



SMALL BANK

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

PUBLIC DISCLOSURE

April 26, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Halifax National Bank
Charter Number 5601**

**Third & Market Streets
Halifax, PA 17032**

**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

Halifax National Bank (HNB), founded in 1900, is a \$60 million independent community bank located in upper Dauphin County, Pennsylvania. It is approximately twenty miles north of Harrisburg, the state capital. The bank operates one full service office with a drive-up facility and one automated teller machine (ATM), all within the borough of Halifax. Its primary competition is from Mid Penn Bank and CommunityBanks. Mid Penn's headquarters is in Millersburg, about eight miles north of Halifax. The asset size and branch network of each of these competitors is considerably larger than that of HNB.

At December 31, 2003, HNB reported \$30 million in net loans and \$48 million in total deposits. Net loans represent 50% of total assets. The primary lending product, and business focus of the bank, is residential mortgage loans. Residential real estate loans represent 71% of the loan portfolio, followed by commercial loans at 26% and consumer loans 3%. Net Tier 1 Capital is \$9 million as of that same date.

The bank has a website which offers information on branch hours of service and bank products. Telephone banking is also available. HNB offers a variety of mortgage and consumer products and a personal checking account with no minimum balance or monthly fees. There are no legal or financial condition restrictions that would impede the bank's ability to help meet the credit needs of its community.

According to the June 30, 2003 FDIC/OTS Summary of Deposits Market Share Report, HNB ranked 24th out of 35 institutions in the Harrisburg-Lebanon-Carlisle, PA MSA with 0.51% of deposits. Manufacturers and Traders Trust Company ranked first with 50 offices in the MSA

and 15.93% of the deposits. Other financial institutions include Waypoint Bank, ranked second with 25 offices and 13.99% of the deposits, and PNC Bank, N.A., ranked third with 30 offices and 10.37% of the deposits.

In Dauphin County, HNB ranked 13th out of 19 banks with 1.19% of deposits. Waypoint Bank ranked first with 9 offices and 17.86% of the deposits, and Manufactures and Traders Trust Company ranked second with 22 offices and 16.58% of the deposits.

The evaluation period for the Lending Test for home mortgages reported under the Home Mortgage Disclosure Act (HMDA) is from January 1, 1999 through December 31, 2003.

HNB's last Public Evaluation (PE) was dated May 17, 1999 and the overall CRA rating assigned was **Satisfactory**. No branches were opened or closed since the last evaluation period.

DESCRIPTION OF ASSESMENT AREA

HNB's assessment area (AA) meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies. The AA consists of eight census tracts (CTs) in the Harrisburg-Lebanon-Carlisle MSA (MSA 3240). All of the tracts are located in upper Dauphin County.

Based on 1990 Census data, HNB's AA included one moderate-income CT (13%) and seven middle-income CTs (88%). There were no low-income tracts in the AA. The total population in the AA is 32,855 and the median cost of housing in the AA was \$57,816. The percentage of households below the poverty level was 8%. The AA's population comprised 9,310 families with the following family income distribution: 18% low-income, 24% moderate-income, 30% middle-income, and 28% upper-income. The Updated Median Family Income for 2002 is \$55,400.

Based on 2000 Census data, HNB's AA includes two moderate-income CT (25%) and six middle-income CTs (75%). There are no low-income tracts in the AA. The total population in the AA is 32,048 and the median cost of housing in the AA is \$86,182. The percentage of households below the poverty level is 8%. The AA's population is comprised of 9,212 families with the following family income distribution: 20% low-income, 22% moderate-income, 28% middle-income, and 30% upper-income. The Median Family Income has not yet been updated for 2003.

As of December 31, 2003, the unemployment rate for the Harrisburg-Lebanon-Carlisle MSA was 3.79%. This was below the state average of 5.6%. Major employers in Dauphin County are the Commonwealth of Pennsylvania, affiliates of Hershey Foods Corporation and Pinnacle Health System. Many local residents travel to Harrisburg for employment. Locally, the major employers in the immediate Halifax area are the local school district, a Giant supermarket and Powell, Rogers and Speaks, an investigation and collection agency. Manufacturing facilities in nearby Millersburg include Alvord Polk Tool Corp., Brubaker Tool Corp., Metal Industries Inc., and Seal Glove Co. Two larger community bank offices provide other employment opportunities.

In 2002, 140 lenders originated HMDA loans in the MSA AA, according to the HMDA Peer Mortgage Data. HNB ranked third in the MSA AA with a market share of 5.7%. CommunityBanks ranked first with a market share of 24.93%. Mid Penn Bank ranked second with a market share of 8.24%.

Community Contact

A community contact was made with a small business owner to ascertain her perspective on the community profile and performance of local financial institutions in the community. She described the AA as having a generally stable economy with modest growth in the service industry and retail chain job positions. The AA has become a growing bedroom community of Harrisburg, with new and younger families moving into the area. Primary credit needs would therefore be mortgage and consumer loans. The contact could not identify unmet credit needs, as financial institutions were perceived as being able to meet the various credit needs in the community. She perceived, however, the potential need in the near future for more low-to-moderate-income housing as individuals move out of Harrisburg into the area. Another future need identified was affordable housing for the elderly.

During the evaluation period, HNB did not originate any community development loans.

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, 1999 through December 31, 2003. These loans were the only products reviewed due to the business focus of the bank.

Loan-to-Deposit Ratio

An analysis of HNB's loan-to-deposit ratios from the second quarter of 1999 through the fourth quarter of 2003 reveals that the bank meets the standards for satisfactory performance. The bank's average loan-to-deposit ratio for these 19 quarters was 70.13%, ranging from 59.6% to 75.81%. This ratio is lower than the average quarterly ratios of similarly situated banks in Pennsylvania with similar asset size. The custom peer average was 73.13%, with average ratios during the period ranging from 69.02% to 77.84%. The local peer consisted of Pennsylvania banks with total assets between \$50 million and \$100 million.

The reason for the downward trend in the loan-to-deposit ratio is extraordinary growth in deposits while the volume of loans remained relatively stable. Over the past four years deposits increased 20%, while loan volume only increased 4%. The deposit growth was due to local customers seeking refuge from the declining stock market. As individuals exited the market, they looked for a safe haven to deposit the proceeds.

Lending in Assessment Area

A substantial majority of the home mortgage loans originated during the evaluation period were within the AA. HNB exceeds the standards for satisfactory performance for lending in their AA. An analysis of the HMDA data from the evaluation periods disclosed that 93% 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.

HOME MORTGAGE LOANS ORIGINATED DURING EVALUATION PERIOD 01/01/99 THROUGH 12/31/02				
	<i>INSIDE ASSESSMENT AREA</i>		<i>OUTSIDE ASSESSMENT AREA</i>	
	# Loans	\$(000)	# Loans	\$(000)
Home Purchase Loans	63	5,819	13	1,309
Home Refinance Loans	169	9,767	9	806
Home Improvement Loans	92	3,077	8	496
Multifamily	1	63	0	0
Total Loans	325	18,726	30	2,611
Percentage	93%	88%	7%	12%

Source: 1999-2002 HNB HMDA-LAR

HOME MORTGAGE LOANS ORIGINATED DURING EVALUATION PERIOD 01/01/03 THROUGH 12/31/03				
	<i>INSIDE ASSESSMENT AREA</i>		<i>OUTSIDE ASSESSMENT AREA</i>	
	# Loans	\$(000)	# Loans	\$(000)
Home Purchase Loans	18	1,847	4	318
Home Refinance Loans	71	5,353	3	191
Home Improvement Loans	13	332	1	20
Multifamily	0	0	0	0
Total Loans	102	7,532	8	529
Percentage	93%	93%	7%	7%

Source: 2003 HNB HMDA-LAR

Lending to Borrowers of Different Incomes

HNB's record of lending to borrowers of different incomes meets the standards 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 less than the percentage of low-income families for the MSA AA. The level of home mortgages to moderate-income borrowers, however, is equal to the percentage of moderate-income families for the MSA AA. When considering the affordability of housing in the MSA AA, however, this performance is good. The median cost of housing in the MSA AA is \$57,816 based on 1990 U.S. Census data. The HUD updated median family income for 2002 is \$55,400. This means that a low-income person earns less than \$27,700 in the MSA AA. Based on these statistics, it would be difficult for a low-income individual to purchase housing in the MSA AA.

In 2002, however, of the 54 lenders to low-income individuals and the 71 lenders to moderate-income individuals in the MSA AA, HNB ranked third, with a market share of 4.52% and 6.17% respectively. The two larger community banks, CommunityBanks and Mid Penn Bank, with market shares of 29.38% and 15.82% respectively for low-income individuals, and 26.54% and 8.58% respectively for moderate-income individuals, exceeded HNB. This is reasonable since these banks have more offices in the AA and are able to offer a wider variety of lending products.

Based on the 2000 Census Data, the level of home mortgage loans originated to low-income borrowers in the MSA AA is also less than the percentage of low-income families for the MSA AA. The level of home mortgages to moderate-income borrowers, however, is above the percentage of moderate-income families for the MSA AA. When considering the affordability of housing in the MSA AA, however, this performance is good. The median cost of housing in the MSA AA is \$86,182 based on 2000 Census data, a 49% increase over 1990 Census Data median housing cost. The HUD updated median family income for 2003 is not yet available. It is reasonable to conclude based on the HUD updated median family income for 2002 of \$55,400 and low-income earnings at less than \$27,700 in the MSA AA, it would be difficult for a low-income individual to purchase housing in the MSA AA even with a modest increase in income for 2003.

The following tables show the distribution of home mortgage loans by borrower income level.

Borrower Distribution of Home Mortgage Loans Harrisburg-Lebanon-Carlisle MSA AA (Dauphin County) 01/01/99 THROUGH 12/31/02					
Income Level	# of Loans	% of Loans	\$ (000) of Loans	% of \$ of Loans	Income Level of Families in AA
Low	36	11.1%	1,120	6.0%	18.11%
Moderate	75	23.1%	2,922	15.6%	23.74%
Middle	97	29.8%	5,593	29.9%	29.58%
Upper	117	36.0%	9,091	48.5%	28.57%
Total	325	100.00%	18,726	100.00%	100.00%

Source: 1999-2002 HNB HMDA-LAR

Borrower Distribution of Home Mortgage Loans Harrisburg-Lebanon-Carlisle MSA AA (Dauphin County) 01/01/03 THROUGH 12/31/03					
Income Level	# of Loans	% of Loans	\$ (000) of Loans	% of \$ of Loans	Income Level of Families in AA
Low	12	11.8%	310	4.1%	20.35%
Moderate	28	27.4%	1,704	22.6%	22.28%
Middle	36	35.3%	2,399	31.9%	27.65%
Upper	26	25.5%	3,119	41.4%	29.72%
Total	102	100.00%	7,532	100.00%	100.00%

Source: 2003 HNB HMDA-LAR

Geographic Distribution of Loans

The geographic distribution of loans in the MSA AA meets the standards for satisfactory performance. There are no low-income geographies in the MSA AA. Based on 1990 census data, one of the eight CTs in the MSA AA is moderate-income. Based on 2000 census data, two of the eight CTs in the MSA AA are moderate-income. The percentage of loans originated by HNB in the moderate-income geographies is below the percentage of owner-occupied units in the MSA AA. Lending opportunities for HNB in these moderate-income tracts is limited because of the extended distance between HNB's single office and the moderate-income tracts, and the presence of several other community banks in these tracts. Please refer to the following table for the geographic distribution of home mortgage loans.

Geographic Distribution of Home Mortgage Loans Harrisburg-Lebanon-Carlisle MSA AA (Dauphin County) 05/18/99 THROUGH 12/31/02					
Census Tract	# of Loans	% of Total Loans	\$ (000) of Total Loans	% of \$ of Total Loans	% of Owner-Occupied Units
Low	N/A	N/A	N/A	N/A	N/A
Moderate	8	2.5%	460	2.46%	9.44%
Middle	317	97.5%	18,266	97.54%	90.56%
Upper	N/A	N/A	N/A	N/A	N/A
Total	325	100.00%	18,726	100.00%	100.00%

Source: 1999-2002 HNB HMDA-LAR

Geographic Distribution of Home Mortgage Loans Harrisburg-Lebanon-Carlisle MSA AA (Dauphin County) 01/01/03 THROUGH 12/31/03					
Census Tract	# of Loans	% of Total Loans	\$ (000) of Total Loans	% of \$ of Total Loans	% of Owner-Occupied Units
Low	N/A	N/A	N/A	N/A	N/A
Moderate	6	5.9%	277	3.68%	18.35%
Middle	96	94.1%	7,255	96.32%	81.65%
Upper	N/A	N/A	N/A	N/A	N/A
Total	102	100.00%	7,532	100.00%	100.00%

Source: 2003 HNB HMDA-LAR

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.