bank financial institutions and mortgage companies.

***HNB's last Public Evaluation (PE) was dated October 22, 1998 and the overall CRA rating assigned was Satisfactory. Since the previous PE, HNB has opened one new branch location in a middle-income geography in their AA. They have closed no branch offices during the evaluation period. There are no financial or legal impediments to hinder HNB's ability to help meet its community credit needs. HNB has no operating subsidiaries.***

## Scope of the Evaluation

### Evaluation Period/Products Evaluated

The evaluation period for the Lending Test for home mortgages reported under the Home Mortgage Disclosure Act (HMDA) is from January 1, 1998 through December 31, 2003. For small loans to businesses, the evaluation period is from January 1, 2003 to December 31, 2003, as previous data was not compiled, nor was it reported. For community development loans, and the Investment and Service Tests, the evaluation period is also from October 22, 1998 through May 10, 2004. An analysis of multifamily loans and small loans to farms was not meaningful and was not conducted as no multifamily loans and only 108 small farm loans were originated during the six year evaluation period. Therefore, tables 5, 7 and 12 are not included in the PE.

For the period from January 1, 1998 through December 31, 2002, the data from the 1990 U.S. Census was used. For the period from January 1, 2003 through December 31, 2003, data from the 2000 U.S. Census was used.

## **Data Integrity**

During February and March of 2004, HNB's publicly filed information and registers were examined by the OCC to verify the accuracy of the data. These registers contain loan data for home mortgages and small businesses. We found numerous errors with the loan data, which the bank corrected. Also, due to the fact that the bank was not considered a large bank until 2004, numerous files had not been completely geocoded. The bank also updated these files.

Community development loans, investments, and services submitted by management were also reviewed at that time and again during this examination to ensure that they met the regulatory definition of community development.

## **Selection of Areas for Full-Scope Review**

We performed full-scope reviews of the non-MSA AA counties, Wayne and Susquehanna (non-MSA W&S), and of the bank's AA in the Scranton--Wilkes-Barre--Hazleton, PA MSA (SW MSA). The bank's AA in this MSA consists of Lackawanna, Luzerne and Wyoming counties. Pike County (part of the Newburgh, NY MSA in the 1990 Census and the Newark, NJ MSA in the 2000 Census) was selected for a limited-scope review. The non-MSA W&S counties and the SW MSA represent HNB's major markets and account for 92% of HNB's deposits and 96% of its lending activity over the evaluation period. The ratings are based primarily on conclusions reached in the evaluation of HNB's performance in these full-scope AAs. Please refer to the table in Appendix B for additional information regarding these areas.

## **Ratings**

The bank's overall rating is based on the full-scope reviews of the activities in the non-MSA W&S and the SW MSA. Home mortgage products received more weight in evaluating the Lending Test than small loans to businesses. Approximately 70% of the loans originated during the evaluation period were home mortgage loans in the AA, with small business loans accounting for 28%. The remaining two percent were small farm loans. No multi-family housing loans were originated. Mortgages originated were 53% and 90% of all loans in the non-MSA W&S and the SW MSA, respectively. Also, home purchase mortgages were given more weight in our analysis than home improvement loans and refinance mortgages. Home purchase loans represent 53% of the home mortgages in the AA. In the non-MSA W&S they accounted for 43% of all home mortgages and in the SW MSA they accounted for 60% of all home mortgage originations. Further, home purchase loans were identified as the primary credit need of the AA.

## **Other**

During our examination, we contacted a local business executive from a healthcare facility and we reviewed information from a community group involved in affordable housing. Our discussion was done via the telephone and the executive provided us with information regarding the credit needs of the community as well as information regarding the area's economic climate in general. During the discussion and from the information reviewed, we learned that the primary credit need is affordable credit. The contacts believe that the community banks are doing a good job in meeting this need.



Community development opportunities were seen as somewhat limited in the area, due to the rural nature of the local counties. Our contacts believed that general banking and credit needs are available and are being met in the AA.

## **Fair Lending Review**

We found no evidence of illegal discrimination or other illegal credit practices.

# Conclusions with Respect to Performance Tests

## LENDING TEST

### Conclusions for Areas Receiving Full-Scope Reviews

*The bank's performance under the lending test is rated "satisfactory". Based on full-scope reviews, the bank's performance in the non-MSA W&S and the SWH MSA is good.*

### Lending Activity

Refer to 'Tables 1 - Lending Volume' and 'Table 1 – Other' in appendix C for the facts and data used to evaluate the bank's lending activity.

#### Non-MSA W&S

Lending activity in the non-MSA W&S is satisfactory. The bank's lending patterns are generally reflective of the credit needs of the community. Fifty percent of the bank's lending is done in this non-MSA. The bank's lending to individuals is centered in HMDA products, 53% for this non-MSA. Purchase, home improvement, and refinance loans represent 43%, 9%, and 48%, respectively, of all home mortgages originated in this non-MSA. Multi-family loans represent an insignificant portion of the bank's lending, with no loans originated. Small business credit is also a recognized credit need of the non-MSA and therefore is reflected in the volume of lending, 43% for the non-MSA. There is minimal small farm credit lending based on the credit demand at the bank, as only 104 loans were originated during the evaluation period in the non-MSA.

HNB has four branches and 85% of its deposits in the non-MSA. The bank is ranked 3<sup>rd</sup> in deposits in Wayne County with a 20.83% market share as of June 30, 2003. In Susquehanna County, the bank is ranked 4<sup>th</sup> in deposits with a market share of 8.07%. Lending patterns are also similar to deposit patterns. Market share for home purchase, home improvement, and home refinance mortgage loans is 3.83%, 1.30%, and 2.89%, respectively.

Based on 2002 HMDA Peer Mortgage Data, HNB ranked ninth (with a 3.02% market share) out of 227 lenders in overall home mortgage lending. Large regional banks and community banks dominate this market.

Based on 2002 HMDA Peer Mortgage Data, HNB ranked sixth out of 152 lenders in home purchase lending. Based on this same data, HNB ranked 16<sup>th</sup> out of 41 lenders in home improvement lending. HNB ranked 9<sup>th</sup> out of 182 lenders behind large regional banks and community banks in the non-MSA for refinances.

HNB, due to its asset size, was not a CRA reporter for small loans to businesses or farms until 2003. Therefore, no market share data is available, as all market share data is based on 2002 peer data. However, the market is dominated by three national lenders that have over 49% of the market share.

#### SW MSA

Lending activity in the SW MSA is satisfactory. The bank's lending patterns are generally reflective of

the credit needs of the community. Forty-five percent of the bank's lending is done in this MSA. The bank's lending to individuals is centered in HMDA products, 90% for this MSA. Purchase, home improvement, and refinance loans represent 60%, 6%, and 34%, respectively, of all home mortgages originated in this non-MSA. Multi-family loans represent an insignificant portion of the bank's lending, with no loans originated. Small business credit is also a recognized credit need of the MSA and represents ten percent of the volume of lending. There is minimal small farm credit lending based on the credit demand at the bank, as only two loans were originated during the evaluation period in the MSA.

HNB has one branch, a mortgage loan production office and 7% of its deposits in the MSA. The bank is ranked 31<sup>st</sup> in deposits with 0.20% market share as of June 30, 2003. Lending patterns are not similar to deposit patterns because the mortgage loan production office is not a full service branch. Market share for home purchase, home improvement, and home refinance mortgage loans is 2.95%, 0.85%, and 0.90%, respectively.

Based on 2002 HMDA Peer Mortgage Data, HNB ranked 16<sup>th</sup> (with a 1.63% market share) out of 337 lenders in overall home mortgage lending. Large regional banks and community banks dominate this market.

Based on 2002 HMDA Peer Mortgage Data, HNB ranked sixth out of 240 lenders in home purchase lending, with a 3.27% market share. Based on this same data, HNB ranked 26<sup>th</sup> out of 81 lenders in home improvement lending, with a 0.98% market share. HNB ranked 24<sup>th</sup> out of 286 lenders, also with a 0.98% market share, behind large regional banks and community banks in the non-MSA for refinances.

As previously noted, HNB, due to its asset size, was not a CRA reporter for small loans to businesses or farms until 2003. Therefore, no market share data is available, as all market share data is based on 2002 peer data. However, the market is dominated by three national lenders that have over 43% of the market share.

## **Distribution of Loans by Income Level of the Geography**

### ***Home Mortgage Loans***

Refer to Tables 2, 3 and 4 in appendix C for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases. Geographic distribution of multi-family loans is not discussed since no multifamily loans were originated by HNB in the AAs. Therefore, an analysis was not meaningful and Table 5 is not included.

### **Non-MSA W&S**

According to the 1990 and 2000 census data, there were no low- or moderate-income geographies in the non-MSA. Therefore, an analysis of the geographic distribution of loans is not meaningful for the evaluation period.

### **SW MSA**

Geographic distribution is satisfactory in the MSA. Home purchase loan geographic distribution is good. According to the 1990 census data, there were two low- income and 21 moderate-income geographies in the MSA AA. For the evaluation period using the 1990 census data, home purchase loans originated by the bank significantly exceeded the percentage of owner-occupied housing units in low-income geographies. According to the 2000 census data, there was one low- income and 21 moderate-income geographies in the MSA AA. For the evaluation period using the 2000 census data, the bank made no loans in low-income geographies. This performance is satisfactory considering the limited housing stock in this urban tract.

For the evaluation period using the 1990 census data, home purchase loans made in moderate-income geographies meets the percentage of owner-occupied housing units in the MSA. For the evaluation period using the 2000 census data, home purchase loans made in moderate-income geographies is near to the percentage of owner-occupied housing units in the MSA. In the MSA, HNB's market share for moderate-income geographies is also less than its overall market share.

Home improvement loan geographic distribution is also good. For the evaluation period using the 1990 and the 2000 census data, the bank did not originate any home improvement loans in low-income geographies. However, in the 1990 Census, only 0.01% of the units in the low-income geographies were owner-occupied and in the 2000 Census the figure was only 0.03%. With limited opportunities and much competition, this performance is adequate. Also, home improvement mortgage loans are not a primary product.

For the evaluation period using the 1990 census data, home improvement loans made in moderate-income geographies is near to the percentage of owner-occupied housing units in the MSA. For the evaluation period using the 2000 census data, home improvement loans made in moderate-income geographies exceeds the percentage of owner-occupied housing units in the MSA. In the MSA, HNB's market share for moderate-income geographies is less than its overall market share.

Refinance loan geographic distribution is good. For the evaluation period using the 1990 and the 2000 census data, refinance loans originated by the bank in the MSA exceeds the percentage of owner-occupied housing units in low-income geographies. For the evaluation period using the 1990 census data, refinance loans made in moderate-income geographies is near to the percentage of owner-occupied housing units in the MSA. For the evaluation period using the 2000 census data, refinance loans made in moderate-income geographies is less than the percentage of owner-occupied housing units in the MSA. In the MSA, HNB's market share for moderate-income geographies is less than its overall market share.

### ***Small Loans to Businesses***

Refer to Table 6 in appendix C for the facts and data used to evaluate the geographic distribution of the bank's origination/purchase of small loans to businesses for 2003. Data prior to 2003 was not compiled and not reported.

### **Non-MSA W&S**

An analysis of the geographic distribution of small business loans is not meaningful since the non-MSA has no low- or moderate-income geographies.

## **SW MSA**

Geographic distribution is good in the MSA. According to the 2000 census data, in 2003, HNB's small loans to businesses in low-income geographies significantly exceeds the percentage of businesses that are located in those geographies in the MSA, as does their market share. HNB's small loans to businesses in moderate-income geographies are less than the percentage of businesses in those geographies. Market share is also less than then bank's overall market share in moderate-income geographies.

## **Lending Gap Analysis**

Our review of the geographic distribution of loans did not detect any conspicuous or unexplained gaps in HNB's lending patterns.

### ***Inside/Outside Ratio***

An analysis of the bank's lending within its assessment areas was performed at the bank level as opposed to the individual AA levels. A substantial majority (83%) of the home mortgage loans, small loans to businesses and farms, and community development (CD) loans originated by HNB over the evaluation period were within its AAs. For HMDA products, 79% of all originations were within the AAs. Eighty-three percent of all purchase money mortgages originated were in the AAs, 51% of all home improvement loans were in the AAs, and 82% of all refinances were in the AAs.

Ninety-four percent of the small loans to businesses and 100% of the CD loans were within its AAs. This performance was positively factored into the overall analysis of the geographic distribution of lending by income level of geography.

## **Distribution of Loans by Income Level of the Borrower**

The borrower distribution of HNB's home mortgage loans reflects satisfactory dispersion among borrowers of different income levels in the AA. Small loans to businesses indicates excellent distribution.

We considered demographic factors including the high cost of housing compared to the median family income of a low-income person, and the high percentage of individuals below the poverty level, in our home mortgage analysis.

### ***Home Mortgage Loans***

Refer to Tables 8, 9, and 10 in appendix C for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.

## **Non-MSA W&S**

Borrower distribution for home purchase lending is good when considering the difficulty that low- and moderate-income individuals have in purchasing a home in the non-MSA. The median cost of housing in the non-MSA is \$80,771, based on 1990 census data. The median cost of housing in the non-MSA is \$96,639, based on 2000 census data. The HUD updated median family income for 2002 is \$41,100.

This means that a low-income person earned less than \$20,550. A moderate-income person earned at least \$20,550 but less than \$32,880. Additionally, 12% of the households in the non-MSA were below the poverty level.

The percentage of home purchase loans made to low-income borrowers in the non-MSA is below the percentage of low-income families in the non-MSA for the entire evaluation period. This performance is good when considering the affordability of housing for a low-income person in the non-MSA as discussed above. The percentage of loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the non-MSA for the entire evaluation period. This is excellent performance especially when considering the affordability of housing for a moderate-income person in the non-MSA, as discussed above. HNB's market share for both low- and moderate-income exceeds its overall market share in the non-MSA.

Home improvement borrower distribution is good. The percentage of home improvement loans made to low-income borrowers in the non-MSA is below the percentage of low-income families in the non-MSA for the entire evaluation period. However, this is good performance when considering that there are less opportunities available to low-income individuals for home improvement loans based on the affordability for a low-income person to purchase a home in the non-MSA, as discussed above. The percentage of home improvement loans made to moderate-income borrowers in the non-MSA exceeds the percentage of moderate-income families in the non-MSA for the evaluation period of January 1, 1998 through December 31, 2002 but is less than the percentage of moderate-income families in 2003. This is good performance when considering the affordability of housing for a moderate-income person in the non-MSA, as discussed above. The market share of home improvement loans to low- and moderate-income borrowers is less than the bank's overall market share.

Home refinance borrower distribution is good. The percentage of refinance loans made to low-income borrowers in the non-MSA is below the percentage of low-income families in the non-MSA for the entire evaluation period. HNB's market share to low-income borrowers is also below its overall market share. This is adequate performance when considering that there are less opportunities available to low-income individuals for home refinance loans based on the affordability for a low-income person to purchase a home in the non-MSA, as discussed above. The percentage of refinance loans made to moderate-income borrowers in the non-MSA exceeds the percentage of moderate-income families for the evaluation period from 1998 through 2002. It is equal to the percentage in 2003. HNB's market share to moderate-income borrowers significantly exceeds its overall market share in the non-MSA. This performance is good.

## **SW MSA**

Borrower distribution for home purchase lending is good in the MSA when considering the difficulty that low- and moderate-income individuals have in purchasing a home. The median cost of housing in the MSA was \$60,536, based on 1990 census data. The median cost of housing in the non-MSA was \$87,298, based on 2000 census data. The HUD updated median family income for 2002 was \$45,100. This means that a low-income person earned less than \$22,550. A moderate-income person earned at least \$22,550 but less than \$36,080. Additionally, 12% of the households in the non-MSA were below the poverty level.

The percentage of home purchase loans made to low-income borrowers is below the percentage of low-

income families in the MSA for the evaluation period. However, in the MSA, HNB's market share to low-income borrowers significantly exceeds its overall market share. This performance is good when considering the affordability of housing for a low-income person in the MSA as discussed above. The percentage of loans made to moderate-income borrowers significantly exceeds the percentage of moderate-income families in the MSA. HNB's market share to moderate-income borrowers also exceeds its overall market share. This performance is also good.

Home improvement borrower distribution is good. The percentage of home improvement loans made to low-income borrowers in the MSA is less than the percentage of low-income families in the MSA for the entire evaluation period. However, the bank's market share to low-income borrowers is near to the bank's overall market share during this time. This is adequate performance when considering that there are fewer opportunities available to low-income individuals for home improvement loans based on the affordability for a low-income person to purchase a home in the MSA, as discussed above. The percentage of home improvement loans made to moderate-income borrowers in the MSA exceeds the percentage of moderate-income families. HNB's market share to moderate-income borrowers exceeds its overall market share in the MSA. This is good performance.

Home refinance borrower distribution is good. The percentage of refinance loans made to low-income borrowers in the MSA is below the percentage of low-income families in the MSA for the entire evaluation period. However, HNB's market share to low-income borrowers is near to its overall market share. This is adequate performance when considering that there are fewer opportunities available to low-income individuals for home refinance loans based on the affordability for a low-income person to purchase a home in the MSA, as previously discussed. For the evaluation period from 1998 through 2002, the bank's percentage is near to the percentage of moderate-income families in the MSA and for 2003, the bank's percentage exceed the percentage of moderate-income families. HNB's market share to moderate-income borrowers exceeds its overall market share. This performance is good.

### ***Small Loans to Businesses***

Refer to Table 11 in appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to businesses. Only the 2003 data was available for analysis. Previous data during the evaluation was not reported as stated previously and market share data is unavailable.

The borrower distribution of small loans to businesses is excellent, especially when considering the strong competition for these loans from very large regional banks and non-bank financial institutions.

### **Non-MSA W&S**

For 2003, small loans to small businesses (businesses with revenues of \$1 million or less) represents 99% of all small loans to businesses originated by HNB in the non-MSA compared to 67% of the businesses within the non-MSA defined as such. The bank's lending to small businesses substantially exceeds the percentage of small businesses in the non-MSA. The distribution by size of loan shows that a substantial majority of the loan originations are for \$100,000 or less.

### **SW MSA**

In 2003, small loans to small businesses (businesses with revenues of \$1 million or less) represents 98% of all small loans to businesses originated by HNB in the MSA compared to 63% of the businesses

within the MSA defined as such. The bank's lending to small businesses substantially exceeds the percentage of small businesses in the MSA. The distribution by size of loan in the MSA also shows that a substantial majority of the loan originations are for \$100,000 or less. This is another indication that business lending is primarily to small businesses.

## **Community Development Lending**

Community development lending had a neutral impact on the Lending Test and the originated loan was responsive to the needs of the AA.

Refer to Table 1 - Lending Volume in appendix C for the facts and data used to evaluate the bank's level of community development lending.

We determined through our community contacts and our internal research that very limited opportunities for community development lending exist within the AA. Competition for these loans is very strong from both large regional financial institutions and other community banks operating in the area.

We noted the following CD loan for the evaluation period:

- A loan for \$58,000 was for the purchase of a low-income (LI) housing property in the AA. This housing complex is located in Pike County in the Newark-Union, NJ MSA (formerly part of the Newburgh, NY MSA).

## **Product Innovation and Flexibility**

Product innovation and flexibility had a neutral impact on the Lending Test conclusion. The bank offers standard loan products including first-time homebuyer's programs with reduced fees, and down payment and/or closing cost assistance for LMI individuals.



## **Conclusions for Areas Receiving Limited-Scope Reviews**

Based on a limited-scope review, the bank's performance under the Lending Test in the MSA of Pike County is consistent with the bank's overall "satisfactory" performance under the Lending Test. This performance had a positive impact on the overall rating in the Lending Test. Refer to Tables 1 through 13 in appendix C for the facts and data that support these conclusions.

## **INVESTMENT TEST**

### **Conclusions for Areas Receiving Full-Scope Reviews**

The bank's performance under the investment test is rated "Low Satisfactory". Based on full-scope reviews, the bank's performance in the non-MSA W&S and in the SW MSA is adequate.

Refer to Table 14 in appendix C for the facts and data used to evaluate the bank's level of qualified investments.

#### **NON-MSA W&S**

Investments in this non-MSA are adequate. During the evaluation period, HNB made 42 grants and donations totaling \$15M, with several of them benefiting both counties.

These grants and donations addressed the identified needs of the area and were made to several local non-profit organizations for various community development initiatives throughout the AA.

We determined through community contacts and our internal research that there are very limited opportunities for qualified investments and very strong competition for qualified investments exists in the non-MSA.

#### **SW MSA**

Investments in the MSA are also adequate. HNB made 10 grants and donations totaling \$1M. These grants and donations also addressed the identified needs of the area and were made to various local non-profit organizations for various community development initiatives throughout the AA.

Again we determined through community contacts and our internal research that very limited opportunities exist for qualified investments and competition is very strong. Also, the bank has a limited presence in this MSA.

### **Conclusions for Area Receiving Limited-Scope Reviews**

Based on limited-scope reviews, the bank's performance under the Investment Test in Pike County MSA is not inconsistent with the bank's overall "Low Satisfactory" performance under the investment test. In the Pike County MSA the bank's performance is weaker than the bank's overall performance. During the evaluation period, no investments were made in this area. This had a neutral impact on the Investment Test conclusion due to the very limited opportunities in Pike County. Refer to Table 14 in appendix C for the facts and data that support these conclusions.

## **SERVICE TEST**

### **Conclusions for Areas Receiving Full-Scope Reviews**

The bank's performance under the Service Test is rated "Low Satisfactory". Based on full-scope reviews, the bank's performance in the non-MSA S&W and in the SW MSA is adequate.

### **Retail Banking Services**

Refer to Table 15 in appendix C for the facts and data used to evaluate the distribution of the bank's branch delivery system and branch openings and closings.

Banking hours and services provided Monday through Friday are supplemented by Saturday hours at all of the banking facilities. The bank's traditional line of products and services are offered at all branches, including trust and financial services. The bank maintains ATMs at each branch site and at one remote site at a local hospital.

HNB offers a variety of checking account products. One of the products is a no minimum balance, no per check fee, no monthly service charge checking account. The bank's basic personal checking account offers no monthly services charges, normally \$3.00 per month, with a minimum monthly balance of \$300 or more. Additionally, the bank offers a no minimum balance, no monthly service charge checking account product for customers using direct deposit processing services.

HNB introduced its new Internet banking system during the evaluation period and continued its twenty-four hour telephone banking system. Since the bank could not provide specific information on how low- and moderate-income individuals and geographies are impacted by these services, significant weight was not placed on these two alternative delivery systems when drawing conclusions for the full scope AAs under the Service Test.

### **NON-MSA S&W**

HNB's delivery systems are accessible to geographies and individuals of different income levels within this AA based upon population demographics and locations of the bank's branches and ATMs. In the non-MSA S&W, there are no low- or moderate-income geographies. All four branch locations in the non-MSA and all geographies are middle-income. No branches have been closed and one new branch was opened during the evaluation period.

### **SW MSA**

In this MSA, the bank's delivery systems are limited due to the presence of only one branch facility in a middle-income geography. Only 0.48 percent of the population is low-income and only 10.26% of the population is moderate-income in the MSA and these areas are urban with many banking facility opportunities for the population. The bank's branch facility in this MSA is situated in a rural area.

### **Community Development Services**

*HNB's performance in providing CD services to its AA is good, despite the limited opportunities in the AA and the high level of competition from other financial institutions. The bank provides a good level of*

*CD services and its CD services are responsive to the needs in the AA. Bank employees and officers were engaged in thirteen organizations or programs providing technical and financial assistance that benefit low- and moderate-income individuals and economic development.*

HNB participates in a state housing program that educates and assists first time homebuyers with home ownership. This program assists LMI homebuyers with closing costs and down payment assistance, as well as offering reduced interest rates. The bank is recognized as a leader throughout the state in this program offered through the state's housing finance agency.

Employees or directors participated in the following as well:

- An officer serves as a board member of the local economic development authority, active in trying to bring new businesses and new industries to the Wayne County area.
- Another officer serves on the Board of Directors of a non-profit economic development council that promotes business development in the seven county region of northeastern PA.
- Officers also serve on a county housing authority board, which oversees the county's low-income housing projects, and on a county redevelopment authority board, which oversees the revitalization efforts of the downtown areas through low- and moderate-income housing rehabilitation assistance.
- Two officers are involved in two local chamber of commerce organizations as board members. These chambers are currently working to attract new small businesses to the area.
- Officers serve on the boards of several county human service organizations including those agencies overseeing programs for senior citizens with economic needs, drug and alcohol programs, and mental health programs.
- An officer serves as a board member for a local community development block grant fund appropriations committee, administering funds for municipalities, agencies and organizations that assist low- and moderate-income geographies.
- Finally, an officer serves on a local Habitat for Humanity board that builds houses for low-income individuals and provides financing with no interest loans.

## **Conclusions for Areas Receiving Limited-Scope Reviews**

Based on a limited-scope review, the bank's performance under the Service Test in the MSA of Pike County is stronger than the bank's overall "satisfactory" performance under the service test. This is primarily due to the branch presence in a moderate-income geography. The bank also operates another branch in a middle-income geography in the MSA. This performance had a positive impact on the overall rating in the Service Test. Refer to Table 15 in appendix C for the facts and data that support these conclusions.

## Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and non-metropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

<b>Time Period Reviewed</b>	Home Mortgage Lending Test (excludes CD Loans): 01/01/1998 to 12/31/2003 Small Loans to Businesses: 01/01/2003 to 12/31/2003 Investment and Service Tests and CD Loans: 10/22/1998 to 05/10/2004	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
The Honesdale National Bank, Honesdale, PA	Home Mortgage, Small Loans to Businesses and CD loans.	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
None	N/A	N/A
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
Scranton—Wilkes-Barre—Hazleton MSA #4254	Full Scope	N/A
Newark-Union, NJ-PA MSA #3508	Limited Scope	
Non-MSA Counties of Wayne and Susquehanna	Full Scope	

# Appendix B: Market Profiles for Full-Scope Areas

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### Market Profiles for Areas Receiving Full-Scope Reviews

Non-metropolitan Area of Wayne and Susquehanna Counties .....	B-2
Scranton--Wilkes-Barre--Hazleton, PA MSA.....	B-4

## Non-metropolitan Area of Wayne and Susquehanna Counties

Demographic Information for Full-Scope Area: Non-metropolitan Area of Wayne and Susquehanna Counties						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	25	0.00	0.00	100.00	0.00	0.00
Population by Geography	89,960	0.00	0.00	100.00	0.00	0.00
Owner-Occupied Housing by Geography	27,916	0.00	0.00	100.00	0.00	0.00
Businesses by Geography	5,845	0.00	0.00	100.00	0.00	0.00
Farms by Geography	416	0.00	0.00	100.00	0.00	0.00
Family Distribution by Income Level	24,777	19.11	20.48	24.45	35.95	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	9,810	0.00	0.00	100.00	0.00	0.00
Median Family Income = \$41,619 HUD Adjusted Median Family Income for 2003 = \$41,100 Households Below the Poverty Level = 11.72%		Median Housing Value = \$96,639		Unemployment Rate (for PA as of 3/04) = 5.3%		

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2000 U.S. Census, and 2003 HUD updated MFI.

HNB is headquartered in the non-MSA of Wayne County and also operates in the non-MSA of Susquehanna County. Their AA includes 32 census tracts in these counties located in the northeastern region of Pennsylvania. Within Wayne County, HNB is ranked 3<sup>rd</sup> out of ten institutions for its market share of deposits and has 20.83% of the deposits based on the June 30, 2003 FDIC/OTS Summary of Deposits Market Share Report. HNB operates three full service branches, and one remote ATM in this county. All branches also have ATMs on-site.

In Susquehanna County, HNB is ranked 4<sup>th</sup> out of five financial institutions for its market share of deposits and has 8.07% of the deposits based on the June 30, 2003 FDIC/OTS Summary of Deposits Market Share Report. HNB operates one full service branch with an on-site ATM in this county.

Banking competition is very strong for both loans and deposits in the MSA. Competition exists large regional institutions, community banks and credit unions. Major banking competitors in the MSA include:

- Peoples National Bank, ranked 1<sup>st</sup> in deposit share (38.99%) with 5 offices;
- Community Bank & Trust Co., ranked 2<sup>nd</sup> in market share of deposits (28.88%) with 3 offices; and
- NBT Bank, N.A., ranked 3<sup>rd</sup> in deposit share (19.22%) with 6 offices.

HNB offers a traditional line of banking products for loans and deposits. The economy in the area is stable. Major employers in the MSA include the Pennsylvania Department of Corrections, Elk Mountain Ski Resort, numerous local governments, hospitals, and school districts.

A community contact was conducted with a community leader and information was reviewed from two other community groups. The contacts identified the need for small loans for small businesses and affordable housing financing (for both purchases and home improvements) as the primary needs in the area, and thought that the local financial institutions were meeting these needs.

## Scranton--Wilkes-Barre--Hazleton, PA MSA

Demographic Information for Full-Scope Area: Scranton--Wilkes-Barre--Hazleton, PA MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	168	0.60	13.10	73.81	12.50	0.00
Population by Geography	560,625	0.46	10.83	72.65	16.06	0.00
Owner-Occupied Housing by Geography	158,663	0.03	8.30	74.47	17.20	0.00
Businesses by Geography	39,011	3.73	11.86	67.23	17.17	0.00
Farms by Geography	742	0.00	4.18	68.46	27.36	0.00
Family Distribution by Income Level	148,520	19.02	18.75	22.88	39.34	0.00
Distribution of Low- and Moderate- Income Families throughout AA Geographies	56,099	0.37	15.39	74.51	9.73	0.00
Median Family Income HUD Adjusted Median Family Income for 2001 Households Below the Poverty Level	= \$ 43,966 = \$ 45,100 = 11.73% **	Median Housing Value Unemployment Rate		= \$87,298 = 6.6 %		

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2000 U.S. Census, and 2003 HUD updated MFI.

HNB operates in the Scranton--Wilkes-Barre--Hazleton, PA MSA, which includes 168 census tracts in the northeastern region of Pennsylvania. Within this MSA, HNB is ranked 31<sup>st</sup> out of 32 for its market share of deposits and has 0.20% of the deposits based on the June 30, 2003 FDIC/OTS Summary of Deposits Market Share Report. HNB operates one full service branch, a loan production office and one ATM in this MSA.

Banking competition is very strong for both loans and deposits in the MSA. Competition exists from national institutions, large regional institutions, community banks and credit unions. Major banking competitors in the MSA include:

- PNC Bank, N.A., ranked 1<sup>st</sup> in deposit share (20.69%) with 43 offices;
- Wachovia Bank, N.A., ranked 2<sup>nd</sup> in market share of deposits (11.63%) with 19 offices; and
- M&T Bank, ranked 3<sup>rd</sup> in deposit share (8.66%) with 23 offices.

HNB offers a traditional line of banking products for loans and deposits. The economy in the area is stable. Major employers in the MSA include the numerous local governments, hospitals, and school districts.

## Appendix C: Tables of Performance Data

### Content of Standardized Tables



References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the lending test tables, the following are applicable: purchased loans are treated as originations/purchases and market share is the number of loans originated and purchased by the bank as a percentage of the aggregate number of reportable loans originated and purchased by all lenders in the MA/assessment area. Tables without data are not included in this PE.

The following is a listing and brief description of the tables:

- Table 1. Lending Volume** - Presents the number and dollar amount of reportable loans originated and purchased by the bank over the evaluation period by MA/assessment area. Community development loans to statewide or regional entities or made outside the bank’s assessment area may receive positive CRA consideration. Refer to Interagency Q&As \_\_.12(i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such loans. When such loans exist, insert a line item with the appropriate caption, such as “Statewide/Regional” or “Out of Assessment Area,” in the MA/Assessment Area column and record the corresponding numbers and amounts in the “Community Development Loans” column.
- Table 2. Geographic Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.
- Table 3. Geographic Distribution of Home Improvement Loans** - See Table 2.
- Table 4. Geographic Distribution of Home Mortgage Refinance Loans** - See Table 2.
- Table 5. Geographic Distribution of Multifamily Loans** - This table is not applicable and not included due to the lack of bank loans.
- Table 6. Geographic Distribution of Small Loans to Businesses** - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because small business data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank’s assessment area.
- Table 7. Geographic Distribution of Small Loans to Farms** - This table is not applicable and not included.

**Table 8. Borrower Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MA/assessment area. The table also presents market share information based on the most recent aggregate market data available.

**Table 9. Borrower Distribution of Home Improvement Loans** - See Table 8.

**Table 10. Borrower Distribution of Refinance Loans** - See Table 8.

**Table 11. Borrower Distribution of Small Loans to Businesses** - Compares the percentage distribution of the number of small loans (less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to the percentage distribution of businesses with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the business. Market share information is presented based on the most recent aggregate market data available.

**Table 12. Borrower Distribution of Small Loans to Farms** - This table is not applicable and not included.

**Table 13. Geographic and Borrower Distribution of Consumer Loans (OPTIONAL)** - This table is not applicable and not included.

**Table 14. Qualified Investments** - Presents the number and dollar amount of qualified investments made by the bank in each MA/AA. The table separately presents investments made during prior evaluation periods that are still outstanding and investments made during the current evaluation period. Prior-period investments are reflected at their book value as of the end of the evaluation period. Current period investments are reflected at their original investment amount even if that amount is greater than the current book value of the investment. The table also presents the number and dollar amount of unfunded qualified investment commitments. In order to be included, an unfunded commitment must be legally binding and tracked and recorded by the bank's financial reporting system.

A bank may receive positive consideration for qualified investments in statewide/regional entities or made outside of the bank's assessment area. See Interagency Q&As \_\_.12(i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such investments. When such investments exist, insert a line item with the appropriate caption, such as "Statewide/Regional" or "Out of Assessment Area," in the MA/Assessment Area column and record the corresponding numbers and amounts in the "Qualified Investments" column.

**Table 15. Distribution of Branch Delivery System and Branch Openings/Closings** - Compares the percentage distribution of the number of the bank's branches in low-, moderate-, middle-, and upper-income geographies to the percentage of the

population within each geography in each MA/AA. The table also presents data on branch openings and closings in each MA/AA.

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Table 1. Lending Volume

LENDING VOLUME												
Geography: HONESDALE NB												
Evaluation Period: JANUARY 1, 1998 TO DECEMBER 31, 2003												
MA/Assessment Area:	% of Rated Area Loans (#) in MA/AA*T	Home Mortgage		Small Loans to Businesses		Small Loans to Farms		Community Development Loans**		Total Reported Loans		% of Rated Area Deposits in MA/AA***
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	
<b>Full Review:</b>												
Non MSA AA 1998-2002	32.83	934	66,607	0	0	0	0	0	0	934	66,607	84.89
Non MSA AA 2003	57.22	556	43,559	269	23,953	31	1,105	0	0	856	68,617	
Scranton/WB MSA AA 1998-2002	63.62	1,810	132,682	0	0	0	0	0	0	1,810	132,682	6.93
Scranton/WB MSA AA 2003	36.16	458	37,343	83	8,288	0	0	0	0	541	45,631	
<b>Limited Review:</b>												
Newburgh NY MSA AA 1998-2002	3.55	101	8,242	0	0	0	0	0	0	101	8,242	8.18
Newburgh NY MSA AA 2003	6.62	74	5,835	24	3,552	0	0	1	58	99	9,445	

\* For 1998-2002, Loan Data as of December 31, 2002. For 2003, Loan Data as of December 31, 2003. Rated area refers to either the state or multi-state MA rating area.

\*\* The evaluation period for Community Development Loans is From October 22, 1998 to May 10, 2004.

\*\*\* Deposit Data as of June 30, 2003. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

**Table2. Geographic Distribution of Home Purchase Loans**

Geographic Distribution: HOME PURCHASE															Geography: HONESDALE NB					Evaluation Period: JANUARY 1, 1998 TO DECEMBER 31, 2003				
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography*													
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Overall	Low	Mod	Mid	Upp									
<b>Full Review:</b>																								
Non MSA AA 1998-2002	459	27.22	0.00	0.00	0.00	0.00	100.00	100.00	0.00	0.00	3.83	0.00	0.00	3.83	0.00									
Non MSA AA 2003	182	43.65	0.00	0.00	0.00	0.00	100.00	100.00	0.00	0.00	9.64	0.00	0.00	9.64	0.00									
Scranton/WB MSA AA 1998-2002	1,171	69.45	0.01	0.09	6.71	6.83	78.22	72.76	15.05	20.32	3.27	0.00	1.88	3.31	3.57									
Scranton/WB MSA AA 2003	200	47.96	0.03	0.00	7.89	6.50	73.63	71.50	18.45	22.00	2.55	0.00	1.88	2.74	2.30									
<b>Limited Review:</b>																								
Newburgh NY MSA AA 1998-2002	56	3.32	0.00	0.00	26.97	69.64	73.03	30.36	0.00	0.00	0.66	0.00	2.11	0.28	0.00									
Newburgh NY MSA AA 2003	35	8.39	0.00	0.00	24.33	42.86	75.67	57.14	0.00	0.00	1.62	0.00	3.88	1.13	0.00									

\* For 1998-2002, Based on 2002 Peer Mortgage Data: Northeast Region 2. For 2003, based on 2003 Peer Mortgage Data (Eastern).

\*\* Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by the number of owner occupied housing units in the area based on 1990 Census information for 1998-2002, and on 2000 Census information for 2003.

**Table 3. Geographic Distribution of Home Improvement Loans**

Geographic Distribution: HOME IMPROVEMENT		Geography: HONESDALE NB					Evaluation Period: JANUARY 1, 1998 TO DECEMBER 31, 2003					Market Share (%) by Geography*				
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall	Low	Mod	Mid	Upp	
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans						
<b>Full Review:</b>																
Non MSA AA 1998-2002	109	44.49	0.00	0.00	0.00	0.00	100.00	100.00	0.00	0.00	1.30	0.00	0.00	1.30	0.00	
Non MSA AA 2003	31	73.81	0.00	0.00	0.00	0.00	100.00	100.00	0.00	0.00	6.68	0.00	0.00	6.68	0.00	
															1	
Scranton/WB MSA AA 1998-2002	126	51.43	0.01	0.00	6.71	5.56	78.22	88.89	15.05	5.56	0.98	0.00	0.68	1.13	0.48	
Scranton/WB MSA AA 2003	10	23.81	0.03	0.00	7.89	10.00	73.63	80.00	18.45	10.00	0.38	0.00	0.47	0.42	0.20	
<b>Limited Review:</b>																
Newburgh NY MSA AA 1998-2002	10	4.08	0.00	0.00	26.97	60.00	73.03	40.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Newburgh NY MSA AA 2003	1	2.38	0.00	0.00	24.33	0.00	75.67	100.00	0.00	0.00	0.36	0.00	0.00	0.47	0.00	

\* For 1998-2002, Based on 2002 Peer Mortgage Data: Northeast Region 2. For 2003, Based on 2003 Peer Mortgage Data (Eastern).

\*\* Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by number of owner occupied housing units in the area based on 1990 Census information for 1998-2002, and 2000 Census information for 2003.

**Table 4. Geographic Distribution of Home Mortgage Refinance Loans**

Geographic Distribution: HOME MORTGAGE REFINANCE															Geography: HONESDALE NB					Evaluation Period: JANUARY 1, 1998 TO DECEMBER 31, 2003				
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography*													
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Overall	Low	Mod	Mid	Upp									
<b>Full Review:</b>																								
Non MSA AA 1998-2002	366	40.04	0.00	0.00	0.00	0.00	100.00	100.00	0.00	0.00	2.89	0.00	0.00	2.89	0.00									
Non MSA AA 2003	343	54.53	0.00	0.00	0.00	0.00	100.00	100.00	0.00	0.00	7.43	0.00	0.00	7.43	0.00									
Scranton/WB MSA AA 1998-2002	513	56.13	0.01	0.39	6.71	4.68	78.22	71.15	15.05	23.78	0.98	0.00	0.53	0.97	1.09									
Scranton/WB MSA AA 2003	248	39.43	0.03	0.40	7.89	3.23	73.63	71.77	18.45	24.60	1.16	14.29	0.63	1.26	1.02									
<b>Limited Review:</b>																								
Newburgh NY MSA AA 1998-2002	35	3.83	0.00	0.00	26.97	65.71	73.03	34.29	0.00	0.00	0.41	0.00	1.32	0.17	0.00									
Newburgh NY MSA AA 2003	38	6.04	0.00	0.00	24.33	52.63	75.67	47.37	0.00	0.00	0.92	0.00	2.43	0.55	0.00									

\* For 1998-2002, Based on 2002 Peer Mortgage Data: Northeast Region 2. For 2003, Based on 2003 Peer Mortgage Data (Eastern).

\*\* Home mortgage refinance loans originated and purchased in the MA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by number of owner occupied housing units in the area based on 1990 Census information for 1998-2002, and on 2000 Census information for 2003.

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**Table 6. Geographic Distribution of Small Loans to Businesses**

Geographic Distribution: SMALL LOANS TO BUSINESSES			Geography: HONSDALE NB				Evaluation Period: JANUARY 1, 1998 TO DECEMBER 31, 2003					Market Share (%) by Geography*				
MA/Assessment Area:	Total Small Business Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall	Low	Mod	Mid	Upp	
	#	% of Total**	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans						
<b>Full Review:</b>																
Non MSA AA 1998-2002	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	
Non MSA AA 2003	269	71.54	0.00	0.00	0.00	0.00	100.00	100.00	0.00	0.00	8.02	0.00	0.00	9.36	0.00	
<b>Limited Review:</b>																
Scranton/WB MSA AA 1998-2002	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	
Scranton/WB MSA AA 2003	83	22.07	3.73	8.43	11.10	1.20	66.90	62.65	18.27	27.71	0.53	1.60	0.08	0.52	0.75	
<b>Limited Review:</b>																
Newburgh NY MSA AA 1998-2002	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	
Newburgh NY MSA AA 2003	24	6.38	0.00	0.00	12.73	41.67	87.27	58.33	0.00	0.00	1.61	0.00	4.24	1.28	0.00	

\* For 1998-2002, Based on 2002 Peer Small Business Data – U S and PR. For 2003, Based on 2003 Peer Small Business Data -- US and PR

\*\* Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

\*\*\* Source Data - Dun and Bradstreet (2002 and 2003).



**Table 8. Borrower Distribution of Home Purchase Loans**

Borrower Distribution: HOME PURCHASE		Geography: HONSDALE NB					Evaluation Period: JANUARY 1, 1998 TO DECEMBER 31, 2003					Market Share*				
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall	Low	Mod	Mid	Upp	
	#	% of Total**	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****						
<b>Full Review:</b>																
Non MSA AA 1998-2002	459	27.22	19.07	7.24	18.70	21.49	23.99	33.77	38.24	37.50	4.14	10.00	7.22	4.46	3.13	
Non MSA AA 2003	182	43.65	19.02	7.22	20.46	20.56	24.44	25.56	36.08	46.67	10.54	32.89	15.07	11.28	7.06	
<b>Limited Review:</b>																
Scranton/WB MSA AA 1998-2002	1,171	69.45	18.66	11.37	18.45	30.94	24.36	34.70	38.53	22.99	3.65	5.62	5.85	4.39	1.54	
Scranton/WB MSA AA 2003	200	47.96	18.74	6.50	18.57	27.50	22.82	33.00	39.87	33.00	2.89	3.78	3.97	3.23	1.62	
<b>Limited Review:</b>																
Newburgh NY MSA AA 1998-2002	56	3.32	25.83	21.43	24.02	33.93	27.19	16.07	22.96	28.57	0.75	1.82	1.41	0.60	0.31	
Newburgh NY MSA AA 2003	35	8.39	22.12	23.53	24.38	14.71	25.71	32.35	27.79	29.41	1.83	7.09	1.49	1.59	1.17	

\* For 1998-2002, Based on 2002 Peer Mortgage Data: Northeast Region 2. For 2003, Based on 2003 Peer Mortgage Data (Eastern).

\*\* As a percentage of loans with borrower income information available.

\*\*\* For 1998-2002, Percentage of Families is based on the 1990 Census information. For 2003, Percentage of Families is based on the 2000 Census information.

\*\*\*\* Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

**Table 9. Borrower Distribution of Home Improvement Loans**

Borrower Distribution: HOME IMPROVEMENT		Geography: HONESDALE NB					Evaluation Period: JANUARY 1, 1998 TO DECEMBER 31, 2003					Market Share*				
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall	Low	Mod	Mid	Upp	
	#	% of Total**	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****						
<b>Full Review:</b>																
Non MSA AA 1998-2002	109	44.49	19.07	14.68	18.70	24.77	23.99	19.27	38.24	41.28	1.38	0.00	0.99	1.46	1.74	
Non MSA AA 2003	31	73.81	19.02	0.00	20.46	9.68	24.44	12.90	36.08	77.42	6.94	5.13	2.83	4.88	11.17	
Scranton/WB MSA AA 1998-2002	126	51.43	18.66	7.20	18.45	24.00	24.36	36.00	38.53	32.80	1.05	0.93	1.56	1.42	0.63	
Scranton/WB MSA AA 2003	10	23.81	18.74	10.00	18.57	20.00	22.82	30.00	39.87	40.00	0.39	0.25	0.35	0.59	0.34	
<b>Limited Review:</b>																
Newburgh NY MSA AA 1998-2002	10	4.08	25.83	11.11	24.02	33.33	27.19	22.22	22.96	33.33	0.00	0.00	0.00	0.00	0.00	
Newburgh NY MSA AA 2003	1	2.38	22.12	0.00	24.38	0.00	25.71	100.00	27.79	0.00	0.38	0.00	1.67	0.00	0.00	

\* For 1998-2002, Based on 2002 Peer Mortgage Data: Northeast Region 2. For 2003, Based on 2003 Peer Mortgage Data (Eastern).

\*\* As a percentage of loans with borrower income information available.

\*\*\*For 1998-2002, Percentage of Families is based on the 1990 Census information. For 2003, Percentage of Families is based on the 2000 Census information.

\*\*\*\* Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

**Table 10. Borrower Distribution of Home Mortgage Refinance Loans**

Borrower Distribution: HOME MORTGAGE REFINANCE		Geography: HONESDALE NB					Evaluation Period: JANUARY 1, 1998 TO DECEMBER 31, 2003					Market Share*				
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers							
	#	% of Total**	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	Overall	Low	Mod	Mid	Upp	
<b>Full Review:</b>																
Non MSA AA 1998-2002	366	40.04	19.07	3.58	18.70	20.39	23.99	26.45	38.24	49.59	3.22	0.87	5.31	3.74	2.70	
Non MSA AA 2003	343	54.53	19.02	2.55	20.46	12.43	24.44	25.74	36.08	59.17	8.36	7.20	10.71	9.61	7.05	
Scranton/WB MSA AA 1998-2002	513	56.13	18.66	3.13	18.45	16.44	24.36	27.98	38.53	52.45	1.10	0.86	1.20	1.27	1.01	
Scranton/WB MSA AA 2003	248	39.43	18.74	1.63	18.57	16.67	22.82	28.05	39.87	53.66	1.33	1.11	1.45	1.68	1.10	
<b>Limited Review:</b>																
Newburgh NY MSA AA 1998-2002	35	3.83	25.83	14.29	24.02	34.29	27.19	11.43	22.96	40.00	0.48	0.00	1.35	0.17	0.37	
Newburgh NY MSA AA 2003	38	6.04	22.12	18.42	24.38	21.05	25.71	23.68	27.79	36.84	1.10	2.75	1.08	1.33	0.54	

\* For 1998-2002, Based on 2002 Peer Mortgage Data: Northeast Region 2. For 2003, Based on 2003 Peer Mortgage Data (Eastern).

\*\* As a percentage of loans with borrower income information available.

\*\*\* For 1998-2002, Percentage of Families is based on the 1990 Census information. For 2002, Percentage of Families is based on the 2000 Census information.

\*\*\*\* Home mortgage refinance loans originated and purchased in the MA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

**Table11. Borrower Distribution of Small Loans to Businesses**

Borrower Distribution: SMALL LOANS TO BUSINESSES		Geography: HONESDALE NB			Evaluation Period: JANUARY 1, 1998 TO DECEMBER 31, 2003				
MA/Assessment Area:	Total Small Loans to Businesses		Businesses With Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size			Market Share*	
	#	% of Total**	% of Businesses***	% BANK Loans****	\$100,000 or less	> \$100,000 to \$250,000	> \$250,000 to \$1,000,000	All	Rev\$ 1 Million or Less
<b>Full Review:</b>									
Non MSA AA 1998-2002	NA	NA	NA	NA	NA	NA	NA	NA	NA
Non MSA AA 2003	269	71.54	68.74	99.26	76.21	15.24	8.55	8.02	17.19
<b>Limited Review:</b>									
Scranton/WB MSA AA 1998-2002	NA	NA	NA	NA	NA	NA	NA	NA	NA
Scranton/WB MSA AA 2003	83	22.07	63.04	97.59	65.06	30.12	4.82	0.53	1.44
<b>Limited Review:</b>									
Newburgh NY MSA AA 1998-2002	NA	NA	NA	NA	NA	NA	NA	NA	NA
Newburgh NY MSA AA 2003	24	6.38	65.95	91.67	41.67	41.67	16.67	1.61	4.19

\* For 1998-2002, Based on 2002 Peer Small Business Data – US and PR. For 2003, Based on 2003 Peer Small Business Data -- US and PR

\*\* Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

\*\*\* Businesses with revenues of \$1 million or less as a percentage of all businesses (Source D&B – 2002 and 2003).

\*\*\*\* Small loans to businesses with revenues of \$1 million or less as a percentage of all loans reported as small loans to businesses.

**Table 14. Qualified Investments**

QUALIFIED INVESTMENTS									
Geography: HONESDALE NB									
Evaluation Period: OCTOBER 22, 1998 TO MAY 10, 2004									
MA/Assessment Area:	Prior Period Investments*		Current Period Investments		Total Investments			Unfunded Commitments**	
	#	\$(000's)	#	\$(000's)	#	\$(000's)	% of Total	#	\$(000's)
<b>Full Review:</b>									
Non MSA AA 1998-2002	0	0	0	0	0	0	0.00	0	0
Non MSA AA 2003	0	0	42	15	42	15	93.75	0	0
Scranton/WB MSA AA 1998-2002	0	0	0	0	0	0	0.00	0	0
Scranton/WB MSA AA 2003	0	0	10	1	10	1	6.25	0	0
<b>Limited Review:</b>									
Newburgh NY MSA AA 1998-2002	0	0	0	0	0	0	0.00	0	0
Newburgh NY MSA AA 2003	0	0	0	0	0	0	0.00	0	0

\* 'Prior Period Investments' means investments made in a previous evaluation period that are outstanding as of the examination date.

\*\* 'Unfunded Commitments' means legally binding investment commitments that are tracked and recorded by the institution's financial reporting system.

**Table 15. Distribution of Branch Delivery System and Branch Openings/Closings**

DISTRIBUTION OF BRANCH DELIVERY SYSTEM AND BRANCH OPENINGS/CLOSINGS																	
Geography: HONSDALE NB																	
Evaluation Period: OCTOBER 22, 1998 TO MAY 10, 2004																	
MA/Assessment Area:	Deposits	Branches						Branch Openings/Closings						Population			
	% of Rated Area Deposits in AA	# of BANK Branches	% of Rated Area Branches in AA	Location of Branches by Income of Geographies (%)				# of Branch Openings	# of Branch Closings	Net change in Location of Branches (+ or -)				% of Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
<b>Full Review:</b>																	
Non MSA AA 1998-2002	100.00	3	100	0.00	0.00	100.00	0.00	0	0	0	0	0	0	0.00	0.00	100.00	0.00
Non MSA AA 2003	84.89	4	57.14	0.00	0.00	100.00	0.00	1	0	0	0	1	0	0.00	0.00	100.00	0.00
<b>Limited Review:</b>																	
Scranton/WB MSA AA 1998-2002	0.00	0	0	0.00	0.00	0.00	0.00	0	0	0	0	0	0	0.48	9.54	75.26	14.73
Scranton/WB MSA AA 2003	6.93	1	14.29	0.00	0.00	100.00	0.00	1	0	0	0	1	0	0.48	10.26	72.11	17.17
Newburgh NY MSA AA 1998-2002	0.00	0	0	0.00	0.00	0.00	0.00	0	0	0	0	0	0	0.00	25.26	74.74	0.00
Newburgh NY MSA AA 2003	8.18	2	28.57	0.00	50.00	50.00	0.00	0	0	0	0	0	0	0.00	22.25	77.75	0.00

