



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

LARGE BANK

Public Disclosure

March 2, 1998

Community Reinvestment Act Performance Evaluation

**Citizens National Bank of Southern Pennsylvania
Charter Number: 5832
35 North Carlisle Street
Greencastle, Pennsylvania 17225**

**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 **Citizens National Bank of Southern Pennsylvania** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **March 2, 1998**. 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 the 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:

- The vast majority (over 90%) of loans originated during this evaluation period were within the assessment area.
- The bank exhibits a good record of lending to individuals at all income levels, and businesses of different sizes.
- Lending activities indicate a good response to the credit needs of the assessment area.
- Banking services are readily accessible to all segments of the assessment area. Also, access to banking services has been improved by the addition of an Automated Loan Machine (ALM).

The following table indicates the performance level of **Citizens National Bank of Southern Pennsylvania** with respect to the lending, investment, and service tests.

Performance Levels	Citizens National Bank of Southern Pennsylvania Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X		X
Low Satisfactory			
Needs to Improve		X	
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

Citizens National Bank of Southern Pennsylvania (CNBSP) is a full service bank headquartered in Greencastle, Pennsylvania, with assets totaling \$185 million. This retail bank has seven full service offices located in south central Pennsylvania. Residential mortgages, consumer loans, and small business and small farm loans are the primary credit products offered. The loan portfolio comprises 68% of total assets. Composition of the loan portfolio is 61% residential mortgages; 25% commercial loans; and 14% consumer loans. There are no legal or financial impediments that would limit the bank's ability to help meet the credit needs of its service area.

Since January 1, 1996, Citizens National Bank of Southern Pennsylvania grew \$17 million in assets. Deposit growth of \$12 million funded \$10 million in loans and \$2 million in investments. One full service branch, two stand-alone automatic teller machines (ATMs), and one Automated Loan Machine (ALM) were placed in service during this evaluation period.

CNBSP is a subsidiary of Susquehanna Bancshares, Inc. (SBI). SBI is headquartered in Lititz, Pennsylvania, and had total assets of \$3.5 billion on December 31, 1997. Its subsidiaries include nine financial institutions in Pennsylvania, Maryland, and New Jersey. SBI also owns and operates companies for commercial leasing, credit re-insurance, mortgage sales and service, and real estate settlement services.

Description of Assessment Area

CNBSP's assessment area is comprised of twenty-two block numbering areas (BNAs) in the non-MSA county of Franklin, Pennsylvania. There are no low-income and only one moderate-income geography within the assessment area. The remaining assessment area breakdown is seventeen middle-income and four upper-income BNAs. The assessment area meets regulatory guidelines and does not arbitrarily exclude any low- or moderate-income tracts.

The total population of the assessment area is 106,163 and the HUD updated median family income for the assessment area is \$34,500. The families in the assessment area have the following income characteristics: 11% low-income; 17% moderate-income; 26% middle-income; and 46% upper-income. Available housing in the assessment area is 83% 1-4 family units and 5% multifamily housing units. Owner-occupied housing represents 68% of the assessment area's total housing. The median housing price is \$70,621. Our community contact, the state representative for Southern Franklin County said the primary credit needs of the area are 1-4 family residential housing and small business loans. Bank management identified the same needs. Small businesses represent 77% of the 4,385 businesses in the assessment area.

Economic conditions in the assessment area continue to be very good and stable. Unemployment for the area is below both national and state levels. Employment opportunities in the area include manufacturing, distribution facilities, federal, state and local governments, education, and health care facilities. The bank's primary competitors are First National Bank of Greencastle, First National Bank of Waynesboro, Chambersburg Bank and Trust, and Farmers and Merchants of Chambersburg. All are sized similarly to CNBSP.

Conclusions with Respect to Performance Tests

Scope of Review:

This review covered the time period from January 1, 1996 to March 2, 1998. All small business, small farm, and community development loans and a sample of residential mortgages originated during this period were evaluated. Since the bank is not required to be a HMDA reporter, our mortgage loan review was based on a sample of 22 mortgages granted in 1996 totaling \$1,483 thousand and 32 mortgages granted in 1997 totaling \$2,288 thousand; this sample represented 12% and 17%, respectively, of the dollar volume of residential mortgages originated in those years. The mortgage sample is considered a fair representation of the originations for the evaluation period. Our loan review was assisted by bank

management's compilation of data on small business and small farm loans required by the Community Reinvestment Act. Also reviewed were investments purchased and matured and services provided over the time period.

LENDING TEST

Lending Activity

CNBSP's loan-to-deposit ratio averaged 77% since our last CRA examination, higher than the national peer group average of 72% for the same time period. During the evaluation period, the bank originated 378 residential mortgages totaling \$26 million. In addition, the bank originated and sold 35 residential mortgage loans totaling \$3 million during this period.

The volume of CNBSP's lending activity within its assessment area indicates a good responsiveness to the credit needs of the assessment area. The credit needs of the bank's assessment area are met by a variety of credit products offered, including affordable housing loan programs, small dollar consumer loans, unsecured consumer loans via the ALM, and small business loans. The table that follows shows that the vast majority of loan originations reviewed were within the bank's assessment area. Our review included the mortgage loan sample and all small business loans.

Lending within the Assessment Area January 1, 1996 through March 3, 1998			
	Residential Mortgage Loan Sample	Small Business Loans	Total
Number of Loans in AA	52	242	294
Total # of Loans	54	263	317
Percentage of # Loans within AA	96%	92%	93%
Dollar Amount of Loans within AA (000s)	\$3,643	\$17,544	\$21,187
Total Dollar Amount of Loans (000s)	\$3,772	\$18,659	\$22,431
Percentage of \$ Amount of Loans within AA	97%	94%	94%

An analysis of the geographic distribution of loans was not performed since there are no low-income geographies and only one moderate-income geography in the bank's assessment area.

Borrower's Profile

The bank exhibits a good record of lending to individuals at all income levels. As indicated in the table that follows, both the number and dollar volume of mortgage loans originated during the evaluation period are fair representations of the population.

Sample of Mortgage Loans Originated From January 1, 1996 through March 3, 1998 By Level of Borrower Income					
Income Level	Number of Loans	Percentage of Number of Loans	Percentage of Families in AA	Dollar Volume (000's)	Percentage of Dollar Volume
Low	5	10%	12%	\$213	6%
Moderate	12	23%	17%	\$589	16%
Middle	15	29%	25%	\$867	24%
Upper	20	38%	46%	\$1,974	54%
Total	52	100%	100%	\$3,643	100%

Our analysis of business loan activity during the evaluation period indicates that CNBSP has a good record of lending to small businesses with revenues of \$1 million or less. A small business is defined as one with gross annual revenues of \$1 million or less. The table below shows that 92% of the number of business loan originations from January 1, 1996 to December 31, 1997 were to small businesses. Although some of these loans are outside of the assessment area, our calculations indicate that 242, or 92%, of the small business loans made were within the assessment area. This performance is considered good since small businesses represent 77% of the businesses in the assessment area.

Distribution of Small Business and Small Farm Loans by Business Size				
Gross Annual Revenues	Number of loans	%	\$ Amount of Loans (000's)	%
≤ \$1 Million	252	96%	\$17,134	92%
> \$1 Million	11	4%	\$1,525	8%
Total	263	100%	\$18,659	100%

The following chart illustrates the small business and small farm loans within the assessment area according to the original size of the loan. Our review of business loans by dollar size shows CNBSP has a good record of extending loans of \$250 thousand or less to small businesses. During the assessment period 95% of the number of business loans were \$250 thousand or less. This supports the conclusion that CNBSP's record of lending to small businesses is good.

Distribution of Small Business and Small Farm Loans by Size of Loans				
Original Loan Amounts (000's)	# of Loans	%	\$ Amount of Loans (000's)	%
≤ \$100	195	81%	\$5,572	32%
> \$100 to \$250	33	14%	\$5,408	31%
> \$250	14	5%	\$6,564	37%
Totals	242	100%	\$17,544	100%

Community Development Lending

Although CNBSP did not have any reportable community development loans, it did extend loans reported as small business loans that supported community development. Two interest-free loans totaling \$58 thousand were made to a nonprofit organization whose sole purpose is to provide affordable housing to low-income individuals. These loans are used to finance the construction of single family houses for low-income families. The bank also participates in a loan to another nonprofit organization, established to refurbish a section of the Letterkenny Army Depot. The proceeds were used for economic development that will restore some lost jobs from the Department of Defense's cutbacks at this facility, and create new employment opportunities. Another nonprofit entity received two loans

totaling \$245 thousand used to support economic development in the county. These benefit all income levels, including low-to-moderate income individuals.

Innovative or Flexible Lending Practices

CNBSP uses innovative and flexible lending practices to serve the credit needs of its 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 and 1997, nine loans totaling \$575 thousand, and ten loans totaling \$589 thousand, respectively, were granted through these programs. Also, to better serve the credit needs of low- and moderate-income families, small dollar loans as low as \$500 are routinely granted. The bank's commitment to initiate innovative lending practices is evident with the addition of an Automated Loan Machine (ALM). Approved applicants receive a check within minutes of the approval. Consumers can obtain unsecured credit ranging from \$500 to \$5,000 via the ALM. During this evaluation period, 88 unsecured loans totaling \$273 thousand originated through the ALM. See the Service Test section of this report for more information on the ALM.

INVESTMENT TEST

Our Community contact, the state representative for the bank's assessment area, and bank management stated that there are very few qualified investment opportunities available within the assessment area. The community contact also stated that the excellent response of the local financial institutions in providing low cost loans has eliminated the need to issue debt securities in recent years.

During the evaluation period, CNBSP demonstrated its support for organizations that benefit low-to-moderate income individuals. The bank continues to support organizations that mainly aid low-to-moderate income individuals. Donations totaling \$2 thousand were made to the Salvation Army food bank and the YMCA to subsidize memberships for underprivileged youths of the area.

SERVICE TEST

CNBSP's services are readily accessible to all segments of the bank's assessment area. Its seven branches are located throughout the assessment area, and all locations have automatic teller machines. Six branches are located in middle-income geographies and one branch is in an upper-income area, less than 2 miles

from the only moderate-income geography in the assessment area. This branch provides services to the moderate-income area, and offers extended business hours for customer convenience, as do all offices. The bank also has two free standing ATMs in middle-income block numbering areas (BNAs) and one in an upper-income BNA. The Chambersburg Mall branch is the only office that does not have a drive-up facility. During this evaluation period, one branch and one free standing ATM opened in upper-income geographies, and another free standing ATM and the Automated Loan Machine opened in middle-income geographies.

Community Development Services

The bank offers a low cost checking account that was designed to benefit low- and moderate-income families. The "Simple Checking " account requires no minimum balance with a monthly service charge of \$2.00 and a \$0.25 per check charge. The account is attractive to customers that write few checks per month. Government checks are cashed at all branches for anyone with proper identification. This service is provided free to all individuals. Two branches located in middle-income BNAs distribute food stamps.

Senior management of this financial institution also exhibited its willingness to assist community development services. During this evaluation period, an executive officer served as treasurer for the Franklin County chapter of Habitat for Humanity. By serving in this capacity, he provided his financial expertise to aid in the efficient financial operation of this organization. As a result, low-income individuals benefited through the availability of affordable housing.

Alternative Delivery Systems

In addition to ATMs, CNBSP offers telephone banking. Customers access the service through a toll-free telephone number to direct account inquiries, transfer funds, obtain interest rates and receive product information, branch locations, and office hours.

During this examination period, the institution implemented an innovative loan service. It was one of the first financial institutions in Pennsylvania to offer unsecured loans up to \$5,000 via an automated loan machine (ALM). The ALM is located in a high traffic shopping center (the Chambersburg Mall) that is in close proximity to the one moderate income census tract. The ALM provides easy access for individuals at all income levels to apply for unsecured credit without speaking to a loan officer. This new technology allows applicants to apply for fixed-term unsecured consumer loans ranging from \$500 to \$5,000. Anyone with a major credit card, valid driver's license, and social security number can apply, with successful applicants receiving a check within ten minutes. To date, 88 loans

totaling \$273 thousand were granted through this facility. Management is also exploring offering other services through the ALM.

FAIR LENDING REVIEW

A concurrent fair lending review did not identify any violations of antidiscrimination laws and regulations. CNBSP's fair lending controls and practices have been effective at ensuring compliance.

SCOPE OF EXAMINATION

Time Period Reviewed	January 1, 1996 to March 2, 1998		
<p style="text-align: center;">Financial Institution</p> <p>Citizens National Bank of Southern Pennsylvania</p> <p style="text-align: center;">Location</p> <p>Greencastle, PA</p>			<p style="text-align: center;">Products Reviewed</p> <p>Mortgage, small business, small farm, and community development loans</p>
Assessment Area and Type of Examination			
Assessment Area	Type of Exam	Branches Visited	Other Information
Southern Franklin County	On-site	Main Office, Greencastle, PA	