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Comptroller of the Currency  
Administrator of National Banks

Small Bank

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## **PUBLIC DISCLOSURE**

June 7, 1999

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Penn Central National Bank

**Charter Number 31**

**431 Penn Street  
Huntingdon, Pennsylvania 16652**

**Office of the Comptroller of the Currency  
4075 Monroeville Boulevard, Suite 300  
Monroeville, Pennsylvania 15146-2529**

**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 **Penn Central National Bank** prepared by **The Office of the Comptroller of the Currency** the institution's supervisory agency, as of June 7, 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.

Major factors supporting the overall rating for Penn Central National Bank include the following:

- ◆ Loan Distribution among borrowers of different incomes and small business is reasonable.
- ◆ The dispersion of residential and consumer loans among various geographies is reasonable.
- ◆ The majority of residential mortgage and consumer loans are originated within the bank's assessment area.

DESCRIPTION OF INSTITUTION

Penn Central National Bank (PCNB) is a \$182 million community bank located in central Huntingdon County. The bank is headquartered approximately, 30 miles from State College, Pennsylvania and 150 miles east of Pittsburgh, Pennsylvania. The bank is a subsidiary of Omega Financial Corporation. Omega Financial Corporation is a three bank holding company with over \$1 billion in assets, which is located in State College, Pennsylvania. The largest subsidiary of the holding company is Omega Bank NA, which is also located in State College. PCNB is a full service bank offering a wide range of deposit and loan products. Loan products include residential real estate mortgages, consumer and commercial loans.

Net loans represent 53% of PCNB's total assets. PCNB's loan portfolio is broken down by dollar volume as follows: 54% residential real estate, 21% commercial real estate loans, 9% consumer loans and 8% commercial loans. There are no financial or legal impediments that would preclude PCNB from lending.

PCNB has six branch locations. Two offices, including the main office are located in Huntingdon, Pennsylvania. Three additional branches are located within Huntingdon County in Alexandria, Mount Union, and Woodcock Valley. A sixth branch office is located in Saxon in Bedford County. ATMs are also located throughout the area. The bank has three ATMs in Huntingdon, two in Mount Union, and one each in Alexandria and Saxon.

Competition consists of a variety of other moderately sized local institutions with total assets between \$100 million and \$350 million, as well as non-bank financial institutions. Some larger financial institutions based in Pittsburgh, Pennsylvania have a presence within the bank's assessment area. However, the bank does not view these larger, non-local institutions as primary competition for its customer base.

#### **DESCRIPTION OF ASSESSMENT AREA**

PCNB has identified twenty-four geographies in Huntingdon and Bedford Counties as its assessment area. Thirteen geographies are located in Huntingdon County and eleven geographies are located in Bedford County. The assessment area is comprised primarily of middle income geographies. There are two moderate-income geographies in Bedford County and one moderate-income geography in Huntingdon County. The assessment area contains no low- or upper- income geographies. The bank operates no branches or ATMs within a Metropolitan Statistical Area (MSA.) The Pennsylvania non-MSA median family income is \$35,200. The assessment area complies with all regulatory requirements and does not arbitrarily exclude low- or moderate-income areas.

The bank's assessment area consists predominantly of small town and rural communities. The population of PCNB's assessment area as of the 1990 census was 92,083. Demographic data collected

during the 1990 census reports the median family income to be \$26,542 for the

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assessment area of the bank. Demographic data gathered during the 1990 census also reports that within the bank's assessment area, owner occupied housing represents 64% of housing units and the median housing value equals \$45,133. Wage or salaried jobs support the majority (71%) of households.

Bank management confirmed that primary industries in the assessment area include manufacturing, small business, tourism and agriculture. The manufacturing industry employs approximately 33% of the workforce. Therefore, the local economy is largely dependent upon eight local manufacturing companies that are diversified by product, but generally seasonal in nature. Local manufacturers produce a variety of products including electronics, glass fiber, and school supplies. All but one of these manufacturers has recently been forced to reduce its workforce as a result of East Asian market instability. Government also represents a significant employment category in the area. State correctional facilities are located in Huntingdon and Smithfield. Local employers also include a local college, hospital and geriatric care facility. The retail trade and service sector also provides some employment opportunities. However, local growth in this sector is slow compared to the national rate of expansion.

Bank management advised that the economic condition of the assessment area is stagnant. Local unemployment levels are the highest in the state and higher than the national average. Discussions with management confirmed that within their assessment area, credit needs continue to be concentrated primarily in residential mortgage, consumer and small business lending. PCNB has demonstrated its commitment to mortgage lending by remaining within the top 25% of local lenders originating real estate mortgages through the first quarter of 1999.

Examiners contacted the Executive Director of a non-profit organization that promotes economic development in Huntingdon County. The contact identified a community credit need for small business, residential and consumer lending, including home improvement loans in the Huntingdon County area. The contact indicated that local community banks are exceptionally responsive to community credit needs. According to the contact, local banks actively participate in community development related projects. The contact specifically identified PCNB as the single largest contributor of capital for the development of a new industrial park. The contact also indicated that PCNB initiated the establishment of the Huntingdon Economic Loan Pool (HELP). HELP was designed to provide funding for community development projects by pooling funding from five, local, member banks.

## **SAMPLING**

Business, residential mortgage and consumer loan data was collected from the bank through a random sample of residential mortgage loans and consumer loans originated to borrowers located inside and outside of the bank's assessment area. Since the bank experienced no significant changes in residential mortgage and consumer lending patterns during the years since the previous CRA evaluation, 1998 data was used to represent lending throughout the entire period.

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The size of the mortgage loan sample in number and dollars ranged from 35 to 38 and \$2.5 to \$2.8 million, respectively. The consumer loan sample in number and dollars ranged from 28 to 40 and \$260 to \$360 thousand, respectively. The size of the mortgage and consumer loan samples varied based on availability of income or geographic information.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

### Loan to Deposit Analysis

y The loan to deposit ratio is reasonable compared to local peer banks and is trending upward.

PCNB's loan to deposit ratio meets the performance standard. The loan to deposit ratio demonstrates the bank's commitment to lending in the community. The loan to deposit ratio over the past 14 quarters averages 65%. The loan to deposit ratio compares reasonably to the level of lending achieved by the bank's local and national peer group which both averaged 76% over the same 14 quarters. The loan to deposit ratio has also generally trended upward since 6/30/98, increasing from 62% to 65% at 3/31/99. The local peer bank ratio included fourteen local Pennsylvania banks with an asset size of \$250 million or less, operating within a six county area.

### Lending in Assessment Area

y The majority of sampled residential mortgage and consumer loans are originated within the bank's assessment area.

PCNB's lending in their assessment area meets the performance standard. The bank lends actively within its assessment area. Residential mortgage and consumer loan originations by the bank to borrowers located within its assessment area totaled 79% of all loans and 88% of all loan dollars sampled.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

PCNB's lending to borrowers of different income levels and businesses of different sizes meets the performance standard and is a reasonable reflection of area demographics.

Residential Mortgage and Consumer Lending

y The distribution of sampled mortgage and consumer loans indicates a reasonable record of lending to borrowers of different income levels.

Overall, the distribution of sampled loans among borrowers of different income levels is reasonable. The bank's level of lending to low- and moderate-income borrowers is reasonable

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compared to area demographics. For example, during 1998, lending to low- and moderate- income borrowers represented 10% and 23% of loan volume and 1% and 10% of loan dollars respectively.

Although, our sample did not include mortgage loans to low-income individuals, this is reasonable based on the following. Our loan sample was impacted by the fact that PCNB offers Pennsylvania Financial Housing Agency (PFHA) loans through their affiliate Omega Bank, N.A. PFHA loans offer lower than market interest rates to borrowers with qualifying income levels. Lower income borrowers are directed toward these mortgages which are originated at Omega Bank, N.A. rather than at PCNB. In addition, PCNB faces strong competition from local and non-bank financial institutions that waive title insurance and other fees as well as offer a fixed interest rate over an extended term.

PCNB's level of consumer lending to borrowers of low- and moderate- income levels compares favorably with AA demographics. For example, during 1998, lending to low- and moderate- income borrowers represented 20% and 28% of consumer loan volume and 10% and 16% of consumer loan dollars, respectively.

The following table details the mortgage and consumer loans originated by PCNB to low- and moderate-income borrowers as compared to the percentage of low- and moderate- income families in the population of the bank's assessment area.

<b>LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS</b>					
	LOW INCOME FAMILIES	MODERATE INCOME FAMILIES	MIDDLE INCOME FAMILIES	UPPER INCOME FAMILIES	TOTAL FAMILIES
ASSESSMENT AREA POPULATION	21%	21%	26%	31%	100%

	###	\$000s	####	\$000s	####	\$000s	####	\$000s	####	\$000s
RESIDENTIAL MORTGAGE LOANS	0	0	7	\$249	12	\$786	19	\$1,755	38	\$2,790
	0%	0%	18%	9%	32%	28%	50%	63%	100%	100%
CONSUMER LOANS	8	\$35	11	\$57	9	\$56	2	\$213	40	\$361
	20%	10%	28%	16%	23%	15%	30%	59%	100%	100%

### Business Lending

y PCNB has demonstrated a commitment to small business with 80% of sampled business loans originated to local small businesses

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Small business loans are defined as those loans made to enterprises whose annual, gross revenues are \$1 million or less. The volume of reporting businesses in the bank's AA with gross revenues less than \$1 million represent 77% of total businesses. Of all sampled loans originated by PCNB to businesses during 1998, 80% of the total number of business loans and 32% of total business loan dollars were originated to small businesses.

### Geographic Distribution of Loans

y PCNB's distribution of sampled residential and consumer loans among various geographies is reasonable.

PCNB's geographic distribution of loans meets the performance standard. Overall, the bank's geographic distribution of loans demonstrates a reasonable dispersion throughout the AA. While mortgage loan originations in moderate-income geographies are reasonable given area demographics, consumer loan originations in moderate-income geographies are strong.

None of the mortgage loans sampled were originated in moderate-income geographies. However, bank data revealed that for residential mortgage loans outstanding in 1998, mortgages located in moderate-income geographies represented 11% of total mortgages. PCNB's geographic distribution of mortgages is not unreasonable considering the limited availability of mortgage lending opportunities within moderate-income geographies. For example, of all purchase and refinanced mortgages originated by HMDA lenders within the AA in 1997, only 5% were located in moderate-income geographies. Additionally, only 12% of owner

occupied housing existing in the assessment area is located within moderate-income geographies. Limited opportunity to originate mortgages in moderate-income geographies is exacerbated by strong competition from non-bank institutions as described earlier on page 5.

Additionally, PCNB operates a branch within the only moderate-income geography in Huntingdon County, the county in which all but one PCNB branch is located. The population of the moderate-income geography represents only 3% of the population of the assessment area. The remaining two moderate-income geographies are located in Bedford County well south of all six PCNB branches clustered to the north. One of the moderate-income geographies houses the headquarters of a major competitor, resulting in minimal demand for PCNB mortgages from this geography.

The following table details mortgage loans originated by PCNB to borrowers located within low-, moderate-, middle- and upper-income geographies as compared to the representation of owner occupied housing to low-, moderate-, middle- and upper-income geographies within the bank's assessment area.

<b>GEOGRAPHIC DISTRIBUTION OF MORTGAGE LOANS</b>										
	LOW INCOME GEOGRAPHIES		MODERATE INCOME GEOGRAPHIES		MIDDLE INCOME GEOGRAPHIES		UPPER INCOME GEOGRAPHIES		TOTAL GEOGRAPHIES	
OWNER OCCUPIED HOUSING	0%		12%		88%		0%		100%	
	####	\$000s	####	\$000s	####	\$000s	###	\$000s	#####	\$000s
RESIDENTIAL MORTGAGE LOANS	0	0	0	\$0	35	\$2,505	0	\$0	35	\$2,505
	0%	0%	0%	0%	100%	0%	0%	0%	100%	100%

The bank's level of consumer loan originations to borrowers located within moderate-income geographies compares favorably to area demographics. For example, consumer loans originated to borrowers located within moderate- and middle-income geographies represented 18% and 82% of consumer loan volume and 22% and 78% of dollars, respectively. Comparatively, demographic data indicates that the population of moderate- and middle-income geographies represents 12% and 88% of the population within the AA.



The following table details consumer loans originated by PCNB to borrowers located within low-, moderate-, middle- and upper-income geographies as compared to the representation of the population of low-, moderate-, middle- and upper-income geographies within the bank's assessment area.

<b>GEOGRAPHIC DISTRIBUTION OF CONSUMER LOANS</b>										
	LOW INCOME GEOGRAPHIES		MODERATE INCOME GEOGRAPHIES		MIDDLE INCOME GEOGRAPHIES		UPPER INCOME GEOGRAPHIES		TOTAL GEOGRAPHIES	
ASSESSMENT AREA POPULATION	0%		12%		88%		0%		100%	
	####	\$000s	####	\$000s	####	\$000s	####	\$000s	#####	\$000s
CONSUMER LOANS	0	0	5	\$56	23	\$204	0	\$0	28	\$260
	0%	0%	18%	22%	82%	78%	0%	0%	100%	100%

Response to Complaints

No complaints have been received since the last examination.

Record of Compliance with Anti-Discrimination Laws

A fair lending examination was performed concurrently with this examination. Examiners found no violations of antidiscrimination laws and regulations. The bank has appropriate policies, procedures, and training programs in place to prevent discriminatory or other illegal practices.

