



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

November 8, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Port Allegany
Charter Number 3877

64 Main Street
Port Allegany, PA 16743

Office of the Comptroller of the Currency

Northern Pennsylvania Field Office
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Barre, PA 18701

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Wilkes-

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 (90%) 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; and
- The bank has no consumer complaints regarding its Community Reinvestment Act (CRA) performance.

SCOPE OF EXAMINATION

The First National Bank of Port Allegany (FNBPA) was evaluated under the Small Bank CRA examination procedures which include a lending test. A full scope review of the bank's CRA lending activities was performed in accordance with the lending test procedures. Our review period for the lending test covered the bank's lending activity from January 1, 2008 through September 30, 2010 as this is reflective of the bank's 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

FNBPA is an intrastate bank headquartered in Port Allegany, Pennsylvania. It is a subsidiary of the one-bank holding company, FNBPA BC. As of September 30, 2010, FNBPA had total assets of \$103 million and tier one capital of \$9 million. In addition to the main office, FNBPA operates two full-service branches, one located in Port Allegany and the other in Coudersport, Pennsylvania. The two branches both have deposit-taking ATMs and offer Saturday hours until noon. No branches have been opened or closed since the last CRA examination. There have not been any significant changes to FNBPA's corporate structure, including merger or acquisition activities, since the last CRA examination.

FNBPA remains a full service banking institution. The bank offers a full range of deposit and loan products and services. Major loan products include fixed rate residential mortgages, commercial loans, and consumer loans. Residential mortgages are FNBPA's primary business focus. Major deposit products and other services include personal and business checking, personal savings, Internet banking and bill paying,

wire transfers, direct deposit, money orders, cashier's checks, safe deposit boxes, Visa check cards, and credit cards.

As of September 30, 2010, FNBPA reported \$51 million in net loans and \$89 million in total deposits. Net loans represent approximately 48% of average assets. The bank's loan portfolio consists of 65% residential mortgages, 21% commercial loans, 8% other loans (primarily student loans), and 6% 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, 2008 through September 30, 2010. Based on these reports and discussions with management, we identified home refinance mortgages as the primary loan product. Specifically, 76% of all mortgage loans booked in the review period were home refinance mortgages.

FNBPA's primary competitors include Citizens & Northern Bank, Hamlin Bank & Trust Company, and Northwest Savings Bank. Citizens & Northern Bank is headquartered in Coudersport, Hamlin Bank & Trust Company is headquartered in Smethport, and Northwest Savings Bank (a multi-billion dollar regional bank headquartered in Warren, Pennsylvania with 170 locations in five states) also competes with FNBPA. Both the asset size and branch network of each of these competitors is larger than FNBPA.

FNBPA does not have any legal, financial, or other restrictions that would impede its ability to meet the credit needs of the community. FNBPA received a "Satisfactory" rating at their last CRA examination dated April 18, 2005.

DESCRIPTION OF ASSESSMENT AREA(S)

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 meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. FNBPA's assessment area (AA) consists of a total of six census tracts, 4206, 4207, and 4208 in eastern McKean County and 9502, 9503, and 9504 in western Potter County, Pennsylvania. Potter and McKean Counties are contiguous rural counties located in the northwestern part of Pennsylvania and are bordered to the north by New York State. Potter County is located in an area known as the Allegheny Plateau region. Almost 300,000 acres (more than 40%) of the land in Potter County is owned by the Commonwealth of Pennsylvania. Farming and lumbering are the main components of the county's economy. McKean County was founded because of its rich and abundant natural resources of oil and timber which continue to provide a significant input into the economy.

According to 2000 U.S. Census information, the population of the AA is 25,927 and it is comprised of 7,190 families and 10,138 households with the following family income distribution: low-income (18.79%), moderate-income (19.51%), middle-income (25.13%), and upper-income (36.56%). The Weighted Average of HUD Updated non-MSA Median Family Income for 2009 is \$53,800 and the Weighted Average of Median Housing Cost is \$64,163 based on 2000 U.S. Census information.

The total percentage of households below the poverty-level is 11.48%. All six of the census tracts located in the bank's AA are middle-income census tracts.

Currently, the major employers in the bank's AA include Saint-Gobain Containers, operating under the name Verallia, which is located in Port Allegany, local school districts and governments, Pure Carbon Company located in Coudersport, and the Cole Memorial Hospital located in Coudersport. According to the Bureau of Labor Statistics (BLS), the August 2010 "not-seasonally adjusted" unemployment rate in Potter County is 10.8% and in McKean County it is 10%, both of which are higher than the Pennsylvania state unemployment rate of 8.9% and the National unemployment rate of 9.5%.

Banking competition in the AA is strong. According to the June 30, 2010 FDIC Summary of Deposit Market Share Report, FNBPA was ranked seventh out of twenty depository institutions in Potter and McKean Counties with a 9% deposit market share. Top competitors in this market include the following: Northwest Savings Bank with a 33% market share and ten offices located inside the two counties, Hamlin Bank & Trust Company with a 30% market share and seven offices located inside the two counties, and Citizens & Northern Bank with a 9% market share and three offices located inside the two counties.

Since FNB Port Allegany is not required to be a HMDA reporter, we were unable to make a meaningful comparison of its market share of loans in the AA. However, we were able to identify the top three HMDA reporting institutions for market share of loans in the AA. According to the 2008 Peer Mortgage Data the top three institutions out of a total 56 in the assessment area are:

- Northwest Savings Bank (51%);
- Citizens & Northern Bank (15%); and
- CitiFinancial Services, Inc. (3%).

Overall competition for loans and deposits in the AA is strong.

Credit needs of the community were determined during this examination by contacting officials for local housing and redevelopment authorities in Potter and McKean Counties. The missions of these organizations are to offer housing and rental assistance to seniors and low- to moderate-income families throughout the area, and to revitalize the local area and stimulate economic growth. According to the contacts, the following major employers have left the local area in the past several years: Ethan Allen Furniture upholstery plant in Eldred due to company consolidation and Adelpia due to bankruptcy. The loss of both of these major employers has had a debilitating effect on the local economy. Many former employees of these companies have since left the area due to an inability to find other means of employment. The redevelopment authority serving Potter County has been struggling to attract businesses to the area to occupy the former offices of Adelpia. The Potter County contact stated that the area is not an attractive area for businesses due to its extremely remote location.

The Potter County contact also commented on the recent effects that drilling for natural gas in the Marcellus Shale formation in Pennsylvania has had on neighboring counties (primarily Tioga to the east and McKean to the west). The natural gas workers are primarily from out of the area and are in need of temporary housing. Their salaries are much higher than the average salaries of local residents; and therefore, they are able to afford much higher rents than the going market rental rates for homes and apartments. Landlords have increased their rents in order to capitalize on the natural gas drillers. Although the natural gas industry is not yet as large in Potter County as it is in neighboring counties, there has been a recent uptick in natural gas exploration. The contact is concerned that a similar phenomenon that has occurred in neighboring counties will occur in Potter County. The agency does not currently receive sufficient funding to be able to subsidize the potentially increasing rents for low- and moderate-income families. Additionally, the natural gas industry has not generated the volume of jobs that it was projected to in the neighboring communities.

Both contacts stated that due to the closing and bankruptcy of major employers, the area needs to attract small businesses in order to achieve sustained economic profitability. When the opportunities arise, local financial institutions should assist with this credit need by lending to small businesses. The Potter County contact also stated that lending opportunities exist for individuals in terms of home equity, purchase, and refinance loans. Both contacts stated that economic opportunities exist for funding future projects that may focus on revitalizing the downtown Coudersport and Port Allegany areas. Although opportunities continually exist for banks to assist with the community development needs of the area, neither contact indicated that any local financial institutions were not adequately serving their communities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNBPA's performance under the lending test is "Satisfactory". FNBPA's loan-to-deposit (LTD) ratio is reasonable. A substantial majority of FNBPA's home refinance mortgages were originated within the bank's AA. FNBPA's record of lending to borrowers of different incomes is reasonable and meets the standard for satisfactory performance. Additionally, the bank has not received any CRA-related consumer complaints. All criteria of the lending test are documented below.

Loan-to-Deposit Ratio

FNBPA's net loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and assessment area's credit needs. This ratio meets the standards for satisfactory performance. FNBPA's average LTD ratio calculated on quarter-end financial data from March 31, 2005 to September 30, 2010 is 71%. The LTD ratio for other similarly situated banks operating in Pennsylvania in the same time period is 70%. Since the prior performance evaluation, the bank's LTD ratio ranged from a low of 58% at March 31, 2005 to a high of 84% at December 31, 2007. The average LTD ratio during the prior examination was 74% compared to a peer average of 72%.

Lending in Assessment Area

FNBPA’s performance for lending in the AA is outstanding. A substantial majority of the bank’s primary product, home refinance mortgages originated during the evaluation period were within the AA. An analysis of our random sample of 20 home refinance mortgages disclosed that 90% of the loans were originated within the AA.

Lending to Borrowers of Different Incomes

FNBPA’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 lower than the percentage of low-income families living in the AA. 18.79% of families living in the AA are low-income and one loan or 5% of our random sample of twenty home refinance mortgages was originated to a low-income borrower. However, when considering the affordability of housing in the AA, this performance is reasonable. The Weighted Average Median Housing Cost in the AA is \$63,012 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 afford a home in the AA. Additionally, 11.48% of households in the AA are below the poverty level; making it extremely difficult for these individuals to afford their own homes. This lack of affordability of obtaining housing limits the opportunities for home mortgage lending to low-income individuals or families; therefore, we placed a higher reliance on the bank’s record of lending to moderate-income borrowers.

The level of home refinance mortgages originated to moderate-income borrowers exceeds the percentage of moderate-income families living within the AA. 19.51% of families living within the AA are moderate-income and six or 30% of our random sample of twenty home refinance mortgages were originated to moderate-income borrowers. Based upon the average of HUD Updated Median Family Income for 2009, a moderate-income individual earns between \$26,900 and \$43,040 per year.

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	18.79%	5%	19.51%	30%	25.13%	25%	36.56%	40%

Source: FNBPA’s loan data 1/01/2008 – 9/30/2010; 2000 U.S. Census data

Geographic Distribution of Loans

FNBPA's AA consists of six middle-income areas; therefore a geographic analysis is not meaningful.

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.