

PUBLIC DISCLOSURE

(August, 30, 1999)

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**FIRST CAPITOL BANK
RSSD - 1224803
YORK, 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 Capitol Bank** prepared by the **Federal Reserve Bank of Philadelphia**, as of **August 30, 1999**. 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 the 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 228.

INSTITUTION'S CRA RATING

INSTITUTION'S CRA RATING: This institution is rated **Outstanding**.

Major factors contributing to this rating include:

- Overall lending levels are clearly reasonable, within the context of the institution's size and extent of operations.
- The majority of the institution's lending activities are geographically contained in its assessment area, as delineated for purposes of CRA.
- The institution has a good distribution of loans throughout the assessment area, particularly loans originated to small businesses within low- and moderate-income geographies.
- There is an excellent distribution of loans to businesses of different sizes, specifically, loans to small businesses, or businesses with total revenues of less than \$1.0 million.
- The institution's level and use of qualified investments enhances its overall performance under CRA.
- The institution's record of providing financial services, particularly those with respect to community development, enhance credit availability within its assessment area.

DESCRIPTION OF INSTITUTION

First Capitol Bank (First Capitol), headquartered in York, (York County) Pennsylvania, was formed in November 1988 as a Pennsylvania chartered de novo commercial bank. First Capitol is a full-service commercial bank that offers business and personal banking services, in addition to trust and investment services. In this regard, the bank refers its customers to Hershey Trust Co., Hershey, Pennsylvania for trust services. As of June 30, 1999, First Capitol maintained five full-service banking offices in York County.

Susquehanna Bancshares Inc. (Susquehanna), a \$4.2 billion multi-bank holding company headquartered in Lititz, Pennsylvania, acquired First Capitol on January 4, 1999. Its subsidiaries include eight commercial banks, one savings bank, and two directly held non-banking entities, engaged in the provision of commercial banking, leasing, reinsurance, mortgage, and real estate settlement services from 139 offices located in central and southeastern Pennsylvania, Maryland, Delaware, and southern New Jersey. To date, Susquehanna's banking subsidiaries have generally operated on a decentralized basis, with each subsidiary retaining its name and operating in a generally autonomous manner.

First Capitol's lending activities remain largely comprised of business-purpose or commercial lending activities. Throughout its existence, the bank has originated consumer-purpose credit (including home mortgage finance) primarily to accommodate the credit needs of existing business borrowers. As of June 30, 1999, First Capitol reported \$111 million in total assets, \$73.4 million or 66% of which, are comprised of loans outstanding. The composition of the bank's loan portfolio as of June 30, 1999 is presented in the table below:

LOANS	DOLLARS IN MILLIONS	%
Real Estate Loans	59.6	81
Commercial Loans	11.4	16
Individual Loans	1.7	2
Other Loans	0.7	1
GROSS LOANS	\$73.4	100%

DESCRIPTION OF INSTITUTION (Continued)

Most of the aforementioned loans secured by real estate have been extended for business purposes, including \$18.6 million of loans outstanding secured by one-to-four family residential dwellings.

The next table presents several key financial ratios for the bank at year-end 1998 and mid-year 1999.

Key Financial Ratios		
	6/30/99	12/31/98
Return on Average Assets	0.86	-.40
Net Loans & Leases to Average Assets	64.3	65.8
Investments to Average Assets	22.7	24.7
Total Deposits to Average Assets	84.4	78.1
Net Loans & Leases to Total Deposits	76.1	78.5

DESCRIPTION OF ASSESSMENT AREA

For purposes of CRA and this written evaluation, geographies (i.e. census tracts) 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*
- *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 incomes of less than 50% of the MSA median family income*
- *Moderate-income have incomes from 50% to less than 80% of the MSA median family income*
- *Middle-income families have incomes from 80% to less than 120% of the MSA median family income*
- *Upper-income families have incomes equal or greater than 120% of the MSA median family income*

(Additional Note: 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.)

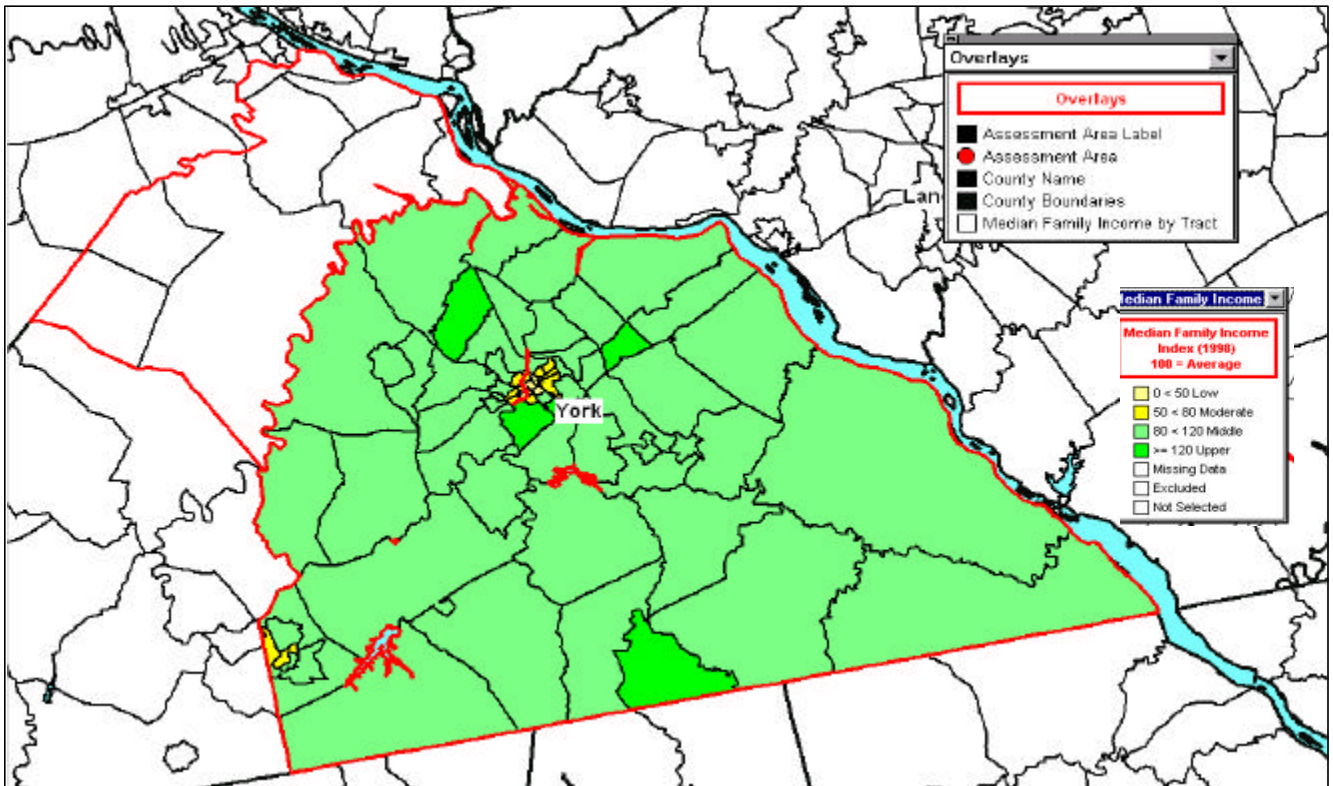
Each of First Capitol's five banking offices is located in the York Metropolitan Statistical Area (MSA). The MSA is comprised solely of York County. For purposes of CRA, the bank has designated its assessment area as 68 of the MSA's 76 census tracts. The eight census tracts not included in the assessment area are situated in the northwestern section of York County, and separated from the rest of the county or the assessment area by a tributary of the Susquehanna River. The U.S. Department of Housing and Urban Development (HUD) has designated each of the eight geographies outside the assessment area as middle-income. All of First Capitol's offices are contained within the assessment area.

Using 1990 U.S. Census data, HUD has designated four or 6% of the assessment area's geographies as low-income, 11 or 16% as moderate-income, 48 or 71% as middle-income, and 5 or 7% as upper-income. All four of the low-income geographies are located in the city of York, with nine of the 11 moderate-income geographies are located in that city as well. The other two moderate-income geographies are situated in in the town of Hanover, located in the extreme western part of the county. Together, Hanover and York represent the two oldest urban centers in York County.

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. There are no legal or other impediments that would hamper the bank's ability to address community credit needs, commensurate with its asset size and nature and extent of operations.

PERFORMANCE CONTEXT

A map of the assessment area and applicable demographic information are presented as follows.



Source: Tactician CRA/Analyzer

DEMOGRAPHICS BY GEOGRAPHY				
Type of Geography	Number of Geographies	Percent	Population by Geographies	Percent
Low-Income	4	6	9,163	3
Moderate-Income	11	16	30,582	11
Middle-Income	48	71	233,559	79
Upper-Income	5	7	21,164	7
Total	68	100%	294,468	100%

As already noted, the city of York contains the preponderance of the assessment area's low- and moderate-income geographies. In addition to its 13 low- and moderate-income geographies, the city contains three middle-income geographies. The city has no upper-income geographies; its low- and moderate-income geographies contain 78% of the city's population. The city accounts for approximately 15% of the MSA's entire population. According to HUD, the 1990 census counted 178 homeless people in the York MSA, with most of them located in the city of York.

Median Family Income

The 1990 median family income for the assessment area was \$37,590, higher than the statewide median of \$34,856. The following table below categorizes families within the assessment area by income level designation.

PERFORMANCE CONTEXT (CONTINUED)

Median Family Income (continued)

ASSESSMENT AREA FAMILIES BY INCOME		
	Number of Families	Percent
Low-Income Families	13,287	16
Moderate-Income Families	16,212	20
Middle-Income Families	23,383	28
Upper-Income Families	29,784	36
Total Families	82,666	100%

Based on income distribution, a considerable portion (slightly more than one-third) of all families in the assessment area are designated as low- or moderate-income. The substantial majority of these low- and moderate-income families (75%) reside in middle-income geographies, due, in part, to the limited availability of decent affordable housing in low- and moderate-income geographies.

Based on applicable HUD estimates, the adjusted median family income for the MSA was \$47,900 for 1999 and \$46,000 for 1998. The following table categorizes the respective dollar amounts recognized as low-, moderate-, middle-, and upper-income for the MSA in 1999 and 1998, predicated upon applicable adjusted median family.

Year	HUD Adjusted Median Family Income	Low Income (<50%)	Moderate Income (50%-79%)	Middle Income (80%-119%)	Upper Income (120% or Greater)
1999	\$47,900	Less than \$23,950	\$23,950--\$38,319	\$38,320--\$57,479	\$57,480 or more
1998	\$46,000	Less than \$23,000	\$23,000--\$36,799	\$36,800--\$55,199	\$55,200 or more

Whereas the 1990 median family income for the MSA was \$37,590, it was only \$25,248 for the city of York. Based on the MSA median income, nearly 60% of the families residing in the city were designated as low- or moderate-income, compared to 36% countywide. The median family-income of Hanover's moderate-income geographies was \$27,819.

Housing

The assessment area contains 117,630 residential housing units, 70% of which are owner-occupied. Single family units comprise 60% of total housing units, while two-to-four family units comprise 24.3%. Mobile homes and multi-family units represent 6.3% and 8.5% of the housing stock, respectively. The 1990 median housing value was \$79,371, while the median gross rent was \$409 per month. The median age of housing stock was 29 years, considerably lower than the statewide median of 41 years.

PERFORMANCE CONTEXT (CONTINUED)

Housing (continued)

The city of York contains 18,451 housing units, 72%, of which, are comprised of two-to-four family units. Multi-family units represent only 10% of the city’s total housing, while mobile homes are virtually nonexistent. The city’s 1990 median housing value of \$41,133 is significantly lower than the MSA median. Not surprisingly, the city’s housing stock is comparatively older, with a median age of 50 years. The median housing value within Hanover’s moderate-income geographies is \$65,784 while the median age of housing is 50 years.

Although the overall rate of homeownership within the assessment area (70%) is above that of the state (64.3%), HUD determined that few families earning the 1990 MSA’s median family income could afford to purchase a new home at the 1991 median sales price of \$89,315. Based on more recent data released by the York County Board of Realtors, the median sales price of residential dwellings, countywide, jumped by more than 40% during the five years between 1988 and 1993 (i.e., from \$73,622 to \$104,057). HUD also reports that an influx of persons from the state of Maryland holding professional occupations has increased housing demands, which continues to push home prices higher.

A significant disparity exists between the median housing value in upper-income geographies (\$112,312), and the median value in low-income geographies (\$28,700.) Moreover, homeownership rates in low- and moderate-income geographies are 28% and 44%, respectively; compared to ownership rates of 75% and 83%, in middle- and upper-income geographies, respectively. Correspondingly, the assessment areas four low-income geographies, situated in the city of York, contain only 1% of the assessment area’s total owner-occupied housing stock, and the moderate-income geographies contain just 7%. Although housing values are considerably less in low- and moderate-income geographies, it would appear that existing home prices throughout the assessment area are substantially beyond the reach of low-income and many moderate-income families.

The following table presents owner occupancy rates for the city of York and the two moderate-income geographies in Hanover.

OWNER OCCUPANCY RATES BY GEOGRAPHY TYPE (CITY OF YORK)			
Type of Geography	Total Units	Owner Occupancy	Percent Owner Occupied
Low-Income	4,154	1,165	28%
Moderate-Income	10,082	4,595	46%
Middle-Income	4,215	2,680	64%
Upper-Income	0	0	N/A
All Geographies	18,451	8,440	46%
(Moderate-Income Geographies in Hanover)			
Moderate-Income	3,329	1,290	39%

PERFORMANCE CONTEXT (CONTINUED)

Housing (continued)

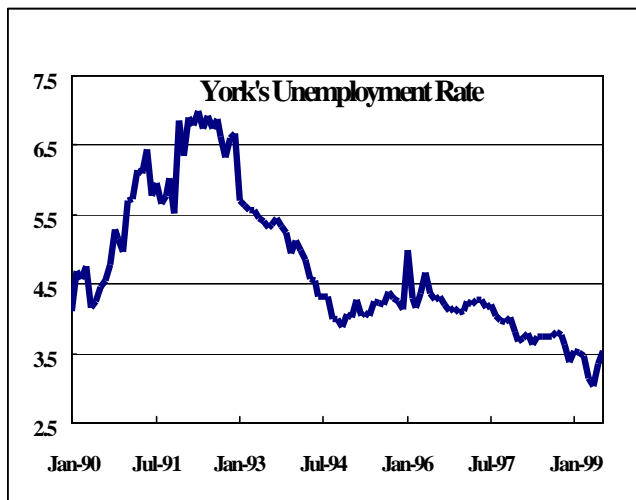
HUD has determined that approximately one-half of the number of available units of rental housing in the MSA is affordable to low-income households (HUD reported an average monthly rent of \$560 for the MSA during 1993). Additionally, the most recent data available from HUD shows a pronounced need for governmentally assisted or public housing within the MSA. Currently, 1,023 households are on a waiting list for public housing units, and another 2,349 households are waiting to participate in governmental rental assistance programs, with an average wait of four years.

Economic Characteristics

The MSA has undergone economic and demographic changes over the past 25 years similar to other MSA's throughout Pennsylvania and the nation. Shopping malls have replaced many small family farms and other green areas that once distinguished York County. Smaller industries have suffered recent recessions, and many higher-paying manufacturing jobs have been replaced by lower-paying jobs in the service sector. The city of York contains several units of boarded-up commercial real estate, indicative of now-defunct businesses that once provided sources of employment.

The city's net loss of industry and small businesses has reduced its tax base, and resulted in frequent increases in residential property taxes. At present, the city has the county's highest property tax rates. Such circumstances have prompted those who can afford to relocate, to leave the city and reside in surrounding suburban areas in the MSA.

Although the MSA's unemployment rate increased gradually during the second quarter of 1999, July's rate of 3.5% was below the statewide rate of 4.3%, indicative of a comparatively healthy job market. Major employers based in the MSA are Caterpillar Inc., Harley-Davidson, Inc., and York International Corporation. Manufacturing remains the largest industry within the MSA, and continues to play a key role in York County's local economy; however, employment in the manufacturing sector, continues on a downward trend (as presented below). In contrast, employment in the service sector increased by more than 30% from January 1990 to January 1999.



Source: Federal Reserve Bank of Philadelphia, Department of Research and Statistics

PERFORMANCE CONTEXT (CONTINUED)

Economic Characteristics (continued)

York County had a per capita income of \$24,138 during 1997. From 1987 to 1997, the average annual growth rate of per capita income was 3.8%, compared to 4.7% for the nation. Such lag is attributed primarily to sluggish employee earnings growth of 3.4% in the MSA's largest industry, durable goods manufacturing. In contrast, state and local government within York County reported the fastest employee earnings growth, with an average annual rate of 7.7% from 1987 to 1997.

SCOPE OF EXAMINATION

First Capitol's performance under CRA was assessed using examination procedures that have been formulated for small banks. For purposes of CRA, a small bank is defined as:

- a bank that, as of December 31 of either of the prior two calendar years, had total assets of less than \$250 million and was independent; or,
- a bank that was an affiliate of a holding company that, as of December 31 of either of the prior two calendar years, had total banking and thrift assets of less than \$1 billion.

Although First Capitol is now part of a \$4.2 billion consolidated banking organization, since it was independent and had total assets of less than \$250 million at December 31, 1998, it has been treated as a small bank for purposes of this evaluation.

The evaluation of First Capitol Bank's performance under CRA is based primarily on loan originations and other financial service activities that have occurred subsequent to the previous examination (September 1996). Given the bank's nature and extent of operations, and since commercial lending is its predominant lending activity, this evaluation is based primarily upon commercial or business purpose lending, particularly lending to small businesses.

Consistent with examination procedures for small banks, statistical sampling was utilized to evaluate lending activities. In this regard, samples of business purpose loans and consumer purpose loans, [exclusive of home mortgage loans that are subject to reporting requirements of the Home Mortgage Disclosure Act (HMDA)], originated during the eight months ended August 31, 1999, were analyzed.

The evaluation also includes analyses of home mortgage or HMDA loans (i.e., home purchase or refinancings of such loans and home improvement loans) that First Capitol originated subsequent to the previous examination. The bank offers home mortgage loan products primarily to accommodate the credit needs of commercial borrowers; it originated less than 100 home mortgage loans during calendar year 1998 and the six months ended June 30, 1999, (combined). Accordingly, the evaluation includes supplemental analyses of HMDA data that the bank reported for calendar year 1998 and the year to date period ended June 30, 1999.

The evaluation included reviews of written documentation of interviews conducted with community representatives, prepared by the Federal Reserve System and other regulatory agencies, as applicable. Additionally, during this examination interviews were conducted with two different representatives of a local community organization, which has been actively involved with the most economically disadvantaged low-income geographies in the city of York.

For purposes of evaluating the geographic distribution of loans, geographies are classified on the basis of 1990 U.S. Census data. For purposes of evaluating the distribution of loans among small businesses, a small business loan, generally, means a loan extended to any business in an amount of \$1.0 million or less. Determination of the distribution of loans to borrowers of different income levels, with respect to consumer purpose lending activities, is based upon, as applicable, 1998 and 1999 adjusted median family income data, made available by the U.S. Department of Housing and Urban Development (HUD).

SCOPE OF EXAMINATION (CONTINUED)

Examination procedures formulated for the assessment of small banks' under CRA allow for a small bank to receive an overall "outstanding" assessment, if the institution's performance, with respect to the five core criteria generally, exceeds the requirements of a satisfactory rating, and its performance in making qualified investments and providing branch offices, community development services, and other delivery methods for providing financial services in the assessment area supplement its performance under the five core criteria to warrant an overall outstanding rating.

For purposes of this evaluation, First Capitol chose to have activities involving qualified investments and services evaluated for an overall outstanding assessment.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LOAN TO DEPOSIT RATIO

A financial institution's loan-to-deposit ratio compares the institution's net loan balances outstanding to its total deposits outstanding. Essentially, the ratio is a measure of an institution's lending volume relative to its capacity to lend. The following table depicts First Capitol's quarterly loan-to-deposit ratio for the eight full quarters prior to the examination date, coupled with the average loan-to-deposit ratio for that period. Adding the quarterly loan-to-deposit ratios and dividing by the applicable number of quarters derives the average loan-to-deposit ratio.

HISTORICAL LOAN-TO-DEPOSIT RATIOS			
AS OF	NET LOANS (THOUSANDS)	TOTAL DEPOSITS (THOUSANDS)	RATIO
09/30/97	69,390	79,214	87.6%
12/31/97	70,253	80,834	86.9%
03/31/98	70,377	82,264	85.6%
06/30/98	71,206	82,821	86.0%
09/30/98	71,227	84,202	84.6%
12/31/98	72,648	92,547	78.5%
03/31/99	69,937	94,302	74.2%
06/30/99	72,532	95,295	76.1%
LOAN-TO-DEPOSIT RATIO AVERAGE			82.4%

Source: The Uniform Bank Performance Report prepared by the Federal Deposit Insurance Corporation for use by Federal regulators.

First Capitol's loan-to-deposit ratio is clearly reasonable in view of the institution's asset size, financial condition, and identified credit needs within the assessment area. The loan-to-deposit ratio averaged 82.4% for the eight full quarters prior to the examination date, and compares favorably to a peer group average ratio of 70.9%¹. First Capitol's loan-to-deposit ratio continues to exceed the peer group average ratio despite a recent declining trend.

The declining trend in the ratio is attributable to a substantial growth in deposits, which outpaced the rate of growth in net loans. The table below depicts annual deposit and net loan growth rates over the past three years and the first six months of 1999.

	6/30/99	12/31/98	12/31/97	12/31/96
Deposit Growth	15.1%	14.5%	10.1%	10.0%
Net Loan Growth	1.9%	3.4%	7.3%	14.7%

¹ First Capitol Bank's present national peer group includes all federally insured commercial banks having assets between \$100 million and \$300 million with three or more banking offices and located in a metropolitan area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

LOAN TO DEPOSIT RATIO (continued)

As illustrated by the data in the table, deposits have been increasing at a faster pace than net loans since year-end 1996. More recently, First Capitol sponsored an aggressive certificate of deposit (CD) campaign in conjunction with the opening of two branch offices during the fourth quarter of 1998. The CD campaign generated increased deposits; however, loan originations did not keep pace with the increase in deposits. Nevertheless, First Capitol appears to be meeting the credit needs within its assessment area commensurate with its size and nature and extent of operations.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

LENDING IN ASSESSMENT AREA

This performance category evaluates an institution’s lending within its assessment area, as delineated for the purposes of CRA. First Capitol’s lending activities inside and outside of its assessment area are presented as follows.

LOAN PENETRATION PROFILE								
Number of Loans								
Assessment Area	Small Business Loans		Direct Consumer Loans		Home Mortgage (HMDA) Loans		Total	
	#	%	#	%	#	%	#	%
Inside	58	67	44	86	44	96	146	80
Outside	28	33	7	14	2	4	37	20
Total	86	100	51	100	46	100	183	100
Dollar Amount of Loans (000)								
Assessment Area	Small Business Loans		Direct Consumer Loans		Home Mortgage (HMDA) Loans		Total	
	\$	%	\$	%	\$	%	\$	%
Inside	6,906	43	808	86	2,254	99.7	9,967	52
Outside	9,060	57	130	14	6	0.3	9,197	48
Total	15,996	100	938	100	2,260	100	19,164	100

Note: Based on samples of commercial and non-HMDA direct consumer loans that were reviewed, together with a review of all home mortgage (HMDA reportable) loans that were originated during calendar year 1998 and the six months ended June 30, 1999.

The data reveals that a majority of loans originated by First Capitol were extended to small businesses and individuals within the bank’s assessment area. Eighty percent of the total number of originations and fifty two percent of the total dollars extended were within First Capitol’s assessment area.

As already noted, First Capitol is primarily engaged in commercial or business-purpose lending activities, with home mortgage and other consumer-purpose loans originated primarily to accommodate the supplementary credit needs of its business customers. The profile of the institution’s assessment area penetration is characterized by a larger number of loans originated in lower dollar amounts to small businesses and individuals. Lending activity outside the assessment area is concentrated among a few loans of larger dollar amounts extended primarily to a real estate developer/investor for projects located in Harrisburg, Pennsylvania.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

GEOGRAPHIC DISTRIBUTION OF LENDING

This assessment component addresses the distribution of lending activities among low-, moderate-, middle-, and upper-income geographies within a given assessment area, particularly lending penetrations in low- and moderate-income geographies.

Performance under this component is assessed as more than reasonable, particularly within the context of First Capitol’s operation as a smaller community bank operating within York County, and the number of viable commercial lending opportunities within its assessment area.

Small Business Lending

The following table illustrates lending activity by geography, based upon a sampling of loans originated during the eight-month period ended August 31, 1999.

Profile of Lending to Small Businesses By Census Tract Type within the Assessment Area Eight Months Ended August 31, 1999							
Geography Type	Bank's Total Small Business Loan Originations				Existing Number of Businesses**		# Originations Per 100 Businesses
	#	%	\$	%	#	%	
Low	2	3	55	1	264	4	0.8
Moderate	9	16	676	10	762	12	1.2
Middle	45	78	6,040	87	4,978	76	0.9
Upper	2	3	135	2	511	8	0.4
Total AA	58	100	6,906	100	6,515	100	0.9

** Source: *Tactician CRA Analyzer (Dun & Bradstreet, Inc.)*, data is as of July 1998.

In absolute terms, the number of small business loans sampled, and the corresponding dollar volume, are clearly concentrated in middle-income geographies. Such concentration is deemed reasonable in that it is comparable to the relative level of businesses within the assessment area situated in middle-income geographies. Forty-five (78%) of the total loans sampled financed small businesses operating in middle-income geographies, while 76% of all business within the assessment area operate within such geographies.

Using the geographic distribution of businesses within the assessment area as a general determinant for commercial loan demand by geography type, the sampling of loans is reflective of a demand-adjusted lending penetration rate in low- and moderate-income geographies that is more than proportional to the rate in other geographies. For the period reviewed, First Capitol originated 2 loans for every 100 businesses located in low- and moderate-income geographies, compared to 1.3 loans originated for every 100 businesses in middle- and upper-income geographies. Notably, the number of loans originated per 100 businesses in low-income geographies approximates the relative lending level in middle-income geographies and exceeds the lending level in upper-income geographies. Moreover, the number of loans originated per 100 businesses in moderate-income geographies exceeds relative lending levels in middle- and upper-income geographies, respectively.

Although geographic distribution of existing business establishments within a given assessment area is not necessarily the sole determinant of loan demand by geography type, it is considered a reasonable determinant for purposes of this evaluation within the following context:

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

GEOGRAPHIC DISTRIBUTION OF LENDING (continued)

Small Business Lending (continued)

- The current nature of the geographic distribution data of businesses in the assessment area (i.e., July 1998);
- The economic characteristics of the assessment area; and
- The fact that the relative distribution of small businesses within the assessment area, based on revenue volume, is generally consistent among different geography types. Overall, businesses with total revenues of less than \$1.0 million represent 88% of total business establishments within the assessment area. Such businesses represent 84%, 85%, 88%, and 89% of businesses within low-, moderate-, middle-, and upper-income geographies, respectively.

Additionally, First Capitol’s higher small business lending penetration rates within low- and moderate-income geographies is particularly relevant, given the input solicited from community representatives interviewed as part of this evaluation. Such input underscored the need for comparatively smaller loan amounts extended to small businesses or self-employed persons within low- and moderate-income geographies within the city of York. Based on the loans sampled during this examination, the average dollar amount of loans originated in low-, moderate-, middle-, and upper-income geographies is \$27,500; \$75,000; \$134,000, and \$67,500, respectively.

First Capitol’s lending penetrations within low- and moderate-income geographies are limited with respect to non-business lending activities, (namely, direct, non-HMDA-reportable consumer purpose loan originations and HMDA-reportable loan originations). Since the bank engages in such lending activities largely on an accommodation basis, the limited lending penetrations are not considered significant for purposes of this evaluation. It should also be noted that non-business lending penetrations among low- and moderate-income borrowers, irrespective of the geography in which they reside, are substantial. (Such lending activities are detailed under **Borrower Characteristics**.) Applicable non-business lending activities are summarized below.

Non-mortgage consumer lending

Non-HMDA Consumer Loan Originations within the Assessment Area by Census Tract Type (Eight Months Ended August 31, 1999)						
Geography Type	Loan Originations				Families in AA by Geography Type	
	#	%	\$(000)	%	#	%
Low	0	0	0	0	2,087	3
Moderate	1	2	7	1	7,388	9
Middle	37	84	706	87	67,384	81
Upper	6	14	95	12	5,807	7
Total AA	44	100%	808	100%	82,666	100%

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

GEOGRAPHIC DISTRIBUTION OF LENDING (continued)

Home Mortgage Lending

Home Mortgage (HMDA reportable)Lending Profile by Census Tract Type within the Assessment Area YTD 1999/1998						
Geography Type	Bank				Total Owner Occupied Housing Units	
	#	%	\$ (thousands)	%	#	%
Low	0	0	0	0	1,165	1
Moderate	1	2	66	3	5,885	7
Middle	34	77	1,684	75	69,045	84
Upper	9	21	504	22	6,172	8
Total AA	44	100%	2,254	100%	82,267	100%

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

BORROWER CHARACTERISTICS

This assessment component addresses the distribution of lending activities within a given assessment area, irrespective of geography, among business borrowers of different sizes, particularly small businesses; and retail or consumer borrowers of different incomes, particularly low- and moderate-income borrowers.

Performance under this component is assessed as excellent in that First Capitol's commercial lending activities are clearly concentrated among small businesses, particularly small businesses with revenues of less than \$1.0 million. Additionally, with respect to consumer purpose lending activities undertaken by the bank, there are substantial lending penetrations among low- and moderate-income persons, relative to the percentages of families categorized as low- and moderate-income by the 1990 U.S. census.

Small Business Lending

First Capitol's profile of lending to small businesses is summarized in the following table, based on the 58 commercial loan originations sampled within the assessment area.

Small Business Loans Originated during the Eight months ended August 31, 1999 (dollar amounts in thousands)				
	Less than \$100,000	Between \$100,000 and <=\$250,000	Greater than \$250,000 and <=\$1 Million	Loans to Businesses with Revenues of <=\$1 million
Number of Loans Originated	37	10	11	45
Dollar Amount of Loans Originated	\$1,474	\$1,715	\$3,986	\$3,633
Total Small Business Loans Originated (#)		58		
Total Small Business Loans Originated (\$)		\$6,906		
Avg Loan Size of Small Business Loans Originated (\$)		\$119		
Loans Originated to Businesses w/Revenues of Less than \$1 million as a % of Total Small Business Loans Originated		78%		

Most notably, each of the 58 loans sampled met the definition of a loan to small business for purposes of CRA, (i.e., each was originated in an amount of less than \$1,000,000). The average dollar amount of the loans sampled was \$120,000. Also noteworthy, nearly 80% of all loans in the sample were extended to businesses with revenues of less than \$1.0 million, with an average loan size of \$81,000.

In addition to the foregoing loan sample, the examination included a review of Schedule RC-C Part II (Loans to Small Businesses and Small Farms) contained in the bank's Consolidated Reports of Condition and Income filed as of June 30, 1999. The aforementioned schedule clearly shows that First Capitol's commercial-purpose loans outstanding are concentrated among small businesses, as summarized in the following table.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

BORROWER CHARACTERISTICS (continued)

LOANS TO SMALL BUSINESSES AS OF JUNE 30, 1999				
	Number Outstanding		Dollar Outstanding	
	#	%	#	%
Loans with original amounts of \$100,000 or Less	363	74	7,734	23
Loans with original amounts of more than \$100,000 through \$250,000	75	15	8,247	24
Loans with original amounts of more than \$250,000 through \$1,000,000	53	11	17,846	53
TOTAL SMALL BUSINESS LOANS	491	100%	33,827	100%
Loans with original amounts of greater than \$1,000,000	N/A		11,356	
Total Commercial Loans	N/A		45,183	

As of June 30, 1999, First Capitol reported 491 small business loans outstanding, with an aggregate balance of \$33.8 million. This dollar aggregate represented 75% of total commercial loans outstanding as of that date (i.e., commercial and industrial loans and loans secured by non-farm nonresidential mortgages, combined). Of the total number of small business loans reported, nearly three-quarters were extended to small businesses in original amounts of \$100,000 or less.

Lending penetrations among borrowers of different income types, with regard to non-business lending activities, (i.e., direct, non-HMDA reportable consumer purpose loan originations and HMDA reportable loan originations) are discussed and summarized as follows.

Non-mortgage consumer lending

(Non-HMDA) Consumer Loan Originations within the Assessment Area by Borrower Characteristic (Eight Months Ended August 31, 1999)						
Borrower Type	Total Originations				Families in AA by Income	
	#	%	\$	%	#	%
Low	12	27	107,812	13	13,287	16
Moderate	11	25	198,500	25	16,212	20
Middle	4	9	51,300	6	23,383	28
Upper	15	34	419,425	52	29,784	36
N/A	2	5	30,438	4		
Total AA	44	100%	807,475	100%	82,666	100%

Although loan originations in low- and moderate-income geographies within the assessment area are limited, the majority of non-mortgage consumer loans was extended to low- and moderate-income persons, irrespective of geography. A considerable portion of the loan sample represents loans to finance the purchase of used automobiles by individuals that applied for individual credit. Conceivably, several of the loans categorized as originated to low- and moderate-income borrowers could be extensions of credit to persons whose families or households are something other than low- and moderate-income. If so, the distribution indicates that the bank, nonetheless, originated credit based on reportable incomes that are deemed low or moderate within the MSA. It should also be noted that the substantial number of loans originated to low- and moderate-income persons is likely indicative of personal loans to the principals of various small businesses within the assessment area. Given that 75% of the low- and moderate-income residents of the assessment area reside in middle-income geographies, such individuals likely reside in middle-income geographies.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

BORROWER CHARACTERISTICS (continued)

Non-mortgage consumer lending (continued)

MSA. It should also be noted that the substantial number of loans originated to low- and moderate-income persons is likely indicative of personal loans to the principals of various small businesses within the assessment area. Given that 75% of the low- and moderate-income residents of the assessment area reside in middle-income geographies, such individuals likely reside in middle-income geographies.

The distribution, by borrower characteristics, of HMDA loans originated within the assessment area during calendar year 1998 and the first half of 1999 is summarized below.

Home Mortgage Lending

Home Mortgage (HMDA reportable)Lending Profile by Borrower Characteristic within the Assessment Area 1999/1998						
Borrower Type	Total Originations				Families in AA by Income	
	#	%	\$ (thousands)	%	#	%
Low	8	18	298	13	13,287	16
Moderate	11	25	550	25	16,212	20
Middle	9	21	523	23	23,383	28
Upper	15	34	786	35	29,784	36
Income N/A	1	2	97	4		
Total AA	44	100%	2,254	100%	82,666	100%

The percentages of home mortgages extended to low- and moderate-income borrowers exceed the percentages of families categorized as low- and moderate-income, respectively, by the 1990 U.S. census. The majority of home mortgage loans originated during the combined 1999/1998 period were extended for refinance and home improvement purposes. Similar to non-mortgage consumer purpose lending, it is likely that many of the loans extended to low- and moderate-income borrowers are representative of loans to accommodate the credit needs of principals of small businesses residing in middle-income geographies.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

EVALUATION OF QUALIFIED INVESTMENTS AND SERVICES

The criteria for consideration of an overall outstanding assessment, regarding the evaluation of qualified investments and services are:

- A bank's level and use of qualified investments, as defined by Regulation BB, which implements CRA, to enhance performance; and,
- A bank's record of providing services and delivery systems to enhance credit availability or community development, as defined by Regulation BB.

Qualified Investments

First Capitol's level and use of qualified investments is considered to be excellent. At present, the bank holds equity tax credit investments (inclusive of formal commitments to invest) in three different limited partnerships engaged in affordable housing initiatives within York County, totaling \$532,500. Although none of the three housing initiatives provide for housing within low- or moderate-income geographies within the assessment area, each qualifies for federal low-income rental housing tax credits, pursuant to the applicable provisions of the Internal Revenue Service (IRS) Internal Revenue Code.

Although tax credit investments by commercial banking entities have become more commonplace in recent years, First Capitol's tax credit investments, together with the equity investments of two other community banks have, nonetheless, facilitated the availability of 132 units of affordable rental housing within the assessment area. Such volume of housing, designated specifically for low- and moderate-income persons, is especially relevant given the pronounced need within York County for governmentally assisted or public housing as most recently determined by HUD.

The aggregate amount of First Capitol's tax credit investments is considered substantial, given the bank's size and extent of operations. By regulation, the bank's aggregate holdings of such investments cannot exceed 5% of its capital stock and surplus, as defined by the Federal Reserve System's Regulation H; without prior notification to its direct banking regulator, The Federal Reserve Bank of Philadelphia. At the date of this examination, the amount of First Capitol's tax credit investments represented 4.4% of the bank's capital stock and surplus.

The general partner of each of the tax credit limited partnerships is a York based for-profit real estate developer, specializing in the development of affordable housing via limited partnership arrangements. Since 1987, this entity has been the general partner, developer, and syndicator of eleven multifamily affordable housing initiatives, involving nearly 350 housing units in York, Lancaster, Lebanon, and Berks Counties in Pennsylvania, and Cecil County in Maryland.

Two of the three investments were fully funded by First Capitol at the date of this examination, while the third was approximately 75% funded. The oldest of the investments dates back to 1992, and involves six one-bedroom units and 22 two-bedroom units located within the city of York. The others, which the bank committed to during 1998 and 1999, involve 50 units of affordable housing in Red Lion Borough, York County; and 54 units of housing in east Manchester Township, York County.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

EVALUATION OF QUALIFIED INVESTMENTS AND SERVICES (continued)

Qualified Investments (continued)

In addition to the foregoing investments during 1999, First Capitol donated several pieces of large playground equipment, nursery equipment, children's toys, and other various supplies to a local community organization, based in the city of York. This organization provides extensive social services and other assistance to the city's low- and moderate-income geographies and low- and moderate-income residents. Although neither the bank nor the community organization could place a specific dollar value on the pieces donated, correspondence from the community organization acknowledging the donations indicated that the amount of donations was substantial and saved the organization in excess of \$1,000.

Services Recognized Under CRA

First Capitol operated five full-service banking offices at the date of this examination. Four offices are located in four different middle-income geographies within the assessment area (three in York Township, and the other in Red Lion Borough). The fifth office is located in a low-income geography within the downtown section of the city of York. Two offices (i.e., the office in Red Lion Borough and another office in York Township) were opened subsequent to the previous examination.

Each office uniformly offers access to all of the bank's loan products and financial services. First Capitol's office in downtown York is readily accessible to the city's low- and moderate-income residents. The downtown York office's business hours, delivery mechanisms, and financial services and product offerings are not diminished or inferior to those of the bank's other offices.

First Capitol offers a low-cost checking account product, which contains no service fees with respect to check writing activity. The product's only fee is a \$4.00 fee that is imposed on accounts that become dormant. The product's terms and conditions allow for unlimited check writing and no minimum balance. The branch manager of the bank's downtown York office actively promotes this product to young adults residing in the city's low- and moderate-income geographies via a local community organization that is actively involved in those geographies.

First Capitol's management offers technical assistance, on the bank's behalf, to principals of small businesses on a regular basis. In cooperation with the York Chamber of Commerce, the bank remains actively involved in a local initiative established as the Small Business Support Network (Network). Participants in the Network, which include local accountants, lawyers, and bankers, assemble monthly for purposes of discussing and providing technical assistance to small business persons, or persons or parties interested in beginning a small business. Additionally, management of First Capitol routinely devotes considerable efforts to help facilitate the sponsorship of annual meetings hosted by the Network to provide technical assistance to small business.

Finally, in addition to the foregoing, First Capitol, throughout most of its existence, has actively pursued participation in affordable housing initiatives, coordinated through the Federal Home Loan Bank of Pittsburgh's Affordable Housing and Community Investment Programs. Subsequent to the previous

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CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

EVALUATION OF QUALIFIED INVESTMENTS AND SERVICES (continued)

Services Recognized Under CRA (continued)

evaluation (September 23, 1996), the bank was approved to administer a grant of \$575,000, provided through the aforementioned programs. The grant, together with other substantial financing, provided by First Capitol, the FHLBP, the city of York, and the local United Way organization, facilitated the completion of a 32-unit multi-housing facility located in the city of Hanover. Similar to the housing initiatives described under Qualified Investments, this initiative was accomplished through the issuance of federal low-income rental housing tax credits. Although the housing provided for is not situated in either of Hanover's two moderate-income geographies, occupancy of the housing is restricted to persons or households with incomes of less than 60% of the MSA's adjusted median family income as determined by HUD. Previously, First Capitol was approved to administer grants provided by the FHLBP to facilitate affordable housing initiatives in the city of York.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

COMPLIANCE WITH FAIR LENDING LAWS

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