

PUBLIC DISCLOSURE

(January 18, 2000)

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**FIRST LIBERTY BANK & TRUST
RSSD - 731313
JERMYN, PENNSYLVANIA**

**FEDERAL RESERVE BANK OF PHILADELPHIA
TEN INDEPENDENCE MALL, PHILADELPHIA, PA**

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 Reserve Bank of Philadelphia 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 the safe and sound operation of the financial institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **First Liberty Bank & Trust** prepared by the **Federal Reserve Bank of Philadelphia**, as of **January 18, 2000**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. The Federal Reserve Bank of Philadelphia rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part A to 12 CFR Part (d).

INSTITUTION'S CRA RATING

INSTITUTION'S CRA RATING: SATISFACTORY.

Major factors contributing to this rating include:

- A substantial majority of loans are made in the bank's assessment area;
- The geographic distribution of loans reflects a good penetration throughout the assessment area;
- The distribution of borrowers reflects good penetration among retail customers of different income levels;
- The distribution of borrowers reflects a good penetration of business customers of different sizes;
- The bank shows an adequate record of serving the credit needs of the most economically disadvantaged areas of its assessment area, low-income individuals, and/or very small businesses, consistent with safe and sound banking practices;
- The bank has made no community development loans;
- The bank makes use of innovative and flexible lending practices in order to serve assessment area credit needs;
- The bank has a significant level of qualified community development investments and grants;
- Bank delivery systems are accessible to essentially all portions of the bank's assessment area; and
- The bank provides a relatively high level of community development services.

The table below indicates the performance level of First Liberty Bank & Trust with respect to the lending, investment, and service tests.

FIRST LIBERTY BANK & TRUST PERFORMANCE TEST MATRIX			
Performance Levels	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory		X	X
Low Satisfactory	X		
Needs to Improve			
Substantial Noncompliance			

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

DESCRIPTION OF INSTITUTION

First Liberty Bank & Trust (First Liberty), headquartered in Jermyn, Lackawanna County, PA, is state chartered as a full-service commercial bank. Through eleven branch offices in Lackawanna and Luzerne counties, the bank offers a variety of consumer and commercial banking and trust services. The bank also operates 13 automated teller machines (ATMs) through its 24-hour Banking Network which is linked with the MAC and Plus ATM networks.

First Liberty is a subsidiary of First Liberty Bank Corp., a \$653 million bank holding company headquartered in Jermyn, PA. First Liberty was formed on February 16, 1999, when First Liberty Bank Corp. merged NBO National Bank, Olyphant, PA, into its lead bank, The First National Bank of Jermyn, Jermyn, PA. At the same time, First National Bank of Jermyn converted to a state-chartered member bank and changed its name to First Liberty Bank & Trust.

The bank's Uniform Consolidated Report of Condition and Income as of December 31, 1999 reported total assets of \$653 million, of which \$417 million (64%) were loans. The majority of the loan portfolio, in terms of dollars, consisted of loans secured by residential real estate. The composition of the bank's loan portfolio is presented in the table below:

LOANS December 31, 1999	\$ (000)	%
Real Estate Secured		
1-4 Family	\$206,825	49.5%
Multi-Family	\$2,266	0.5%
Non-farm Non-Residential	\$104,498	25.0%
Commercial and Industrial	\$47,940	11.5%
Individual	\$42,857	10.3%
Other Loans	\$11,757	3.2%
GROSS LOANS	\$417,249	100.00%

DESCRIPTION OF ASSESSMENT AREA

For purposes of CRA and this written evaluation, geographies are categorized and defined as follows:

- *Low-income geographies have a median family income less than 50% of the MSA median family income;*
- *Moderate-income geographies have a median family income from 50% to less than 80% of the MSA median family income;*
- *Middle-income geographies have a median family income from 80% to less than 120% of the MSA median family income; and*
- *Upper-income geographies have a median family income equal to or greater than 120% of the MSA median family income.*

Correspondingly, family income levels are categorized and defined as follows:

- *Low-income families have a median family income of less than 50% of the MSA median family income;*
- *Moderate-income families have a median family income from 50% to less than 80% of the MSA median family income;*
- *Middle-income families have a median family income from 80% to less than 120% of the MSA median family income; and*
- *Upper-income families have a median family income equal to or greater than 120% of the MSA median family income.*

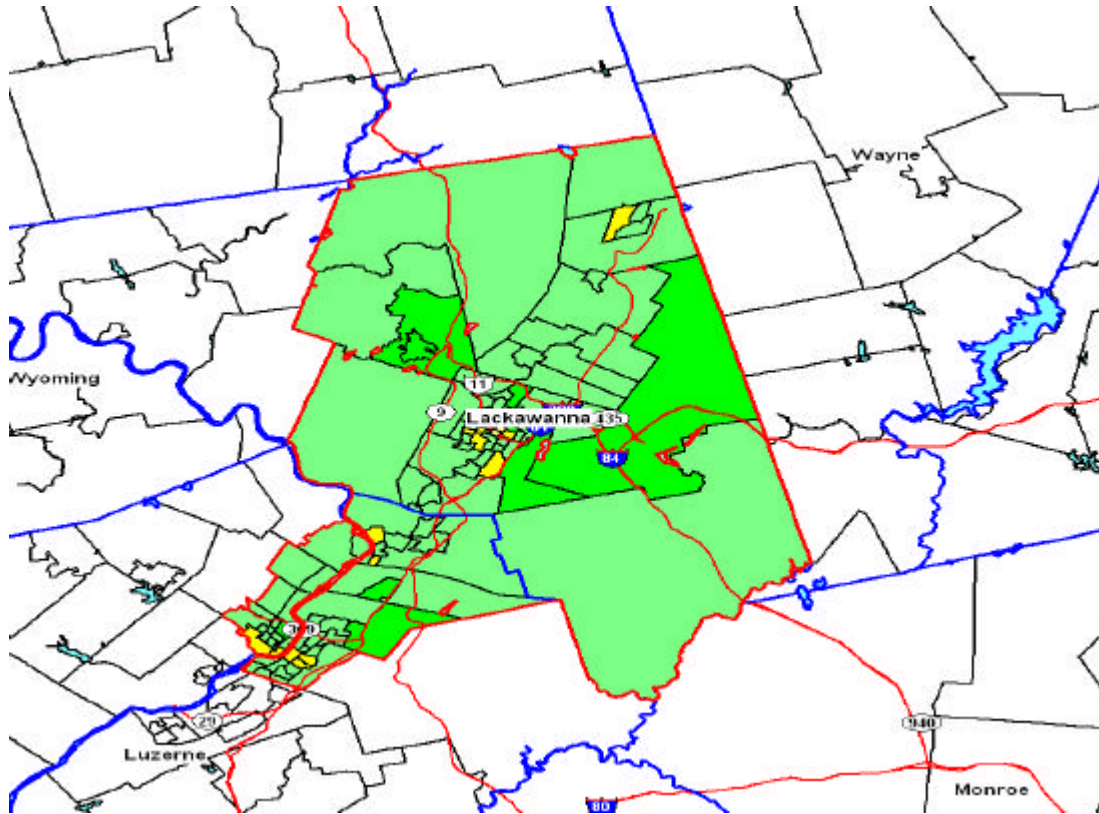
Median family income, and all other demographic indices and statistics presented throughout this evaluation, are based on 1990 U.S. Census data, unless otherwise noted.

First Liberty has designated its assessment area as all of Lackawanna County and parts of northeastern Luzerne County. Both Lackawanna and Luzerne counties are located in the Scranton/Wilkes-Barre/Hazleton Metropolitan Statistical Area (SWH-MSA). According to 1990 census data, this assessment area comprises 107 geographies (census tracts). Of these 107 geographies, two are designated as low-income, 11 are moderate-income, 84 are middle-income and ten are upper-income. The following table presents relevant demographic information:

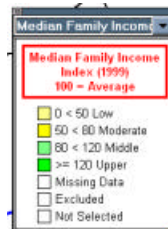
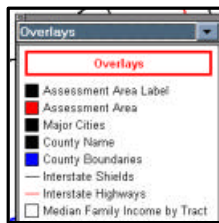
FIRST LIBERTY ASSESSMENT AREA DEMOGRAPHICS BY GEOGRAPHY				
Type of Geography	Number of Geographies	Percent	Population of Geographies	Percent
Low-Income	2	1.9%	2,739	0.8%
Moderate-Income	11	10.3%	31,790	8.8%
Middle-Income	84	78.5%	282,818	78.5%
Upper-Income	10	9.3%	43,107	11.9%
Total	107	100.0%	360,454	100.0%

DESCRIPTION OF ASSESSMENT AREA (CONTINUED)

MAP OF ASSESSMENT AREA



Source: Tactician/CRA Analyzer



DESCRIPTION OF ASSESSMENT AREA (CONTINUED)

PERFORMANCE CONTEXT

Of the assessment area's 107 geographies, 13 (12.2%) are designated as low- or moderate-income, with 9.6% of the population residing within these geographies. The largest urban area within the assessment area is the City of Scranton, where the two low-income geographies and five of the moderate-income geographies are located. Both of Scranton's low-income geographies have low population levels, and, of the total population residing in these geographies, 44% are aged 65 and over and 28% are institutionalized persons. A majority (93%) of the institutionalized persons are in group homes, nursing homes and college dormitories. One of Scranton's moderate-income geographies has similar demographics. Of the total population residing in this moderate-income geography, 38% are living in college dormitories and 4% are in nursing homes. The assessment area's remaining six moderate-income geographies are located in the City of Wilkes-Barre (three), Pittston City (two), and Carbondale City (one).

Economic Characteristics

The economy in the SWH-MSA is expanding at a modest pace, keeping up with the Pennsylvania economy, but lagging nationally. The local economy consists of light industry, manufacturing, and various service providers. A heavy reliance on declining textile and apparel industries has dampened economic growth while low per capita income constrains demand for retail goods and services. Conversely, because of low business costs, affordable living, slack in its labor market compared to other areas, and proximity to major metro areas, there has been a recent influx into the area of customer service and back-office processing centers for insurance, brokerage and banking institutions.

Although steady job creation is keeping the area's unemployment rate near a ten-year low, unemployment remains above the state and national averages. As of October 1999, the seasonally unadjusted unemployment rate¹ for the SWH-MSA was 4.5%, compared to the state unemployment rate of 3.8%. Unemployment was higher in Luzerne County (5.3%) than in Lackawanna County (3.7%). The largest employers in the SWH-MSA are the Wyoming Valley Health Care Systems, Allied Group, Inc., WEA Manufacturing, Techneglas, Inc., Community Medical Center, and The University of Scranton. Notably, six of the area's top ten employers are health care related.

The population in the SWH-MSA continues to decline. At year-end 1999, the population stood at 612,000, compared to 616,000 in 1998, 621,000 in 1997, and 627,000 in 1996. The region's population is also aging. According to 1990 census data, 21% of the MSA population is aged 65 and over, compared to the state level of 15.4% aged 65 and over. Of the total 73,716 people aged 65 and over, 36% (26,269) live in the cities of Scranton or Wilkes-Barre.

The competition for financial services in First Liberty's assessment area is intense due to the considerable number of both larger regional institutions and community banks. Community bank competitors include Pioneer American Bank, N.A., Carbondale, PA; Old Forge Bank, Old Forge, PA; LA Bank, N.A., Lake Ariel, PA; Fidelity Deposit & Discount Bank, Dunmore, PA; and Penn Security Bank & Trust Co., Scranton, PA.

¹ Seasonally unadjusted unemployment rates were used for comparison purposes. Monthly adjusted unemployment rates are not available on a county basis.

DESCRIPTION OF ASSESSMENT AREA (CONTINUED)

Economic Characteristics (continued)

Interviews were conducted and community contacts initiated in an effort to determine credit needs and opportunities in the SWH-MSA. This information was supplemented with demographic and economic data pertinent to the SWH-MSA. The most frequently mentioned credit needs were (1) down payment and closing cost assistance for low- and moderate-income first time homebuyers; (2) housing rehabilitation loans, particularly to the elderly population, to preserve the existing older housing base; (3) small consumer loans for appliances and emergency purchases; and (4) revolving loan pools to finance very small businesses. Community groups also indicated a need for banks to market first time homebuyer programs more extensively, as well as facilitate the creation of more affordable rental housing. These groups noted, however, that First Liberty is active in the community and participates in credit counseling classes and first time homebuyer programs in the area.

Median Family Income

According to 1990 Census Bureau Statistics, the median family income for the bank's assessment area is \$30,909, which is below the statewide median income of \$34,856. The table below shows the number of families by income level designation.

FIRST LIBERTY ASSESSMENT AREA DEMOGRAPHICS BY INCOME		
	Number of Families	Percent
Low-Income Families	17,984	18.7%
Moderate-Income Families	17,533	18.2%
Middle-Income Families	23,766	24.6%
Upper-Income Families	37,170	38.5%
Total Families	96,453	100.0%

Of the total number of families in the assessment area, 36.9% are designated as low- or moderate-income. A substantial majority of these low- and moderate-income families (81.3%) live in the assessment area's middle-income geographies, and an additional 6.5% live in the upper-income geographies.

Housing

The assessment area contains a total of 152,185 housing units. Single family units comprise 55.2% of the housing units, while two-to-four family units comprise 30.3%, multi-family units comprise 9.9%, and mobile homes comprise 3.2%. The median housing value is \$61,143 and the median gross rent is \$327 per month. There is a significant disparity between the median housing value in the upper-income geographies (\$99,199) and that in the moderate-income geographies (\$49,416). However, there is not a significant disparity between the median housing value in the moderate-income geographies and that in the middle-income geographies (\$57,974), where most of the low- and moderate-income families live.²

² There are just 1,494 housing units in the assessment area's two low-income geographies, with only 23 of these units owner-occupied. The U.S. Census Bureau did not calculate a median housing value for these units.

DESCRIPTION OF ASSESSMENT AREA (CONTINUED)

Housing (continued)

Of the 152,185 housing units in the assessment area, 61.3% are owner-occupied, which is below both the state occupancy rate of 64.3% and the SWH-MSA occupancy rate of 65.7%. Homeownership in the two low-income geographies is virtually nonexistent (1.5%) and just 38.5% in the moderate-income geographies. Both compare unfavorably to ownership levels in the middle-income (63.7%) and upper-income (68.2%) geographies. The chart below represents the number of owner-occupied housing units relative to the number of total available units within the assessment area.

FIRST LIBERTY ASSESSMENT AREA HOUSING FIGURES BY GEOGRAPHY			
Type of Geography	Total Units	Owner-Occupancy	Percent Owner-Occupied
Low-Income	1,494	23	1.5%
Moderate-Income	13,627	5,241	38.5%
Middle-Income	120,104	76,505	63.7%
Upper-Income	16,960	11,561	68.2%
All Geographies	152,185	93,330	61.3%

The median age of housing stock in the assessment area is pre-1940, older than both the state median age of 43 years and the SWH-MSA median age of 51 years. The aging housing stock and aging population have created long-term concerns for the continued viability of residences, particularly in the region's urban areas. (Roughly 66% of housing stock in Scranton and 64% of housing stock in Wilkes-Barre was built prior to 1940.) In addition, the percentage of home owners 65 years and older is relatively high (41% in Scranton and 40% in Wilkes-Barre.) These two factors combine to present difficult challenges to lenders seeking to penetrate this segment of their assessment area. A large percentage of the population within the low- and moderate-income geographies are senior citizens who own their homes or live in senior citizen housing complexes, and do not need to purchase or refinance a home.

The 1990 Census data shows significant gaps in housing stock available to meet the needs of low-income households, indicating that there is a lack of both rental and for-sale housing units. The high cost and scarcity of rental housing exacerbates efforts to increase home ownership by making it difficult for renters to save the customary down payment and closing costs necessary to purchase a house. In the assessment area, 34.6% of renters pay 30% or more of their household income as gross rent, compared to 34.0% of renters in the SWH-MSA and 37.0% of renters in the state. Comparable measures are 39.7% in the City of Scranton and 41.5% in the City of Wilkes-Barre.

There is a wide gap between the housing that a household earning 80% of the area median incomes can afford and the median value of housing in the assessment area. In light of the average selling price for houses, the situation is even bleaker for persons of limited income attempting to become homeowners. Interviews with community contacts suggested that it was unlikely that most low- and moderate-income persons would have funds for a 10% down payment plus closing costs, making the dilemma even more profound.

DESCRIPTION OF ASSESSMENT AREA (CONTINUED)

Housing (continued)

The overall assessment area was determined to comply with the requirements of the Community Reinvestment Act and does not arbitrarily exclude low- or moderate-income geographies. The bank's asset size and financial condition indicate that it has the ability to effectively meet the credit needs of its assessment area. There are no legal or other impediments that would hamper the bank's ability to meet community credit needs.

SCOPE OF EXAMINATION

The evaluation of First Liberty's CRA performance covered the period January 1, 1998 through December 31, 1999. The lending, investment, and service tests were applied to First Liberty to assess its performance under CRA, pursuant to the Interagency Procedures and Guidelines for Large Retail Institutions.

Loan products evaluated included home purchase loans and refinancings of such loans, home improvement loans, consumer loans, small business loans, and other loans qualifying as community development loans. In addition, bank investments, grants, and services qualifying as community development were included in the evaluation. Interviews conducted with community representatives during the course of the examination were used in the evaluation, and examiners also considered interviews of community representatives conducted by the Federal Reserve and other regulatory agencies.

To conduct the evaluation of the geographic distribution of loans, geographies are classified on the basis of 1990 U.S. Census data. Determination of the distribution of loans to borrowers of different income levels is based upon 1990 U.S. Census data and 1999 adjusted median family income data made available by the U.S. Department of Housing and Urban Development (HUD).

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

The lending test evaluates an institution's lending activities within a given assessment area with respect to the following characteristics:

- Overall lending levels and assessment area concentration;
- Geographic distribution of loans, particularly loans originated in low- and moderate-income geographies;
- Borrowers' profile, particularly low- and moderate-income borrowers and small businesses;
- Overall responsiveness to credit needs of highly economically disadvantaged geographies, low-income persons, and very small businesses;
- Community development lending activities; and
- The use of innovative or flexible lending practices to address community credit needs.

Performance under the lending test is assessed as Low Satisfactory.

LENDING ACTIVITY

Lending levels at year-end 1999 are deemed satisfactory. As previously noted, 64% of the bank's assets as of December 31, 1999 consisted of loans outstanding. The net loan-to-deposit ratio was 86.0% as of December 31, 1999. This compares favorably to the 84.9% average loan-to-deposit ratio for all insured commercial banks within First Liberty's national peer group.³

ASSESSMENT AREA CONCENTRATION

An analysis was performed to determine the volume of loans extended inside and outside of the bank's assessment area. The analysis consisted of an evaluation of the bank's 1999 Home Mortgage Disclosure Act (HMDA) data, consumer loan data, and small business loan data. This analysis revealed that a substantial majority of the loans were made within the bank's assessment area. The following tables depict the volume of loans extended inside and outside of the bank's assessment area.

1999 HMDA LOAN PENETRATION				
NUMBER AND DOLLAR AMOUNT OF LOANS				
	Number	Percent	\$000's	Percent
Inside Assessment Area	676	89.4%	\$46,743	85.9%
Outside Assessment Area	80	10.6%	\$ 7,692	14.1%
Total	756	100.0%	\$54,435	100%

³ First Liberty's national peer group includes all insured commercial banks having assets between \$500 million and \$1 billion.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

ASSESSMENT AREA CONCENTRATION (continued)

1999 CONSUMER LOAN⁴ PENETRATION NUMBER AND DOLLAR AMOUNT OF LOANS				
	Number	Percent	\$000's	Percent
Inside Assessment Area	1,620	82.9%	\$17,664	81.3%
Outside Assessment Area	334	17.1%	\$ 4,069	18.7%
Total	1,954	100.0%	\$21,733	100%

1999 SMALL BUSINESS LOAN PENETRATION NUMBER AND DOLLAR AMOUNT OF LOANS				
	Number	Percent	\$000's	Percent
Inside Assessment Area	184	88.9%	\$23,406	90.6%
Outside Assessment Area	23	11.1%	\$ 2,435	9.4%
Total Loans	207	100%	\$25,841	100%

⁴ Consumer loan data filed by First Liberty includes motor vehicle loans (79%), "other" secured and unsecured loans (17%) and home-equity loans (4%).

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

GEOGRAPHIC DISTRIBUTION

An analysis of the geographic distribution of loans was conducted in an effort to determine the dispersion of loans among different geographies within the bank's assessment area. The analysis reflected a good overall responsiveness to assessment area credit needs.

Home Mortgage Lending in the Assessment Area

Residential mortgage lending activities currently account for roughly 50% of First Liberty's lending activity. The table below depicts the geographic distribution of the bank's 1999 HMDA loans.

FIRST LIBERTY ASSESSMENT AREA 1999 HMDA LOANS – GEOGRAPHIC DISTRIBUTION NUMBER AND DOLLAR AMOUNTS OF LOANS				
TYPE OF GEOGRAPHY	Number	Percent	\$000's	Percent
Low-Income	1	0.2%	\$26	0.1%
Moderate-Income	26	3.8%	\$1,054	2.2%
Middle-Income	516	76.3%	\$32,391	69.3%
Upper-Income	133	19.7%	\$13,272	28.4%
All Geographies	676	100.0%	\$46,743	100.0%

Based upon this data, the geographic distribution of HMDA loans reflects an adequate penetration throughout the assessment area. The primary focus of this analysis was the dispersion of loans among low- and moderate- income geographies. The HMDA data revealed virtually no lending in low-income geographies and modest lending levels in moderate-income geographies within the assessment area. However, demographic, economic, and other factors prevalent in the assessment area were considered in assessing the bank's penetration levels. One of the factors impacting the bank's ability to generate HMDA loans is the limited amount of available housing in the low- and moderate-income geographies. Of the 152,185 available housing units in the assessment area, only 1,494 are located in low-income geographies, with just 23 of those units (1.5%) owner-occupied. In the moderate-income geographies, there are 13,627 available housing units, with 5,241 units (38.5%) owner-occupied. In comparison, the great majority of available housing units are located in the assessment area's middle-income geographies (120,104 units with 63.7% owner-occupied). In the upper-income geographies, there are 16,960 available housing units with 68.2% owner-occupied.

Low population levels (9.6%) in the low- and moderate-income geographies also limit the bank's lending opportunities in these geographies. The low-income geographies pose a particular challenge, as less than 1% of the assessment area's population resides within these two geographies and, of that population, 28% reside in group homes, nursing homes or college dormitories, and 44% are aged 65 and over.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

Home Mortgage Lending in the Assessment Area (continued)

The limited lending in the low- and moderate-income geographies may also be attributed to the bank's lack of full-service branches in those geographies. The absence of branch offices reduces the bank's opportunity to lend. First Liberty has enhanced its efforts to increase lending in the low- and moderate-income geographies, including opening a full service branch in Kingston, PA. Although not located in a low- or moderate-income geography, the new branch is located in a geography adjacent to three moderate-income geographies.

First Liberty's lending is enhanced, however, by its participation in a loan consortium managed by **Scranton Neighborhood Housing Services**, a community development corporation providing funding, counseling, and technical assistance for home ownership and home rehabilitation. For additional discussion on these efforts, refer to the **Innovative or Flexible Lending Practices** section of this Public Evaluation.

Consumer Lending in the Assessment Area

Consumer lending activities currently account for roughly 11% (dollars) of First Liberty's lending activity. The table below depicts the geographic distribution of the bank's 1999 consumer loans.

FIRST LIBERTY ASSESSMENT AREA 1999 CONSUMER LOANS – GEOGRAPHIC DISTRIBUTION NUMBER AND DOLLAR AMOUNTS OF LOANS				
TYPE OF GEOGRAPHY	Number	Percent	\$000's	Percent
Low-Income	9	0.6%	\$100	0.6%
Moderate-Income	112	6.9%	\$1,018	5.8%
Middle-Income	1,240	76.5%	\$12,458	70.5%
Upper-Income	259	16.0%	\$4,088	23.1%
All Geographies	1,620	100.0%	\$17,664	100.0%

Based upon this data, the geographic distribution of consumer loans reflects good penetration throughout the assessment area. The primary focus of this analysis was the dispersion of loans among low- and moderate-income geographies.

Small Business Lending in the Assessment Area

The bank originated 184 small business loans in its assessment area during 1999, in an aggregate amount of \$23.4 million. An analysis of the 1999 small business lending activity revealed the following geographic distribution:

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

Small Business Lending in the Assessment Area (continued)

FIRST LIBERTY ASSESSMENT AREA 1999 SMALL BUSINESS TRACT DISTRIBUTION				
Type of Geography	Number	Percent	\$000's	Percent
Low-Income	8	4.3%	\$ 1,094	4.7%
Moderate-Income	6	3.3%	\$ 1,075	4.6%
Middle-Income	136	73.9%	\$18,259	78.0%
Upper-Income	34	18.5%	\$ 2,978	12.7%
All Geographies	184	100%	\$23,406	100%

A comparison of the number and dollar volume of small business loans in each geography to the number of small businesses located in each geography demonstrates the bank's commitment to making credit available to revitalize the economic condition of its community. Business demographics reveal that there were a total of 8,979 small businesses within the assessment area as of June 1999. First Liberty's extension of credit to these businesses roughly follows the distribution of small businesses by geographic income level. Low-income geographies received 4.3% of small business loans, while 4.8% of total small businesses are located in these geographies. Moderate-income geographies received 3.3% of small business loans for their 8.3% share of total small businesses. Middle-income geographies received 73.9% of small business loans for their 71.6% share of total small businesses. Upper-income geographies received 18.5% of small business loans for their 15.2% share of total small businesses.

The more limited small business lending in the moderate-income geographies may be attributed to assessment area demographics. The primary businesses in the moderate-income geographies located in Scranton are the Lackawanna County government, the City of Scranton government, hospitals, the University of Scranton, other banks, restaurants and bars. These entities provide the bank with limited lending opportunities in these areas. In addition, First Liberty does not have any full-service branches in those geographies. As previously discussed, the absence of branch offices reduces the bank's opportunity to lend.

Geographic Distribution in Relation to Assessment Area Demographics

According to U.S. Census data, less than 1% of the population resides in low-income geographies within the assessment area. Almost 9% of the population reside in the moderate-income geographies, 78.5% in middle-income geographies, and 12.0% in upper-income geographies. The following table compares the demographics of the assessment area with the bank's distribution of loans according to geographic designation.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

Geographic Distribution in Relation to Assessment Area Demographics (continued)

	FIRST LIBERTY ASSESSMENT AREA DEMOGRAPHICS	1999 HMDA CENSUS TRACT DISTRIBUTION		1999 CONSUMER CENSUS TRACT DISTRIBUTION		1999 SMALL BUS. CENSUS TRACT DISTRIBUTION	
		% of #	% of \$	% of #	% of \$	% of #	% of \$
Low-Income	0.8%	0.2%	0.1%	0.6%	0.6%	4.3%	4.7%
Moderate-Income	8.8%	3.8%	2.2%	6.9%	5.8%	3.3%	4.6%
Middle-Income	78.5%	76.3%	69.3%	76.5%	70.5%	73.9%	78.0%
Upper-Income	11.9%	19.7%	28.4%	16.0%	23.1%	18.5%	12.7%
All Geographies	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The data reveals an overall good geographic distribution of loans throughout the bank's assessment area. While 9.6% of the assessment area's population resides in low- and moderate-income geographies, 4.0% of HMDA loans, 7.5% of consumer loans, and 7.6% of small business loans were made in these geographies.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

BORROWER DISTRIBUTION

A review of the demographic and economic characteristics of the assessment area, in conjunction with an analysis of HMDA, consumer, and small business lending data, was conducted to ascertain the extent of lending to borrowers of different incomes and to businesses of different sizes.

Borrowers of Different Incomes

An analysis of the distribution of loans among borrowers of different incomes within the bank's assessment area revealed that the distribution of borrowers, given the product lines offered by the institution, reflects satisfactory penetration among retail customers of different income levels.

Assessment Area

According to HUD, in 1999 the median family income for the assessment area was \$40,500. HUD has established the following income demographic categories as levels of income for statistical purposes:

Year	HUD Adjusted Median Family Income	Low Income (<50%)	Moderate Income (50%-79%)	Middle Income (80%-119%)	Upper Income (120% or Greater)
1999	\$40,500	Less than \$20,250	\$20,250 to \$32,399	\$32,400 to \$48,599	\$48,600 or more
1998	\$38,900	Less than \$19,450	\$19,450 to \$31,119	\$31,120 to \$46,679	\$46,680 or more
1997	\$37,700	Less than \$18,850	\$18,850 to \$30,159	\$30,160 to \$45,239	\$45,240 or more

Home Mortgage Lending

The following table below depicts the distribution of First Liberty's home mortgage loans within its assessment area. The distribution of borrowers reflects adequate penetration among customers of different income levels.

FIRST LIBERTY ASSESSMENT AREA				
1999 HMDA LOANS – BORROWER INCOME DISTRIBUTION				
NUMBER AND DOLLAR AMOUNTS OF LOANS				
TYPE OF BORROWER	Number	Percent	\$000's	Percent
Low-Income Families	37	5.5%	\$ 1,187	2.5%
Moderate-Income Families	97	14.3%	\$ 4,049	8.7%
Middle-Income Families	179	26.5%	\$ 9,547	20.4%
Upper-Income Families	339	50.1%	\$31,024	66.4%
Income Not Available	24	3.6%	\$ 936	2.0%
All Borrowers	676	100.0%	\$46,743	100.0%

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

Consumer Lending

The table below depicts the distribution of First Liberty's 1999 consumer loans within its assessment area. The distribution of borrowers reflects an excellent penetration among retail customers of different income levels.

FIRST LIBERTY ASSESSMENT AREA 1999 CONSUMER LOANS – BORROWER INCOME DISTRIBUTION NUMBER AND DOLLAR AMOUNTS OF LOANS				
TYPE OF BORROWER	Number	Percent	\$000's	Percent
Low-Income Families	381	23.5%	\$ 2,674	15.2%
Moderate-Income Families	410	25.3%	\$ 4,855	27.5%
Middle-Income Families	367	22.7%	\$ 3,628	20.5%
Upper-Income Families	360	22.2%	\$ 4,982	28.2%
Income Not Available	102	6.3%	\$ 1,525	8.6%
All Borrowers	1,620	100.0%	\$17,664	100.0%

Borrower Income Distribution in Relation to Assessment Area Demographics

The table below compares the demographics of the bank's assessment area with the institution's distribution of home mortgage and consumer loans to borrowers of different incomes.

	FIRST LIBERTY ASSESSMENT AREA BORROWER INCOME DISTRIBUTION	1999 HMDA LOANS BORROWER INCOME DISTRIBUTION		1999 CONSUMER LOANS BORROWER INCOME DISTRIBUTION	
		% of #	% of \$	% of #	% of \$
Low-Income Families	18.7%	5.5%	2.5%	23.5%	15.2%
Moderate-Income Families	18.2%	14.3%	8.7%	25.3%	27.5%
Middle-Income Families	24.6%	26.5%	20.4%	22.7%	20.5%
Upper-Income Families	38.5%	50.1%	66.4%	22.2%	28.2%
Income not known	N/A	3.6%	2.0%	6.3%	8.6%
All Families	100.0%	100.0%	100.0%	100.0%	100.0%

The distribution of home mortgage loans to low- and moderate-income families, when compared with the demographics of the assessment area, is deemed adequate. Lending levels are not comparable in each instance to the percentage of low- and moderate-income families residing in the assessment area, and the loan distribution indicates a particular need for greater emphasis on home mortgage loans to low-income families. Of the 96,453 families in the assessment area, 17,984 (18.7%) are designated as low-income, while just 5.5% of HMDA loans were to low-income families.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

Borrower Income Distribution in Relation to Assessment Area Demographics (continued)

The bank's low level of penetration in home mortgage lending may be partially attributed to the demographics of the assessment area. Of the 35,517 families designated as low- or moderate-income, 81% reside in the middle-income geographies and 6.5% reside in the upper-income geographies in the assessment area. Although there is not a great disparity between the median housing values in middle- and moderate-income geographies, the 1990 Census data shows significant gaps in housing stock available to meet the needs of low-income households, indicating that there is a lack of both rental units and for-sale housing units. The high cost and scarcity of rental housing exacerbates efforts to increase home ownership by making it difficult for renters to save the customary down payment and closing costs necessary to purchase a house. Interviews with community contacts support this analysis and suggest that low-income borrowers in particular would have difficulty saving the standard down payment and closing costs.

The intense competition for financial services in its market also impacts First Liberty's ability to penetrate low- and moderate-income customers. Both larger regional institutions and local community banks provide significant competition for loans.

In contrast to its HMDA lending performance, consumer lending performance is deemed excellent. Lending levels in each loan category exceed in each instance the percentage of low- and moderate-income families that reside in the assessment area. The bank's consumer lending meets an expressed need for small consumer loans in its assessment area.

Overall, the distribution of borrowers, given the product lines offered by the institution, reflects good penetration among retail customers of different incomes.

Business of Different Incomes

A review of the bank's small business lending was also conducted at this examination. The analysis revealed that the distribution of loans to small businesses was consistent with the institution's asset size, lending capacity, and business objectives.

For the purpose of this CRA analysis, a small business loan is defined as a commercial loan with an origination amount of \$1 million or less. Small business loans are further quantified to identify those loans to businesses with gross annual revenues of \$1 million or less. A review of Schedule RC-C Part II (Loans to Small Farms and Small Businesses) of the bank's Consolidated Reports of Condition and Income as of June 30, 1999, revealed that 58.5% of the bank's commercial loans were designated as small business loans, as detailed in the following chart.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

Business of Different Incomes (continued)

FIRST LIBERTY COMMERCIAL LOAN PORTFOLIO		
	AMOUNT OUTSTANDING AS OF 6/30/99 (\$000)	PERCENT
Loans with original amounts of \$100,000 or Less	\$ 5,954	8.5%
Loans with original amounts of more than \$100,000 through \$250,000	\$ 9,489	13.5%
Loans with original amounts of more than \$250,000 through \$1,000,000	\$ 25,740	36.5%
TOTAL SMALL BUSINESS LOANS	\$ 41,183	58.5%
Loans with original amounts of Greater than \$1,000,000	\$29,209	41.5%
Total Commercial Loans	\$70,392	100.0%

Small Business Lending in the Assessment Area

The table below shows the bank's small business loan originations within its assessment area, as reported for purposes of CRA for calendar year 1999.

FIRST LIBERTY ASSESSMENT AREA 1999 SMALL BUSINESS LOANS		
	\$000	PERCENT
Loans with original amounts of \$100,000 or Less	\$4,265	18.2%
Loans with original amounts of more than \$100,000 through \$250,000	\$5,489	23.5%
Loans with original amounts of more than \$250,000 through \$1,000,000	\$13,652	58.3%
TOTAL SMALL BUSINESS LOANS	\$23,406	100.0 %

The following table further quantifies 1999 small business lending based upon the annual revenue of the business, with small business loans analyzed to determine if they were made to businesses with gross annual revenues of less than \$1 million. Business demographics reveal that there were 10,181 businesses in the

assessment area as of June 30, 1999. Of these businesses, 8,979 (88%) had sales of less than \$1 million.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

Small Business Lending in the Assessment Area (continued)

FIRST LIBERTY ASSESSMENT AREA 1999 SMALL BUSINESS LOANS BUSINESS REVENUES				
	Number	Percent	\$000's	Percent
Loans to Business with Revenues of \$1 Million or Less	112	60.9%	\$12,116	51.8%
Loans to Business with Revenues of more than \$1 Million	72	39.1%	\$11,290	48.2%
Total Small Business Loans	184	100.0%	\$23,406	100.0%

Of the 184 loans originated during 1999, more than half (60.9%) were originated to businesses with gross annual revenues of \$1 million or less. Moreover, of the 112 loans originated to businesses with gross annual revenues of \$1 million or less, 81 (72.3%) were extended in an amount of less than \$100 thousand. Overall, the bank's distribution of borrowers reflects good penetration among business customers of different sizes.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

COMMUNITY DEVELOPMENT LENDING

First Liberty did not originate any community development loans in 1998 or 1999.

RESPONSIVENESS

An analysis was conducted to determine the institution's record of serving the credit needs of the most economically disadvantaged areas of its assessment area, low-income borrowers, and very small businesses.

This analysis revealed that First Liberty has exhibited an adequate record of serving the credit needs of highly disadvantaged areas and borrowers within its assessment area. Management is encouraged to explore ways to more affirmatively respond to the credit needs of the assessment area's low-income borrowers, consistent with safe and sound banking practices.

INNOVATIVE OR FLEXIBLE LENDING PRACTICES

The bank uses innovative and/or flexible lending practices to address the credit needs of its assessment area, including low- and moderate-income individuals and geographies. The bank is an active participant in numerous lending programs sponsored by local community development organizations and local and state government offices.

- First Liberty participates in three consortium loan pools established and managed by **Scranton Neighborhood Housing Services ("SNHS")**, a private, non-profit community development corporation engaged in providing funding, counseling, and technical assistance for home ownership and home rehabilitation to low- and moderate-income individuals and families. Each consortium participant committed \$100,000 per pool. First Liberty's commitment totals \$600,000, as both of the banks merged to create First Liberty (The First National Bank of Jermyn and NBO National Bank) participated prior to the merger. As of December 31, 1999, the bank was participating in 67 mortgage loan originations, with the bank's share of the outstanding loans totaling \$466,000.
- First Liberty is a participant in the **City of Scranton's First-Time Homebuyers Program**. The program is a partnership between the City of Scranton (Office of Economic and Community Development), HUD and the Pennsylvania Department of Community and Economic Development. To be eligible for the program, applicants must meet the HUD Section 8 income guidelines, which effectively reserves the program for low- and moderate-income applicants. In 1998, First Liberty originated two mortgages in the program, aggregating \$19 thousand. In 1999, the bank financed two additional mortgages, aggregating \$42 thousand.
- In June 1999, the Federal Home Loan Bank of Pittsburgh presented its "Pillars of the Community Award" to First Liberty and the Redevelopment Authority of Lackawanna County. The award is given for projects that create housing for lower-income families and individuals as well as promote community revitalization and economic development. First Liberty and the Redevelopment Authority were given the award for their work in developing the **Lackawanna Heritage Apartments (submitted as Olyphant Senior Housing Project)** in Olyphant, PA. The project is a 43-unit apartment building providing low-income housing for the elderly. First Liberty secured an Affordable Housing Program direct subsidy of \$176 thousand from the FHLB of Pittsburgh that was used for the project's renovation costs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

INVESTMENT TEST

Performance under the investment test is assessed as High Satisfactory.

The investment test evaluates a financial institution's level of qualified investments that serve low- and moderate-income geographies and/or individuals, along with the innovativeness and complexity of such investments. Qualified investments made prior to the previous examination, which are still outstanding, are considered under the test. For purposes of CRA, the term qualified investment has been defined to include: a lawful investment; deposit; membership share; or grant; including a donation, or in-kind contribution of property, that has, as its primary purpose, community development.

First Liberty's level and use of qualified community development investments is significant. The bank has a \$1.7 million investment as a limited partner (50.0%) with another community bank (total project financing was \$3.7 million), in the **Lackawanna Heritage Apartments**, Olyphant, PA. The 43-unit housing project provides affordable subsidized housing for low- and moderate-income elderly residents. Although the housing initiative is not located within one of the assessment area's low- or moderate-income geographies, it qualifies for federal low-income housing tax credits, pursuant to applicable provisions of the Internal Revenue Service's Internal Revenue Code. Such housing, designated specifically for low- and moderate-income elderly persons, is especially relevant given the demonstrated need within Lackawanna County for affordable housing for senior citizens, as most recently determined by HUD. This initiative demonstrated that in spite of First Liberty's relatively small size, it has innovatively addressed community development needs.

First Liberty's community development investments also include financial donations of approximately \$9,400 in 1999 and \$15,350 in 1998, contributed by the bank to various local organizations that routinely provide community services, including housing, education and employment services, within its assessment area. The most notable of these investments were annual contributions to Scranton Neighborhood Housing Services. The bank made donations of \$7,000 in 1998 and \$7,500 in 1999, toward the SNHS operating budget.

In light of the bank's asset size and overall operating capacity, First Liberty has a significant level of qualified community development investments and grants, supporting a rating of high satisfactory.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

SERVICE TEST

First Liberty's performance under the service test is rated High Satisfactory.

RETAIL BANKING SERVICES

A review of the bank's retail banking services revealed that its branch delivery systems are reasonably accessible to essentially all portions of the bank's assessment area. The bank offers retail services through its 11 full-service branch offices, all of which are located in middle-income geographies. Each branch site operates an ATM through the bank's 24-hour Banking Network, and the bank also operates two remote ATMs in Lackawanna County. One remote ATM is located in a low-income geography (Lackawanna Junior College) and the second remote ATM is located in a middle-income geography. Although none of the branches are located in low- or moderate-income geographies, they are generally accessible to such geographies. To augment traditional banking services, First Liberty provides a "Touch Tone Banking Service" that allows customers to verify account balances and make transfers between qualifying accounts by phone.

The bank's record of opening and closing branches has not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies and/or to low- and moderate-income individuals. Services do not vary in a way that inconveniences certain portions of the assessment area, particularly low- and moderate-income geographies and/or low- and moderate-income individuals. The bank has established two branches over the last two years: the Kingston Office at 480 Pierce Street, Kingston, PA, opened on June 30, 1999 and the Dickson City Office at 901 Commerce Boulevard, Dickson City, PA, opened on September 7, 1999. The bank has not closed any branches in the last two years.

COMMUNITY DEVELOPMENT SERVICES

First Liberty provides a relatively high level of community development services, including the following:

- The bank is a participant in the Federal Home Loan Bank's Affordable Housing Program. As discussed previously, First Liberty secured an Affordable Housing Program direct subsidy of \$176,000 used to renovate the **Lackawanna Heritage Apartments**.
- First Liberty provides in-kind services to the City of Scranton and the Mid-Valley Enterprise Zone, in the form of servicing for loans made by the City and the Enterprise Zone to low- and moderate-income families.
- First Liberty participates in the City of Scranton's First Time Homebuyers Program.
- First Liberty offers a Basic Business Checking Account, advertised as "a special account for companies with modest balances and limited transaction volume". The account, designed to support small businesses within the bank's assessment area, is a flexible operating account tailored to meet the needs of very small businesses. The account offers modest transaction limits and no monthly service fees if an average monthly balance of \$1,000 is maintained. This account serves the bank's effort to provide better access to services to small businesses.
- First Liberty services loan portfolios for three consortium loan pools managed by the **Neighborhood Housing Services of Scranton**.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

COMMUNITY DEVELOPMENT SERVICES (continued)

First Liberty employees participate regularly in local community organizations dedicated to community development, most notably the following:

- A bank employee serves on the Board of Directors for the Consumer Credit Counseling Services of Northeastern Pennsylvania. The agency provides consumer counseling for first time homebuyers and homeowners about to suffer foreclosure.
- Bank employees teach financial education courses to low- and moderate-income first time homebuyers through the First Time Homebuyer's Workshop presented by Scranton Neighborhood Housing Services. Employee participation augments the success and effectiveness of the program.
- A First Liberty employee sits on the Board of Directors and serves as the Treasurer of **Neighborhood Housing Services of Scranton**. The employee also serves on the loan review committee for the NHS Loan Consortium.
- A bank employee is a director of the **Employment Opportunity Training Center**, a local organization that provides training to low- and moderate-income individuals in an attempt to obtain and keep gainful employment.

COMPLIANCE WITH FAIR LENDING LAWS

No credit practices were identified that violated the substantive provisions of the anti-discrimination laws and regulations, including the Equal Credit Opportunity Act (Regulation B), Fair Housing Act, Home Mortgage Disclosure Act (Regulation C), and all relevant agency regulations pertaining to nondiscriminatory treatment of credit applicants.