



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

December 9, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Turbotville National Bank
Charter Number 9803**

**Post Office Box 37
Turbotville, PA 17772**

**Comptroller of the Currency
Northern Pennsylvania Field Office
100 Hazle Street, Suite 202
Wilkes-Barre, PA 18702**

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 overall rating is based on the following factors:

- The loan-to-deposit ratio meets standards for satisfactory performance;
- A majority of the bank's loans are originated in its assessment area (AA); and
- The bank's record of lending to borrowers of different incomes meets the standards for satisfactory performance.

DESCRIPTION OF INSTITUTION

Turbotville National Bank (TNB), Turbotville, PA, is an \$84 million intrastate community bank situated in central 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 subsidiaries. As such, the total assets of the bank and the holding company are virtually identical. The bank operates one full service office and one automated teller machine located in Turbotville in northern Northumberland County. Primary competition is from other similarly sized local community banks including West Milton State Bank and Muncy Bank and Trust Co. The bank also is an agricultural lender with primary competition from AgChoice.

As of September 30, 2003 TNB reports net loans of \$44 million and total deposits of \$66 million. TNB is a full service community bank offering a wide variety of loan and deposit services. Primary loan products include residential mortgages, small business and agricultural loans, and consumer installment loans. The loan portfolio represents 54% of total assets. A breakdown of the portfolio as of September 30, 2003 is as follows: 55% residential mortgages, 12% commercial credits, 7% consumer installment loans, and 26% agricultural loans. Net Tier I capital as of this same date is 12.8%. There are no legal, financial, or other impediments that would hinder the bank's ability to help meet the credit needs in its assessment area.

TNB operates only in a Non-MSA and therefore the bank is not subject to the reporting requirements of the Home Mortgage Disclosure Act (HMDA). Discussions with bank personnel and review of financial information indicated that TNB's primary lending product is home mortgages. For sampling purposes, we reviewed the bank's monthly Home Loan Activity reports for loan originations from July 1, 1998 through December 31, 2003. The lending test focused on the bank's primary lending products. A review of originated loans indicated that the bank originates primarily home purchase and home refinanced mortgages. Our sample was more heavily weighted in the years 2001, 2002, and 2003 in accordance with the OCC's guidance for preparing Public Evaluations for small banks.

The evaluation period for this examination is from July 1, 1998 until December 31, 2003. The bank's last CRA rating of "Satisfactory" was as of June 30, 1998.

DESCRIPTION OF ASSESSMENT AREA (AA)

TNB's AA includes four block-numbering areas (BNAs) in northern Northumberland County and all four BNAs in Montour County. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. All geographies within the AA are middle- or upper-income. TNB's AA was expanded during the course of this examination. The AA as originally defined by management was too small and was not representative of the community served by the bank. Originally only the most northern BNA in both Montour and Northumberland counties were included in the AA. After a discussion with management and a review of lending patterns, the AA was expanded to include all of Montour County and the northernmost portion of Northumberland County, as described previously. The population of the AA is approximately 39,500. Fifteen percent of the families residing in the AA are low-income, nineteen percent are moderate-income, twenty-six percent are middle-income, and forty percent are upper-income. Sixty-seven percent of the housing units in the AA are owner-occupied. The updated Non-MSA median family income for the AA is \$47,400.

Employment in this area is centered in agriculture, specifically dairy farming. The local agricultural community includes a large Amish population. Great Value (a grocery store) provides retail employment in the immediate area. However, most residents travel outside the area to Danville and Williamsport for employment opportunities. The unemployment rate in Northumberland and Montour counties, according to the Bureau of Labor and Statistics as of November 2003, was 5.7% and 3.4%, respectively.

According to the June 30, 2003 FDIC Summary of Deposits Market Share Report, TNB ranked eighth out of eighteen institutions in Northumberland and Montour counties, with 5.01% of deposits. Manufacturers & Traders Trust Co. ranks first with five offices and a 16.05% market share. It should be noted that the bank shows no out-of-market deposits. Since the bank is not a HMDA reporter, we cannot comment on the bank's market share of lending in the assessment area. However, market share data for all HMDA reporters in the assessment area shows there were a total of 119 lenders for the year 2001 competing for loans, with a market share ranging from 0.02% to 10%.

We determined the credit needs of the community by contacting a local housing organization. This contact indicated that the primary need of the community is housing down payment and closing cost assistance for low-income families. TNB addresses housing needs in the local community by offering a First Time Home Buyers Program which requires a reduced down payment (3%), with Private Mortgage Insurance, for a 30-year term, with interest equal to the rate offered on a 20-year product. The bank also offers another reduced down payment loan (5%) under the Federal Home Loan Bank's mortgage partnership finance (MPF) program.

TNB has not originated any community development loans during the assessment period.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The evaluation period covered lending activity for home purchase and refinance mortgages originated from July 1, 1998 through December 31, 2003.

Loan-to-Deposit Ratio

The loan-to-deposit (LTD) ratio meets the standard for satisfactory performance. Since the last examination, the bank's average LTD ratio is 73.93%. The bank's average LTD ratio exceeds the average LTD ratio of 73.20% for peer banks in Pennsylvania with total assets between \$50 and \$100 million as of September 30, 2003. At the last CRA examination, TNB's LTD ratio average was 77%, but has shown a steady decline since that time. The LTD ratio as of September 30, 2003, is 66.24%. Conversations with bank management indicate that these declines are reflective of three factors within TNB's AA: a declining regional loan demand, a more competitive market place, and the bank's entry into the MPF program.

Lending in Assessment Area

TNB meets the standard for satisfactory performance for lending in the AA. A majority of the home purchase and home refinancing loans originated during the evaluation period were within the AA. An analysis of the sample data disclosed that, by number of loans originated, 65% of home purchase mortgages and 70% of refinanced mortgages are in the AA. The balance of loans originated was outside of the AA. Of this remainder, 57% of home purchase mortgages and 67% of refinanced mortgages were originated in Lycoming County. Lycoming County, although just a few miles north of TNB, is part of the Williamsport MSA and thus not appropriate for inclusion in TNB's AA.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

TNB's record of lending to borrowers of different incomes meets the standards for satisfactory performance. The bank's performance related to home purchase mortgages and home refinanced mortgages was compared to the demographics of its Non-MSA AA.

The level of home purchase mortgage loans originated to low-income borrowers in the Non-MSA AA is below the percentage of low-income families for the Non-MSA AA. The level of home purchase mortgage loans originated to moderate-income borrowers is similar to the percentage of moderate-income families for the Non-MSA AA. When considering the affordability of housing in the AA, however, this performance is good. The median cost of housing in the Non-MSA AA is \$87,216, based on 2000 U.S. Census Data. The HUD updated median family income for 2003 is \$47,400. This means that a low-income family earns less than \$23,700. Based on these statistics, it would be difficult for a low-income family to purchase housing.

The level of home refinance mortgage loans originated to low-income borrowers in the Non-MSA AA is similar to the percentage of low-income families for the Non-MSA AA. The level of home refinance mortgage loans originated to moderate-income borrowers exceeds the percentage of moderate-income families for the Non-MSA AA. This performance is considered excellent.

The following tables are an analysis of the distribution of home purchase mortgages and home refinanced mortgages by borrower income levels.

Borrower Distribution of Home Purchase Mortgages					
Income Level	# of Loans	% of Loans	\$ (000) of Loans	% of \$ of Loans	Income level of Families in AA
Low	2	10	55	4	15%
Moderate	4	19	216	14	19%
Middle	7	33	584	38	26%
Upper	8	38	674	44	40%
Total	21	100%	1,529	100%	100%

Borrower Distribution of Home Refinance Mortgages					
Income Level	# of Loans	% of Loans	\$ (000) of Loans	% of \$ of Loans	Income level of Families in AA
Low	3	15	100	9	15%
Moderate	5	25	202	19	19%
Middle	6	30	418	38	26%
Upper	6	30	369	34	40%
Total	20	100%	1,089	100%	100%

Geographic Distribution of Loans

The bank's AA consists of six middle-income and two upper-income areas for both the 1990 and 2000 census, therefore a geographic analysis is not meaningful.

Responses to Complaints

The bank has not received any CRA-related consumer complaints since the last CRA examination.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.