



## **PUBLIC DISCLOSURE**

September 10, 2015

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The Farmers National Bank of Emlenton  
Charter Number 5481

612 Main Street, P.O. Box D, Emlenton, PA 16373

Office of the Comptroller of the Currency

Corporate One Office Park, 4075 Monroeville Blvd, Building 2, Suite 300  
Monroeville, PA 15146-2529

**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 Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

- Farmers National Bank of Emlenton's (FNBE's) record of originating loans is reasonable as evidenced by its loan-to-deposit (LTD) ratio compared to the LTD ratio of its peers.
- FNBE originated a substantial majority of its residential mortgage loans within its combined assessment areas (AAs).
- FNBE's record of originating residential mortgage loans reflects reasonable penetration among borrowers of different income levels.
- FNBE's record of originating residential mortgage loans reflects reasonable dispersion among AA geographies.
- FNBE's record of engaging in community development (CD) activities is adequately responsive to the CD needs of its AAs.

## **Scope of Evaluation**

We conducted an evaluation of FNBE's Community Reinvestment Act (CRA) performance under the Intermediate Small Bank (ISB) procedures. The ISB procedures include a lending test and a community development (CD) test. The lending test evaluates the bank's record of meeting the credit needs of its assessment areas (AAs) through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AAs through funding CD loans, investments, and services.

FNBE's primary loan products consist of residential mortgage loans including home purchase, home improvement, and home mortgage refinance loans. FNBE's record of originating mortgage loans and lending performance was evaluated over the period between January 1, 2012 and December 31, 2014 which is considered to be representative of its lending strategy since the previous CRA evaluation.

In order to evaluate FNBE's record of originating residential mortgage loans, we analyzed loan data FNBE collected and reported in accordance with Home Mortgage Disclosure Act (HMDA) requirements. In order to ensure the reliability of HMDA loan data, we performed a data integrity examination during the first quarter of 2015.

In conjunction with the data integrity examination, we evaluated processes employed by FNBE to ensure the accuracy of collected HMDA data and tested a sample of FNBE's reported HMDA loans. Specifically, we tested the accuracy of FNBE's HMDA loan data by comparing it against corresponding loan file documentation. The data integrity examination revealed that FNBE's publicly available HMDA loan data for 2012

contained errors, which the bank corrected prior to the commencement of this evaluation. No errors were noted for years 2013 and 2014.

FNBE's record of community development (CD) performance was evaluated over the period between January 1, 2012 and September 10, 2015. This period represents the time between FNBE's last CRA evaluation's review period and the start of its current CRA evaluation. CD related activities include CD loans, investments, and services.

## Description of Institution

FNBE is an interstate community bank. FNBE's headquarters and main office are located in Emlenton, Pennsylvania. FNBE is a wholly owned subsidiary of Emclair Financial Corporation, a one-bank holding company also located in Emlenton. Emlenton is situated in Venango County in Western Pennsylvania, near Route 80, approximately 95 miles northeast of Pittsburgh, Pennsylvania. FNBE is a full service bank that offers a wide range of traditional deposit and loan products.

As of June 30, 2015, FNBE's assets totaled \$597.7 million. Net loans and leases totaled \$398.0 million, investments totaled \$153.3 million, deposits totaled \$516.3 million, and tier one capital totaled \$50.6 million. Net loans and leases represented 66.6% of total assets. FNBE's primary lending focus is residential real estate followed by business lending. The table below details FNBE's loan portfolio composition as of June 30, 2015.

Loan Category	\$ (000)	%
Loans secured by real estate	318,895	79
Commercial Loans	76,207	19
Loans to Individuals	6,923	2
<b>Total</b>	<b>402,025</b>	<b>100%</b>

FNBE operates fifteen full service offices within adjacent counties situated in Western Pennsylvania. Branch offices are located in Bon Aire, Brookville, Clarion, Cranberry, DuBois, East Brady, Eau Claire, Emlenton, Grove City, Knox, Meridian, Ridgway, Seneca, St. Marys, and Titusville in Pennsylvania. FNBE did not close any branches since the previous evaluation period but opened the St. Mary's Office in October 2013 and the Cranberry Township Office in May 2014.

FNBE's branch network operates between the hours of 9:00 am and 4:00 pm Monday through Friday. Of FNBE's 15 branch offices, Saturday hours are offered at 12 branches. FNBE operates drive-thru facilities in all branches except Ridgway. FNBE's 14 drive-thru facilities operate between hours ranging from 8:30 am to 4:30 pm, and on Friday as late as 6:30 pm. Eleven offices have drive-thru facilities open at least until 12:00 pm on Saturdays. FNBE also operates automated teller machines (ATMs) at each branch with drive-thru facilities.

There are no factors, legal or otherwise, that would hinder FNBE's ability to help meet the credit needs of its AAs. FNBE's most recent Public Evaluation (PE) was dated July 16, 2012, for which a "Satisfactory" CRA rating was assigned.

## **Description of Assessment Area(s)**

FNBE operated within three AAs, over the evaluation period. The Venango AA is a non-Metropolitan Statistical Area (MSA), and the two other AAs are the Pittsburgh MSA AA (38300) and the Youngstown-Warren-Boardman, OH-PA (MSA) AA (49660). All three AA's are located in northwestern Pennsylvania.

The Venango AA consists of six adjacent non-MSA counties, which are Clarion, Clearfield, Crawford, Elk, Jefferson, and Venango Counties. The two other AAs are the Pittsburgh MSA AA, which consists of only Butler County; and the Youngstown-Warren-Boardman, OH-PA (MSA) AA, consisting of only Mercer County. There are no distressed or underserved designated counties in the three AAs.

FNBE's Venango AA and Butler AA are the AAs in which it has historically operated and has a more significant presence. These are also the AAs in which FNBE operates the majority of its offices, derives most of its deposits and originates the majority of its loans. In arriving at the overall conclusions for FNBE's performance in each of its AAs, more weight was placed on FNBE's performance in its Venango AA and Butler AA than its Mercer AA.

FNBE's branch offices and ATMs are located within its designated AAs. FNBE's AAs meet regulatory requirements and do not arbitrarily exclude any low- or moderate-income geographies.

### **Venango AA**

FNBE's Venango AA consists of the six (6) non-MSA counties of Clarion, Clearfield, Crawford, Elk, Jefferson, and Venango Counties. The six (6) counties are situated in northwestern Pennsylvania and are predominantly rural in nature. FNBE's physical presence in its Venango AA consists of ten (10) retail branch office locations and includes its main office and headquarters. AA geographies are contiguous and consistent with CRA regulatory requirements. Low- and moderate-income geographies are not arbitrarily excluded from the AA.

The six (6) Venango counties consist of ninety-one (91) geographies. None of the Venango AA geographies are classified as low-income and thirteen (13) are moderate-income geographies. Considering the total AA population in 2014, 10.80% reside in the moderate-income AA geographies. Just 8.81% of total owner-occupied Venango AA housing is located within the AA's moderate-income geographies.

The 2010 U. S. Census data for FNBE's Venango AA reports a total population of 342,525, total households of 138,457 and total families of 92,620. HUD data updated

for 2014 reports a median family income of \$50,163. Demographic information derived from annually updated HUD data, also reports that of total AA families, 19.63%, 19.77%, 23.12%, and 37.49% are of low-, moderate-, middle-, and upper-income, respectively.

For FNBE's Venango AA, the majority of households (68.48%) are supported by wage or salaried jobs. For the same period, of Venango AA households, 17.27% report persons over sixty-five, 36.36% derive income from social security, and 14.12% are below poverty level. HUD Median Family Income (MFI), updated for 2014, indicates that of total Venango AA housing units, 61.13% were owner-occupied and the median housing value equaled \$88,848. Housing stock consists primarily of older homes with the median year built of 1959. These AA demographic factors impact loan demand for residential mortgage loans. Particularly affected is residential mortgage demand from low- and moderate- income borrowers impacted by issues concerning housing availability and affordability.

According to the 2014 business geodemographic data, 23,173 businesses operate within FNBE's Venango AA, of which 1,126 are farms. Of Venango AA businesses and non-farm businesses which report revenues of less than or equal to \$1 million total, non-farm businesses represent 93.37% of total AA businesses. Approximately 65.17% of Venango AA businesses reported having four employees or less. Considering the highest percentage of Venango AA businesses, 41.33% are classified as services, 13.99% are classified as retail trade, and 9.37% are not classified. Additional Venango AA businesses are classified as follows: construction (7.57%), manufacturing (5.45%), finance, insurance and real estate (5.06%), transportation and communication (4.94%), agriculture, forestry and fishing (4.86%), wholesale trade (3.57%), public administration (3.40%), and mining (0.47%).

As of July 2015, for the Counties of Venango, Clearfield, Elk, Jefferson, Clarion, and Crawford, the unemployment rate was recorded at 7.0%, 6.8%, 5.7%, 6.3%, 6.5% and 5.9% respectively. These unemployment rates represent higher levels of unemployment than the state average of 5.4% and the national average of 5.3%. Large Venango AA employers include the Pennsylvania State Government, Joy Global Underground Mining, Inc., Venango County, Wal-Mart Associates, Inc., Dubois Regional Medical Center, UPMC Northwest, Elk Regional Health Center, Lockheed Martin Space Systems, PA System of Higher Education, Clarion Hospital, Meadville Medical Center, Crawford Central School District, and Allegheny College.

FNBE encounters strong AA competition. Within its Venango AA, competition consists of 137 branches of FDIC insured institutions representing eighteen (18) banks of various asset sizes, which include six (6) national banks (PNC Bank, FNBE, FNB of PA, First United NB, First Niagara, and Woodforest NB) and 12 state chartered banks, which include two trust companies. Competition also emanates from multi-billion dollar banks headquartered in nearby Pittsburgh and Cleveland, Ohio, which have a strong presence in western Pennsylvania. Although competition from the larger multi state

banks and other regional and local financial institutions is strong, FNBE benefits from its long time historical presence in its Venango AA.

### **Butler AA**

FNBE's Butler AA consists of Butler County in its entirety which represents one of the seven counties which comprise the Pittsburgh MSA. Butler County is situated in the northern section of the Pittsburgh MSA. During the evaluation period, Butler County was one of the fastest growing counties in Pennsylvania outside of southeastern and south-central Pennsylvania. FNBE's physical presence in its Butler AA consists of a branch network comprised of four (4) retail branch office locations. AA geographies are contiguous and consistent with CRA regulatory requirements. Low- and moderate-income geographies are not arbitrarily excluded from the AA.

The Butler AA consists of forty-four (44) geographies, comprised of one (1), four (4), twenty-six (26), twelve (12), and one (1) geographies, which are classified as low, moderate, middle, upper-income, and "NA" respectively. In 2014, 3.07% of the total AA population resided in one (1) low-income geography and 5.62% resided in four (4) moderate-income AA geographies. Of the total number of housing units in low- and moderate-income geographies in the AA, 6.52% is owner-occupied housing.

For FNBE's Butler AA, 2010 census data reports a total population of 183,862, total households of 71,911, and total families of 49,979. HUD data updated for 2014 reports the median family income to be \$62,376. Demographic information derived from annually updated HUD data, also reports that of total AA families, 16.18%, 16.54%, 21.60%, and 45.69% are of low-, moderate-, middle-, and upper-income respectively.

For FNBE's Butler AA, the majority of households (75.97%) were supported by wage or salaried jobs. For the same period of Butler AA households, 14.73% report persons over sixty-five, 30.39% derive income from social security and 8.95% are below poverty level. Updated census data also reports that for 2014, of total Butler County Area AA housing units, 71.59% were owner occupied and the median housing value equaled \$164,415. Housing stock consists primarily of older homes with the median year built of 1973. These AA demographic factors impact loan demand for residential mortgage loans. Particularly affected is residential mortgage demand from low- and moderate-income borrowers impacted by issues concerning housing availability and affordability.

According to the 2014 business demographic data, 15,118 businesses operate within FNBE's Butler AA, of which 676 are farms. Of Butler AA businesses and non-farm businesses which report revenues of less than or equal to \$1 million total, non-farm businesses represent 94.04% of total AA businesses. Approximately 66.67% of Butler AA businesses reported having four employees or less. Of Butler AA businesses, 43.35% are classified as services, 12.06% are classified as retail trade, and 11.22% are not classified. Additional Butler AA businesses are classified as follows: construction (9.04%), finance, insurance and real estate (6.52%), wholesale trade (4.21%),

agriculture forestry and fishing (4.47%), manufacturing (3.96%), transportation and communication (3.35%), public administration (1.59%), and mining (0.22%).

As of July 2015, the Butler AA unemployment rate was recorded at 5.3%. This unemployment rate is slightly lower than the state average of 5.4%, and it compares with the national average of 5.3%. Large Butler AA employers include Westinghouse Electric Co, LLC, the United States Federal Government, Butler Healthcare Providers, AK Steel Corporation, and Wal-Mart Associates, Inc. Two school districts (Butler Area School District and Seneca Valley School District) and the PA State System of Higher Education are also major employers.

FNBE encounters strong AA competition. Butler AA competition consists of eighty (80) branches of FDIC insured institutions representing seventeen (17) banks of various asset sizes, including eight (8) national banks (PNC Bank, FNB of PA, Nextier Bank, Huntington NB, Mars National Bank, FNBE, First Niagara Bank, and Woodforest NB), six (6) savings associations (Citizens Bank, Northwest SB, Dollar Bank, ESB Bank, Charleroi FSB, and West View SB), and three (3) Federal Reserve non-member banks (First Commonwealth Bank, Wesbanco Bank, and S&T Bank). Competition also emanates from multi-billion dollar banks headquartered in nearby Pittsburgh and Cleveland, Ohio, which have a strong presence in western Pennsylvania.

Examiners initiated contact with one community based organization within FNBE's Butler County AA involved in housing and redevelopment which serves individuals and businesses in the County. The organization also participates in programs that help low- and moderate-income residents living primarily in the city of Butler. The community contact described the area as growing in population in the western part of the county in the Cranberry Township area and an aging population in the city of Butler and surrounding rural areas. The community contact indicated there is a need for loans for housing, land development, business lending, and affordable loans for housing preservation for Butler city residents. He further commented that the credit needs of the County have been adequately satisfied by area financial institutions including providing residents with affordable loans. The organization obtains Act 137 money and Community Development Block Grant funds for neighborhood revitalization projects and affordable housing development. Banks have been actively involved in various projects taken on by the organization. The contact also stated that banks are active in conducting outreaches to housing authority clients and are partnering with the organization to provide credit restoration and first time home buyer education.

### **Mercer AA**

FNBE's Mercer AA consists of only Mercer County in its entirety which represents one of the three counties that comprise the Youngstown-Warren-Boardman, OH-PA MSA, which includes Mahoning and Trumbull Counties in Ohio, and Mercer County in Pennsylvania.

Mercer County is situated in the northwestern section of Pennsylvania. FNBE's physical presence in its Mercer AA consists of one retail branch office located in the southeastern portion of Mercer County. AA geographies are contiguous and consistent with CRA regulatory requirements. Low- and moderate-income geographies are located in the southwestern part of the county and are not arbitrarily excluded from the AA.

The Mercer AA consists of thirty (30) geographies, which include seven (7), seventeen (17), and six (6) geographies that are moderate-income, middle-income, and upper-income, respectively. The AA has a total population of 116,474 of which, 2.02%, 12.55%, 64.39% and 21.04% reside in low-income, moderate-income, middle-income and upper-income geographies, respectively. Of total owner-occupied AA housing, none were located within the AA's low-income geographies, and 13.93%, 68.07% and 18.00% were within moderate-income, middle-income, and upper-income geographies, respectively.

FNBE's Mercer AA's 2010 census data reports a total population of 116,638, total households of 46,389 and total families of 30,970. HUD data updated for 2014 reports the median family income to be \$52,933. Demographic information derived from annually updated HUD data, also reports that of total AA families, 1.95%, 11.32%, 67.31%, and 19.42% are of low, moderate, middle, and upper-income, respectively.

The majority of FNBE's Mercer AA households (68.85%) were supported by wage or salaried jobs. For the same period of Mercer AA households, 18.31% report persons over sixty-five, 38.20% derive income from social security, and 12.51% are below poverty level. Updated census data also reports that for 2014, of total Mercer County Area AA housing units, 67.94% were owner occupied and the median housing value equaled \$102,112. Housing stock consists primarily of older homes with the median year built of 1960. These AA demographic factors impact loan demand for residential mortgage loans. Particularly affected is residential mortgage demand from low- and moderate-income borrowers impacted by issues concerning housing availability and affordability.

According to the 2014 business demographic data, 7,918 businesses operate within FNBE's Mercer AA, of which 405 are farms. Of Mercer AA businesses, non-farm businesses which report revenues of less than or equal to \$1 million total, represent 91.54% of total AA businesses. Approximately 65.62% of Mercer AA businesses reported having four employees or less. There are 44.20% of Mercer AA businesses classified as services, 14.68% are classified as retail trade, and 8.85% are not classified. Additional Mercer AA businesses are classified as follows: construction (7.02%), finance, insurance and real estate (5.83%), agriculture forestry and fishing (5.11%), manufacturing (4.41%), wholesale trade (3.74%), transportation and communication (3.47%), public administration (2.54%), and mining (0.14%).

As of July 2015, the Mercer AA unemployment rate was 6.0%. This unemployment rate is higher than the state average of 5.4% and the national average of 5.3%. Large

Mercer AA employers include General Electric, Sharon Pennsylvania Hospital Co, UPMC Horizon, State Government, and Wal-Mart.

FNBE encounters strong AA competition. Mercer AA competition consists of forty-five (45) branches of FDIC insured institutions representing eight (8) banks of various asset sizes, including four (4) national banks (FNB of PA, PNC Bank, Huntington NB, and FNBE) and four (4) state chartered banks (Mercer County State Bank, Greenville SB, Citizens Bank of PA, and Northwest SB). Competition also emanates from multi-billion dollar banks headquartered in Pittsburgh and Erie, Pennsylvania, which have a strong presence in northwestern Pennsylvania.

## **Conclusions with Respect to Performance Tests**

FNBE's performance under the lending test is satisfactory. FNBE's record of originating loans reflected reasonable penetration among borrowers of different income levels. FNBE's record of originating loans reflected reasonable dispersion among AA geographies. Only one (1) of FNBE's AAs contained low-income geographies, and the AA's moderate-income geographies contained a minimal proportion of the AA's owner-occupied housing. Therefore, FNBE's record of originating loans among borrowers of different income levels received more weight than FNBE's record of originating loans among AA geographies.

All criteria of the lending test are documented below.

## **LENDING TEST**

### **Loan-to-Deposit Ratio**

FNBE's Loan to Deposit (LTD) ratio as compared to the average LTD ratio exhibited by peer banks over the same period is reasonable.

The analysis of FNBE's record of lending, demonstrated by its ratio of loans to deposits, was performed at the bank level. FNBE's average LTD ratio over the evaluation period was compared to the average LTD ratio demonstrated by a peer group of similarly situated financial institutions over the same period. Similarly situated financial institutions included seven banks with assets between \$100 million and \$500 million, operating within a four county area in Western Pennsylvania.

Lending activity over the evaluation period was measured by comparing the sixteen quarter average, LTDs reported by FNBE and its local peer group. The twelve quarter average LTD was calculated using financial data reported since the previous evaluation. Specifically, the calculation included quarter end financial data reported for each of the twelve quarters from September 30, 2012 through June 30, 2015.

FNBE's LTD ratio ranged from a low of 70.33% as of June 30, 2012 to a high of 81.88% as of December 31, 2013. FNBE's average LTD ratio was 75.68%. FNBE's average LTD ratio exceeds the average LTD ratio of its local peer group, which was 73%.

### **Lending in Assessment Area**

FNBE originated a substantial majority of residential mortgage loans inside its combined AAs.

The analysis of FNBE's record of lending in its AAs was performed at the bank level. In order to evaluate this record, we measured and analyzed FNBE's record of originating loans inside versus outside of its combined AAs. Further, this analysis focused on FNBE's record of originating residential mortgage loans within its combined AAs, since these loans constitute FNBE's primary loan products.

Lending in the AAs was assessed by measuring and analyzing residential real estate loans originated by FNBE during all four (4) quarters of 2012, 2013, and 2014. We analyzed residential real estate data collected and reported over the evaluation period, according to Home Mortgage Disclosure Act (HMDA) requirements. FNBE's residential real estate loan originations included loans for purposes of home purchase, home improvement, and home refinance.

FNBE's residential real estate data revealed that 91% and 76% of the number and dollar amounts of home mortgage loans originated were within FNBE's combined AAs during the evaluation period.

### **Lending to Borrowers of Different Incomes**

#### Performance in the Venango AA

FNBE's record of originating residential mortgage loans reflects reasonable penetration among Venango AA borrowers of different income levels.

#### *Residential Mortgage Lending*

Data collected through a sample of 60 residential mortgage loans originated by FNBE in its Venango AA was analyzed. The analysis was performed to assess FNBE's record of distributing its residential mortgage loan originations among Venango AA borrowers of different income levels.

Demographic data compiled during the 2010 census for FNBE's Venango AA reports the income level of AA families as follows:

- 19.63% of AA families are low-income families
- 19.77% of AA families are moderate-income families
- 23.12% of AA families are middle-income families
- 37.49% of AA families are upper-income families

The median family income for Venango AA families is \$50,163, and low-income Venango AA families are defined as families with annual incomes below \$27,050.

The following table details the distribution of residential mortgage loans originated by FNBE during the evaluation period to borrowers of different income levels within the Venango AA.

<b>Borrower Distribution of Residential Mortgage Loans in the Venango AA</b>								
<b>Loan Type</b>	<b>Low-Income Families</b>		<b>Moderate-Income Families</b>		<b>Middle-Income Families</b>		<b>Upper-Income Families</b>	
	% Families	% BANK # Loans	% Families	% BANK # Loans	% Families	% BANK # Loans	% Families	% BANK # Loans
<b>Home Purchase</b>	19.63%	6.27%	19.77%	22.57%	23.12%	33.54%	37.49%	37.62%
<b>Home Improvement</b>	19.63%	9.76%	19.77%	21.21%	23.12%	27.27%	37.49%	41.75%
<b>Home Mortgage Refinance</b>	19.63%	4.25%	19.77%	16.00%	23.12%	26.00%	37.49%	53.75%

Source: HMDA data for 2012 – 2014; HUD-updated 2010 U.S. Census data

FNBE’s record of originating home purchase and home mortgage refinance loans to low-income Venango AA borrowers is significantly lower than the percentage of AA families classified as low-income. The bank’s record of originating home improvement loans to low-income Venango AA borrowers is lower than the percentage of AA families classified as low-income. While the bank’s record of originating home purchase loans and home improvement loans to moderate-income borrowers exceeds the percentage of moderate-income AA families, the bank’s record of originating home mortgage refinance loans to moderate-income borrowers is somewhat lower than the percentage of Venango AA families classified as moderate-income.

Opportunities to originate residential mortgage loans within the Venango AA may be impacted by demographics including the median housing cost of \$88,848, and also that 17.27% of the Venango AA population is over the age of 65, 21.70% are retired, 36.36% are eligible for social security, and 14.12% are below poverty level.

Performance in the Butler AA

FNBE’s record of originating residential mortgage loans reflects excellent penetration among Butler AA borrowers of different income levels.

*Residential Mortgage Lending*

Data collected through a sample of 60 residential mortgage loans originated by FNBE in its Butler AA was analyzed. The analysis was performed to assess FNBE’s record of distributing its residential mortgage loan originations among Butler AA borrowers of different income levels.

Demographic data compiled during the 2010 census for FNBE’s Butler AA reports income level of AA families as follows:

- 15.81% of AA families are low-income families
- 16.49% of AA families are moderate-income families
- 22.67% of AA families are middle-income families
- 45.04% of AA families are upper-income families

Low-income Butler AA families are defined as families with annual incomes below \$32,800. Moderate-income Butler AA families are defined as families with annual incomes between \$32,800 and \$62,376.

The following table details the distribution of residential mortgage loans originated by FNBE during the evaluation period to borrowers of different income levels within the Butler AA.

<b>Borrower Distribution of Residential Mortgage Loans in the Butler AA</b>								
<b>Loan Type</b>	<b>Low-Income Families</b>		<b>Moderate-Income Families</b>		<b>Middle-Income Families</b>		<b>Upper-Income Families</b>	
	<b>% Families</b>	<b>% BANK # Loans</b>	<b>% Families</b>	<b>% BANK # Loans</b>	<b>% Families</b>	<b>% BANK # Loans</b>	<b>% Families</b>	<b>% BANK # Loans</b>
<b>Home Purchase</b>	15.81%	16.00%	16.49%	20.00%	22.67%	18.00%	45.04%	46.00%
<b>Home Improvement</b>	15.81%	10.45%	16.49%	31.34%	22.67%	20.90%	45.04%	37.31%
<b>Home Mortgage Refinance</b>	15.81%	8.70%	16.49%	22.46%	22.67%	23.91%	45.04%	44.93%

*Source: HMDA data for 2012 - 2014; HUD-updated 2010 U.S. Census data*

FNBE’s record of originating home purchase loans to low-income Butler AA borrowers exceeds the percentage of AA families classified as low-income, while originations for home improvement loans to low-income borrowers are somewhat lower than the percentage of AA families classified as low-income. Home mortgage refinance loans to low-income Butler AA borrowers is lower than the percentage of AA families classified as low-income.

The bank's record of originating home purchase loans, home improvement loans, and home mortgage refinances to moderate-income Butler AA borrowers exceeds the percentage of AA families classified as moderate-income.

FNBE's record of originating home purchase loans, home improvement loans, and home mortgage refinance loans to low- to moderate-income borrowers in the Butler AA is considered excellent penetration.

### Performance in the Mercer AA

FNBE's record of originating residential mortgage loans reflects reasonable penetration among Mercer AA borrowers of different income levels.

#### *Residential Mortgage Lending*

Data collected through a sample of 60 residential mortgage loans originated by FNBE in its Mercer AA was analyzed. The analysis was performed to assess FNBE's record of distributing its residential mortgage loan originations among Mercer AA borrowers of different income levels.

Demographic data compiled during the 2010 census for FNBE's Mercer AA reports income level of AA families as follows:

- 17.95% of AA families are low-income families
- 18.53% of AA families are moderate-income families
- 23.34% of AA families are middle-income families
- 40.19 % of AA families are upper-income families

Low-income Mercer AA families are defined as families with annual incomes below \$26,350. Moderate-income Mercer AA families are defined as families with annual incomes between \$26,350 and \$52,933.

The following table details the distribution of residential mortgage loans originated by FNBE during the evaluation period to borrowers of different income levels within the Mercer AA.

Borrower Distribution of Residential Mortgage Loans in the Mercer AA								
Loan Type	Low-Income Families		Moderate-Income Families		Middle-Income Families		Upper-Income Families	
	% Families	% BANK # Loans	% Families	% BANK # Loans	% Families	% BANK # Loans	% Families	% BANK # Loans
<b>Home Purchase</b>	17.95%	0.00%	18.53%	13.33%	23.34%	26.67%	40.19%	60.00%
<b>Home Improvement</b>	17.95%	0.00%	18.53%	0.00%	23.34%	0.00%	40.19%	100.00%
<b>Home Mortgage Refinance</b>	17.95%	4.76%	18.53%	14.29%	23.34%	23.81%	40.19%	57.14%

Source: HMDA data for 2012 - 2014; HUD-updated 2010 U.S. Census data

FNBE’s record of originating home purchase, home improvement, and home mortgage refinance loans to low-income Mercer AA borrowers is significantly lower than the percentage of AA families classified as low-income. FNBE’s record of originating home purchase and home mortgage refinance loans to moderate-income Mercer AA borrowers is somewhat lower than the percentage of AA families classified as moderate-income, while the record of originating home improvement loans to moderate-income borrowers is significantly lower than the percentage of AA families classified as moderate-income.

Opportunities to originate residential mortgage loans within the Mercer AA may be impacted by demographics including the median housing cost of \$102,112 and also that 18.31% of the Mercer AA population is over the age of 65, 24.28% are retired, 38.20% are eligible for social security, and 12.51% are below poverty level.

**Geographic Distribution of Loans**

FNBE’s record of originating residential mortgage loans reflects reasonable dispersion among Venango AA, Mercer AA, and Butler AA geographies.

Performance in the Venango AA

FNBE’s record of originating loans reflects a reasonable dispersion among Venango AA geographies.

*Residential Mortgage Lending*

Data collected through a sample of 60 residential mortgage loans originated by FNBE in its Venango AA was analyzed. The analysis was performed to assess FNBE’s record of dispersing its residential real estate loan originations among Venango AA geographies. Demographic data compiled during the 2010 U.S. census for FNBE’s Venango AA reports that AA owner-occupied housing is dispersed among AA geographies as follows:

- 0.00% of AA owner occupied housing is located in low-income AA geographies
- 8.81% of AA owner occupied housing is located in moderate-income AA geographies
- 84.95% of AA owner occupied housing is located in middle-income AA geographies
- 6.25% of AA owner occupied housing is located in upper-income AA geographies

Venango AA demographic information derived from 2010 census data reports that of all owner-occupied housing available within the AA, less than 9% is located within the AA’s moderate-income geographies. The vast majority of all AA owner-occupied housing is located in the AA’s middle-income geographies. Comparatively, of residential real estate loans originated by FNBE in its Venango AA, 6.24% were originated in FNBE’s moderate-income geographies.

The following table details the distribution of residential mortgage loans originated by FNBE during the evaluation period in its Venango AA geographies.

<b>Geographic Distribution of Residential Mortgage Loans in the Venango AA</b>								
<b>Census Tract Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
<b>Loan Type</b>	<b>% of AA Owner-Occupied Housing</b>	<b>% of Number of Loans</b>	<b>% of AA Owner-Occupied Housing</b>	<b>% of Number of Loans</b>	<b>% of AA Owner-Occupied Housing</b>	<b>% of Number of Loans</b>	<b>% of AA Owner-Occupied Housing</b>	<b>% of Number of Loans</b>
<b>Home Purchase</b>	0.00%	0.00%	8.81%	1.25%	84.95%	89.03%	6.25%	9.72%
<b>Home Improvement</b>	0.00%	0.00%	8.81%	2.00%	84.95%	92.33%	6.25%	5.67%
<b>Home Mortgage Refinance</b>	0.00%	0.00%	8.81%	2.99%	84.95%	90.30%	6.25%	6.72%

*Source: Residential Real Estate Data sampled from 2012 - 2014; HUD-updated 2010 U.S. Census data*

FNBE’s record of originating home purchase, home improvement, and home mortgage refinance loans in moderate-income Venango AA geographies reflects significantly lower than the percentage of AA owner-occupied housing located in those moderate-income geographies. In the Venango AA, there are no low-income geographies so an analysis would not be meaningful.

Opportunities to originate residential mortgage loans within the moderate-income Venango AA geographies may be impacted by demographics including the location of the moderate-income Venango AA geographies. FNBE branch locations are not situated in close proximity to Venango AA's moderate-income geographies. FNBE encounters strong competition in Venango and Jefferson Counties, further impacting its ability to originate residential mortgage loans in these geographies. Additionally, opportunities to originate residential mortgage loans within the Venango AA may be impacted by demographics including the median housing cost of \$88,848, and also that 17.27% of the Venango AA population is over the age of 65, 21.70% are retired, 36.36% are eligible for social security, and 14.12% are below poverty level.

### Performance in the Butler AA

FNBE's record of originating residential mortgage loans reflects excellent dispersion among Butler AA geographies.

#### *Residential Real Estate Lending*

Data collected through a sample of 60 residential mortgage loans originated by FNBE in its Butler AA was analyzed. The analysis was performed to assess FNBE's record of dispersing its residential mortgage loan originations among Butler AA geographies.

Demographic data compiled during the 2010 U.S. census for FNBE's Butler AA reports that AA owner-occupied housing is disbursed among AA geographies as follows:

- 1.03% of AA owner occupied housing is located in lower-income AA geographies
- 5.49% of AA owner occupied housing is located in moderate-income AA geographies
- 61.94% of AA owner occupied housing is located in middle-income AA geographies
- 31.54% of AA owner occupied housing is located in upper-income AA geographies

The following table details the distribution of residential mortgage loans originated by FNBE during the evaluation period in its Butler AA geographies.

<b>Geographic Distribution of Residential Mortgage Loans in the Butler AA</b>								
<b>Census Tract Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
<b>Loan Type</b>	% of AA Owner-Occupied Housing	% of Number of Loans	% of AA Owner-Occupied Housing	% of Number of Loans	% of AA Owner-Occupied Housing	% of Number of Loans	% of AA Owner-Occupied Housing	% of Number of Loans
<b>Home Purchase</b>	1.03%	5.56%	5.49%	1.85%	61.94%	77.78%	31.54%	14.81%
<b>Home Improvement</b>	1.03%	1.49%	5.49%	11.94%	61.94%	82.09%	31.54%	4.48%
<b>Home Mortgage Refinance</b>	1.03%	3.57%	5.49%	12.86%	61.94%	77.86%	31.54%	5.71%

Source: Residential Real Estate Data sampled from 2012 - 2014; HUD-updated 2010 U.S. Census data

FNBE’s record of originating home purchase, home improvement, and home mortgage refinance loans in low-income AA geographies exceeds the percentage of Butler AA owner-occupied housing located in the low-income AA geographies. FNBE’s record of originating home purchase loans in moderate-income AA geographies is significantly lower than the percentage of moderate-income AA geographies while the record of originating home improvement and home mortgage refinance loans exceeds the percentage of Butler AA owner-occupied housing located in moderate-income geographies.

Additionally, FNBE’s record of originating multi-family loans in the low-income and moderate-income AA geographies both exceeds the percentage of Butler AA multi-family housing located in the low- and moderate-income geographies.

Performance in the Mercer AA

FNBE’s record of originating residential mortgage loans reflects reasonable dispersion among Mercer AA geographies.

*Residential Real Estate Lending*

Data collected through a sample of 60 residential mortgage loans originated by FNBE in its Mercer AA was analyzed. The analysis was performed to assess FNBE’s record of dispersing its residential mortgage loan originations among Mercer AA geographies.

Demographic data compiled during the 2010 U.S. census for FNBE’s Mercer AA reports that AA owner-occupied housing is disbursed among AA geographies as follows:

- 0.00% of AA owner occupied housing is located in low-income AA geographies
- 13.93% of AA owner occupied housing is located in moderate-income AA geographies
- 68.07% of AA owner occupied housing is located in middle-income AA geographies
- 18.00% of AA owner occupied housing is located in upper-income AA geographies

Mercer AA demographic information derived from 2010 census data reports that of all owner-occupied housing available within the AA, less than 14% is located within the AAs moderate-income geographies. The vast majority of all AA owner-occupied housing is located in the AA’s middle-income geographies.

The following table details the distribution of residential mortgage loans originated by FNBE during the evaluation period in its Mercer AA geographies.

Geographic Distribution of Residential Mortgage Loans in the Mercer 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 Owner-Occupied Housing	% of Number of Loans	% of AA Owner-Occupied Housing	% of Number of Loans
<b>Home Purchase</b>	0.00%	0.00%	13.93%	5.88%	68.07%	82.35%	18.00%	11.76%
<b>Home Improvement</b>	0.00%	0.00%	13.93%	0.00%	68.07%	100.00%	18.00%	0.00%
<b>Home Mortgage Refinance</b>	0.00%	0.00%	13.93%	0.00%	68.07%	90.48%	18.00%	9.52%

Source: Residential Real Estate Data sampled from 2012 - 2014; HUD-updated 2010 U.S. Census data

FNBE’s record of originating home purchase loans in moderate-income AA geographies is significantly lower than the percentage of Mercer AA owner-occupied housing located in the moderate-income AA geographies and is considered poor dispersion. FNBE did not make any home improvement or home mortgage refinance loans in the moderate-income Mercer AA geographies. There are no low-income geographies in the Mercer AA so an analysis would not be meaningful.

Opportunities to originate residential mortgage loans within the moderate-income Mercer AA geographies may be impacted by demographics including the location of the branch office and the location of the moderate-income AA geographies. The FNBE branch location is situated in southeastern Mercer County; however, the Mercer AA’s moderate-income geographies are situated in southwestern Mercer County, which impacts FNBE’s ability to originate residential mortgage loans in these geographies.

Additionally, opportunities to originate residential mortgage loans within the Mercer AA may be impacted by demographics including the median housing cost of \$102,112, and also that 18.31% of the Mercer AA population is over the age of 65, 24.28% are retired, 38.20% are eligible for social security, and 12.51% are below poverty level.

## **RESPONSES TO COMPLAINTS**

The OCC received one CRA-related consumer complaint, which was filed with the Customer Assistance Group (CAG) since the last CRA evaluation. FNBE responded to and resolved the complaint and the case has been closed by CAG.

## **COMMUNITY DEVELOPMENT TEST**

The Community Development (CD) Test is rated satisfactory. FNBE's record of engaging in community development (CD) activities is adequately responsive to the CD needs of its AAs. During the evaluation period, FNBE originated fifteen (15) community development loans for a total of \$4.2 million, which has increased since the prior evaluation period, and the bank contributed, \$129,289 in CD donations. FNBE representatives also participated in a variety of CD services which benefited its AAs. FNBE's level of CD activities is adequate considering its size and capacity and the CD needs and opportunities of its AAs.

### **Number and Amount of Community Development Loans**

#### Performance in the Venango AA

FNBE has demonstrated adequate responsiveness to the CD needs of this AA, considering its performance context and the needs and opportunities within the AA.

Limited opportunities for CD lending exist within FNBE's Venango AA. Competition from both large regional and other area financial institutions for originating CD loans is considered to be very strong.

FNBE originated six (6) CD loans within its Venango AA for a total of \$895,600 over the evaluation period. Loans were primarily originated for economic development, affordable housing for low- or moderate-income individuals, and community services targeted to low- or moderate-income individuals.

#### Performance in the Butler AA

FNBE has demonstrated adequate responsiveness to the CD needs of this AA considering its performance context and the needs and opportunities within the AA. Limited opportunities for CD lending exist within FNBE's Butler AA. Competition from both large regional and other area community financial institutions for originating CD loans is considered to be very strong.

FNBE originated eight (8) loans in the Butler AA for a total of \$2.5 million. Loans were primarily originated for economic development, affordable housing for low- or moderate-income individuals, and community services targeted to low-or moderate-income individuals.

#### Performance in the Mercer AA

Since limited opportunities existed for originating CD loans in the Mercer AA, FNBE has demonstrated adequate responsiveness to the community development needs of this AA, considering its performance context and the needs and opportunities within the AA. FNBE originated only one (1) CD loan for \$734,400 in the Mercer AA during the evaluation period. In arriving at the overall conclusions for FNBE's performance in each of its AAs, more weight was placed on the bank's performance in its Venango and Butler AAs than its Mercer AA.

#### **Number and Amount of Qualified Investments**

FNBE, over the evaluation period, had no qualified investments but extended numerous grants and donations which benefited its AAs.

#### Performance in the Venango AA

FNBE extended twenty-four (24) donations for a total of \$114,289 in response to Venango AA community needs. The majority of the donations were given to non-profit organizations that focused on various CD initiatives, including serving the needs of low-and moderate-income AA residents.

#### Performance in the Butler AA

FNBE extended five (5) donations that totaled \$14,500 in response to Butler AA community needs. The majority of the funds were given to non-profit organizations that focused on various CD initiatives, including serving the needs of low-and moderate-income AA residents.

#### Performance in the Mercer AA

FNBE had one (1) charitable contribution of \$500 in the Mercer AA, during the evaluation period. In arriving at the overall conclusions for FNBE's performance in each of its AAs, more weight was placed on the bank's performance in its Venango and Butler AAs than its Mercer AA.

#### Other Qualified Investments

FNBE has three (3) previously purchased certificates of deposit totaling \$744,000 from three minority-owned out-of-state banks, which are considered qualified investments.

## **Extent to Which the Bank Provides Community Development Services**

FNBE representatives, over the evaluation period, participated in a variety of CD services which were responsive to its Venango AA, Butler AA, and Mercer AA needs.

### Performance in the Venango AA

FNBE representatives participated in a variety of CD services which were responsive to its Venango AA needs. Among CD services in which FNBE representatives participated within its Venango AA are those described below.

A Branch Manager of the bank serves as President of a local charity where he provides his financial, leadership, and managerial skills to this charity that provides gifts and clothing for low- and moderate-income children and families. Donations to this organization are also used for medical emergencies at local schools and eyeglasses for needy children. Another FNBE Executive Assistant serves as Treasurer for the organization.

A Branch Manager of the bank is a Loan Review Committee Member for a regional planning and development organization and provided expert advice on financial matters.

Another Branch Manager is a Board Member of a local redevelopment authority, which provides loan opportunities to small and emerging businesses in Elk County.

The bank's AVP/Branch Manager is a Board Member of a local county development Board, and he takes part in decision making and approving projects and loans for start-up businesses. The Board provided loans for start-up expenses.

FNBE's AVP/Branch Manager is the Board Secretary for a local agency which provides housing to low- or moderate-income veterans.

A Branch Manager serves as a Board Member for an industrial and commercial development authority which promotes economic development and assists in the manufacturing and commercial activity in the Franklin area.

A Branch Manager is a Board Member of a local charity. She provides expert advice and assistance on financial matters.

An FNBE Board Member serves as President of a health association. He provides expert advice and assistance on financial matters. The Association provides vital in-home health services, which includes the poor and elderly families in Forest County.

An AVP/Commercial Loan Officer is a Loan Committee Member of a local loan review committee, which reviews Federal and State loan programs to businesses in the six (6) county areas.

The AVP/Regional Manager of the bank is the Treasurer and Board Member of a local charity that is located in a low-and-moderate-income area in the Venango AA. He provides advice and assistance on financial matters and performs budget reviews and analysis.

A Commercial Lender of FNBE serves as a Committee Member on a local loan review Board of a regional planning and development commission, which provides input and decision making on business loan requests.

Two Customer Service Representatives (CSR) at FNBE provide financial expertise at a local abuse shelter, which performs food collections and fund raising to provide food products to low-income families in the Ridgeway area.

An FNBE Branch Manager serves as Board President of a local agency, which provides programs for rental/income assistance as well as a shelter for homeless/misplaced women.

An FNBE Branch Manager is a Board member of an agency that offers assistance to area business owners and organizations to assist with revitalization projects in the area.

Another Branch Manager is a committee member of a local business association, which works to renovate the local borough and bring additional revenue opportunities to the area.

A Branch Manager is a core team member of an initiative, which revitalizes communities in PA and helps community leaders plan for and carry out effective and comprehensive revitalization efforts.

An Assistant Branch Manager of FNBE is a Board member of an industrial development committee, which promotes economic development for Elk County. The Committee works with other organizations to facilitate the flow of funding from organizations to new business owners entering the area.

Two members of management are Board members of a local charity providing advice and assistance on financial matters, along with budget reviews and analysis.

#### Performance in the Butler AA

FNBE's member of executive management serves on the Board of a local county Community Development Corporation ("CDC") located in its Butler AA. The CDC provides financing for small businesses and contributes to area job creation and retention. The CDC also assists in the strategic placement and subsidized operation of business incubators and multi-occupancy buildings that provide start-up companies with operating space and management technical assistance.

A Board member of the bank serves as Board member of a local county industrial development authority, which improves local jobs and industry and encourages growth of existing businesses.

Another member of executive management is the Board Chair and committee member of a local charity. She provides expert advice and assistance on financial matters for the agency, which delivers quality services in the human service area in a county where the majority of individuals serviced meet low- and moderate-income guidelines.

A member of executive management serves on a loan committee, which provides capital to the Western PA region to drive business growth and create new jobs.

A commercial lender for FNBE is a Board member on a local CDC, and he provides expert financial advice and assistance on financial matters.

Another commercial lender provides expert advice and assistance on financial matters as a director of a local charity, which serves low- and moderate-income individuals in the Butler AA.

Two other commercial lenders serve as Board members of local agencies. One provides financial expertise for an agency that builds homes for low- to moderate-income families, and the other provides financial expertise for an agency that provides after school programs to the economically depressed areas of the City of Butler.

#### Performance in the Mercer AA

A Branch Manager of FNBE is a Board member for an agency that provides weekly food supplements to low-income children in the Grove City School District.

Another FNBE Branch Manager provides financial oversight to a local agency that provides low-income children with backpacks full of food to take home over extended breaks from school.

An FNBE's Branch Manager provides financial expertise as the Chair of a local organization that collects funds to meet the needs of low- to moderate-income families in the Grove City area.

### **Responsiveness to Community Development Needs**

#### Performance in the Venango AA

FNBE's CD activities demonstrate adequate responsiveness to the needs and opportunities in its Venango AA.

FNBE originated six (6) CD loans for a total of \$895,600, which benefited its Venango AA. FNBE provided twenty-four (24) CD donations totaling \$114,289 to organizations

that provide community services within its Venango AA. Seventeen (17) FNBE representatives also participated in twenty-five (25) CD services which benefited its Venango AA.

#### Performance in the Butler AA

FNBE's CD activities demonstrate adequate responsiveness to the needs and opportunities in its Butler AA.

FNBE originated eight (8) CD loans for a total of \$2.5 million, which benefited its Butler AA. FNBE provided five CD donations totaling \$14,500 to organizations that provide community services within its Butler AA. Seven (7) FNBE's representatives also participated in ten (10) CD services which benefited its Butler AA.

#### Performance in the Mercer AA

FNBE's CD activities in the Mercer AA demonstrate adequate responsiveness to the needs and opportunities in its Mercer AA.

FNBE originated one (1) CD loan for \$734,400, which benefited its Mercer AA and one (1) CD donation totaling \$500 to organizations that provide community services within its Mercer AA. Additionally, three (3) FNBE representatives also participated in four (4) CD services, which benefited its Mercer AA.

In arriving at the overall conclusions relative to FNBE's response to the credit needs of the Mercer AA, more weight was placed on the bank's participation in its Venango and Butler AAs than its Mercer AA, since FNBE operates only one office in the Mercer AA.

### **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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