



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

February 16, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Vartan National Bank
Charter Number 11512**

**P.O Box 500
Dauphin, PA 17018**

**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.

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

- The bank's average loan to deposit ratio, 80%, exceeds its national peer.
- A majority of all Home Mortgage Disclosure Act (HMDA) loans were originated within the bank's assessment area;
- Lending to borrowers of different incomes meets the standards for satisfactory performance;
- Geographic distribution does not meet the standards for satisfactory performance, but geographic distribution alone does not adversely impact the overall satisfactory CRA performance at VNB; and
- The bank's geographic distribution of HMDA loans does not meet the standards for satisfactory performance; however, competition for loans in low- and moderate-income geographies is very strong and the bank has no presence in these geographic areas.

DESCRIPTION OF INSTITUTION

Vartan National Bank (VNB) is a wholly owned subsidiary of Vartan Financial Corporation, a one-bank holding company with total assets of \$68 million, as of December 31, 2003. VNB operates in the central Pennsylvania counties of Dauphin and Cumberland.

As of December 31, 2003, VNB has total assets of \$66 million. VNB is a full service bank, offering a wide range of loan and deposit products. The bank operates four full service branches, all with drive-up facilities and ATMs. Three of the four branches offer Saturday hours and one branch offers limited evening hours during the week. VNB maintains an Internet website and offers PC and telephone banking services with 24 hour access.

In June 2000, the Comptroller of the Currency (OCC) received a notice from VNB of their intent to close the branch located at Allegany and Market Streets in Dauphin, PA 17018. In August 2000, the OCC received a final confirmation from VNB of the branch closing. The branch was located in a middle-income tract and did not affect lending to low- or moderate-income areas.

Loans represent 69% of average assets. The majority of the loan portfolio is one-to-four family residential at 58% of the portfolio, multifamily is 5%, 34% commercial, and 3% loans to individuals. Competition in the bank's market area is strong, consisting of large regional banks, mortgage companies, and community banks.

There are no financial or legal impediments that would prevent VNB from helping to meet the credit needs of the Assessment Area (AA). The evaluation period for this examination is from January 1, 1999 to December 31, 2002. The bank's last CRA rating of Satisfactory was as of September 8, 1998.

DESCRIPTION OF ASSESSEMENT AREA

VNB defines its AA as 58 census tracts within the Harrisburg-Lebanon-Carlisle (HLC) Metropolitan Statistical Area (MSA) in Dauphin and Cumberland counties. The population of the AA approximates 279,524 individuals and 74,928 families. The weighted average median housing cost is approximately \$75,000 and the weighted average median year built is 1959. The weighted average updated median family income is \$55,400. The AA is contiguous and meets the regulatory guidelines, and does not arbitrarily exclude any low- or moderate- income geographies.

According to the June 30, 2003 FDIC Summary of Deposits Market Share Report, VNB ranked 22 out of 35 institutions in the Harrisburg-Lebanon-Carlisle MSA with approximately \$56 million in total deposits. The bank's market share of deposits within the MSA AA area is 0.54%. Wachovia Bank NA ranked first in number of offices with 2,621 branches and fourth in market share at 10%. Manufacturers & Traders Trust Company (M&T) ranked first in market share with 16% and third in number of offices with 675 branches.

As of December 31, 2003, the civilian labor force unemployment rate for Pennsylvania is 5.6% and for the Harrisburg-Lebanon-Carlisle MSA is 3.1% (neither are seasonally adjusted). Major employers in the Dauphin and Cumberland counties are: Commonwealth of Pennsylvania, Hershey Medical Center, Pennsylvania State University, and Hershey Foods.

VNB has not originated any community development loans during the assessment period.

Community Contacts

Credit needs of the community were determined during this examination by contacting a local housing organization. The contact indicated that the issue within the community is qualifying low- and moderate-income borrowers for credit. There exist a number of down payment and closing cost assistance programs for low- and moderate-income borrowers, once credit quality issues are addressed with the borrower. VNB participates in the Capitol Region Community Home Buyers Coalition, which conducts First Time Home Buyers Workshops designed to educate low- and moderate-income potential borrowers. These workshops allow individuals to obtain certification that qualifies them for first time Home Buyer Financing.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

SCOPE OF REVIEW

This examination period covered lending activity from January 1, 1999 to December 31, 2002 for all Home Mortgage Disclosure Act (HMDA) reportable loans. HMDA loans from 1999 through 2002 are compared to 1990 census data. HMDA data for 2003 is excluded from this evaluation because it would be compared to 2000 census data. All dollar amounts listed in the tables below are in thousands unless otherwise noted.

Loan-to-Deposit Ratio

The loan-to-deposit ratio (LTD) exceeds the standards for satisfactory performance. VNB's average loan-to-deposit ratio is 80% and compares favorably to its national peer of 72%. VNB's and the national peer (bank's with total assets of \$50 to \$100 million and 3 or more branching offices) ratios were calculated using quarter end LTD ratios from December 31, 1998 through December 31, 2003.

Lending in Assessment Area

VNB meets the standards for satisfactory performance for lending within the assessment area (AA). During the evaluation period, 75% of HMDA reportable loans originated in the AA.

Lending to Borrowers of Different Incomes

VNB's lending to borrowers of different incomes meets the standards for satisfactory performance. Please reference the tables below for specific data on home purchase, home improvement, and home refinance mortgages. The bank's level of home purchase and refinance lending to low-income borrowers is below the income level of families in the AA. However, given that a low- income individual earns a maximum of \$27,700 and the median housing cost is

\$75,000 within the AA, it is difficult for a low-income person to afford a home. Further, the level of households below poverty is 7%, adding to the difficulties of the low-income borrowers abilities to purchase and refinance homes. Also, the community contact stated that qualifying low- and moderate-income borrowers for credit is difficult, even with down payment and closing cost assistance programs available. The bank's level of home purchase lending to moderate-income borrowers is near to the level of moderate-income families in the AA. The bank's level of home refinance lending to moderate-income borrowers exceeds the level of moderate-income families in the AA.

VNB's level of lending to low-income borrowers exceeds and to moderate-income borrowers significantly exceeds the income level of families in the AA. There are significantly fewer lenders (79) providing home improvement loans within the AA, than providing home purchase or home refinance loans (343).

Borrower Distribution of Home Purchase Residential Mortgages					
Income Level	# of Loans	% of Loans	%(000) of Loans	% of \$ of Loans	Income level of Families in AA
Low	4	5	199	3	14%
Moderate	11	13	722	9	16%
Middle	13	16	1,006	13	27%
Upper	54	66	5,709	75	43%
Total	82	100	7,636	100	100%

Borrower Distribution of Home Improvement Mortgages					
Income Level	# of Loans	% of Loans	\$(000) of Loans	% of \$ of Loans	Income level of Families in AA
Low	8	18	187	12	14%
Moderate	13	29	330	22	16%
Middle	6	13	211	14	27%
Upper	18	40	789	52	43%
Total	45	100	1,517	100	100%

Borrower Distribution of Home Refinance Mortgages					
Income Level	# of Loans	% of Loans	\$ (000) of Loans	% of \$ of Loans	Income level of Families in AA
Low	7	6	391	3	14%
Moderate	22	18	1,490	12	16%
Middle	20	17	1,474	11	27%
Upper	72	59	9,705	74	43%
Total	121	100	13,060	100	100%

Geographic Distribution of Loans

The bank's geographic distribution of home purchase, home improvement, and home refinance mortgages does not meet the standards for satisfactory performance. The bank's record of lending in low- and moderate-income census tracts is below the demographics for all types of mortgages for both low- and moderate-income borrowers. Please refer to tables below. The low- and moderate-income tracts are clustered near center city Harrisburg. VNB does have one branch in close proximity to serve the low- and moderate-income tract areas (approximately 3 miles), but it is not located in any of the low- or moderate-income tracts. Banking competition is strong in the Harrisburg area and there are a total of 343 HMDA reporting lenders within the bank's AA. VNB has several programs targeted for first time home buyers, including participating in programs to assist low- and moderate-income individuals qualify for a first time mortgage, but has not marketed the product to any specific area, i.e. low- and moderate-income geographies.

Geographic Distribution of Home Purchase Residential Mortgages					
Income Level	# of Loans	% of Loans	\$(000) of Loans	% of \$ of Loans	% of Geographies in AA
Low	3	4	193	3	7%
Moderate	6	7	549	7	16%
Middle	51	62	3,879	51	55%
Upper	22	27	3,015	39	22%
Total	82	100	7,636	100	100%

Geographic Distribution of Home Improvement Mortgages					
Income Level	# of Loans	% of Loans	\$ (000) of Loans	% of \$ of Loans	% of Geographies in AA
Low	2	4	16	1	7%
Moderate	1	2	10	0	16%
Middle	25	56	920	61	55%
Upper	17	38	571	38	22%
Total	45	100	1,517	100	100%

Geographic Distribution of Home Refinanced Mortgages					
Income Level	# of Loans	% of Loans	\$ (000) of Loans	% of \$ of Loans	% of Geographies in AA
Low	1	1	31	0	7%
Moderate	6	5	924	7	16%
Middle	69	57	5,960	46	55%
Upper	45	37	6,145	47	22%
Total	121	100	13,060	100	100%

Responses to Complaints

The bank has not received any CRA-related complaints since the previous CRA examination.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.