

FEDERAL RESERVE BANK OF  
PHILADELPHIA  
COMMUNITY REINVESTMENT ACT ASSESSMENT

**PUBLIC DISCLOSURE**

(July 21, 1997)

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

**FIRST HERITAGE BANK  
RSSD - 2214744  
WILKES-BARRE, 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 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 Heritage Bank** prepared by the **Federal Reserve Bank of Philadelphia**, as of **July 21, 1997**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part A to 12 CFR Part (d).

**INSTITUTION'S CRA RATING:** 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 First Heritage Bank (FHB) are responsive to the credit needs of its local community, including the community's moderate-income geographies and low- and moderate-income individuals and families. Such assessment was determined through the application of the CRA's Small Bank Performance Standards. Thus, the following criteria have been assessed: the bank's loan-to-deposit ratio; the volume of lending within its assessment area (AA), as designated for purposes of CRA; 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, including any low- and moderate-income geographies within the AA. Additionally, the evaluation took into consideration demographic and economic data specific to the AA and relevant characteristics of the bank.

Accordingly, FHB maintains a reasonable level of loans in relation to deposits, as quantified by loan-to-deposit ratios since the previous evaluation, and tempered by economic characteristics of the AA and the bank's limited period of existence. A substantial majority of the bank's loans are within its AA. The geographic distribution of loans reflects a reasonable dispersion among the AA's different geographies, including its moderate-income geographies. In context of the AA's comparatively higher unemployment rates and percentage of senior citizens, the bank's lending activities reflect a reasonable penetration among borrowers of different incomes and businesses of different sizes, including low- and moderate-income individuals and small businesses.

## DESCRIPTION OF INSTITUTION

FHB, headquartered in Wilkes-Barre, Pennsylvania, is a de novo banking institution that commenced operations on June 23, 1994. Chartered as a full service commercial bank, FHB offers a variety of retail and commercial banking services within its AA, as designated for purposes of CRA. Consistent with the bank's overall business strategy, management believes that a niche exists for a locally-owned banking institution that can provide exceptional service. The following chart lists a sampling of loan and deposit products offered:

## GENERAL INFORMATION (CONTINUED)

### DESCRIPTION OF INSTITUTION (continued)

Loan and Deposit Products	
Loans	Deposits
Personal Loans	Certificates Of Deposit
Commercial Loans and Lines of Credit	Personal Checking and Savings
Letters of Credit	Club Accounts
VISA Credit Cards	Cash Management Services
Home Equity Loans and Lines of Credit	Insured Retirement Accounts
Home Improvement Loans	Bank by Mail and Telephone Services
Mortgage Refinance Loans	Negotiable Orders of Withdrawal
Residential Mortgages	Money Market Deposit Accounts

The bank has grown substantially since its inception, particularly during the twelve months ended December 31, 1996 and the first half of 1997. Assets at year end 1996 were \$106 million, up from \$65 million at December 31, 1995, representing an increase of 63.1%. Further, assets at mid-year 1997 totaled \$126 million, representing an annualized asset growth rate of 37.7%.

FHB operates in a competitive environment; twenty-one banks and thrifts service the AA. FHB's primary competitors include the following community institutions: Franklin First Savings Bank, Luzerne National Bank, and First National Community Bank. Super-regional banks operating in the AA include CoreStates Bank NA, First Union National Bank, Mellon Bank N.A., PNC Bank, National Association and Summit Bank. As part of its business strategy, FHB has designated small- to medium-size businesses, professionals, upscale retail clients, and senior individuals as a target market. Recently, FHB introduced three new loan products: a three year adjustable rate mortgage (ARM), a five year ARM, and a bi-weekly home equity installment loan.

FHB markets loan and deposit products and banking services to the AA primarily through its sole banking office at 64 North Franklin Street, located in a moderate-income census tract in downtown Wilkes-Barre. Although the bank does not operate a proprietary automated teller machine (ATM), it is a member of Money Access Card (MAC) and PLUS, a nationwide ATM system, which provides access through an international network of ATM's. The office's business hours are 8:30 am to 4:30 pm, Monday through Thursday; 8:30 am to 5:30 pm, Fridays; and to effectively accommodate its customers, the bank has extended hours from 9:00 am to 12:00 noon on Saturdays, and 24 hour accessibility to MAC ATM's, as well. Based primarily upon FHB's geographic distribution of loans, as further detailed under Geographic Distribution of Loans, the location of the bank's office, is deemed reasonably accessible to all segments of the AA, including the AA's moderate-income census tracts or geographies.

### DESCRIPTION OF FIRST HERITAGE BANK'S ASSESSMENT AREA

**[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.]**

**GENERAL INFORMATION (CONTINUED)**

**DESCRIPTION OF FIRST HERITAGE BANK'S ASSESSMENT AREA (continued)**

FHB has designated its AA as 80 census tracts located within Luzerne County. Luzerne County is located in the Scranton/Wilkes-Barre/Hazleton Metropolitan Statistical Area (MSA), as defined by the U.S. Office of Management and Budget (OMB). The AA includes all sixteen census tracts within the city of Wilkes-Barre, together with many geographies contiguous to and surrounding Wilkes-Barre. None of the 80 census tracts have been designated as low-income; 11 (14%) tracts have been designated as moderate-income; 60 (75%) tracts have been designated as middle-income; and nine (11%) tracts have been designated as upper income.

The following table depicts the population distribution of the AA by census tract designation.

	<b>Number</b>	<b>Percent</b>
<b>Moderate Income Census Tracts</b>	29,128	12.2
<b>Middle Income Census Tracts</b>	172,698	72.2
<b>Upper Income Tracts</b>	37,404	15.6
<b>Total Population in Assessment Area</b>	239,230	100.0%

Source: Federal Reserve System Board of Governor's Community Lending Analysis System, (CLAS). The CLAS system reflects 1990 census data. Other Tables and Charts presented throughout this evaluation have been derived from the CLAS system unless otherwise noted.

The median family income of the AA is \$30,506, comparable to the median family income of the MSA of \$30,676; but, considerably lower than the median family income of the state of Pennsylvania of \$34,856. The tables below present the distribution of families within the AA by geography and income levels.

<b>Type of Geography</b>	<b>Number of Tracts in AA</b>	<b>% of Total Tracts in AA</b>	<b>Number of Families in AA</b>	<b>% of Total Families in AA</b>
<b>Moderate</b>	11	13.7	7,348	11.4
<b>Middle</b>	60	75.0	47,456	73.9
<b>Upper</b>	9	11.3	9,432	14.7
<b>Total</b>	80	100.0%	64,236	100.0%

<b>Family Income Type</b>	<b>Number of Families</b>	<b>%</b>
<b>Low</b>	12,462	19.4
<b>Moderate</b>	11,940	18.6
<b>Middle</b>	15,399	24.0
<b>Upper</b>	24,435	38.0
<b>Total</b>	64,236	100.0%

**GENERAL INFORMATION (CONTINUED)**

**DESCRIPTION OF FIRST HERITAGE BANK'S ASSESSMENT AREA (continued)**

Families represent 68.6% of the AA's total households. This percentage is slightly lower than the percentages of households that are comprised of families, within both the MSA and state, at 69.8% and 70.7%, respectively. Additionally, senior citizens represent a significant portion (i.e., 19.9%) of the AA's population; this level is somewhat higher than that of the MSA (19.0%), and considerably above the state percentage (15.4%). It is also noteworthy that 71.1% of the AA's 12,462 low-income families actually reside in middle-income tracts, while 5,446 or 8.5% of total families within the AA, irrespective of geography, have been designated as living below the national poverty level.

Because the AA contains a significant portion of senior citizens and the number of low-income households is more than double the number of low-income families, relevant demographic data regarding the AA's households has also been included in this evaluation. The chart below compares median family and household incomes of the AA to the MSA and the state of Pennsylvania.

<b>Median Incomes:</b>	<b>Assessment Area</b>	<b>MSA</b>	<b>State</b>
<b>Family</b>	\$30,506	\$30,676	\$34,856
<b>Household</b>	\$23,557	\$24,232	\$29,069

It should be noted that 7,701 of the AA's households (8.2% of total households within the AA) receive some form of public assistance. Nearly 70% of the number of households receiving public assistance are situated in middle-income geographies within the AA.

The AA's labor force represents 57.3% of the AA's residents aged 16 or older. The unemployment rate for the MSA as of March 31, 1997 was 7.7%, well above the state and national rates of 5.6% and 5.5%, respectively. Currently, major industries in the AA are textiles, fabricated metals, food products, and electronics. Historically, the AA relied upon the coal mining industry as an economic mainstay. With the decline in this industry, efforts by representatives of local governments and businesses within the AA have focused upon the development of a more diversified employment base to supplant lost jobs and ensure the economic survival of the AA and the MSA. Indeed, through such revitalization efforts, triggered by a natural flood disaster in 1972, much of downtown Wilkes-Barre has been rebuilt or refurbished. Notwithstanding such efforts, comparatively high unemployment levels are reflective of the need for ongoing commercial growth and development.

In conjunction with the aforementioned need, interviews of two individuals, representing two local economic and redevelopment entities, were conducted as part of the evaluation. Both individuals concurred that the city of Wilkes-Barre has several economic issues facing it. Specifically, they identified the following as primary issues: the rehabilitation and reconstruction of existing commercial properties, weaknesses in the city's existing infrastructure, and the need for affordable housing for senior citizens and low- and moderate-income individuals. Both individuals also indicated that more assistance is necessary to assist and establish local small businesses; they specifically underscored the need for business loans originated in amounts of less than \$10,000. Additionally, information derived from interviews of other community contacts, performed by other regulatory agencies within Luzerne County, identified the need for affordable housing for low- and moderate-income individuals. Regarding efforts to revitalize commercial properties, interviewees noted FHB's proactive commitment to a \$1.6 million community development loan fund established primarily to finance the acquisition, improvement, and rehabilitation of commercial real estate in the city of Wilkes-Barre.

## GENERAL INFORMATION (CONTINUED)

### DESCRIPTION OF FIRST HERITAGE BANK'S ASSESSMENT AREA (continued)

The median value of residential housing in the AA is \$56,310, somewhat less than the MSA median of \$59,791, and significantly less than the state median of \$69,075. Based on a September 1995 report prepared by the Community and Consumer Affairs Department of this Reserve Bank entitled, Lenders Profile of Scranton, Wilkes-Barre, and Hazelton, 64.0% of Wilkes-Barre's housing stock was built prior to 1940. The report notes that, overall, the cities of Wilkes-Barre, Scranton, and Hazelton are comprised of very old housing stock coupled with high home ownership rates. Of further note, is that such factors create long-term concerns for the continued viability of housing stock in these cities. Additionally, the high cost of rental housing was noted as exacerbating efforts to increase home ownership by making it difficult for renters to save the customary down payment and closing costs necessary to finance the purchase of a home via conventional mortgage underwriting requirements. Specifically, the report notes that 41.5% of Wilkes-Barre's renters pay rents that exceed 30% of their gross annual income.

### 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. Although FHB's quarterly loan-to-deposit-ratios, since the previous examination, are below national peer averages<sup>1</sup>, the average of the quarterly ratios (55%) is deemed reasonable, for purposes of CRA, in context of the bank's size and financial condition, its limited period of existence, and demographic aspects of the AA as discussed under this assessment category.

The following table depicts FHB's quarterly loan-to-deposit ratios subsequent to the previous evaluation, together with an average loan-to-deposit ratio for the seven 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
12/31/95	31,598	50,507	62.6%
3/31/96	33,096	63,452	52.2%
6/30/96	41,441	70,689	58.6%
9/30/96	42,879	81,305	52.7%
12/31/96	45,021	90,190	49.9%
3/31/97	49,589	98,290	50.5%
6/30/97	59,358	103,758	57.2%
LOAN TO DEPOSIT RATIO AVERAGE SINCE PREVIOUS EXAMINATION			55%

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

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<sup>1</sup>FHB's national peer group consists of all commercial banks having assets between \$50 and \$100 million with two or less banking offices, and located in a metropolitan area.

## GENERAL INFORMATION (CONTINUED)

### LOAN-TO-DEPOSIT RATIO (continued)

The next table depicts the bank's loan-to-deposit ratio and growth rates since its inception.

Growth Rates	6/30/97	Peer	12/31/96	Peer	12/31/95	Peer	12/31/94	Peer
Loan- to- Deposit	57.2%	69.4%	49.9%	66.4%	62.6%	65.6%	74.5%	64.9%
Asset Growth	45.7%	11.0%	62.3%	9.8%	127.1%	10.3%	NA	4.5%
Net Loan Growth	43.2%	14.8%	42.5%	56.5%	159.6%	10.6%	NA	9.8%

Source: Uniform Bank Performance Report prepared by the Federal Deposit Insurance Corporation for use by federal regulators. NA (Not Applicable), since FHB commenced operations June 23, 1994.

In addition to below peer average quarterly loan-to-deposit ratios, the bank's year end loan-to-deposit ratios, from December 31, 1994 through December 31, 1996, are reflective of a declining trend. FHB's management attributes such trend, in part, to its concerted efforts to address the senior citizen demand for deposit products, through aggressive promotion of time and savings deposit products, and thereby establish FHB as a viable entity in the AA's existing financial services market.

The bank's loan-to-deposit ratio should also be viewed in conjunction with various demographic and economic characteristics of the AA that may limit loan demand within it. Namely, the AA's comparatively high proportion of senior citizens and its higher unemployment rate, compared to those of the state and nation. In particular, the Lenders' Profile of Scranton, Wilkes-Barre, and Hazelton notes that 10 of the 16 census tracts within the city of Wilkes-Barre have unemployment rates in excess of 6%.

Another point to consider, notwithstanding the bank's lower loan-to-deposit ratios, FHB's total loans outstanding increased substantially during 1996 and the first half of 1997, consistent with its notable asset growth during the same periods. In absolute terms, total loans outstanding at June 30, 1997 reflect a net increase of \$18.2 million over total loans outstanding at mid-year 1996, representing a growth rate of 43%. Such increase approximates the overall growth in the bank's deposit base, which increased by 47% during the same period.

The table below presents the bank's loan mix since its inception, reflecting the dollar increases in various loan portfolio components since year end 1994.

### Loan Portfolio Composition:

Loan Portfolio by Loan Type	6/30/97	%	6/30/96	%	12/31/96	%	12/31/95	%	12/31/94	%
Real Estate	33,506	55.7	21,344	50.7	24,562	53.7	14,928	46.5	3,712	30.2
Commercial	25,304	42.1	19,939	47.4	19,853	43.4	16,587	51.6	8,155	66.3
Consumer Loans	1,353	2.2	778,000	1.9	1,316	2.9	608	1.9	435	3.5
Total	60,163	100.0%	42,061	100.0%	45,731	100.0%	32,123	100.0%	12,302	100.0%

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

## GENERAL INFORMATION (CONTINUED)

### LOAN-TO-DEPOSIT RATIO (continued)

#### Loan Portfolio Composition (continued):

FHB's management, which has acknowledged the bank's comparatively low loan-to-deposit ratio, intends to increase the ratio via expanded loan product offerings. Specifically, management looks to the ARM products, noted under **Description of Institution**, and the hiring of additional lending personnel to boost loan volume. In this regard, management has indicated that the bi-weekly home equity loan product represents a new product to the AA, not currently offered by other financial institutions.

### 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 FHB, are extended to borrowers within its AA. This overall assessment is based on an analysis of all consumer loans (including home mortgage loans) originated by the bank during the 12 months ended December 31, 1996 and the first six months of 1997, coupled with an analysis of a sample of commercial loans originated during June 1997.

Accordingly, the following table indicates that 91% of FHB's consumer lending activities are geographically contained within its AA.

Consumer Loan Penetration Profile						
	1997 Year to Date (January to June)		1996		TOTAL	
	Number	Percent	Number	Percent	Number	Percent
Inside	143	90	178	92	321	91
Outside	16	10	16	8	32	9
Total	159	100%	194	100%	353	100%

In addition, of the fourteen commercial loans sampled, ten or 71% were extended to borrowers within the AA.

### 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. Although business purpose credit represents the majority of FHB's loans outstanding, in terms of dollars, for purposes of this evaluation, the geographic distribution of all consumer loans (including home mortgage loans), originated during the 12 months ended December 31, 1996 and the first six months of 1997, was utilized to make an assessment. Consumer loans were chosen as the primary criterion, given the significant number of such loans originated during 1996 and the first half of 1997.

## GENERAL INFORMATION (CONTINUED)

### GEOGRAPHIC DISTRIBUTION OF LOANS (continued)

Accordingly, the geographic distribution of consumer loans reflects a reasonable dispersion throughout the AA, including the AA's moderate-income geographies.

The following table details, by geography or census-tract type, all consumer loans originated by the bank since the previous examination, comparing same to applicable AA demographics.

<b>Lending Profile by Census Tract</b>					
Census Tract Type	Assessment Area Demographics (Relative Population Distribution)	1997 Year to Date (January 1 to June 30)		1996	
		Number	%	Number	%
Moderate	12%	11	7.7	17	9.6
Middle	72%	94	65.7	113	63.5
Upper	16%	38	26.6	48	26.9
<b>Total Loans</b>	<b>100%</b>	143	100%	178	100%

Because the bank is not yet a substantial HMDA reporter, a separate geographic analysis of home mortgage loans has not been presented. Nevertheless, it was determined that the distribution of home mortgage loans among different geography types generally reflected the consumer loan distribution. It should also be noted that, of the 17 loans originated during 1996 to borrowers situated in the AA's moderate-income geographies, four were residential mortgages, all, of which, were extended to finance owner-occupied properties located in such geographies.

Based on the 1996 distribution, the percentage of loans originated in moderate-income tracts reasonably approximates the corresponding demographic measure<sup>2</sup>. However, the percentages of loans originated to moderate- and middle-income geographies is something less than the corresponding demographic measure of each; while loans originated to borrowers within upper-income tracts exceeds the comparable demographic measure. Notwithstanding such lending profile, the lending distribution is deemed reasonable for purposes of CRA, in view of various demographic characteristics of the AA that have already been discussed under **Description of First Heritage Bank's Assessment Area, Loan To Deposit Ratio**, and referenced additionally, in some detail, under the next section, **Lending To Borrowers of Different Incomes and to Businesses of Different Sizes** .

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<sup>2</sup>The evaluation places greater emphasis on the 12 month 1996 loan distribution over that of the six month year-to-date 1997 distribution in an effort to lessen the impact or distortion of any seasonal fluctuations or variations in the institution's lending patterns.

## GENERAL INFORMATION (CONTINUED)

### GEOGRAPHIC DISTRIBUTION OF LOANS (continued)

Also, as a supplementary note, FHB has extended combined credit of \$140,000 to the Wilkes-Barre Redevelopment Authority, since the previous evaluation, via a \$250,000 participation commitment to the \$1.6 million line of credit facility referenced under **Description of First Heritage Bank's Assessment Area**. FHB's management indicated that, collectively, the loans have facilitated redevelopment efforts in a moderate-income geography in downtown Wilkes Barre. Such extensions of credit are deemed worthy of mention under this assessment category in that a need for this type of credit is documented in the Lenders' Profile of Scranton, Wilkes-Barre, and Hazleton, which notes, in part, that, "much of Wilkes-Barre's downtown appears to be struggling or standing vacant".

### 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, especially low- and moderate-income borrowers and businesses of different sizes, especially small businesses. Borrowers of differing incomes have been defined by their income relative to the MSA median family income for both 1996 and 1997. 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 Report 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, including low- and moderate-income borrowers, and businesses of different sizes, including small businesses, in context of FHB's single office facility within the central business district of Wilkes-Barre, and the economic environment in which it operates.

As noted under **Description of First Heritage Bank's Assessment Area**, median family income of the AA and the MSA, based on 1990 U.S. Census data is \$30,506 and \$30,676, 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 \$37,700 and \$35,900, respectively, which result 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)
1997	\$37,700	Less than \$18,850	\$18,850 - \$30,159	\$30,160 - \$45,239	\$45,240 or more
1996	\$35,900	Less than \$17,950	\$17,950 - \$28,719	\$28,720 - \$43,079	\$43,080 or more

### Borrowers of Different Incomes

Thus, FHB's profile of borrowers within the AA was evaluated based on a distribution analysis of total consumer loans (inclusive of home mortgage loans) originated by the bank during the 12 months ended December 31, 1996 and the first six months of 1997. Such analysis is presented as follows.

**GENERAL INFORMATION (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		**1997 Year-to-date (Based on 1997 adjusted median income)		1996 (Based on 1996 adjusted median income)	
	Number	Percent	Number	Percent	Number	Percent
Low	12,462	19.4	13	10.9	16	9.2
Moderate	11,940	18.6	15	12.6	33	19.0
Middle	15,399	24.0	35	29.4	41	23.6
Upper	24,435	38.0	56	47.1	84	48.2
<b>Total Families</b>	<b>64,236</b>	<b>100.0%</b>	<b>119</b>	<b>100.0%</b>	<b>174</b>	<b>100.0%</b>

\*Number of families based on 1990 census data. \*\*1997 YTD represents January through June of 1997.

Given FHB's limited volume of home mortgage loans, a separate analysis of lending penetration among home mortgage borrowers is not deemed meaningful to this evaluation and has not been presented.

Based on 1990 demographic indices as shown above, and ongoing economic trends within the AA, to date, it is reasonable to expect that approximately 20%, if not more, of FHB's lending activity would be associated with low-income borrowers. However, the preceding loan distribution reflects a somewhat limited lending penetration among low-income borrowers; while showing a substantially more than proportionate lending presence among upper-income borrowers relative to applicable demographics<sup>3</sup>. Accordingly, the evaluation considered other characteristics or nuances of the AA that possibly influence the bank's lending pattern, or provide explanations as to its reasonableness for purposes of CRA.

As noted previously, the AA contains no low-income tracts. Although no low-income geographies exist, 71.1% of the AA's low-income families and 71.1% of its low-income households are situated in the AA's middle-income tracts. Similarly, nearly 69.1% of the AA's 7,701 households that receive some form of public assistance (including social security and black lung benefits) are situated in middle-income tracts. As noted previously, individuals over the age of 65 represent 19.9% of the AA's total population, a considerable proportion, in comparison to the senior citizen percentage (15.4%) of the state.

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<sup>3</sup>The evaluation places greater emphasis on the 12 month 1996 borrower distribution over that of the six month year-to-date 1997 distribution in an effort to lessen the impact or distortion of any seasonal fluctuations or variations in the institution's lending patterns.

## **GENERAL INFORMATION (CONTINUED)**

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

#### **Borrowers of Different Incomes (continued)**

Furthermore, 73% of the AA's senior citizen segment reside in middle-income geographies. Additionally, the Lenders Profile of Scranton, Wilkes-Barre, and Hazelton notes that all three cities, including Wilkes-Barre are characterized by comparatively older housing stock, higher home ownership rates, and a considerable number of homeowners aged 65 or older. In particular, the report notes that 40% of Wilkes-Barre's total home owners are 65 or older, while 54% of the city's homeowners have owned their homes since 1960 or earlier.

Based upon the preceding, one may reasonably conclude that a sizeable portion of the AA's low-income segment is comprised of senior citizens, many of whom are longstanding homeowners and residents in the city of Wilkes-Barre, with homes situated in the city's middle-income geographies. Moreover, it is likely that a considerable number within this population segment receive some form of public assistance and live on fixed incomes. Typically, individuals 65 and over tend to be "savers" rather than "borrowers" and, as a group, do not necessarily manifest the same credit needs as the general population. Additionally, although home mortgage credit is not a major product line of the bank and has not been specifically analyzed in this evaluation, the Lenders Profile of Scranton, Wilkes-Barre, and Hazelton notes that any household in the cities of Scranton and Wilkes-Barre earning 80% or less of the applicable MSA median household income experiences a wide gap in what is affordable and the median value of housing in both cities. As previously referenced under **Description of Assessment Area**, the report further indicates that, based on interviews with community groups and other parties within the MSA, many low- and moderate-income individuals and families cannot meet the down payment and closing cost requirements to finance the purchase of a home through conventional means.

In that such demographic aspects of the AA likely lessen FHB's lending penetration among low-income borrowers, the assessment of the bank's performance under this assessment category has been tempered accordingly. It is also worthy of note that FHB's management indicated, during the evaluation, that it has undertaken business strategies to meet the deposit demand or banking need of the senior citizen segment and thereby expand the bank's deposit base.

Finally, continued high unemployment levels in both the AA and the MSA, as previously discussed, are deemed to have a limiting affect on overall loan demand within the AA, particularly among low-income borrowers.

#### **Businesses of Different Sizes**

A small business loan, for purposes of CRA, means a loan included in "loans to small businesses" as defined in the instructions for preparation of the Consolidated Report of Condition and Income as filed for regulatory and supervisory purposes. Based on the Consolidated Reports of Condition and Income filed by FHB as of June 30, 1996 and June 30, 1997, small business loans are detailed as follows:

## GENERAL INFORMATION (CONTINUED)

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

#### Businesses of Different Sizes (continued)

Loans To Small Businesses								
	1997		1997 Amount Outstanding	%	1996		1996 Amount Outstanding	%
	#	%			#	%		
Loans with original amounts of \$100,000 or less	197	66	6,561	21	151	69	4,515	19%
Loans with original amounts of more than \$100,000 through \$250,000	46	16	6,154	19	34	15	4,718	19%
Loans with original amounts of more than \$250,000 through \$1,000,000	52	18	19,177	60	36	16	15,039	62%
<b>TOTAL SMALL BUSINESS LOANS</b>	<b>295</b>	<b>100%</b>	<b>31,892</b>	<b>100%</b>	<b>221</b>	<b>100%</b>	<b>24,272</b>	<b>100%</b>

Consistent with its marketing focus upon small- and medium-size businesses, loans to small businesses, in terms of dollars outstanding, represented 73% and 71% of FHB's total business loans (inclusive of commercial and industrial loans and non-farm/non-residential mortgages) outstanding at June 30, 1997 and June 30, 1996, respectively. In terms of number, loans originated in an amount of \$100,000 or less represent the largest component of loans extended to small businesses (i.e., any loan extended in an amount of \$1,000,000 or less) in both 1997 and 1996. Such lending profile evidences an affirmative response to small business credit needs.

#### COMPLIANCE WITH ANTIDISCRIMINATION LAWS

FHB solicits credit applications from all segments of its AA without regard to any prohibited basis. Management has established lending policies that express a commitment by the bank to evaluate applicants fairly and without regard to any prohibited bases. No violations of the substantive provisions of the antidiscrimination laws and regulations were identified.

#### CONSUMER COMPLAINTS

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