

Northeastern District
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PUBLIC DISCLOSURE

June 14, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Farmers National Bank
Charter Number: 9588**

**1 Big Spring Avenue
Newville, Pennsylvania 17241**

**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 Community Reinvestment Act (CRA) performance of **The Farmers National Bank** prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of **June 14, 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.

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

- ! A substantial majority of the Home Mortgage Disclosure Act (HMDA) reportable loans originated during the evaluation period are in the bank's assessment area;
- ! There is a good penetration of loans to individuals of different income levels and a majority of the bank's commercial lending is to small businesses; and
- ! The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area.

DESCRIPTION OF INSTITUTION

The Farmers National Bank (FNB) is a \$45 million institution situated in Cumberland County, south of Harrisburg, Pennsylvania. As of March 1, 1999, FNB was purchased by ACNB Corporation, a \$545 million holding company located in Gettysburg, PA. ACNB Corporation is a two bank holding company. FNB is an affiliate of Adams County National Bank, a \$500 million community bank headquartered in Gettysburg, PA. FNB has no operating subsidiaries. The bank operates two full service offices, one limited service office, and two automated teller machines in Cumberland County. The limited service branch was opened in October 1997 in Green Ridge Village.

Primary loan products include fixed rate residential mortgages, small business loans, consumer installment loans, and agricultural loans. The loan portfolio represents 37% of total assets. A breakdown of the portfolio as of March 31, 1999 is as follows: 57% residential mortgages, 23% commercial and commercial real estate loans, 12% consumer installment loans, and 8% agricultural credits. FNB offers telephone banking, allowing customers to access their accounts 24 hours a day to check account balances, obtain account activity, transfer funds, and receive information on loan and deposit products offered by FNB. There are no legal or financial impediments which would hinder the bank's ability to help meet the credit needs of its community. FNB received a satisfactory rating at their last CRA performance evaluation dated November 27, 1995.

DESCRIPTION OF ASSESSMENT AREA

FNB's assessment area (AA) includes five census tracts (CTs) in western Cumberland County. One CT is moderate-income (20%) and four are middle-income (80%). The population of the assessment area is 31,886. Sixteen percent of the families residing in the AA are low-income, 23% are moderate-income, 32% are middle-income, and 29% are upper-income. This area is part of the Harrisburg-Lebanon-Carlisle Metropolitan Statistical Area (MSA 3240). The updated HUD median family income for this area is \$46,500. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income (LMI) geographies.

The local area primarily consists of small farms. The majority of residents travel to Carlisle and Harrisburg for employment. As of March 1999, the unemployment rate for Cumberland County is 2.6%. This is well below the state average of 4.8%. Major employers include the Newville Ribbon Mill, the state government, the Mechanicsburg Navy Depot, and the New Cumberland Army Depot. Major competitors of the bank include branches of Farmers and Merchants Trust Co., Orrstown Bank, Dauphin Deposit Bank, and Mellon Bank.

Credit needs in the local area were determined during this examination by contacting a local government official. He stated that credit needs are satisfactorily met by the local banks and special programs offered by the Cumberland County Redevelopment Authority and the Capital Region Economic

Development Corp. He indicated that there is a need to attract business to the area. The borough is in the planning stages of establishing a loan pool for this purpose.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Please note that for purposes of this review the evaluation period covers loan activity from January 1, 1996 through April 30, 1999. All dollar amounts in the tables in this report are in thousands (000s) unless otherwise indicated.

Loan to Deposit Ratio

FNB’s loan to deposit ratio does not appear reasonable. Our analysis of the loan to deposit ratio indicates that a quarterly average ratio of 44% has been maintained since the last CRA examination. This ratio has remained stable, but is well below national and local peer banks which have average ratios of 66% and 59%, respectively. No factors were identified which would provide an explanation or compensate for this low ratio, however, loan demand in the AA is considered to be weak. FNB has the financial capacity to lend and does not sell loans in the secondary market.

Lending in Assessment Area

We analyzed the bank’s record of lending in their AA using information on the 1996, 1997, 1998, and year-to-date 1999 HMDA Loan Application Registers (HMDA-LAR). The results of our review, shown in the table below, indicate that FNB has an excellent record of lending in their AA.

HMDA Reportable Loan Originations During the Evaluation Period								
	Inside Assessment Area				Outside Assessment Area			
	#	%	\$	%	#	%	\$	%
1996	42	93	2,349	87	3	7	358	13
1997	33	87	1,749	81	5	13	406	19
1998	37	95	1,983	97	2	5	60	3
1999	11	100	686	100	0	0	0	0

Market share statistics derived from HMDA loan originations show that FNB is ranked fourteenth in mortgage lending in their area with a market share of 2% for 1997. The institutions in this area with larger market shares are much larger banks and non-bank lenders.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The bank’s record of lending to borrowers of different income levels was evaluated using the same HMDA information as in the above analysis. FNB’s primary loan product is residential mortgages with a similar number of originations in home purchase, home improvement, and refinance loans. The following tables show that FNB has a good record of lending to borrowers of different income levels. The first table shows all mortgage loans originated during the evaluation period by income category of the borrower. The second table shows this same information for each type of mortgage product. Total loan originations for each year of the evaluation period were combined in order to simplify the presentation of these tables. Market share information for 1997 shows that FNB is ranked twelfth in lending to LMI applicants in their area with a market share of 2.87%.

HMDA Reportable Loan Originations by Level of Borrower Income					
Income Category	#	%	\$	%	% of Families in AA
Low	22	18	843	12	16
Moderate	35	28	1,843	27	23
Middle	35	28	2,136	32	32
Upper	31	26	1,945	29	29
Total	123	100	6,767	100	100

HMDA Reportable Loan Originations by Product Type												
Income Category	Home Purchase				Home Improvement				Refinance			
	#	%	\$	%	#	%	\$	%	#	%	\$	%
Low	10	23	590	18	8	20	102	8	4	10	151	6
Moderate	14	33	964	30	13	33	543	44	8	20	336	15
Middle	10	23	872	27	8	20	249	20	17	43	1,015	44
Upper	9	21	793	25	11	27	354	28	11	27	798	35
Total	43	100	3,219	100	40	100	1,248	100	40	100	2,300	100

FNB has a very good record of lending to small businesses. We sampled 24 commercial loans originated during the evaluation period. A small business is defined as a business with gross annual revenues \leq \$1 million. The following table shows that a large majority of the bank's lending is to small businesses.

Distribution of Small Business Loans By Business Size								
\leq \$1 Million					$>$ \$1 Million			
	#	%	\$	%	#	%	\$	%
1996	3	75	84	81	1	25	20	19
1997	7	100	145	100	0	0	0	0
1998	8	89	252	62	1	11	153	38
1999	4	100	186	100	0	0	0	0

Geographic Distribution of Loans

The geographic distribution of FNB's lending was evaluated using the same HMDA information as in the above analyses. The assessment area consists of one moderate-income CT (20%) and four middle-income CTs (80%) with no low- or upper-income geographies. The percentage of owner occupied housing in the moderate- and middle-income CTs in the AA is 53% and 77%, respectively. As shown in the table below, the geographic distribution of FNB's lending reflects a reasonable dispersion throughout the area.

HMDA Reportable Loan Originations by Census Tract Characteristic								
	Moderate Income CT				Middle Income CTs			
	#	%	\$	%	#	%	\$	%
1996	3	7	251	11	39	93	2,098	89
1997	2	6	55	3	31	94	1,694	97
1998	3	8	178	9	34	92	1,805	91
1999	3	27	292	43	8	73	394	57

The volume of lending in the moderate-income tract is satisfactory given the bank's size and the low volume of owner occupied housing in that tract. According to 1997 market share statistics derived from HMDA information, FNB ranks sixth in their area with a market share of 4.41% in lending in the moderate-income area. Those ranked higher are much larger banks and non-bank lenders.

Compliance with Antidiscrimination Laws

No substantive violations of antidiscrimination laws and regulations were noted during the concurrent fair lending examination. This examination included a review of loan terms offered to approved single borrowers who obtained refinanced mortgages compared to all other borrowers who obtained this same type of credit. Terms evaluated include maturity, interest rate, points, and other fees charged.

Scope of Examination

Time Period Reviewed	January 1, 1996 through April 30, 1999
Financial Institution	The Farmers National Bank
Products Reviewed	Mortgage and small business loans
Assessment Area	Western Cumberland County
Type of Examination	On-site
Branches Visited	Main Office, Newville, Pa.