



## **PUBLIC DISCLOSURE**

April 11, 2016

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

First National Bank of Lilly  
Charter Number 8450

500 Main Street  
Lilly, PA 15938

Office of the Comptroller of the Currency

Corporate One Office Park, Bldg 2  
4075 Monroeville Blvd, Suite 300  
Monroeville, PA 15146-2529

**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 Lending Test is rated: Satisfactory.**

The major factors supporting the institution's rating, given the bank's size and performance context, include:

- FNB Lilly's loan-to-deposit (LTD) ratio is reasonable given internal and external factors within the institution's assessment area (AA).
- A majority of the loans originated during the evaluation period were originated within the AA.
- The distribution of loans represents a reasonable penetration among individuals of different income levels.
- The geographic distribution of loans reflects reasonable dispersion among AA geographies.

## **Scope of Examination**

First National Bank of Lilly ("FNB Lilly" or the "institution") was evaluated under the Small Bank Community Reinvestment Act (CRA) evaluation procedures, which includes a lending test. The lending test evaluates the institution's record of performance in meeting the credit needs the defined AA. This includes the institution's lending performance from January 1, 2014 through December 31, 2015. FNB Lilly's primary loan product, based on loan originations during the evaluation period, is residential mortgage loans, including home purchase, home refinance, and home improvement loans.

A full scope review was performed on the institution's AA. The majority of the institution's deposits, lending activity, and physical presence are in this market. In assessing the institution's lending performance, we utilized 2010 U.S. Census data, and updated data when available.

The institution's asset size of December 31, 2014 was less than the threshold for HMDA reporting in 2015. As the institution is not a HMDA reporter, a random sample of 36 residential mortgage loans originated during the evaluation period was selected from the loan trial balance to determine the institution's lending performance within the AA.

## **Description of Institution**

Established in 1906, FNB Lilly is a one-branch, independent, locally owned national bank that is located in Lilly, Cambria County, Pennsylvania. As of December 31, 2015, the institution's total assets were \$21.5 million. The institution continues to offer basic loan and deposit services, primarily offering residential real estate loan products.

FNB Lilly operates one full-service branch location at their main office with a drive-up window, and drive-through Automated Teller Machine (ATM). The branch has customary operating hours, Monday through Wednesday 9:00 – 4:00, Thursday 9:00 – 12:00, and Friday 9:00 – 6:00. Drive-up hours for Monday through Wednesday are 9:00 to 4:30, Thursday hours are 9:00 – 1:30, and Friday drive-up hours are 9:00 – 6:00. The branch does not have Saturday hours. FNB Lilly also offers online banking to its customers. The institution's website,

<http://www.fnblilly.com/home.php>, provides additional information on its services. FNB Lilly did not open or close any branches during the evaluation period.

The institution is a mortgage portfolio lender, and its mortgage products include loans for purchase, refinance, and home-improvement. Consumer loan offerings consist of home equity loans, auto loans, and personal loans. FNB Lilly concentrates primarily on residential real estate loans. Table 1 shows the distribution of loans by lending category.

<b>Table 1 FNB Lilly's Investment in Loans</b>			
<b>Loan Category</b>	<b>Amount (\$000's)</b>	<b>Percent of Total Loans</b>	<b>Percent of Total Assets</b>
Real Estate Loans	\$3,910	63.92%	18.18%
Commercial & Other Loans	\$916	14.97%	04.26%
Individual Loans	\$1,236	20.21%	05.75%
Other Loans/Leases less allowance	\$55	00.90%	00.26%
<b>Total Loans</b>	<b>\$6,117</b>	<b>100.00%</b>	<b>28.45%</b>

Source: Federal Deposit Insurance Corporation (FDIC) Call Report as of December 31, 2015

There are no legal or financial factors impeding the institution's ability to help meet the credit needs in its AA. At the prior CRA Performance Evaluation, dated July 27, 2009, FNB Lilly was rated "Satisfactory."

## Description of FNB Lilly's Assessment Area

FNB Lilly's AA is defined as the area within a five-to-eight mile radius of the institution's office. There are four whole, contiguous census tracts (CTs) located in northern Cambria County within the Johnstown Metropolitan Statistical Area in the FNB Lilly AA, including (#127) Lilly Borough, Munster Township, and Washington Township; (#128) Cresson Borough, Cresson Township, and Sankertown Borough; (#129) Cassandra Borough, and Portage Township; and (#130) Portage Borough. Three of the CTs are middle-income (#127, #128, #129), and one is moderate-income (#130). No CTs have changed since the prior performance evaluation, and none were noted as distressed or underserved in 2015. The AA complies with regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies.

According to the 2010 U.S. Census data, the population of the AA is 15,680. This includes 3,952 families and 4,486 households. Demographic reports indicate that approximately 19% of the families are categorized as low-income, 21% as moderate-income, 21% as middle-income, and 37% as upper-income. Approximately 11% of households are below the poverty level. The 2015 U.S. Census updated median family income was \$47,945 and the median housing value was \$84,656. Table 2 illustrates demographic information for the AA.

<b>Table 2 Demographic Information for FNB Lilly's AA in Cambria County, PA</b>						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	4	00.00	25.00	75.00	00.00	00.00
Population by Geography	15,680	00.00	16.82	83.18	00.00	00.00
Owner-Occupied Housing by Geography	4,486	00.00	17.37	82.63	00.00	00.00
Business by Geography	737	00.00	20.08	79.92	00.00	00.00
Farms by Geography	25	00.00	16.00	84.00	00.00	00.00
Family Distribution by Income Level	3,952	19.61	21.41	21.66	37.32	00.00
Distribution of Low and Moderate Income Families throughout AA Geographies	1,621	00.00	25.48	74.52	00.00	00.00
Median Family Income HUD Adjusted Median Family Income 2015 Households Below Poverty Level		47,945 55,600 11.84%	Median Housing Value: National Unemployment**: PA State Unemployment**: Cambria County Unemployment**:		\$84,656 4.8% 4.1% 5.4%	

Source: 2010 US Census and 2015 HUD updated MFI

(\*) The NA category consists of geographies that have not been assigned an income classification.

(\*\*) Unemployment rates are from the U.S. Bureau of Labor Statistics as of December 2015. Unemployment rates are not seasonally adjusted because seasonally adjusted unemployment data for all counties in the AA was not available. Therefore, unseasonably adjusted data was used throughout to maintain a consistent comparison.

Based on lending market share reports, the institution faces strong competition in the AA. This includes large regional banks and mortgage companies with nationwide sources of funding. The competitors with the majority of the market share in the AA include the First National Bank of Pennsylvania, 1st Summit Bank, and S & T Bank.

According to the June 30, 2015 FDIC Summary of Deposits Market Share Report, FNB Lilly ranked 12th out of 15 banks for total deposits in Cambria County. FNB Lilly claimed 0.61 percent or \$17.3 million of the total deposits with one office in the AA. Ameriserv Financial Bank ranked first with 9 offices inside the market and 22.1 percent market share of the deposits. Other financial institutions include 1st Summit Bank with 10 offices inside of market and 20.97 percent of the deposits, First National Bank of Pennsylvania with 17 offices inside of the market and 19.5 percent of the deposits, and First Commonwealth Bank with 9 offices inside the market and 12.4 percent of the deposits.

Economic conditions in the AA, measured by unemployment rate and poverty rate, remain better than Cambria County. The business climate will limit economic expansion. A weak coal industry, low energy prices, and an aging workforce are factors limiting economic growth. For Cambria County, as of December 2015, the preliminary unemployment rate, not seasonally adjusted, was reported to be 5.4%. The Cambria County unemployment rate is the same as the Johnstown MSA unemployment rate of 5.4% and higher than the not

seasonally adjusted Pennsylvania state unemployment rate of 4.1%. Major Cambria County employers include DLP Partner Conemaugh LLC, State Government, Federal Government, Cambria County, Wal-Mart Associates, Inc., Saint Francis University, DLP Conemaugh Physician Practices, University of Pittsburgh, Concurrent Technologies Corp., and Sheetz, Inc...

In assessing the institution's performance, we completed one community contact interview. We contacted a local government and business organization located in the AA. The organization serves Cambria County in Pennsylvania. The organization's mission is to strengthen local communities by providing leadership opportunities, and a venue to enhance local businesses and community needs. The contact noted demand for developments and low-to moderate-income housing is minimal and participation from local financial institutions is good when needed.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

FNB Lilly's performance under the lending test is satisfactory when considering performance context. The loan-to-deposit ratio (LTD) is reasonable with internal and external factors influencing the ratio. A majority of the institution's home mortgage loans were originated within the AA. The distribution of loans reflects reasonable penetration among borrowers of different income levels. FNB Lilly's record of originating loans reflected reasonable dispersion among AA geographies.

### **Loan-to-Deposit Ratio**

FNB Lilly's LTD ratio is reasonable given its size, financial condition, credit needs, and internal and external factors within the institution's AA. The LTD ratio is low and exhibits limited re-deployment of deposited funds into loans. External factors influencing the institution's performance include strong competition, weak overall economy, high poverty rates, low deposit market share, and the institution's limited loan product offerings as a small institution. Despite the low LTD ratio, the ratio is reasonable given FNB Lilly's performance context.

FNB Lilly's twenty-seven quarter average LTD ratio, since the prior CRA PE, was 33.0 percent for the period from June 30, 2009 through December 31, 2015. The LTD ratio ranged from a high of 38.7 percent, as of September 30, 2009, to a low of 28.3 percent as of December 31, 2012. During the same period, one other institution headquartered in FNB Lilly's AA had a twenty-quarter average LTD ratio of 46.18 percent, with LTD ratios ranging from a high of 58.9 percent as of June 30, 2011 to a low of 37.1 percent as of December 31, 2015. It should be noted that the aforementioned institution had triple the assets of FNB Lilly, however, it was the best available for comparison, based on geographic location. Three other institutions in the AA were much larger, and could not be compared with FNB Lilly's asset size. A significant internal factor for FNB Lilly's low LTD ratio is that it does not offer many commercial loans, which are generally larger dollar loans that would support a higher LTD ratio. Larger institutions in the FNB Lilly AA have greater capacity, resources, and product offerings to originate more loans compared to FNB Lilly and hence have a larger LTD ratio. FNB Lilly's 33.0 percent, twenty-seven quarter average LTD ratio is comparable to the twenty- seven quarter average LTD ratio of 35.0 percent reported in the prior CRA evaluation, as of July 27, 2009.

## Lending in the Assessment Area

FNB Lilly originates a majority of its primary loan products inside the defined AA. FNB Lilly originated 69.4% by number and 67.0% by dollar amount of loans in the AA. The institution's lending concentration inside the AA demonstrates its commitment to serving the credit needs of its AA and meets the standard for satisfactory performance in this criterion. The following table illustrates the institution's lending within the AA by number and dollar amount of loans.

<b>Table 3 Lending in the FNB Lilly Assessment Area</b>										
Loan Type	Number of Loans					Dollar of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	6	54.55	5	45.45	11	664	64.28	369	35.72	1,033
Home Refinancing	3	75.00	1	25.00	4	224	65.50	118	34.50	342
Home Improvement	16	76.19	5	23.81	21	190	81.20	44	18.80	234
Total Home Loans	25	69.44	11	30.56	36	1,078	67.00	531	33.00	1,609

Source: Sampled loan data from 1/1/2014 through 12/31/2015

## Lending to Borrowers of Different Incomes

The distribution of home loans to borrowers reflects reasonable penetration among borrowers of different income levels. Given that home purchase and improvement loans represented the most significant portion of sampled originations during the evaluation period, these loan purpose categories were given the most consideration in the lending test. Our loan sample only generated three home refinance loans. Therefore, a meaningful analysis on this loan type could not be performed.

FNB Lilly's borrower distribution demonstrated reasonable penetration among low- and moderate-income borrowers, and it meets the standard for satisfactory performance. A total of 36 loans were originated during the review period. Seven (7) of 36 loans (19%) were to low-income borrowers, and nine of 36 loans (25%) were to moderate-income borrowers.

Opportunities to originate residential mortgages within FNB Lilly's AA may be impacted by demographic factors including the extent to which the institution's AA population is age 65 or older (15.83%), retired (27.85%), eligible for social security (38.41%), and the population that is at or below poverty level (11.84%). Opportunities to originate residential mortgages within the AA may also be impacted by housing affordability and banking competition. 2010 US Census data reports the median housing value within FNB Lilly's AA to be \$84,656. The 2015 HUD updated median family income is \$55,600, indicating that low-income AA families by definition are families with annual incomes below \$27,799.

Additionally, 11.84% of AA families subsist below the poverty level and the Cambria County unemployment exceeds the Pennsylvania state employment rate. This reduces the 41.02 percent of families with are low- to moderate-income families that may be able to qualify for home ownership. Families living below the poverty level lack the financial wherewithal to meet underwriting criteria for home mortgage loans.

Competition within the AA inhibits FNB Lilly's ability to make loans in the AA. Larger national and regional banks, non-bank mortgage lenders, and credit unions with significantly more

market share directly compete with FNB Lilly in the AA. Larger lenders with more capacity and extensive resources offer more aggressive pricing than what FNB Lilly can accommodate because of its size. Many of the larger lenders also have First Time Homebuyer programs to attract borrowers.

Table 4 details the distribution of home purchase, home improvement, and home mortgage refinancing loans by FNB Lilly during the evaluation period among AA borrowers of different levels.

<b>Table 4 Borrower Distribution of Residential Real Estate Loans in the FNB Lilly AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	19.61	16.67	21.41	0.00	21.66	16.67	37.32	66.67
Home Improvement	19.61	37.50	21.41	31.25	21.66	12.50	37.32	18.75
Home Mortgage Refinance	19.61	0.00	21.41	66.67	21.66	0.00	37.32	33.33

Source: Sampled loan data from 1/1/2014 through 12/31/2015; 2010 U.S. Census data.

### Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion among AA geographies. FNB Lilly has no low-income or upper-income geographies, but has one moderate-income geography, and three middle-income geographies in its AA. One loan was originated in its only moderate-income geography, and 25 loans were originated in the three middle-income geographies in its AA. In addition, there were 11 loans originated outside the FNB Lilly AA.

Table 5 details the distribution of home purchase, home improvement, and home refinancing loans originated by FNB Lilly during the evaluation period among AA geographies.

<b>Table 5 Geographic Distribution of Residential Real Estate Loans in the FNB Lilly AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00	0.00	17.37	0.00	82.63	100.00	0.00	0.00
Home Improvement	0.00	0.00	17.37	6.25	82.63	93.75	0.00	0.00
Home Refinance	0.00	0.00	17.37	0.00	82.63	100.00	0.00	0.00

Source: Sampled loan data from 1/1/2014 through 12/31/2015; 2010 U.S. Census data.

## **Responses to Complaints**

FNB Lilly did not receive any complaints about its performance in helping to meet credit needs in the AA during this evaluation period.

## **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.