

PUBLIC DISCLOSURE

September 14, 1998

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.

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I. 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, Somerset, Pennsylvania, prepared by the Federal Reserve Bank of Cleveland, the institution's supervisory agency, as of September 14, 1998. 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 Somerset Trust Company ("Somerset") has a satisfactory record of helping to meet the credit needs of its entire community, consistent with the bank's resources and capabilities. The bank's loan-to-deposit ratio is reasonable and a substantial majority of Somerset's loans are within its assessment area. Additionally, there is a reasonable level of penetration of loans among individuals of different income levels, including low- and moderate-income individuals and small businesses.

II. DESCRIPTION OF INSTITUTION

Somerset, with total assets of \$215.6 million as of June 30, 1998, operates six full service offices and seven automated teller machines within Somerset, Berlin, and Johnstown, Pennsylvania.

In addition, the bank has four remote service facilities in Somerset, Champion, and Hidden Valley, Pennsylvania, that provide cash dispensing services as well as balance inquiries and electronic transfers between accounts. The types of credit offered, as noted in the bank's public file, include consumer loans, real estate loans, and loans to finance agriculture and small businesses. In addition, to offering these conventional loan products, the bank participates in the Small Business Administration ("SBA") and Pennsylvania Housing Finance Agency ("PHFA") government loan programs.

Overall the financial condition of the bank is sound. Since the last CRA evaluation, the bank has focused its efforts on improving asset quality; however, there are no legal or financial impediments, which would prevent the bank from helping to meet the credit needs of its community.

Table 1 reflects the distribution of the bank's loan portfolio as of the date of the most recent Call Report.

Table 1

LOAN PORTFOLIO DISTRIBUTION AS OF June 30, 1998		
Type of Loan	Amount (In Thousands)	Percentage of Total Loans
Commercial loans	25,300	19.07%
Loans secured by real estate:		
Secured by non-farm, nonresidential properties	38,690	29.16%
Revolving, open end loans secured by 1- to 4-family residential properties	2,984	2.25%
Loans secured by 1- to 4-family residential properties	42,900	32.34%
Secured by farmland	4,160	3.14%
Construction and land development	999	0.75%
Secured by multifamily (5 or more) residential properties	2,949	2.22%
Agricultural loans	2,146	1.62%
Consumer loans	11,567	8.72%
Other	972	0.73%
Total	132,667	100.00%

The bank's performance under CRA was rated "Satisfactory" at the previous examination of April 28, 1997.

III. DESCRIPTION OF SOMERSET'S ASSESSMENT AREA

Somerset's assessment area, located within the Johnstown, Pennsylvania Metropolitan Statistical Area ("MSA") #3680, is comprised of the entire counties of Somerset and Cambria.

The following table shows the distribution of the census tracts and block numbering areas ("BNAs") for the two counties among the four income categories:

Table 2

INCOME CLASSIFICATION OF CENSUS TRACTS/BNAs IN ASSESSMENT AREA					
	Census Tract Income Classifications ⁶				Total
	Low ¹	Moderate ²	Middle ³	Upper ⁴	
Number of Tracts	4	8	52	6	70
Percentage of Total Tracts*	5.7%	11.4%	74.3%	8.6%	100%
Population ⁵	1,929	14,794	194,043	30,481	241,247
Percentage of Total Population*	0.8%	6.1%	80.5%	12.6%	100%
Number of Households ⁵	819	6,744	72,399	11,734	91,696
Percentage of Total Households*	0.9%	7.3%	79%	12.8%	100%
Owner-Occupied Households ⁵	301	2,899	56,228	8,908	68,336
Percentage of Total OOH*	0.5%	4.2%	82.3%	13%	100%
Number of Families ⁵	558	3,935	53,744	8,505	66,742
Percentage of Total Families*	0.8%	5.9%	80.5%	12.8	100%

- 1 Less than 50 percent of the metropolitan statistical area ("MSA") is median family income.
- 2 At least 50 percent and less than 80 percent of the MSA median family income.
- 3 At least 80 percent and less than 120 percent of the MSA median family income.
- 4 120 percent or more of the MSA median family income.
- 5 Based on 1990 Census Data information.
- 6 Based on HUD's estimated median family income for the MSA of 3680, which was \$26,144 in 1997.

Based upon information from the 1990 census, there are 241,247 persons and 91,696 households within Somerset Trust Company's assessment area. The median household income for the assessment area is \$21,529, while the median family income is \$26,144. The median family income in Pennsylvania for 1997 is \$34,856. Household income includes the income of all persons residing within the same household, while family income includes only the income of persons related by blood, marriage, or adoption within a household.

In 1996, mining accounted for 3.5% of Somerset county's employment, down two percentage points from 1991 levels. Although the concentrations of mining are down significantly in the past five years, the area's high proportion of mining jobs is still striking in comparison to both state and national averages. About half of all mine workers in the county are not unionized.

Employment for Cambria and Somerset counties were as follows for 1996:

Table 3

	Somerset	Cambria	PA
Services	24.3%	30.3%	30.0%
Wholesale & Retail	24.1%	25.0%	23.9%
Manufacturing	19.5%	13.5%	18.5%
State & local govt	17.0%	16.3%	13.6%
Construction	4.2%	3.6%	4.0%
Transportation & Utilities	4.4%	6.0%	5.2%
Fire	3.3%	6.1%	6.1%
Mining	3.5%	0.8%	0.4%

The top 10 industrial employers in Somerset represent 89% of total employment, which is an extremely high level of jobs concentration. Fleetwood Folding Trailers tops the list of private employers in the county, with 650 employees or 24.4% of total county employment. Fleetwood is also the leader in the folding trailer business with 33% market share and the second largest market leader accounts for 30% of market share. In the 1997 annual report, Fleetwood reported a 1% decrease in revenues for the folding trailer division. However, demographic factors, such as growth in the 45 to 74 age groups of the population and increased recreation spending, lead the company to believe that recreational vehicle sales will increase in the near future.

This area has not experienced much growth over the current economic expansion. While the population in the area has been relatively stable over the last 10 years, personal income in the county and state, has grown at a much slower pace than the nation for the 10 year period ended 1996. However, per capita income growth in the county for the same period is slightly exceeding that of the nation.

The area historically has a higher unemployment rate than the state and nation. In fact, the surrounding Johnstown MSA has the highest rate of joblessness in Pennsylvania. Data from the Pennsylvania Civilian Labor Force reflected unemployment rates of 5.9% and 4.9% for Cambria and Somerset counties, respectively, for the month of August 1998. While unemployment rates have been steadily declining within these counties, the rates remain well above state and national rates of 4.5% and 4.2%, respectively.

According to a source at the Pennsylvania Department of Labor and Industry, high unemployment is attributed to substantial labor force growth without job growth. The area economy has had a difficult time changing from goods producing economy to a service producing economy. Historically, dominant steel and manufacturing companies in the area (Bethlehem Steel, Johnstown America Corp.) have closed operations and no new companies have moved in to take their place. However, area economic development offices have been successful on a small scale in attracting new business as a small computer technology firm recently moved to the area.

IV. CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

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

- loan-to-deposit ratio;
- lending activity inside and outside the bank's assessment area;
- distribution of loans to borrowers of different income levels;
- distribution of loans to businesses and farms of different sizes;
- reasonableness of the geographic distribution of loans within the bank's assessment area;
- bank's response to written complaints regarding its performance in helping to meet the credit needs of the assessment area.

Loan-To-Deposit Ratio

Somerset's loan-to-deposit ratio is historically higher than financial institutions of similar size and is deemed reasonable given the bank's current financial condition, assessment area credit needs, and competition. The bank's average loan-to-deposit ratio for the five quarters between examinations, based upon Call Report information, is 77.38%. As listed in the June 30, 1998, Uniform Bank Performance Report, the bank's net loans and leases-to-deposits ratio was 74.60%, which is well above the national peer group average of 70.64% for banks of similar size during the same time period. The table below reflects total loans-to-deposits ("LTD") for the five quarters between examinations, which shows a stable LTD from June 30, 1997, to June 30, 1998. Somerset is in a competitive market with twelve other local and regional institutions competing for market share. Based upon current loan demand and competitive banking environment, the bank's LTD ratio meets the standards for satisfactory performance.

Table 4

Date	Total Loans (In thousands)	Deposits (In thousands)	Loan-to-Deposit Ratio
June 30, 1997	\$126,341	\$164,010	77%
September 30, 1997	\$130,025	\$165,919	78%
December 31, 1997	\$133,471	\$168,670	79%
March 31, 1998	\$128,537	\$169,968	76%
June 30, 1998	\$132,402	\$172,501	77%
Averages	\$130,155	\$168,213	77%

Lending Volume within Assessment Area

A substantial majority of loans are within the bank's assessment area. Table 5 below illustrates that 98% and 97%, respectively, for both the number and total dollar volume of loans sampled were originated within the bank's assessment area. Based upon the distribution of loans in and out of the assessment area, the bank is exceeding the standards for lending volume within its assessment area.

Table 5

DISTRIBUTION OF LOANS IN AND OUT OF THE ASSESSMENT AREA								
Loan Type	<i>Inside the Assessment Area</i>				<i>Outside the Assessment Area</i>			
	Number Of Loans	%	\$ Amount of Loans \$000's	%	Number of Loans	%	\$ Amount of Loans \$000's	%
Real Estate – Conv	56	100%	\$ 3,365	100%	0	0%	\$ 0	0%
Real Estate – Refi	98	100%	\$ 6,155	100%	0	0%	\$0	0%
Real Estate - Other	27	100%	\$ 435	100%	0	0%	\$0	0%
Consumer-Other	66	94%	\$ 389	95%	4	6%	\$ 20	5%
Motor Vehicle	44	98%	\$ 372	98%	1	2%	\$ 6	2%
Small Business	71	99%	\$6,643	97%	1	1%	\$215	3%
Total	332	98%	\$17,759	97%	6	2%	\$241	3%

Lending to Borrowers of Different Incomes

The distribution of consumer loans is fairly equally distributed among the four income level categories, both in the number and dollar amount of loans. For all real estate loans, the distribution is highly concentrated within the middle and upper income levels for both the number and dollar amount of these loans. However, 11.2% of the families exist below the poverty level of the Johnstown MSA. Based upon the distribution illustrated below, the bank is meeting the standards for lending to borrowers of different incomes.

Table 6

DISTRIBUTION OF CONSUMER LOANS BY INCOME LEVEL OF BORROWER									
Income Level	<u>Consumer-Other</u> *				<u>Real Estate-All</u>				% of Families ⁵
	No.	%	\$ Amount	%	No.	%	\$ Amount	%	%
Low ¹	30	25%	\$198,114	24%	13	7%	\$241,000	2%	16%
Moderate ²	25	21%	\$157,943	19%	9	10%	555,000	6%	19%
Middle ³	31	25%	\$157,262	19%	41	23%	\$1,651,000	17%	25%
Upper ⁴	35	29%	\$300,107	37%	95	52%	\$6,614,000	66%	39%

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- 1 Less than 50 percent of the metropolitan statistical area ("MSA") median family income
 - 2 At least 50 percent and less than 80 percent of the MSA median family income
 - 3 At least 80 percent and less than 120 percent of the MSA median family income
 - 4 120 percent or more of the MSA median family income
 - 5 Represents the percentage of families in the assessment area categorized by income level.
 - * Includes motor vehicle and other unsecured consumer loans that were sampled during the examination.

Additionally, the distribution of small business loans within the assessment area by borrower revenue is also significant as 87% of the small business loan originations are to businesses with revenues less than or equal to \$1 million. The majority of the small business loans are for amounts less than \$100,000 (73% of the total number of loans), with 18% of the total number of small business loans ranging in amounts greater than \$100,000, but less than \$250,000. Based upon the assessment of small business lending, the bank meets the credit needs of small businesses.

Table 7

DISTRIBUTION OF COMMERCIAL LOANS SAMPLED WITHIN THE ASSESSMENT AREA				
Loan Amount Category	Number of Loans	%	Dollar Amount of Loans	%
Less than \$100,000	52	73	1,815,000	27
Greater than or equal to \$100,000 but less than \$250,000	13	18	2,009,000	30
Greater than \$250,000 but less or equal to \$1,000,000	6	9	2,819,000	43
Greater than or equal to \$1,000,000	0	0	0	0

Geographic Distribution within Assessment Area

As depicted in the following table, a substantial majority of the loans made were concentrated in middle-income census tract and upper-income census tracts. Middle-income and upper-income census tracts make up 74% and 9% of census tracts within the assessment area, respectively. Additionally, there are four low-income tracts and eight moderate-income tracts within the assessment area that represent 17% of the total of census tracts in the assessment area. The bank does not show any real estate, consumer, and small business lending to the four low-income and only one consumer loans to moderate income census tracts. The low-income census tracts represent less than 1% of the number of families residing in the assessment area while only 6% of the families live within the moderate-income census tracts while 46% and 27% of families live below the poverty level for each of the income levels, respectively. The low-to moderate census tracts are concentrated within the Johnstown MSA, which has historically had one the highest unemployment rates in the Commonwealth of Pennsylvania, indicating that is economically depressed area with low loan demand. Moreover, the bank's branch that is located within this area is located in a desolate shopping mall, in which the branch and one other business are the only tenants. The bank is in the process of acquiring a new location for the Johnstown branch, which will be in a more visible and accessible location for residents of the community. Based upon the review of the geographic distribution within the assessment area, the bank is meeting the standards for satisfactory performance.

Table 8

DISTRIBUTION OF LOANS ACROSS THE ASSESSMENT AREA BY INCOME LEVEL OF CENSUS TRACTS COMPARED TO CHARACTERISTICS OF THOSE TRACTS								
	Low-Income¹		Moderate-Income²		Middle-Income³		Upper-Income⁴	
	No.	\$	No.	\$	No.	\$	No.	\$
Consumer-Other *	0	0	1	2,000	108	753,454	1	4,000
<i>Percent of Total</i>	<i>0%</i>	<i>0%</i>	<i>0.9%</i>	<i>0.3%</i>	<i>98.2%</i>	<i>99.2%</i>	<i>0.9%</i>	<i>0.5%</i>
Real Estate-All	0	0	0	0	179	9,790,000	2	165,000
<i>Percent of Total</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>98.9%</i>	<i>98.3%</i>	<i>1.1%</i>	<i>1.7%</i>
Small Business	0	0	0	0	65	6,268,000	6	375,000
<i>Percent of Total</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>91.5%</i>	<i>94.4%</i>	<i>8.5%</i>	<i>5.6%</i>
Number of Tracts in Assessment Area	4		8		52		6	
<i>Percentage of Tracts</i>	<i>5.7%</i>		<i>11.4%</i>		<i>74.3%</i>		<i>8.6%</i>	
Number of Families by Tract	558		3,935		53,744		8,505	
<i>Percentage of Families</i>	<i>0.8%</i>		<i>5.9%</i>		<i>80.5%</i>		<i>12.7%</i>	
Owner- Occupied Households by Tract	301		2,899		56,228		8,908	
<i>Percentage of Households</i>	<i>0.4%</i>		<i>4.2%</i>		<i>85.2%</i>		<i>13%</i>	

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- ¹ Census tract having less than 50 percent of the MSA median family income.
 - ² Census tracts having at least 50 percent and less than 80 percent of the MSA median family income.
 - ³ Census tracts having at least 80 percent and less than 120 percent of the MSA median family income.
 - ⁴ Census tracts having 120 percent or more of the MSA median family income.
 - * Includes motor vehicle and other unsecured consumer loans that were sampled during the examination.

V. ADDITIONAL FACTORS

The Federal Reserve Bank of Cleveland or Somerset Trust Company has not received any complaints regarding the performance of the bank under the Community Reinvestment Act.

No substantive violations of the fair lending laws were noted during the examination. Interviews with employees and management revealed an understanding of the regulatory requirements regarding fair lending.