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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC

## **Public Disclosure**

October 8, 1997

# **Community Reinvestment Act Performance Evaluation**

**FNB Bank, N.A.  
Charter Number: 325  
Corner of Mill and Bloom Sts.  
P.O. Box 279  
Danville, Pennsylvania 17821-0279**

**Office of the Comptroller of the Currency  
Northern Pennsylvania Field Office  
100 Hazle Street, Suite 202  
Wilkes-Barre, Pennsylvania 18702**

**NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.**

## General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **FNB Bank, N.A.** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **October 8, 1997**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. 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:

- lending levels reflect good responsiveness to the credit needs of the community;
- a substantial majority of all loan originations, over 90%, are within the bank's assessment area;
- the geographic distribution of loans reflects good penetration throughout the assessment area;
- loans are adequately distributed among borrowers of different income levels and businesses of different sizes; and
- all banking services are readily accessible to the entire assessment area through the bank's branch network; service accessibility improved during this evaluation period by adding a branch in a moderate-income geography.

The following table indicates the performance level of **FNB Bank, N.A.** with respect to the lending, investment, and service tests.

| Performance Levels        | FNB Bank, N.A.<br>Performance Tests |                 |              |
|---------------------------|-------------------------------------|-----------------|--------------|
|                           | Lending Test*                       | Investment Test | Service Test |
| Outstanding               |                                     |                 |              |
| High Satisfactory         |                                     |                 | X            |
| Low Satisfactory          | x                                   | x               |              |
| Needs to Improve          |                                     |                 |              |
| Substantial Noncompliance |                                     |                 |              |

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

## Description of Institution

FNB Bank, N.A. (FNB) is primarily a retail bank headquartered in Danville, Pennsylvania with assets totaling nearly \$289 million. The bank operates eight branches in central Pennsylvania, in an area southwest of Wilkes-Barre and southeast of Williamsport. FNB is a full service bank whose primary credit products are residential mortgages, consumer, and small business loans. The loan portfolio represents 70% of total assets and is divided as follows: 63% residential mortgages, 21% consumer loans, and 16% commercial loans. There are no legal or financial impediments that limit the bank's ability to help meet the community's credit needs.

FNB is a subsidiary of Fulton Financial Corporation (FFC). FFC, headquartered in Lancaster, Pennsylvania, has assets of \$4 billion. They operate nine banks in Pennsylvania, Maryland, Delaware, and New Jersey.

During this evaluation period, FNB closed one branch in a middle-income geography in October of 1996. There are two other FNB branches in close proximity to serve those customers. They also acquired two branches in Columbia County in September of 1997, marking their first presence in that county.

## Description of Assessment Area

FNB designated two assessment areas. The first area includes all of Montour, Northumberland, and Lycoming counties. The second area includes Columbia County and a small portion of Luzerne County, the southwestern border contiguous to Columbia County. The assessment area meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies. The assessment areas encompass two MSAs and a non-MSA portion of Pennsylvania. Lycoming County MSA 9140 has a HUD adjusted median family income of \$35,500. A small portion of the Luzerne and Columbia County MSA 7560, with a HUD adjusted median family income of \$37,700, is also included. Montour and Northumberland counties, non-MSA areas, have a HUD adjusted median family income of \$34,500. Both assessment areas encompass a total of 78 geographies with the following income characteristics: 15% moderate-income; 76% middle-income; and 9% upper-income. See the separate MSA conclusions for more information on the individual assessment areas.

According to community contacts, the primary credit needs are affordable housing and small business lending. The area's total population is 309,375 and the HUD adjusted median family income is \$35,692. Available housing in the assessment area consists primarily (83%) of 1-4 family units while multifamily housing units accounts for 6%. Only 66% of total housing is owner occupied. The median housing price is \$50,338. The assessment area's unemployment rate closely parallels the state average of 6%. Primary

competitors are Northern Central Bank, Montour Bank, First National Trust Bank, Union National Bank, and two credit unions. Other competitors include branches of CoreStates Bank, N.A. and Pennsylvania National Bank. Major employers are Geisinger Medical Center in Montour County, Merck and Company in Northumberland County, Susquehanna Health System in Lycoming County and Magee Industrial Enterprises, Inc. in Columbia County.

## **Conclusions with Respect to Performance Tests**

### **Scope of Review:**

This review covered the time period from January 1, 1996 through September 30, 1997. All loans required to be reported under the Home Mortgage Disclosure Act (HMDA), small business loans, and community development loans originated during this period were evaluated. HMDA reportable loans are those used for housing purposes. Small business loans include those secured by non-farm nonresidential properties and for commercial and industrial purposes. During this review period, FNB originated 964 HMDA reportable loans totaling \$39 million and 84 small business loans totaling \$15 million. Investments and services purchased, matured, and initiated during this period were also evaluated.

## **LENDING TESTS**

### **Lending Activity**

FNB's average loan-to-deposit (LTD) ratio from December 31, 1995 through September 30, 1997 is 87%. The national peer average over the same time period is 71%. FNB actively sells residential mortgages on the secondary market so their volume of originations is higher than the LTD ratio suggests.

The volume of FNB's lending activity within their assessment area indicates good responsiveness to the credit needs of the assessment area. Identified credit needs, according to community contacts, are affordable housing and small business loans. A substantial majority of housing and small business loan originations during this review period were within the assessment area. Affordable housing program loans account for nearly 10% of the bank's total HMDA loans. The table below shows that 97% of the number and 91% of the dollar amount of these loans were made within the assessment area.

| Lending within the Assessment Area<br>1/1/96 through 8/31/97 |            |                      |        |
|--------------------------------------------------------------|------------|----------------------|--------|
|                                                              | HMDA Loans | Small Business Loans | Total  |
| Number of Loans in AA                                        | 936        | 82                   | 1,018  |
| Total # of Loans                                             | 964        | 84                   | 1,048  |
| % of # Loans within AA/<br>Total # of Loans                  | 97         | 98                   | 97     |
| Dollar Amount of Loans<br>within AA (000s)                   | 37,330     | 11,391               | 48,721 |
| Total Dollar Amount of<br>Loans (000s)                       | 38,888     | 14,691               | 53,579 |
| % of \$ Amt of Loans<br>within AA/<br>Total \$ Amt of Loans  | 96%        | 78%                  | 91%    |

**Geographic Distribution of Loans**

The bank’s geographic distribution of loans reflects good penetration throughout the assessment area. Loan originations are distributed in relation to the assessment area’s income characteristics. This conclusion is based on our geographic analysis of all HMDA and small business loan originations. The table below shows loan originations according to the income characteristics of the geographies where they were made.

| Geographic Distribution of Loan Originations |               |                  |                      |                  |                                    |
|----------------------------------------------|---------------|------------------|----------------------|------------------|------------------------------------|
| Income Level                                 | HMDA Loans    |                  | Small Business Loans |                  | Distribution of<br>Assessment Area |
|                                              | # of<br>Loans | Dollar<br>Amount | # of<br>Loans        | Dollar<br>Amount |                                    |
| Low                                          | 0%            | 0%               | 0%                   | 0%               | 0%                                 |
| Moderate                                     | 16%           | 13%              | 14%                  | 4%               | 15%                                |
| Middle                                       | 79%           | 80%              | 84%                  | 96%              | 76%                                |
| Upper                                        | 5%            | 7%               | 2%                   | 0%               | 9%                                 |
| Total                                        | 100%          | 100%             | 100%                 | 100%             | 100%                               |

## Borrower's Profile

FNB has an adequate record of lending to borrowers of all income levels and to businesses of all sizes. This conclusion is supported by our analysis of HMDA and small business loans made within the assessment area. The table below shows the distribution for the number of HMDA loans made within the assessment area according to the borrowers' income level compared to the distribution of families at different income levels within the assessment area. The relatively high median price of housing in the assessment area contributed to the low percentage of HMDA loan originations to low- and moderate-income families. The percentages reflected are based on all HMDA loans made within the assessment area.

| HMDA Loan Originations by Level of Borrower Income |                 |            |                                                   |
|----------------------------------------------------|-----------------|------------|---------------------------------------------------|
| Income Level                                       | Number of Loans | Percentage | Percentage of Families within the Assessment Area |
| Low                                                | 43              | 5%         | 17%                                               |
| Moderate                                           | 164             | 18%        | 21%                                               |
| Middle                                             | 284             | 30%        | 26%                                               |
| Upper                                              | 445             | 47%        | 36%                                               |
| Total                                              | 936             | 100%       | 100%                                              |

Our analysis of business loan activity during this evaluation period indicates that FNB has a good record of lending to small businesses. A small business is defined as one with \$1 million or less in annual revenues. The following table shows that most of the small business loan originations from January 1, 1996 through September 30, 1997 were to small businesses.

| Distribution of Small Business Loans by Business Size |                 |      |                            |      |
|-------------------------------------------------------|-----------------|------|----------------------------|------|
| Gross Annual Revenues                                 | Number of Loans | %    | \$ Amount of Loans (000's) | %    |
| ≤ \$1 million                                         | 68              | 81%  | \$9,763                    | 66%  |
| > \$1 million                                         | 16              | 19%  | \$4,928                    | 34%  |
| Totals                                                | 84              | 100% | \$14,691                   | 100% |

The table below designates the same loans according to the original size of the loan.

| Distribution of Small Business Loans by Size of Loan |            |      |                              |      |
|------------------------------------------------------|------------|------|------------------------------|------|
| Original Loan Amount<br>(000's)                      | # of Loans | %    | \$ Amount of Loans<br>(000s) | %    |
| ≤ \$100                                              | 68         | 81%  | 2,461                        | 17%  |
| > \$100 to \$250                                     | 10         | 12%  | 1,380                        | 9%   |
| > \$250                                              | 6          | 7%   | 10,850                       | 74%  |
| Totals                                               | 84         | 100% | 14,691                       | 100% |

### Community Development Lending

According to a community contact in Montour County, community development loan opportunities are limited. Based on the limited supply, FNB made an adequate level of community development loans during this evaluation period. Although FNB had no reportable community development loans, they are making loans that meet the definition of community development according to the CRA regulation, 12 CFR 25.12(h). They made two loans totaling \$435 thousand to the Danville Child Development Center (DCDC). DCDC provides special needs and after school programs to children. Montour and Columbia Counties contract with DCDC to provide these services to economically disadvantaged families in conjunction with the Pennsylvania Department of Welfare.

FNB also participates in the "Downtown Shamokin Revitalization Program" which provides funds to attract business to the area. One loan for \$50 thousand was approved during this review period.

### Innovative or Flexible Lending Practices

FNB makes regular use of innovative and flexible lending practices in order to serve the credit needs of the assessment area. The bank offers four affordable housing programs through the Pennsylvania Housing Finance Authority (PHFA). These programs provide below market rates, fees, and costs for applicants meeting eligibility requirements. During 1996, 41 loans totaling \$1,844 thousand were granted through these programs; 33 loans totaling \$1,604 thousand were granted during the first nine months of 1997.

The bank also implemented a small dollar loan amount program during this evaluation period; loans are granted in amounts less than \$1 thousand dollars. According to a community contact, this program was offered in response to an identified community credit need.



## **INVESTMENT TEST**

Qualified investment opportunities are limited within the bank's assessment area, according to community contacts and bank management. The bank had no investments during this review period that qualify under their community development investment definition. However, FNB has an adequate level of qualified community development grants. During this evaluation period, they provided \$4 thousand in grants to support the Danville Area Community Center (DACC) which provides recreational opportunities within the assessment area. The funds are used to subsidize memberships to children from low-to-moderate income families. Additional funds are committed through the year 2000.

## **SERVICE TEST**

FNB's services are readily accessible to all portions of the bank's assessment areas. Their eight branches are located throughout the assessment area. FNB operates three branches in Montour County, two branches in Northumberland County, two in Columbia County, and one in Lycoming County. All locations, except for the main office in Danville, include drive-in facilities and automatic teller machines. Branch distribution compares favorably to the demographic composition of the assessment areas. Two of the eight branches, or 25%, are in moderate-income census tracts and the rest are in middle-income geographies. During this review period, one branch was closed and two were acquired. A Montour County branch in a middle-income geography was closed and the two Columbia county branches were acquired. One of the new branches is in a moderate-income geography and the other is in a middle-income geography.

FNB offers extended hours at all locations, including Saturday hours. All branches offer full banking services. Two low cost checking accounts are offered to benefit low-to-moderate income families. The "Budget" checking account has no monthly service charge but does charge \$0.40 per check or withdrawal. The account is attractive to customers that write few checks per month. Government checks are cashed at all branches for anyone with proper identification. FNB also began offering telephone banking during this evaluation period. This service can be used for account information, funds transfers, general loan and deposit information including current rates, and branch locations and office hours. The bank also issues food stamps at their three branches in Montour County.

As a community development service, bank officers provide credit and budgeting counseling to the community, in conjunction with Penn State's Cooperative Extension Service.

## **FAIR LENDING REVIEW**

A concurrent fair lending review did not identify any violations of anti-discrimination laws and regulations. FNB's fair lending controls and practices are effective at ensuring compliance.

## Metropolitan Statistical Areas

### Conclusions with Respect to Performance Tests in MSA #9140

FNB's performance in Lycoming County is consistent with the bank's overall performance. FNB serves this community through one full service office located in a moderate-income census tract in Williamsport. The entire MSA is within the bank's designated assessment area. This MSA includes all of Lycoming County which is mostly rural except for the city of Williamsport. The total population of the area is 118,710 and the median family income is \$35,500. There are 29 census tracts; 14% are moderate-income, 76% are middle-income, and 10% are upper-income. The medium housing cost is \$53,414 and owner occupied units comprise 63% of available housing.

### Lending Tests

A total of 162 HMDA reportable loans totaling \$8,625 thousand originated in MSA 9140 during this evaluation period. Eleven small business loans totaling \$1,421 thousand were made in this area. The geographic distribution of these loans is shown in the table below.

| Geographic Distribution of Loan Originations<br>MSA 9140 |            |               |                      |               |                                 |
|----------------------------------------------------------|------------|---------------|----------------------|---------------|---------------------------------|
| Income Level                                             | HMDA Loans |               | Small Business Loans |               | Distribution of Assessment Area |
|                                                          | # of Loans | Dollar Amount | # of Loans           | Dollar Amount |                                 |
| Low                                                      | 0%         | 0%            | 0%                   | 0%            | 0%                              |
| Moderate                                                 | 2%         | 2%            | 27%                  | 11%           | 14%                             |
| Middle                                                   | 90%        | 90%           | 73%                  | 89%           | 76%                             |
| Upper                                                    | 8%         | 8%            | 0%                   | 0%            | 10%                             |
| Total                                                    | 100%       | 100%          | 100%                 | 100%          | 100%                            |

The level of HMDA loan originations in moderate-income geographies is less than the demographics suggest. FNB's only branch in this MSA is in the city of Williamsport, which has an extremely competitive banking climate. The opportunities available for housing loans in the immediate area is also limited; less than 50% of available housing is owner occupied.

FNB's performance in lending to borrowers of different income levels, based on HMDA loans, is reflected in the table below. The volume of HMDA loans to low- and moderate-income families is less than the demographics suggest. One cause is the relatively high median cost of housing in the assessment area.

| HMDA Loan Originations by Level of Borrower Income<br>MSA 9140 |               |      |               |      |                                         |
|----------------------------------------------------------------|---------------|------|---------------|------|-----------------------------------------|
|                                                                | 1996          |      | 1997          |      | % of Families in the<br>Assessment Area |
| Income Level                                                   | # of<br>loans | %    | # of<br>loans | %    |                                         |
| Low                                                            | 5             | 7%   | 3             | 3%   | 17%                                     |
| Moderate                                                       | 11            | 14%  | 9             | 11%  | 19%                                     |
| Middle                                                         | 22            | 29%  | 26            | 30%  | 26%                                     |
| Upper                                                          | 38            | 50%  | 48            | 56%  | 37%                                     |
| Total                                                          | 76            | 100% | 86            | 100% | 100%                                    |

FNB's community development loans and investments in this MSA are limited. Services offered in this area are comparable to those offered throughout the bank's assessment area.

## Conclusions with Respect to Performance Tests in MSA #7560

FNB's performance in MSA 7560 is consistent with the bank's overall performance. FNB serves this community through two offices in Columbia County - one in a moderate-income census tract and another in a middle-income tract. This MSA includes all of Lackawanna, Luzerne and Columbia counties but only Columbia and five census tracts in Luzerne County are included in the bank's assessment area. The portion of the assessment area served is mostly rural. The total population of the area is 76,159 and the median family income is \$37,700. There are 20 census tracts; 10% are moderate-income, 85% are middle-income, and 5% are upper-income. The median housing cost is \$55,463 and owner occupied units comprise 68% of available housing.

### Lending Tests

A total of 130 HMDA reportable loans totaling \$5,324 thousand originated in MSA 7560 during this evaluation period. Eleven small business loans totaling \$4,567 thousand were made in this area. The table below is based on a sample of 37% of the HMDA loans and 100% of the small business loans. The table includes these loans according to their geographic distribution.

| Geographic Distribution of Loan Originations<br>MSA 7560 |            |               |                      |               |                                 |
|----------------------------------------------------------|------------|---------------|----------------------|---------------|---------------------------------|
| Income Level                                             | HMDA Loans |               | Small Business Loans |               | Distribution of Assessment Area |
|                                                          | # of Loans | Dollar Amount | # of Loans           | Dollar Amount |                                 |
| Low                                                      | 0%         | 0%            | 0%                   | 0%            | 0%                              |
| Moderate                                                 | 6%         | 3%            | 18%                  | 3%            | 10%                             |
| Middle                                                   | 93%        | 95%           | 82%                  | 97%           | 85%                             |
| Upper                                                    | 1%         | 2%            | 0%                   | 0%            | 5%                              |
| Total                                                    | 100%       | 100%          | 100%                 | 100%          | 100%                            |

FNB's performance in lending to borrowers of different income levels, based on HMDA loans, is reflected in the table that follows. The volume of these loans to low- and moderate-income families is less than the demographics suggest because of the relatively high housing cost in this assessment area.

| HMDA Loan Originations by Level of Borrower Income<br>MSA 7560 |            |      |            |      |                                      |
|----------------------------------------------------------------|------------|------|------------|------|--------------------------------------|
|                                                                | 1996       |      | 1997       |      |                                      |
| Income Level                                                   | # of loans | %    | # of loans | %    | % of Families in the Assessment Area |
| Low                                                            | 3          | 5%   | 6          | 8%   | 17%                                  |
| Moderate                                                       | 8          | 14%  | 6          | 8%   | 22%                                  |
| Middle                                                         | 19         | 32%  | 21         | 30%  | 27%                                  |
| Upper                                                          | 29         | 49%  | 38         | 54%  | 34%                                  |
| Total                                                          | 59         | 100% | 71         | 100% | 100%                                 |

FNB's community development loans and investments in this MSA are limited. Services offered in this area are comparable to those offered throughout the bank's assessment area.

**SCOPE OF EXAMINATION**

|                                                                     |                                            |                              |                                                                 |
|---------------------------------------------------------------------|--------------------------------------------|------------------------------|-----------------------------------------------------------------|
| <b>Time Period Reviewed</b>                                         | January 1, 1996 through September 30, 1997 |                              |                                                                 |
| <b>Financial Institution</b>                                        |                                            |                              | <b>Products Reviewed</b>                                        |
| FNB Bank, N.A.<br>Danville, PA                                      |                                            |                              | Mortgage, small business,<br>and community<br>development loans |
| <b>List of Assessment Areas and Type of Examination</b>             |                                            |                              |                                                                 |
| <b>Assessment Area</b>                                              | <b>Type of Exam</b>                        | <b>Branches Visited</b>      | <b>Other Information</b>                                        |
| Montour and Columbia counties<br>Lycoming and Luzerne/Columbia MSAs | On-site                                    | Main Office,<br>Danville, PA |                                                                 |