

Northeastern District
1114 Avenue of the Americas, Suite 3900
New York, New York 10036

PUBLIC DISCLOSURE

May 17, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Halifax National Bank
Charter Number: 5601
Third and Market Streets
Halifax, Pennsylvania 17032**

**Office of the Comptroller of the Currency
Northeastern 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 **Halifax National Bank** prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of May 17, 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**.

This overall rating is supported by the following factors:

- ! the bank's average loan to deposit ratio of 72% since the last CRA examination is reasonable compared to local competitors;
- ! a majority of residential mortgage loans granted during this evaluation period originated within the assessment area;
- ! the bank's record of lending to borrowers of different incomes is considered reasonable when compared to the demographic composition of the assessment area; and
- ! the bank extends commercial credit to businesses of all sizes.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>Halifax National Bank</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 a Meaningful Analysis		
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

Halifax National Bank (HNB) is an independent community bank located in upper Dauphin County, Pennsylvania, approximately twenty miles north of Harrisburg, the state capital. Banking facilities include the main office, a drive-in facility, and an automated teller machine (ATM), all within the borough of Halifax. No branches were opened or closed during this evaluation period; however, the ATM opened in November of 1998. Assets totaled nearly \$48 million on March 31, 1999. Gross loans represent 64% of the bank's assets. HNB is primarily a residential mortgage lender. By dollar, the loan portfolio consists of 79% residential mortgages, 17% commercial, and 4% consumer loans.

HNB received a satisfactory rating on March 5, 1996, during their last CRA examination. There are no legal or other impediments which would limit the bank's ability to help meet the credit needs of its community.

DESCRIPTION OF ASSESSMENT AREA

HNB's assessment area (AA) consists of eight census tracts (CTs) in upper Dauphin County. Seven of the CTs, or 88%, are designated as middle-income; the other tract, designated as moderate-income, lies on the northeastern border of the bank's AA. The AA complies with the legal requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies. This AA represents a small part of the Metropolitan Statistical Area (MSA) 3240, which consists of four counties.

The AA's population totals 32,855 and the updated HUD non-MSA statewide median family income is \$46,500. Of housing units in the area, 74% are owner occupied, 19% are rental occupied, and 7% are vacant. The median housing cost is \$57,816 and the average monthly gross rent is \$324. The local economy is generally stable. The Dauphin County unemployment rate of 3.7% is better than the state average of 4.3%. Many local residents travel to Harrisburg for employment. Major employers in the immediate Halifax area are the local school district and a Giant supermarket. Manufacturing facilities in nearby Millersburg, including Brubaker Tool Corp., Metal Industries Inc., and Seal Glove Co., provide other employment opportunities within the AA. The bank's primary competitors are Community Banks N.A. and MidPenn Bank, both headquartered in Millersburg, Pennsylvania about eight miles north of Halifax. The asset size and branch network of each of these competitors are considerably larger than HNB.

A local government representative was contacted to help to determine credit needs of the community. He described the primary credit needs as home mortgage and personal loans, and felt that those needs are being met by the local banking institutions. The number of small businesses in the area are few, limiting the need for commercial loans. HNB actively serves the credit needs of the local community, including the borough and municipal authorities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Scope of Review

Our analysis was based on a review of all Home Mortgage Disclosure Act (HMDA) reportable loans that originated in 1997 and 1998 (190 loans totaling over \$10 million). We also evaluated small business lending activity by reviewing commercial and industrial loans and loans secured by nonfarm nonresidential real estate that were made from January, 1997 through March, 1999 (33 loans totaling \$2.6 million). These originations represent a substantial majority of the bank's lending activity over this period. All dollar amounts included in the tables in this report are in thousands, unless otherwise indicated.

Loan to Deposit Ratio

HNB's quarterly average loan to deposit (LTD) ratio since our last examination is 72%. This ratio is considered reasonable because it closely compares to the LTD ratio of 74% reported for the two other banks serving the assessment area, as mentioned earlier. Both ratios exceed the national average LTD ratio of 65%.

Lending in Assessment Area

A majority of the bank's lending activity occurs within its AA. This conclusion is supported by our analysis of HMDA and small business lending as described in the scope. The table below shows that the majority of these types of loans were made within the bank's AA.

TABLE 1 ASSESSMENT AREA ANALYSIS				
HMDA LOAN ORIGINATIONS				
	Number of Loans	%	Dollar Amount of Loans	%
Inside AA	169	89	9,153	83
Outside AA	21	11	1,837	17
Total	190	100	10,990	100
SMALL BUSINESS LOAN ORIGINATIONS				
Inside AA	26	79	1,817	69
Outside AA	7	21	800	31
Total	33	100	2,617	100

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

The bank's record of lending to borrowers of different incomes is considered reasonable. The following table shows the bank's HMDA loans granted to borrowers of different income levels and the percentage of families in those same income categories within the AA.

TABLE 2 BORROWER DISTRIBUTION OF HMDA LOAN ORIGINATIONS					
Borrower Income Designation	Percentage of Families in the AA	Number of Loans	%	Dollar Amount of Loans	%
Low	18	12	7	300	3
Moderate	24	36	21	1,413	15
Middle	29	59	35	3,135	34
Upper	29	62	37	4,305	47
Total	100	169	100	9,153	100

The percentage of loans granted to low-income families is less than would be expected considering the percentage of low-income families within the AA. However, this disparity is mitigated by HNB's market share for low-income applicants. HNB ranks third behind their larger competitors with over 8% market share in HMDA originations to low-income applicants. Also, 22% of low-income families and 29% of moderate-income families reside in the moderate-income CT which is furthest from the bank and served by another local bank.

HNB also has a satisfactory record of lending to small businesses. A small business is defined as having gross annual revenues of \$1 million or less. Eighty-five percent of the 33 commercial loans included in Table 1 were made to small businesses. The average size of the commercial loans reviewed was \$79,000.

Geographic Distribution of Loans

A geographic distribution of loans was not performed because of the homogeneous composition of the bank's AA. The only moderate-income area lies on the northeastern border of the bank's AA and is served by another local community bank headquartered there.

Compliance with Antidiscrimination Laws

A Fair Lending review was performed in conjunction with this CRA examination using the loan terms approach. Mortgage refinances and unsecured consumer loans granted to single males were compared to those granted to single females. This review revealed no appearance of disparate treatment. The bank is in compliance with Fair Lending regulations. We noted no practices intended to discourage or impede potential borrowers from applying for credit.