

PUBLIC DISCLOSURE

September 29, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**WOODLANDS BANK
RSSD - 000001479470
WILLIAMSPORT, 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 **Woodlands Bank** prepared by the **Federal Reserve Bank of Philadelphia**, as of **September 29, 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

SCOPE OF EXAMINATION:

The scope of the examination consisted of an assessment of Woodlands Bank's (WB) lending performance since the previous examination conducted as of April 1, 1996, by this Reserve Bank. Given the substantial number of consumer purpose loans originated by WB, an evaluation of the bank's lending activity is based primarily upon an analysis of its 1996 Home Mortgage Disclosure Act Loan Application Register (LAR) and its consumer and residential mortgage loan activity during the six months ended June 30, 1997. Additionally, WB's commercial lending activities during the first half of 1997 were reviewed as part of the assessment.

The Williamsport Profile of Community Credit Needs (1996 Profile), prepared by this Reserve Bank as of October 1996, was utilized to better understand the credit needs of the bank's assessment area (AA) as delineated for purposes of CRA. Also, interviews were conducted with representatives of the Susquehanna Health System and the Lycoming-Clinton Counties Commission for Community Action Inc. to gain additional perspective on AA credit needs. The examination also included an evaluation of the institution's compliance with anti-discrimination laws and regulations. The evaluation was based solely on those activities and initiatives which occurred during the period between examinations.

INSTITUTION'S CRA RATING:

SATISFACTORY

WB maintains a reasonable level of loans relative to the nature of its deposit base and a substantial majority of its loans are made in the AA. For purposes of CRA, all of the bank's commercial purpose loans, (including those secured by real estate), have been extended to small businesses. However, WB's lending penetration among low- and moderate-income borrowers, with respect to home mortgage and non-mortgage consumer loan originations, is less than the percentage of low- and moderate-income families residing in the MSA. Additionally, the percentage of the bank's home mortgages originated in the AA's moderate-income geographies during 1996, and the percentages of non-mortgage consumer loans and business loans originated in such geographies during the six months ended June 30, 1997 are less than the percentage of the AA's population that reside in the moderate-income geographies.

Notwithstanding such quantitative comparisons, WB's overall lending activities, for the period under review, are deemed reasonable in context of various demographic and social aspects of the AA, the somewhat limited housing demand among the AA's low- and moderate-income residents, and the limited availability of affordable owner-occupied units within the AA's four moderate-income geographies. In arriving at the overall assessment, consideration has also been given to the bank's increased mortgage lending presence in the moderate-income geographies during the first half of 1997.

DESCRIPTION OF INSTITUTION

WB is a locally controlled commercial bank, which commenced operations during September 1990. The bank's sole office is located at 2450 East Third Street, Williamsport, Pennsylvania. This office operates as a full-service banking facility with an automated teller machine (ATM), which is linked to a nationwide ATM system, Money Access Card (MAC). Additionally, WB offers access to eight other ATM locations in its AA at no surcharge to its MAC card holders.

DISCUSSION OF INSTITUTION-S PERFORMANCE (CONTINUED)

DESCRIPTION OF INSTITUTION (continued)

Chartered as a full service commercial bank, WB maintains business hours, Monday through Friday, from 8:00 a.m. through 6:00 p.m., and is opened on Saturdays from 8:00 a.m. to noon. WB has received approval by both the Pennsylvania Department of Banking and this Reserve Bank to establish a branch office in South Williamsport, which is expected to open during the first quarter of 1998.

Loan and deposit products offered by WB to consumer and business customers include the following:

Woodlands Bank	
<u>Loan Products</u>	<u>Deposit Products</u>
Installment Loans	Checking Accounts
Automobile/Boat/Mobile Home Loans	Savings Accounts
Home Equity Loans and Lines	Business Accounts
Education Loans	Certificates of Deposit
Residential Mortgages	Money Market Deposit Accounts
Small Business Start-up Loans	Holiday Club Accounts
Commercial Loans/Industrial Loans	Trust and Investment Services

The bank's Consolidated Reports of Condition and Income, filed for regulatory purposes as of June 30, 1997, list total assets of \$68.4 million, 67% of which, were loans outstanding. Historically, WB's loan mix has been reflective of a commercial lending orientation with a marketing focus upon small- and medium-size businesses. Although, commercial purpose loans still represented the largest lending activity, in terms of dollars outstanding, at June 30, 1997, the level of commercial purpose loans outstanding at that date is indicative of a considerable decrease during 1996 and the first half of 1997, while residential mortgage loans outstanding increased substantially during the same period.

Loans secured by residential real estate aggregated \$40.4 million and represented 86% of total loans outstanding at mid-year 1997. A significant portion of these loans were originated for business purposes. Nevertheless, the number of home mortgage loans (i.e., home purchase, home refinance, and home improvement transactions) originated to finance owner-occupied dwellings by the bank during 1996 is more than double that of 1995. In particular, WB originated 136 mortgages during 1996 in an aggregate amount of \$9.6 million. During the six months ended June 30, 1997, 72 loans were originated in an aggregate amount of \$4.4 million. A considerable portion of the bank's retail lending activities are transacted as a means to provide full banking services to the principals of its small business borrowers.

DESCRIPTION OF ASSESSMENT AREA - WOODLANDS BANK

[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.]

DISCUSSION OF INSTITUTION-S PERFORMANCE (CONTINUED)

DESCRIPTION OF ASSESSMENT AREA - WOODLANDS BANK (continued)

Census Tracts

WB has designated its AA as the Williamsport Metropolitan Statistical Area (MSA), which is comprised of Lycoming County, including the city of Williamsport. As such, the AA or MSA encompasses 29 census tracts, 22, of which, have been designated as middle-income, based on 1990 Census data; while none of the tracts in the MSA have been designated as low-income. Four tracts have been designated as moderate-income, and three tracts have been designated as upper-income. The following table details the MSA by census tract and the population of the MSA by census tract designation.

Census Tract Type	Population Within Tracts	Percent	Number of Tracts In AA	Percent
Low Income Census Tract	0	0	0	0
Moderate Income Census Tracts	11,201	9.4	4	13.8
Middle-Income Census Tract	94,456	79.6	22	75.9
Upper-Income Census Tract	13,053	11.0	3	10.3
Market Population	118,710	100%	29	100%

Source: Federal Reserve System-s Community Lending Analysis System, (CLAS)

Approximately 15% of the MSA-s population are senior citizens, aged 65 or older, which approximates the percentage of senior citizens statewide. The percentage of the total population speaking a language other than English is negligible. The MSA does not include a significant number of institutionalized persons.

All four of the MSA-s moderate-income tracts are located in the city of Williamsport, which is comprised of ten census tracts. Viewed separately, Williamsport-s demographic profile is reflective of substantially higher unemployment and poverty rates, older housing stock, and a lower home ownership rate than the MSA, as a whole. The city-s higher unemployment rates, housing stock, personal income measures, and other demographics are also discussed and referenced under Local Economy and Employment and Income and Housing of this section.

Income and Housing

The table below presents respective median incomes, housings values, and home ownership rates for the MSA and state.

Woodlands Bank Assessment Area Demographic Comparison		
	MSA	Pennsylvania
Median Family Income	\$30,462	\$34,856
Median Housing Value	\$54,104	\$69,075
% Owner-Occupied Housing Unit	63.3%	64.3%

Source: CLAS

DISCUSSION OF INSTITUTION-S PERFORMANCE (CONTINUED)

DESCRIPTION OF ASSESSMENT AREA - WOODLANDS BANK (continued)

Income and Housing (continued)

The next table categorizes households and families within the MSA by both census tract (geography) type and income type.

Assessment Area-Distribution of Households and Families by Geography and Income								
	Number of Households by Geography Type	%	Number of Households by Income Type	%	Number of Families by Geography Type	%	Number of Families by Income Type	%
Low	0	0.0	10,068	22.4	0	0.0	5,653	17.4
Mod	4,789	10.6	7,378	16.4	2,320	7.2	6,276	19.3
Middle	34,985	77.8	9,529	21.2	26,445	81.5	8,384	25.8
Upper	5,220	11.6	18,019	40.0	3,678	11.3	12,130	37.5
Total	44,994	100.0	44,994	100.0	32,443	100.0	32,443	100.0

Source: CLAS

Of the MSA's 44,994 households, 72% are comprised of families. The MSA median family income is somewhat less than that of the state, while the MSA housing median is considerably below that of the state. The percentage of families designated as either low- or moderate-income (i.e., 37%) within the MSA approximates the percentage of low- or moderate-income families within the state.

Median family income in the city of Williamsport was \$25,303 in 1990 , significantly less than the MSA and Pennsylvania medians of \$30,462 and \$34,856, respectively. Compared to 1980, (adjusted for inflation), median household income fell 0.1% in Williamsport, while it rose 1.5% in Lycoming County and 2.7% in Pennsylvania. The 1996 Profile, prepared by the Consumer and Community Affairs Department of this Reserve Bank, October 1996, notes that the city of Williamsport has lost nearly a quarter of its population since 1960 as former city residents moved to outlying suburbs and rural areas. The 1996 Profile also notes that Williamsport, unlike other cities in Pennsylvania, has experienced a substantial in-migration of low-income residents as a result of its reputation as a drug-dependency recovery town, since 1980. According to available census data, between 1980 and 1990, the incidence of poverty in Williamsport rose sharply, reaching 21% of all residents and 16% of all families.

Current estimates of the drug-dependency population range from 5% to 13%. Adult members within this population segment exert a major demand on social services within the city. Additionally, the 1996 Profile notes that children of drug dependent parents have presented special education needs in schools within the MSA.

As noted previously, all of the MSA's moderate-income tracts are located in the city of Williamsport. The table below presents demographic measures for the city of Williamsport by census tract, noting the city's substantial unemployment and poverty rates and lower home ownership rate.

DISCUSSION OF INSTITUTION-S PERFORMANCE (CONTINUED)

DESCRIPTION OF ASSESSMENT AREA - WOODLANDS BANK (continued)

Income and Housing (continued)

City of Williamsport: Census Data by Tract				
Census Tract	Poverty Rate	Income Tract	Home Ownership	Unemployment Rate
1	5%	Middle	78.4%	5.2%
2	4%	Upper	67.2%	4.4%
3	25%	Middle	51.0%	9.0%
4	32%	Moderate	24.4%	13.0%
5	11%	Middle	47.9%	7.9%
6	16%	Moderate	57.5%	7.9%
7	26%	Moderate	14.5%	11.0%
8	51%	Moderate	20.2%	21.6%
9	13%	Middle	58.4%	8.4%
10	22%	Middle	44.7%	8.5%

Source: 1996 CLAS

Eight of the city's ten census tracts reflect an unemployment rate of 7.9% or higher and a double digit poverty rate. Indeed, the foregoing data indicates extremely high poverty and unemployment rates and exceedingly low home ownership in three of the four moderate-income tracts (i.e., #4, #7, and #8). Tract #5, which reflects the lowest double digit poverty rate of the eight census tracts, has been designated as a middle-income tract and is essentially a business district in Williamsport. Tract #4 is a geography with a large percentage of senior citizens living in rental units on fixed incomes.

Approximately 63% of the total housing units in the MSA are owner-occupied, slightly less than the state's owner occupancy rate of 64.3%. The median value of the MSA's housing units is \$54,104, significantly lower than the state's median of \$69,075. Homes valued between \$25,000 and \$60,000 account for the majority (52%) of owner-occupied dwellings. In contrast, the greatest portion (48.8%) of owner-occupied dwellings, statewide, are valued between \$41,000 and \$100,000.

Overall housing affordability within the MSA is somewhat greater than that of Pennsylvania, as a whole. Housing affordability ratios¹ for the MSA and state were 0.472 % and 0.421%, respectively. Notwithstanding this broad affordability measure, the 1996 profile indicates that a substantial gap exists between the housing price that a low- or moderate-income Williamsport resident, living in a rental unit, can afford and the

¹ Comparative Housing Affordability (CHS) ratios are derived from the Federal Reserve System's Community Lending Analysis System (CLAS). The CHS ratio is calculated by dividing median household income by median housing value. The ratio represents the amount of single family owner-occupied housing that can be purchased by a median-income household with a dollar of income. Values closer to 1.0 are indicative of greater affordability.

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DISCUSSION OF INSTITUTION-S PERFORMANCE (CONTINUED)

DESCRIPTION OF ASSESSMENT AREA - WOODLANDS BANK (continued)

Income and Housing (continued)

prevailing sales price of many of the housing units listed for sale in the city. In this regard, a number of large residential dwellings in Williamsport, several, of which, were previously owned by local lumber mill owners during the 19th century, have been converted to rooming and boarding houses. Additionally, the 1996 Profile notes that 43% of Williamsport-s renters spend 30% or more of their gross income on rent, making it difficult for many renters to accumulate the down payment and closing cost monies necessary to purchase a home.

Approximately 78 licensed rooming and boarding houses and about a dozen group homes and personal care facilities existed in Williamsport as of September 1996, according to a city official. The same official estimated that more than 30% of all owner and rental units in Williamsport are substandard. The typical deteriorated dwelling is said to be a single-family residence, converted to four to 10 apartments, operated as a rooming or boarding house. Occupants of rooming and boarding houses and group homes tend to be individuals with drug dependency or substance abuse backgrounds, or individuals previously institutionalized for mental health and developmental disabilities, or college students.

The 1996 Profile also notes that Williamsport has an old housing stock. More than 70% of its housing units were built prior to 1940. Moreover, the city-s total number of housing units declined by 2.6% from 1980 to 1990. Overall home ownership in the city, reported at 49% in 1980, fell to 46.5% a decade later and has continued to move downward. Homeowners aged 65 years or older constituted 35.1% of the city-s total population, compared to 28.7% statewide.

Local Economy and Employment

The economy of the MSA is comparatively diverse and includes service, retail trade, and light manufacturing entities. Despite the steady erosion in the MSA-s manufacturing base since 1960, manufacturing jobs, nonetheless, represented 25% of total jobs in Lycoming County during 1995, compared to 17.9%, statewide, and 15.8%, nationally. Currently, a dozen financial service entities, operating in the MSA, collectively maintain 56 offices throughout Lycoming County. Within the MSA, the central city of Williamsport is regarded as the commercial hub of the north central Pennsylvania region and is also recognized as a regional center for education, health care, commercial banking, and law. Two colleges, two hospitals, and nine financial service entities, (including banks and thrifts) currently exist within Williamsport.

Notwithstanding the MSA-s somewhat resilient economy, overall unemployment in Lycoming County has tended to be above that of the state and nation since 1990. Applicable labor summary statistics for the MSA and state, derived from 1990 Census data, are presented as follows.

DISCUSSION OF INSTITUTION-S PERFORMANCE (CONTINUED)

DESCRIPTION OF ASSESSMENT AREA - WOODLANDS BANK (continued)

Income and Housing (continued)

LABOR SUMMARY STATISTICS COMPARISON OF THE MSA AND STATE OF PENNSYLVANIA						
	Total Persons 16 or Older		Labor Force		Unemployed	
	Number	Percent*	Number	Percent*	Number	Percent**
MSA	92,181	78%	56,439	48%	3,781	6.7%
STATE	9,392,816	79%	5,797,937	49%	344,795	5.9%

* As a percentage of total MSA population (118,710) and total Pennsylvania population (11,881,643), as applicable. **As a percentage of total MSA Labor Force (56,439) and total Pennsylvania Labor Force (5,797,937)

The MSA unemployment rate was at 6.1% at year-end 1996 and 6.5% at June 1997, compared to 4.8% and 5.3% for the state, and 5.3% and 5.0%, nationally. Currently, Susquehanna Health System employs the largest number of MSA residents (approximately 3,000), followed by Brodart Company, which employs approximately 1,000; while the Williamsport Area School District is the third largest employer with 910 employees.

Additionally, the 1996 Profile notes, via interviews with local realtors, small business owners, representatives of community groups, non-profit organizations, and government agencies, and residents, a sense among the MSA's population that well paying jobs have disappeared and an ongoing concern over the security of remaining manufacturing jobs. The 1996 Profile also notes that such concern has had a limiting effect on home purchases and housing upgrades, not only in Williamsport; but, in the surrounding region as well.

It is also noted that many of the more recent low- and moderate-income residents of Williamsport do not have the requisite skills for even minimum wage-related employment positions. Those of this population segment, that are employed, generally hold newly created jobs with salaries that are substantially lower than those of previously available positions. Legislation enacted to reform public welfare, at the state and federal levels, is exerting additional pressure upon the MSA's economy in that those currently receiving public assistance are generally required to seek employment. Such pressure manifests itself in an increased reliance upon local and regional small businesses to provide employment.

Under the sponsorship of the Williamsport/Lycoming Chamber of Commerce, a major project has been planned for downtown Williamsport. The plan calls for the creation of a trade and transit center, a parking facility, and new retail development. The project is part of the Greater Williamsport Area 2000 Alliance, whose goal is to implement an economic development and revitalization plan for Williamsport's central business district and other urbanized areas of Lycoming County.

LENDING IN ASSESSMENT AREA

The criterion of this performance category evaluates an institution's lending within and outside of its AA. In terms of number, a substantial majority of loans, originated by WB, are extended to borrowers within its AA.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

LENDING IN ASSESSMENT AREA (continued)

This overall assessment is based primarily on analyses of all home mortgage loans originated during 1996 and all home mortgage loans, consumer loans, and commercial loans originated by the bank during the six months ended June 30, 1997.

Presented below, is a summary of the bank's loans (in terms of number) originated inside and outside of its AA during the first half of 1997.

Woodlands Bank Loan Originations (January - June 1997)								
	Consumer Loans	%	HMDA Loans	%	Commercial Loans	%	Total	%
Inside	96	95	72	95	39	83	207	92
Outside	5	5	4	5	8	17	17	8
Total	101	100%	76	100%	47	100%	224	100%

Additionally, a summary of 1996 home mortgage lending within and outside of its AA is presented as follows:

1996 HMDA LAR Penetration Profile		
	Number	Percent
INSIDE	136	96
OUTSIDE	5	4
TOTAL	141	100%

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 differing incomes and businesses of different sizes, with a focus on low- and moderate-income borrowers and small businesses.

Borrowers of differing incomes have been defined by their income relative to the MSA median family income for 1996. Business size has been measured via an evaluation of lending penetration among small businesses. For purposes of this evaluation, a loan to a small business is defined pursuant to the instructions for preparation of the Consolidated Reports of Condition as filed for regulatory and supervisory purposes.

Accordingly, the distribution of loans among borrowers reflects a reasonable penetration among individuals of different income levels and businesses of different sizes and, low- and moderate-income borrowers and small businesses. In arriving at this assessment, consideration has been given to the bank's smaller asset size, its small business lending orientation, the limited availability of owner-occupied affordable housing to low- and moderate-income individuals within the MSA, particularly, the city of Williamsport, and other demographics of the MSA as discussed under Description of Assessment Area/Woodlands Bank.

DISCUSSION OF INSTITUTION-S PERFORMANCE (CONTINUED)

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

Borrowers of Different Incomes

A summary of home mortgage originations for 1996, and the first six months of 1997 by loan type, is presented as follows in terms of number and dollar amounts.

	HMDA DATA 1996 Total Loan Originations in AA			
	Number	%	Amount (M)	%
PURCHASES	50	37	\$4,886	51
REFINANCES	38	28	\$3,500	36
HOME IMPROVEMENT	48	35	\$1,230	13
TOTAL LOANS	136	100%	\$9,616	100%

	HMDA DATA for the Six Months Ended June 30, 1997 Total Loan Originations in AA			
	Number	%	Amount (M)	%
PURCHASES	32	44	2,125	49
REFINANCES	19	26	1,125	26
HOME IMPROVEMENT	21	30	1,113	25
TOTAL LOANS	72	100%	4,363	100%

As noted under **Description of Assessment Area/Woodlands Bank**, the MSA median family was \$30,462, based on 1990 U.S. Census data. The 1996 adjusted median family income for the MSA, as estimated by the U.S. Department of Housing and Urban Development (HUD), is \$34,100, which results in the following income categories:

Year	Median Family Income	Low Income (<50%)	Moderate Income (50%-79%)	Middle Income (80%-119%)	Upper Income (120% or Greater)
1996	\$34,100	Less than \$17,050	\$ 17,059- \$27,280	\$27,280-\$40,920-	\$40,920 or more

Accordingly, WB-s profile of borrowers within the AA, based upon a distribution analysis of home mortgage loans originated during 1996 and the first half of 1997 and a comparison of same with applicable demographics, is presented as follows.

DISCUSSION OF INSTITUTION-S PERFORMANCE (CONTINUED)

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

Borrowers of Different Incomes (continued)

Borrower Income Distribution						
Borrower Income Category	*Families Within Income Categories		1996 (Based on 1996 adjusted median income)		1997 (Based on 1996 adjusted median income)	
	Number	Percent	Number	Percent	Number	Percent
Low- and Moderate	11,929	37	12	9	12	17
Middle	8,384	26	40	29	21	29
Upper	12,130	37	83	62	39	54
Income not available	---	---	1	N/A	0	0
Total Families	32,443	100%	136	100%	72	100%

* Number of Families based on 1990 Census data.

Additionally, the bank's non-HMDA consumer loan activities during the first six months of 1997 were analyzed by borrower income distribution and compared to applicable demographics as presented below.

Non-HMDA Consumer Loan Originations January -- June 1997 Compared to Applicable Demographics				
Income	Number of Families by Income Type	%	Number of Originations	%
Low and Moderate	11,929	37	16	17
Middle	8,384	26	20	21
Upper	12,130	37	60	62
Total	32,443	100%	96	100%

On the surface, the foregoing distribution analyses indicate that WB originates both home mortgage credit and non-HMDA consumer credit to each demographic segment of the MSA with a substantially more than proportionate lending penetration among upper-income borrowers. This disproportionate lending penetration is most apparent with respect to the bank's home mortgage lending activities during 1996. However, such lending profile is not deemed unreasonable for purposes of CRA in context of the bank's size; overall, a somewhat limited demand for housing; the limited volume of owner-occupied housing units that are available to be purchased by the MSA's low- and moderate-income population segment; and other demographic aspects of the MSA discussed under **Description of Assessment Area/Woodlands Bank**.

Commercial lending transactions remain the bank's predominant lending activity, in terms of dollar amounts originated. As such, WB's overall retail or consumer lending profile is somewhat influenced by this commercial orientation in that the bank frequently originates retail credit (both home mortgages and consumer installment loans) as an accommodation to the principals of small- and medium-size businesses, who often tend to be upper-income.

DISCUSSION OF INSTITUTION-S PERFORMANCE (CONTINUED)

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

Borrowers of Different Incomes (continued)

With respect to home mortgage credit, the bank's 1996 mortgage origination profile is reflective of the fact that many of the AA's low- and moderate-income persons simply cannot qualify for home ownership. Based on data in the 1996 Profile, a substantial gap exists between the price of a house that persons earning 80% of the MSA's median household income can afford, with a conventional mortgage, and the prevailing sales price. (Note: persons earning 80% of the AA's median income are at the beginning point of the middle income category.) Thus, even though the MSA median housing value is well below that of the state and the median housing value of Williamsport fell by 10% from 1980 to 1990 and has continued to fall as the predominant real estate sales are of lower priced houses, low- and moderate-income persons in the MSA, particularly Williamsport, have such comparatively low-incomes that they generally cannot qualify for home ownership.

The following table categorizes the MSA's low-, moderate-, middle-, and upper-income families by the actual geography types in which they reside.

Assessment Area Families by Income								
Tracts by Income	Low Income Families		Mod. Income Families		Middle Income Families		Upper Income Families	
	Number	Unit	Number	Unit	Number	Unit	Number	Unit
Low	0	N/A	0	N/A	0	N/A	0	N/A
Moderate	941	17%	518	8%	408	5%	453	4%
Middle	4,351	77%	5,238	84%	7,198	86%	9,658	80%
Upper	361	6%	520	8%	778	9%	2,019	16%
Total	5,653	100%	6,276	100%	8,384	100%	12,130	100%

As noted under Description of Assessment Area/Woodlands Bank, the MSA has no low-income geographies and only four moderate-income geographies. The foregoing data shows that the substantial majority of low- and moderate-income families reside in middle-income geographies. The preponderance of low- and moderate-income families residing in middle-income geographies is, in part, reflective of a substantial portion of such families residing in formerly single family homes that have been converted into boarding/rooming houses or other rental units. In this regard, the 1996 Profile notes that a number of existing homeowners desire to leave Williamsport because of comparatively high taxes. Many owners who wanted to leave the city; but, could not sell their properties at an acceptable price, have since converted their properties to rental or mixed use dwellings. It is also noteworthy that 80% of the MSA's upper-income residents live in middle-income geographies, suggesting that a considerable portion of WB's mortgages originated in 1996 to upper-income borrowers actually financed properties in middle-income geographies.

DISCUSSION OF INSTITUTION-S PERFORMANCE (CONTINUED)

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

Borrowers of Different Incomes (continued)

Based on collective input received through various parties interviewed, the 1996 Profile also notes, that a perception exists among community groups and bankers alike that the demand for home ownership in Williamsport, although discernable, is somewhat limited. It is commonly perceived that the housing demand is centered in two-paycheck households or families earning gross annual incomes of \$20,000 to \$30,000. Most in this population segment are potential first-time home buyers who, generally, lack the funds necessary for down payment and closing costs. As noted under Description of Assessment Area/Woodlands Bank, 43% of the Williamsport-s renters pay 30% or more of gross income on rent.

Local programs exist to address existing housing demand, further stimulate home ownership, and thereby alleviate conditions in overcrowded, substandard rooming houses, including the City of Williamsport-s First-Time Home Buyer Program, which provides for a maximum loan to value ratio of 100%. Although WB does not participate in the program, it was the first Williamsport-based bank to join the Susquehanna Valley Bankers Housing Consortium-s First Time Home Buyer Program, which serves a six-county region. Established in 1993, the program is widely regarded as both effective and remarkably comprehensive, providing buyer education/counseling, pre-sale inspection and energy audits, down-payment and closing cost assistance, weatherization and rehabilitation, and post-sale energy education. Most importantly, of each loan originated through the program, 40% of the amount financed is priced at a participating bank-s regularly offered fixed interest rate, while 60% is financed through the bank at a lower rate via a second mortgage funded by an advance from the Federal Home Loan Bank of Pittsburgh.

WB became a participant of the program in 1996 and has received 27 mortgage applications through same since May 1996. To date, the bank has originated six mortgages in an aggregate amount of \$300,000 under the program. Although the foregoing numbers are reflective of a seemingly low approval rate, the examination found that WB has proactively solicited applications and devoted considerable resources to the credit counseling/education aspect of the program. It also bears mentioning that seven applications were withdrawn and that most of the denied applications were not approved because of an applicant-s poor credit history and/or excessive obligations.

Finally, it is noted that, even though WB-s originations under the aforementioned program have been somewhat limited, to date, it has significantly increased its mortgage lending penetration among the MSA-s low- and moderate-income population segment during the first six months of 1997. Also, the majority of persons interviewed, in conjunction with the preparation of the 1996 Profile, indicated that, collectively, local banks and financial institutions do a very good job at meeting legitimate credit needs.

Businesses of Different Sizes:

Based on the Consolidated Reports of Condition and Income prepared and filed by WB as of June 30, 1997, and June 30, 1996, small business loans (inclusive of loans secured by non-farm/non-residential real estate and commercial and industrial loans) are detailed as follows:

DISCUSSION OF INSTITUTION-S PERFORMANCE (CONTINUED)

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

Businesses of Different Sizes (continued)

Loans to Small Businesses Commercial and Industrial Loans								
	Number of Loans:		Percent:		\$ Outstanding (M):		Percent:	
	1997	1996	1997	1996	1997	1996	1997	1996
Years:								
With original amounts of \$100,000 or less	119	127	80	84	1,774	2,319	38	49
With original amounts of more than \$100,000 through \$250,000	17	15	12	10	1,408	916	30	20
With original amounts of more than \$250,000 through \$1,000,000	12	10	8	6	1,464	1,469	32	31
TOTAL	148	152	100%	100%	4,646	4,704	100%	100%

Loans to Small Businesses Loans Secured by Nonfarm Nonresidential Properties								
	Number of Loans:		Percent:		\$ Outstanding (M):		Percent:	
	1997	1996	1997	1996	1997	1996	1997	1996
Years:								
With original amounts of \$100,000 or less	58	61	63	64	3,975	3,896	47	43
With original amounts of more than \$100,000 through \$250,000	25	25	27	26	2,694	2,970	31	33
With original amounts of more than \$250,000 through \$1,000,000	9	9	10	10	1,879	2,184	22	24
TOTAL	92	95	100%	100%	8,548	9,050	100%	100%

All of the bank's commercial & industrial loans and loans secured by nonfarm/nonresidential properties, outstanding at both June 30, 1997 and June 30, 1996, were categorized as small business loans. In terms of number, loans originated in an amount of \$100,000 or less represent the largest component of loans extended to small businesses in both loan type categories. This lending profile clearly evidences WB's affirmative response to small business credit needs.

Such response to local small businesses is especially relevant to community credit needs in view of the increased reliance within the MSA upon small businesses and start-up ventures to provide or create employment. As noted under **Description of Assessment Area/Woodlands Bank**, employment for low-income residents is likely to be provided through small businesses. Moreover, the 1996 Profile notes that

(continued)

DISCUSSION OF INSTITUTION-S PERFORMANCE (CONTINUED)

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

Businesses of Different Sizes (continued)

job creation is a high priority among community leaders within the MSA and additionally explains the difficulty experienced by many start-up entities in obtaining loans in amounts of \$50,000 to \$100,000. It is also noted that the bank's substantial volume of loans extended to small businesses is supportive of an initiative by the Williamsport Chamber of Commerce to create and retain employment via expanded financing available to local merchants, small manufacturing entities, and retailers.

GEOGRAPHIC DISTRIBUTION OF LOANS:

The geographic distribution of loans measures an institution's lending presence in low-, moderate-, middle-, and upper-income geographies within its AA, with a focus on low- and moderate-income geographies. For purposes of this evaluation, the geographic distribution of WB's home mortgage activities during 1996 and the six months ended June 30, 1997, together with the distribution of non-HMDA consumer lending activities during the six months ended June 30, 1997 were primarily utilized to make an assessment. Additionally, consideration was given to a distribution analysis of all commercial loans originated during the six months ended June 30, 1997.

The geographic distribution of home mortgage lending activities during 1996 and the distribution of consumer and commercial lending activities during the first half of 1997 reflect a somewhat limited lending presence in the MSA's four moderate-income census tracts. However, such limited presence is not deemed unreasonable for purposes of CRA in view of the limited demand for home ownership and the comparatively high unemployment rates and disproportionate number of rental units in the moderate-income geographies; the location of the WB's sole banking office, which is outside of downtown Williamsport and somewhat removed from the moderate-income census tracts; and the limited number of businesses located in the moderate-income geographies. Additionally, consideration has been given to the bank's increased lending presence in the moderate-income geographies during the first half of 1997 relative to the origination of home mortgage credit.

The following tables detail, by geography type, all home mortgage loans originated to finance owner-occupied residential dwellings within the MSA during 1996 and the six months ended June 30, 1997.

Geographic Distribution of 1996 (Real Estate Loans)				
Demographics			1996	
	Population	Percent	Number of Loans	Percent
Low/Mod Income Census Tracts	11,201	9.4	4	2.9
Middle Income Census Tracts	94,456	79.6	105	77.2
Upper Income Census Tracts	13,053	11.0	27	19.9
Total	118,710	100%	136	100%

DISCUSSION OF INSTITUTION-S PERFORMANCE (CONTINUED)

GEOGRAPHIC DISTRIBUTION OF LOANS (continued)

Geographic Distribution of 1996 (Real Estate Loans)				
Demographics			Six Months Ended June 30, 1997	
	Population	Percent	Number of Loans	Percent
Low/Mod Income Census Tracts	11,201	9.4	6	8.3
Middle Income Census Tracts	94,456	79.6	58	80.6
Upper Income Census Tracts	13,053	11.0	8	11.1
Total	118,710	100%	72	100%

As indicated in the second table, WB notably increased its level of home mortgage lending activities within the moderate-income tracts during the first half of 1997 with the origination of six loans to finance owner-occupied properties located in same.

The following table indicates that approximately two-thirds of the total housing units in the four moderate-income tracts are rental units, which is substantially disproportionate to the percentage of rental units in middle- and upper-income tracts. Such a preponderance of rental housing in the moderate-income tracts limits the number of home mortgages originated to finance owner-occupied dwellings in such tracts. It should also be noted that one of the moderate-income tracts contains a comparatively high percentage of senior citizens living in rental units on fixed incomes.

Assessment Area - Housing Summary					
	Total Units	Owner Occupied Units		Rental Units	
		Number	Percent	Number	Percent
Low	0	0	0.0	0	0.0
Moderate	5,268	1,423	27.0	3,418	64.9
Middle	38,982	26,243	67.3	8,722	22.4
Upper	5,330	3,666	68.8	1,477	27.7
Total	49,580*	31,332*	63.2%*	13,617*	27.5%*

* Percent of Owner and Rental Units does not equal 100%, owing to a 9.3% vacancy rate.

The geographic distribution of WB-s consumer and commercial lending activities during the six months ended June 30, 1997 are presented as follows.

DISCUSSION OF INSTITUTION-S PERFORMANCE (CONTINUED)

GEOGRAPHIC DISTRIBUTION OF LOANS (continued)

Woodlands Bank Loan Originations in AA (January - June 1997)				
Census Tracts	Consumer Loans	%	Commercial Loans	%
Low/Mod	2	2.0%	2	5.1%
Middle	78	81.3%	33	84.6%
Upper	16	16.7%	4	10.3%
Total	96	100.0%	39	100.0%

Only two of the bank's 96 non-HMDA consumer loans and two of its 39 commercial loans originated within the AA during the first half of 1997 were extended to borrowers residing or operating in moderate-income tracts. With respect to non-HMDA consumer and commercial lending activities, the limited number of originations within moderate-income geographies reflects a decreased lending presence by WB, compared to that noted in the previous evaluation conducted as of April 1, 1996. Such limited lending presence is mitigated somewhat by the location of WB's sole banking office, which is located outside of downtown Williamsport in a more suburban setting. Moreover, large super regional banks such as CoreStates Bank, NA and PNC Bank, NA, together with larger local institutions such as Williamsport National Bank and Northern Central Bank, maintain offices in locations more proximate and accessible to the moderate-income tracts. The foregoing lending profile has also been assessed in context of the ongoing out-migration of residents and businesses from Williamsport, including the city's moderate-income geographies, to other suburban and rural locations within Lycoming County.

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.

Accordingly, WB's overall lending level, as measured by its quarterly loan-to-deposit ratios since the previous evaluation, is deemed reasonable, in context of the bank's size, comparisons to average loan-to-deposit ratios for WB's national peer group, and the economic characteristics and demographics of the AA in which the bank operates.

The following table depicts the institution's quarterly loan-to-deposit ratios since the previous examination. It also presents an average loan-to-deposit ratio. 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.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

LOAN-TO-DEPOSIT RATIO (continued)

Woodlands Bank Historical Loan-to-Deposit Ratio				
As Of	Net Loans (Thousands)	Total Deposits (Thousands)	Ratio	Peer Ratio
06/30/96	\$43,349	\$57,534	75.4%	67.7%
09/30/96	\$44,253	\$58,178	76.1%	68.3%
12/31/96	\$44,154	\$56,953	77.5%	68.4%
03/31/97	\$44,475	\$58,659	75.8%	69.2%
06/30/97	\$45,661	\$61,020	74.8%	70.3%
Average of Quarterly Loan to Deposit Ratios since Previous Examination as of April 1, 1996			75.9%	68.8%

The next table depicts the bank's loan-to-deposit ratios and asset and loan growth rates since year-end 1993.

	06/30/97	PEER	12/31/96	PEER	12/31/95	PEER	12/31/94	PEER	12/31/93
Loan/Deposit Ratio	74.8%	70.3%	77.5%	68.5%	72.2%	65.6%	81.6%	66.1%	72.1%
Asset Growth Rate	5.3%	10.0%	0.9%	9.6%	24.3%	10.3%	12.4%	25.4%	21.4%
Loan Growth Rate	5.3%	14.6%	9.0%	14.8%	6.9%	10.6%	27.8%	10.7%	25.4%

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

WB's average loan-to-deposit ratio is reflective of an ongoing responsiveness to AA credit needs commensurate with its financial resources. The bank has maintained an overall lending level, since the previous examination, wherein quarterly loan-to-deposit ratios have consistently exceeded corresponding national peer averages. The following table presents WB's loan mix since year-end 1993, reflecting a profile oriented towards real estate and commercial lending.

Loan Type	06/30/97	%	12/31/96	%	12/31/95	%	12/31/94	%	12/31/93	%
Real Estate	40,424	87	39,468	88	34,412	83	32,295	84	26,838	89
Commercial	4,647	10	3,936	9	4,796	12	4,545	12	1,808	6
Consumer Loans	1,364	3	1,431	3	1,929	5	1,578	4	1,414	5
Other	16	N/A	8	N/A	82	N/A	6	N/A	10	N/A
Total Gross Loans	46,457	100%	44,843	100%	41,219	100%	38,424	100%	30,070	100%

Source: UBPR

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

RESPONSE TO CONSUMER COMPLAINTS

WB appears to have adequate procedures in place to address any consumer complaints regarding its performance under CRA. The bank has received no complaints between examinations. According to management, any complaints would be immediately forwarded to and addressed by the bank's CRA officer. Additionally, such complaints would be shared with, and reviewed by WB's President and Chief Executive Officer.

COMPLIANCE WITH ANTI DISCRIMINATION LAWS

A review of WB's credit practices and policies revealed no evidence of any prohibited policies or practices such as pre-screening or the discouragement of applicants for any of the types of credit offered by the bank. WB is in compliance with the substantive provisions of the anti-discrimination laws, including the Equal Credit Opportunity Act (ECOA), the Fair Housing Act (FHA), the Home Mortgage Disclosure Act, and agency regulations pertaining to nondiscriminatory treatment of credit applicants.

A review of WB's credit files confirmed that the bank solicits credit applications from all demographic segments of its AA, including low- and moderate-income geographies and individuals. This examination determined no unreasonable lending patterns or evidence that the bank failed to serve any segment of entire AA. WB's management has established consumer and commercial loan policies as well as community contacts that evidence the institution's commitment to evaluate and approve credit requests without regard to any basis prohibited by ECOA and FHA. Management has also adopted measures to ensure that bank employees are informed of the requirements of consumer protection statutes and other regulations prohibiting discrimination.