



LARGE BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

Public Disclosure

March 19, 2002

Community Reinvestment Act
Performance Evaluation

**Peoples National Bank of Susquehanna County
Charter Number: 7702**

**50 Main Street
Hallstead, PA 18822**

Office of the Comptroller of the Currency

**Northern Pennsylvania Field Office
100 Hazle Street, Suite 202
Wilkes-Barre, Pennsylvania 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, and should not 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.

Table of Contents

<u>OVERALL CRA RATING</u>	1
<u>DEFINITIONS AND COMMON ABBREVIATIONS</u>	2
<u>DESCRIPTION OF INSTITUTION</u>	5
<u>SCOPE OF THE EVALUATION</u>	6
<u>FAIR LENDING REVIEW</u>	8
<u>CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS</u>	9
<u>LENDING TEST</u>	9
<u>INVESTMENT TEST</u>	14
<u>SERVICE TEST</u>	14
<u>APPENDIX A: SCOPE OF EXAMINATION</u>	A-1
<u>APPENDIX B: MARKET PROFILES FOR FULL-SCOPE AREAS</u>	B-1
<u>APPENDIX C: TABLES OF PERFORMANCE DATA</u>	C-1

Overall CRA Rating

Institution's CRA Rating: This institution is rated **Satisfactory**.

The following table indicates the performance level of **Peoples National Bank of Susquehanna County** with respect to the Lending, Investment, and Service Tests:

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

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

The major factors that support this rating include:

- A substantial majority of home mortgage loans and small loans to businesses are originated within the assessment areas (AAs);
- The borrower distribution of home mortgage loans is adequate;
- Community development loans had a positive impact on the lending test rating;
- PNB has a good level of community development investments and is responsive to the identified credit needs in the AAs;
- Retail services are accessible to individuals of different income levels in the AAs;
- The bank provides a good level of community development services in the AAs.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Block Numbering Area (BNA): A statistical subdivision of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. A BNA does not cross county lines.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Community Reinvestment Act (CRA): the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also

include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male household and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn).

Home Mortgage Loans: such loans include home purchase and home improvement loans, as defined in the HMDA regulation. This definition also includes loans for multifamily (five or more families) dwellings, loans for the purchase of manufactured homes and refinancing of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area (MA): Any primary metropolitan area (PMA), metropolitan area (MA), or consolidated metropolitan area (CMA), as defined by the Office of Management and Budget, with a population of 250,000 or more, and any other area designated as such by the appropriate federal financial supervisory agency.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other Products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

Small Loan(s) to Business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Tier One Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.

Description of Institution

Peoples National Bank of Susquehanna County (PNB) is an independent banking institution with headquarters in Hallstead, Pennsylvania. The bank has offices located in rural areas of the northeastern Pennsylvania counties of Susquehanna and Wyoming. Eleven days ago, on March 8, 2002, PNB acquired an additional branch office in Norwich, New York. PNB is a retail interstate bank with eight full service branches and an administrative office. Five of the branches also have on-site ATMs. The bank is now an interstate bank because of its new branch in New York. However, this evaluation was performed as an intrastate bank evaluation since an interstate bank evaluation would not be meaningful at this time as data on this new office is not yet available.

As of December 31, 2001, total bank assets were \$315 million. Total net loans were \$192 million, and total deposits were \$239 million.

PNB's last Public Evaluation (PE) was dated February 2, 1998 and the overall CRA rating assigned was **Satisfactory**. Since the previous PE, PNB has closed its one limited service branch and has acquired the new branch in New York. There are no financial or legal impediments to hinder PNB's ability to help meet its community credit needs. PNB has no operating subsidiaries.

PNB is a wholly owned subsidiary of Peoples Financial Services Corp., a one-bank holding company, also headquartered in Hallstead, Pennsylvania. PNB is a community bank with primary products which include residential mortgages, small business loans and consumer installment loans. The bank also originates loans through the Small Business Administration, the U.S. Department of Agriculture, the Pennsylvania Industrial Development Authority, the Pennsylvania Economic Development Authority, the Pennsylvania Capital Loan Fund, the Machinery and Equipment Loan Fund and the Northern Tier Regional Planning and Development Commission.

As of December 31, 2001, net loans and leases represented 60% of total assets. This loan portfolio is comprised of residential mortgages (54%), commercial loans (35%), and consumer loans (11%). Net tier one capital is \$30 million as of December 31, 2001. Competition in the area is very strong and includes local community banks, regional banks, national non-bank financial institutions and mortgage companies.

Scope of the Evaluation

Evaluation Period/Products Evaluated

The evaluation period for the Lending Test for home mortgages reported under the Home Mortgage Disclosure Act (HMDA) is from January 1, 1998 through December 31, 2001. For loans to small businesses and small farms, the evaluation period is from January 1, 2001 to December 31, 2001. Due to the bank's movement from a small bank to a large bank, for CRA evaluation purposes, the time frames are different for HMDA loans and loans to small businesses. For community development loans, and the Investment and Service Test, the evaluation period is February 2, 1998 through March 19, 2002.

Data Integrity

Concurrently with the Community Reinvestment Act examination, a data integrity examination was completed. Publicly filed information and registers were examined by the OCC to verify the accuracy of the data. These registers contain loan data for home mortgages and small businesses. We found the loan data to be accurate, with the exception of a few errors, which were corrected.

Community development loans, investments and services submitted by management were also reviewed during this examination to ensure that they met the regulatory definition of community development.

While PNB is a HMDA reporter, Susquehanna County, where the bank is headquartered is not in an MSA. Wyoming County, where the bank has some of its branch offices, while in an MSA, is a county that had a population of 30,000 or less in the 1990 U.S. Census. Due to the bank's asset size and location of branch offices, it chose to enter "NA" (Not Applicable) for the census tract data, as it was not required to report this data. Therefore no market share data is available.

Additionally, all of the census tracts and block numbering areas in both of the counties are middle income tracts. Therefore a geographic analysis would not be meaningful. Our analysis is based on comparisons of PNB's lending patterns to the demographics of the AAs for both HMDA and small business lending data.

Selection of Areas for Full-Scope Review

We performed full scope reviews of the non-MSA that encompasses Susquehanna County (SUSCO NON-MSA) and of the Scranton--Wilkes-Barre--Hazleton, PA MSA (SWH MSA). Please refer to the table in Appendix B for additional information regarding these areas.

Ratings

The bank's overall rating is based primarily on the full-scope reviews of its two assessment areas (AAs). Home mortgage products received more weight in evaluating the Lending Test than small loans to businesses. Mortgages originated were 91% and 85% of all loans in the SUSCO NON-MSA AA and the SWH MSA AA, respectively. Only seven small farm loans were originated during this period. Agricultural lending is not a primary business line of PNB. Also, home refinance mortgages were given more weight in our analysis than home purchase and home improvement mortgages. Home refinance loans represent 56% of the mortgages in each AA. Further, affordable credit was identified as the

primary credit need of the AAs. Finally, more weight was given to the findings in the SUSCO NON-MSA as this is where the bank does the majority of its business, both lending and deposits, in evaluating the Lending, Investment and Service Tests.

Other

During our examination, we contacted a local non-profit business executive from a health facility and we reviewed information from a community group involved in job training and affordable housing. Our discussion was done via the telephone and the executive provided us with information regarding the credit needs of the community as well as information regarding the area's economic climate in general. During the discussion and from the information reviewed, we learned that the primary credit need is affordable credit. The contacts believe that the community banks are doing a good job in meeting this need.

Community development opportunities were seen as somewhat limited in the area, due to the very rural nature of the local counties. Our contacts believed that general banking and credit needs are available and are being met in the AA.

Fair Lending Review

An analysis of the bank's most recent public comments, consumer complaint information and the most recent HMDA and Small Business lending data was performed according to the OCC's risk based fair lending approach. Based on its analysis of information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in 1998. No violations of the substantive provisions of the anti-discrimination laws and regulations were identified.

Conclusions with Respect to Performance Tests

LENDING TEST

Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the lending test is rated "Low Satisfactory". Based on full-scope reviews, the bank's performance in both the SUSCO NON-MSA and the SWH MSA is adequate. Due to the lack of market share data as previously discussed, PNB's loan-to-deposit ratio was analyzed.

PNB's loan to deposit ratio meets the standards for satisfactory performance. The bank's loan to deposit ratio, averaged over the previous thirteen quarters, is 71%. This is slightly below the local peer group of 75%. The local peers were financial institutions in the area with similar asset sizes and similar balance sheet compositions when compared to PNB. During the 13 quarters analyzed, PNB's loan-to-deposit ratio rose significantly from 66% on December 31, 1998 to 80% on December 31, 2001.

Lending Activity

Refer to Table 1 Lending Volume in appendix C for the facts and data used to evaluate the bank's lending activity.

SUSCO NON-MSA

Lending activity in SUSCO is adequate. The bank's lending patterns are generally reflective of the credit needs of the community. Eighty-five percent of the bank's lending is done in this AA. The bank's lending to individuals is centered in HMDA products, 91% for this AA. Purchase, home improvement, refinance loans represent 24%, 20%, and 56%, respectively, of all mortgages originated in this AA. No multi-family loans were originated by PNB during the evaluation period, therefore an analysis of these loans is not meaningful.

Small business credit is a secondary credit need of the AA and therefore is reflected in the smaller volume of lending, 9% for the AA. Small loans to farms do not represent a significant business line for PNB and there is very limited small farm credit lending based on the credit demand at the bank. Therefore, an analysis of the farm loans is not meaningful.

PNB has four branches and 76% of its deposits in this AA. PNB is ranked first in deposits in this non-MSA with a 38.16% market share as of June 30, 2001. Lending patterns are also similar to deposit patterns for refinance loans. As was detailed previously, market share data for loans is not available.

SWH MSA

Lending activity in the SWH MSA is also adequate. The bank's lending patterns here are also generally reflective of the credit needs of the community. Fifteen percent of the bank's lending is done in this AA. The bank's lending to individuals is centered in HMDA products, 84% for this AA. Purchase, home improvement, refinance loans represent 21%, 23%, and 56%, respectively, of all mortgages originated in this AA. No multi-family loans were originated by PNB during the evaluation period, therefore an analysis of these loans is not meaningful.

Small business credit is a secondary credit need of the AA and therefore is reflected in the smaller volume of lending, 16% for the AA. Small loans to farms do not represent a significant business line for

PNB and there is very limited small farm credit lending based on the credit demand at the bank. Therefore, an analysis of the farm loans is not meaningful.

PNB has three branches and 24% of its deposits in this AA. PNB is ranked 23rd in deposits in this MSA with a 0.16% market share as of June 30, 2001. Lending patterns are also similar to deposit patterns for refinance loans. As was detailed previously, market share data for loans is not available.

Distribution of Loans by Income Level of the Geography

An analysis of the geographic distribution of loans is not meaningful since the entire AA consists of middle-income geographies.

Lending Gap Analysis

Our review of the geographic distribution of loans did not detect any conspicuous or unexplained gaps in PNB's lending patterns.

Inside/Outside Ratio

An analysis of the bank's lending within its assessment areas was performed at the bank level as opposed to the individual AA levels. A substantial majority of the home mortgage loans and small loans to businesses were originated within the bank's assessment areas. For HMDA products, 92% of all originations were within the AAs. For small loans to businesses, 84% of the loans originated were within the AAs, as were the two CD loans. This performance was positively factored into the overall analysis of the geographic distribution of lending by income level of geography.

Distribution of Loans by Income Level of the Borrower

The borrower distribution of PNB's home mortgage loans reflects adequate dispersion among borrowers of different income levels in the AA and small loans to businesses also indicates adequate distribution.

We considered demographic factors including the high cost of housing compared to the median family income of a low-income person, and the high percentage of individuals below the poverty level, in our home mortgage analysis.

Home Mortgage Loans

Refer to Tables 8, 9, and 10 in appendix C for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases. No market share data is available, as discussed previously.

SUSCO NON-MSA

Borrower distribution for home purchase lending is adequate when considering the difficulty that low- and moderate-income individuals have in purchasing a home in the non-MSA. The median cost of housing in the non-MSA is \$66 thousand, based on 1990 census data. The HUD updated median family income for 2001 is \$39,200. A low-income person earns less than \$19,600. Additionally, 13% of the

households in the non-MSA are below the poverty level. A moderate-income person earns at least \$19,600 but less than \$31,360.

The percentage of home purchase loans made to low-income borrowers in the AA is below the percentage of low-income families in the non-MSA. This performance is adequate when considering the affordability of housing for a low-income person in the non-MSA as discussed above. The percentage of loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the non-MSA. This is good performance especially when considering the affordability of housing for a moderate-income person in the non-MSA, as discussed above.

Home improvement borrower distribution is adequate. The percentage of home improvement loans made to low-income borrowers in the non-MSA is below the percentage of low-income families in the non-MSA. This is adequate performance when considering that there are less opportunities available to low-income individuals for home improvement loans based on the affordability for a low-income person to purchase a home in the non-MSA, as discussed above. The percentage of home improvement loans made to moderate-income borrowers in the non-MSA exceeds the percentage of moderate-income families in the non-MSA. This is good performance when considering the affordability of housing for a moderate-income person in the non-MSA, as discussed above.

Home refinance borrower distribution is adequate. The percentage of refinance loans made to low-income borrowers in the non-MSA is below the percentage of low-income families in the non-MSA. This is adequate performance when considering that there are less opportunities available to low-income individuals for home refinance loans based on the affordability for a low-income person to purchase a home in the AA, as discussed previously. The percentage of refinance loans made to moderate-income borrowers in the non-MSA exceeds the percentage of moderate-income families in the AA, reflecting good performance due to the affordability issues.

SWH MSA

Borrower distribution for home purchase lending is good when considering the difficulty that low- and moderate-income individuals have in purchasing a home in this MSA. The median cost of housing in the MSA is \$67 thousand, based on 1990 census data. The HUD updated median family income for 2001 is \$43,300. A low-income person earns less than \$21,650. Additionally, 11.97% of the households in the MSA are below the poverty level. A moderate-income person earns at least \$21,650 but less than \$34,640.

The percentage of home purchase loans made to low-income borrowers in the AA is below the percentage of low-income families in the MSA. This performance is adequate when considering the affordability of housing for a low-income person in the MSA as discussed above. The percentage of loans made to moderate-income borrowers significantly exceeds the percentage of moderate-income families in the MSA. This is excellent performance especially when considering the affordability of housing for a moderate-income person in the MSA, as discussed above.

Home improvement borrower distribution is adequate. The percentage of home improvement loans made to low-income borrowers in the MSA is below the percentage of low-income families in the MSA. However, this is adequate performance when considering that there are less opportunities available to low-income individuals for home improvement loans based on the affordability for a low-income person to purchase a home in the MSA, as discussed above. The percentage of home improvement loans made to moderate-income borrowers in the MSA is near to the percentage of moderate-income families in the

MSA. This is good performance when considering the affordability of housing for a moderate-income person in the MSA, as discussed above.

Home refinance borrower distribution is adequate. The percentage of refinance loans made to low-income borrowers in the MSA is below the percentage of low-income families in the MSA. This is adequate performance when considering that there are less opportunities available to low-income individuals for home refinance loans based on the affordability for a low-income person to purchase a home in the AA, as discussed previously. The percentage of refinance loans made to moderate-income borrowers in the MSA is near to the percentage of moderate-income families in the AA, reflecting good performance due to the affordability issues.

Small Loans to Businesses

Refer to Table 11 in appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to businesses. No market share data is available, as discussed previously.

SUSCO NON-MSA

The borrower distribution of small loans to businesses is adequate. Small loans to small businesses (businesses with revenues of \$1 million or less) represents 73% of all small loans to businesses originated by PNB compared to 87% of the businesses within the non-MSA defined as such. While the bank's lending to small businesses is below the percentage of small businesses in the AA, the distribution by size of loan shows that a majority (97%) of the loan originations are for \$100,000 or less. This is an indication that business lending is primarily to small businesses. Seventy-six percent of the bank's small loans to businesses were originated in this AA.

SWH MSA

The borrower distribution of small loans to businesses is adequate. Small loans to small businesses (businesses with revenues of \$1 million or less) represents 58% of all small loans to businesses originated by PNB compared to 85% of the businesses within the MSA defined as such. While the bank's lending to small businesses is below the percentage of small businesses in this AA, the distribution by size of loan shows that a majority (83%) of the loan originations are for \$100,000 or less. This is an indication that business lending is primarily to small businesses. Twenty-four percent of the bank's small loans to businesses were originated in this AA.

Community Development Lending

Community development lending had a positive impact on the Lending Test and the originated loans were responsive to the needs of the AA.

Refer to Table 1 Lending Volume in appendix C for the facts and data used to evaluate the bank's level of community development lending.

We determined through our community contacts and our internal research that very limited opportunities for community development lending exist within the AA. Competition for these loans is very strong

from both large regional financial institutions and other community banks operating in the area. Also there are no low- or moderate-income geographies in the two counties of the AA.

Two loans totaling \$264 thousand were originated during the evaluation period. These loans were for the acquisition and complete renovation of a large building in Susquehanna County to be used for an emergency shelter for the homeless, as a drug and alcohol rehabilitation center and for job training for the unemployed. The non-profit organization that runs this facility serves both of the counties in the bank's AA.

Product Innovation and Flexibility

Product innovation and flexibility had a positive impact on the Lending Test. Products discussed below are offered in both the SUSCO NON-MSA and the SWH MSA. PNB, during the evaluation period, worked with various housing and redevelopment authorities in their use of Community Development Block Grants. The bank loaned additional monies to low- and moderate-income individuals to complete their housing renovations that cost more than the grants they received. These loans were made at "below market" rates.

PNB developed a mortgage closing cost assistance grant program to aid low- and moderate-income individuals. They worked with a non-profit agency that sponsors a first time homebuyers assistance program for these individuals.

INVESTMENT TEST

Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the investment test is rated "High Satisfactory". Based on full-scope reviews, the bank's performance in the SUSCO NON-MSA and the SWH MSA is good.

Refer to Table 14 in appendix C for the facts and data used to evaluate the bank's level of qualified investments.

SUSCO NON-MSA

Investments in this non-MSA are good. During the evaluation period, PNB made 24 grants and donations totaling \$71 thousand, several of them benefiting both counties.

These grants and donations addressed the identified needs of the area and were made to several local non-profit organizations for various CD initiatives throughout the AA.

We determined through community contacts and our internal research that there are very limited opportunities for qualified investments and very strong competition for qualified investments exists in the non-MSA.

SWH MSA

Investments in the MSA are also good. PNB made 12 grants and donations totaling \$8 thousand. These grants and donations also addressed the identified needs of the area and were made to various local non-profit organizations for various CD initiatives throughout the AA.

Again we determined through community contacts and our internal research that very limited opportunities exist for qualified investments and competition is very strong.

SERVICE TEST

Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the Service Test is rated "High Satisfactory". Based on full-scope reviews, the bank's performance in both the SUSCO NON-MSA and the SWH MSA is good.

Retail Banking Services

Refer to Table 15 in appendix C for the facts and data used to evaluate the distribution of the bank's branch delivery system and branch openings and closings. As was discussed previously, PNB recently acquired a branch outside of Pennsylvania, approximately 55 miles from the bank's administrative headquarters and nearest branch.. This office was not included in the review as its inclusion would not be meaningful.

SUSCO NON-MSA

PNB's delivery systems are accessible to individuals of different income levels within this AA based upon population demographics and locations of the bank's branches and ATMs. There are no low-income or moderate-income geographies in this AA. All of the four branch offices and the administrative office in this AA are in middle-income geographies, as is all of the population.

In 1999, the bank closed one limited service branch in a middle-income geography in this non-MSA. All accounts were transferred to another branch office, approximately nine miles from the closed location.

Banking hours and services provided Monday through Friday are supplemented by Saturday hours at three of the four banking facilities located in the AA. The bank's traditional line of banking products and services are offered at all branches. PNB maintains an informational internet website. Transactions can not be performed over the internet.

PNB offers a variety of checking account products. One of the products is a no minimum balance, no monthly service charge checking account tailored for senior citizens on fixed incomes. The bank also provides these depositors with free checks. The bank's basic personal checking account offers no monthly services charges, normally \$5.00 per month, with a minimum monthly balance of \$400 or more. The bank also offers a personal no minimum balance checking account with a \$.50 per check fee charge for individuals who have limited account activity. Additionally, the bank offers a no minimum balance, no monthly service charge checking account product for non-profit organizations, governmental and charitable groups.

The bank's ATM network offers an alternative delivery system for delivering retail banking services. The bank maintains three ATMs at branch locations in the AA.

PNB maintains a twenty-four hour telephone banking system for deposit and transaction verifications as well as transferring between accounts. Since the bank could not provide specific information on how low- and moderate-income individuals are impacted by this service, significant weight was not placed on this alternative delivery system when drawing conclusions for the full scope AA under the Service Test.

SWH MSA

PNB's delivery systems are accessible to individuals of different income levels within this AA based upon population demographics and locations of the bank's branches and ATMs. There are no low-income or moderate-income geographies in this AA. All of the three branch offices in this AA are in middle-income geographies, as is all of the population.

Banking hours and services provided Monday through Friday are supplemented by Saturday hours at all three of the banking facilities located in the AA. The bank's traditional line of banking products and services are offered at all branches.

The bank's ATM network offers an alternative delivery system for delivering retail banking services. The bank maintains two ATMs at branch locations in the AA.

Community Development Services

PNB provides a good level of community development services in the AAs. Bank employees and officers were engaged in several organizations/programs providing technical and financial assistance that benefits low- and moderate-income individuals and economic development.

The following are examples of the community development services provided by PNB employees in the AAs:

- An officer serves on the Board of Directors for Habitat for Humanity of Wyoming/Susquehanna Counties;
- PNB participates in a housing program that educates first time homebuyers regarding home ownership. An employee has presented information on the mortgage application process, cost of home ownership, credit reports, etc. This program assists low- and moderate-income homebuyers with closing costs and down payment assistance once they have successfully completed the educational program.
- An officer and a director serve on the Board of Directors of a local non-profit organization that sponsors a food bank, a homeless shelter, job training programs, drug and alcohol treatment and a women's shelter.
- An officer serves as a board member of a social services organization that oversees health programs for underprivileged, low-income women and children.
- An officer serves as a board member of a non-profit group that oversees the development and funding of programs to assist abused and neglected underprivileged, low-income children.
- An officer is a Board member for an organization that raises and distributes funds to organizations that provide community services targeted to low- and moderate-income individuals.
- An officer serves as the secretary and is a board member of the local industrial development authority (IDA), active in trying to bring new businesses and new industries to the area. This officer also serves as the chairman of the IDA's committee that oversees the promotion of economic development in the AAs.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and non-metropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test-HMDA : 01/01/98 to 12/31/01 Lending Test-Small Business (excludes CD Loans): 01/01/01 to 12/31/01 Investment and Service Tests and CD Loans: 02/02/98 to 03/19/02	
Financial Institution		Products Reviewed
Peoples National Bank of Susquehanna County (PNB) Hallstead, PA		Home Mortgages, Small Loans to Businesses and CD loans.
Affiliate(s)	Affiliate Relationship	Products Reviewed
None	N/A	N/A
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Susquehanna County Non-MSA	Full-Scope	N/A
Scranton--Wilkes-Barre-- Hazleton, PA MSA #7560	Full-Scope	

Appendix B: Market Profiles for Full-Scope Areas

Table of Contents

Market Profiles for Areas Receiving Full-Scope Reviews

SUSCO NON-MSA	B-2
SWH MSA	B-3

SUSCO NON-MSA

Demographic Information for Full-Scope Area: Susquehanna County Non-MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	10	0.0	0.0	100.0	0.0	0.0
Population by Geography	40,380	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Housing by Geography	11,798	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	1,745	0.0	0.0	100.0	0.0	0.0
Farms by Geography	219	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	11,275	19.31	17.90	24.03	38.77	0.0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	4,195	0.0	0.0	100.0	0.0	0.0
Median Family Income HUD Adjusted Median Family Income for 2001 Households Below the Poverty Level	= \$ 28,934** = \$ 39,200** = 13%**	Median Housing Value Unemployment Rate		= \$ 65,520** = 9.0 % ***		

(*) The NA category consists of geographies that have not been assigned an income classification.

(**) Source: 1990 U.S. Census, and 2001 HUD updated MFI.

(***) Source: PA Department of Labor & Industry, January 2002, seasonally adjusted.

PNB's AA includes all of Susquehanna County, which is a non-MSA. Within this county, PNB is ranked first for its market share of deposits and has 38.16% of the deposits based on the June 30, 2001 FDIC/OTS Summary of Deposits Market Share Report. PNB operates their administrative offices, four full service branches and three ATMs in this non-MSA. The ATMs are located at branch offices.

Banking competition is very strong for both loans and deposits in the MSA. Competition exists from national institutions, large regional institutions, community banks and credit unions. Major banking competitors in the county include: Community Bank and Trust Company, ranked 2nd in deposit share (31.03%) with 3 offices; NBT Bank, N.A., ranked 3rd in market share of deposits (21.34%) with 6 offices; Honesdale National Bank, ranked 4th in deposit share (5.45%) with 1 office; and Grange National Bank, ranked 5th in market share of deposits (4.03%) with 2 offices.

PNB offers a traditional line of banking products for loans and deposits. The economy in the area is relatively weak and unemployment has been rising due to various manufacturing firms closing plants in the area. Major employers in the county include Barnes-Kasson County Hospital, US Assemblies, local school districts and the state government.

A community contact was conducted with a regional health facility and information from contact with a job training and affordable housing group was reviewed. The contacts identified the need for affordable credit as the primary need in the area, but thought that the local financial institutions were meeting this need.

Scranton--Wilkes-Barre--Hazleton, PA MSA

Demographic Information for Full-Scope Area: Scranton--Wilkes-Barre--Hazleton, PA MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	7	0.0	0.0	100.0	0.0	0.0
Population by Geography	28,076	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Housing by Geography	7,687	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	926	0.0	0.0	100.0	0.0	0.0
Farms by Geography	98	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	7,546	17.86	18.20	24.98	38.96	0.0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	2,721	0.0	0.0	100.0	0.0	0.0
Median Family Income HUD Adjusted Median Family Income for 2001 Households Below the Poverty Level	= \$ 30,676** = \$ 43,300** = 11.97%**	Median Housing Value Unemployment Rate		= \$ 66,906** = 7.7%***		

(*) The NA category consists of geographies that have not been assigned an income classification.

(**) Source: 1990 U.S. Census, and 2001 HUD updated MFI.

(***) Source: PA Department of Labor & Industry, January 2002, seasonally adjusted.

PNB's AA includes Wyoming County, which is part of the Scranton--Wilkes-Barre--Hazleton, PA MSA. Other counties in this MSA include Columbia, Lackawanna, and Luzerne Counties in the northeastern region of Pennsylvania. PNB operates in this MSA in seven of the 189 census tracts. Within this MSA, PNB is ranked 23rd for its market share of deposits and has 0.62% of the deposits based on the June 30, 2001 FDIC/OTS Summary of Deposits Market Share Report. PNB operates three full service branches and two ATMs in this MSA. The ATMs are located at branch offices.

Banking competition is very strong for both loans and deposits in the MSA. Competition exists from national institutions, large regional institutions, community banks and credit unions. Major banking competitors in the MSA include: PNC Bank, N.A., ranked 1st in deposit share (23.10%) with 43 offices; First Union National Bank, ranked 2nd in market share of deposits (9.08%) with 19 offices; M&T Bank, ranked 3rd in deposit share (8.24%) with 24 offices; and Mellon Bank, N.A., ranked 4th in market share of deposits (5.73%) with 13 offices.

PNB offers a traditional line of banking products for loans and deposits. The economy in the area is relatively stable however unemployment has been rising due to various manufacturing firms closing plants in the area. Major employers in the MSA include Procter and Gamble, local school districts, New England Motor Freight Inc., Tyler Memorial Hospital and Penns' Best Inc.

A community contact was conducted with a regional health facility and information from contact with a job training and affordable housing group was reviewed. The contacts identified the need for affordable credit as the primary need in the area, but thought that the local financial institutions were meeting this need.

Appendix C: Tables of Performance Data

Content of Standardized Tables

References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the lending test tables, the following are applicable: purchased loans are treated as originations/purchases and market share is the number of loans originated and purchased by the bank as a percentage of the aggregate number of reportable loans originated and purchased by all lenders in the MA/assessment area. Tables without data are not included in this PE.

The following is a listing and brief description of the tables:

- Table 1. Lending Volume** - Presents the number and dollar amount of reportable loans originated and purchased by the bank over the evaluation period by MA/assessment area. Community development loans to statewide or regional entities or made outside the bank’s assessment area may receive positive CRA consideration. Refer to Interagency Q&As __.12(i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such loans. When such loans exist, insert a line item with the appropriate caption, such as “Statewide/Regional” or “Out of Assessment Area,” in the MA/Assessment Area column and record the corresponding numbers and amounts in the “Community Development Loans” column.
- Table 2. Geographic Distribution of Home Purchase Loans** - This table is not applicable and not included because all census tracts and block numbering areas are middle-income.
- Table 3. Geographic Distribution of Home Improvement Loans** - See Table 2.
- Table 4. Geographic Distribution of Home Mortgage Refinance Loans** - See Table 2.
- Table 5. Geographic Distribution of Multifamily Loans** - This table is not applicable and not included.
- Table 6. Geographic Distribution of Small Loans to Businesses** – See Table 2.
- Table 7. Geographic Distribution of Small Loans to Farms** – This table is not applicable and not included.
- Table 8. Borrower Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MA/assessment area. The table also presents market share information based on the most recent aggregate market data available.

- Table 9. Borrower Distribution of Home Improvement Loans** - See Table 8.
- Table 10. Borrower Distribution of Refinance Loans** - See Table 8.
- Table 11. Borrower Distribution of Small Loans to Businesses** - Compares the percentage distribution of the number of small loans (less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to the percentage distribution of businesses with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the business. Market share information is presented based on the most recent aggregate market data available.
- Table 12. Borrower Distribution of Small Loans to Farms** - This table is not applicable and not included.
- Table 13. Geographic and Borrower Distribution of Consumer Loans (OPTIONAL)** - This table is not applicable and not included.
- Table 14. Qualified Investments** - Presents the number and dollar amount of qualified investments made by the bank in each MA/AA. The table separately presents investments made during prior evaluation periods that are still outstanding and investments made during the current evaluation period. Prior-period investments are reflected at their book value as of the end of the evaluation period. Current period investments are reflected at their original investment amount even if that amount is greater than the current book value of the investment. The table also presents the number and dollar amount of unfunded qualified investment commitments. In order to be included, an unfunded commitment must be legally binding and tracked and recorded by the bank's financial reporting system.
- A bank may receive positive consideration for qualified investments in statewide/regional entities or made outside of the bank's assessment area. See Interagency Q&As __.12(i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such investments. When such investments exist, insert a line item with the appropriate caption, such as "Statewide/Regional" or "Out of Assessment Area," in the MA/Assessment Area column and record the corresponding numbers and amounts in the "Qualified Investments" column.
- Table 15. Distribution of Branch Delivery System and Branch Openings/Closings** - Compares the percentage distribution of the number of the bank's branches in low-, moderate-, middle-, and upper-income geographies to the percentage of the population within each geography in each MA/AA. The table also presents data on branch openings and closings in each MA/AA.

PEOPLES NATIONAL BANK

Table 1. Lending Volume

LENDING VOLUME		Geography: HALLSTEAD				Evaluation Period: JANUARY 1, 1998 TO DECEMBER 31, 2001						
MA/Assessment Area (2001):	% of Rated Area Loans (#) in MA/AA*	Home Mortgage		Small Loans to Businesses		Small Loans to Farms		Community Development Loans**		Total Reported Loans		% of Rated Area Deposits in MA/AA***
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$(000's)	
Full Review:												
Hallstead MSA ScrWBHaz-	14.80	258	12,617	48	3,361	1	12	0	0	307	15,990	24.12
Hallstead Non-MSA Susquehann	85.20	1,609	72,922	153	3,457	6	259	2	264	1,770	76,902	75.88

* Loan Data as of December 31, 2001. Rated area refers to either the state or multi-state MA rating area.

** The evaluation period for Community Development Loans is From February 02, 1998 to March 19, 2002.

*** Deposit Data as of June 30, 2001. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

Institution ID: 10000007702 PEOPLES NATIONAL BANK

Table 8. Borrower Distribution of Home Purchase Loans

Borrower Distribution: HOME PURCHASE		Geography: HALLSTEAD					Evaluation Period: JANUARY 1, 1998 TO DECEMBER 31, 2001					Market Share*				
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall	Low	Mod	Mid	Upp	
	#	% of Total**	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****						
Full Review:																
Hallstead MSA ScrWBHaz-	53	12.02	17.86	11.32	18.20	30.19	24.98	20.75	38.96	37.74	N/A	N/A	N/A	N/A	N/A	
Hallstead Non-MSA Susquehanna Co	388	87.98	19.31	7.47	17.90	21.39	24.03	31.19	38.77	39.95	N/A	N/A	N/A	N/A	N/A	

* Based on 2000 Peer Mortgage Data: Northeast Region.

** As a percentage of loans with borrower income information available. No information was available for 0.00% of loans originated and purchased by BANK.

*** Percentage of Families is based on the 1990 Census information.

**** Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

Table 9. Borrower Distribution of Home Improvement Loans

Borrower Distribution: HOME IMPROVEMENT		Geography: HALLSTEAD					Evaluation Period: JANUARY 1, 1998 TO DECEMBER 31, 2001					Market Share*				
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers							
	#	% of Total**	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	Overall	Low	Mod	Mid	Upp	
Full Review:																
Hallstead MSA ScrWBHaz-	61	16.01	17.86	8.20	18.20	16.39	24.98	24.59	38.96	50.82	N/A	N/A	N/A	N/A	N/A	
Hallstead Non-MSA Susquehanna Co	320	83.99	19.31	10.00	17.90	21.88	24.03	29.69	38.77	38.44	N/A	N/A	N/A	N/A	N/A	

* Based on 2000 Peer Mortgage Data: Northeast Region.

** As a percentage of loans with borrower income information available. No information was available for 0.00% of loans originated and purchased by BANK.

*** Percentage of Families is based on the 1990 Census information.

**** Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

Table 10. Borrower Distribution of Home Mortgage Refinance Loans

Borrower Distribution: HOME MORTGAGE REFINANCE															Geography: HALLSTEAD					Evaluation Period: JANUARY 1, 1998 TO DECEMBER 31, 2001				
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share*													
	#	% of Total**	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	Overall	Low	Mod	Mid	Upp									
Full Review:																								
Hallstead MSA ScrWBHaz-	144	13.78	17.86	12.50	18.20	17.36	24.98	29.17	38.96	40.97	N/A	N/A	N/A	N/A	N/A									
Hallstead Non-MSA Susquehanna Co	901	86.22	19.31	10.79	17.90	19.35	24.03	29.37	38.77	40.49	N/A	N/A	N/A	N/A	N/A									

* Based on 2000 Peer Mortgage Data: Northeast Region.

** As a percentage of loans with borrower income information available. No information was available for 0.19% of loans originated and purchased by BANK.

*** Percentage of Families is based on the 1990 Census information.

**** Home mortgage refinance loans originated and purchased in the MA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

Table11. Borrower Distribution of Small Loans to Businesses

Borrower Distribution: SMALL LOANS TO BUSINESSES									
Geography: HALLSTEAD					Evaluation Period: JANUARY 1, 1998 TO DECEMBER 31, 2001				
MA/Assessment Area:	Total Small Loans to Businesses		Businesses With Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size			Market Share*	
	#	% of Total**	% of Businesses***	% BANK Loans****	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$1,000,000	All	Rev\$ 1 Million or Less
Full Review:									
Hallstead MSA ScrWBHaz-	48	23.88	85.31	58.33	83.33	12.50	4.17	N/A	N/A
Hallstead Non-MSA Susquehanna Co	153	76.12	86.82	73.20	96.73	2.61	0.65	N/A	N/A

* Based on 2000 Peer Small Business Data: US&PR.

** Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

*** Businesses with revenues of \$1 million or less as a percentage of all businesses (Source D&B - 2001).

**** Small loans to businesses with revenues of \$1 million or less as a percentage of all loans reported as small loans to businesses. No information was available for 18.91% of small loans to businesses originated and purchased by the bank.

Table 14. Qualified Investments

QUALIFIED INVESTMENTS		Geography: HALLSTEAD		Evaluation Period: JANUARY 1, 1998 TO DECEMBER 31, 2001					
MA/Assessment Area:	Prior Period Investments*		Current Period Investments		Total Investments			Unfunded Commitments**	
	#	\$(000's)	#	\$(000's)	#	\$(000's)	% of Total	#	\$(000's)
Full Review:									
Hallstead MSA ScrWBHaz-	0	0	12	8	12	8	10.13	0	0
Hallstead Non-MSA Susquehanna Co	0	0	24	71	24	71	89.87	0	0

* 'Prior Period Investments' means investments made in a previous evaluation period that are outstanding as of the examination date.

** 'Unfunded Commitments' means legally binding investment commitments that are tracked and recorded by the institution's financial reporting system.

Table 15. Distribution of Branch Delivery System and Branch Openings/Closings

DISTRIBUTION OF BRANCH DELIVERY SYSTEM AND BRANCH OPENINGS/CLOSINGS				Geography: HALLSTEAD				Evaluation Period: JANUARY 1, 1998 TO DECEMBER 31, 2001									
MA/Assessment Area:	Deposits	Branches						Branch Openings/Closings				Population					
	% of Rated Area Deposits in AA	# of BANK Branches	% of Rated Area Branches in AA	Location of Branches by Income of Geographies (%)				# of Branch Openings	# of Branch Closings	Net change in Location of Branches (+ or -)				% of Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
Full Review:																	
Hallstead MSA ScrWBHaz-	24.12	3	43	0.00	0.00	100.00	0.00	0	0	0	0	0	0	0.00	0.00	100.00	0.00
Hallstead Non-MSA Susquehanna Co	75.88	4	57	0.00	0.00	100.00	0.00	0	1	0	0	- 1	0	0.00	0.00	100.00	0.00