

PUBLIC DISCLOSURE

December 1, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**MINERS BANK OF LYKENS
RSSD - 00000962715
LYKENS, PENNSYLVANIA**

**FEDERAL RESERVE BANK OF PHILADELPHIA
PHILADELPHIA, PENNSYLVANIA**

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 safe and sound operations 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 Community Reinvestment Act (CRA) performance of **Miners Bank of Lykens** prepared by the **Federal Reserve Bank of Philadelphia**, as of **December 1, 1997**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

DISCUSSION OF INSTITUTION-S PERFORMANCE

INSTITUTION'S COMMUNITY REINVESTMENT ACT (CRA) RATING: This institution is rated **SATISFACTORY**, based upon the findings presented in the following discussion of the bank-s performance.

The evaluation determined that the lending activities of Miners Bank of Lykens (MBL) are responsive to the credit needs of its assessment area (AA), as delineated for purposes of CRA. The bank has originated only a scant number of loans within the AA-s one moderate-income geography. However, in view of the fact that the locations of other financial institutions, within the AA, are more proximate and accessible to the moderate-income geography-s residents, such limited lending presence is not deemed unreasonable. Moreover, the bank-s home mortgage and other non-mortgage consumer lending activities clearly evidence its commitment to the credit needs of the AA-s substantial low- and moderate-income population segment, irrespective of geography.

Such assessment was determined through the application of CRA Small Bank Performance Standards, as described by section 228.26 of Regulation BB, which implements CRA. Thus, the following criteria have been assessed: the bank-s loan-to-deposit ratio; the volume of lending within its AA; the bank-s lending penetration among borrowers of different incomes and businesses of different sizes; (including low- and moderate-income individuals and small businesses); and the geographic distribution of loans originated by the bank throughout its AA. Additionally, the evaluation took into consideration demographic and economic data specific to the AA and relevant characteristics of the bank.

DESCRIPTION OF INSTITUTION

MBL is an independent, locally controlled, full service commercial bank that has been providing banking services to its community for more than 125 years. The bank-s Consolidated Reports of Condition and Income (Call Report) as of September 30, 1997, indicate total assets of \$28.1 million, \$10.5 million or 37.4%, of which, were loans outstanding. In terms of dollars, the largest component of MBL-s loan portfolio was loans secured by residential real estate, which aggregated \$8.4 million or 79.8% of total loans, while consumer loans amounted to \$1.7 million or 16.1%; collectively, these two loan types represented 95.9% of the total portfolio. Although not all of the bank-s residential real estate loans have been extended for consumer purposes, the examination determined that the majority of such loans were home mortgage loans. The remainder of the portfolio was essentially comprised of commercial loans.

The bank-s sole office is located in a middle-income census tract, approximately 40 miles northeast of Harrisburg (Pennsylvania-s state capital) at 550 Main Street, Lykens, Pennsylvania. This office is situated in a rural setting that is somewhat isolated by mountainous terrain. MBL, which is a member of the Money Access Card (MAC) nationwide ATM system, operates a proprietary automated teller machine (ATM) at Don-s Food Rite, located at 670 Main Street, Lykens, PA.

MBL markets a variety of retail and commercial banking products and services to the AA through its sole office, which maintains business hours Monday through Thursday 9:00 am to 3:00 pm, and Friday, 9:00 am to 7:00 pm. Drive-in hours of operation are Monday through Wednesday, 8:00 am to 4:30 pm, Thursday 8:00 a.m. to 5:00 pm, Friday 8:00 am to 7:00 pm, and Saturday 9:00 am to 12:00 pm. The bank offers 24 hour accessibility to its ATM on a daily basis.

DISCUSSION OF INSTITUTION-S PERFORMANCE (CONTINUED)

DESCRIPTION OF INSTITUTION (continued)

The following chart lists a sampling of loan and deposit products offered:

LOAN AND DEPOSIT PRODUCTS	
<u>Loan Products</u>	<u>Deposit Products</u>
Personal Loans (Secured and Unsecured)	Certificates of Deposit
Commercial Loans and Lines of Credit	Personal Checking and Savings
Automobile/Boat/Mobile Home Loans	Business Accounts
Home Equity Loans and Lines	Food Stamp Issuance
Home Improvement Loans	Negotiable Order of Withdrawal (NOW) Accounts
Residential Mortgages	Bank by Mail and Telephone Services
Mortgage Refinance Loans	Christmas Club Accounts
VISA Credit Cards	Vacation Club Accounts
Education Loans	Individual Retirement Accounts

DESCRIPTION OF ASSESSMENT AREA/MINERS BANK OF LYKENS

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

MBL is located in Dauphin County which is a part of the Harrisburg/Lebanon/Carlisle Metropolitan Statistical Area (MSA), as defined by the Office of Management and Budget. The MSA comprises Cumberland, Dauphin, Lebanon, and Perry counties in south-central Pennsylvania. The Harrisburg/Lebanon/Carlisle MSA employs more than 269,000 people and consists of over 14,000 firms representing a diverse variety of businesses. Important economic entities include military establishments, and trucking, textiles, and apparel manufacturing firms. Comparatively, the MSA and AA have low unemployment rates. As of June 30, 1997, the MSA's unemployment rate of 4.0%, was somewhat above the state's rate of 3.8%. Nevertheless, it compared favorably to the national rate of 4.9%. In conjunction with this examination, interviews were conducted with representatives of two community based development corporations (Contacts) located in the MSA. According to one of the Contacts interviewed, present unemployment rates in the MSA are lower than in the recent past; however, it should be noted that, unemployment rates in the MSA's low- and moderate-income geographies are significantly higher than the national unemployment rate.

The number of census tracts within the bank's AA declined from five to four since the previous examination. MBL's management indicated that it eliminated one middle-income tract, (#2048), from its AA, due to minimal loan and deposit activity and the competitive nature of the tract. The AA contains no low- or upper-income tracts. Of the AA's four tracts, one has been designated as moderate-income and three have been designated as middle-income. Essentially, the AA is a former coal mining community, composed primarily of single-family homes, several retail stores, and four manufacturing firms. The Contacts who were interviewed indicated that many of the AA's residents commute to the city of Harrisburg, or other cities in the MSA, for employment.

The following table depicts the AA's population by census tracts:

DISCUSSION OF INSTITUTION-S PERFORMANCE (CONTINUED)

DESCRIPTION OF ASSESSMENT AREA/MINERS BANK OF LYKENS (continued)

Census Tract Type	Number	Percent	Population	Percent
Low Income	0	0	0	0
Moderate Income	1	25	3327	26
Middle-Income	3	75	9296	74
Upper-Income	0	0	0	0
Totals	4	100%	12623	100%

Source: Board of Governors of the Federal Reserve Systems Community Lending Analysis System, (CLAS)

The median family income of the AA and the MSA, based on 1990 U.S. Census data is \$30,808 and \$37,389 respectively. The 1997 and 1996 adjusted median family incomes for the MSA, as estimated by the U.S. Department of Housing and Urban Development (HUD), are \$45,200 and \$43,400 respectively, which result in the following income categories:

Year	Median Family Income	Low Income (<50%)	Moderate Income (50% - <80%)	Middle Income (80% - <120%)	Upper income (120% or Greater)
1997	\$45,200	Less than \$22,600	\$22,600 - \$36,160	\$36,160 - \$54,240	\$54,240 or more
1996	\$43,400	Less than \$21,700	\$21,700 - \$34,720	\$36,160 - \$52,080	\$52,080 or more

The following table presents the AA-s families by income level and geography. (Note: Families by income levels are based on 1990 census data.)

Income Distribution						
	Census Tracts		Families by Income Level		Families by Geography	
	Number	Percent	Number	Percent	Number	Percent
Low	0	0	781	22	0	0
Moderate	1	25	926	26	921	26
Middle	3	75	1,040	29	2,656	74
Upper	0	0	830	23	0	0
Total	4	100%	3,577	100%	3,577	100%

Families represent 74% of the AA-s total households. This percentage is somewhat higher than the respective percentages of families in the MSA, Dauphin County, and the state of Pennsylvania. Low- and moderate-income families represent approximately 48% of the AA-s total families, 6%, of whom, have incomes below the federal poverty level. The level of low-and-moderate income families in the AA is significantly higher than levels of low- and moderate-income families in the MSA, Dauphin County, and the state. Additionally, senior citizens represent a significant percentage (16%) of the AA-s population, which is higher than the percentage of senior citizens in Dauphin County, as a whole.

Seventy-two per cent of the AA-s housing units are owner-occupied; considerably higher than the MSA and state percentages of 64%. The median value of the AA-s housing units is \$42,596; substantially below the MSA and state housing medians of \$75,013 and \$69,075, respectively. The majority of the housing structures in the AA were built at the turn-of-the-century. Although a significant volume of the housing stock has had some degree of renovation (new kitchen, bath, etc.), many are still in need of updating and repair.

Accordingly, appraisal values of AA residential real estate remain relatively flat.

DISCUSSION OF INSTITUTION-S PERFORMANCE (CONTINUED)

DESCRIPTION OF ASSESSMENT AREA/MINERS BANK OF LYKENS (continued)

The Contacts interviewed indicated that the AA's most pressing credit needs are home mortgage needs associated with affordable housing. In addition, the examination found that the overall need for affordable housing, in turn, spurs technical assistance needs relating to housing development, credit counseling, and household or personal money management (budgeting) techniques.

LOAN-TO-DEPOSIT RATIO:

A financial institution's loan-to-deposit ratio compares the institution's aggregate 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 average (41%) of MBL's quarterly ratios since the previous examination is well below national peer average¹. Nevertheless, such lending level is deemed reasonable, for purposes of CRA, in context of the bank's size, limited lending opportunities, and the demographics and economic characteristics of the AA as discussed under **Description of Assessment Area/Miners Bank of Lykens**.

The following table depicts MBL's quarterly loan-to-deposit ratios subsequent to the previous evaluation, together with an average loan-to-deposit ratio for the five quarters shown. The quarterly loan-to-deposit ratio average is derived by adding the quarterly loan-to-deposit ratios and dividing by the number of quarters since the previous examination.

Historical Loan-to-Deposit Ratio				
As Of	Net Loans (Thousands)	Total Deposits (Thousands)	Ratio	Peer Ratio %
09/30/96	10,389	25,237	41%	66%
12/31/96	10,451	25,002	42%	66%
03/31/97	10,535	25,041	42%	66%
06/30/97	10,454	26,196	40%	67%
09/30/97	10,364	25,105	41%	68%
Loan to Deposit Ratio Average Since The Previous Examination of 07/01/96			41%	66%

Source: Uniform Bank Performance Report (UBPR) prepared by the Federal Deposit Insurance Corporation for use by federal regulators.

The next table depicts the bank's loan-to-deposit ratio and asset growth rates for the most recent quarter and over the past three years.

Growth Rates	9/30/97	12/31/96	12/31/95	12/31/94
Loan- to- Deposit	41%	42%	43%	43%
Asset Growth	-0.2%	3.1%	1.1%	-0.3%

Source: UBPR

MBL experienced a net reduction in total assets during the 12 months ended September 30, 1997, and minimal asset growth during 1996 and 1995. Correspondingly, the bank's deposit base has grown minimally (i.e. 3% for the year ended December 31, 1997), while its loan net loans outstanding increased by only 1.7% for the same period. Such limited growth is reflective of the AA's somewhat isolated location, demographics, and overall economic conditions, particularly the AA's virtual lack of an industrial base.

¹ MBL's national peer group consists of all commercial banks having assets between \$25 million and \$50 million with one banking office, and located in a metropolitan area.

Additionally, the overall demand for retail or consumer purpose credit is constrained by the following factors:

DISCUSSION OF INSTITUTION-S PERFORMANCE (CONTINUED)

LOAN-TO-DEPOSIT RATIO (continued):

- C Many of the AA=s residents commute to Harrisburg and other cities within the MSA for employment, and as a matter of convenience, likely conduct their banking and finance needs in Harrisburg;
- C A significant population of senior citizens and retired individuals reside within the AA;
- C The bank=s single banking facility and the significant degree of competition among financial institutions within the MSA;
- C The AA=s continuing population decrease, which has primarily resulted from younger persons pursuing employment, economic, and social opportunities outside of the AA.

LENDING IN ASSESSMENT AREA

The criterion of this performance category evaluates an institution=s lending in and out of its AA. In terms of number, a substantial majority of loans, originated by MBL, are extended to borrowers within its AA. This overall assessment is based primarily on an analysis of all loans (including home mortgage loans) originated by the bank during the eleven months ended November 30, 1997.

The following table indicates that 80% of MBL=s overall lending activities are geographically contained within its AA:

Loan Originations (Year-To-Date January - November 30, 1997)								
	Consumer Loans	%	HMDA Loans	%	Commercial Loans	%	Total	%
Inside	134	84	27	82	1	10	157	80
Outside	25	16	7	18	9	90	39	20
Total	159	100%	34	100%	10	100%	196	100%

MBL=s limited lending penetration of its AA, with respect to commercial lending activities, is mitigated by the limited number of commercial lending opportunities within the AA. Also, the examination determined that, generally, the bank=s commercial lending activities outside of the AA finance businesses that either directly employ AA residents, working outside of the AA, or, indirectly, are conducive to the employment of AA residents.

Additionally, the bank=s 1996 Home Mortgage Disclosure Act (HMDA) Loan Application Register (LAR) indicates that a substantial majority of its HMDA or home mortgage loans were extended within its AA.

1996 HMDA LAR Penetration Profile		
	Number	Percent
INSIDE	19	76
OUTSIDE	6	24
TOTAL	25	100%

GEOGRAPHIC DISTRIBUTION OF LOANS:

The geographic distribution of loans measures an institution=s lending performance in low-, moderate-, middle, and upper-income geographies within its AA. Accordingly, the geographic distribution of loans reflects a reasonable dispersion throughout the AA, including the AA=s one moderate-income geography.

DISCUSSION OF INSTITUTION-S PERFORMANCE (CONTINUED)

GEOGRAPHIC DISTRIBUTION OF LOANS (continued):

The following table presents the geographic distribution of all loans originated by MBL during the eleven months ended November 1997, together with applicable demographics of the AA.

Loan Originations (Year-To-Date January - November 30, 1997)												
	Census Tracts Number Percent		Population In Census Tracts Percent		Year-To-Date HMDA Loans Number Percent		Year-To-Date 1997 Consumer Loans Number Percent		Year-To-Date 1997 Commercial Loans Number Percent		All loans Number Percent	
Moderate	1	25	3327	26	2	3	2	2	0	0	4	3
Middle	3	75	9296	74	25	97	132	98	1	100	158	97
Total	4	100%	12623	100%	27	100%	134	100%	1	100%	162	100%

The next table presents the bank's geographic home mortgage lending profile, based on 1996 HMDA data, by product type. The modest number of mortgage originations shown, with most of the originations extended as refinance transactions, is somewhat indicative of the AA's overall economic characteristics.

1996 Distribution of HMDA Loan Originations by Geography				
By Tract Income	Purchase	Refinancing	Home Improvement	Total
Moderate	0	0	0	0
Middle	3	15	1	19
Total	3	15	1	19

In terms of number of loan originations, MBL's lending presence in the moderate-income tract is substantially limited, with respect to all of its lending activities during the year-to-date period ended November 30, 1997, and non-existent with respect to its home mortgage lending during 1996. Moreover, the data shows a significant disparity between the lending penetration of the moderate-income tract and the overall penetration of the three middle-income tracts, in view of applicable demographics.

However, it should be understood that the bank's single-office facility and ATM are both located in what is locally known as **Lykens Valley**, which is somewhat separated from the moderate-income geography by mountainous terrain. In addition, notwithstanding the AA's somewhat isolated location, its financial services market is deemed **competitive** with seven other commercial banks, including a super-regional banking entity, and one thrift that service the AA. Moreover, the loan delivery mechanisms of such institutions are either situated in the moderate-income geography or more proximate to same than MBL's banking office. It should also be noted that although 26% of the AA's total population, irrespective of income, reside in the moderate-income geography, 73% of the AA's low- and moderate-income families reside outside of the moderate-income tract. In this regard, MBL's lending penetration among low- and moderate-income persons in the AA, as discussed under the next section, **Lending to Borrowers of Different Incomes and Businesses of Different Sizes**, clearly evidences the bank's commitment to the credit needs of the AA's substantial low- and moderate-income population segment.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

This assessment category examines a bank's distribution of loans extended within its AA to borrowers of different incomes and businesses of different sizes, particularly low- and moderate-income borrowers and small businesses. Borrowers of different incomes have been defined by their income relative to the adjusted

(continued)

DISCUSSION OF INSTITUTION-S PERFORMANCE (CONTINUED)

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES (continued)

MSA median family income for both 1996 and 1997, as estimated by the U.S. Department of Housing and Urban Development (HUD). MBL's lending profile among borrowers of different incomes is based primarily on its home mortgage lending activities during 1996 and the six months ended June 30, 1997 and an overall assessment of non-mortgage consumer purpose lending activities since the previous examination. Business size has been measured via an evaluation of lending penetration among small businesses. For purposes of CRA, a loan to a small business is defined pursuant to the instructions for preparation of the Uniform Consolidated Reports of Condition, (Call Report) filed for regulatory and supervisory purposes.

Accordingly, The distribution of loans among borrowers reflects a reasonable penetration among individuals of different income levels, including low- and moderate-income individuals, while all of the commercial loans originated by the bank since the previous examination were extended to small businesses.

Borrower Income Distribution

For purposes of CRA, a low- or moderate-income designation refers to an income which is less than 80% of the median family income of the MSA in which the bank operates. The 1997 and 1996 adjusted median family incomes, as estimated by HUD, for the Harrisburg/Lebanon/Carlisle MSA was \$45,200 and \$43,400 respectively. Thus, borrowers incomes for the AA are categorized as follows:

Year	Median Family Income	Low Income (<50%)	Moderate Income (50% - <80%)	Middle Income (80% - <120%)	Upper Income (120% or more)
1997	\$45,200	Less than \$22,600	\$22,600 - \$36,160	\$36,160 - \$54,240	\$54,240 or more
1996	\$43,400	Less than \$21,700	\$21,700 - \$34,720	\$36,160 - \$52,080	\$52,080 or more

The following table shows the distribution of home mortgage or HMDA loan originations, by borrower income, during 1996 and the first half of 1997, comparing same to the AA's distribution of families by income level. For both periods shown, MBL's mortgage penetration among low- and moderate-income borrowers is commensurate with the percentage of families within the AA that have been categorized as low- or moderate-income.

Families by Income	Percent of Families by Income Level	1996 HMDA Report by Income Level		Year-To-Date June 30, 1997 Income Level	
Low and Moderate	48	9	48	12	44
Middle	29	5	26	9	34
Upper	23	5	26	6	22
Total	100%	19	100%	27	100%

The next table presents the bank's home mortgage lending profile, by both borrower income and product type. The modest number of mortgage originations shown for both periods, with most of the originations extended as refinance transactions, is somewhat indicative of the AA's overall economic characteristics.

DISCUSSION OF INSTITUTION-S PERFORMANCE (CONTINUED)

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES (continued)

1996 Distribution of HMDA Loan Originations by Borrower Income				
By Borrower Income	Purchase	Refinancing	Home Improvement	Total
Low and Moderate	1	7	1	9
Middle	1	4	0	5
Upper	1	4	0	5
Total	3	15	1	19

With respect to non-mortgage credit, MBL routinely originates personal loans in comparatively small amounts, frequently on an unsecured basis, to low- and moderate-income persons and families. Of the total non-HMDA consumer loans originated since the previous examination, 15% were originated in an amount of \$1,000 or less, while 43% were originated in an amount of \$3,000 or less. It is also noteworthy that MBL is the only commercial bank in Dauphin County that originates personal loans in amounts of \$1,000 or less.

A cursory review of smaller personal loans originated since the last examination found that most were extended for either debt consolidation purposes or emergencies and unexpected living expenses. The examination determined that approximately 60% of the borrowers extended smaller loans are low- and moderate-income persons living on fixed incomes, a considerable portion, of whom, receive Social Security payments or other forms of public assistance. Additionally, MBL's management pointed out that most of the employed moderate-income borrowers extended such credit are individuals earning a minimum wage. Finally, it was noted that many of this borrower segment do not have the financial wherewithal to maintain a savings account, credit card, or personal line of credit, or qualify for the minimum loan amount established by other financial institutions in the AA.

Businesses of Different Sizes

MBL's overall commercial lending activities are somewhat limited, owing to the demographic and economic characteristics of the AA, as discussed under **Description of Assessment Area/Miners Bank of Lykens**.

Nevertheless, the bank's Consolidated Reports of Condition and Income, as of June 30, 1997, indicate that all, or substantially all, of the 16 non-farm/non-residential mortgage loans and eight commercial and industrial loans, outstanding at that date, were extended to small businesses in an amount of \$100,000 or less. The examination determined that MBL originated 14 commercial loans, including commercial mortgages, since the date of the previous examination, all of which were extended to small businesses. Moreover, each of the ten commercial loans originated by the bank during the six months ended June 30, 1997 were extended to a business entity with gross annual revenue of less than \$1.0 million. Commercial loans originated since the previous examination which are deemed more notable for purposes of CRA include:

- C a commercial mortgage for a multi family unit: \$45,000;
- C a commercial loan to a local restaurant in Lykens: \$125,000; and
- C a construction mortgage to renovate a fifteen-room bed and breakfast: \$240,000.

RESPONSE TO CONSUMER COMPLAINTS

The bank has not received any complaints relative to its CRA performance since the previous evaluation.

COMPLIANCE WITH ANTI DISCRIMINATION LAWS

MBL solicits credit applications from all segments of its AA without regard to any basis prohibited by the federal Equal Credit Opportunity or Fair Housing Acts. Management has established lending policies that express a commitment by the bank to evaluate applicants fairly, without regard to any prohibited basis. No violations of the substantive provisions of the antidiscrimination laws and regulations were identified.

