



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

April 19, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Minersville
Charter Number 423

260 Sunbury Street
Minersville, PA 17954-0000

Office of the Comptroller of the Currency

Northern Pennsylvania Field Office
60 Public Square Suite 602
Wilkes-Barre, PA 18701

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.

- A substantial majority (100%) of the home refinance mortgages sampled were originated in the bank's assessment area (AA);
- The bank's quarterly average loan-to-deposit (LTD) ratio is reasonable, given the bank's size, financial condition, assessment area credit needs, and relevant competitive factors;
- The bank's record of lending to borrowers of different incomes reflects reasonable penetration throughout the AA;
- The geographic distribution of loans reflects reasonable dispersion throughout the AA; and
- The bank has no consumer complaints regarding its Community Reinvestment Act (CRA) performance.

SCOPE OF EXAMINATION

The First National Bank of Minersville (FNBM) was evaluated under the Small Bank CRA examination procedures. Our review period covered the bank's performance from January 1, 2007 through December 31, 2009 as this is reflective of its lending strategy since the last CRA examination. Home refinance mortgages were determined to be the bank's primary loan product and were reviewed as part of this examination. In order to assess the bank's lending activity, we selected a random sample of home refinance mortgages originated during the review period.

DESCRIPTION OF INSTITUTION

FNBM is an \$87 million community bank. The bank's main and only office is located in the Northeastern Pennsylvania borough of Minersville. FNBM is a subsidiary of FNBM Financial Corporation, a one bank holding company with no operating subsidiaries. FNBM is a full-service retail bank serving the entire county of Schuylkill. The office has a drive-up facility and offers extended hours on Thursday. Both the lobby and drive-up offer extended hours on Friday. The bank does not offer Saturday hours. There is one Automated Teller Machine (ATM) which is located in a drive-up stall in the rear of the bank. The ATM is available to customers 24 hours and is both deposit taking and cash dispensing. The bank's primary competition is from the larger financial institutions that have a local presence in the county, namely Wachovia, M&T Bank, and Sovereign. The asset size and branch network of each of these competitors are considerably larger than FNBM.

As of December 31, 2009 FNBM reported \$42.7 million in net loans and \$77.3 million in total deposits. Net loans represent approximately 46% of average assets. The bank's

loan portfolio consists of 58% residential mortgages, 32% commercial loans, and 9% consumer loans. As part of the CRA Performance Evaluation (PE), we reviewed internally generated reports showing total loans originated by category for the period of our review from January 1, 2007 through December 31, 2009. Based on bank-generated reports and discussions with management, we identified home refinance mortgages as the primary loan product. Specifically, 69% of all loans booked in 2007, 2008, and 2009 were home refinance mortgages. FNBM does not sell loans in the secondary market, but does participate in credits with other neighboring institutions within a 50 mile radius.

FNBM does not have any legal, financial, or other condition restrictions that would impede its ability to meet the credit needs of the community. FNBM received a "Satisfactory" rating at their last CRA examination dated March 08, 2004. No branches have been opened or closed since the last CRA examination was conducted.

DESCRIPTION OF ASSESSMENT AREA(S)

Schuylkill County is located in Northeastern Pennsylvania and is bordered on the north by Luzerne, Columbia, and Northumberland Counties; to the west by Dauphin and Lebanon Counties; to the south by Berks and Lehigh Counties; and to east by Carbon County. The county encompasses a physical land area of 778.6 square miles or 498,304 acres and has a grand total of 67 municipalities. The area is best known for its Anthracite resources and for its mining history. According to the Bureau of Labor Statistics (BLS), the January 2010 "not-seasonally adjusted" unemployment rate in Schuylkill County was 11.6%, which is higher than the Pennsylvania state unemployment rate of 9.5% and the National unemployment rate of 10.6%. The largest employers in the area include manufacturing plants located in Highridge Industrial Park; Schuylkill Medical Center; and federal, state, and county prisons.

The CRA requires a financial institution to identify an assessment area (AA) in which it intends to meet the area's credit needs. The bank's AA includes all of the Census Tracts (CTs) that make up Schuylkill County. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. There are no low-income CTs in the AA. There are five moderate-income CTs, thirty middle-income CTs, and four upper-income CTs within Schuylkill County. The population of the AA is 150,336 and the Weighted Average of Median Housing Cost is \$64,163 based on 2000 Census information. The Weighted Average of HUD Updated non-MSA Median Family Income for 2009 is \$53,800.

Banking competition in the AA is strong. According to the June 30, 2009 FDIC Summary of Deposit Market Share Report, FNBM was ranked eighth out of twenty depository institutions in Schuylkill County with a 3.81% deposit market share. Top competitors in this market include the following: Wachovia Bank which ranked first with 20.34% of deposits, M&T Bank which ranked second with 17.07% of deposits, and Sovereign Bank which ranked third with a 15.47% deposit market share.

The bank is not subject to the reporting requirements of the Home Mortgage Disclosure Act (HMDA). However, market share data for all HMDA reporting institutions in the AA show that in 2008, there were a total of 172 lenders in Schuylkill County competing for home refinance mortgages with market shares ranging from .01% to 10.5%. Comparing FNBM's volume of home refinance mortgages originated in 2008 to these lenders, FNBM would have ranked 22nd out of 172 lenders in the AA.

During the examination, we contacted a director of a local housing authority group serving Schuylkill County. The mission of the housing authority is to promote adequate and affordable housing, economic opportunity, and a suitable living environment free from discrimination for low- and moderate- income individuals. According to the contact, employment opportunities in the area are limited as much of the mining industry has left the area. This has contributed to the high local unemployment rate, and has added to the level of low-income residents of Schuylkill County. The contact stated that it is very difficult for low-income individuals to obtain housing. The housing authority may reach out to local financial institutions in the near future to obtain grants to help with funding and maintaining their development projects, but at this point the U.S. Department of Housing and Urban Development (HUD) and Schuylkill County are the agency's primary sources of funding. The contact did not mention any financial institution that has either met or not met the needs of the community.

We also contacted a local government organization that serves Minersville. The organization's purpose is to govern the Borough of Minersville. The contact stated that there will be an opportunity for local banks to participate in community development lending in the near future. The local government organization in Minersville is currently devising a plan to create a community redevelopment corporation similar to the Schuylkill Economic Development Corporation (SEDCO) located in Pottsville. The purpose of this new organization will be to renovate old buildings in the Borough of Minersville in order to make them attractive to small businesses. The contact stated that FNBM is meeting the credit needs of its community and had no complaints with regards to FNBM.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNBM's performance under the lending test is "Satisfactory". FNBM's loan-to-deposit (LTD) ratio is reasonable. A substantial majority of FNBM's home refinance mortgages were originated within the bank's AA and the bank exceeds the standard for satisfactory performance for lending in the AA. FNBM's record of lending to borrowers of different incomes is reasonable and meets the standard for satisfactory performance. The geographic distribution of loans in the AA reflects reasonable dispersion throughout CTs of different income levels and meets the standard for satisfactory performance. Additionally, the bank has not received any CRA-related consumer complaints with respect to lending performance within its AA. All criteria of the lending test are documented below.

Loan-to-Deposit Ratio

The loan-to-deposit (LTD) ratio, although below average, is reasonable given the bank's size and credit needs of its community. The bank's LTD ratio meets the standards for satisfactory performance. FNBM's average LTD ratio calculated on quarter-end financial data from March 31, 2004 to December 31, 2009 is 52%. The LTD ratio for other one-office banks operating in Pennsylvania in the same time period is 66%. During the assessment period, the bank's LTD ratio ranged from a low of 45% at December 31, 2004 to a high of 63% at December 31, 2008. The bank has historically had a LTD ratio lower than its peer group of other one-office banks operating in Pennsylvania. The average LTD ratio during the prior assessment period was 60% compared to a peer average of 70%. There are several factors that contribute to FNBM's below average LTD ratio. These factors include the following:

- A high unemployment rate and households living below the poverty level in Schuylkill County makes it difficult for the bank to originate new loans; and
- Due to the location of the bank's only office in an old coal mining town, the bank has historically had difficulty generating new loan growth.

Lending in Assessment Area

FNBM exceeds the standard for satisfactory performance for lending in the AA. A substantial majority of home refinance mortgages originated during the evaluation period were within the AA. An analysis of our random sample of twenty home refinance mortgages disclosed that 100% of the loans were originated within the AA.

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

FNBM's record of lending to borrowers of different incomes reflects reasonable penetration throughout the AA and meets the standard for satisfactory performance. The level of home refinance mortgages originated to low-income borrowers is less than the percentage of low-income families in the AA. However, when considering the affordability of housing in the AA, this performance is satisfactory. The Weighted Average of Median Housing Cost in the AA is \$64,163 based upon 2000 U.S. Census Data. The Weighted Average of HUD Updated Median Family Income for 2009 is \$53,800. This means that a low-income person earns less than \$26,900. Based on these statistics, it would be difficult for a low-income individual to purchase housing in the AA. Additionally, 10.68% of households in the AA are below the poverty level; making it extremely difficult for these individuals to obtain housing.

The level of home refinance mortgages originated to moderate-income borrowers is less than the percentage of moderate-income families in the AA. However, when considering the affordability of housing in the AA, this performance is satisfactory. Based upon the Weighted Average of HUD Updated Median Family Income of \$53,800 for 2009, a moderate-income person earns less than \$43,040. The Weighted Average

of Median Housing Cost in the AA is \$64,163 based upon 2000 U.S. Census Data. The high percentage of households below the poverty level (10.68%) further supports the satisfactory rating.

The following table shows an analysis of the distribution of home refinance mortgages by borrower income level.

Borrower Distribution of Residential Real Estate Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Refi	17.34%	10%	19.95%	10%	24.41%	10%	38.30%	70%

Source: FNBM's loan data 1/01/2007 – 12/31/2009; 2000 U.S. Census data

Geographic Distribution of Loans

FNBM's geographic distribution of loans meets the standard for satisfactory performance. The bank's performance relates to home refinance mortgages compared to the demographics of its AA. The breakdown by income level of the CTs in the AA as designated during the 2000 US Census is as follows: five moderate-income, thirty middle-income, and four upper-income CTs. There are no low-income CTs in the AA. There are no distressed or underserved areas in Schuylkill County.

Our sample included one loan (or 5%) originated in a moderate-income CT. The number of home refinance mortgages originated in moderate-income CTs is lower than the percentage of the AA's owner-occupied housing located in moderate-income CTs. Reasons for this include the following:

- FNBM has only one office and all but one of the moderate-income CTs are not located near the main office;
- Driving to FNBM from any of the moderate-income CTs would not be a convenient choice, aside from possibly CT 0019.0, which is within reasonable proximity to the bank, but not adjacent to the bank. The one loan in our sample which was originated to a borrower located in a moderate-income CT was located in CT 0019.0; and
- All of the moderate-income CTs are adequately served by other community banks and offices of regional banks located in those communities.

In conclusion, the geographic distribution of loans meets the standard for satisfactory performance because there are no low-income CTs and a limited amount of opportunities to lend within moderate-income areas because of the extended distance between the bank and the moderate-income CTs.

Geographic Distribution of Residential Real Estate Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Refi	0%	0%	13.06%	5%	75.64%	70%	11.30%	25%

Source: FNBM's loan data 1/01/2007 – 12/31/2009: 2000 US Census Data

Responses to Complaints

During the review period, the bank did not receive any CRA related consumer complaints with respect to lending performance within its AA.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.