Comptroller of the Currency
Administrator of National Banks

Northeastern District
1114 Avenue of the Americas, Suite 3900
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PUBLIC DISCLOSURE

August 12, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Dauphin National Bank
Charter No. 11512

P.O. Box 174
Dauphin, Pennsylvania 17018

Comptroller of the Currency
Wilkes-Barre Duty Station
100 Hazle Street
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 Dauphin National Bank prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of August 12, 1996. 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:

- An average loan-to-deposit ratio of 71% has shown steady growth since 1994.
- A majority of lending is in the assessment area: 70% and 82% of 1-4 family residential real estate credits originated in the bank's assessment area in 1995 and 1996, respectively.
- Loan distribution indicates a good mix among borrowers of different income levels.
- There is a good penetration of loans to small businesses.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	Dauphin National Bank 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		x	
Response to Complaints	No complaints received since the prior examination.		

DESCRIPTION OF INSTITUTION

Dauphin National Bank (DNB) has total assets of $35 million as of June 30, 1996. The bank operates three full service offices and three automatic teller machines. All are located in the Dauphin County. One branch in Harrisburg was closed in January of 1996 due to unprofitability. However, an automatic teller machine and night depository are still operating at this location. Total loans represent approximately 66% of total assets. The loan portfolio breakdown as of June 30, 1996 is as follows: 50% in 1-4 family residential mortgages, 44% in commercial/commercial real estate credits, and 6% consumer loans. Local competition consists of several regional bank branches located throughout DNB's market area. DNB does not have any financial or legal impediments that hinder its efforts to help meet the credit needs of its assessment area.

DNB is a wholly owned subsidiary of Dauphin Bancorp, Inc., a one bank holding company.

DESCRIPTION OF ASSESSMENT AREA

DNB defines its assessment area as thirty census tracts within the Harrisburg-Lebanon-Carlisle Metropolitan Statistical Area (MSA). The assessment area has four low-income, nine moderate-income, fourteen middle-income, and three upper-income census tracts. The population of the assessment area approximates 121,000 individuals. The HUD MSA median family income is $43,400. Twenty one percent of the population residing in the assessment area are low-income families, eighteen percent are moderate-income, twenty five percent are middle-income, and thirty six percent are upper-income families. The assessment area meets the regulatory guidelines and no low- or moderate-income geography is arbitrarily excluded.

Employment opportunities in the area are primarily based in the Commonwealth of Pennsylvania and U.S. Government. Benefitting from the capital city of Harrisburg, the economy remains strong. Management reports that loan demand in the area is steady and the bank has met its strategic annual loan growth of 10-15% in the past two years.

Management has shown their commitment to the community by sponsoring a first time home buyers program, reopening a closed Corestates Bank branch, and providing a wide variety of credit products. Products include fixed and variable rate loans, land development and construction loans, commercial and small business loans, and consumer and home equity loans. The re-opened Corestates branch is located in an area where most people have limited access to banking facilities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan-to-Deposit Ratio

Our analysis indicates that an average loan-to-deposit ratio of 71% has shown steady growth over the past two years. This ratio compares favorably to the loan-to-deposit ratio of national peer banks, which is 67% as of June 30, 1996.

Lending in Assessment Area

A majority of the bank's lending is within the assessment area. Our analysis of the Home Mortgage Disclosure Act Loan Application Register (HMDA-LAR) revealed that 70% and 82% of all HMDA reportable loans originated in the bank's assessment area in 1995 and 1996, respectively. An internally generated report shows that 61.7% of all loans originated from April 1994 to August 1996 were within the assessment area.

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

The record of lending to borrowers of different income levels was determined for HMDA reportable loans. As shown in the following tables, lending to low- and moderate-income individuals during 1995 was very low compared to the number of low- and moderate-income families in the assessment area. However, performance in 1996 has shown improvement. Management did not have any explanation for the minimal penetration of loans to low- and moderate-income borrowers in 1995. However, twelve out of the fifteen loans made to upper-income borrowers were non-owner occupied or rental properties. An internally generated report shows that 14.2% of all residential mortgages, consumer loans, and commercial/commercial real estate credits originated from April 1994 to August 1996 are to low- and moderate-income individuals.

HMDA Loan Originations by Income Category of Borrowers in 1995								
	Low		Moderate		Middle		Upper	
	#	%	#	%	#	%	#	%
Purchase	1	4%	0	0%	2	9%	15	65%
Home Improvement	0	0%	1	4%	1	4%	1	4%
Refinance	0	0%	1	4%	0	0%	1	4%
Total	1	4%	2	8%	3	13%	17	73%

HMDA Loan Originations by Income Category of Borrowers in 1996								
	Low		Moderate		Middle		Upper	
	#	%	#	%	#	%	#	%
Purchase	1	7%	5	36%	2	14%	0	0%
Home Improvement	4	29%	0	0%	0	0%	0	0%
Refinance	0	0%	2	14%	0	0%	0	0%
Total	5	36%	7	50%	2	14%	0	0%

Note: Percentages do not add to 100% due to rounding.

Information from the June 30, 1996 Call Report indicates that 100% of commercial lending is small business loans. A small business loan is defined as a loan with an original amount of less than $1 million. Total small business loans of $8.4 million represent 35% of total gross loans and leases.

Small Business Loans By Size of Loan					
	Commercial Real Estate		Commercial Loans		%
Loan Size	#	$(000)	#	$(000)	
<$100M	30	1,006	45	1,436	29%
$100-$250M	17	1,611	7	750	28%
$251M-$1MM	12	3,616	0	0	43%
>$1MM	0	0	0	0	0%

Geographic Distribution of Loans

1995 HMDA-LAR data totaled 33 loans and reflects that 21% of total loans were made in low-to-moderate income census tracts, 57% in middle-income census tracts, and 22% in upper-income census tracts. In 1996, HMDA-LAR information totals 18 loans and indicates that 21% were made in low-to-moderate-income tracts, 65% in middle-income tracts, and 14% in upper-income tracts. Consumer loans originated between April 1, 1994 and August 5, 1996 total 154 loans and reflect a geographic distribution as follows: 8% in low-to-moderate income census tracts, 72% in middle-income census tracts, and 20% in upper-income census tracts. While these percentages do not reflect a positive image of lending in low- and moderate-income areas, there are several mitigating factors:

- The four low- and nine moderate-income tracts are all located in the state capital of Harrisburg. According to CRA Officer Gary Holman, the low- and moderate-income census tracts are sparsely populated because the area consists of government buildings and other businesses.

- The low- and moderate-income census tracts represent only 5 to 10% of the total geographic area of the entire assessment area.

- The bank's four branches are located in two census tracts and are between five and ten miles from the city of Harrisburg. In conjunction with the branches being so far from the low- and moderate-income areas, competition from other local and regional institutions and credit unions is very strong in Harrisburg and the surrounding areas.

- A large percentage of the loans originated, residential or consumer, are in the two census tracts where the branches are located. Residential loans originated in the census tracts with branches represent 30% and 39% for 1995 and 1996, respectively. Consumer loans originated between April 1994 and August 1996 in the two census tracts where the branches are located represent 59%.

- Sixty one commercial real estate loans have been granted in the assessment area, primarily to small business. Of these loans, 25% were in low-to-moderate income areas, 50% in middle-income areas, and 25% in upper-income areas.

While DNB is granting only a few loans in low- and moderate-income tracts, management continues to lend to low- and moderate-income individuals in the overall assessment area. In conclusion, the geographic distribution of loans reflects reasonable dispersion throughout the assessment area.

No substantive violations of antidiscrimination laws and regulations were noted during the concurrent fair lending examination.