



Comptroller of the Currency
Administrator of National Banks

Northeastern District
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PUBLIC DISCLOSURE

September 3, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Grange National Bank
Charter Number: 8845
Post Office Box 56
101 Main Street
Laceyville, Pennsylvania 18623**

**Office of the Comptroller of the Currency
Wilkes-Barre Duty Station
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 **Grange National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of September 3, 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 "Outstanding".

This overall rating is supported by the following factors:

- ▶ 98% of the loan originations reviewed during this examination period were made within the assessment area.
- ▶ 100% of commercial and agricultural loans originated during this examination period were to small businesses or small farms.
- ▶ The bank's lending performance reflects a good distribution of credit to borrowers of different income levels.
- ▶ HMDA loans originated in the assessment area are reasonably distributed among all income geographies.

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

| SMALL INSTITUTION ASSESSMENT CRITERIA | <u>GRANGE 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 | | X | |
| Response to Complaints | No complaints were received since the prior examination. | | |

DESCRIPTION OF INSTITUTION

Grange National Bank (GNB) assets totaled \$100 million on June 30, 1996. GNB is the sole subsidiary of Grange National Banc Corp. The bank's main office is located in the borough of Laceyville in Wyoming County. Wyoming County is within the Scranton-Wilkes-Barre-Hazleton MSA 7560 although it is largely rural with a population of less than 30,000. Primary loan products are consumer oriented with emphasis on real estate and small business lending. The loan portfolio comprises 55% of total assets with residential mortgages accounting for 48% of gross loans. The balance of the loan portfolio consists of 35% commercial loans, 15% consumer loans, and 2% agriculture loans. There are no known legal or financial impediments to prevent GNB from meeting the credit needs of its community.

GNB was previously known as The Grange National Bank of Wyoming County. The name was changed on March 6, 1996 to appeal to consumers in a wider geographic area commiserate with its branch network. Total assets increased nearly 60% from the \$63 million figure noted at our last CRA evaluation in May of 1993. Two branch openings in the same time frame contributed to this growth. The Edwardsville branch opened March 1, 1995 in a moderate-income census tract of Luzerne County. The Little Meadows office, in Susquehanna County, was purchased from another financial institution and opened on March 25, 1996. No branches have been closed. These two branch openings increased the branch network to the following seven full service locations: Laceyville, Meshoppen, Tunkhannock, and Bowmans Creek in Wyoming County; Lawton and Little Meadows in Susquehanna County; and Edwardsville in Luzerne County. GNB also operates automated teller machines in Tunkhannock and Edwardsville. According to bank management, primary competitors are Peoples State Bank in Wyalusing and Community Bank and Trust in Tunkhannock. Branches of Mellon, PNC, and First Union banks provide secondary competition.

DESCRIPTION OF THE ASSESSMENT AREA

GNB's assessment area meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies. The assessment area consists of a portion of the Scranton-Wilkes-Barre-Hazleton MSA 7560 and Pennsylvania non-MSA areas in eastern Bradford and western Susquehanna counties. The total assessment area comprises 65 census tracts and 11 block numbering areas (BNAs). The total population of the assessment area is 252,948 according to 1990 census data. The major industries are dairy farming, timber, and stone quarrying. The largest single employer is Proctor and Gamble Paper Products. Primary credit needs are affordable housing and small business loans.

The MSA portion includes all of Wyoming County, northern Luzerne County, and the northwestern edge of Lackawanna County. There are seven moderate-income census tracts, all within Luzerne County, and seven upper-income census tracts, five within Luzerne County and two in Lackawanna County. The remaining tracts are middle-income, including 43 in Luzerne County, seven in Wyoming County, and one in Lackawanna County. The HUD MSA Median Family income is \$35,900. Nearly 83% of the assessment area's population resides in this MSA. Over 60% of housing is owner occupied and 29% is rental occupied. The median housing value is \$54,800.

The non-MSA portion includes western Susquehanna County and eastern Bradford County. Three BNAs are in Susquehanna County and eight BNAs are in Bradford County. All BNAs are middle-income areas. The HUD MSA Median Family income for non-MSA portions of Pennsylvania is \$32,800. Only 17% of the assessment area's population lives in non-MSA locations within the assessment area. The primary housing types are 61% owner occupied, 22% mobile homes and 15% rental occupied. The median housing value is \$53,500.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan to Deposit Ratio

GNB's average loan to deposit ratio since our last examination on May 12, 1993 is 65%. This ratio shows a reasonable volume of lending. It is slightly less than the national peer average of 70% due to two factors. GNB is active as a Small Business Administration (SBA) lender, originating over \$2 million in these loans since our prior examination. They regularly sell the SBA-guaranteed portion of the loans to maintain sufficient funding for continued participation in the program; GNB continues to service these loans. GNB's ratio was also negatively impacted by acquisition of the Little Meadows branch in March of 1996. In that transaction, they purchased \$3 million in branch deposits but no loans.

Lending in Assessment Area

Our analysis of this performance criteria shows that 98% of loan originations during the evaluation period were within the assessment area. This analysis was conducted using internally prepared reports of loan originations by the various loan types. Our sample of originations included all residential mortgages, and 61% of the number and 76% of the dollar amount of commercial loans. The consumer loan sample was limited because consumer loans comprise just 15% of the loan portfolio. The limited sample was considered sufficient to support GNB's strong lending performance within their assessment area.

| LENDING WITHIN ASSESSMENT AREA | | | | |
|--|-----------------|-----------|-----------------------------------|-----------|
| Loan Originations during 1994, 1995, and Year to Date 1996 | | | | |
| Loan Type | Number of Loans | % | Dollar Amount of Loans (000's) | % |
| Residential Mortgage | 370 | 97 | 17,816 | 98 |
| Commercial | 162 | 98 | 13,673 | 96 |
| Consumer | 75 | 100 | 512 | 100 |
| Total | 607 | 98 | 32,001 | 98 |

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

The bank's record of lending to borrowers of different income levels was evaluated using Home Mortgage Disclosure Act (HMDA) reportable loans that originated in 1994, 1995 and year to date 1996. We also sampled consumer loan originations to ensure that the results were consistent. We concluded that GNB's volume of lending is representative of the demographic composition of the assessment area. The table below includes originations within the assessment area according to the available income information. The assignment of low, moderate, middle, or upper income level was based on the HUD median family income for MSA 7560 and non-MSA areas of Pennsylvania, depending on loan location.

| LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS | | | | | |
|--|-------------------------------|------------------------|-----------------------------------|------------------------|--|
| | HMDA LOAN ORIGINATIONS | | CONSUMER LOAN ORIGINATIONS | | Percentage of Families Within Assessment Area |
| Income Level of Borrower | Dollar Amount of Loans | Number of Loans | Dollar Amount of Loans | Number of Loans | |
| Low | 6% | 10% | 14% | 21% | 18 |
| Moderate | 14% | 20% | 29% | 34% | 18 |
| Middle | 27% | 28% | 26% | 25% | 24 |
| Upper | 53% | 42% | 31% | 20% | 40 |
| Total | 100% | 100% | 100% | 100% | 100 |

GNB is very responsive to the credit needs of small businesses within its community. Based on an internal report, 273 loans totaling nearly \$19 million originated during this evaluation period. The size of the average commercial loan origination is \$68 thousand. GNB continues as a leader in its marketplace in the origination of loans through the Small Business Administration, according to a community contact. According to information supplied by the U.S. Small Business Administration, GNB participated in six loans totaling \$455 thousand in fiscal year 1995 and eight loans totaling \$805 thousand during the first six months of fiscal year 1996. The table which follows is based on Call Report data from June 30, 1996. It shows that all loans were made to small businesses or small farms. The percentages included are based on a total of 405 loans outstanding totaling \$18 million.

| PERCENTAGE OF SMALL BUSINESS AND FARM LOANS BY SIZE OF LOAN | | | | | | | | |
|---|-----------------------------------|----|------------|----|---------------------|---|-------------------------|---|
| Original Amount of Loan (000's) | Secured by Commercial Real Estate | | Commercial | | Secured by Farmland | | Agricultural Production | |
| | \$ | # | \$ | # | \$ | # | \$ | # |
| ≤ \$100 | 15 | 22 | 21 | 55 | 3 | 5 | 1 | 4 |
| \$100 ≤ \$250 | 12 | 5 | 22 | 4 | 3 | 1 | 1 | 0 |
| \$250 ≤ \$1000 | 7 | 1 | 14 | 2 | 0 | 0 | 0 | 0 |
| > \$1000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

Geographic Distribution of Loans

An evaluation of the geographic distribution of loans was performed only for the MSA portion of the assessment area because the non-MSA area contains only middle-income BNAs. The table below includes all HMDA reportable loan originations within the MSA portion of the assessment area during 1994, 1995, and year to date 1996. Percentages of both the original dollar amount of the loan and the number of loans are listed according to the income characteristic of census tract containing the applicable real estate. The data evidences a reasonable penetration of loan originations to the various income census tracts. Both the moderate- and upper-income census tracts have less activity than suggested by their respective number of census tracts. Contributing to the low percentage of loans in moderate-income census tracts is the fact that GNB's Edwardsville branch is the nearest office to all of the moderate-income census tracts and it was not opened until March of 1995.

| GEOGRAPHIC DISTRIBUTION OF HMDA LOAN ORIGINATIONS | | | | | | |
|---|-----------------------|-----|-----------------|-----|--------------------------------------|------|
| Census Tract Characteristic | Dollar Amount (000's) | % | Number of Loans | % | Census Tracts within Assessment Area | |
| Low | 0 | 0 | 0 | 0 | 0 | 0% |
| Moderate | 292 | 3 | 7 | 3 | 7 | 11% |
| Middle | 9,974 | 91 | 221 | 92 | 51 | 78% |
| Upper | 669 | 6 | 12 | 5 | 7 | 11% |
| Total | 10,935 | 100 | 240 | 100 | 65 | 100% |

Compliance with Antidiscrimination Laws

A fair lending review performed in conjunction with this CRA examination revealed satisfactory compliance with fair lending regulations. We noted no practices intended to discourage or impede potential borrowers from applying for credit.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE IN
METROPOLITAN STATISTICAL AREAS (MSA)
AND NON-METROPOLITAN STATISTICAL AREAS (NON-MSA)**

GNB's assessment area consists of a portion of the Scranton-Wilkes-Barre-Hazleton MSA (MSA-7560) and non-MSA areas. A summary of the bank's performance in each of these areas is provided below.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MSA 7560

GNB's performance is strongest in this portion of their assessment area for two reasons. This MSA contains all of Wyoming County which was the bank's historical primary trade area. In addition, nearly 83% of the assessment area's population resides in this MSA. The table below shows HMDA reportable loan originations and a sample of consumer loan originations made within this MSA by income level of borrower. The volume of originations is representative of the demographics of the MSA.

| LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS IN MSA 7560 | | | | | |
|--|-------------------------------|------------------------|-----------------------------------|------------------------|---|
| | HMDA LOAN ORIGINATIONS | | CONSUMER LOAN ORIGINATIONS | | Percentage of Families Within MSA 7560 |
| Income Level of Borrower | Dollar Amount of Loans | Number of Loans | Dollar Amount of Loans | Number of Loans | |
| Low | 5% | 10% | 14% | 22% | 18 |
| Moderate | 13% | 20% | 32% | 35% | 18 |
| Middle | 28% | 28% | 36% | 31% | 24 |
| Upper | 54% | 42% | 18% | 12% | 40 |
| Total | 100% | 100% | 100% | 100% | 100 |

The majority of loans to small businesses and small farms originated during this evaluation period were made in this MSA: 79% of the number of loans and 80% of the dollar amount of loans.

The geographic distribution of HMDA reportable loans within this MSA is found on the table on page six. It shows that over 90% in both dollar amount and number of loans were made in middle-income census tracts.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN NON-MSA PORTION OF THE ASSESSMENT AREA

This portion of the bank’s assessment area is largely rural and contains only 17% of the assessment area’s population. The bank’s most significant contribution in this non-MSA area is the maintenance of two full service branches in the small towns of Little Meadows and Lawton.

The table below depicts HMDA reportable loan originations and a sample of consumer loan originations in this non-MSA area according to the income level of the borrowers. It shows a good penetration of HMDA and consumer loan originations to borrowers of all income levels.

| LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS IN NON-MSA PORTION OF ASSESSMENT AREA | | | | | |
|--|-------------------------------|------------------------|-----------------------------------|------------------------|---|
| | HMDA LOAN ORIGINATIONS | | CONSUMER LOAN ORIGINATIONS | | Percentage of Families In Non-MSA Portion of Assessment Area |
| Income Level of Borrower | Dollar Amount of Loans | Number of Loans | Dollar Amount of Loans | Number of Loans | |
| Low | 8% | 10% | 14% | 19% | 20 |
| Moderate | 16% | 22% | 22% | 31% | 19 |
| Middle | 25% | 25% | 1% | 6% | 23 |
| Upper | 51% | 43% | 63% | 44% | 38 |
| Total | 100% | 100% | 100% | 100% | 100 |

The volume of loans to small businesses and farms is proportional to the population residing in the non-MSA portion of the assessment area: 21% of the number of loans and 20% of the dollar amount of loans were made in non-MSA geographies. No geographic distribution of loan originations was performed for this non-MSA area because all geographies are middle-income.