



Comptroller of the Currency
Administrator of National Banks

Small Bank

Northeastern District
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PUBLIC DISCLOSURE

October 4, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Farmers National Bank of Kittanning

Charter Number 3104

**201 Market Street
Kittanning, Pennsylvania 16201**

**Office of the Comptroller of the Currency
4075 Monroeville Boulevard, Suite 300
Monroeville, Pennsylvania 15146**

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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal 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 Community Reinvestment Act (CRA) performance of The Farmers National Bank of Kittanning prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of October 4, 1999. 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**

Major factors supporting the overall rating for Farmers National Bank for Kittanning include the following:

- Ã The dispersion of loans among various geographies is strong.
- Ã The loan distribution among borrowers of different incomes and businesses of different sizes is reasonable.
- Ã The loan to deposit ratio is reasonable.

DESCRIPTION OF INSTITUTION

Farmers National Bank (FNB) is an \$86 million community bank located in central Armstrong County. The bank is headquartered approximately 50 miles northeast of Pittsburgh Pennsylvania in the town of Kittanning, the seat of Armstrong County. The bank is wholly owned by Farmers and Armstrong Financial Company. FNB is a full service bank offering a range of deposit and loan products. Loan products include residential real estate mortgages, consumer and commercial loans. FNB received a satisfactory rating as a result of the previous CRA evaluation, which was conducted as of November 6, 1996.

Net loans represent 55% of FNB's total assets. FNB's loan portfolio is broken down by dollar volume as follows: 52% commercial and commercial real estate loans, 34% residential real estate, 10% consumer loans, 3% municipal loans and 1% construction and development loans. There are no financial or legal impediments that would preclude FNB from lending.

The bank has two branch locations. One branch is located at the main office in Kittanning, PA. The second branch office is a stand alone facility which opened in 1998 at a strip mall location five miles from the headquarters in West Kittanning. The bank also has an ATM located in West Kittanning.

DESCRIPTION OF ASSESSMENT AREA

FNB has identified nineteen whole geographies as its assessment area (AA). All of the AA geographies are located in Armstrong County. The assessment area is comprised primarily of middle-income geographies. However, the assessment area also contains three moderate-income geographies. The assessment area contains no low- or upper-income geographies. The bank operates no branches or ATMs within a Metropolitan Statistical Area (MSA.) The Pennsylvania non-MSA median family income as of 1998 is \$35,200. The assessment area complies with all regulatory requirements and does not arbitrarily exclude low- or moderate-income areas.

The bank's assessment area consists predominantly of small towns and rural communities. The population of FNB's assessment area as of the 1990 census was 73,478. Demographic data collected during the 1990 census reports the median family income for the assessment area of the bank to be \$27,111. Demographic data gathered during the 1990 census also reports that within the bank's assessment area, owner occupied housing represents 68% of housing units and the median housing value equals \$44,104. The majority (68%) of households are supported by wage or salaried jobs. However, 13% of households are considered to be at or below poverty level.

Industry within the assessment area is diverse. Major employers are manufacturers of plumbing ware and rubber. Other significant employers include county government, a local hospital, four school districts and a small branch campus of a state university. Local employers also include coal and mushroom mining organizations. The remainder of local industry consists of small retail and service establishments as well as several smaller machine shops. Technology and consolidation have resulted in the loss of some jobs. A significant portion of the population now commutes to jobs in Butler, Westmoreland and Allegheny Counties. Armstrong County is planning to develop an industrial park in a nearby community to attract new industries such as optical manufacturing. However, construction has not yet begun. Overall, economic conditions in the assessment area remain stagnant.

Competition is strong. Kittanning is heavily banked, housing a total of seven banks including FNB. Bank management considers the primary competition for its customer base to be a \$125 million national bank in Kittanning as well as three of the smaller local banks. Another bank is primarily a deposit taking institution. The remaining bank is the branch of a large regional institution located in Pittsburgh. Local branches of two other large regional banks have closed in recent years.

Discussions with management indicated that within the assessment area, credit needs continue to be concentrated primarily in residential mortgage, consumer (automobiles, consolidation) and business loans. Examiners contacted the program coordinator of Armstrong County Industrial Development Authority. The credit needs identified by the contact were consistent with management's assessment. The contact indicated that the local community banks are responsive to community credit needs. According to the contact, local community banks actively participate in community development related projects and have utilized available community outreach programs. The contact mentioned a revolving loan fund established by local banks for the purpose of revitalizing downtown Kittanning. FNB has extended its participation in the loan fund for an additional year. The contact also specifically identified FNB as a local financial institution that does a lot to meet community credit needs.

SAMPLING

Loan data was collected from the bank through a random sample of residential mortgage, consumer and business loans originated to borrowers located inside and outside of the bank's assessment area. Since the bank experienced no significant changes in loan product types during the years since the previous CRA evaluation, data derived from 1/1/98 through 8/30/99 was used to represent lending throughout the entire period.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan to Deposit Analysis

y The loan to deposit ratio meets the standard since it is reasonable compared to local peer banks.

FNB's current loan to deposit ratio is 64% demonstrating a positive trend increasing from 33% as of 12/31/96. FNB's loan to deposit ratio over the previous 11 quarters averaged 49.7%. This level of lending compares reasonably to the level of lending achieved by the bank's local peer group, which averaged 67.9% over the same 11 quarters. Peer banks included twelve local Pennsylvania banks with an asset size of \$250 million or less operating within a seven county area.

Lending in Assessment Area

y Lending in the assessment area meets the standard since the majority of sampled residential mortgage, consumer and business loans were originated within the bank's assessment area.

To assess FNB's level of lending in its assessment area, we sampled a total of 73 loans originated between 1/198 and 8/30/99. Our sample revealed that 71% of the sampled loan volume and 52% of the sampled loan dollars were originated within the assessment area.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

y FNB's lending to borrowers of different income levels and businesses of different sizes meets the standard.

Residential Mortgage and Consumer Lending

FNB's record of residential mortgage and consumer lending to borrowers of different income levels is reasonable considering assessment area demographics. A sample of 51 residential mortgage and consumer loan originations was reviewed to assess the bank's record of lending to low-income and moderate-income borrowers. The loan sample revealed that between 1/1/98

and 8/30/99 combined residential mortgage and consumer lending to low-income borrowers represented 22% of loan originations. Similarly, for the same period, the combined residential mortgage and consumer lending to moderate-income borrowers also represented 22% of loan originations. Demographic information derived from the 1990 US census indicates that low- and moderate-income families represent 20% and 22% of assessment area families. Overall, FNB's record of lending to low- and moderate-income borrowers is considered to be reasonable.

The following table details the sampled mortgage and consumer loans originated by FNB to low- and moderate-income borrowers as compared to the percentage of low- and moderate-income families in the population of the bank's assessment area.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS										
	LOW INCOME FAMILIES		MODERATE INCOME FAMILIES		MIDDLE INCOME FAMILIES		UPPER INCOME FAMILIES		TOTAL FAMILIES	
ASSESSMENT AREA POPULATION	20%		21%		24%		35%		100%	
	####	\$000s	####	\$000s	####	\$000s	####	\$000s	####	\$000s
RESIDENTIAL MORTGAGE LOANS	1	\$20	2	\$65	6	\$302	15	\$1,440	24	\$1,827
	4%	1%	8%	4%	25%	17%	63%	78%	100%	100%
CONSUMER LOANS	10	\$21	9	\$116	5	\$114	3	\$41	27	\$292
	37%	7%	33%	40%	19%	39%	11%	14%	100%	100%

FNB's record of originating residential mortgages to low- and moderate-income borrowers compares reasonably to assessment area demographics. AA demographic data reports that 20% and 21% of assessment families are low- and moderate-income respectively. As indicated above, between 1/1/98 and 8/30/99, sampled residential mortgages originated to low- and moderate-income borrowers represented 4% and 8% of mortgage volume and 1% and 4% of mortgage dollars, respectively. As explained below, FNB is more limited in its opportunities to originate residential mortgage loans to low- and moderate-income borrowers than to originate consumer loans to low- and moderate-income borrowers.

Qualifying mortgage applicants are generally directed by local realtors to county programs which provide credit to low-income borrowers on more favorable terms than the bank is able to offer. Nevertheless FNB is responsive to the needs of low- and moderate-income mortgage borrowers by offering loan terms favorable to applicants with minimum funds to close. For example, FNB charges no fees for residential mortgages other than those passed on at cost

from third party settlement providers. Although FNB does not offer residential mortgages with PMI (Private Mortgage Insurance) the bank will lend 100% of the mortgage amount with guarantees or additional collateral

However, of households in the bank's assessment area, 13% are considered to be at or below poverty level. In addition, 23% of the assessment area households are comprised of retired residents and 37% of area households derive their income from social security. According to bank management, there is limited residential mortgage demand from low- and moderate-income families since many low-income families are more senior, long time residents who already own and have occupied residences in the assessment area for many years. Bank management indicated that for this segment of the population, housing needs tend to shift from owner occupied housing to apartment living. Much of affordable, low-income, area housing is comprised of rental rather than owner occupied units. Therefore the bank's opportunity to originate residential mortgage loans to low- and moderate-income borrowers is limited.

Conversely, the bank experiences much greater consumer loan demand from low- and moderate-income borrowers. Consequently, FNB's level of consumer lending to borrowers of low- and moderate-income levels compares favorably with AA demographics. AA demographic data reports that 20% and 21% of assessment families are low- and moderate-income respectively. Between 1/1/98 and 8/30/99, sampled consumer loans to low- and moderate-income borrowers represented 33% and 37% of consumer loan volume and 7% and 40% of consumer loan dollars, respectively.

The bank meets the community's credit need for consumer loans by often originating consumer loans in relatively small dollar amounts for purposes such as the purchase of automobiles (new and used), auto and home repairs, tax expense and debt consolidations. A majority of the sampled consumer loans originated to low-income borrowers were for amounts less than \$1,800. FNB has achieved a favorable record of consumer lending despite the fact that its ability to originate home improvement loans to low-income borrowers is limited by the availability of a low-income program through a local non-profit housing organization. The program provides low interest and no interest \$5 thousand and \$10 thousand dollar loans to low- and very low-income individuals for specific home improvement purposes such as financing furnaces, hot water tanks, windows, doors and insulation.

Business Lending

y FNB has demonstrated a commitment to small businesses with 73% of sampled business loans originated to local small businesses.

FNB has demonstrated a commitment to small business. The volume of sampled business loans originated to local small businesses coincide with the volume of reporting small businesses in the assessment area. Small business loans are defined as those loans made to

enterprises whose annual, gross revenues are \$1 million or less. The volume of businesses in the bank's AA reporting to Dunn and Bradstreet with gross revenues less than \$1 million represents 77% of total businesses. Of all sampled loans originated by FNB to businesses between 1/1/98 and 8/30/99, 73% of the total number of business loans and 27% of total business loan dollars were originated to small businesses.

Geographic Distribution of Loans

FNB's distribution of sampled residential and consumer loans among various geographies exceeds the standard.

Overall, the bank's geographic distribution of loans demonstrates a strong dispersion throughout the AA. Of all owner occupied housing available within the AA, only 12% is located within the AA's moderate-income geographies. Nevertheless, of sampled consumer loans, 27% and 44% respectively were originated within this moderate-income geography.

The following table details mortgage loans originated by FNB to borrowers located within low-, moderate-, middle-, and upper-income geographies as compared to the representation of owner occupied housing within low-, moderate-, middle-, and upper-income geographies within the bank's assessment area.

GEOGRAPHIC DISTRIBUTION OF LOANS

	MODERATE INCOME GEOGRAPHIES		MIDDLE INCOME GEOGRAPHIES		TOTAL GEOGRAPHIES	
OWNER OCCUPIED HOUSING	12%		88%		100%	
	####	\$\$\$\$	####	\$\$\$\$	#####	\$\$\$\$\$
RESIDENTIAL MORTGAGE LOANS	3	\$81	8	\$485	11	\$566
	27%	14%	73%	86%	100%	100%

Overall, FNB's geographic distribution of consumer loans demonstrates a favorable dispersion throughout the AA. Of the total population in the AA, 15% resides within the AA's three moderate-income geographies. Nevertheless, 44% of sampled consumer loans were originated to borrowers located within these moderate-income geographies.

The following table details consumer loans originated by FNB to borrowers located within low-, moderate-, middle-, and upper-income geographies as compared to the representation of the population within low-, moderate-, middle-, and upper-income geographies within the bank's assessment area.

GEOGRAPHIC DISTRIBUTION OF LOANS

	MODERATE INCOME GEOGRAPHIES		MIDDLE INCOME GEOGRAPHIES		TOTAL GEOGRAPHIES	
ASSESSMENT AREA POPULATION	15%		85%		100%	
	####	\$\$\$\$	####	\$\$\$\$	#####	\$\$\$\$\$
CONSUMER LOANS	11	\$79	14	\$134	25	\$213
	44%	37%	56%	63%	100%	100%

Response to Complaints

No complaints have been received since the last examination.

Record of Compliance with Anti-Discrimination Laws

A fair lending examination was performed concurrently with this examination. Examiners found no violations of anti-discrimination laws and regulations. The bank has appropriate policies, procedures, and training programs in place to prevent discriminatory or other illegal practices.