

PUBLIC DISCLOSURE

April 28, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bank: Somerset Trust Company
044280820000
P. O. Box 777
151 West Street
Somerset, Pennsylvania 15501

Supervisory Agency: Federal Reserve Bank of Cleveland
P.O. Box 6387
Cleveland, Ohio 44101-1387

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 financial supervisory agency 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 operation of the 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 Somerset Trust Company prepared by The Federal Reserve Bank of Cleveland, the institution's supervisory agency, as of April 28, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A of 12 CFR Part 228.

INSTITUTION'S CRA RATING: This institution is rated satisfactory.

The assessment of the record of Somerset Trust Company takes into account the bank's financial capacity and size, legal impediments, and local economic conditions and demographics, including the competitive environment in which it operates.

Several factors support Somerset Trust Company's satisfactory rating. First, the bank maintains a reasonable loan-to-deposit ratio. Second, an overwhelming majority of the number of the bank's loans are made within its assessment area. Third, based on an analysis of the bank's loans, the bank has an excellent record in lending to borrowers of different income levels and to small businesses. Finally, the geographic distribution of the bank's loans is reasonable.

The following table indicates the performance level of Somerset Trust Company with respect to each of the five performance criteria:

SMALL INSTITUTION ASSESSMENT CRITERIA	SOMERSET TRUST COMPANY PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	No complaints received since the prior examination.		

DESCRIPTION OF INSTITUTION

Based on its size and financial condition, Somerset Trust Company (ASTC@) effectively meets the credit needs of the assessment area. The bank operates full-service offices in Somerset, Berlin, and Johnstown, Pennsylvania. In addition, STC has eight automated teller machines (AATMs@) at various locations in Somerset County and at the branch in Johnstown. All ATMs, with the exception of the one located in the Horizon Outlet Center, have 24-hour access. The Horizon Outlet Center ATM is located in the Visitors=Center and is accessible only during Visitors=Center hours.

According to the December 31, 1996, Uniform Bank Performance Report (AUBPR®), the most recent report available, the bank had total assets of approximately \$210 million. Since December 31, 1994, the bank's loans and deposits have decreased approximately \$22 million and \$3 million, respectively. During the same period, the bank's total assets increased almost \$6 million. The bank's average net loan-to-deposit ratio for the past eight quarters approximates 79%. Its net loan-to-deposit ratio has shown a steady decline since the previous CRA evaluation. The bank's portfolio is comprised of approximately 32% consumer real estate, 10% consumer, 5% agriculture, and 53% commercial loans.

The bank offers a variety of loan products to fulfill the credit need of residents and businesses within its assessment area. It extends consumer open- and closed-end, fixed- and adjustable-rate residential real estate, construction, mobile home, agricultural, and commercial loans. In addition to offering these conventional loan products, the bank participates in Small Business Administration (SBA®) and Pennsylvania Housing Finance Agency (PHFA®) government loan programs.

There are no legal or financial impediments that would prevent the bank from helping to meet the credit needs of its community.

DESCRIPTION OF SOMERSET TRUST COMPANY'S ASSESSMENT AREA

Somerset Trust Company defines its assessment area as the entire counties of and Somerset and Cambria located in southwestern Pennsylvania. These counties form the Metropolitan Statistical Area (MSA®) of Johnstown.

Somerset County consists entirely of middle-income census tracts, while Cambria County contains census tracts representing low-, moderate-, middle-, and upper-income.¹ For Cambria County, the one low-income tract and the eight moderate-income tracts are all located in the City of Johnstown. The eight upper income tracts in the bank's assessment area are also located in Johnstown. As of the 1990 census data, the median family income for the Johnstown MSA was \$26,144.

¹**NOTE:** Low-, moderate-, middle-, and upper-income are defined as follows:
Low-income: Up to 50% of the median MSA family income
Moderate-income: Greater than 50% up to 80% of the median MSA income.
Middle-income: Greater than 80% up to 120% of the median MSA family income.
Upper-income: Greater than 120% of the median family income.

According to 1990 census data, the population for the assessment area is 241,247. The following table shows the assessment area's population distribution by census tract income level.

POPULATION DISTRIBUTION BY CENSUS TRACT		
	Populatio n	Percentag e
Low-income	1,929	1%
Moderate- income	14,794	6%
Middle-income	194,043	80%
Upper-income	30,481	13%

Examiners contacted two local small business persons as part of the bank's CRA evaluation. Information from these contacts was used to evaluate STC's CRA performance.

According to community contacts and bank management, the economy in the bank's assessment area is showing some strength but continues to lag the state and national economies. The area continues its shift from coal- and steel-based industries to a greater emphasis on the service sector. Unemployment in Cambria and Somerset Counties was 8.8% in February 1997 compared with the national rate of approximately 5%. Major economic forces in the area are tourism, manufacturing, coal mining, and agriculture. The tourism industry is very seasonal, yet Seven Springs Farm, Inc., a ski resort providing seasonal employment, is the third largest employer in Somerset County.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The bank's CRA performance was analyzed using interagency examination procedures. The analysis included the following criteria:

- C the loan to deposit ratio averaged over the past eight quarters;

- C lending activity inside and outside the bank's assessment area;
- C the reasonableness of the geographic distribution of loans within the bank's assessment area;
- C the record of lending to borrowers with varying income levels;
- C the distribution of loans to businesses and farms of different sizes; and
- C the bank's response to any written complaints concerning its performance in helping to need the credit needs within its assessment area.

Loan-to-Deposit Ratio Analysis

For a bank of its size, location, and financial condition, STC's loan-to-deposit ratio is reasonable at 79% and, as such, meets the standards for satisfactory performance. The ratio was calculated by averaging STC's most recent eight quarterly net loan-to-deposit ratios. The loan-to-deposit ratio was evaluated in terms of the bank's capacity to lend, the loan-to-deposit ratios of similarly situated (peer) and competitor banks, and available lending opportunities in the assessment area.

While STC's loan-to-deposit ratio continues to exceed that of its national peer group, the margin of difference has been declining. The decreasing margin is due to the peer banks' improving loan-to-deposit ratios combined with the simultaneous decline in STC's ratio. The loan-to-deposit ratio calculations are detailed in the table below:

Date	Net Loans (In thousands)	Deposits (In thousands)	Loan-to-Deposit Ratio
June 30, 1995	\$146,690	\$171,688	85%
September 30, 1995	\$145,400	\$172,197	84%
December 31, 1995	\$135,872	\$172,294	79%
March 31, 1996	\$134,492	\$170,938	79%
June 30, 1996	\$130,191	\$168,711	77%
September 30, 1996	\$131,340	\$170,372	77%
December 31, 1996	\$128,936	\$169,110	76%
March 31, 1997	\$128,211	\$171,633	75%

As of the most recent UBPR, the bank's loan-to-deposit ratio was 74%, which places STC

in the 61st percentile in relation to its peer group. STC faces stiff competition from other financial institutions in its assessment area. Twelve other banks have branches within STC's assessment area; two banks that were competitors in 1995 have since been merged into another local competitor. Based on loan demand and the lack of any identified unmet credit needs, the bank's loan-to-deposit ratio meets the standards for satisfactory performance.

Comparison of Credit Extended Inside and Outside the Assessment Area

A review of a statistical sample of the loans originated by the bank since the previous CRA evaluation reveals that an overwhelming majority of its loans were made inside its assessment area. The following table shows the percentages for number and dollar volume of those major loan product lines sampled that were made inside the assessment area.

PERCENTAGE OF LOANS INSIDE THE ASSESSMENT AREA		
Major Loan Product Lines Sampled	Total Number of Loans	Total Dollar Amount of Loans
Consumer	98%	99%
Motor Vehicle	99%	99%
Small Business	93%	88%

This level of concentration in the assessment area exceeds the standards for satisfactory performance. These three loan categories represent approximately 61% of the bank's loan portfolio, and the vast majority of these loans, both by number and by dollar amount, were originated inside the assessment area.

Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes

STC's record of lending to borrowers of different income levels is very good and, as such, exceeds the standards for satisfactory performance. Our sampling indicates that the bank provides consumer and motor vehicle loans to individuals of all different income levels as shown in the table below.

PERCENTAGE OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVEL				
Loan Type	Low Income	Moderate Income	Middle Income	Upper Income
CONSUMER				
Total Number of Loans	27%	30%	26%	18%
Total Amount of Loans	17%	41%	30%	12%
MOTOR VEHICLE				
Total Number of Loans	27%	19%	25%	29%
Total Amount of Loans	15%	18%	27%	40%

The data in the table indicate that the bank originated 57% of its consumer loans and 46% of its motor vehicle loans to low- and moderate- income individuals. This level of consumer and motor vehicle lending reflects an excellent record of lending to borrowers of different income levels.

According to bank management, all of the bank's commercial borrowers are small businesses. Small businesses are defined as those with annual gross revenues of \$1 million or less. The bank's emphasis on small business lending, which represents 53% of STC's loan portfolio, together with consumer loans to low- and moderate-income borrowers demonstrates a strong commitment to meeting the credit needs of all segments of the community and exceeds the standards for satisfactory performance.

Geographic Distribution of Loans

The distribution of the bank's loans between geographies of different income levels is reasonable. As previously discussed, the bank's assessment area includes one low-income and eight moderate-income tracts, in addition to 52 middle-income and six upper-income tracts. Approximately 7% of the population resides in the low- and moderate-income tracts, 80% resides in the middle-income tracts, and the remaining 13% resides in the upper-income tracts. As the following table illustrates, STC's lending patterns approximate this distribution.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY CENSUS TRACT INCOME LEVEL				
Loan Type	Low- Income	Moderate- Income	Middle- Income	Upper- Income
CONSUMER				
Total Number of Loans	0%	0%	98%	2%
Total Amount of Loans	0%	0%	97%	3%
MOTOR VEHICLE				
Total Number of Loans	0%	2%	95%	2%
Total Amount of Loans	0%	1%	98%	1%
SMALL BUSINESS				
Total Number of Loans	0%	1%	96%	3%
Total Amount of Loans	0%	2%	97%	1%

As shown above, the percentages of consumer, motor vehicle, and small business loans in the low- and moderate-income tracts closely approximate the percentages of assessment area residents living in these tracts. Because the majority of STC-s assessment area residents live in middle-income tracts, it is reasonable to find the highest percentage of loans originated in these tracts. As such, the bank-s geographic distribution of loans is reasonable and, thus, meets the standards for satisfactory performance.

General Comments

The evaluation did not reveal any practices that are inconsistent with the substantive provisions of the fair lending and fair housing laws and regulations. In addition, the bank has not received any CRA complaints since the previous evaluation.

In addition to the previously discussed performance standards, this evaluation also assessed the bank-s performance in making qualified investments and its performance in providing branches and other services and delivery systems that enhance credit availability within its assessment area.

The bank originated two community development loans since the previous evaluation:

- C A revolving line of credit to a local community development organization that coordinates projects targeted to low- and moderate-income individuals in Somerset County.

- C A loan participation with other local financial institutions in the construction and permanent financing of a Johnstown area business development center. This Incubator@ project-s primary purpose is to assist in the successful growth and development of new and emerging small businesses.

Since the previous evaluation, the bank has made no investments that can be considered qualified investments under the revised CRA.

STC participates in the Pennsylvania Housing Finance Agency (APHFA@) program, a special service to provide low interest rate mortgages to low- and moderate-income residents in its assessment area. This program has been quite successful, and the bank has originated 44 PHFA loans since the previous evaluation.

Although the bank has had noteworthy community development loans and service activity, its level of community development loans and services does not increase its overall CRA rating.