



## **Public Disclosure**

April 27, 1998

# **Community Reinvestment Act Performance Evaluation**

**Heritage National Bank  
Charter Number: 649**

**120 South Centre Street  
P.O. Box B  
Pottsville, PA 17901**

**Office of the Comptroller of the Currency  
Northern 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 CRA performance of **Heritage National Bank** prepared by **the Office of the Comptroller of the Currency**, the institution's supervisory agency, as of April 27, 1998. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. 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.

The primary factors supporting this bank's overall rating include:

- Lending levels reflect a good responsiveness to the credit needs of the community;
- A substantial majority of all loan originations, over 90%, are within the bank's assessment area;
- The geographic distribution of loans reflects a good penetration throughout the assessment area;
- Loans are adequately distributed among borrowers of different income levels and businesses of different sizes;
- There is an adequate level of qualified community development grants; and
- All banking services are readily accessible to the entire assessment area through the bank's branch network. There is a high level of community development services.

The following table indicates the performance level of Heritage National Bank with respect to the lending, investment, and service tests.

Performance Levels	Heritage National Bank Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory			X
Low Satisfactory	X	X	
Needs to Improve			
Substantial Noncompliance			

\* Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

## Description of Institution

Heritage National Bank (HNB) is a \$369 million institution headquartered in Pottsville, Pennsylvania. HNB is a full service bank operating fourteen branches and nine automated teller machines (ATMs) in Schuylkill and Dauphin Counties. The local area is highly competitive. CoreStates Bank, Pennsylvania National Bank, and Community Banks NA are the bank's major competitors.

Primary loan products include residential mortgages, small business loans, and consumer credits. The loan portfolio represents 65% of total assets. A breakdown of the portfolio as of March 31, 1998 is as follows: 45% commercial and commercial real estate loans, 42% residential mortgages, and 13% installment loans. There are no legal or financial impediments that limit the bank's ability to meet the credit needs of the community.

During the evaluation period, HNB was a subsidiary of Heritage Bancorp, Inc., a one bank holding company. As of May 1998, a plan of consolidation was finalized between Heritage Bancorp, Inc. and BCB Financial Services Corp. As a result, Main Street Bancorp, Inc. was formed as a two bank holding company with Heritage National Bank and Berks County Bank as subsidiaries. Main Street Bancorp, Inc. has assets of approximately \$800 million. The two banks will continue to operate independently.

## **Description of Assessment Area**

HNB's assessment area includes all of the block numbering areas (BNAs) in Schuylkill County and one census tract (CT) in Dauphin County. The population of the assessment area is approximately 155,000. Eighteen percent of the families residing in the assessment area are low-income, nineteen percent are moderate-income, twenty-five percent are middle -income, and thirty-eight percent are upper-income.

The portion of the bank's assessment area in Schuylkill County is in a non-metropolitan statistical area (non-MSA) and the census tract in Dauphin County is in the Harrisburg-Lebanon-Carlisle Metropolitan Statistical Area (MSA 3240). This CT comprises only a very small portion of the whole MSA, with a population of only 2,655, and is therefore not designated as a separate assessment area. The income levels of the BNAs and the census tract in the assessment area include three moderate (7%), thirty-two middle (78%), five upper-income (12%) and one BNA for which income information is not available (3%). (The census tract in Dauphin County is middle income.) The statewide nonmetropolitan median family income of \$35,200 applies to the BNAs in Schuylkill County. The HUD median family income for MSA 3240 is \$46,500.

Unemployment in Schuylkill County exceeds the statewide unemployment average. The Dauphin County unemployment rate is below the state average. The economy in the trade area is somewhat depressed, but stable. Principal employers in the area include local hospitals, textile plants, aluminum factories, food and beverage manufacturers, and non-profit community service organizations.

Credit needs in the community were determined by contacting a housing agency and an economic development organization. Community groups were positive in their comments regarding the bank's response to and involvement in the community. No specific credit needs were identified, however, the economic development organization stated that there are always projects that need resources.

## **Conclusions with Respect to Performance Tests**

### **Scope of Review:**

This review covered the time period from May 1, 1996 through March 31, 1998. In order to evaluate the bank's record of lending in the assessment area and the geographic distribution of loans, a 10% sample of loans reported under the Home Mortgage Disclosure Act (HMDA) originated during this period, and all small business and community development loans originated from January 1, 1997 through March 31, 1998 were reviewed. The evaluation of borrower's profile utilized all HMDA loans reported during the evaluation period, and all small business loans and community development

loans originated from January 1, 1997 through March 31, 1998. HMDA reportable loans are those used for housing purposes. Small business loans include those secured by non-farm non-residential properties and for commercial and industrial purposes. HNB originated 479 HMDA loans during the evaluation period in 1996 totaling \$18.9 million, 741 HMDA loans in 1997 totaling \$27.6 million, and 154 HMDA loans during the evaluation period in 1998 totaling \$6.2 million. Small business loan originations include 94 in 1997 totaling \$7.4 million and 24 during the evaluation period in 1998 totaling \$1.3 million. Investments and services purchased, matured, and initiated during the review period were also evaluated.

## LENDING TESTS

### Lending Activity

Lending levels reflect a good responsiveness to the area credit needs. HNB monitors the mortgage loan activity of the top ten banks in Schuylkill County. Information gathered from the Schuylkill County Courthouse indicates that HNB is the number two mortgage lender with a market share of 15% for 1997 and 16% for year to date 1998.

A substantial majority of HMDA and small business loans are made in the bank's assessment area. We analyzed 10% of the HMDA loan originations during the evaluation period. In addition, we also reviewed all the small business loan originations during 1997 and year to date 1998. The following table shows HNB's record of lending in their assessment area.

Lending in the Assessment Area (AA)						
	1996		1997		1998	
Loan Type	# of loans in AA	% of loans in AA	# of loans in AA	% of loans in AA	# of loans in AA	% of loans in AA
Mortgages	43	96	72	100	13	93
Small Business	*	*	87	91	23	96
<b>Total</b>	<b>43</b>	<b>96</b>	<b>159</b>	<b>96</b>	<b>36</b>	<b>95</b>

\* Note: HNB was not required to collect small business loan data for 1996.

## Geographic Distribution of Loans

We reviewed the geographic distribution of the bank's lending using the same loan information used to evaluate lending in the assessment area. The following tables show that HNB has a good distribution of loans throughout the area.

Geographic Distribution of Mortgage Loans							
Income Level of BNA/CT	1996		1997		1998		Distribution of BNAs/CT in AA
	#	%	#	%	#	%	
Low	0	0%	0	0%	0	0%	0%
Moderate	2	5%	5	7%	1	8%	7%
Middle	36	84%	52	72%	12	92%	78%
Upper	5	11%	15	21%	0	0%	12%
NA*	0	0%	0	0%	0	0%	3%
<b>Total</b>	<b>43</b>	<b>100%</b>	<b>72</b>	<b>100%</b>	<b>13</b>	<b>100%</b>	<b>100%</b>

\* Note: One BNA does not have income information available.

Geographic Distribution of Small Business Loans					
Income Level of BNA/CT	1997		1998		Distribution of BNAs/CT in AA
	#	%	#	%	
Low	0	0%	0	0%	0%
Moderate	2	2%	1	4%	7%
Middle	49	57%	17	74%	78%
Upper	35	41%	5	22%	12%
NA*	0	0%	0	0%	3%
<b>Total</b>	<b>86</b>	<b>100%</b>	<b>23</b>	<b>100%</b>	<b>100%</b>

\* Note: One BNA does not have income information available.

## Borrower's Profile

### Home Mortgage Loans

HNB has an adequate record of lending to borrowers of all income levels. The table below shows the distribution for the number of HMDA loans made within the assessment area according to the borrower's income level compared to the distribution of families at different income levels within the area. We utilized all HMDA loans originated during the evaluation period for this review.

Mortgage Loan Originations by Level of Borrower Income							
Income Level	1996		1997		1998		% of Families
	#	%	#	%	#	%	
Low	66	14%	89	12%	15	10%	18%
Moderate	125	26%	171	23%	39	25%	19%
Middle	142	30%	219	30%	36	23%	25%
Upper	146	30%	234	31%	60	39%	38%
NA*	0	0%	28	4%	4	3%	
<b>Total</b>	<b>479</b>	<b>100%</b>	<b>741</b>	<b>100%</b>	<b>154</b>	<b>100%</b>	<b>100%</b>

\* Note: Income information not available.

### Small Business Loans

The small business loan data required to be collected by the regulation was used to evaluate HNB's record of lending to businesses of different sizes. This information included loans originated January 1, 1997 through March 31, 1998. Our analysis indicates that HNB has a good record of lending to small businesses. A small business is defined as one with \$1 million or less in annual revenues. The following table shows that most of the small business loan originations were to small businesses.

<b>Distribution of Small Business Loans by Business Size</b>				
<b>Gross Annual Revenues</b>	<b>1997</b>		<b>1998</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>≤ \$1 million</b>	<b>89</b>	<b>95%</b>	<b>24</b>	<b>100%</b>
<b>&gt; \$1 million</b>	<b>4</b>	<b>4%</b>	<b>0</b>	<b>0%</b>
<b>Unknown</b>	<b>1</b>	<b>1%</b>	<b>0</b>	<b>0%</b>
<b>Total</b>	<b>94</b>	<b>100%</b>	<b>24</b>	<b>100%</b>

The table below designates the same loans according to the original size of the loan. This information indicates that the majority of business loans originated are for less than \$100 thousand.

<b>Distribution of Small Business Loans by Size of Loan</b>				
<b>Original Loan Amount (000)</b>	<b>1997</b>		<b>1998</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>≤ \$100</b>	<b>76</b>	<b>81%</b>	<b>19</b>	<b>79%</b>
<b>&gt; \$100 to \$250</b>	<b>12</b>	<b>13%</b>	<b>5</b>	<b>21%</b>
<b>&gt; \$250 to \$1 million</b>	<b>6</b>	<b>6%</b>	<b>0</b>	<b>0%</b>
<b>Total</b>	<b>94</b>	<b>100%</b>	<b>24</b>	<b>100%</b>

### **Community Development Lending**

HNB has a low level of community development loans. During the examination period, HNB made one loan which meets the definition of community development. This loan is a commercial revolving line of credit for \$150 thousand which was renewed in February 1998. It was originally extended August 1995. This line is used to support renovations of homes and associated administrative costs. These homes are then sold to low-income families through the Pottsville First Time Home Buyers Program. Currently, the outstanding balance is \$76 thousand.



## Innovative or Flexible Lending Practices

The institution makes use of flexible lending practices in order to serve the area credit needs. These products are limited to the first time home buyers programs listed below and the use of private mortgage insurance (PMI). All the first time home buyers programs are targeted to low- and moderate-income borrowers. The programs offer credit counseling and assistance with down payments and closing costs. PMI is offered with loan-to-value limits up to 95% and is offered to the general public.

These programs and the volume of activity in each is described below.

- Borough of Schuylkill Haven Community Home Buyers Program - Currently, there is one loan outstanding totaling \$44 thousand that was originated in 1996. No loans were originated in 1997 or 1998.
- City of Pottsville First Time Home Buyers Assistance Program - Currently, there are three loans outstanding totaling \$60 thousand that were originated in 1996 and three loans totaling \$75 thousand that were originated in 1997. No loans were originated in 1998.
- Shenandoah Home Investment Program- No loans have been extended under this program during the evaluation period.

## INVESTMENT TEST

Qualified investment opportunities are limited in the assessment area. While parts of Schuylkill County are in a revitalization mode, investment opportunities are limited because a significant portion of the revitalization programs are funded with state and federal dollars. HNB has no investments which qualify under the community development definition. However, HNB has an adequate level of qualified community development grants. The following are CRA related contributions for 1996, 1997, and 1998.

<u>Name</u>	<u>1996</u>	<u>1997/98</u>
Economic Opportunity Cabinet Coalition	\$ 4,933	\$ 1,000
Schuylkill Economic Development Corp (SEDCO)		13,000
Schuylkill YMCA		2,500
Habitat for Humanity	550	500
Junior Achievement	250	
Community Service System		270
Salvation Army	<u>2,000</u>	<u>2,000</u>
<b>Total</b>	<b>\$7,733</b>	<b>\$19,270</b>

**SERVICE TEST**  
**Retail Services**

HNB's services are readily accessible to all portions of the bank's assessment area. HNB operates thirteen branches in Schuylkill County and one branch in Dauphin County. The branch locations are evenly distributed throughout Schuylkill County. The southwest section of Schuylkill County is being served by the Williamstown branch, located just south of Schuylkill County in Dauphin County. Twelve branches have drive-up facilities and eight branches have ATMs. In addition, there is one remote location ATM at Bridge's Market on Route 183 in Wayne Township. All branches offer extended hours, including evening and Saturday hours, with the exception of the Schuylkill Haven (Route 61) branch which has no Saturday hours.

HNB offers a 24-hour telebanker. The telebanker can be accessed from any touch-tone phone. Customers can check balances, verify deposits, obtain deposit rates, make payments, and transfer funds.

Currently HNB is in the process of co-creating a program to offer free checking services and training to welfare families. The program is scheduled to be in effect by July 1, 1998. This is a new and innovative product that is being developed in conjunction with other area banks and the Department of Human Services.

The following table depicts the distribution of branches throughout the assessment area. The distribution of branches is reasonable in comparison to the percentages of low-, moderate-, middle-, and upper-income BNAs and census tracts in the area.

<b>Distribution of Delivery Systems</b>			
<b>Census Tracts</b>	<b>Branches # / %</b>	<b>ATM(remote) #/%</b>	<b>BNAs/CTs in AA # / %</b>
<b>Low</b>	0 / 0%	0 / 0%	0 / 0%
<b>Moderate</b>	1 / 7%	0 / 0%	3 / 7%
<b>Middle</b>	11 / 79%	0 / 0%	32 / 78%
<b>Upper</b>	2 / 14%	1 / 100%	5 / 12%
<b>Not Available</b>	0 / 0%	0 / 0%	1 / 3%
<b>Total</b>	14 / 100%	1 / 100%	41 / 100%

## Community Development Services

HNB provides a high level of community development services which include those targeted to low- and moderate-income individuals and areas, as well as to small businesses.

The following is a list and description of the community development services provided throughout the assessment area.

- **Pottsville Area Development Corporation (PADCO)** - An employee of the bank, in his capacity as a bank employee, serves as a director. The goals of PADCO are to attract new businesses, keep businesses, and assist new businesses who wish to operate in downtown Pottsville. PADCO works with businesses to create quality full time jobs for residents. PADCO also assists investment property owners operating apartments in Pottsville who are willing to assist low- and moderate-income individuals. PADCO uses a revolving loan fund as its primary economic tool. Initial funding for this organization was grants from the state.
- **Schuylkill County Economic Development Corp. (SEDCO)** - Two employees of the bank, in their capacity as bank employees, serve as board members. The objectives of the organization are to revitalize and promote growth throughout the county. Funding is provided through state and federal dollars, fund raising activities, and other investment activities.
- **Tamaqua 2004** - Three employees of the bank, in their capacity as bank employees, serve as members of this organization. In general, the organization's goal is to revitalize Tamaqua by 2004. The group focuses on business improvements, job improvements, downtown appearance, and retail recruiting. In 1996, HNB sponsored four Business Seminars to help small businesses in the community. Sources of revenue for this organization are fund raising activities and donations.
- **The Economic Opportunity Cabinet of Schuylkill County** - One employee of the bank, in her capacity as a bank employee, serves as a member of this organization. This organization offers educational programs to first time home buyers and financial assistance to low- and moderate-income borrowers. Home buyers workshops are offered monthly and each of the participating banks take turns presenting the information to participants.

Funding is provided through contributions made by the participating banks. Actual mortgage loans are funded by the individual banks that belong to the Cabinet.

- **Junior Achievement** - Two employees of the bank, in their capacity as bank employees, serve as members of this organization. The employees teach at various schools within the assessment area introducing business and economic ideas to children. Funding for this organization is provided through funding raising events and donations.
- **Schuylkill County Chamber of Commerce** - A number of employees, in their capacity as bank employees, serve as members. The purpose of the Chamber is: to create competitive advantages for members; to preserve and strengthen the free enterprise system; to act as an advocate for the Schuylkill business community; to promote business growth, retention and recruitment; to ensure that the political, social and economic needs of the people are met; to provide for positive and planned growth of both the individual and the county. Funding is provided through membership dues and some state grants.

## **FAIR LENDING REVIEW**

A concurrent fair lending examination did not reveal any violations of the anti-discrimination laws and regulations.

## Metropolitan Statistical Areas

### Conclusions with Respect to Performance Tests in MSA 3240

HNB's performance in Northern Dauphin County is consistent with the bank's overall performance. HNB serves this community through one full service office located in Williamstown, a middle-income tract. This one census tract is the only portion of the MSA that is within the bank's assessment area. The total population of the census tract is 2,655 and the median family income is \$46,500.

### Lending Tests

A total of seven HMDA loans totaling \$245 thousand were originated in MSA 3240 during the evaluation period in 1996, twenty-three HMDA loans totaling \$956 thousand were originated during 1997, and nine HMDA loans totaling \$214 thousand were originated during the evaluation period in 1998. No small business loans were made in the MSA during 1997. One small business loan was originated in the MSA during 1998. A geographic distribution of these loans was not analyzed because there is only one census tract in the MSA that is part of the assessment area. HNB has an adequate record of lending to borrowers of different income levels in the MSA. The following table shows the bank's lending record based on HMDA loan originations during the evaluation period.

<b>HMDA Loan Originations by Level of Borrower Income MSA 3240</b>							
<b>Income Level</b>	<b>1996</b>		<b>1997</b>		<b>1998</b>		<b>% of Families</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	
<b>Low</b>	<b>0</b>	<b>0%</b>	<b>4</b>	<b>18%</b>	<b>3</b>	<b>33%</b>	<b>23%</b>
<b>Moderate</b>	<b>3</b>	<b>43%</b>	<b>5</b>	<b>22%</b>	<b>3</b>	<b>34%</b>	<b>26%</b>
<b>Middle</b>	<b>3</b>	<b>43%</b>	<b>7</b>	<b>30%</b>	<b>3</b>	<b>33%</b>	<b>29%</b>
<b>Upper</b>	<b>1</b>	<b>14%</b>	<b>7</b>	<b>30%</b>	<b>0</b>	<b>0%</b>	<b>22%</b>
<b>Total</b>	<b>7</b>	<b>100%</b>	<b>23</b>	<b>100%</b>	<b>9</b>	<b>100%</b>	<b>100%</b>

Because the one census tract in this MSA makes up such a small portion of the whole assessment area, community development lending and investments in this MSA are limited. Services offered in this area are comparable to those offered throughout the bank's assessment area.

## Scope of Examination

<b>Time Period Reviewed</b>	May 1, 1996 through March 31, 1998
<b>Financial Institution</b>	Heritage National Bank
<b>Products Reviewed</b>	Mortgage, small business, and community development loans
<b>Assessment Area</b>	Schuylkill County and CT # 249 in Dauphin County
<b>Type of Examination</b>	On-site
<b>Branches Visited</b>	Main Office, Pottsville, Pa.