



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

November 03, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank Of Lilly
Charter Number 8450**

**500 Main Street
Lilly, PA 15938**

**Comptroller of the Currency
Western Pennsylvania Field Office
4075 Monroeville Boulevard Building 2, Suite 300
Monroeville, PA 15146**

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 primary factors supporting the overall rating are:

- The bank's record of lending meets the standard for satisfactory performance given limited lending opportunities in the bank's assessment area (AA).
- The bank's distributions of home mortgage refinance loans among low- and moderate-income borrowers meets the standard for satisfactory performance.
- The bank's distribution of consumer installment loans among low- and moderate-income households exceeds the standard for satisfactory performance.
- The bank's distribution of loans to small businesses among reported AA small businesses exceeds the standards for satisfactory performance.
- The bank originates a majority of its loans within the Community Reinvestment Act (CRA) AA.

DESCRIPTION OF INSTITUTION

The First National Bank (FNB) of Lilly is a \$23 million community bank located in northern Cambria County, Pennsylvania. FNB of Lilly is an independently owned, full service financial institution, which operates from a single location in the Lilly Borough. FNB of Lilly's corporate structure has remained unchanged since the last CRA examination. FNB of Lilly recently installed an automated teller machine (ATM) at the same location. The last CRA examination completed on January 11, 1999 rated the bank satisfactory.

FNB of Lilly's credit products focus on residential real estate, consumer loans and commercial lending. It has 65% of its loan portfolio by dollar volume in residential real estate loans, 16% by dollar in consumer loans and 7% by dollar in commercial loans. The bank's financial condition and product offering do not limit its ability to meet the community's credit needs. Individuals can refer to the bank's CRA Public File for a specific list of available products and services.

DESCRIPTION OF FNB OF LILLY'S ASSESMENT AREA

FNB of Lilly's AA meets the legal requirements and does not arbitrarily exclude low- and moderate- income geographies. FNB of Lilly's AA includes boroughs and townships in its immediate geographic area, specifically: Lilly, Cassandra, Sankertown, and Portage Boroughs, as well as Washington, Cresson, Munster, and Portage Townships. The AA is located within the Johnstown metropolitan statistical area (MSA) and consists of four whole census tracts (CTs). All four CTs are designated middle income by the 1990 U.S. Census Bureau and has a 1990

population of 16,016. FNB of Lilly's primary market area is Lilly Borough and Washington Township with a combined population of 1000.

Nearby communities of Cresson and Portage are served by at least five competitive financial institutions. These institutions are significantly larger than FNB of Lilly and operate extensive branching/ATM systems.

The 1990 Johnstown MSA (HUD) updated median family income is \$35,000. Major employers include a local mining operation, bolt manufacturing and scrap metal facility, a plastics molding facility, local school systems, hospitals and nearby correctional facilities. Upper Cambria County is predominately rural with a stagnate to declining economic base. The area has been designated as economically distressed by the Commonwealth of Pennsylvania. The unemployment rate for Cambria County is historically one of the highest in Pennsylvania and is currently at 7%. The state average unemployment as of September 30, 2003 was 5%. In addition, Lilly Borough does not benefit from a modern sewage system. This effectively halted commercial development and new home construction for many years. Economic development and housing needs in Lilly include sewage system upgrades, existing home purchase, home improvement loans, consumer loans and small business loans.

We contacted local government officials. These organizations indicated a community credit need for home improvement loans and consumer loans within the Lilly Borough and Washington Township area. They indicated the bank makes visible strides in making credit available in the area and that the credit needs of the community are being met.

SAMPLING

Loan sampling consisted of a random sample of 65 loans, including 22 of residential refinance mortgage loans; 20 consumer loans; and 23 business purpose loans. All loans in the sample were originated during the evaluation period. The initial sample to determine the in and out ratios consisted of 63 loans. An additional two loans were added for the income distribution analysis for 65 loans in the bank's AA. Residential mortgage refinance loans, consumer loans, and business purpose loans were selected for sampling since these loans represent the largest portions of the bank's loan portfolio and are considered to be FNB of Lilly's primary loan products for the period. The loan sample was used to analyze the bank's record of originating loans inside its AA and the bank's record of distributing loans among AA borrowers of different income levels and businesses of different sizes.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Lending meets the standard for satisfactory performance, given demographic, market and economic constraints.

The bank's overall lending volume remains low, however, the banks loan to deposit (LTD) ratio has continued to improve from the previous examination. The average LTD ratio for the bank

compared to peers with assets \$200 million and below remains low. The bank's quarterly average since March 30, 1999 is 51% and the peer group average is 70%. The last CRA examination in 1999 had a LTD of 44%. The bank has continued to focus its efforts on community understanding of credit availability through market surveys, and participation in local business groups.

Lending opportunities are limited by the borough sewage system restrictions, limited market presence, and local economic conditions. The bank's AA has limited lending opportunities due to sewage system restrictions, which has stopped almost all-new housing in the AA. From the 1990 Census information, 73% of the housing was owner occupied and 22% rental. The government in the AA is not allowing any new building until the sewage system is implemented. There is no definitive timetable to have the sewage lines completed. As a result, new purchase mortgages are down. However, refinancing of existing mortgages is up. The bank has had strong competition with other larger lending institutions in the area, which offer lower rates on long-term mortgage products.

The AA's community has a large portion of the households that are either receiving retirement benefits (26%) or social security benefits (38%). Most of these individuals currently own their home and have some credit needs regarding the upkeep of their residences.

The AA also has 13% of households below the poverty level. This with limited home purchasing opportunities minimizes the need for mortgage loans.

Lending in Assessment Area

Lending in the assessment area (AA) meets the standard for satisfactory performance.

A majority of the bank's loan originations are to borrowers within its AA. Since January 2001, FNB of Lilly made a substantial majority of mortgage refinance and consumer loans by both dollar and number within the AA. In addition, a majority of loans to small businesses were within the AA.

Lending in FNB of Lilly's AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Mortgage Refinance loans	18	90%	2	10%	20	582,715	80%	142,251	20%	724,966
Consumer Loans	20	100%	0	0%	20	100,974	100%	0	0%	100,974
Business Loans	12	52%	11	48%	23	438,218	51%	421,768	49%	859,986
Totals	50	79%	13	21%	63	1,121,907	67%	564,019	33%	1,685,926

Data source: loan sample

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Income Distribution of Residential Refinance Lending

FNB's record of lending to borrowers of different income levels meets the standard for satisfactory performance.

The following represents the US Census Data for 1990 regarding income levels of families within FNB of Lilly's AA.

Percentage of Families	Low 16%	Moderate 21%	Middle 24%	Upper 39%

The bank's record of originating mortgage refinance loans to low- and moderate-income borrowers is below the percentage of both low- and moderate-income families within the AA. The bank's ability to originate these loans is impacted by constraints of strong competition, local economic conditions, and available housing units.

Borrower Distribution of Residential Real Estate Loans in FNB of Lilly's AA								
Borrower Income Level	Low 16%		Moderate 21%		Middle 24%		Upper 39%	
Loan Type	% of \$\$ originated	% of Loan # volume originated	% of \$\$ originated	% of Loan # volume originated	% of \$\$ originated	% of Loan # volume originated	% of \$\$ originated	% of Loan # volume originated
Mortgage	4%	5%	1%	5%	27%	25%	68%	45%

Income Distribution of Consumer Installment Lending

FNB's record of lending to households of low - and moderate- income levels exceeds the standard for satisfactory performance.

The following represents the US Census Data for 1990 regarding the number of low- and moderate-Households within FNB of Lilly's AA.

Percentage of Households	Low 22%	Moderate 17%	Middle 19%	Upper 41%

The bank's consumer installment lending compared to low- and moderate-income borrowers exceeds the percentage of low- and moderate-income households. Since December 31, 2000, FNB of Lilly has originated approximately 30% by dollar, 40% by number of consumer loans to low-income households, 29% by dollar, and 30% by number to moderate-income households.

Borrower Distribution of consumer loans in FNB of Lilly's AA

Borrower Income Level	Low 22%		Moderate 17%		Middle 19%		Upper 41%	
Loan Type	% of \$\$ originated	% of Loan # volume originated	% of \$\$ originated	% of Loan # volume originated	% of \$\$ originated	% of Loan # volume originated	% of \$\$ originated	% of Loan # volume originated
Consumer	30%	40%	29%	30%	26%	20%	15%	10%

Income Distribution of Business Purpose Lending

FNB’s record of lending to AA businesses with revenues less than or equal to \$ 1 million exceeds the percentage of reported businesses with revenues less than or equal to \$ 1 million.

Borrower Distribution of Loans to Businesses/Farms in FNB of Lilly’s AA		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	67%	33%
% of Bank Loans in AA by #	100%	0%
% of Bank Loans in AA by \$	100%	0%

*Source: Loan sample, * 2002 Business Demographic Data*

Geographic Distribution of Loans

An analysis of the geographic distribution of loans within the AA is not meaningful as the AA only contains middle-income census tracts.

Responses to Complaints

No complaints have been received since the last examination.

Fair Lending or Other Illegal Credit Practices Review

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