



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**February 22, 2002**

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

**First National Bank of North East  
Charter Number 7064**

**14 South Main Street  
North East, MD 21901**

**Comptroller of the Currency  
Eastern Pennsylvania Field Office  
Four Greenwood Square  
3325 Street Road Suite 120  
Bensalem, PA 19020**

**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.**

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## GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority, when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of the **First National Bank of North East (FNBNE)** prepared by the **Comptroller of the Currency**, the institution's supervisory agency, as of **December 31, 2001**. The agency rates the CRA performance of an institution consistent with the provisions set forth in appendix A 12 CFR part 25.

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

The bank's performance meets the standards for a satisfactory rating and is supported by the factors listed below.

- The bank's average loan to deposit ratio of 83% is satisfactory based on the bank's size, financial condition, and assessment area credit needs.
- A substantial majority of loans extended during the examination period were originated within the bank's assessment area.
- FNBNE's lending performance reflects a good distribution of credit to borrowers of different income levels.
- The geographic distribution of loans reflects satisfactory dispersion throughout the assessment area.

The following table indicates the performance level of the **First National Bank of North East** with respect to each of the five performance criteria.

**Table I. Results of Performance Tests**

<b>SMALL INSTITUTION ASSESSMENT CRITERIA</b>	<b>FIRST NATIONAL BANK OF NORTH EAST PERFORMANCE LEVELS</b>		
	<b>Exceeds Standards for Satisfactory Performance</b>	<b>Meets Standards for Satisfactory Performance</b>	<b>Does Not Meet Standards for Satisfactory Performance</b>
<b>Loan to Deposit Ratio</b>		<b>X</b>	
<b>Lending in Assessment Area</b>		<b>X</b>	
<b>Lending to Borrowers of Different Incomes and to Businesses of Different Sizes</b>		<b>X</b>	
<b>Geographic Distribution of Loans</b>		<b>X</b>	
<b>Response to Complaints</b>	<b>There have been no complaints since the last examination.</b>		

## **Scope of the Examination**

This evaluation of the First National Bank of North East's (FNBNE) CRA performance was conducted as of December 31, 2001 and covered the period from January 1, 1998 through December 31, 2001. We performed small bank CRA examination procedures to complete this evaluation, as CRA data collection for 2001 which is reportable by March 1, 2002 had not been finalized. Therefore, the evaluation includes an analysis of the bank's sole assessment area, Cecil County based upon the bank's Home Mortgage Disclosure Act Loan Application Registers (HMDA-LARs) for the aforementioned time periods.

Although the prior Public Evaluation was performed as of March 1997, HMDA data provided by bank management was not available in a FFIEC readable format for 1997. Based upon our analysis and discussions with bank management, we determined the exclusion of this data would not significantly impact the overall Performance Evaluation rating.

## **Description of Institution**

The First National Bank of North East, MD (FNBNE) is wholly owned by Sterling Financial Corporation (SFC), a three bank, \$1.9 billion holding company located in Lancaster, PA. SFC also owns the Bank of Lancaster County, NA (\$1.2 billion total assets) and the Bank of Hanover, Hanover, PA (\$560 million total assets). SFC acquired FNBNE during January 1999. FNBNE is a \$102 million community bank servicing Cecil County, MD. The main office is located at 14 South Main Street, North East, Maryland. The bank has a total of four branches situated along the Route 40 and I-95 corridor. The bank operates three full services branches located in North East, Elkton, and Perryville and one drive-up branch located in North East. All four locations are equipped with Automated Teller Machines (ATMs). The ATMs at the North East drive-up and the Perryville locations are not equipped to take deposits. The three full service branches and the drive-up banking facility are open until 6pm on Friday and 9am-noon on Saturday. No branches have been opened or closed since our March 1997 examination.

The bank offers a wide array of banking products and services. These include demand, savings and time deposit services, money market accounts, and safe deposit boxes. The bank's lending services include commercial, construction loans, residential mortgage loans and installment and other personal loans.

As of December 31, 2001, net loans were \$72 million (71% of total assets) and total deposits were \$92 million. The following table illustrates the composition of FNBNE's loan portfolio as of December 31, 2001.

<b>LOAN PORTFOLIO COMPOSITION</b>		
<b>As of 12/31/01</b>		
<b>Loan Type</b>	<b>\$ Amount (000)</b>	<b>% of Portfolio</b>
<b>Residential Real Estate</b>	36,337	50%
<b>Commercial Real Estate</b>	21,227	29%
<b>Commercial &amp; Industrial</b>	9,801	14%
<b>Consumer Loans</b>	4,745	7%
<b>Totals</b>	72,110	100%

FNBNE's competition comes from regional and local banks and credit unions. The CRA officer has identified primary competitors to be: County Bank, National Bank of Rising Sun, Peoples Bank of Elkton, and Cecil Federal.

FNBNE is not subject to any known financial, legal, or regulatory restrictions, which would impede its ability to meet the credit needs of its community. The prior evaluation of FNBNE's CRA performance was assessed as of March 3, 1997. The bank received a Satisfactory rating.

### **Description of Assessment Area**

The bank's assessment area (AA) is Cecil County, Maryland, which is part of the Wilmington MSA 9160. Cecil County is located in the northeast sector of the state and includes the towns of North East, Rising Sun, Elkton, Perryville, Port Deposit, Cecilton, Chesapeake City, and Charlestown. The assessment area borders the state of Pennsylvania to the north and the state of Delaware to the south.

The AA is a contiguous subdivision that includes the bank's four branch offices (Elkton, North East, Rt. 40, and Perryville). The branch offices are situated throughout the county and follow Interstate 95 and Route 40, which represent the primary transportation link to the East Coast. Cecil County's major industrial centers are located along or near these interchanges at the towns of Elkton, North East, and Perryville.

The AA consists of fifteen census tracts. All census tracts in the assessment area are entire tracts that correspond to geographic borders. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. Tract characteristics are shown in the table that follows.

<b>Assessment Area Demographics</b>			
<b>As of 12/31/01</b>			
<b>Income Designation</b>	<b># of Census Tracts</b>	<b>% of Total Tracts</b>	<b>% of Families</b>
<b>Low</b>	0	0%	21%
<b>Moderate</b>	2	13%	21%
<b>Middle</b>	12	80%	28%
<b>Upper</b>	1	7%	30%
<b>NA</b>	0	0%	0%
<b>Total</b>	15	100%	100%

Major employers in the AA include W.L. Gore, Perry Point, Union Hospital, Terumo Medical, and the Board of Education. Approximately 50% of residents commute outside the AA to work, with a strong migration to New Castle County and Harford/Baltimore Counties. MBNA, DuPont, Chase Bank, First USA, and Astra Zeneca are a few of the major employers located outside of the AA. The unemployment rate for Cecil County is 2.7%, as compared to the unemployment rate of 4.5% for Maryland and 5.8% for the nation. Cecil County's economy remains stable.

Based on the 1990 census data, the total population of the assessment area is 71,347 and contains 24,817 households comprising 19,421 families. Housing units within the assessment area total 27,656. This total reflects 67% owner occupied, 22% rental and 10% vacant housing units. The updated median family income is \$72,100 and the weighted average median housing value is \$99,800.

The primary credit needs of the AA are affordable housing and small business lending. Credit needs of the community were determined during this examination through discussions with management and by contacting The Office of Housing and Community Development (OHCD) and the Office of Economic Development (OED). OHCD indicated the primary credit need of the community is affordable housing. OED stated their primary purpose is to expand the industrial and commercial tax base in order to create job opportunities for residents in Cecil County. Currently, 53% of Cecil County residents commute outside the county for work, as there is only one job for every four residents in Cecil County. Our discussions indicate FNBNE actively participates in meeting the community's needs in Cecil County.

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

The bank's loan to deposit ratio is satisfactory. The quarterly average for the period September 30, 1998 through September 30, 2001 is 82.8%. This ratio exceeds the national peer average of 73.0% for the same time frame.

## Lending in Assessment Area (AA)

We reviewed FNBNE's HMDA loan application register to determine the location of loan originations. The bank has a good record of serving the credit needs of its entire community based on this sample. A substantial majority of loans are made within FNBNE's AA, as indicated in the table below.

<b>Distribution of HMDA Originations 1/1/98 - 12/31/01</b>		
	<b>Number</b>	<b>\$ (000)</b>
<b>Total Originations</b>	<b>426</b>	<b>22,547</b>
<b>HMDA Originations within AA</b>	<b>395</b>	<b>20,164</b>
<b>Percent of Originations within AA</b>	<b>93%</b>	<b>89%</b>

For the purpose of this review we sampled 25 commercial loans originated during the evaluation period. The 25 loans amounted to approximately \$5 million. Twenty-one of the 25 loans (84%), and \$3 million (60%) of the dollar volume were extended within the assessment area. Upon discussion with management, we assumed this analysis to be an accurate reflection of the entire portfolio.

## Lending to Borrowers of Different Income Levels

The bank's lending record to low- and moderate-income borrowers is good. FNBNE's record of lending to borrowers of different income levels was evaluated using HMDA reportable loans originating 1998 through 2001. Our review of HMDA data reveals percentages of originations by borrower income similar to the percentage of family income within each tract.

<b>Lending to Borrowers of Different Income Levels HMDA Loans from 1/1/98 - 12/31/01</b>					
<b>Income Category</b>	<b># of Loans</b>	<b>% of # of Loans</b>	<b>Amount (\$000's)</b>	<b>% of Amount</b>	<b>% of Families in each income category</b>
<b>Low</b>	<b>104</b>	<b>25%</b>	<b>2,195</b>	<b>10%</b>	<b>21%</b>
<b>Moderate</b>	<b>106</b>	<b>25%</b>	<b>4,369</b>	<b>19%</b>	<b>21%</b>
<b>Middle</b>	<b>108</b>	<b>25%</b>	<b>6,349</b>	<b>28%</b>	<b>28%</b>
<b>Upper</b>	<b>61</b>	<b>14%</b>	<b>5,676</b>	<b>25%</b>	<b>30%</b>
<b>NA</b>	<b>47</b>	<b>11%</b>	<b>3,958</b>	<b>18%</b>	<b>0%</b>
<b>Total</b>	<b>426</b>	<b>100%</b>	<b>22,547</b>	<b>100%</b>	<b>100%</b>



## Small Business Loans

Management was not required to analyze commercial loan data by borrower prior to its acquisition by Sterling Financial Corp. Reviewing all loans originated during the review period (639), we determined that the vast majority of loans were generated in amounts less than \$500,000 and no loans were originated in amounts greater than \$1million. Using the sample of commercial loans, we assessed that the majority of borrowers (88%) are small businesses with annual revenue of less than \$1 million.

## Geographic Distribution of Loans

The geographic distribution of HMDA loans reflects satisfactory dispersion throughout FNBNE's AA. As noted previously, the AA contains no low-income census tracts and only two moderate-income census tracts. While the majority of lending penetration exists within the middle-income census tracts, the distribution of loans to moderate-income geographies is reasonable when compared to the census tract composition of the AA.

<b>Geographic Distribution of HMDA Loans Within AA</b>					
<b>1/1/98-12/31/01</b>					
<b>Income Level of Census Tract</b>	<b>Amount of Loans (\$000)</b>	<b>% of Amount of Loans</b>	<b># of Loans</b>	<b>% of # of Loans</b>	<b>Geographic Distribution of Census Tracts</b>
<b>Low</b>	<b>0</b>	<b>0%</b>	<b>0</b>	<b>0%</b>	<b>0</b>
<b>Moderate</b>	<b>1,640</b>	<b>7%</b>	<b>41</b>	<b>10%</b>	<b>13%</b>
<b>Middle</b>	<b>18,270</b>	<b>81%</b>	<b>347</b>	<b>81%</b>	<b>80%</b>
<b>Upper</b>	<b>254</b>	<b>1%</b>	<b>7</b>	<b>2%</b>	<b>7%</b>
<b>NA</b>	<b>2,383</b>	<b>11%</b>	<b>31</b>	<b>7%</b>	<b>0</b>
<b>Total</b>	<b>22,547</b>	<b>100%</b>	<b>426</b>	<b>100%</b>	<b>100%</b>

The 2000 Lender Market Share Report indicates FNBNE had an overall market share of 2.98%, based on the number of loans originated in the AA. This ranks FNBNE fifth, behind two national mortgage companies and the two larger banks domiciled in Cecil County. FNBNE's lending market share to moderate-income census tracts was 2.82%.

## Response to Complaints

There have been no written complaints relating to the bank's CRA performance.

## Compliance with Antidiscrimination Laws:

An analysis of HMDA, consumer complaint information and public comments was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation. The latest comprehensive fair lending examination was performed in 1997.