

PUBLIC DISCLOSURE

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

June 19, 1997

Adams County National Bank
Charter Number: 311
P.O. Box 3129
Gettysburg, PA 17325

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Adams County National Bank prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency.

The evaluation represents the OCC's current assessment and rating of the institution's CRA performance based on an examination conducted as of June 19, 1997. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under 5 performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings:

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Bank Profile

Adams County National Bank (ACNB) was founded in 1857 and is the largest community bank headquartered in Adams County, Pennsylvania with total assets of \$462 million at March 31, 1997. Adams County National Bank is the wholly-owned subsidiary of ACNB Corporation, a single-bank holding company. The bank's lending is currently concentrated in residential mortgages.

Adams County National Bank's marketplace encompasses Adams County, Pennsylvania and its environs - western York County, eastern Franklin County, southern Cumberland County, and the northern sections of those counties in Maryland that are adjacent to Adams County. Fourteen banking offices serve the customers in this marketplace.

The bank's primary competition comes from other local institutions and large financial institutions in the area such as Bank of Hanover & Trust Co., People's State Bank of East Berlin and credit unions. Additional competition for business comes from branches of large regional banks such as PNC, CoreStates, and Dauphin Deposit.

Community Profile

Tourism, fruit farming, light industry and small businesses are the trades that are found in and around ACNB's marketing area. Much of the market area remains rural and agricultural. Two large employers in the Gettysburg area are Gettysburg College and the Gettysburg Hospital. Both of these entities are critical to the present employment situation in the community and to the future of the community.

The demographics in the market area indicate a potential for moderate and steady market growth over the next five years. Historically, the local economy has been relatively stable. It has not experienced the highs and lows exhibited in other areas of Pennsylvania or the nation. The main reason for this market behavior is industrial diversity.

ACNB has designated all of Adams County and the western portion of York County as their delineated community. Adams County is not a Metropolitan Statistical Area (MSA) but is broken out into 17 block numbering areas (BNAs). York County is part of the York MSA (9280). The bank has included 10 York County census tracts (CT) as part of its community. The community includes no low- or moderate-income BNA/CTs, 21 middle-income BNA/CTs, and 6 upper-income BNA/CTs.

1990 U.S. Census information indicates a total population of 136,853 for the delineated community. Twelve percent of the population is over 65 years old. The unemployment rate is 2%. Median family income is \$34,012. Twenty six

percent of the number of families within the delineated community are low- or moderate-income. Approximately 5%, or 2,662, of the households are below poverty level. The median price for a home is \$80,600. Of the 51,487 housing units in the twenty-seven BNA/CTs, approximately 74% are owner-occupied, 21% are rental occupied, and five percent are vacant.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating:

Based on the findings presented below, this institution is rated: Outstanding record of meeting community credit needs.

Evaluation Period - The bank's previous Public Disclosure was dated June 2, 1995. The current disclosure contains an evaluation of the bank's performance from June 3, 1995 through June 19, 1997.

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services it provides.

Ascertainment efforts are outstanding in identifying community credit needs.

Management relies heavily on their personal knowledge of the local community and maintains ongoing communication with Realtors, contractors, local and state agencies, as well as representatives from the civic, religious and business sectors.

Bank officers have assumed leadership and/or director roles in the following community organizations: Adams County Habitat for Humanity, Main Street Gettysburg, Inc., Hanover Area Community Housing Fair Committee, and Adams County Economic Development Corporation. All information gathered from formal and informal community outreach is used to assess the credit needs of the local community. The following needs were determined as a result of the various ascertainment efforts:

- Residential mortgages.
- Small business loans.
- Mortgages for multi-family investment housing.

Assessment Factor C - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

The Board of Directors are fully committed to CRA efforts.

The Board of Directors are actively involved in the bank's community investment activities. They have approved internal policies which are consistent with the spirit and intent of the CRA, and are kept abreast of lending performance within their market as part of their ongoing directorate responsibilities. The directors are also involved in a variety of local activities and organizations that aid in understanding community credit needs.

The Loan Policy, approved by the Board of Directors, states that the bank's lending objective is to originate loans within the market area as defined in the Community Reinvestment Act Statement. The board reviews and approves all loans over \$250,000 and is therefore aware of the type of lending products recommended by management, the location of these commitments, and compliance with approved policy guidelines.

The bank formalized a new mission statement in 1996 as part of a strategic planning process. The Board of Directors assumed an active role in this process and approved all final products. The statement emphasizes investment in the community and reads as follows:

"Adams County National Bank is the sole and wholly-owned subsidiary of ACNB Corporation and, as such, is a publicly-owned community bank which takes pride in its independence. The Bank serves Adams County and the surrounding environs. As a community banking organization, its people are committed to delivering a broad range of financial products and services to the market area - reinvesting customers' deposits through loans to others in the community. Management is dedicated to building ACNB Corporation stockholder value through providing quality financial products and services to ensure customer satisfaction; maintaining a productive and growth-oriented work environment for employees; optimizing the utilization of resources for the dual purpose of effectively serving customers' financial needs and contributing to the organization's profitability; and, continuing the Bank's role as a responsible and caring business leader in the community."

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

Marketing efforts effectively reach all segments of the community.

Advertising is placed in several media to cover the bank's entire community, including the low- to moderate-income areas. Generally, the bank's advertising is concentrated in newspaper and radio. Advertisements are both general and product specific.

ACNB offers a wide range of housing related, consumer and business credits, which include but are not limited to: construction mortgage loans, home equity lines of credit, multi-family mortgage, housing rehabilitation, farm, mobile home and community development loans.

Consumer loans include automobile loans, student education loans, credit cards, and secured and unsecured installment loans. Business/Commercial loans are made to small businesses, agricultural-related and for commercial real estate. Our review verified that bank products effectively address and meet identified credit needs of the community.

ACNB has recently implemented a telephone banking system which offers 24-hour access to customer account information and bank products and services.

Spanish language brochures outlining banking and credit services are available at branch offices. The telephone banking system also contains an option for verbal instructions and account information to be conveyed in Spanish.

Area Realtors and building contractors are informed about the bank's primary loan product - residential mortgages - through mailings each time a change occurs in a product offering.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

ACNB has aggressively addressed the residential housing needs of the community through mortgage lending.

At March 31, 1997, the bank's loan to deposit ratio was 83%. Of that, almost 68% of the loan portfolio consisted of residential mortgage loans.

Residential Mortgage Loans

The following table provides loan data extracted from the 1995 and 1996 HMDA Loan Application Registers. The information includes all HMDA related loans made in the 27 BNA/CTs that comprise ACNB's community.

HMDA Originations 1995 - 1996

1995

1996

Loan Purpose

of Loans

\$(000)

Loans

\$(000)

Home Purchase

374

26,925

237

19,262

Refinance

106

8,611

158

11,441

Multi-family

1

71

2

60

Home Improvement

187

3,687
174
2,566

Total
668
39,294
571
33,329

Home purchase loans decreased from 1995 to 1996. The bank did not make any significant changes to this credit product over that time period, and the decrease is primarily a reflection of market forces. Home refinancing loans increased 49% during this period.

Small Business Loans

Substantially all of the bank's commercial loans are to local small businesses. During 1996, the bank extended 462 loans for commercial purposes (business or farm loans) for a total of \$9,119,000. All of these loans were originated in the delineated community and had original amounts below \$500 thousand.

During the evaluation period, ACNB spearheaded the formation of the Adams/Hanover Area Banking Consortium (ABC). ABC is an organization of eight banks who meet to review loan requests from local small businesses. The banks can individually decide if they wish to participate in the funding of each proposed loan. These loans are intended for parties who may be of marginal credit quality or may have been declined for loans by banks in the past. There are no dollar limits set on the amount of the loan requests. This consortium was formed in the first half of 1997, and has not resulted in any loan originations to date.

Assessment Factor J - The institution's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

Student loans are available through the Pennsylvania Higher Education Assistance Agency (PHEAA) at reduced interest rates. Total loan commitments of \$1.1 million have been generated since this program's commencement in 1994; virtually all of which were originated during the period covered by this evaluation.

The bank has had limited involvement in Small Business Administration (SBA) loans. As of May 31, 1997, the bank had \$409 thousand outstanding, all originated prior to this evaluation period.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Reasonableness of Delineated Community

The bank's delineated community encompasses all of Adams County and a portion of York County. This delineation is reasonable and does not arbitrarily exclude any low or moderate income areas.

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

Adams County National Bank extends credit to all segments of their assessment area.

As discussed previously, the delineated community contains no low- or moderate-income BNA/CTs. The BNA which encompasses the Borough of Gettysburg is the lowest income area within the delineated community and is home to one of the bank's primary offices, trust department and operation center. This BNA has a median income equal to 85% of the median income for the total area (moderate-income designation applies to tracts with a median income of less than 80%). In addition, per 1990 census data, more than 51% of residents of this area had incomes below 80% of the area median gross income. In 1996, ACNB granted 53 loans for a total of \$4,606,066 to residents and businesses located in the Borough of Gettysburg. Over 90% of all loans are contained within the bank's designated market.

The bank has entered into a cooperative loan program - Main Street Gettysburg - with five other banks to provide more than \$250,000 in low-interest loans to potential commercial businesses within the Borough of Gettysburg. The loan program offers an incentive to potential property owners to assist in improving their properties, including upgrading to meet with standards created by the Americans with Disabilities Act.

To assess the bank's performance in lending to borrowers of all income levels, we analyzed loan originations in 1996 for credit extended for home purchase, refinance, and home improvement. This information was taken from the bank's Home Mortgage Disclosure Act Loan Application Register (HMDA-LAR). The table below shows the distribution of HMDA reportable loans by borrower income. Sixteen percent of the number and 6% of the dollar amount of HMDA loans during

this period were made to low- or moderate-income borrowers.

HMDA Reportable Loans 1/1/96 - 12/31/96

Borrower Income Level Distribution by Borrower Income

%
\$(000)
%

< 50% of Median Income

33
6%
359
1%

50 - 79% of Median Income

56
10%
1,751
5%

80 -119% of Median Income

156
27%
7,376
22%

> 120% of Median Income

329
57%

23,642
71%

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

Branch offices are readily accessible to all segments of the community.

The bank currently operates fourteen full-service banking locations. Banking hours are extended through Saturday at nine branches with one location open for service on Sunday. Office locations are reasonable and accessible to all segments of the bank's service area.

ACNB is part of the MAC automated teller machine network. The bank owns six machines which are placed at branch offices.

No branch offices have been closed in the past two years.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

Adams County National Bank affirmatively solicits credit applications from all segments of its community.

No practices were noted during this examination which were intended to discourage applications for the specific types of credit identified as community needs. Overall, bank policies and procedures are adequate to support nondiscrimination in lending activities. Applications for credit are being solicited from all segments of the bank's assessment area, including low- and moderate-income areas.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

Adams County National Bank is in substantial compliance with all anti-discrimination laws and regulations.

Adams County National Bank is in substantial compliance with all provisions of the anti-discrimination laws and regulations, including: the Equal Credit

Opportunity Act and the Home Mortgage Disclosure Act. No evidence of prohibited discrimination or other illegal credit practices were found during our concurrent compliance examination.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

ACNB actively participates in community development projects and programs within their assessment area.

The bank has provided financial assistance to a substantial number of community development projects in their service community. A partial listing of projects undertaken include (except where noted, all loans were funded during the evaluation period):

ACNB provided a \$505,000 commercial mortgage loan to the Adams-Hanover Counseling Services, Inc. - a non-profit organization which provides mental health and mental retardation services in the Adams and York County areas. The purpose of the loan was to purchase a block of townhouses (ten units) to house patients. The bank also provided a \$150,000 line of credit, priced below prime, to be used during the interim of State and Federal Government funding of various projects.

Through ACNB Corporation, the parent company, the bank has assumed a leadership role in the Gettysburg Scattered Site Rehabilitation Project. During the prior evaluation period, the bank provided a \$475,000 equity investment in the project and holds a 99% ownership in a limited partnership with a local developer and Rural Opportunities, Inc. The project restored or replaced 16 residential dwellings which are now occupied by low income tenants. The bank continues to seek affordable housing opportunities through limited real estate partnerships with its parent company.

ACNB contributed \$15,000 in an effort to help low- and moderate-income families who will be displaced from their mobile homes pending the construction of a shopping center. The monies are being used to fund a full-time financial counselor to aid these individuals for a six month period.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

Adams County National Bank has played a significant role in developing programs and credit products that address the credit needs of Adams County and its adjacent environs.

The bank supports community revitalization projects consistent with its size and resources. As indicated previously, Adams County National Bank extends loans throughout its assessment area, all of which help to promote economic growth and revitalization.

The bank's assessment area has generally enjoyed good economic health. Housing growth, however, is stagnant. ACNB has no legal restrictions on permissible activities, interest rates, and branching which would affect their ability to help meet community credit needs.

Assessment Factor L - Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

ACNB has demonstrated a substantial commitment to members of their community through active participation in numerous community events.

ACNB has proven to be a good corporate citizen. The time and talents of its employees are offered in many ways to contribute to the overall benefit of the community. A few examples of this include:

ACNB is a sponsor of and a participant in the Greater Hanover Area Community Housing Fair. The Fair's goal is to connect people with information and resources that will help meet the housing needs of area residents, especially low- and moderate-income residents. This is a free event to the public.

The bank is a contributor of SCORE which provides free counseling and support for small businesses and start-ups.

An annual program was conducted for students at Littlestown High School which included information on banking services, banking careers, savings plans and credit.

A presentation was given to the Biglerville High School Senior Agriculture Class on credit.

Space is made available at branch locations for community group meetings.