

Northeastern District
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PUBLIC DISCLOSURE

November 9, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Canton
Charter Number: 2505**

**Post Office Box 217, 5 West Main Street
Canton, Pennsylvania 17724**

**Office of the Comptroller of the Currency
Northern Pennsylvania Field Office
100 Hazle Street, Suite 202
Wilkes-Barre, Pennsylvania 18702**

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 **The First National Bank of Canton** prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of November 9, 1998. 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 primary factors supporting the bank's overall rating include:

- The average loan to deposit ratio of 70.37% is similar to peer group averages;
- A substantial majority of mortgage loans originated during the examination period are in the bank's assessment area; and
- There is a satisfactory penetration of loans to individuals of different income levels and all of the bank's commercial lending is to small businesses and small farms.

The following table indicates the performance level of The First National Bank of Canton with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>First National Bank of Canton</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans	Not applicable		
Response to Complaints	No complaints received since the prior examination.		

DESCRIPTION OF INSTITUTION

First National Bank of Canton (FNB) is a \$46 million institution situated in northern central Pennsylvania. The bank operates one full service office and one automated teller machine in southwest Bradford County. The office has a drive-in facility and has extended evening and weekend hours.

FNB has no operating subsidiaries. Major competitors include many small community banks. As of June 30, 1997, FNB's market share of all deposits held by FDIC-insured institutions operating in Pennsylvania was 0.02%. Also as of that date, the bank's market share in Bradford County was 5.96%.

Primary loan products include fixed rate and adjustable rate residential mortgages with a biweekly option available, small business and agricultural loans, and consumer installment loans. The loan portfolio represents 63% of total assets as of the September 30, 1998 call report. A breakdown of the portfolio as of September 30, 1998 is as follows: 53% residential mortgages, 16% commercial and commercial real estate loans, 13% consumer installment loans, and 18% agricultural credits.

There are no legal or financial impediments which would hinder the bank's ability to help meet the credit needs of its community.

DESCRIPTION OF ASSESSMENT AREA

FNB's assessment area (AA) meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income (LMI) areas. The AA includes ten census tracts (CTs) and block numbering areas (BNAs) located in portions of Bradford, Lycoming, Sullivan, and Tioga counties. Four BNAs are located in Bradford County, one tract is in Lycoming County, one BNA is in Sullivan County, and four BNAs are in Tioga County. All ten geographies are middle-income tracts. The population of the AA is 37,353. Twenty-one percent of the families residing in the assessment area are low-income, 21% are moderate-income, 25% are middle-income, and 33% are upper-income families.

The local area is very rural and known for dairy farming and veal production. According to the Pennsylvania Department of Labor and Industry, unemployment in Bradford County is 3.8% as of September 30, 1998, while Lycoming County is at 5.0%. In Sullivan County, the unemployment rate is at 5.8% and in Tioga County, the unemployment rate is at 4.3%. The Pennsylvania state unemployment rate for the same date is at 4.3%.

The CT in Lycoming County is part of the Williamsport Metropolitan Statistical Area (MSA 9140). Population in this tract is 2,306. Twenty-four percent of the families who reside in this tract are low-income, 19% are moderate-income, 31% are middle-income, and 26% are upper-income. The median family income in this MSA is \$36,500. Average housing costs are at \$42,800 with 1956 as the median year built. Major employers in Lycoming County include Susquehanna Regional Healthcare Alliance, Pennsylvania State Government, Brodart, the Williamsport Area School District, and the Pennsylvania College of Technology.

The nine remaining BNAs are located in a non-metropolitan statistical area (non-MSA). Population in these BNAs is 35,047. Twenty-one percent of the families in these BNAs are low-income, 21% are moderate-income, 25% are middle-income and 33% are upper-income. The statewide non-metropolitan median family income of \$35,200 applies to this area. The average housing cost is \$44,909 with the median year built of 1958.

Major employers in the Bradford County area include the Robert Packer Hospital, Osram Sylvania, Taylor Packing Company, E. I. DuPont DeNemours & Company, and Bradford County Government. In Sullivan County, major employers are Hoffman/New Yorker, Inc., Albright Care Services, Management and Training Corporation, the Sullivan County School District, and the Pennsylvania State Government. Major employers in Tioga County are Ward Manufacturing, North Penn Comprehensive Health Services, Truck-Lite Company, Dixon University Center, and the Soldiers & Sailors Memorial Hospital.

ASSESSMENT AREA DEMOGRAPHICS		
Designation	# CTs/BNAs	% of Total CTs/BNAs
Low	0	0
Moderate	0	0
Middle	10	100
Upper	0	0
Total	10	100

Determination of Community Credit Needs

Community Contacts

Credit needs in the local area were determined during this examination by contacting a representative of a local business group. This contact indicated that the need for affordable, decent housing in this area, since they estimate that 62% of the local population are either welfare recipients or retirees. The need for low down payment mortgage loans is a concern, as well as loans for the establishment of new small businesses. Bank management also stated that these are important issues in the area, but currently do not offer those specific programs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

SCOPE OF REVIEW

Please note that for purposes of this review the examination period covers mortgage loans recorded on the Comptroller of the Currency Monthly Home Loan Activity Format reports from January 1, 1996 through September 30, 1998. Small business loan data is based on the information found within the call report dated September 30, 1998. All dollar amounts within the tables found in this report are in thousands unless otherwise noted. For purposes of analyzing the lending performance by borrower income levels, a sample of 33% of the mortgage loans originated during this period was used.

LOAN TO DEPOSIT RATIO

Our analysis of the loan to deposit ratio indicates that the average ratio of 70.37%, which has been maintained since the previous Community Reinvestment Act examination, is reasonable. FNB's ratio has increased, ranging from 66.15% to 75.15%. It is similar to local peer banks which have an average ratio of 69.73%.

LENDING IN THE ASSESSMENT AREA

We analyzed the bank's record of lending in their AA using information from the Home Loan Activity Format Report for 1996, 1997, and year-to-date 1998. The following table indicates that a substantial majority of mortgage loan originations during the examination period are in FNB's AA. This reflects an excellent response to local community housing needs.

Mortgage Loan Originations												
	1996				1997				1/1/98-9/30/98			
	#	%	\$	%	#	%	\$	%	#	%	\$	%
Inside AA	61	92	3,889	95	49	92	3,022	95	43	100	2,758	100
Outside AA	5	8	217	5	4	8	174	5	0	0	0	0
Total	66	100	4,106	100	53	100	3,196	100	43	100	2,758	100

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The bank's record of lending to borrowers of different income levels was evaluated using a sample of 33% of the mortgage loans recorded on the Home Loan Activity Format report. The following table shows that, with the exception of lending to low-income borrowers, FNB's volume of lending in this sample is representative of the demographic composition of the entire AA.

While the penetration to low-income borrowers in this sample appears low, the bank has very few denials for loans in this category and regularly makes mortgage loans under \$20,000. In addition, FNB charges no fees for mortgage loans, making the loans more affordable to all income levels. Overall, FNB's record of lending to borrowers of different income levels is satisfactory and has improved in the past year for low- and moderate-income borrowers.

Mortgage Loan Originations by Level of Borrower Income													
Income Category	1996				1997				1/1/98-9/30/98				% of Families Within AA
	#	%	\$	%	#	%	\$	%	#	%	\$	%	
Low	1	5	49	4	0	0	0	0	2	14	58	8	21
Moderate	5	23	232	17	4	24	240	21	5	36	137	19	21
Middle	8	36	409	30	6	35	202	18	4	29	188	26	25
Upper	8	36	681	50	7	41	694	61	3	21	338	47	33
Total	22	100	1,371	100	17	100	1,136	100	14	100	721	100	100

For the analysis regarding lending to businesses of different sizes, a small business loan is defined as a loan with an original amount of less than \$1 million and a small farm loan is an agricultural loan made for less than \$500 thousand. FNB is responsive to the credit needs of small businesses and farms in its community, however they do not track loan originations in these categories nor do they have reporting capabilities to determine the volume of these loan types.

As of September 30, 1998 the bank's legal lending limit is \$1 million and therefore, no commercial loans can exceed this limit. Bank management indicated that no farm loan originations exceeded the \$500 thousand limit during the time frame of this examination. According to the September 30, 1998 call report, outstanding loans to small businesses totaled \$4 million and outstanding loans to farms totaled \$5 million. In a review of the bank's new loan reports, a substantial majority of loans were under \$100 thousand.

Geographic Distribution of Loans

All CTs and BNAs are middle-income tracts. Therefore, an analysis of the geographic distribution of lending would not be meaningful.

Responses to Complaints

No complaints were received during this period by FNB regarding its performance in meeting the credit needs of its AA.

Fair Lending Review

A Fair Lending Review was performed in conjunction with this CRA examination and did not identify any violations of antidiscrimination laws and regulations.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MSA 9140

FNB defines its AA within the Williamsport, PA MSA as one CT in Lycoming County. This is a middle-income tract. Six percent of the population in the bank's AA resides in this MSA. The median family income in this MSA is \$36,500. Average housing costs are at \$42,800 with 1956 as the median year built. This tract is contiguous to the BNA where the bank is located.

During 1996, five loans were originated in this MSA for a total of \$517 thousand. In 1997, three loans were originated in this CT for a total of \$114 thousand and up to September 30, 1998, two loans totaling \$59 thousand were originated.

With no physical presence in this MSA, the bank is in competition with other small community banks which do have facilities in the CT. Overall, the FNB adequately serves this CT.

Scope of Examination

Time Period Reviewed	1/1/96 to 9/30/98		
Financial institution	Products reviewed		
First National Bank of Canton	Small business, Small farm, and Mortgage Loans		
List of Assessment Areas and Type of Examination			
Assessment Area	Type of Exam	Branches Visited	Other Information
Pennsylvania MSA - 9140 - Williamsport, PA Non-MSA - Bradford, Sullivan and Tioga counties	on-site	Main Office	Not applicable