



Comptroller of the Currency
Administrator of National Banks

LARGE BANK

Public Disclosure

May 11, 1998

Community Reinvestment Act Performance Evaluation

**Pennsylvania National Bank and Trust Company
Charter # 1663
Center and Norwegian Streets
Pottsville, Pennsylvania 17901**

**Comptroller of the Currency
Mid-Size/Credit Card Banks
New Jersey Field Office
830 Morris Turnpike, Second floor
Short Hills, New Jersey 07078**

NOTE: 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.

Table of Contents

Definitions	3
General Information.....	4
Description of Institution	5
Description of Assessment Area	6
 Conclusions with Respect to Performance Tests	
Scope of Review	7
Lending Test	7
Investment Test	13
Service Test	14
 Fair Lending Review	 16
 MSA Performance Conclusions	
Allentown	17
Harrisburg	21
Reading	25
Scranton	29
Non-MSA (Schuylkill & Northumberland Counties)	33
 Appendix	
Scope of Examination	37

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this Performance Evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a legal definition.

Community Reinvestment Act (CRA) - The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of the local community, consistent with safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Metropolitan Statistical Area (MSA) - An area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Census Tract (CT) - Small, locally defined statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogeneous populations. A CT contains an average population of 4,000 and may have its boundaries defined with every ten-year census.

Home Mortgage Disclosure Act (HMDA) - A statute that requires certain mortgage lenders that do business or have banking offices in an MSA to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and income of applicants, the amount of the loan request, and its disposition (e.g., approved, denied, withdrawn).

Median Family Income (MFI) - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of census tracts. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Low-Income - Income levels that are less than 50% of the MFI.

Moderate-Income - Income levels that are at least 50% and less than 80% of the MFI.

Middle-Income - Income levels that are at least 80% and less than 120% of the MFI.

Upper-Income - Income levels that are 120% or more of MFI.

Small Business Loans - Loans with an original amount of \$1 million or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

Small Farm Loans - Loan with an original amount of \$500 thousand or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

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 **Pennsylvania National Bank and Trust Company** prepared by **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **May 11, 1998**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

Institution's CRA Rating: This institution is rated **Satisfactory**

- ▶ The bank has a high percentage of its HMDA and small business loans in its assessment areas;
- ▶ An adequate distribution of HMDA and small business loans;
- ▶ An adequate level of lending to borrowers of different income levels and business of different sizes;
- ▶ Flexible and innovative mortgage and consumer loan products;
- ▶ A reasonable level of community development lending;
- ▶ Qualified investments and donations/grants are reasonable in relation to the opportunities in the assessment areas;
- ▶ Delivery systems are reasonably accessible to all portions of the institution's assessment areas.
- ▶ PNB established an innovative mobile banking unit that provides retail services in all of its assessment areas.
- ▶ A high level of community development services.

Performance Levels	Name of Financial Institution Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High satisfactory			X
Low satisfactory	X	X	
Needs to improve			
Substantial noncompliance			

* Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

Description of Institution

Pennsylvania National Bank (PNB) is a full service institution, headquartered in Pottsville, Pennsylvania and serves the central portion of Pennsylvania. As of March 31, 1998, total assets were \$1.3 billion, and net loans were \$950 million and comprise 75% of total assets. The outstanding loan portfolio includes, 52% real estate (23% residential, 29% commercial), 15% commercial loans, 15% loans to individuals, 9% leasing and 9% other.

PNB is a wholly owned subsidiary of Keystone Financial, Inc. (KFI). KFI is the fourth largest bank holding company headquartered in Pennsylvania. KFI was formed in 1994 and is headquartered in Harrisburg, Pennsylvania and as of March 31, 1998, had total assets of \$6.9 billion. KFI operates six bank subsidiaries in Pennsylvania and one in Maryland.

PNB has 30 branches, 25 have ATMs and 22 have drive-in facilities. In addition, there are 17 remote location ATMs located at supermarkets and convenience stores. Branches and ATMs are located throughout Schuylkill, Dauphin, Luzerne, Cumberland, Carbon, Northumberland and Berks Counties in Pennsylvania.

Competition within the assessment area (AA) is strong and is provided by offices of large regional financial institutions and from mid-sized and smaller community banks. Financial institutions with a strong representation in the AA include First Union Bank N.A., Mellon Bank N.A., Dauphin Deposit Bank and Trust Company, and PNC Bank N.A.

There are no financial or legal impediments that would prevent the institution from helping to meet the credit needs of the assessment area.

Description of Assessment Area(s) (AAs)

PNB has defined five AAs. The five AAs comply with regulatory guidelines and do not arbitrarily exclude any low- and moderate-income areas (LMI). Geographies are used in this document to describe census tracts (CTs) and block numbering areas (BNA's). LMI may be used throughout this document to describe low- and moderate-income individuals and geographies. The AAs are in North Central Pennsylvania, encompassing parts or all of the following counties: Berks, Carbon, Columbia, Cumberland, Dauphin, Lebanon, Luzerne, Northumberland, Perry, and Schuylkill. Four of the AAs are in portions of Metropolitan Statistical Area (MSA) and one is comprised of two contiguous counties in a non-MSA.

The five assessment areas combined contain 255 block numbering areas (BNAs) and census tracts (CTs), 8 low-income (3%), 46 moderate-income (18%), 168 middle-income (66%), and 33 upper-income (13%). Total population for the combined AA is 1.2 million which is approximately 10% of the state population. The majority of PNB's 30 branch offices are located in suburban and semi-rural market places with the exception of those located in the urban markets of Harrisburg, Pottsville, suburban Reading and Hazelton.

The four AAs in MSAs include Allentown (MSA #0240), Harrisburg (MSA #3240), Reading (MSA #6680), and Scranton (MSA #7560). The fifth assessment area includes Scuykill and Northumberland Counties which are located in a non-MSA. A detailed description of each assessment area can be found in the **MSA/NonMSA Performance Conclusion** section of this Public Evaluation.

Determination of Community Credit Needs

Management established a Community Review Council in Harrisburg. Harrisburg is the most diversified area regarding population. The Community Review Council consists of minority and other small business owners and members of the community who meet with PNB to discuss needs and projects within the Harrisburg area. Through the Community Review Council, PNB has determined that the credit needs in Harrisburg are affordable housing and small business loans.

In all the remaining AAs, PNB has determined that affordable single and multifamily housing is the primary credit need and that focus also includes credit establishment. The secondary focus is lending to small businesses for the start up expenses and working capital.

Community Contacts

During the examination, seven community groups, representing various organizations throughout the AAs, were contacted. From those contacts the following were identified as credit needs within PNB's AA: housing rehabilitation programs, development of single family housing, development of multi-family housing programs, programs to assist low- and moderate- income individuals in purchasing homes, and small business lending. The credit needs presented by the

community groups is consistent with needs identified by bank management.

Conclusions with Respect to Performance Tests

Scope of Review

Note: Pennsylvania National Bank and Trust Company's 1997 HMDA data was filed inaccurately. The incorrect HMDA data has been published. Management provided us with the correct HMDA data during the examination, which we used in our analysis. The corrected HMDA data will be placed in the bank's public file, and Pennsylvania National Bank and Trust Company has resubmitted the correct 1997 HMDA data.

The evaluation period for this examination is from January 1, 1996 to March 31, 1998. The Lending Test review covers the calendar year 1997 and the first three months of 1998. The Lending Test is based on information contained in the bank's Home Mortgage Disclosure Act Reports (*HMDA*), and Small Business/Small Farm Data Collection Reports. The Investment and Service Test review covers calendar years 1996, 1997, and the first three months of 1998.

In addition to the HMDA loans originated by PNB, the mortgage affiliate Keystone Financial Mortgage Corporation (KMFC) originated 366 mortgage and refinance loans totaling \$34 million in PNB AAs during the evaluation period. The loans of the affiliate were not considered in the concentration of lending analysis but were evaluated in the geographical and borrower income analysis.

Lending Test

PNB's lending levels are adequate and show good responsiveness to meeting the credit needs for home and small business loans. PNB and its affiliate, KFMC, have, through the use of innovative and flexible lending programs, provided access to mortgage loans for low- and moderate-income residents. The consumer loan products developed to establish or reestablish credit are also responsive to identified community credit needs.

Concentration of Lending Activity

As shown in the Table I, PNB originated 757 HMDA reportable loans, 565 small business loans, and six small farm loans during the 15-month evaluation period in the combined assessment area. PNB has an excellent concentration of loans inside its AA's. The bank made 1,442 loans within its combined AA representing a very high percentage of loans (92%) originated inside its AA. These loans total \$112 million or 87% of the total dollar amount of loans represented by the three loan types.

Table I				
Ratio of Loans Originated Inside the Assessment Area - 1997 and First Quarter 1998				
	HMDA	Small Business	Small Farm	Total
Number				
Number of loans inside the AA	757	565	6	1,328
Total number of Loans	808	628	6	1,442
% of Loans Inside/Total # of Loans	94%	90%	100%	92%
Dollars (in 000's)				
\$ of Loans Inside the AA	32,595	79,083	801	112,479
Total \$ of Loans	36,505	91,949	801	129,255
% of Loans Inside/Total \$ of Loans	89%	86%	100%	87%

Source: 1997 & 1998 HMDA LAR, and Small Business/Small Farm Data Collection Register

From this point forward all information presented represents activities which occurred in the bank's entire AA unless otherwise noted. The information contained in the MSA Conclusion section of this report represents the activities of the bank within its AA portion of each MSA.

Geographic Distribution - Home Loans:

Table II shows PNB has a low volume of HMDA loans to low income geographies and an excellent distribution of loans to moderate income geographies compared to the percentage of owner occupied housing contained in these geographies. There was significant variation among the three HMDA products, with the distribution of home purchase loans varying most significantly from the overall product distribution.

Home improvement and refinance loans reflect strong results in moderate income geographies (23% and 19% respectively), while only 9% of the home purchase loans were made in moderate income geographies. Home purchase loans had the strongest showing in low income geographies (.6%), while the distribution of home improvement loans was only .3%. No refinance loans were made in low income geographies.

An owner occupancy rate of 1% in the AA's low income geographies reduces lending

opportunities for HMDA reportable products. The eight geographies comprise four geographies in Harrisburg and four geographies in Reading. A 1996 market share report, the latest available, indicates that 343 HMDA reportable loans were originated by 74 lenders in the eight low income geographies.

The majority of low and moderate income families reside in middle income geographies. PNB's lending in geographies tends to mirror demographic patterns and location of PNB's offices.

Table II					
Geographic Distribution of HMDA Loans - 1997 and 1st Quarter 1998 Originations					
Geography Income Level	% of Total Geographies	# of geographies	% of Owner Occupied Housing	# of Loans	PNB % of Total # of Loans
Low	3	8	1	2	0
Moderate	18	46	12	175	16
Middle	66	168	69	710	63
Upper	13	33	18	236	21
Total	100%	255	100%	1,123	100%

Source: 1997 & 1998 PNB HMDA LARs

Small Business and Farm Loans:

Table III illustrates that PNB has an adequate geographic distribution of loans to small businesses in low and moderate income geographies and a reasonable volume of loans to businesses located in moderate income geographies.

Table IV reflects that lending to small farms is reflective of the location of farming operations which is primarily in middle income geographies.

Business demographics for the combined assessment areas reflect that 27,000 or 90% of businesses report annual revenues of one million or less and 3,000 exceed that amount. Business entities employing 1-4 employees represent 24,000 of the 30,000 businesses in the combined AA. Businesses located in low income geographies total 644 and 4,393 are in moderate income geographies.

Table III Geographic Distribution of Small Business Loans - 1997 and First Quarter 1998 Originations			
Geography Income Level	% of total geographies	% of PNB Small Business Loans	% of Small Businesses
Low	3	1	2
Moderate	18	8	15
Middle	66	67	64
Upper	13	24	19
Total	100	100	100

Source: 1997 and 1998 Small Business/Small Farm Data Collection Registers

Table IV Geographic Distribution of Small Farm Loans - 1997 and First Quarter 1998 Originations			
Geography Income Level	% of total geographies	% of PNB Small Farm Loans	% of Small Farms
Low	3	0	0
Moderate	18	0	4
Middle	66	100	77
Upper	13	0	19
Total	100	100	100

Source: 1997 and 1998 Small Business/Small Farm Data Collection Registers

Borrower Characteristics - Home Loans:

PNB has an adequate distribution of HMDA loans to borrowers with low or moderate income. Table V shows the bank's distribution of HMDA loans to low income borrowers at a reasonable level compared to the percentage of low income families in the AA. PNB's distribution of loans to moderate income borrowers was good compared to the percentage of moderate income families in the AA.

PNB's performance for each of the three HMDA products varied with its overall HMDA borrower distribution performance. The bank's distribution of home purchase loans to low income borrowers is adequate at 10%, while its distribution to moderate income borrowers was good at 30%. For home improvement loans, PNB's distribution to low and moderate income borrowers was about equal to the distribution of families (17% & 19% respectively). Refinance loans is acceptable with 7% made to low income borrowers, and 16% made to moderate income borrowers.

Table V Borrower Distribution of HMDA Loans - 1997 & 1st Quarter 1998 Originations		
Income Level of Families	% of Families by Income Level	% of PNB HMDA Loans
Low	17	10
Moderate	19	22
Middle	27	26
Upper	37	42
Total	100	100

Source: PNB 1997 and 1998 HMDA LARs

Small Business and Small Farm Lending:

PNB made the majority (51%) of its small business loans to small size businesses (annual revenues one million or less). The remaining 49% consisted of 16% to businesses with annual revenues greater than \$1 million and 33% to businesses with unknown revenues. Five of the bank's six small farm loans were made to farms with annual revenues less than \$500,000.

Tables VI and VII show the percentage distribution of PNB's small business and small farm loans by different loan dollar amounts. The majority of PNB's small business (63%) and small farm (83%) loans were for less than \$100,000.

Table VI Small Business Loan Originations by Dollar Loan Size	
Origination Amount \$	PNB Distribution %
Less Than 100,000	63
100,000 - 250,000	20
Greater Than 250,000	17
Total	100

Source: 1997 & 1998 Small Business/Small Farm Data Collection Registers

Table VII Small Farm Originations By Dollar Loan Size	
Origination \$ Amount	PNB Distribution %
Less Than 100,000	83
100,000-250,000	0
250,000-500,000	17
Total	100

Source: 1997 & 1998 Small Business/Small Farm Data Collection Registers

Community Development Lending

PNB did not have any reportable community development loans. The bank originated six small business loans totaling \$1,155,000 during the evaluation period. These loans have a community development purpose. Included in the \$1,155,000 are two loans totaling \$950,000 used to fund a small business incubator for start up businesses in Carbon County. These loans were reported on the institutions Small Business Data Collection Register and included in our evaluation of the bank's small business lending.

Innovative or Flexible Lending Practices

PNB and its affiliate KFMC offer several loan programs that are considered flexible and innovative, in some instances.

Affordable Consumer Instalment Loan - This product is specifically designed for low and moderate income borrowers. A borrower with low income is given a 1% discount, and a borrower with moderate income is given a 1/2% discount off regular consumer loan rates. Loan amounts from \$500 to \$25,000 are available. Loan payments are automatically deducted from the borrowers savings or checking account.

Key Opportunity Mortgage Program - This program is available only to borrowers whose income is 100% or less of the area median family income. Interest rate discounts are offered to low income (below 50% of area median family income) and moderate income (below 80% of area median family income). Low income borrowers receive a 1.5% discount, and moderate income borrowers receive a 1% discount off the bank's regular mortgage rates. Borrowing is permitted for up to 95% of the value of the purchased property, and no points are charged. A special accommodation loan is available to these borrowers to cover closing costs and up to 2% of the 5% down payment. The interest rate on the accommodation loan is the same as the mortgage loan rate.

The bank allows the borrower to have a debt to income ratio that is as much as 4% higher than the maximum debt to income ratio allowed under the bank's normal mortgage programs.

Credit Establishment Loan Program - The purpose of the loan is to help individuals develop a credit history. Borrowers can obtain small instalment loans ranging from \$250-\$1,500 at the bank's regular interest rates. No collateral or comaker is required. Loan payments are automatically deducted from the borrowers checking or savings account.

Mahanoy City Facade Improvement Loan Program - The bank offers a 0% interest rate loan to businesses located in the downtown Mahanoy business district for facade improvements. Three loans have been made under the program.

Lease/Purchase Mortgage Program - The program is designed for first time home buyers who do not have the funds for closing costs or down payments. Individuals rent homes from Tri County housing for a 2-5 year period, with the intent to assume the mortgage (mortgage obtained from the bank) after the rental period. During the rental period, the tenants build equity and learn the responsibilities of a homeowner.

Harrisburg Micro Loan Program - This loan program is run in conjunction with the City of Harrisburg. The City will guarantee 50% of a loan made to a nonbankable business located within the City. PNB is generally more liberal in approving these loans due to the presence of the City's partial loan guarantee.

Business Manager - This product involves purchasing customers' accounts receivables at a discount, thereby giving the business immediate access to funds. The business is free of the responsibility for billing and collecting the receivables. This product is helpful to small businesses who may not readily qualify for a line of credit and prefer to be free of billing and collection responsibilities.

KeyAssist - This package of banking services designed for small businesses, features lines of credit as low as \$1,500. The availability of the small credit line is helpful to very small businesses who do not qualify for or require larger credit lines.

INVESTMENT TEST

PNB has an adequate level of qualified investments and donations and works with a number of community groups in response to their needs. All qualified investments were to the benefit of low- and moderate-income individuals and/or geographies. ***During the evaluation period, PNB made \$665,000 in qualified investments including qualified donations within the combined AA.*** Management has elected not to become involved with any state wide programs which benefit LMI areas and/or individuals in order to better focus on its Aas.

Investment opportunities, outside grants and donations, are limited in most of the AAs due to limited investment opportunities within the areas or because PNB has only a small presence in the area. Harrisburg offers the largest opportunities for investment activities.

In 1996, PNB invested in a low income housing tax credit totaling \$384,000. The project involved the conversion and expansion of 130 year old vacant mansion into a new youth center, located in a low income neighborhood in the City of Harrisburg. The center is serving low- and moderate-income women and children, providing emergency shelter for the homeless, bridge housing, life skills, and year round day care services. The project totaled nine million dollars and involved seven participants.

Qualified donations totaled \$281,000 and comprised \$48,000, \$231,000, \$2,000 for 1996, 1997, and 1998, respectively. Donations in 1997 included a building appraised at \$200,000 and accounts for the significant increase in donations during 1997. The building is in a LMI neighborhood and is used by a community group to provide early intervention programs to low- and moderate-income neighborhood children who are the majority of attendees.

SERVICE TEST

PNB's delivery systems are reasonably accessible to all portions of their assessment areas. Branch hours are reasonable and convenient to all customers. The bank's record of closing offices has not affected the accessibility to bank services. During the evaluation period three branches were sold and three were consolidated into other PNB branches. The sale of branches and closing two offices were located in moderate income geographies. The sale and closings did not reduce the accessibility to banking services. The accounts at the two branch offices closed were consolidated into other branch offices of PNB.

PNB has 30 community offices, 17 remote location ATM's, and a mobile banking unit covering seven counties. Most of the community offices have extended hours, i.e., after 5:00 p.m., at least on one day during the week and Saturday hours. Banking services are also available at PNB's two offices located in supermarkets. One supermarket location has introduced Sunday banking. The 17 remote ATM's are located in 15 convenience stores and in a hospital and public park. Thirty five percent of the ATM's are in moderate income geographies. Approximately, 80% of the bank's community offices offer ATM network service and nearly 75% of the branches have drive up facilities. PNB offers a debit card, KeyCheck, that enables customers to electronically access checking accounts to pay for goods and services at participating merchants. PNB will be offering bank by telephone, the KeyCall Center, in June 1998.

In appropriate office locations, primarily Harrisburg, multilingual personnel (Spanish and Vietnamese) are available to provide assistance to customers. The bank has a wide array of product and service brochures available in Spanish including information on the Key Opportunity mortgage loan.

In 1997, PNB established an innovative alternative delivery system, KeyDirect, a mobile banking unit. It is the first mobile banking unit in Pennsylvania which provides retail banking services throughout PNB’s assessment areas. The mission statement of the KeyDirect Unit is, “To provide a unique and innovative approach to delivering a full range of financial services to new and emerging markets as well as under served markets, including segments with special needs such as retirement and low-income communities.” KeyDirect is a full service bank with two ATMs. The unit has visited every office location to introduce KeyDirect to the community. The mobile unit provides retail services to seven LMI senior centers, on a regular basis.

PNB offers a common set of financial services to all of its customers. Services include a wide range of products including loans, deposit, and trust services. Services are designed for both retail and businesses, including small business customers. Included in the product array is the KeyFree Checking account that requires no minimum balance, no monthly fees, and unlimited check writing.

There are several products designed to help meet the identified credit needs of the AAs. Products designed to assist retail customers include a first time home buyers program, credit establishment programs and financial planning programs. Products for small business loans include business start up loans, cash management services, and help with financial planning issues. For additional information, refer to **Lending Test** comments.

The table below reflects the PNB’s branch locations throughout its combined assessment areas. PNB maintains a good distribution of branches in comparison to the demographics of the AAs. There are four low income geographies in the Harrisburg MSA and four low income geographies in the Reading MSA which represent 3% of all geographies. PNB has no branches in low-income geographies, but all low-income geographies are small in size when compared to other geographies. In addition, two branches in the Harrisburg area are in close proximity to all four low-income geographies and are close to moderate-income geographies. Branches in the Reading MSA are not near the low income geographies.

DISTRIBUTION OF DELIVERY SYSTEMS (Branches and Remote ATM Facilities)				
Geographies	Branches	Non -Branch ATM Facilities	Drive Up Facilities	Geographies in the AAs
	# / %	# / %	# / %	# / %
Low	0 / 0%	0 / 0%	0 / 0%	8 / 3%
Moderate	5 / 17%	3 / 18%	4 / 18%	46 / 18%
Middle	19 / 63%	12 / 70%	12 / 55%	168 / 66%
Upper	6 / 20%	2 / 12%	6 / 27%	33 / 13%
Total	30 / 100%	17 / 100%	22 / 100%	255 / 100%

Community Development Services

PNB provides a high level of community development services. Primary services include providing financial expertise to a variety of community service and development organizations through board, committee memberships, and credit expertise. PNB provides community development services to 21 community organizations. PNB employees use their banking expertise in providing services to these organizations. The community organizations represent housing and economic development organizations. A couple of examples of the services provided to these community organizations follow:

PNB took a leadership role in helping to establish a community service organization. The Schuylkill County Community Home Buyer Coalition was formed during 1996. PNB was the largest financial contributor and was instrumental in bringing local banks into the coalition. The coalition provides workshops for first time home buyers the majority of whom are low- and moderate-income individuals. PNB employees assist in presenting the information at the classes. PNB employees also present data on KFMC's first time home buyers mortgage, Key Opportunity Mortgage,

In Schuylkill County a bank officer is using his bank related finance skills in a county task force to assist low- and moderate-income individuals who are in transition from a welfare program to a work program. The program provides training in life skills including financial management. PNB also provides KeyFree checking accounts to participants.

Bank employees use their financial skills, in conjunction with their normal employment, participate in activities of community groups and governmental agencies/task forces that qualify as providers of community development services. Some of these groups include, Habitat for Humanity, Economic Development Council of Carbon County and Northeast Pennsylvania, Neighborhood Housing Services, Pottsville Area Revitalization, Shamokin Area Industrial Corporation, Shenandoah Area Revitalization Association, and Schuylkill County Homebuyers Coalition.

Fair Lending Review

A fair lending examination was conducted in conjunction with this Public Evaluation and no violations of fair lending regulations nor disparate treatment or disparate impact was identified. The bank maintains an effective system to monitor and maintain compliance with fair lending regulations.

MSA Performance Conclusions

Description of the Institution's Operations in the Allentown MSA (0240)

Description of the MSA

Allentown:

The institution's performance in this MSA is consistent with the institution's overall performance.

The AA comprises Carbon County which is in the Allentown MSA. The AA has 9 geographies, 56% moderate income and 44% middle income. There are 2 branches and 1 remote ATM in the county. Total population is 57 thousand and represents 5% of the combined AA population. The average median housing cost is \$68 thousand and the average median year built is 1956. The updated MSA median family income is \$47,600. Twenty four percent of families are classified as low income and 26% or the families are moderate income. Competition is very strong in this market with major regional institutions having a concentration in the marketplace. PNB's market share of deposits for all FDIC-insured institutions in the county is 8%. Approximately two thousand businesses are located in this AA and 80% have annual revenues of less than one million. The majority of businesses are service related, and employ less than five persons.

Identified credit needs include affordable housing-multifamily dwellings, home improvement loans, and loans to small businesses for working capital.

Lending Test

Only 5% of the bank's lending occurred in this portion of the AA during the 15-month review period. This is a reasonable distribution since only two of the bank's 30 branch offices (7%) are located here. Table VIII shows the representation of the loan products within this AA. The 50 HMDA loans consist of 34 home improvement loans, followed by 11 refinancing loans, and 5 home purchase loans.

Table VIII				
Loan Activity in the MSA Compared to the Combined AA				
1997 & First Quarter 1998				
Loan Products	#	% of Total AA Loans	\$ 000's	% of Total AA Loans \$
HMDA	50	7	1,574	5
Small Business	15	3	1,747	2
Small Farm	0	0	0	0
Total	65	5	3,321	3

Geographic Distribution of Loans - Home Loans:

Table IX shows PNB's distribution of HMDA loans in moderate income geographies to be significantly greater than the distribution of owner occupied housing in this market. This excellent distribution is consistent with PNB's overall performance in moderate income geographies. There was no significant variation in distribution for any of the three HMDA products.

Table IX			
Geographic Distribution of HMDA Loans - 1997 & First Quarter 1998 Originations			
Geography Income Level	% of Total Geographies	% of Owner Occupied Housing	PNB % of Total # of Loans
Low	0	0	0
Moderate	56	51	62
Middle	44	49	38
Upper	0	0	0
Total	100	100	100

Source: 1997 & 1998 HMDA LAR

Small Business and Small Farm Loans:

Table X below shows PNB's distribution of small business loans to moderate income geographies to be excellent when compared to the percentage of small businesses in the area. Six of the 15 (40%) small business loans were made to businesses with annual revenues of one million or less.

Table X			
Geographic Distribution of Small Business Loans - 1997 & First Quarter of 1998 Originations			
Geography Income Level	% of Total Geographies	% of PNB Small Business Loans	% Small Businesses
Low	0	0	0
Moderate	56	67	61
Middle	44	33	39
Total	100	100	100

Source: 1997 & 1998 Small Business/Small Farm Data Collection Register

Borrower Characteristics-Home Loans:

As shown in Table XI, PNB's distribution of HMDA loans based on borrower income is excellent for moderate income and reasonable for low income borrowers when compared to the distribution of families by income.

Eighteen percent of loans in the AA were to low income borrowers versus 24% of families identified as low income. Loans to moderate income borrowers in the AA are good as represented by the 31% of loans to moderate income borrowers versus 26% of families identified as moderate income.

There were some variations in the distribution of the three HMDA products. There were no home purchase loans made to low income borrowers, while 40% of these loans were made to moderate income borrowers. Home improvement loans were evenly distributed to low and moderate income borrowers with 29% to each group. Loans to refinance home purchase and home improvement loans to low- and moderate-income borrowers reflect good performance with 36% to moderate income borrowers and 9% to low income borrowers.

Table XI Borrower Distribution of HMDA Loans - 1997 & First Quarter of 1998 Originations		
Income Level of Families	% of Families by Income Level	% of PNB HMDA Loans
Low	24	18
Moderate	26	31
Middle	27	25
Upper	23	26
Total	100	100

Source: 1997 & 1998 HMDA LAR

Small Business and Small Farm Loans:

Table XII illustrates that in this AA the percentage of small business loans for less than \$100,000 (53%) are moderately lower than the 63% ratio for the overall bank. Loans to small size businesses (annual revenues \$1 million or less) accounted for 38% of the eight loans for less than \$100,000, and 40% of the 15 small business loans made.

Table XII Small Business Loan Originations 1997 & First Quarter 1998 by Dollar Loan Size	
Origination Amount \$	PNB Distribution %
Less Than 100,000	53
100,000 - 250,000	40
Greater Than 250,000	7
Total	100

Source: 1997 & 1998 Small Business/Small Farm Data Collection Register

Community Development Lending

The proceeds of one loan recorded in the Small Business Loan Register were used for community development purposes. Please refer to the Community Development Lending comment which appears earlier in this report for additional information.

Innovative or Flexible Lending Practices

Five of the flexible lending programs discussed earlier, i.e., The Affordable Consumer Loan, The Opportunity Mortgage and The Credit Establishment Program are offered in this AA.

Investment Test

PNB has no qualified investments or donations in this AA. There are few opportunities within this market area to invest and the bank has a limited presence.

Service Test

Services offered are consistent with those offered throughout the remaining AAs, refer to the overall comments regarding **Service Test** performance. PNB is involved with one economic development corporation within this MSA.

Description of the Institution's Operations in the Harrisburg MSA (3240)

Description of the MSA

Harrisburg:

The institution's performance in this MSA is consistent with the institution's overall performance.

This assessment area is PNB's second largest market area and consists of the following counties: 50% of Cumberland, excluding the western half of the county, all of Dauphin, excluding three small geographies in the northwest corner of the county, 75% of Lebanon, excluding the southeast corner of the county, and, three geographies in the eastern portion of Perry County. The areas comprising the AA are contiguous and no gaps are present within the defined AA.

The AA has 95 geographies, 4%/4 low income, 15%/14 moderate income, 65%/62 middle income, and 16%/15 upper income. Fifteen percent of families are classified as low income and 18% are moderate income. There is one branch in Cumberland County, six branches and one remote ATM in Dauphin County, and no branches in Lebanon and Perry Counties. Total population is 443 thousand and represents 38% of the combined AA population. The average median housing cost is \$74 thousand and the average median year built is 1959. The average MSA median family income is \$46,500.

Small businesses in the AA total 13,000 of which 11,000 or 85% have reported annual revenues of one million or less. The majority of small businesses employ fewer than five employees, and are service/retail operations.

Competition is very strong in the assessment area with offices of large regional banks, mid-sized and community banks centered in the greater Harrisburg and Pottsville submarket areas. The mortgage market is dominated by six lenders who in 1996, last year of available information, had a combined market share of 27%.

Credit needs in the community are construction financing and rehabilitation of affordable single and multifamily housing. Loans to start up small businesses for working capital are also an identified need within this MSA.

Lending Test

A large portion of the bank's loan originations representing 22% by number of loans and 30% by dollar amount occurred in this portion of the AA during the 15-month review period. This is a reasonable distribution compared to the bank's branch office distribution and composition of the AA in population size and number of businesses. There are seven of 30 offices (23%) located in this MSA. Table XIII shows the representation of the loan products within this MSA. The 135 HMDA loans consist primarily of 57 home purchase loans, 51 home improvement loans, and 27 refinance loans. No loans to farms were made in this MSA.

Table XIII				
Loan Activity in the MSA Compared to the Combined AA				
1997 & First Quarter 1998				
Loan Products	#	% of Total AA Loans	\$ 000's	% of Total AA Loan \$
HMDA	135	18	10,301	32
Small Business	155	27	23,750	30
Small Farm	0	0	0	0
Total	290	22	34,051	30

Source: 1997 & 1998 HMDA LAR, and Small Business/Small Farm Data Collection Register

Geographic Distribution of Loans-Home Loans:

Table XIV shows PNB's distribution of HMDA loans in low- and moderate-income geographies is reasonable in comparison to the percentage of owner occupied housing in those respective geographies. There was no significant variation in distribution for any of the three HMDA products, except that no refinance loans were made in low income geographies.

Table XIV			
Geographic Distribution of HMDA Loans - 1997 & First Quarter 1998 Originations			
Geography Income Level	% of Total Geographies	% of Owner Occupied Housing	PNB % of Total # of Loans
Low	4	2	1
Moderate	15	8	7
Middle	65	62	51
Upper	16	28	41
Total	100	100	100

Source: 1997 & 1998 HMDA LAR

Small Business and Small Farm Loans:

Table XV shows PNB's distribution of small business loans to low- and moderate- income geographies is good when compared to the percentage of small businesses in low- and moderate-income geographies. A majority of the small business loans (55%) were made to businesses with annual revenues of one million or less.

Table XV			
Geographic Distribution of Small Business Loans - 1997 & First Quarter of 1998			
Originations			
Geography Income Level	% of Total Geographies	% of PNB Small Business Loans	% Small Businesses
Low	4	3	2
Moderate	15	10	11
Middle	65	46	62
Upper	16	41	25
Total	100	100	100

Source: 1997 & 1998 Small Business/Small Farm Data Collection Register

Borrower Characteristics-Home Loans:

Table XVI shows HMDA originations by income level of families compared to percentage of families classified by income. PNB has a low volume and percentage of HMDA loan originations to low income families and an adequate volume and distribution percentage to moderate income families. The distribution to low income borrowers was significantly less in this MSA and significantly better for moderate income borrowers when compared to the combined AA. There were some variations in the distribution of the three HMDA products in this MSA. Low and moderate income borrowers obtained a larger percentage of home purchase loans and a smaller percentage of refinance loans than the overall HMDA loan average.

Table XVI		
Borrower Distribution of HMDA Loans - 1997 & First Quarter of 1998		
Originations		
Income Level of Families	% of Families by Income Level	% of PNB HMDA Loans
Low	15	7
Moderate	18	22
Middle	28	23
Upper	39	48
Total	100	100

Source: 1997 & 1998 HMDA LAR

Small Business and Small Farm Loans:

Table XVII illustrates the distribution of loans for less than \$100,000 (55%) in this MSA is moderately lower than the 63% ratio for the overall bank. Loans to small size businesses (annual revenues one million or less) accounted for 60% of the 85 loans for less than \$100,000, and 55% (85) of the total number (155) of small business loans made.

Table XVII Small Business Loan Originations 1997 & First Quarter 1998 by Dollar Loan Size	
Origination Amount \$	PNB Distribution %
Less Than 100,000	55
100,000 - 250,000	28
Greater Than 250,000	17
Total	100

Community Development Lending

No community development loans were made in this AA. However, three loans totaling \$352,000 are recorded in the Small Business loan register that meet the definition of community development lending.

Innovative or Flexible Lending Practices

All of the flexible lending programs discussed earlier under the Innovative or Flexible Lending section of this report, with the exception of the Mahanoy City Facade Improvement Loan Program, are available in this MSA. Please refer to Lending Test for the overall bank for further details.

Investment Test

The majority of PNB's qualified investment and donation activity occurred in this AA. In 1996, 1997, and 1998 the bank's percentage of total qualified investment and donation dollars in this AA is 90%, 88%, and 55%, respectively. Investments and donations in this AA are substantial due to the ample opportunities within this market, and Harrisburg represents the second largest market area for PNB, outside of the Non-MSA area (Schuylkill and Northumberland Counties). Investment and donation activity in this AA is consistent with the bank's presence in this market. Please refer to the overall Investment section for details.

Service Test

Services offered are consistent with those offered throughout the remaining AAs, refer to the overall comments regarding Service Test performance. PNB in this AA is involved with eight different community development service organizations that are involved with providing affordable housing, consumer credit counseling and economic development and revitalization.

Description of the Institutions Operations in the Reading MSA (6680) **Description of the MSA**

Reading:

The institution's performance in this MSA is consistent with the bank's overall performance

This AA consists of the majority of Berks County, excluding 5 geographies in the far eastern portion of the county. The AA has 70 geographies, of which: 6%/4 are low income, 21%/15 are moderate income, 62%/43 are middle income, and 11%/8 are upper income. All of the low and moderate income geographies are located in the City of Reading. There are five branches and seven remote ATMs of the bank located in the county outside of Reading. Total population is 306 thousand which represents 27% of the combined AA population.

The average median housing cost is \$77 thousand and the average median year built is 1955. The MSA median family income is \$46,500. Businesses with annual revenues of one million or less number 7,000 and 1,000 have annual revenues greater than one million. Competition in the financial market is strong and is provided by offices of large regional banks as well as mid-sized and community banks. Four lenders in 1996 had 31% market share of HMDA reportable originations in the MSA. PNB's market share of deposits for all FDIC-insured institutions is 3%.

Credit needs in the AA include financing for construction and rehabilitation of affordable housing for single family and multifamily units and working capital loans to new small businesses.

Lending Test

Twenty-one percent of loan originations in the combined assessment area were in the Reading AA, during the 15-month review period. This is a reasonable distribution compared to the bank's branch office distribution. Five of 30 branch offices (20%) are located in this AA.

Table XVIII shows the representation of the loan products within this MSA. The 96 HMDA loans consist mainly of 51 home improvement loans, followed by 21 home purchase loans and 24 refinance loans. Four of the PNB's six farm loans were made within this MSA.

Table XVIII				
Loan Activity in the MSA Compared to the Combined AA				
1997 & First Quarter 1998				
Loan Products	#	% of Total AA Loans	\$ 000's	% of Total AA Loan \$
HMDA	96	13	3,707	11
Small Business	183	32	27,277	35
Small Farm	4	67	661	83
Total	283	21	31,645	28

Source: 1997 & 1998 HMDA LAR, and Small Business/Small Farm Data Collection Register

Geographic Distribution of Loans-Home Loans:

Table XIX shows PNB made a low percentage of loans in low and moderate income geographies compared to the percentage of owner occupied housing in those geographies. Lending is reflective of demographic pattern and branch locations. Lending in low and moderate income geographies is dominated by four lenders and further compounded by the reduced lending opportunities resulting from low owner occupied housing percentages.

Table XIX			
Geographic Distribution of HMDA Loans - 1997 & First Quarter 1998 Originations			
Geography Income Level	% of Total Geographies	% of Owner Occupied Housing	PNB % of Total # of Loans
Low	6	2	0
Moderate	21	10	4
Middle	62	69	82
Upper	11	19	14
Total	100	100	100

Source: 1997 & 1998 HMDA LAR

Small Business and Small Farm Loans:

Table XX shows PNB has a poor distribution of small business loans compared to the distribution of businesses in low and moderate income geographies. Only 1% of the small business loans were made in these geographies which encompass 17% of the areas businesses.

Table XX			
Geographic Distribution of Small Business Loans - 1997 and First Quarter of 1998			
Originations			
Geography Income Level	% of Total Geographies	% of PNB Small Business Loans	% Small Businesses
Low	6	0.5	4
Moderate	21	0.5	13
Middle	62	86	64
Upper	11	13	19
Total	100	100	100

Source: 1997 & 1998 Small Business/Small Farm Data Collection Register

Borrower Characteristics-Home Loans:

Table XXI illustrates PNB's distribution of HMDA loans based on borrower income in this MSA. Performance is good when compared to the distribution of family income. The distribution to low income borrowers was significantly better in this MSA than for the overall bank and slightly lower for moderate income borrowers.

There were some variations in the distribution of the three HMDA products. There were no refinance loans made to low income borrowers, while 17% of these loans were made to moderate income borrowers. Home improvement loans were very well distributed to low and moderate income borrowers with 22% to low income and 26% to moderate income borrowers. Home purchase loans were 10% to low income borrowers and 14% to moderate income borrowers.

Table XXI		
Borrower Distribution of HMDA Loans - 1997 and First Quarter of 1998		
Originations		
Income Level of Families	% of Families by Income Level	% of PNB HMDA Loans
Low	17	11
Moderate	19	21
Middle	27	26
Upper	36	41
NA*	0	1
Total	100	100

Source: 1997 & 1998 HMDA LAR

*NA, no income reported

Small Business and Small Farm Loans:

The majority of the small business loans (65%) were for amounts less than \$100,000. This is consistent with the 63% distribution ratio for the overall bank. Loans to small size businesses (annual revenues of \$1 million or less) accounted for 47% of the 118 loans for less than \$100,000, and 41% (75) of the 183 small business loans made.

Table XXII Small Business Loan Originations 1997 and First Quarter 1998 by Dollar Loan Size	
Origination Amount \$	PNB Distribution %
Less Than 100,000	65
100,000 - 250,000	19
Greater Than 250,000	16
Total	100

Source: 1997 & 1998 Small Business/Small Farm Data Collection Register

Community Development Lending

There were no community development loans made in this MSA.

Innovative or Flexible Lending Practices

All of the flexible lending programs discussed earlier under the Innovative or Flexible Lending Section of this report, with the exception of the Mahonoy City Facade Improvement Loan, the Harrisburg Micro Loan Program, and the Lease/ Purchase Loan Program are available in this MSA. Please refer to overall Lending Test for additional details.

Investment Test

PNB's investment dollars in this AA were minimal at \$1,000 in 1996. There are significant investment opportunities in this MSA, particularly near and in the City of Reading. The bank's presence in this AA is in suburban communities in Berks County and none of the five branches are located in the City of Reading. While 18% of the total bank HMDA, small business and small farm loans are in this AA, PNB has only a 3% market share of deposits for Berks County.

Service Test

Services offered are consistent with those offered throughout the remaining AAs, refer to the overall comments regarding **Service Test** performance. PNB is involved with one community development service organization, a neighborhood housing program.

Description of the Institutions Operations in the Scranton MSA (7560)

Description of the MSA

Scranton:

The institution's performance regarding the investment and service test is consistent with the bank's overall performance, in this MSA.

The institution's performance regarding the lending test is not consistent with the bank's overall performance, in this MSA. However, it does not change the rating for the institution.

This AA consists of 50% of Luzerne County, excluding the northern portion of the county, and one geography in Columbia County, excluding the northern portion of the county. The AA has 25 geographies, with 16%/4 CT moderate income, 68%/17 CT middle income, and 16%/ 4 upper income. No low income geographies are in the AA. There are three branches in Luzerne and no branches in Columbia. One of the branches is located in an upper income geography and two are in middle income geographies. Total population in this AA is 87 thousand which is 8% of PNB's combined AA. The average median housing cost is \$55 thousand and the average median year built is 1952. The average MSA median family income is \$39 thousand. Two thousand businesses are located in the AA with 1,800 or 90% reporting annual revenues of one million or less. Four hundred businesses are located in moderate income geographies.

Competition from other financial service providers is represented by large regional banks and from community banks and non banks. PNB's market share of deposits for all FDIC-insured institutions is 2% for Luzerne county.

Credit needs in the AA are affordable loans for housing, construction financing for development of affordable housing and financing for regional and local economic development that attracts new businesses and creates employment.

Lending Test

Ten percent of the bank's lending occurred in this portion of the AA during the 15-month review period. This is a reasonable distribution since only three of the bank's 30 branch offices (10%) are located here. The following Table shows the representation of the loan products within this report. The 56 HMDA loans consist of 20 home purchase loans, 26 home improvement loans, and 10 refinance loans. Table XXIII illustrates lending activity in this AA.

Table XXIII Loan Activity in the MSA Compared to the Combined AA 1997 & First Quarter 1998				
Loan Products	#	% of Total AA Loans	\$ 000's	% of Total AA Loans \$
HMDA	56	7	2,325	7
Small Business	66	11	9,765	12
Small Farm	0	0	0	0
Total	122	9	12,090	10

Source: 1997 & 1998 HMDA LAR, and Small Business/Small Farm Data Collection Register

Geographic Distribution of Loans-Home Loans:

Table XXIV below shows PNB's distribution of HMDA loans in moderate income geographies is reasonable in relation to the distribution of owner occupied housing in this market. This distribution is less consistent with PNB's overall performance in moderate income geographies. There were variations in the distribution of the three HMDA products. There were no home purchase loans made in moderate income geographies, while 8% of the home improvement loans and 20% of the refinance loans were made in moderate income geographies.

Table XXIV Geographic Distribution of HMDA Loans - 1997 & First Quarter 1998 Originations			
Geography Income Level	% of Total Geographies	% of Owner Occupied Housing	PNB % of Total # of Loans
Low	0	0	0
Moderate	16	7	5
Middle	68	74	66
Upper	16	19	29
Total	100	100	100

Source: 1997 & 1998 HMDA LAR

Small Business and Small Farm Loans:

Table XXV shows PNB's distribution of small business loans made in moderate income geographies in this AA is poor when compared to the percentage of small businesses in the area (23%). This is significantly different from the same ratio for the overall bank (53%). Thirty-five of the 66 (53%) small business loans were made to businesses with annual revenues of \$1 million or less.

Table XXV			
Geographic Distribution of Small Business Loans - 1997 and First Quarter of 1998 Originations			
Geography Income Level	% of Total Geographies	% of PNB Small Business Loans	% Small Businesses
Low	0	0	0
Moderate	16	9	23
Middle	68	62	61
Upper	16	29	16
Total	100	100	100

Source: 1997 & 1998 Small Business/Small Farm Data Collection Register

Borrower Characteristics-Home Loans:

PNB's distribution of HMDA loans based on borrower income in this MSA is excellent for moderate income individuals and poor for low income individuals when compared to the distribution of family income. The distribution to low income borrowers was significantly lower in this MSA than for the overall bank and significantly higher for moderate income borrowers. Refer to Table XXVI that follows:

Table XXVI		
Borrower Distribution of HMDA Loans - 1997 and First Quarter of 1998 Originations		
Income Level of Families	% of Families by Income Level	% of PNB HMDA Loans
Low	18	7
Moderate	19	25
Middle	25	27
Upper	38	41
Total	100	100

Source: 1997 & 1998 HMDA LAR

Small Business and Small Farm Loans:

Table XXVII shows that the majority of small business loans (67%) were for amounts less than \$100,000. This ratio is consistent with the 63% distribution ratio for the overall bank. Loans to small size businesses (annual revenues \$1 million or less) accounted for 61% of the 44 loans for less than \$100,000, and 53% (34) of the 66 small business loans, again consistent with the performance of the overall bank.

Table XXVII Small Business Loan Originations 1997 and First Quarter 1998 by Dollar Loan Size	
Origination Amount \$	PNB Distribution %
Less Than 100,000	67
100,000 - 250,000	9
Greater Than 250,000	24
Total	100

Source: 1997 & 1998 and Small Business/Small Farm Data Collection Register

Community Development Lending

There were no community development loans made in this MSA.

Innovative or Flexible Lending Practices

All of the flexible lending programs discussed earlier under the Innovative or Flexible Lending Section of this report, with the exception of the Mahanoy City Facade Improvement Loan, the Harrisburg Micro Loan Program and the Lease/ Purchase Loan Program are available in this MSA.

Investment Test

In 1996 and 1997, the bank's percentage of total qualified donation dollars in this AA is 8% and 9%, respectively and is reasonable versus available investment opportunities in this AA. Investment activity is consistent with the bank's presence in this AA. Please refer to the Overall Investment Test section of this report for additional details.

Service Test

Services offered are consistent with those offered throughout the remaining AAs, refer to the overall comments regarding **Service Test** performance. PNB is involved with two community development service organizations in this MSA.

Description of the Institutions Operations in Non - MSA Schuylkill and Northumberland Counties

The institution's performance in this non-MSA is consistent with the bank's overall performance

The non-MSA AA includes Schuylkill and Northumberland Counties. PNB operates 12 branches and 8 remote ATMs in Schuylkill County and 1 branch in Northumberland County. Two branches and two remote ATM's are located in moderate income BNAs. This AA has 56 BNAs, (geographies) with 14%/8 moderate, 75%/42 middle, and 11%/6 upper income. This non-MSA has no low income geographies. Total population is 216,000 and represents 19% of the combined AA population.

This is PNB's largest market area and Pottsville is the location of the main office of the bank. The median housing cost is \$42,000 and the median year built is 1945. The updated median family income is \$35,200. A distribution of families, based on income, indicates that 19% are designated as low income, 22% moderate income, 24% middle income, and 35% upper income. The AA has 95,000 housing units, and an owner occupied rate of 71% with a slightly lower rate of 64% in moderate geographies. PNB's market share of deposits for all FDIC-insured institutions is 28% in Schuylkill and 8% in Northumberland counties.

Small businesses have a major presence in the AA with a total of 4,495 of which 4,135 (92%) had annual revenues of one million or less. The AA is also home to 117 farms. The unemployment rate for the AA as of February and March 1998 is 4.7% and 4.8%, respectively, according to the U.S. Department of Labor. The unemployment rate is similar to the state and national unemployment rates of 4.6% as of February 1998.

Competition in the AA for financial services is represented by regional and community financial institutions and non- bank services. However, PNB is one of the largest institutions in the marketplace.

Credit needs in this AA are funding for economic development and stabilization of communities that result in creation of new employment.

Lending Test

Fifty six percent of the bank's HMDA and 16% of small business lending in terms of loan originations occurred in this sector of the combined AA during the 15-month review period. The high volume of activity is in part a result of the presence of 12 branches and 8 remote locations within the AA and PNB's established presence in the marketplace.

Table XXVIII shows the lending activity of loan products within this AA. The 420 HMDA loans consist of 76 home purchase loans, 238 home improvement loans, and 105 refinance loans and 1 loan to finance a multifamily housing unit.

Table XXVIII				
Loan Activity in the non-MSA Compared to the Combined AA				
1997 & First Quarter 1998				
Loan Products	#	% of Total AA Loans	\$ 000's	% of Total AA Loans \$
HMDA	420	56	14,688	45
Small Business	146	26	16,544	21
Small Farm	2	0	140	0
Total	568	43	31,372	28

Source: 1997 & 1998 HMDA LAR

Geographic Distribution of Loans-Home Loans:

Table XXIX shows PNB's distribution of HMDA loans in moderate income geographies is adequate in relation to the distribution of owner occupied housing in this market. This distribution is consistent with PNB's overall performance in moderate income geographies. There was a wide difference in the distribution of the three HMDA products. There were 213 home purchase loans made in the AA of which 17 or 8% were in moderate income geographies, while 58 loans or 25% of the home improvement loans and 17% of the refinance loans were made in moderate income geographies.

Table XXIX			
Geographic Distribution of HMDA Loans - 1997 & First Quarter 1998 Originations			
Geography Income Level	% of Total Geographies	% of Owner Occupied Housing	PNB % of Total # of Loans
Low	0	0	0
Moderate	14	16	18
Middle	75	75	66
Upper	11	9	16
Total	100	100	100

Source: 1997 & 1998 HMDA LAR

Small Business and Small Farm Loans:

Table XXX shows PNB's distribution of small business loans made in moderate income geographies in this AA is reasonable (16%) when compared to the percentage of small businesses in the area (19%).

Table XXX			
Geographic Distribution of Small Business Loans - 1997 and First Quarter of 1998			
Originations			
Geography Income Level	% of Total Geographies	% of PNB Small Business Loans	% Small Businesses
Low	0	0	0
Moderate	14	16	17
Middle	75	68	74
Upper	11	16	9
Total	100	100	100

Source: 1997 & 1998 Small Business/Small Farm Data Collection Register

Borrower Characteristics-Home Loans:

PNB's distribution of HMDA loans, as illustrated in Table XXXI, based on borrower income in this MSA is good compared to the distribution of family income for moderate income individuals and reasonable for low income individuals. The distribution to low income borrowers was significantly lower in this MSA than for the overall bank and significantly higher for moderate income borrowers.

Table XXXI		
Borrower Distribution of HMDA Loans - 1997 and First Quarter of 1998		
Originations		
Income Level of Families	% of Families by Income Level	% of PNB HMDA Loans
Low	18	10
Moderate	20	20
Middle	25	28
Upper	37	41
NA*	0	1
Total	100	100

Source: 1997 & 1998 HMDA LAR

*NA, no income reported

Small Business and Small Farm Loans:

The majority of small business loans (69%) was less than \$100,000. This ratio is consistent with the 63% distribution ratio for the overall bank. Loans to small size businesses (annual revenues of \$1 million or less) accounted for 74% of the 50 loans for

less than \$100,000, and 57% (50) of the 88 small business loans, consistent with the performance of the overall bank. Table XXXII illustrates the distribution of small business loans by size of the loan.

Table XXXII Small Business Loan Originations 1997 and First Quarter 1998 by Dollar Loan Size	
Origination Amount \$	PNB Distribution %
Less Than 100,000	69
100,000 - 250,000	13
Greater Than 250,000	18
Total	100

Community Development Lending

No community development loans were made in this assessment area.

Innovative or Flexible Lending Practices

All of the flexible lending programs discussed earlier under the Innovative or Flexible Lending Section of this report, with the exception of the Mahanoy City Facade Improvement Loan, the Harrisburg Micro Loan Program and the Lease/ Purchase Loan Program are available in this MSA.

Investment Test

In 1996 and 1997, the bank had a nominal amount of qualifying donations/grants in this non-MSA. Please refer to the qualified donations and grants listed under the investment test for the overall institution.

Service Test

Services offered are consistent with those offered throughout the remaining AAs, refer to the overall comments regarding **Service Test** performance. PNB is involved with two community development service organizations in this assessment area.

Scope of Examination

Time Period Reviewed	1/1/96 to 3/31/98		
Financial institution Pennsylvania National Bank			Products reviewed home improvement loans, small business loans, home mortgage and home improvement refinance loans.
Affiliate(s)	Affiliate relationship		Products reviewed
Keystone Financial Mortgage Corporation	Mortgage Company		Mortgage loans
List of Assessment Areas and Type of Examination			
Assessment Area	Type of Exam	Branches Visited	Other Information
MSA#0240 - Allentown	off-site	none	none
MSA#3240 - Harrisburg	on-site	one	none
MSA#6680 - Reading	off-site	none	none
MSA#7560 - Scranton	off-site	none	none
Non-MSA (Schuylkill/Northumberland Counties)	on-site	one	none