



Comptroller of the Currency
Administrator of National Banks

Small Bank

Northeastern District
1114 Avenue of the Americas, Suite 300
New York, New York 10036

PUBLIC DISCLOSURE

March 22, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Farmers National Bank

Charter Number 5481

**Drawer D
Emlenton, PA 16373**

**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 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 Community Reinvestment Act (CRA) performance of **Farmers National Bank** prepared by **The Office of the Comptroller of the Currency** the institution's supervisory agency, as of March 22, 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.

Farmers National Bank of Emlenton's (FNBE) record of lending within its assessment area (AA) is reasonable and reflects comparably to similarly situated financial institutions. In addition, FNBE's distribution of loans to borrowers of various income levels and businesses of different sizes reflects the AA's demographics. The bank makes a substantial majority of loans within its AA.

DESCRIPTION OF INSTITUTION

Farmers National Bank of Emlenton, (FNBE) is a \$155 million community bank located in the southern portion of Venango County. The bank is headquartered a few miles from interstate 80 and approximately, 95 miles northeast of Pittsburgh, Pennsylvania. The bank is an affiliate of Emclair Financial Corporation, a one bank holding company located in Emlenton, Pennsylvania. FNBE is a full service bank offering a wide range of deposit and loan products. Product offerings include commercial loans, real estate mortgage loans, and consumer instalment loans and lines of credit.

The bank's loan portfolio is broken down by *dollar* as follows: 59% residential real estate, 16% commercial real estate loans, 13% consumer loans, 10% commercial loans, 2% home equity loans. There are no financial or legal impediments that would preclude FNBE from lending.

FNBE has eleven branch locations. The main office houses the Emlenton branch which is located in Emlenton, Pennsylvania. Two branches are situated in Clarion, Pennsylvania, including one shopping mall location. Two branches are also situated in Knox, Pennsylvania. The bank has one branch each in Butler, Brookville, DuBois, Eau Claire, East Brady, and Ridgeway, Pennsylvania. ATM facilities are provided at branch locations in Emlenton, Eau Claire, East Brady, Bon Aire, Knox (Main Street), and Clarion (shopping mall).

Competition consists of a variety other moderately sized local institutions with between \$100 and \$350 million dollars in assets. Some larger financial institutions based in Pittsburgh, Pennsylvania have had a presence within the bank's AA. However, the bank does not view these larger, non-local institutions as competition for its customer base.

DESCRIPTION OF BANKS ASSESSMENT AREA

FNBE has identified seven whole counties located in northwestern Pennsylvania as its AA. These counties include Armstrong, Butler, Clarion, Clearfield, Elk, Jefferson, and Venango Counties. The AA is comprised primarily of middle income geographies, but also includes a minimal number of moderate and upper income

geographies. The bank's presence within a Metropolitan Statistical Area (MSA) is limited to a single branch in Butler County Pennsylvania. The Pennsylvania non-MSA median family income is \$35,200. The bank's AA consists of seven contiguous counties which constitute political subdivisions. The AA complies with all regulatory requirements and does not arbitrarily exclude low or moderate income areas.

The bank's AA consists predominantly of small towns and rural communities. The population of FNBE's AA as of the 1990 census was 485,629. Demographic data collected during the 1990 census, reports the average median family income within the AA to be \$29,413. Demographic data gathered during the 1990 census also reports that within the bank's AA, owner occupied housing represents 67% of housing units and the median housing value equals \$48,506.

Bank management confirmed that retail trade and services continue to represent the largest employment categories in their area. Manufacturing also represents a significant employment category, although the manufacturing industry has declined in comparison to its historical presence in the area. Management advised that manufacturing jobs have been created recently by the prefabricated home industry, mobile home industry, and related manufacturing entities. Government and public education also represent significant, but lesser volume of employment categories in the area.

Bank management advised that the economic condition of the AA has stabilized. Local employment levels remain somewhat higher than the national average. According to bank management, the area continues to be negatively impacted by the loss or reduction of jobs in some industries such as glass and oil. However, to some extent these jobs have been replaced by the prefabricated home industry as well as related fiberboard and bath works producers, and lower paying retail and service employers. Area industries are reasonably diversified and also include the production of waxes, lubricants, and oil (motor, consumer and food grade.) The AA encompasses some communities which are experiencing significant growth such as Butler, Clarion, and DuBois.

Discussions with management confirmed that within their assessment area, credit needs continue to be concentrated primarily in residential mortgage lending. The demand for mortgage purchase, construction, and refinancing fluctuates depending upon interest rates. The bank offers affordable, low rate, low fee mortgage loan products. Community credit needs also include small business lending. Small businesses lending

has been identified by the bank as a community credit need and lending opportunity. The bank is an SBA lender. The community credit need for consumer lending continues to exist but demand has remained stable.

Examiners contacted the Executive Director of the Clarion County Economic Development Corporation. The corporation exists to provide assistance to community members seeking to establish or expand small business enterprises. This contact indicated a community credit need for small business lending and residential mortgage and consumer lending in the Clarion County Area. The contact identified a need for affordable loan products, with flexibility in requirements for equity contributions, fees and closing costs. The contact indicated that local community banks are generally responsive to community credit needs. However, opportunities for banks to participate in community development lending projects have been limited. The contact specifically identified Farmers National Bank of Emlenton as a community bank possessing a “commitment to the local community.”

SAMPLING

Business, residential mortgage and consumer loan data was collected from the bank through a random sample of all residential mortgage loans and all consumer loans originated during 1998. Data was collected for loan volume and dollars originated to borrowers located inside and outside of the bank’s assessment area. Since the bank experienced no significant changes in residential mortgage and consumer lending patterns during the years since the previous CRA evaluation, 1998 data was used to represent lending throughout the entire period.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan to Deposit Analysis

➤ The loan to deposit ratio is comparable to local peer banks and is trending upward.

FNBE’s loan to deposit ratio clearly demonstrates a commitment to lending in the community. The loan to deposit ratio over the past 12 quarters averages 70% and is slightly above the peer average of 66%. The loan to deposit ratio is also generally trending upward with year end 1996, 1997, and 1998 ratios at 59%, 72%, and 78%, respectively. The local peer bank ratio included six local Pennsylvania banks with an asset size between \$100 and \$200 million and had a year end loan to deposit ratio of 71%.

Lending in Assessment Area

- The bank has achieved an excellent level of residential mortgage and consumer loan originations within its AA.

The bank lends actively within its AA. A majority of the residential mortgage and consumer loans originated were to borrowers located within its assessment area. Residential mortgage and consumer loan originations to borrowers located within its AA totaled 99% by volume and 98% by dollar of all loans originated during 1998.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

Overall FNBE has demonstrated a reasonable degree of lending to small businesses and low and moderate income borrowers.

Business Lending

- FNBE has demonstrated a strong commitment to small business lending by originating 292 loans to local small businesses, representing 92% of total business lending.

Small business loans are defined as those loans made to enterprises whose annual, gross revenues are \$1,000,000 or less. The volume of reporting businesses in the bank's AA, with gross annual revenues less than \$1 million represent 73% of total businesses. Of all loans originated by FNBE to businesses during 1998, 92% of the total number of business loans and 69% of total business loan dollars were originated to small businesses.

Residential Mortgage and Consumer Lending

- FNBEs record of mortgage lending to low and moderate income families reflects area demographics.
- FNBEs record of consumer lending to low and moderate income borrowers reflects favorably to area demographics.

Demographic data compiled during the 1990 census for the AA, indicates that low, moderate, middle, and upper income families located represent 19%, 20%, 24% and 46% respectively, of the population within the AA.

The bank's level of mortgage lending to borrowers of low and moderate income levels reasonably reflects the demographic representation of low and moderate income families for the assessment. For example, during 1998, lending to low and moderate income borrowers represented 2% and 16% of mortgage loan volume and 1% and 9% of mortgage loan dollars, respectively.

FNBE's level of consumer lending to borrowers of low and moderate income levels compares favorably with AA demographics. For example, during 1998, consumer lending to low and moderate income borrowers represented 18% and 25% of consumer loan volume and 36% and 14% of consumer loan dollars, respectively.

The following table details mortgage and instalment loans originated by FNBE to low and moderate income borrowers.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS

	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Totals	
AA Families	19%		20%		24%		36%		100%	
	####	\$\$\$\$	####	\$\$\$\$	####	\$\$\$\$	####	\$\$\$\$	####	\$\$\$\$\$
Mortgage Loans	1	25	7	\$246	16	\$1,041	20	\$1,531	44	\$2,843
	2%	1%	16%	9%	36%	37%	45%	54%	100%	100%
	8	\$30	15	\$100	10	\$59	6	\$92	39	\$281
Consumer Loans	21%	11%	38%	35%	26%	21%	15%	33%	100%	100%
Total Loans	9	\$55	22	\$346	26	\$1,100	26	\$1,631	83	\$3,123.5
	11%	2%	27%	11%	31%	35%	31%	52%	100%	100%

Geographic Distribution of Loans

➤ FNBE's geographic distribution of residential mortgage and consumer loan originations reflect AA demographics.

Demographic data compiled during the 1990 census for the bank's AA, indicates that the AA includes 124 geographies, designated as follows:

- ❖ 10 upper income geographies;
- ❖ 100 middle income geographies; and
- ❖ 14 moderate income geographies.

The bank's level of mortgage loan originations to borrowers located within moderate, middle and upper income geographies is reasonable as compared to AA demographics. For example, during 1998, the bank's loan originations to borrowers located within moderate, middle, and upper income geographies represented 5%, 82%, and 14% of mortgage loan volume and 4%, 84%, and 12% of mortgage loan dollars, respectively. In contrast, 1990 census data indicates that moderate, middle and upper income geographies represent 11%, 81%, and 14% respectively, of the geographies within the AA.

Similarly, the level of consumer loan originations to borrowers located within moderate income geographies is reflective of AA demographics. For example, during 1998, consumer loan originations to borrowers located within moderate, middle, and upper income geographies represented 8%, 82%, and 10% of consumer loan volume and 4%, 81%, and 15% of consumer loan dollars. Comparatively, demographic data indicates that moderate, middle and upper income geographies represent 11%, 81% and 8% respectively, of geographies within the AA.

The following table details the mortgage and instalment loans originated by FNBE to borrowers located within moderate income geographies.

GEOGRAPHIC DISTRIBUTION OF LOANS

		Moderate Income Geographies		Middle Income Geographies		Upper Income Geographies		Total Geographies	
AA Geographies		14		100		10		124	
		11%		81%		8%		100%	
		####	\$\$\$\$	####	\$\$\$\$	####	\$\$\$\$	#####	\$\$\$\$\$
Residential Mortgage Loans		2	\$112	36	\$2381	6	\$350	44	\$2843
		5%	4%	82%	84%	14%	12%	100%	100%
Consumer Loans		3	\$10	32	\$228	4	\$42	39	\$281
		8%	4%	82%	81%	10%	15%	100%	100%
Total Loans		5	\$122	68	\$2,609	10	\$392	83	\$3,123
		6%	4%	82%	84%	12%	13%	100%	100%

Response to Complaints

No complaints have been received since the last examination.

Record of Compliance with Antidiscrimination Laws

Examiners found no violations of the antidiscrimination laws and regulations. The bank has appropriate policies, procedures and training programs in place to prevent discriminatory or other illegal credit practices.