Comptroller of the Currency
Administrator of National Banks

Small Bank

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

PUBLIC DISCLOSURE

August 9, 1999

COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION

The Union National Bank of Mount Carmel
Charter Number: 8393

P.O. Box 367
Third and Oak Streets
Mount Carmel, Pennsylvania   17851

Office of the Comptroller of the Currency
Northern Pennsylvania Field Office
100 Hazle Street
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 **The Union National Bank of Mount Carmel** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **August 9, 1999.** The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.*

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

The factors supporting the bank's overall rating include:

< A strong loan to deposit ratio;

< A substantial majority of loan originations within the assessment areas;

< A reasonable distribution of originations to borrowers of different income levels;

< A good distribution of lending to businesses of different sizes; and

< An excellent geographic distribution of home purchase loans and business loans throughout the assessment areas.

DEFINITIONS AND COMMON ABBREVIATIONS

The following terms and abbreviations are used throughout this Performance Evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Community Reinvestment Act (CRA) - The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Metropolitan Statistical Area (MSA) - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Census Tract (CT) - Small, locally defined statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogeneous populations. A census tract has defined boundaries per ten year census and an average population of 4,000.

Block Number Area (BNA) - similar to a CT, but located in an area that is not designated as a MSA.

Home Mortgage Disclosure Act (HMDA) - A statute that requires certain mortgage lenders that do business or have banking offices in a MSA to file annual summary reports of their mortgage lending activity. The report includes such data as the race, gender and the income of the applicants, the amount of the loan requested, and its disposition (e.g., approved, denied, withdrawn).

Median Family Income (MFI) - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of census tracts. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Low-Income - Income levels that are less than 50% of the MFI.

Moderate-Income - Income levels that are at least 50% and less than 80% of the MFI.

Middle-Income - Income levels that are at least 80% and less than 120% of the MFI.

Upper-Income - Income levels that are 120% or more of the MFI.

LMI - Low- and moderate-income.

DESCRIPTION OF INSTITUTION

The Union National Bank of Mount Carmel (UNB) is an independent bank located in central Pennsylvania and is an intrastate bank. UNB is the only bank of the parent holding company, UNB Corp., Mount Carmel, Pennsylvania. UNB Corp. also owns 100% of UNB Delacorp., a non-bank subsidiary whose primary function is buying and selling securities. UNB and UNB Corp. had total assets of $79 million as of June 30, 1999. The bank has two offices, the main office in Mount Carmel, Northumberland County, and a branch in Numidia, Columbia County. The Numidia branch opened March 12, 1995. UNB is a full-service retail bank. Both offices have ATMs and the main office offers a drive-through window. Both locations offer extended business hours one night per week, and Saturday hours. A variety of loan and deposit products are available to consumers and businesses. Products include free checking to consumers with no minimum balance requirements, a first time home buyers product, and mortgages with private mortgage insurance.

Primary loan products include home purchase and small business loans. The loan portfolio represents 74% of total assets. A breakdown of the portfolio as of June 30, 1999 is as follows: $51 million or 68% real estate loans, $5 million or 26% commercial and commercial real estate loans, and $4 million or 6% consumer installment loans. Agricultural lending is minimal.

There are no legal or financial impediments which would hinder the bank's ability to meet the credit needs of its community. At the last CRA examination, dated May 1, 1996, the institution was rated "Satisfactory."

DESCRIPTION OF ASSESSMENT AREAS

UNB has two assessment areas (AAs). Both assessment areas meet regulatory guidelines and neither arbitrarily excludes LMI geographies. The following paragraphs describe each of the AAs and provide demographic data.

The first assessment area is Northumberland County, which consists of sixteen BNAs in a non-MSA. Total persons in Northumberland County are 59,773 and total families are 17,169. The following is a break down of families by income level: 20% low-income, 22% moderate-income, 24% middle-income, and 34% upper-income. Additional income-related information is as follows: 41% of the population receives social security benefits, 7% is on public assistance, and 13% have incomes that are below poverty level (some overlap may occur in these percentages as a person may receive social security payments but still rely on public assistance, for example). The county consists of five moderate-income (31%), ten middle-income (63%), and one upper-income (6%) BNAs. The state wide non-metropolitan median family income for Pennsylvania is $35,200. The weighted average median housing cost is $36,800 and the weighted average median year built is 1945. Eighty-nine percent of the housing is one-to-four-family units, 5% is multifamily units, and 4% is mobile homes. Of the total housing units in the area, 73% are owner-occupied, 18% are renter-occupied, and 9% are

vacant. The top five employers in Northumberland County are Weis Markets, American Home Foods Inc, county government, state government, and The Paper Magic Groups Inc.

According to the 1998 business demographics there are a total of 1,320 businesses, including 40 farms, in Northumberland County. Of those 1,320 businesses, 1,048 or 80% have sale revenues of $1 million dollars or less, 72 or 5% have revenues greater than $1 million, and 200 or 15% did not report sales revenue. Businesses with revenues of $1 million or less are located in the following income geographies: 356 or 34% are in moderate-income, 633 or 60% are in middle-income, and 59 or 6% are in upper-income.

The second AA is the southern half of Columbia County, consisting of seven middle-income CTs in the Scranton-Wilkes-Barre-Hazleton MSA 7560. Total persons in the southern half of Columbia County are 28,493 and total families are 6,777. The following is a break down of families by income level: 16% low-income, 21% moderate-income, 28% middle-income, and 35% upper-income. Additional income-related information is as follows: 31% of population receives social security benefits, 5% is on public assistance, and 13% have incomes that are below poverty level (some overlap may occur in these percentages as a person may receive social security payments but still rely on public assistance, for example). The county consists of seven middle-income (100%) CTs. The updated weighted average MSA median family income is $38,900. The weighted average median housing cost is $55,500 and the weighted average median year built is 1953. Eighty-three percent of the housing units are one-to-four-family, 7% are multifamily units, and 10% are mobile homes. Of the total housing units in the area, 62% are owner-occupied, 30% are renter-occupied, and 8% are vacant. The top five employers in Columbia County are Star-Kist Foods Inc., state system of higher education, Wise Foods Inc., Berwick Hospital Corporation, and Magee Rieter Automotive Systems.

According to the 1998 business demographics there are a total of 848 businesses, including 28 farms, in Columbia County. Of those 848 businesses, 674 or 80% have revenues less than $1 million dollars in sales, 54 or 6% have revenues greater than $1 million, and 120 or 14% did not report sales revenue. All businesses are located in middle-income tracts.

For both AAs, loan demand is fair and competition for loans is strong. The economy is stable, but is depressed in comparison to the general economy. The May 1999 unemployment rate for the state of Pennsylvania is 3.9%. For May 1999, the unemployment rates in Northumberland and Columbia counties were 4.2% and 4.0%, respectively.

Primary competitors include First National Trust Bank, First Columbia Bank and Trust, First Union, Sobieski/Schuylkill Savings and Loan, and other community and regional banks with branches within UNB's assessment areas. As of June 30, 1998, UNB's market share of all deposits held by FDIC-insured institutions operating in Northumberland County was 5.92% and in Columbia County, 0.95%. The bank's market share of deposits for all of Pennsylvania is 0.04%.

Determination of Community Credit Needs

Community Contacts

Credit needs in the local area were determined by contacting a local community official, reviewing other recent contacts within the bank's assessment areas, and through discussions with bank management. The local community contact indicated that the community credit needs are mortgages for low- and moderate-income families to purchase homes and low-cost, start-up loans for businesses. The contact also stated that credit demand is flat due to minimal small business interest and generally low interest in real estate in the community served by the local official. Other community contact information reviewed also concluded that credit needs were for mortgages directed to low- and moderate-income families and loans for small businesses.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

SCOPE OF EXAMINATION

This examination covered the period from the previous public evaluation, dated May 1, 1996, to August 9, 1999. The analysis of HMDA reportable loan products covered the period from January 1, 1997 to June 30, 1999. Home purchase loans and small business loans were chosen as the primary product lines for review. Home purchase mortgages were chosen for review because this product represents the majority of HMDA reportable loans. All home purchase HMDA data from 1997 was utilized as it was available, but HMDA mortgages were sampled for 1998 and 1999. In Northumberland County, 25 home purchase mortgages totaling $1,082 thousand were sampled. In Columbia County all home purchase mortgages were sampled due to the limited number of loans generated in this assessment area (10 loans totaling $521 thousand). Home purchase loans originated in 1998 and 1999 total 91 mortgages at $4.7 million for both AAs. Small business loans were chosen for review because this product represents the majority of commercial loans generated. A sample of 20 business loans, originated between January 1, 1997 and August 9, 1999, were selected from the Northumberland County AA and all business loans (10) were selected from the Columbia County AA. Business loans were selected from the total outstanding aggregating $4.7 million.

Dollar amounts in the tables within this Public Evaluation are in thousands unless otherwise indicated.

Loan to Deposit Analysis

The loan to deposit ratio exceeds the standards for satisfactory performance. The loan to deposit ratio, averaged over the previous 12 quarters, is 83%. The bank's loan to deposit ratio compares favorably to that of a local peer group, at 70%. The local peer group consisted of Pennsylvania banks with total assets of less than $100 million. The loan to deposit ratio is strong given the bank's size, financial condition, and credit needs of the AAs.

Lending in Assessment Areas

The bank's lending in the AAs meets the standards for satisfactory performance. A substantial majority of loans and other lending-related activities are in the AAs. Lending in the AAs for home purchase loans is illustrated in the table below. Please note that the data from Northumberland and Columbia counties has been combined.

Home Purchase Loan Originations						
	1997		**1998**		**1999**	
	# / %	**$ / %**	**# / %**	**$ / %**	**# / %**	**$ / %**
Inside AA	49 / 71	2,314 / 63	23 / 96	1,007 / 91	10 / 83	450 / 91
Outside AA	20 / 29	1,386 / 37	1 / 4	100 / 9	2 / 17	46 / 9
Total	69 / 100	3700 / 100	24 / 100	1107 / 100	12 / 100	496 / 100

Also, 26 out of 30 (87%) of the loans in the business loan sample were originated inside the AA. By dollar amount business loans sampled totaled $899,000; $627,000, or 70%, originated in the AAs and the remaining $272,000, or 30%, originated outside the AAs.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

Lending to borrowers of different incomes and businesses of different sizes meets the standards for satisfactory performance. The primary product lines reviewed were home purchase loans and small business loans with both these products identified as credit needs by the community contacts.

The tables below depict the pattern of home purchase loan originations by individual AAs. In Northumberland County, UNB's overall market share based on 1997 originations is 9.7% and the bank is the third largest lender. (Note: 1997 market share data is used throughout this Public Evaluation as it is the latest data available.) Market share, again based on originations, to low-income and moderate-income persons is 5.0% and 8.9%, respectively. UNB is the fourth and third largest lender to low- and moderate-income borrowers, respectively. Lending to LMI borrowers is satisfactory based on the following factors: 1) comparison of the percentage of families who are LMI versus the percentage of lending to LMI borrowers; 2) UNB's overall market share versus market share of loans to LMI individuals; and 3) the demographics of Northumberland County, i.e. the high percentage of social security and public assistance recipients, and the high percentage of the population below poverty level.

Home Purchase Loan Originations by Level of Borrower Income Northumberland County							
Income	1997		1998		1999		% of Families within AA
	# / %	$ / %	# / %	$ / %	# / %	$ / %	
Low	4 / 10	80 / 4	1 / 6	8 / 1	1 /17	8 / 4	20
Moderate	9 / 22	293 / 16	3 / 18	41 / 6	1 / 17	22 / 10	22
Middle	16 / 39	558 / 29	5 / 29	237 / 32	2 / 33	30 / 13	24
Upper	12 / 29	973 / 51	8 / 47	453 / 61	2 / 33	167 / 73	34
Total	41 /100	1,904 /100	17 /100	739 /100	6 /100	227 /100	100

In Columbia County, UNB's overall market share based on 1997 originations is 2.3% and the bank is the tenth largest lender. Market share, again based on originations, to low-income and moderate-income persons is 0.0% and 3.5%, respectively. The bank is the eleventh largest lender to moderate-income borrowers. Lending to LMI borrowers is satisfactory based on the following factors: 1) comparison of the percentage of families who are LMI versus the percentage of lending to LMI borrowers; 2) UNB's overall market share versus market share of loans to LMI individuals; and 3) the branch location. The Columbia County branch is located in a very rural area and is a fairly new location for UNB.

Home Purchase Loan Originations by Level of Borrower Income Columbia County							
Income Category	1997		1998		1999		% of Families within AA
	# / %	$ / %	# / %	$ / %	# / %	$ / %	
Low	0 / 0	0 / 0	1 / 17	48 / 18	0 / 0	0 / 0	16
Moderate	2 / 25	52 / 13	2 / 33	93 / 35	1 / 25	32 / 14	21
Middle	5 / 63	280 / 68	2 / 33	75 / 28	0 / 0	0 / 0	28
Upper	1 / 12	78 / 19	1 / 17	52 / 19	3 / 75	191 / 86	35
Total	8 / 100	410 / 100	6 / 100	268 / 100	4 / 100	223 / 100	100

UNB originates a majority of business loans, both by number of loans and loan size, to small businesses. A small business is defined as a business with annual revenues of $1 million or less. Businesses with revenues of $1 million or less represent 80% in both Northumberland and Columbia counties. Businesses with revenues over $1 million represent 5% and 6%, respectively, in Northumberland and Columbia counties. Businesses not reporting revenues represent 15% and 14% for Northumberland and Columbia counties, respectively. As depicted in the table below, UNB's lending to small businesses compares very favorably to the percentage of small businesses within the bank's AAs.

Distribution of Business Loans by Revenue within Assessment Areas				
Business Revenue Size	**Northumberland County**		**Columbia County**	
	# / %	**$ / %**	**# / %**	**$ / %**
0 < $1 million	15 / 94	352 / 90	9 / 90	220 / 94
> $1 million	1 / 6	40 / 10	1 / 10	15 / 6
Total	16 / 100	392 / 100	10 / 100	235 / 100

Twenty-nine out of the 30 business loans sampled were for loan amounts totaling less than $100,000 with the remaining loan totaling only $130,000. This indicates that UNB is willing to extend credit to businesses in smaller totals. In fact, the average loan size for the 30 loans sampled is $30 thousand.

Geographic Distribution of Loans

The geographic distribution of loans exceeds the standards for satisfactory performance, reflecting a reasonable dispersion throughout the AAs.

In Columbia County all CTs are middle-income. As result, originations of home purchase and small business loans are only in middle-income tracts and UNB lends throughout this AA.

The table below depicts UNB's lending pattern in the various income geographies for Northumberland County. UNB originates loans throughout its Northumberland County AA. There is only one upper-income BNA in the AA and no originations were generated in this BNA due to the fact that it is some distance from either of UNB's branches. Lending in moderate-income tracts, when compared to the percentage of owner occupied housing, is very favorable. In Northumberland County, UNB's overall market share based on 1997 originations is 9.7% and market share, again based on originations, in moderate-income tracts is 14.9%.

Home Purchase Loan Originations by Geography Northumberland County							
Income	1997		1998		1999		% Owner Occupied Housing
	# / %	$ / %	# / %	$ / %	# / %	$ / %	
Low	NA	NA	NA	NA	NA	NA	NA
Moderate	17 / 42	468 / 25	10 / 59	448 / 61	5 / 83	143 / 63	31
Middle	24 / 59	1,436 / 75	7 / 41	291 / 39	1 / 17	84 /37	64
Upper	0 / 0	0 / 0	0 / 0	0 / 0	0 / 0	0 / 0	5
Total	41 /100	1904 / 100	17 /100	739 /100	6 /100	227 / 100	100

NA - Not applicable, there are no low-income areas.

The geographic distribution of small business loans is good in the moderate-income areas. The table below, which includes loans originated throughout the evaluation period, illustrates this:

Geographic Distribution of Business Loans Northumberland County			
Census Tract	# / %	$ / %	% Businesses in each BNA
Low	NA	NA	NA
Moderate	9 / 53	153 / 39	34
Middle	8 / 47	239 / 61	60
Upper	0 / 0	0 / 0	6
Total	17 /100	392 / 100	100

NA - Not applicable, there are no low-income areas.

Response to Complaints

During the evaluation period, the bank did not receive any complaints regarding its performance in either AA and as a result a rating in this area is not applicable.

Record of Compliance with Anti-discrimination Laws

A concurrent Fair Lending examination did not reveal any substantive violations of the antidiscrimination laws and regulations. The Fair Lending examination was conducted using denied females who applied to purchase a residence to single males who were approved to purchase a residence. Factors compared included: loan to value ratios, housing debt to income ratio, total debt to income ratio, points, rate, applicant income per year, and term.