



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**January 19, 2005**

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

**The Merchants National Bank of Bangor  
Charter Number 4513**

**25 Broadway  
Bangor, PA 18013**

**Comptroller of the Currency  
Northern Pennsylvania Field Office  
100 Hazle Street, Suite 202  
Wilkes-Barre, PA 18702**

**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 overall rating is based on the following factors:

- The loan-to-deposit ratio meets the standards for satisfactory performance;
- A substantial majority of the bank's loans are originated in its assessment area (AA);
- The bank's record of lending to borrowers of different incomes meets the standards for satisfactory performance;
- The geographic distribution of loans in the Metropolitan Statistical Area (MSA) AA meets the standards for satisfactory performance; and
- The bank has had no consumer complaints regarding its community reinvestment performance.

## **DESCRIPTION OF INSTITUTION**

Merchants National Bank (MNB) is an independent intrastate community bank, founded in 1891, with its main office located in Bangor, Pennsylvania. MNB is located in eastern Pennsylvania in Northampton County. MNB is a wholly owned subsidiary of the parent holding company, MNB Corporation. MNB and MNB Corporation have similar total assets of \$259 million as of September 30, 2004.

MNB is a full service bank. The bank operates seven full service branches and one limited small business loan center, all located in Northampton County, part of the Allentown-Bethlehem-Easton Metropolitan Statistical Area (MSA). All branches have drive-up facilities except for the main office in Bangor, the supermarket branch in Northampton, and the Easton Business Center. Each branch has extended lobby hours on Friday and Saturday. The Northampton branch has extended hours every day including Sunday afternoon hours. The Easton Business Center is only open on weekdays until 3:00 pm. Automated teller machines (ATMs) are located at all branches except the main office in Bangor and the Martins Creek branch. The Easton Business Center's ATM dispenses cash only. There are also four non-branch, cash dispensing only ATMs attached to mini-markets in Bangor, Martins Creek, Pen Argyl, and Stockertown. The bank operates no branches in low-income census tracts. The Easton Business Center is located in a moderate-income census tract.

Major competitors include branches of much larger regional banks. Keystone Nazareth Bank and Trust is headquartered in Bethlehem, about 25 miles southwest of Bangor. Lafayette Ambassador Bank is headquartered in Easton, approximately 19 miles south of Bangor. ESSA Bank and Trust from Stroudsburg is 10 miles north of Bangor. The asset size and branch

network of each of these competitors is considerably larger than MNB.

At September 30, 2004, MNB reported \$117 million in net loans and \$182 million in total deposits. Net loans represent 45% of total assets. Major loan products include residential mortgages, commercial loans and consumer loans. The primary lending product is residential mortgage loans. Residential real estate loans represent 59% of the loan portfolio, followed by commercial loans at 39%, and 2% in consumer installment loans. Net Tier 1 Capital is \$26 million as of that same date.

MNB is community-oriented. The bank has a website which offers information on branch hours, bank products and rates, and on-line loan application. Internet banking, including on-line bill payment, is also available. MNB offers a variety of mortgage and consumer loan and deposit products. MNB does not have any legal or financial condition restrictions that would impede their ability to help meet the credit needs of their communities.

According to the June 30, 2004 FDIC/OTS Summary of Deposits Market Share Report, MNB ranked 14<sup>th</sup> out of 34 institutions in the Allentown-Bethlehem-Easton, PA MSA with 1.61% of deposits. Wachovia Bank NA ranked first with 52 offices in the MSA and 23.67% of the deposits. Other financial institutions include PNC Bank NA in second place, with 35 offices and 11.94% of the deposits, and Keystone Nazareth B&T Company, ranked third with 36 offices and 11.23% of the deposits. MNB ranked 7<sup>th</sup> out of 15 institutions in the Northampton County AA with 4.67% of deposits. Keystone Nazareth B&T Company ranked first with 19 offices in the AA and 22.37% of deposits. Lafayette Ambassador Bank ranked second with 18 offices and 17.6% of deposits, and Wachovia Bank NA ranked third with 17 offices and 14.46% of deposits.

The evaluation period for home mortgages reported under the Home Mortgage Disclosure Act (HMDA) is from January 1, 2002 through September 30, 2004.

MNB's last Public Evaluation (PE) was dated May 17, 1999 and the overall CRA rating assigned was **Satisfactory**. Since the last evaluation, MNB has opened the Easton Business Center (2004) and three branches: Northampton and Bushkill (2000), and Martins Creek (2003). MNB did not close any branches since the last evaluation period.

## **DESCRIPTION OF ASSESSMENT AREA**

MNB's assessment area (AA) includes all of Northampton County's sixty-two census tracts (CTs), which are part of the Allentown-Bethlehem-Easton MSA (MSA 0240) based on the pre-2004 MSA changes. The AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies. *Based on 1990 Census data*, MNB's AA included two low-income CTs (3%), six moderate-income CTs (10%), forty-two middle-income CTs (68%), eleven upper-income CTs (18%) and one N/A CT (1%). The total population in the AA was 247,105 and the median cost of housing in the AA was \$105,408. The percentage of households below the poverty level was 7%. The AA's population was comprised of 67,474 families with the following family income distribution: 16% are low-income, 18% are moderate-income, 27% are middle-income, and 39% are upper-income. The Updated Median Family Income for 2002

was \$55,700.

In 2004, HUD changed the Allentown-Bethlehem-Easton MSA AA number to 10900. There are sixty-two CTs in the AA. *Based on 2000 Census data*, the AA includes three low-income CTs (5%), eight moderate-income CTs (13%), thirty-seven middle-income CTs (60%) and fourteen upper-income CTs (22%). The total population in the AA is 267,066 and the median cost of housing in the AA is \$117,274. The percentage of households below the poverty level is 8%. The AA's population is comprised of 71,507 families with the following family income distribution: 16% are low-income, 19% are moderate-income, 24% are middle-income, and 41% are upper-income. The Updated Median Family Income for 2003 is \$59,700.

As of November 30, 2004, the Pennsylvania seasonally adjusted average state unemployment rate is 5.4%. The Allentown-Bethlehem-Easton MSA rate of 5.5% and the Northampton County rate of 5.6% are slightly above the state average. The major employers in Northampton County are Northampton County, Lehigh University and Bethlehem Area School District. The northeastern corner of Northampton County, commonly referred to as the Slate Belt, is considered a bedroom community of New York City and New Jersey since an increasing majority of local residents travel to these areas for employment.

Based on the most recent HMDA Peer Mortgage Data, over 400 lenders originated HMDA loans in the Allentown-Bethlehem-Easton MSA AA. MNB ranked thirty-sixth in the MSA AA with a market share of 0.60%. Wells Fargo Home Mortgage ranked first with a market share of 7%. Country Wide Home Loans ranked second with a market share of 6%. Thirty-two percent of the MNB's loans originated were to low and moderate-income applicants.

MNB did not originate any community development loans during the assessment period.

## **Community Contact**

Credit needs of the community were determined during this examination by making two community contacts. Both described the AA as several small communities with a growing population and a generally stable economy. Our first contact is a representative from the Slate Belt Chamber of Commerce. The second contact is a member of the Bangor Main Street Program and recently retired member of the Bangor Zoning Committee. Both contacts indicated that the area is experiencing a strong population growth due to the migration of individuals from New York and New Jersey escaping the high cost of living in those areas. This migration is one of the reasons that the cost of housing is increasing and making it harder for the low-to-moderate income individuals to purchase homes. Both contacts could not identify unmet credit needs, as financial institutions are perceived as being able to meet the various credit needs in the community.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The evaluation period covered lending activity for home mortgage loans (purchase money, refinance, and home improvement loans) reported under the Home Mortgage Disclosure Act (HMDA) from January 1, 2002 through September 30, 2004. These loans were the only products reviewed due to the business focus of the bank during this evaluation period.

### Loan-to-Deposit Ratio

An analysis of MNB's loan-to-deposit ratio from the first quarter of 2002 through the third quarter of 2004 reveals the bank meets the standards for satisfactory performance. The bank's average loan-to-deposit ratio for these 11 quarters was 62.53%, ranging from 58.72% to 64.33%. This ratio is below the average quarterly ratios of similarly situated banks in Pennsylvania with similar asset size. The custom peer average was 74.72%, with average ratios during the period ranging from 73.30% to 76.57%. The local peer consisted of Pennsylvania banks with total assets between \$200 million and \$300 million.

The ratio is reasonable (considering the seasonal variations and taking into account lending-related activities) given the bank's size, financial condition, and assessment area's credit needs. MNB is competing with more than 400 mortgage and commercial lenders in the AA.

### Lending in Assessment Area

A substantial majority of the home mortgage loans originated during the evaluation period were within the AA. MNB exceeds the standards for satisfactory performance for lending in their AA. An analysis of the HMDA data from both evaluation periods disclosed that 91% and 94%, respectively, of the loans were originated in the AA.

The following tables are an analysis of the distribution of home mortgage loans inside and outside of the bank's AA.

| <b>HOME MORTGAGE LOANS ORIGINATED DURING EVALUATION PERIOD<br/>01/01/02 THROUGH 12/31/02</b> |                               |                |                                |                |
|--|-------------------------------|----------------|--------------------------------|----------------|
|  | <b>INSIDE ASSESSMENT AREA</b> |                | <b>OUTSIDE ASSESSMENT AREA</b> |                |
|  | <b># Loans</b>                | <b>\$(000)</b> | <b># Loans</b>                 | <b>\$(000)</b> |
| <b>Home Purchase Loans</b>   | 36                            | 3,398          | 4                              | 288            |
| <b>Home Refinance Loans</b>  | 70                            | 6,543          | 7                              | 665            |
| <b>Home Improvement Loans</b>  | 3                             | 642            | 0                              | 0              |
| <b>Multifamily</b>   | 0                             | 0              | 0                              | 0              |
| <b>Total Loans</b>   | 109                           | 10,583         | 11                             | 953            |
| <b>Percentage</b>  | <b>91%</b>                    | <b>92%</b>     | <b>9%</b>                      | <b>8%</b>      |

Source: 2002 MNB HMDA-LAR

| <b>HOME MORTGAGE LOANS ORIGINATED DURING EVALUATION PERIOD<br/>01/01/03 THROUGH 09/30/2004</b> |                               |                |                                |                |
|--|-------------------------------|----------------|--------------------------------|----------------|
|  | <b>INSIDE ASSESSMENT AREA</b> |                | <b>OUTSIDE ASSESSMENT AREA</b> |                |
|  | <b># Loans</b>                | <b>\$(000)</b> | <b># Loans</b>                 | <b>\$(000)</b> |
| <b>Home Purchase Loans</b>   | 71                            | 9,424          | 7                              | 920            |
| <b>Home Refinance Loans</b>  | 167                           | 14,878         | 14                             | 944            |
| <b>Home Improvement Loans</b>  | 146                           | 7,511          | 5                              | 195            |
| <b>Manufactured</b>  | 2                             | 147            | 0                              | 0              |
| <b>Multifamily</b>   | 9                             | 1,145          | 1                              | 255            |
| <b>Total Loans</b>   | 395                           | 33,105         | 27                             | 2,314          |
| <b>Percentage</b>  | <b>94%</b>                    | <b>93%</b>     | <b>6%</b>                      | <b>7%</b>      |

Source: 2003 - 2004 MNB HMDA-LAR

### **Lending to Borrowers of Different Incomes**

MNB's record of lending to borrowers of different incomes meets the standard for satisfactory performance. *Based on the 1990 Census Data*, the level of home mortgage loans originated to low-income borrowers in the MSA AA is lower than the percentage of low-income families in the MSA AA. The level of home mortgage loans originated to moderate-income borrowers in the MSA AA is above the percentage of moderate-income families in the MSA AA. When considering the affordability of housing in the MSA AA, this performance is satisfactory. The median cost of housing in the MSA AA was \$105,408 based on 1990 U.S. Census data. The HUD updated median family income for 2002 is \$55,700. This means that a low-income person in the MSA AA earns less than \$27,850.

*Based on 2000 Census Data*, the level of home mortgage loans originated to low-income borrowers in the MSA AA has improved and is somewhat lower than the percentage of low-income families in the MSA AA. The level of home mortgage loans originated to moderate-income borrowers in the MSA AA has also improved and exceeds the percentage of moderate-income families in the MSA AA. When considering the affordability of housing in the MSA AA, this performance is excellent. The median cost of housing increased twenty-five percent in the MSA AA and is \$117,274 based on 2000 U.S. Census data. The HUD updated median family income for 2003 is \$59,700. This means that a low-income person in the MSA AA earns less than \$29,850. Based on these statistics, it would be difficult for a low-income individual to purchase housing in the MSA AA.

The following tables are an analysis of the distribution of home mortgage loans by borrower income level.

| <b>Borrower Distribution of Home Mortgage Loans<br/>MNB MSA AA (Northampton County)<br/>01/01/02 THROUGH 12/31/02</b> |                   |                   |                          |                         |                                       |
|---|-------------------|-------------------|--------------------------|-------------------------|---------------------------------------|
| <b>Income Level</b>   | <b># of Loans</b> | <b>% of Loans</b> | <b>\$ (000) of Loans</b> | <b>% of \$ of Loans</b> | <b>Income Level of Families in AA</b> |
| <b>Low</b>  | 5                 | 5%                | 189                      | 2%                      | 16%                                   |
| <b>Moderate</b>   | 21                | 19%               | 1,295                    | 12%                     | 18%                                   |
| <b>Middle</b>   | 40                | 37%               | 4,340                    | 41%                     | 27%                                   |
| <b>Upper</b>  | 43                | 39%               | 4,759                    | 45%                     | 39%                                   |
| <b>Total</b>  | <b>109</b>        | <b>100.00%</b>    | <b>10,583</b>            | <b>100.00%</b>          | <b>100.00%</b>                        |

Source: 2002 MNB HMDA-LAR/1990 Census Data

| <b>Borrower Distribution of Home Mortgage Loans<br/>MNB MSA AA (Northampton County)<br/>01/01/03 THROUGH 09/30/04</b> |                   |                   |                          |                         |                                       |
|---|-------------------|-------------------|--------------------------|-------------------------|---------------------------------------|
| <b>Income Level</b>   | <b># of Loans</b> | <b>% of Loans</b> | <b>\$ (000) of Loans</b> | <b>% of \$ of Loans</b> | <b>Income Level of Families in AA</b> |
| <b>Low</b>  | 45                | 11%               | 2,107                    | 6%                      | 16%                                   |
| <b>Moderate</b>   | 89                | 23%               | 5,666                    | 17%                     | 19%                                   |
| <b>Middle</b>   | 146               | 37%               | 12,858                   | 39%                     | 24%                                   |
| <b>Upper</b>  | 115               | 29%               | 12,474                   | 38%                     | 41%                                   |
| <b>Total</b>  | <b>395</b>        | <b>100.00%</b>    | <b>33,105</b>            | <b>100.00%</b>          | <b>100.00%</b>                        |

Source: 2003 -2004 MNB HMDA-LAR/2000 Census Data

### **Geographic Distribution of Loans**

The geographic distribution of loans in the MSA AA reflects reasonable dispersion throughout the AA and meets the standards for satisfactory performance. *Based on 1990 Census Data*, there were two low-income and six moderate-income tracts MSA AA. From 1/1/02 to 12/31/02, MNB did not extend any loans in these tracts. *Based on 2000 Census Data*, there are three low-income and eight moderate-income tracts in the MSA AA. From 1/1/03 to 9/30/04, MNB did not extend any loans in the low-income tracts. All of the low-income tracts are located in the city of Bethlehem where there is significant competition for loans. MNB does not have a branch in this area and driving to the closest MNB branch would not be convenient.

The majority of the moderate-income tracts in the AA are located in Easton. The bank extended 19 loans to borrowers in moderate-income tracts. This improved performance is due to the opening of a branch in the Easton market during this time frame. Lending opportunities for MNB in these low- and moderate-income tracts is very rate competitive, with more than 400 other mortgage lenders competing in the MSA AA.

Please refer to the following table for the geographic distribution of home mortgage loans in the MSA AA.

| <b>Geographic Distribution of Home Mortgage Loans</b><br><b>MNB MSA AA (Northampton County)</b><br><b>01/01/02 THROUGH 12/31/02</b> |                   |                         |                                |                               |                                  |
|---|-------------------|-------------------------|--------------------------------|-------------------------------|----------------------------------|
| <b>Census Tract</b>   | <b># of Loans</b> | <b>% of Total Loans</b> | <b>\$ (000) of Total Loans</b> | <b>% of \$ of Total Loans</b> | <b>% of Owner-Occupied Units</b> |
| Low   | 0                 | 0                       | 0                              | 0                             | 1%                               |
| Moderate  | 0                 | 0                       | 0                              | 0                             | 5%                               |
| Middle  | 103               | 94%                     | 9,901                          | 94%                           | 72%                              |
| Upper   | 6                 | 6%                      | 682                            | 6%                            | 22%                              |
| <b>Total</b>  | <b>109</b>        | <b>100.00%</b>          | <b>10,583</b>                  | <b>100.00%</b>                | <b>100.00%</b>                   |

Source: 2002 MNB HMDA-LAR/1990 Census Data

| <b>Geographic Distribution of Home Mortgage Loans</b><br><b>MNB MSA AA (Northampton County)</b><br><b>01/01/03 THROUGH 09/30/04</b> |                   |                         |                                |                               |                                  |
|---|-------------------|-------------------------|--------------------------------|-------------------------------|----------------------------------|
| <b>Census Tract</b>   | <b># of Loans</b> | <b>% of Total Loans</b> | <b>\$ (000) of Total Loans</b> | <b>% of \$ of Total Loans</b> | <b>% of Owner-Occupied Units</b> |
| Low   | 0                 | 0                       | 0                              | 0                             | 2%                               |
| Moderate  | 19                | 5%                      | 1,768                          | 5%                            | 7%                               |
| Middle  | 351               | 89%                     | 27,648                         | 84%                           | 56%                              |
| Upper   | 25                | 6%                      | 3,689                          | 11%                           | 35%                              |
| <b>Total</b>  | <b>395</b>        | <b>100.00%</b>          | <b>33,105</b>                  | <b>100.00%</b>                | <b>100.00%</b>                   |

Source: 2003-2004 MNB HMDA-LAR/2000 Census Data

### Responses to Complaints

The bank has not received any CRA-related consumer complaints since the last CRA examination.

### Fair Lending Review

We found no evidence of illegal discrimination or other illegal credit practices.