



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

May 31, 2011

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Northumberland National Bank  
Charter Number: 7005

245 Front Street  
Northumberland, PA 17857-0000

Office of the Comptroller of the Currency

Philadelphia Field Office  
60 Public Square, Suite 602  
Wilkes-Barre, PA. 18701

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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

**The Lending Test is rated: Satisfactory.**

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

Summarize the major factors supporting the institution's rating.

- The bank's quarterly average net loan-to-deposit ratio is reasonable and meets the standards for satisfactory performance;
- A majority of the bank's loans were originated in the bank's assessment area;
- The bank's distribution of loans represents a reasonable penetration among individuals of different income levels;
- The bank's distribution of loans represents an excellent dispersion throughout census tracts of different income levels; and
- NNB's responsiveness to community development needs and opportunities in its assessment area is adequate in light of its capacity and area opportunities.

## **Scope of Examination**

Northumberland National Bank (NNB) was evaluated under the Intermediate Small Bank examination procedures, which include a lending test and a community development (CD) test. The lending test evaluates the bank's record of meeting the credit needs of its assessment area (AA) through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AA through CD lending, qualified investments, and community development services.

The evaluation period under the Lending Test covers the bank's performance from January 1, 2009 through March 31, 2011. The evaluation period for the community development test is from July 1, 2008 through May 31, 2011.

NNB's primary loan products are home mortgage loans. NNB operates only in a Non-MSA; therefore, the bank is not required to collect and report Home Mortgage Disclosure Act (HMDA) loan data. Even though NNB is not required to report HMDA data, NNB collects HMDA data. Prior to this evaluation, we tested the accuracy of NNB's HMDA data. Results of this testing evidenced the data is reasonably accurate and can be relied upon for this evaluation. Therefore, the Lending Test includes all HMDA data from January 1, 2009 through March 31, 2011. Community Development (CD) loans, investments, and services submitted by management were also verified to ensure that they met the regulatory definition for community development.

## **Description of Institution**

Northumberland National Bank (NNB) is an intrastate community bank headquartered in Northumberland, Pennsylvania. As of March 31, 2011, NNB had total assets of \$428 million and net tier one capital of \$35 million. NNB is wholly owned by Northumberland Bancorp, a one-bank holding company headquartered in Northumberland, Pennsylvania with consolidated assets of \$428 million. The bank does not have any subsidiaries or affiliates.

As of May 31, 2011, NNB operates five full service branches and one limited service branch. NNB has its main branch in Northumberland, a supermarket branch in Selinsgrove, a branch in Sunbury, a branch in Hummel's Wharf, and a branch in Port Trevorton, which was opened in August of 2008. NNB's limited service drive-up location is in close proximity to its main office location. All six locations have Automated Teller Machines (ATMs), and five of the six ATMs are available 24/7. All branches offer extended hours on Thursdays and Fridays, and all locations are open on Saturday. There were no branches closed, and there were no mergers or acquisitions during the evaluation period.

NNB is a full service community bank offering a standard range of retail banking, commercial banking, and trust services. Its retail services include checking accounts, savings programs, money-market accounts, certificates of deposit, consumer loan programs, and residential mortgages. The bank's commercial services include business deposit accounts, revolving lines of credit, commercial loans, and commercial mortgages.

As of March 31, 2011, NNB reported net loans and leases of \$254 million or 59% of total assets. The loan portfolio is comprised of Residential Real Estate Loans (69%), Commercial Loans (17%), Commercial Real Estate Loans (9%), Consumer Loans (2%), Construction and Development Loans (1%), Agricultural Loans (1%), and Other loans (1%). NNB's primary lending activity from January 1, 2009 through March 31, 2011 was home mortgage lending.

Competition is strong and includes local community banks and branches of larger regional banks. NNB's main competitors are: Mifflinburg Bank & Trust Co., West Milton State Bank, Swineford National Bank, Susquehanna Bank, M&T Bank, and First National Bank of Pennsylvania.

There are no financial or legal impediments to NNB's ability to meet the credit and CD needs of its assessment area.

NNB's last Public Evaluation (PE), dated June 30, 2008, was rated Satisfactory.

## Description of Assessment Area

NNB has one assessment area (AA) located in north central Pennsylvania. NNB's AA is a combination of 25 census tracts located in Northumberland, Montour, Snyder, and Union Counties in Pennsylvania. Since all of the counties are homogenous and located in non-metropolitan statistical areas (non-MSAs), they were combined for analysis purposes. NNB's AA is described below:

Demographic Information for the Northumberland, Montour, Snyder, and Union Counties AA – Non-MSA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	25	0.00	8.00	68.00	24.00
Population by Geography	121,926	0.00	5.43	70.42	24.15
Owner-Occupied Housing by Geography	33,131	0.00	3.99	71.49	24.53
Businesses by Geography	6,860	0.00	6.22	65.86	27.92
Farms by Geography	466	0.00	0.64	79.18	20.17
Family Distribution by Income Level	31,982	14.95	18.85	24.44	41.77
Household Distribution by Income Level	10,809	0.00	8.06	76.21	15.74
Census Median Family Income (MFI)		41,475	Median Housing Value		89,964
HUD-Adjusted MFI: 2011		54,100	Unemployment Rate Northumberland Snyder Union Montour		8.1 7.1 7.1 5.7
Families Below the Poverty Level		9.90			

Source: 2000 U.S. Census Data; 2011 HUD updated MFI; unemployment rates as of March 31, 2011.

NNB designated three of the four census tracts in Montour County, ten of the 24 census tracts in Northumberland County, all of the census tracts in Snyder County, and five of the seven census tracts in Union County as its AA. Due to geographical barriers, the bank did not include all of the census tracts in Northumberland County. The bank designated only the portion of Montour and Union counties the bank could reasonably service. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income areas.

Of the 25 census tracts, two or 8% are moderate-income geographies, 17 or 68% are middle-income geographies, and six or 24% are upper-income geographies. There are no low-income geographies. Two of the middle-income geographies (9501.00 and 9503.00) in Montour County have been designated as distressed by the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency based on the population loss.

According to the 2000 U.S. Census data, the AA had a total population of 121,926. The AA contains 31,982 families and 14.95% are low-income, 18.85% are moderate-income, 24.44% are middle-income, and 41.77% are upper-income. There are 46,265 households and 4,581 or 9.90% of the households are below the poverty level. The 2000 median family income was \$41,475, and the 2011 HUD updated median family income is \$54,100.

The 2000 U.S. Census data reported 49,882 housing units in the AA. Approximately 66% are owner-occupied, 26% are rental occupied, and 7% are vacant housing units. Of all owner-occupied housing, 3.99% is located in moderate-income geographies, 71.49% is located in middle-income geographies, and 24.53% is located in upper-income geographies. The median housing cost is \$89,964.

The counties that comprise the bank's assessment area are part of a region known as the Greater Susquehanna Valley. It is primarily rural in nature and large portions of land in Union and Snyder counties are designated as state forest land. The Susquehanna River runs through the assessment area, and collectively Northumberland, Snyder and Union counties are known as the Susquehanna River Valley. The area is located within close proximity to I-81, I-80, and U.S. Routes 11 and 15; all major highways. New York City, Philadelphia, Baltimore, and Washington, D.C. are all within a three-to-four hour drive of the Susquehanna River Valley, and the Harrisburg International Airport is located within an hour drive.

The local economy has been experiencing a slight recession; however, it has not been as severe as other areas of the country. The economic base is varied with healthcare, manufacturing, retail trade, educational institutions and agribusiness as the primary economic activities. The area's natural resources have made it a leader in the wood manufacturing industry and the wood industry remains one of the largest employers in Snyder County. Some of the companies located in the area are Heister House Millworks, Inc., Bingaman & Son Lumber Co., Inc., Wood-Mode, Inc. (custom cabinetry), Stanley Woodworking (custom and stock wood components and moldings) and Conestoga Wood Specialties Corp. (custom wood doors and components for the kitchen cabinet industry). There are two major educational institutions in the area, and they are Bucknell University in Lewisburg and Susquehanna University in Selinsgrove. These educational institutions have helped stabilize the economy in this area. There are three hospitals located nearby, Sunbury Community Hospital, Geisinger Medical Center and Evangelical Community Hospital. They are also top employers. The area also has quite a few retirement communities and facilities serving the elder population. They include: Nottingham Village, River Woods, Buffalo Valley Lutheran Village, Maria Joseph Manor, Graysonview, and The Manor at Penn Village. Finally, the life sciences, high technology and advanced manufacturing industries are steadily growing.

Major employers in the AA include:

- Northumberland County – Weis Markets, Inc., H.H. Knoebel Sons, Inc., and county and state government offices;
- Snyder County – Wood Mode, Inc., Selinsgrove Area School District,

- Susquehanna University, and state government offices;
- Union County – Bucknell University, Evangelical Community Hospital, and the federal government; and
- Montour County – Geisinger Medical Center, Geisinger System Services, Geisinger Clinic, state government, and Danville Area School District.

According to the Bureau of Labor Statistics, the March 31, 2011 non-seasonally adjusted unemployment rate was 5.7% for Montour County, 7.1% for Union County, 7.1% for Snyder County, and 8.1% for Northumberland County. The Pennsylvania unemployment rate was 7.8%, and the national unemployment rate was 8.8%.

Competition for both loans and deposits is strong in this AA. Based on the June 30, 2010 FDIC Summary of Deposit Market Share report, NNB has a 13.23% deposit market share in the Montour, Northumberland, Snyder, and Union counties AA. Susquehanna Bank ranks 1<sup>st</sup> with 12 offices and a 13.66% deposit market share. Manufacturers & Traders Trust Company ranks 3<sup>rd</sup> with 11 offices and a 10.43% deposit market share, West Milton State Bank ranks 4<sup>th</sup> with five offices and a 9.90% deposit market share, and FNB Bank, NA ranks 5<sup>th</sup> with five offices and an 8.70% deposit market share. NNB has the strongest presence in the Snyder and Northumberland counties with a deposit market share of 27.61% and 16.28%, respectively.

During our evaluation, we contacted one community organization whose primary mission is affordable housing and we reviewed one recent community contact with a multi-county development and planning agency that provides a wide array of community and economic needs. We determined through these community contacts and our internal research that opportunities for community development lending, investments, and services are limited. The most prevalent community needs are affordable housing for low- and moderate-income people and small business loans. More specifically, there is a need for more affordable housing projects for low- and moderate-income people and loans and investments to fund these projects. Other identified community development needs include: credit education and credit counseling, first time home buyer programs, closing cost assistance for low- and moderate-income individuals, small business loans, and small business education and counseling. The community contacts indicated the local financial institutions have been meeting the needs of the community.

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

NNB's performance under the Lending Test is Satisfactory. NNB's quarterly average net loan-to-deposit ratio is reasonable. A majority of NNB's home mortgage loans were made within the bank's assessment area. NNB was found to have reasonable penetration among borrowers of different income levels. NNB was found to have excellent dispersion throughout census tracts of different income levels.

All criteria of the Lending Test are documented below.

### **LENDING TEST**

## Loan-to-Deposit Ratio

NNB's quarterly average net loan-to-deposit ratio (LTD) is reasonable given the bank's size, financial condition, and the credit needs of the AA, and it meets the standards for satisfactory performance. The bank's quarterly average net LTD over the 11 quarters since the last CRA examination was 64.43%. During this time period, the ratio ranged from a quarterly low of 62.07% to a quarterly high of 67.03%.

The quarterly average net LTD for a custom peer group of four similarly situated banks was 72.30% over the same 11 quarters. The ratio ranged from a quarterly low of 66.25% to a quarterly high of 81.02% during that time period.

NNB's quarterly average net LTD is lower than the quarterly average net LTD of the four similarly situated institutions in the bank's AA; however, the quarterly average net LTD for these four institutions has been steadily trending downward and has been near NNB's quarterly average net LTD for the last several quarters. In addition, NNB's higher than average deposit rates generated significant deposit growth in the past and loan growth could not keep pace with the influx of deposits. Furthermore, local and national economic conditions have had an impact on NNB's LTD. When taking these factors into consideration, NNB is doing as well as can be expected; and thus meets the standard for satisfactory performance.

## Lending in Assessment Area

A majority of NNB's home mortgage loans were made inside the bank's assessment area, and this meets the standard for satisfactory performance. During the evaluation period, 87.58% of the number and 89.06% of the dollar amount of total home mortgage loans were made within the bank's assessment area. The following table details the bank's lending within the AA by number and dollar amount of loans.

Loan Type	Number of Loans				Total	Dollars of Loans				Total
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Purchase	302	83.66	59	16.34	361	31,583	85.34	5,427	14.66	37,010
Home Improvement	173	87.82	24	12.18	197	6,609	84.44	1,218	15.56	7,827
Home Refinance	752	89.21	91	10.79	843	90,766	90.80	9,200	9.20	99,966
Totals	1,227	87.58	174	12.42	1,401	128,958	89.06	15,845	10.94	144,803

Source: HMDA data 1/1/09 - 3/31/11.

## Lending to Borrowers of Different Incomes

The distribution of loans reflects reasonable penetration among individuals of different

income levels, and NNB’s record of lending to borrowers of different incomes meets the standard for satisfactory performance.

In our analysis, we took into consideration the lack of affordability for a low-income family to purchase a home. Based on the updated 2011 HUD adjusted median housing value statistics, the average median housing value in the AA was \$89,964. According to the 2011 HUD adjusted median family income statistics, a low-income family earned less than \$27,050, while a moderate-income family earned less than \$43,280. Furthermore, 9.90% of households in the AA are below the poverty level. This lack of affordability limits the opportunity for home purchase, home improvement, and home refinance lending to low-income families; therefore, we placed more emphasis on the bank’s moderate-income performance.

The percentage of home purchase loans made to low-income borrowers is significantly lower than the percentage of low-income families in the AA. The percentage of home purchase loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

The percentage of home improvement loans made to low-income borrowers is significantly lower than the percentage of low-income families in the AA. The percentage of home improvement loans made to moderate-income borrowers is near the percentage of moderate-income families in the AA.

The percentage of home refinance loans made to low-income borrowers is significantly lower than the percentage of low-income families in the AA. The percentage of home refinance loans made to moderate-income borrowers is near the percentage of moderate-income families in the AA.

The following table shows the distribution of home loan products among borrowers of different income levels for the period of January 1, 2009 through March 31, 2011 as compared to the percent of families in each income category.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	14.95	6.02	18.85	26.09	24.44	30.10	41.77	37.79
Home Improvement	14.95	6.59	18.85	17.37	24.44	23.35	41.77	52.69
Home Refinance	14.95	6.09	18.85	18.67	24.44	26.25	41.77	48.99

*Source: HMDA data 1/1/09 – 3/31/11; 2000 U.S. Census data.*

### **Geographic Distribution of Loans**

The geographic distribution of loans reflects excellent dispersion throughout census

tracts of different income levels, and NNB’s performance exceeds the standard for satisfactory performance. There were no conspicuous gaps identified within NNB’s AA.

There are no low-income geographies in the AA; therefore, an analysis of lending in low-income geographies would not be meaningful and was not performed.

The percentage of home purchase loans made in moderate-income geographies exceeds the percentage of owner-occupied housing units in these geographies. The percentage of home improvement loans made in moderate-income geographies exceeds the percentage of owner-occupied housing units in these geographies. The percentage of home refinance loans made in moderate-income geographies exceeds the percentage of owner-occupied housing units in these geographies.

The following table details the bank’s performance as compared to the percentage of owner-occupied housing units in each census tract income level for the period of January 1, 2009 through March 31, 2011.

<b>Table 3 - Geographic Distribution of Residential Real Estate Loans</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00	0.00	3.99	7.62	71.49	78.15	24.53	14.24
Home Improvement	0.00	0.00	3.99	7.51	71.49	83.82	24.53	8.67
Home Refinance	0.00	0.00	3.99	5.33	71.49	86.15	24.53	8.52

*Source: HMDA data 1/1/09 – 3/31/11; 2000 U.S. Census data.*

**Responses to Complaints**

NNB has not received any CRA complaints during this evaluation period.

**COMMUNITY DEVELOPMENT TEST**

The Community Development Test is rated Satisfactory. NNB’s community development activities demonstrate adequate responsiveness to the community development needs of its AA, when considering the bank’s capacity, its performance context, and the availability of community development opportunities in the bank’s AA.

**Number and Amount of Community Development Loans**

NNB originated four CD loans totaling approximately \$4.2 million during the evaluation

period. The loans are described below:

- NNB originated a \$385 thousand loan to purchase and renovate a dilapidated 12-unit row home on Susquehanna Avenue in Sunbury, PA. The units are located in a moderate-income geography, and all units are occupied by low- and moderate-income tenants.
- NNB originated two loans for a combined total of \$2.2 million to provide interim and permanent financing for a revitalization project in Sunbury, where NNB's two moderate-income geographies are located. The loan requests are in support of the Redevelopment Assistance Capital Program (RACP), which is providing \$2.8 million in grant funding for both the Riverfront and Corridor phases of the project. The \$1.2 million line of credit is needed to pay construction costs up front, which are then reimbursed by the RACPB program. The \$1 million in permanent financing is needed to pay its share of the construction costs. The long term note would be paid off by the City through its Community Development Block Grant funds, which it receives each year as an Entitlement Community.
- NNB purchased \$1.6 million of a \$2.2 million construction financing loan for a private, non-profit organization whose primary purpose is to provide community services to low-income and disadvantaged individuals and families in Lycoming and Clinton counties. One of the programs offered is homeownership counseling services to people residing in Northumberland, Snyder, Union, and Montour counties. While the majority of services do not benefit the bank's AA, NNB is receiving credit for the loan because there are limited opportunities within the bank's AA, the bank adequately met the needs of their own AA, and one program does benefit the residents residing in bank's AA.

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

There were no investments made during the evaluation period. NNB made 23 donations for a total of \$173 thousand to eight different qualified community development organizations that promoted economic development and provided community services to low- and moderate-income individuals in the AA.

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

During the evaluation period, seven officers, employees, and Board members provided financial and technical expertise to seven different qualified community development organizations. The following details the community development services that were provided during the evaluation period:

- One officer provides financial expertise by serving on the Board of Directors for a non-profit organization. This non-profit organization provides assistance to various community organizations that provide community services to primarily low- and moderate-income individuals and families.

- One employee provides technical expertise to two organizations that assist low- and moderate-income individuals obtain affordable housing.
- One employee provides financial expertise by serving as a Board member of an organization that provides low- and moderate-income individuals with affordable housing.
- One officer provides financial expertise by serving on the Board of Directors for an organization that provides health and dental care to low- and moderate-income children.
- One employee serves as the Treasurer for a local revitalization organization that is dedicated to promoting economic development opportunities and spurring neighborhood reinvestment within the City of Sunbury, the only moderate-income area in the AA.
- Two employees provided financial and technical expertise to a non-profit organization of individuals and business people interested in preserving and promoting the business and economic interest of Sunbury, the only moderate area in the AA.
- A Board member provides financial expertise by assisting a non-profit organization with fundraising activities. This non-profit assists various community organizations that provide community services to primarily low- and moderate-income individuals.
- A member of the Board of Directors provides financial expertise by serving on a committee whose primary purpose is to provide program funding to local organizations that provide community services to primarily low- and moderate-income individuals and families.
- One employee provides technical expertise to an organization that assists low-to-moderate individuals obtain and maintain affordable housing.

In addition to the above community development services, NNB has one branch in Sunbury, which is a moderate-income area in the bank's assessment area. This branch is helping to provide retail and community development services to the lower-income areas of the AA.

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

NNB's community development activities, as a whole, demonstrate adequate responsiveness to the community development needs of its AA, especially when

considering the bank's capacity, its performance context, and the availability of community development opportunities in the bank's AA.

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

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