

Northeastern District
1114 Avenue of the Americas, Suite 3900
New York, New York 10036

PUBLIC DISCLOSURE

March 1, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Gratz National Bank
Charter Number: 14301**

**Market Street, P.O. Box 159
Gratz, Pennsylvania 17030**

**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 Community Reinvestment Act (CRA) performance of **The Gratz National Bank** prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of March 1, 1999. 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 average loan to deposit ratio of 67% is similar to peer group averages;
- ! All of the HMDA (Home Mortgage Disclosure Act) reportable loans and small business and small farm loans originated during the examination period are in the bank's assessment area;
- ! The geographic distribution of HMDA and small business loans is reasonable; and
- ! There is a good penetration of loans to individuals of different income levels and substantially all of the bank's commercial lending is to small businesses and small farms.

The following table indicates the performance level of The Gratz National Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>The Gratz National Bank</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints received since the prior examination.		

DESCRIPTION OF INSTITUTION

Gratz National Bank (GNB) is a \$56 million institution situated in central Pennsylvania. It is a subsidiary of GNB Financial Services, Inc., a one bank holding company. The bank operates two full service offices in Dauphin and Schuylkill counties. Major competitors include several larger, local community banks.

Primary loan products include fixed rate residential mortgages, small business and agricultural loans, and consumer installment loans. The loan portfolio represents 56% of total assets. A breakdown of the portfolio as of December 31, 1998 is as follows: 67% residential mortgages, 21% commercial and commercial real estate loans, 8% agricultural credits, and 4% consumer installment loans. GNB offers Telebanking to check account balances, transfer funds, make loan payments, and obtain current rate information. They are also involved in the Volunteer Home Care Banking program. Bank employees assist residents in balancing their check book, paying bills, and other money-related concerns.. There are no legal or financial impediments which would hinder the bank's ability to help meet the credit needs of its community. The last CRA examination, dated October 1996, indicated that the bank was rated "Outstanding."

DESCRIPTION OF ASSESSMENT AREA

GNB's assessment area (AA) includes six census tracts (CTs) and seven block numbering areas (BNAs) in northern Dauphin County, western Schuylkill County, and southern Northumberland County. The population of the AA is 51,559. Eighteen percent of the families residing in the AA are low-income, 23% are moderate-income, 29% are middle-income, and 30% are upper-income families.

The seven BNAs in Schuylkill and Northumberland counties are in a nonmetropolitan statistical area (non-MSA). The six CTs in Dauphin County are in the Harrisburg-Lebanon-Carlisle Metropolitan Statistical Area (MSA 3240). The income levels of the geographies in the AA include two moderate-income (15%) and eleven middle-income (85%). There are no low- or upper-income geographies. The statewide nonmetropolitan median family income of \$35,200 is applicable to the non-MSA area. The updated HUD median family income for MSA 3240 is \$46,500. The 1990 MSA median family income is \$37,389.

The local area is primarily agricultural and employment in the immediate area is in the farming industry. Most residents travel outside of the local area for work. As of December 1998, Dauphin County's unemployment rate of 2.7% is below the state average of 3.8%. Major employers include the state government, Hershey Foods Corp., and AMP Inc. The unemployment rates for Schuylkill and Northumberland counties, at 6.0% and 4.5%, respectively, are above the state average. Major employers in Schuylkill County include JE Morgan Knitting Mills Inc., the state government, and Alumax Extrusions Inc. Top employers in Northumberland County are Weis Markets Inc., American Home Foods Inc., and the county government.

Credit needs in the local area were determined during this examination by reviewing a community contact made by another regulatory agency. The contact was a local housing authority which indicated that the temporary housing and credit needs of the elderly, disabled, and low-income residents in the area were adequately being met by financial institutions and state public welfare organizations. The contact indicated that additional job opportunities are needed in the local area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Please note that for purposes of this review the examination period covers loan activity from January 1, 1997 through December 31, 1998. All dollar amounts within the tables in this report are in thousands, unless otherwise indicated.

Loan to Deposit Ratio

Our analysis of the loan to deposit ratio indicates that the average ratio of 67%, which has been maintained since the last examination, is reasonable. This ratio has remained stable, ranging between 63% and 69%, and is similar to national and local peer banks which have average ratios of 68% and 70%, respectively.

Lending in AA

We analyzed the bank's record of lending in their AA using information on the 1997 and 1998 HMDA Loan Application Registers (HMDA-LAR) and bank generated reports of small business and small farm loan originations. Our review showed that all mortgage, small business, and small farm loans were made in their AA. Market share statistics derived from HMDA loan originations show that GNB is ranked second in mortgage lending in their area with a market share of 7.55% for 1997.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The bank's record of lending to borrowers of different income levels was evaluated using the same HMDA information as in the above analysis. The following table shows that GNB's volume of lending is representative of the demographic composition of the AA. Market share information for 1997 shows that GNB is ranked third in lending to low- and moderate-income (LMI) applicants in their area with a market share of 6.78%. Overall, GNB's record of lending to borrowers of different income levels is satisfactory.

HMDA Reportable Loan Originations by Level of Borrower Income									
Income Category	1997				1998				% of Families Within AA
	#	%	\$	%	#	%	\$	%	
Low	13	9	406	7	8	6	120	2	18
Moderate	21	15	1,021	17	19	15	550	12	23
Middle	37	27	1,402	24	49	39	1,607	35	29
Upper	67	49	3,023	52	51	40	2,341	51	30
Total	138	100	5,852	100	127	100	4,618	100	100

GNB is very responsive to the credit needs of small businesses and small farms in its community. We analyzed bank-generated reports showing small business and small farm loan originations during the evaluation period. A small business loan is defined as a loan with an original amount of less than \$1 million and a small farm loan is an agricultural loan made for less than \$500,000. A small business or farm is defined as a business with gross annual revenues \leq \$1 million. We evaluated lending to small businesses by evaluating both the revenue size of the business and the size of the loan. The following tables show that GNB has an excellent record of lending to small businesses and farms. Note that a large majority are very small loans with original amounts less than \$100,000.

Small Business and Small Farm Loan Originations By Size of Loan								
Loan Size	1997				1998			
	#	%	\$	%	#	%	\$	%
\leq \$100M	110	92	2,346	61	123	90	2,679	51
\$101M - \$250M	8	7	1,221	31	11	8	1,502	29
\$251M - \$1MM	1	1	303	8	2	2	1,075	20
Total	119	100	3,870	100	136	100	5,256	100

Distribution of Small Business and Small Farm Loans by Business Size								
Gross Annual Revenues	1997				1998			
	#	%	\$	%	#	%	\$	%
≤ \$1 million	119	100	3,870	100	136	100	5,256	100
> \$1 million	0	0	0	0	0	0	0	0
Total	23	100	3,870	100	136	100	5,256	100

Geographic Distribution of Loans

The geographic distribution of lending in the AA was reviewed using the 1997 and 1998 HMDA loan originations and bank-generated reports of small business and small farm loan originations. There are two moderate-income geographies and eleven middle-income geographies in this AA, with no low- or upper-income tracts. The following tables indicate a good penetration of loan originations in the moderate-income areas.

HMDA Reportable Loan Originations by CT Characteristic					
CT Characteristic	1997		1998		% CTs within AA
	#	%	#	%	
Low	0	0	0	0	0
Moderate	20	15	11	9	15
Middle	118	85	116	91	85
Upper	0	0	0	0	0
Total	138	100	127	100	100

Small Business and Small Farm Loan Originations by CT Characteristic					
CT Characteristic	1997		1998		% CTs within AA
	#	%	#	%	
Low	0	0	0	0	0
Moderate	5	4	15	11	15
Middle	114	96	121	89	85
Upper	0	0	0	0	0
Total	119	100	136	100	100

Compliance with Antidiscrimination Laws

No substantive violations of antidiscrimination laws and regulations were noted during the concurrent fair lending examination.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MSA 3240

GNB defines its AA within the Harrisburg-Lebanon-Carlisle MSA as six CTs in Dauphin County. The bank operates one full service office in northern Dauphin County.

Our analysis shows that a minority of all HMDA reportable loan originations were in Dauphin County during the evaluation period. For 1997 and 1998, the percentage of HMDA loan originations in this county were 39% and 20%, respectively. This performance is reasonable because GNB's office is located in the northern corner of the county and their primary trade area extends into Schuylkill and Northumberland counties, which are both non-MSA areas. The bank's record of lending to borrowers of different income levels in Dauphin County is good, as depicted in the table below.

HMDA Reportable Loan Originations by Level of Borrower Income Dauphin County									
Income Category	1997				1998				% of Families Within Dauphin County
	#	%	\$	%	#	%	\$	%	
Low	8	15	307	11	3	12	73	5	19
Moderate	16	30	900	34	4	15	145	10	25
Middle	14	26	346	13	11	42	511	37	30
Upper	16	29	1,132	42	8	31	662	48	26
Total	54	100	2,685	100	26	100	1,391	100	100

The bank's AA in this MSA consists of one moderate-income and five middle-income CTs. The following tables show that the geographic distribution of loan originations during the examination period is very good when compared to the CT characteristics of this county.

HMDA Reportable Loan Originations by CT Characteristic Dauphin County					
CT Characteristic	1997		1998		% CTs within Dauphin County
	#	%	#	%	
Low	0	0	0	0	0
Moderate	19	35	10	39	17
Middle	35	65	16	61	83
Upper	0	0	0	0	0
Total	54	100	26	100	100

Small Business and Small Farm Loan Originations by CT Characteristic Dauphin County					
CT Characteristic	1997		1998		% CTs within Dauphin County
	#	%	#	%	
Low	0	0	0	0	0
Moderate	5	13	15	30	17
Middle	35	87	35	70	83
Upper	0	0	0	0	0
Total	40	100	50	100	100

Scope of Examination

Time Period Reviewed	January 1, 1997 through December 31, 1998
Financial Institution	The Gratz National Bank
Products Reviewed	Mortgage, small business, and small farm loans
Assessment Areas	Portions of Dauphin County, Schuylkill County, and Northumberland County.
Type of Examination	On-site
Branches Visited	Main Office, Gratz, Pa.