



PUBLIC DISCLOSURE

September 15, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Turbotville National Bank
Charter Number: 9803

4710 State Rt. 54
Turbotville, Pennsylvania 17772-0037

Office of the Comptroller of the Currency

1150 Northbrook Drive, Suite 303
Trevese, PA 19053

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The Lending Test is rated Satisfactory.

The major factors that support this rating include:

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, lending-related activities, and Assessment Area (AA) needs;
- A substantial majority of the primary loan products were originated within the institution's AA;
- The distribution of borrowers, given the demographics of the AA, reflects reasonable penetration among individuals of different income levels; and
- There were no complaints regarding Community Reinvestment Act (CRA) activities.

Scope of Examination

The Office of the Comptroller of the Currency (OCC) evaluated Turbotville National Bank (TNB) under the Small Bank examination procedures. The Lending Test for TNB covered an evaluation of TNB's performance from January 1, 2012 through December 31, 2013.

Changes affecting the data used to evaluate CRA performance have been phased in over several years as Federal banking agencies analyze, and adapt to, the most recent census data. These changes continue to impact CRA performance evaluation (PE) data analysis. In February 2013, the Office of Management and Budget revised metropolitan area and census tract geographic definitions and boundaries. The 2010 census data changes beginning on January 1, 2012, resulted in changes in AA delineation and CRA reportable data, and geocoding from prior years. Thus, a CRA PE would require two separate analyses: one for the January 1, 2011 to December 31, 2011 performance period, and another for the January 1, 2012 to December 31, 2013 performance period. However, the OCC conducted this PE using a limited data analysis, evaluating only the data from January 1, 2012 to December 31, 2013. The OCC considers this approach to be reasonable for TNB based on its activity. Bank management concurred with the exclusion of the 2011 data.

TNB's primary loan products are home mortgage loans. The institution is not required to report data under the requirements of the Home Mortgage Disclosure Act (HMDA). The OCC selected a sample of 24 loans to determine the bank's performance.

Description of Institution

TNB is a single branch bank located in the rural farming community of Turbotville, Northumberland County, Pennsylvania. It is a wholly-owned subsidiary of Turbotville National Bancorp, Inc., a one-bank holding company located at the same address as TNB. The holding company has no other operating subsidiaries. The bank was chartered in 1910, has never undergone a merger or acquisition, and retains its original name. In 1959, the bank moved its location from Main Street, Turbotville, Pennsylvania, to its present location on Pennsylvania Route 54. The bank is located in a middle-income census tract. The borough of Turbotville is less than one-half square mile, with a population of 710 based on the 2010 Census. Large acres

of farmland surround the bank. The bank has not opened or closed any branches since its inception.

As of June 30, 2014, TNB had total assets of \$129 million, deposits of \$107 million, total loans of \$67 million, and Tier 1 capital of \$19 million. TNB offers an array of traditional deposit accounts, loan products, and other banking services. Residential mortgages are TNB's primary lending product. Forty percent of all loans are secured by mortgages on 1-4 family residences. Other lending products include mortgages secured by farmland, conventional and adjustable rate residential mortgages, home equity loans, lines of credit, and consumer loan products. Listed below are some of the specifics of TNB's performance context, which enable the bank to service the credit needs of its AA.

- The bank participates in the Pennsylvania First Time Home Owner Mortgage Program. This program benefits low- and moderate-income families by requiring only a 5% down payment and offering a discounted 20 year rate for 30 year mortgages.
- The bank participates in the Veterans Administration Loan Program, which provides no-down payment loans to military veterans.
- The bank does not require a minimum loan amount for personal loans. In this manner, it offers a sensible alternative to payday loan programs. It also provides low- and moderate-income borrowers, and especially senior citizens, a vehicle to borrow smaller amounts with a reasonable amortization.
- The bank facilitates a local farming sect to obtain mortgages by making an exception to its "loss payable mortgage clause." TNB will accept Amish Aid in lieu of conventional homeowner's casualty and fire insurance.

Deposit products and services address the needs of the low- and moderate-income community. Products include free checking with a minimum monthly average balance of \$250, low opening-threshold savings accounts and individual retirement accounts, and free 24-hour online and telephone banking services that provide live-time balances, transfers, and bill payments. The single branch lobby is open from 8:30AM to 4:00PM on Monday, Tuesday, and Thursday, and remains open until 8:00PM on Friday. The bank closes at 12:00PM on Wednesday, which is traditional in this area among other banks and businesses. The bank is not open on Saturday or Sunday. TNB maintains a drive-in facility, automated teller machine (ATM), and night-drop box at its location. The drive-in, ATM, and night-drop box are easily accessible to motor vehicles, as well as animal driven carriages, which are largely used by the Amish and farming communities. TNB also has funded and constructed, in partnership with an adjacent convenience store, foul weather stalls for the parking, hitching, and protection of carriage-driving animals. A complete list of products and services can be found on the bank's website at www.ttnb.com.

The bank's June 30, 2014 Call Report disclosed total loans of \$67 million and total assets of \$129 million, resulting in a total loan-to-total asset ratio of 52%. Based on the Federal Financial Institutions Examination Counsel (FFIEC) June 30, 2014 State Average Report, the average total loan-to-total asset ratio for all commercial banks within the Commonwealth of Pennsylvania is 65%. Based upon the FFIEC June 30, 2014 Custom Peer Group Data Report, the average total loan-to-total asset ratio for all banks of similar size in Montour and Northumberland Counties is 63%. Table 1 provides more detail for TNB.

Table 1 - Loan Portfolio Summary by Loan Product The Turbotville National Bank June 30, 2014			
Loan Category	Amount (\$000's)	Percent of Total Loans	Percent of Total Assets
Loans Secured by 1-4 Family Residences	\$26,565	39.59%	20.63%
Loans Secured by Farmland	\$22,957	34.21%	17.83%
Commercial and Industrial Loans	\$7,890	11.76%	6.13%
Agricultural Loans	\$3,679	5.48%	2.86%
Consumer Loans	\$3,552	5.29%	2.76%
Owner-Occupied Commercial Real Estate	\$1,228	1.83%	0.95%
Loans Secured by Multifamily Properties	\$718	1.07%	0.56%
Municipal Loans	\$511	0.76%	0.40%
Total	\$67,100	100.00%	52.12%

Source: June 30, 2014 Call Report

At the prior CRA evaluation, TNB's total assets were \$97 million as reported on September 30, 2008. Total assets reported as of June 30, 2014 were \$129 million, an increase of \$32 million, or 33%. Total loans were \$52 million as reported in September 30, 2008. Total loans reported as of June 30, 2014 were \$67 million, an increase of \$15 million or 29%.

The institution has no financial or legal impediments to meeting the credit needs of the community. The OCC rated the institution "Satisfactory" at the last CRA evaluation dated January 6, 2009.

Description of Assessment Area (AA)

TNB has a single AA, which consists of eight contiguous whole census tracts (CTs). Four of the CTs are located in the northernmost portion of Northumberland County. The remaining four CTs consist of the entirety of Montour County and are located east of the Northumberland CTs. The AA is bounded on the north by Lycoming County, on the east by Columbia County, on the west by Union County, and on the south by the remainder of Northumberland County. Northumberland County comprises the Sunbury, PA Micropolitan Statistical Area, which also is included in the Bloomsburg-Berwick-Sunbury, PA Combined Statistical Area. Montour County is part of the Bloomsburg-Berwick, PA Metropolitan Statistical Area, also part of the larger Bloomsburg-Berwick-Sunbury, PA Combined Statistical Area.

There are six middle-income CTs (80%) and two upper-income CTs (20%). There are no low- or moderate-income CTs within the AA or bordering the AA. TNB's defined AA is geographically logical and shows no evidence of exclusion of low- or moderate-income CTs. TNB's single branch is located in Northumberland County and within the AA. The AA meets the requirements of the regulation.

Table 2 and Table 3 summarize the AA's demographic data.

Table 2 - Demographic Information for The Turbotville National Bank AA						
Demographic Characteristics	#	% Low	% Moderate	% Middle	% Upper	% N/A
Geographies (Census Tracts)	8	0.00	0.00	75.00	25.00	0.00
Population by Geography	40,149	0.00	0.00	76.09	23.91	0.00
Owner-Occupied Housing by Geography	11,543	0.00	0.00	72.91	27.09	0.00
Businesses by Geography	2,042	0.00	0.00	74.49	25.51	0.00
Farms by Geography	223	0.00	0.00	76.23	23.77	0.00
Family Distribution by Income Level	11,319	0.00	0.00	75.65	24.35	0.00
Distribution of Low and Moderate Income Families throughout AA	4,305	0.00	0.00	83.21	16.79	0.00
* Median Family Income = \$53,262 **HUD Median Family Income for 2013 Northumberland = \$62,600 Montour = \$55,600 Households Below the Poverty Level =11.59%		Unemployment Rate *** Northumberland County = 6.3% Montour County = 5.1%				

Sources:

* 2010 U.S. Census Data

** 2013 HUD Updated Median Family Income

*** U.S. Department of Labor, Bureau of Labor Statistics

Table 3 - Additional Demographic Information for The Turbotville National Bank AA								
Geographic Income Category	% Family Distribution	Census Tract Data Distributions						
		# Tracts	% Housing Units	% Owner Occupied Units	% Rental Occupied Units	% Single Family Units	Median Housing Value	Median Housing Age
Low	0.00%	0	0.00%	0.00%	0.00%	0.00%	N/A	N/A
Moderate	0.00%	0	0.00%	0.00%	0.00%	0.00%	N/A	N/A
Middle	75.65%	6	83.69%	72.91%	86.26%	76.46%	\$121,265	52
Upper	24.35%	2	16.31%	27.09%	13.74%	23.54%	\$165,877	33
Total #	11,319	8	17,581	11,543	4,681	14,940	\$133,256	47

Source: 2010 U.S. Census Data

The 2010 U.S. Census Data reports the total population of the AA is 40,149 people. The AA contains 16,224 households, of which 11,319 households are families. There are 17,581 housing units, of which 11,543 are owner-occupied, and 4,681 are renter-occupied. Of the total number of housing units, 85% are single family and 6% are multifamily. The median housing value for the AA is \$133,256. The median gross rent amount is \$616 per month.

Based upon 2010 U.S. Census Data, the median family income was \$53,262. The 2013 US Department of Housing and Urban Development (HUD) updated median family income is \$55,600 for Northumberland County and \$62,600 for Montour County. Approximately 19% of the families in the AA are categorized as low-income, 18% are moderate-income, 23% are middle-income, and 40% are upper-income. Approximately 12% percent of households are below the poverty level, and 9% of households that are families are below the poverty level.

Table 4 depicts the maximum income amount for each income range in TNB’s AA.

Table 4 - Definition of Income Ranges Used in the Evaluation					
County	Maximum Income in for Income Range				HUD Adjusted 2013 Income
	Low	Moderate	Middle	Upper	
	<50%	50%-<80%	80%-<120%	≥120%	
Northumberland	\$27,799	\$44,479	\$66,719	>\$66,721	\$55,600
Montour	\$31,299	\$50,079	\$75,119	>\$75,120	\$62,600

Information contained within the Northumberland County official website shows the northern portion of the county is centred around Interstate 80. This region has been historically agricultural; however, it is now expanding in light industry and warehousing due to the immediate proximity to Interstate 80. In addition, the Interstate 80 corridor provides convenient access to employment opportunities in neighbouring counties. Because of this, the northern portion of the county has become the highest area of development within the county. This has resulted in new residential communities and small businesses to support the growth. The five largest employers in the county are: Weis Markets, Inc., retail food stores; H.H. Knoebel Sons, Inc., lumber and building supplies; Northumberland County Government; The Commonwealth of Pennsylvania Government; and Conagra Foods, a manufacturer of major food-brand products.

Montour County is the smallest geographic county in the Commonwealth of Pennsylvania. It is mostly rural and has a concentration of farms, state game-lands, and state parks. The county is nationally recognized as a leader in health care, biotechnology, and pharmaceuticals. It also is known as the educational triangle and the home of Bucknell University, Susquehanna University, and Bloomsburg University. The economy is diverse with service industries that support agriculture, healthcare, education and tourism. The Geisinger health complex dominates the largest employer segment in the county with the Geisinger Medical Center; Geisinger Systems, Inc.; and the Geisinger Clinic, Inc. The Commonwealth of Pennsylvania Government and Bloomsburg Hospital round off the top five employers in the county.

The Federal Reserve Bank Beige Book report for August 2014 shows that aggregate business activity for this area continues to grow at a moderate pace. Retail and commercial real estate show limited growth. While contacts in the manufacturing sector feel conditions will improve moderately within the next six months with more sales, they also anticipate reductions in the workforce and do not anticipate increased capital spending. Price levels of manufactured goods continue to increase at a steady but slow pace, but hiring remains cautious and represents mostly replacement hiring with few opportunities for expansion.

Based on information obtained from the U.S. Department of Labor, the unemployment rate in Northumberland County is 6.3% as of July 2014. This is higher than the overall Pennsylvania unemployment rate of 5.8% and the United States unemployment rate of 6.2% for the same period. At the previous evaluation, the unemployment rate for Northumberland County as of July 2009 was 9.6%, which was higher than the overall Pennsylvania unemployment rate of 8.2% for the same period and on par with the United States unemployment rate of 9.5%.

The unemployment rate in Montour County as of July 2014 is 5.1%. This is lower than the overall Pennsylvania unemployment rate of 5.8% and the United States unemployment rate of 6.2% for the same period. At the previous evaluation, the unemployment rate of Montour County as of July 2009 was 7.2%, which was lower than the overall Pennsylvania unemployment rate of 8.2% for the same period and the United States unemployment rate of 9.5%.

Competition within TNB's AA is robust. The larger banks easily dominate the market share in deposits and loans. This is primarily due to more branch locations and more liberal marketing budgets. The most recent Federal Deposit Insurance Corporation (FDIC) *Summary of Deposits Report* dated June 30, 2014, reports 18 financial institutions with 36 branch offices competing for \$1.3 billion of deposits in Northumberland County. The three largest banks in Northumberland County control a 53% market share of all deposits. They are Susquehanna Bank with 8 branches and a 21% market share; The Northumberland National Bank with 3 branches and an 18% market share; and Manufacturers and Traders Trust Bank with 4 branches and a 14% market share. TNB's sole branch is ranked fourth with a market share of 8%.

The *Summary of Deposits Report* also shows market share based on bank deposits within Montour County. There are 5 financial institutions with 7 branch offices competing for \$273 million of deposits in Montour County. The three largest banks in Montour County control a 85% market share of all deposits. They are FNB Bank, NA with 3 branches and a 58% market share; Jersey Shore State Bank with 1 branch and a 15% market share; and Santander Bank, NA with 1 branch and a 12% market share. TNB's has no branches in Montour County, thus no market share in Montour County.

Based upon 2010 U.S. Census Data, there are 16 financial institutions and 23 branches within TNB's AA competing for \$701million of deposits. The three largest banks in the AA control a 49% market share of all deposits. They are FNB Bank, NA with 3 branches and a 23% market share; TNB with 1 branch and a 15% market share; and Sovereign Bank with 3 branches and a 11% market share.

The 2012 Peer Mortgage Data Report (NE) generated from the 2010 U.S. Census Data shows there were 148 lending institutions within TNB's AA competing for 1,565 mortgage applications. The three largest competitors were Service 1st Federal Credit Union with a 16% market share; Wells Fargo with an 11% market share; and FNB Bank, NA with an 11% market share.

Lending opportunities in TNB's AA that support low- and moderate-income geographies are non-existent since there are no low- or moderate-income CTs within the AA. The demographics

of low-income borrowers provide limited opportunity, since low-income borrowers do not have the cash flow necessary to purchase or maintain the higher cost of housing.

We contacted a local community development organization whose primary purpose is to provide affordable housing to low- and moderate-income families and seniors. The contact indicated a need to fund rehabilitation for single-family housing for low- and moderate-income families as well as the funding of new construction and rehabilitation of multi-unit permanent rental housing units. There is an emphasis on low- to moderate-income senior housing programs, since the Baby-Boomer generation is in the early stage of retirement and their incomes are reduced, while housing costs and utilities continue to rise. The organization also is a strong advocate of first time home-buyer programs. In addition, the organization indicated a strong need for housing counseling programs and financial literacy educational programs. The contact indicated there are opportunities for community development loans, donations, and services.

Conclusions with Respect to the Lending Test

TNB's performance under the Lending Test meets the standards for a Satisfactory rating. The bank's loan-to-deposit ratio is reasonable; a substantial majority of the home mortgage loans are made within the AA; the distribution of loans to borrowers of low- and moderate-income is reasonable; and no CRA complaints were recorded during the evaluation period.

Loan-to-Deposit Ratio

TNB's net loan-to-deposit ratio is reasonable given the institution's size, financial condition, lending-related activities, and credit needs of the AA. The institution's net loan-to-deposit ratio averaged 61% over the last 23 quarters since the bank's previous CRA evaluation. This ratio ranged from a quarterly low of 51% to a quarterly high of 65% during the time-period. At the prior examination in January 2009, TNB's loan-to-deposit ratio averaged 69% for the preceding 20 quarters.

This ratio is reasonable when compared to the Pennsylvania average of 65% for all commercial banks during the same period. A custom peer group data report revealed banks in Northumberland and Montour Counties, with assets ranging from \$67 million to \$480 million, have an average loan-to-deposit ratio of 63%.

Lending in Assessment Area

The bank's lending in its AA is outstanding. The bank originated a substantial majority of its primary loan products within its AA, meeting the standard for outstanding performance. During the evaluation period, the bank originated 85% of the total home mortgage loans within its AA.

Lending to Borrowers of Different Incomes

The distribution of loans reflects reasonable penetration among borrowers of different incomes and meets the standard for satisfactory performance.

The percentage of home mortgage loans made to low-income families is less than the percentage of low-income families in the AA. However, when considering the affordability of housing in the AA, this performance is satisfactory. Based on the 2010 U.S. Census Data, the median cost of housing in the AA is \$133,256. The 2013 HUD median adjusted income is \$62,600 in Northumberland County and \$55,600 in Montour County. Thus, a low income would be \$31,299 in Northumberland County and \$27,799 in Montour County. Based on these numbers, it would be difficult for a low-income family to purchase housing in the AA.

The percentage of home mortgage loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the AA. This is excellent performance.

Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Mortgages	19.50%	14.29%	18.54%	33.33%	22.63%	28.57%	39.33%	23.81%

Source: 2012-2013 Home Mortgage Loan Sample

Geographic Distribution of Loans

TNB's AA does not contain any low- or moderate-income CTs. There are six middle-income and two upper-income CTs based upon the 2010 census. Therefore a geographical analysis is not meaningful.

Responses to Complaints

TNB did not receive any CRA complaints during the period from January 6, 2009 until September 15, 2014.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. § 25.28(c), or 12 C.F.R. § 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.