



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

April 22, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Herndon National Bank
Charter Number 13982**

**Main Street
Herndon, PA 17830**

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

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.

TABLE OF CONTENTS

<u>INSTITUTION'S CRA RATING</u>	1
<u>DESCRIPTION OF INSTITUTION</u>	1
<u>DESCRIPTION OF ASSESSMENT AREA</u>	2
<u>CONCLUSIONS ABOUT PERFORMANCE CRITERIA</u>	3

INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

- A substantial majority of the bank's loans are originated in its assessment area.
- The bank's record of lending to borrowers of different incomes is excellent.
- The loan-to-deposit ratio is adequate.

DESCRIPTION OF INSTITUTION

The Herndon National Bank (HNB) is a \$27 million intrastate community bank. The bank's main and only office is located in Herndon, Pennsylvania, which is in Northumberland County, Pennsylvania. HNB received a "Satisfactory" rating at their last CRA examination dated April 17, 1997. HNB operates one ATM located at the main office, which was opened in the last year. HNB does not have any legal or financial conditions that would impede its ability to help meet the credit need of the community. HNB is not part of a holding company structure.

At December 31, 2001, HNB reported \$8.8 million in net loans and \$19.9 million in total deposits. Net loans represent 32% of average assets. The bank's loan portfolio consists of 51% residential mortgages, 27% commercial loans, 15% consumer loans, and 7% farmland loans. The primary products reviewed at this examination were refinanced residential mortgage and consumer loans. During the evaluation period January 1, 1997 through April 22, 2002 the bank originated 122 mortgage loans, 217 consumer loans, 25 commercial loans, and 1 farm loan. Of the mortgage loans originated during the past three years (2000, 2001, and 2002), 71% were refinanced mortgages. HNB does not purchase loans or make loans for resale into the secondary markets, and does not participate in credits with any other institutions. HNB also does not offer mortgage loans with less than an 80% loan to value and does not offer private mortgage insurance.

The bank's business plan is to remain an independent community bank offering a full range of banking services to its community.

According to June 30, 2001 Summary of Deposit Data from the Federal Deposit Insurance Corporation and Office of Thrift Supervision, HNB's market share of deposits in Northumberland County is 1.74% and the bank is ranked 14th out of 17 institutions operating in the county. Major competitors are:

- ◆ Manufacturers and Traders Trust Company
- ◆ First National Trust Bank
- ◆ SunBank
- ◆ Northumberland National Bank

- ◆ FNB Bank, N.A.
- ◆ Union National Bank of Mount Carmel
- ◆ Turbotville National Bank
- ◆ Sovereign Bank
- ◆ Community Banks

Overall competition for loans and deposits is strong in Northumberland County.

DESCRIPTION OF ASSESSMENT AREA (AA)

HNB's AA consists of three block numbering areas (BNAs) in Northumberland County. The population of the AA is approximately 14,000. The 1990 statewide median family income for a non-MSA area is \$28,934, which was used in our geographic analysis. All three BNAs are middle-income areas. The 2001 Updated Median Family Income for non-MSAs is \$39,200, which was used in our analysis of lending by borrower income. The breakdown of families within the AA is 14% low-income, 19% moderate-income, 27% middle-income, and 40% upper-income.

The AA is primarily rural; a large portion of it is farmland. Most of the farmland is controlled by three family-owned agricultural businesses. Creative Playthings Inc., a manufacturer of wooden gym and play sets for children, is another of the AA's primary employers. During our examination, Creative Playthings announced that they would be moving from Herndon to a market outside of the bank's assessment area as of July 31, 2002. Other primary employers include Meckley's Limestone Products, a firm that mines, sells, and transports limestone products, and Line Mountain School District, which provides education from elementary through high school levels. However, most residents travel outside the AA for employment opportunities. The unemployment rate in Northumberland County, at 7.6%, exceeds the state's unemployment rate of 5.4% as of March 2002.

Total occupied housing units in the AA are 5,297. Eighty-six percent of these units are owner-occupied, and the rest are rental units. A high percentage (34%) of households are on social security. Households below the poverty level represent 8% of the population.

We contacted one community group during our examination, representing the Borough of Herndon. Limited growth in housing and new business has occurred in Herndon because no new building permits have been issued while a new sewage system is planned for installation. In discussions with the contact, we learned that credit needs are for home purchase, low cost refinancing, and for consumer loans, especially for used autos and unsecured loans.

Opportunities for community development are limited given the rural nature of the AA and the installation of the sewage system in Herndon, making new building non-existent.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio meets the standards for satisfactory performance. HNB's average loan-to-deposit (LTD) ratio calculated on quarter-end financial data from December 31, 1997 to December 31, 2001 is 47%. The LTD ratio for other one-office banks operating in Pennsylvania for the same time period is 80%. There are several factors that contribute to HNB's below average LTD ratio.

- ◆ HNB operates in an isolated rural area, primarily consisting of farmland. The bank does little or no farm lending and cannot effectively compete with the Department of Agriculture programs.
- ◆ HNB's largest credit product is consumer loans. However, these are small dollar loans, sometimes as little as \$250.00 per loan.
- ◆ With a large percentage of home ownership, high unemployment, a high level of households on social security, and no new building in the Borough of Herndon, small business and new home lending is a challenge for the bank. Further, the bank requires a 20% down payment on home purchase loans, making competition for first time homebuyers extremely difficult.
- ◆ HNB turns down only a limited number of loans, preferring to work with each of its customers. There were only 33 total turndowns for all types of loans for the year 2001.

Lending in Assessment Area

HNB exceeds the standards for satisfactory performance. Our random sample of twenty refinanced mortgages disclosed that 95% were originated within the AA. Likewise our random sample of twenty consumer loans disclosed that 100% were originated within the AA.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Lending to borrowers of different incomes exceeds the standards for satisfactory performance.

Lending to both low- and moderate-income borrowers regarding consumer loans exceeds the demographics for the AA. Lending to low-income borrowers for refinance products is only slightly below the demographics for refinanced mortgages and lending to moderate-income borrowers exceeds the demographics. Please refer to the tables that follow.

Borrower Distribution of Loans			
Income Level	% of Consumer Loans by #	% of Refinanced Mortgages by #	Income Level of Families in AA
Low	45%	10%	14%
Moderate	30%	30%	19%
Middle	20%	35%	27%
Upper	5%	25%	40%
Total	100%	100%	100%

Note: Sample size of both consumer and refinanced mortgages includes 20 loans of each type.

Geographic Distribution of Loans

The geographic distribution of loans is not meaningful, as all three BNAs are middle-income.

Responses to Complaints

During the review period, the bank did not receive any CRA related consumer complaints with respect to lending performance within its AA.

Fair Lending Review

An analysis of the most recent available public comments and consumer complaint information was performed according to the Office of the Comptroller of the Currency's risk-based fair lending approach. Based on its analysis of the information, the Office of the Comptroller of the Currency decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The last comprehensive fair lending examination was performed in April 1997.