



Comptroller of the Currency
Administrator of National Banks

Small Bank

Northeastern District
1114 Avenue of the Americas, Suite 300
New York, New York 10036

PUBLIC DISCLOSURE

October 4, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Second National Bank of Masontown

Charter Number 14333

**110 Main Street
Masontown, Pennsylvania 15461**

**Office of the Comptroller of the Currency
4075 Monroeville Boulevard, Suite 300
Monroeville, Pennsylvania 15146**

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 **Second National Bank of Masontown** prepared by **The Office of the Comptroller of the Currency** the institution's supervisory agency, as of October 4, 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.

Major factors supporting the overall rating for Second National Bank of Masontown include the following:

- ◆ Loan distribution among borrowers of different incomes and small business is reasonable.
- ◆ The dispersion of residential and small business loans among various geographies is good.
- ◆ The loan to deposit ratio is reasonable and increasing.
- ◆ A substantial majority of loans are originated within the assessment area.

DESCRIPTION OF INSTITUTION

Second National Bank of Masontown (SNB) is a \$171 million community bank headquartered in Masontown, Pennsylvania. Masontown is located in rural southwestern Pennsylvania, approximately 60 miles from Pittsburgh and close to the West Virginia border. SNB is a full service bank and offers a wide range of loan and deposit products. Loan products include residential real estate, commercial and consumer loans. Net loans represent 59% of SNB's average assets. The dollar volume of residential real estate loans represents approximately 65%, or \$67 million, of the loan portfolio. Commercial loans represent 23% (\$24 million) of the loan portfolio. Consumer loans, at \$11 million, represent 11% of the loan portfolio.

A review of the 1997-1999 year to date Home Mortgage Disclosure Act Loan Application Registers (HMDA-LAR), provides evidence that the majority of new loan originations consisted of mortgage refinancings (612 or \$23 million), and home purchases (289 or \$18 million). Accurate information was not available on the total number and dollar volume growth of other loan types since the last examination. We used the HMDA information and sampled 19 commercial loans totaling \$6 million. Our sample of mortgage and commercial loans reasonably reflects the largest loan types in the bank's portfolio. There are no financial or legal impediments that would preclude SNB from lending.

SNB has five branch locations in Fayette County. The main office is located in Masontown; and there are two branches in Uniontown, one in Brownsville and one in Chalkhill, Pennsylvania. All of the branches are equipped with full service ATMs.

Competition is significant and varied. Two of the large Pittsburgh-based institutions maintain branches within the area. There are also several smaller bank and non-bank institutions that operate within the assessment area. Other non-traditional sources of banking services also compete with SNB.

DESCRIPTION OF BANKS ASSESSMENT AREA

SNB has identified 27 geographies located within the Pittsburgh Metropolitan Statistical Area (MSA) as its assessment area. Twenty-five of the geographies are located in Fayette County and two are located in Washington County. The bank's assessment area is comprised of 21 moderate, 5 middle and 1 upper income geographies. The assessment area contains no low-income geographies. The Pittsburgh MSA median income is \$42,700. The assessment area complies with all regulatory requirements and does not arbitrarily exclude low-or moderate-income areas.

SNB's assessment area consists predominantly of small town and rural communities. The population, according to 1990 census data, is 114,748; and the reported median family income is \$32,787. Thirty-three percent of families in the assessment area are low income; and 21% are at or below the poverty level. Nineteen percent of the population is over 65 years of age.

The assessment area's economic environment has typically been depressed. The unemployment rates for both Fayette County (5.8%) and Washington County (4.2%) are higher than the Pittsburgh MSA and Pennsylvania averages (3.8% and 3.9%). This is due in part to jobs lost as a result of the demise of the coal and steel industries as well as the rural location. Major employers are primarily the service and retail industries. The three largest employers in Fayette County are the Uniontown Hospital, Nemaquin Woodlands Resort and Williamhouse.

Examiners contacted the Executive Vice President of a non-profit organization that promotes economic development in Fayette County. The contact identified the need for small business lending throughout the community. The contact indicated local banks are responsive to small business credit needs, however, he cited the need for credit with reduced interest rates and extended terms. He further stated that it is particularly difficult for start up businesses, with little collateral or equity to pledge, to obtain funding.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan to Deposit Analysis

- The loan to deposit ratio is reasonable compared to local peer banks and is increasing.

SNB's loan to deposit ratio meets the performance standard and demonstrates the bank's commitment to lending in the community. The loan to deposit ratio over the past 10 quarters averages 68%. The bank's local peer group includes sixteen institutions, within in a five-county area, with assets of \$250 million or less. The average ratio for the local peer group is 65% for the same 10 quarters. Since our last examination SNB's ratio has increased from 61% to 71%.

Lending in Assessment Area

- A substantial majority of the residential mortgages and business loans are originated within the bank's assessment area.

Residential Mortgage Lending

SNB's residential lending in their assessment area meets the performance standard. A review of the 1997-1999 year to date HMDA-LAR shows 92% of the number or 1,209 of residential originations were within the assessment area. The total dollar volume originated within the assessment area was \$42 million. The majority of dollars borrowed were for mortgage refinancings (\$20 million), followed by conventional home purchases (\$16 million). Eighty-nine percent of the refinancings or 559 were within the assessment area; ninety percent of the purchases or 259 were within the assessment area. As of August 30, 1999, SNB filed 20% of total mortgage liens in Fayette County and is ranked second only to a large regional bank in the market. This compares favorably to SNB's 8% market share of deposits.

Business Lending

SNB's lending to small businesses in their assessment area meets the performance standard. Of the nineteen business loans sampled, 84% or 16 loans totaling \$6 million were originated within the assessment area.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

- SNB's lending to borrowers of different income levels and businesses of different sizes meets the performance standard and is a reasonable reflection of area demographics.

Residential Mortgage Lending

- SNB's lending to borrowers of different income levels is reasonable.

The bank's level of lending to low- and moderate-income borrowers is reasonable compared to area demographics. The majority of residential mortgages originated between January 1997 and August 1999 were mortgage refinancings and home purchases. Per a review of the HMDA-LARs of this same time frame, lending to low- and moderate-income borrowers represented 10% and 21% of loan volume and 4% and 13% of loan dollars respectively.

Lending to moderate-income borrowers at 21% of loan volume approximates demographics of 22% for moderate income families within the assessment area. However, lending volume to low-income families at 10% is below the 33% low-income families within the bank's assessment area. This lower penetration of loans to low-

income families is attributable to the significant competition from larger financial

institutions which offer mortgage products specifically for low-income families. SNB mortgage products have a maximum term of 20 years for a fixed rate and 25 years for an adjustable rate mortgage. The shorter term mortgage is not as affordable to low income families as compared to mortgage products offered by the larger financial institutions which have access to the secondary market. In addition, Fayette County provides a significant amount of public and Section 8 housing for low-income families. There are 2,461 public housing units within Fayette County. The high poverty level at 21% in the assessment area contributes to the lower volume of mortgage loans to low income families.

The following table details the mortgage refinancings and home purchase loans originated by SNB to low-and moderate-income borrowers as compared to the percentage of low- and moderate-income families in the population of the bank's assessment area.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS

	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Total Families	
Assessment Area Population	33%		22%		22%		23%		100%	
Loan Type	#	\$	#	\$	#	\$	#	\$	#	\$
Refinancing	56	943	112	2,737	139	4,875	241	10,959	548	19,514
	10%	5%	21%	14%	25%	25%	44%	56%	100%	100%
Home Purchase	21	433	55	1,865	64	3,210	119	10,805	259	16,313
	8%	3%	21%	11%	25%	20%	46%	66%	100%	100%
Total Loans	77	1,376	167	4,602	203	8,085	360	21,764	807	35,827
	10%	4%	21%	13%	25%	23%	45%	61%	100%	100%

Business Lending

- SNB has demonstrated a commitment to small business with 74% of sampled business loans originated to small businesses.

Small business loans are defined as those loans made to enterprises with annual gross revenues of \$1 million or less. The volume of reporting businesses in the bank's assessment area with gross revenues less than \$1 million represent 75% of total businesses. Of all the sampled loans originated by SNB to businesses since our last examination, 74% of the total number of business loans and 36% of total business loan dollars were originated to small businesses. In addition, the bank originates small business loans for which the primary purpose is community development.

The following table details the business loans originated by SNB to businesses with revenues less than or greater than \$1 million.

LENDING TO BUSINESS OF DIFFERENT SIZES

Businesses with Revenues < \$1 Million		Businesses with Revenues > \$1 Million	
#	\$ (000)	#	\$ (000)
14	2,299	5	4,017
74%	36%	26%	64%

Geographic Distribution of Loans

- SNB's distribution of residential mortgages and business loans among various geographies is good.

Residential Mortgage Lending

- SNB's distribution of refinanced and home purchase mortgages among various geographies is good.

SNB's geographic distribution of residential loans exceeds the performance standard. Overall, the bank's geographic distribution of loans demonstrates a good dispersion throughout the assessment area. For all products originated or purchased, 87% of the number of loans made were to moderate-income geographies and account for 81% of the dollar volume. This compares favorably to the 77% of owner occupied housing located within moderate income geographies. In terms of dollar volume, 78% was originated for home purchases; and 83% originated for refinancing purposes.

The following table details refinanced and home purchase mortgage loans originated by SNB to borrowers located within the various geographies as compared to the representation of owner occupied housing.

Geographic Distribution Of Mortgage Loans	Moderate Income Geographies		Middle Income Geographies		Upper Income Geographies		Total Geographies	
	#	\$	#	\$	#	\$	#	\$
Owner Occupied Housing	77%		19%		4%		100%	
Loan Type	#	\$	#	\$	#	\$	#	\$
Refinancing	483	16,777	38	1,490	38	1,844	559	20,111
	86%	84%	7%	7%	7%	9%	100%	100%
Home Purchase	225	12,714	16	1,864	18	1,735	259	16,313
	87%	78%	6%	11%	7%	11%	100%	100%
Total Loans	708	29,491	54	3,354	56	3,579	818	36,424
	87%	81%	7%	9%	7%	10%	100%	100%

Business Lending

- SNB's distribution of sampled business loans among various geographies is good.

SNB's geographic distribution of business loans meets the performance standard. Of the total businesses in the assessment area, 75% are located in the moderate income geographies; 19% are located in the middle income geographies and 6% are located in the upper income geographies. Of the business loans sampled and located within the assessment area, SNB's dispersion of lending among these geographies is 81%, 13% and 6% respectively. The moderate income geography represents 74% of the dollar volume of originations. The middle and upper income geographies account for 23% and 3%, respectively.

The following table details commercial loans originated by SNB to businesses located within the various geographies.

Geographic Distribution Of Business Loans	Moderate Income Geographies		Middle Income Geographies		Upper Income Geographies		Total Geographies	
Total Businesses	75%		19%		6%		100%	
	#	\$(000)	#	\$(000)	#	\$(000)	#	\$(000)
Loans	13	4,519	2	1,380	1	195	16	6,094
Originated in the AA	81%	74%	13%	23%	6%	3%	100%	100%

Response to Complaints

No complaints have been received since the last examination.

Record of Compliance with Anti-discrimination Laws

A fair lending examination was performed during this examination. No violations were disclosed. SNB has appropriate policies and procedures which prevent discriminatory and/or other illegal practices.

