

# **PUBLIC DISCLOSURE**

August 29, 2022

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Pennian Bank  
Certificate Number: 7613

2 North Main Street  
Mifflintown, Pennsylvania 17059

Federal Deposit Insurance Corporation  
Division of Depositor and Consumer Protection  
New York Regional Office

350 Fifth Avenue, Suite 1200  
New York, New York 10118

This document is an evaluation of this 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. 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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## INSTITUTION RATING

**INSTITUTION'S CRA RATING:** This institution is rated **Satisfactory**.

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

**The Lending Test is rated Satisfactory.**

- The loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- A majority of loans are in the institution's assessment areas.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.
- The distribution of borrowers reflects reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the Lending Test rating.

**The Community Development Test is rated Satisfactory.**

- The institution's community development performance demonstrates adequate responsiveness to the community development needs in its assessment areas through community development loans, qualified investments, and community development services, as appropriate. Examiners considered the institution's capacity and the need and availability of such opportunities for community development in the assessment areas.

## DESCRIPTION OF INSTITUTION

First Community Financial Corporation, a single bank owned holding company, operates Pennian Bank as a community bank. Each maintain their headquarters in Mifflintown, Pennsylvania (PA). The institution received a Satisfactory rating at its previous FDIC Performance Evaluation, dated June 24, 2019, based on Interagency Intermediate Small Institution Examination procedures.

### **Operations**

Pennian Bank operates ten full-service branches, including the main office, and two limited messenger service locations across Juniata, Perry, and Cumberland Counties. Since the prior evaluation, Pennian Bank added the West Shore/Lemoyne location in August 2019, expanding their operations southward into Cumberland County.

Pennian Bank closed two of its six Perry County full-service branches in August 2020; one located in Elliotsburg and the other located in Shermans Dale. Both branches did not reside in a low- or moderate-income census tract or operate on the boundary line of any. The branch closures did not negatively affect the moderate-income individuals residing in the western portion of Perry County as the bank continues to operate its Loysville location within close proximity.

Pennian Bank offers a range of home mortgage and commercial lending products. The bank continues to offer government home loans through the Veteran's Administration, Federal Housing Administration, United States Department of Agriculture, and the Federal Home Loan Bank of Pittsburgh *First Front Door* program. During 2020 and 2021, Pennian Bank was an active participant in the Small Business Administration's (SBA) Paycheck Protection Program (PPP).

The institution provides a variety of deposit services including checking, savings, money market deposit accounts, certificates of deposit, individual retirement accounts, health savings accounts, and holiday club accounts. Alternative banking services include online and personal mobile banking, electronic bill pay, eStatements, and account-to-account transfer. The bank has a deposit taking ATM at each branch location, with exception to the main office and Ickesburg location, and four standalone ATMs. Pennian Bank retained their deposit taking ATM in Shermans Dale following the branch closure.

### **Ability and Capacity**

Assets totaled approximately \$700.3 million as of June 30, 2022, and included total loans of approximately \$442.3 million and securities totaling \$203.5 million. The bank reported total deposits of \$615.0 million. The bank's overall loan portfolio remains similar in composition to the previous evaluation. The following table illustrates the loan portfolio as of June 30, 2022.

<b>Loan Portfolio Distribution as of June 30, 2022</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction, Land Development, and Other Land Loans	28,607	6.5
Secured by Farmland	40,459	9.1
Secured by 1-4 Family Residential Properties	160,192	36.2
Secured by Multifamily (5 or more) Residential Properties	29,682	6.7
Secured by Nonfarm Nonresidential Properties	102,924	23.3
<b>Total Real Estate Loans</b>	<b>361,864</b>	<b>81.8</b>
Commercial and Industrial Loans	50,628	11.4
Agricultural Production and Other Loans to Farmers	4,043	0.9
Consumer Loans	6,413	1.5
Obligations of State and Political Subdivisions in the U.S.	19,237	4.3
Other Loans	65	<0.1
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
<b>Total Loans</b>	<b>442,250</b>	<b>100.0</b>
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any financial, legal, or other impediments that affect the bank's ability to meet assessment area credit needs.

## **DESCRIPTION OF ASSESSMENT AREAS**

The CRA requires each financial institution to define one or more assessment areas within which examiners evaluate its CRA performance. Pennian Bank designates two contiguous assessment areas: 1) a Non-Metropolitan Statistical Area (MSA) assessment area which includes all of Juniata County (Non-MSA) and 2) a MSA assessment area which includes all census tracts in Cumberland and Perry Counties, in the Harrisburg-Carlisle MSA 25420 (Carlisle MSA). Due to the Lemoyne Branch opening in August 2019, the bank expanded its Carlisle assessment area to include Cumberland County.

The combined assessment area includes 64 census tracts that reflect the following income designations according to the 2015 American Community Survey (ACS) data: 3 low-, 8 moderate-, 38 middle-, 13 upper-income census tracts, and 2 with no income designation applicable.

An emergency declaration (EM-3441) and a major disaster declaration (DR-4506), both related to COVID-19, affected the assessment area as of March 2020 continuing through the current evaluation.

For additional economic and demographic information, refer to the Description of Institution's Operations section within each respective assessment area.

### **Community Contact**

As part of the evaluation process, examiners contact third parties within the assessment area to gain insight on local economic conditions, credit needs, area challenges and opportunities. This information can also help determine if banks in the area are responsive to the needs of the community. It also shows what type of credit and community development opportunities are available.

Examiners contacted a nonprofit organization that facilitates affordable housing in the assessment area. The organization offers affordable housing resources for the unhoused individuals and families, and assists veterans needing permanent housing within the Perry County area. The contact cited the lack of emergency housing in Perry County as the main need; and that the need for such services and the opportunity is broad and immediate.

Furthermore, the contact indicated that there is an on-going need for affordable housing. Specifically, opportunities exist for investment in low-income housing projects that also qualify for state-tax program participation. The contact explained that there are not enough affordable housing units to meet demand. There is an opportunity for financial institutions to offer favorable lending options to this particular organization, the only affordable housing entity in Perry County, to help meet the demand for affordable housing in the area.

### **Credit and Community Development Needs and Opportunities**

Considering the demographic data and the economic data examiners determined that affordable housing represents a need in the bank's combined assessment area. Additionally, an emergency shelter is an opportunity that would fill a great need in the community. There also appears a need for small farm lending, considering the presence of agribusiness and the rural communities within the combined assessment area.

## SCOPE OF EVALUATION

### General Information

This evaluation covers the period from the prior evaluation dated June 24, 2019, to the current evaluation dated August 29, 2022. Examiners used Interagency Intermediate Small Institution Examination Procedures to evaluate the bank’s CRA performance. Intermediate Small Institution CRA Examination Procedures include a Lending Test and a Community Development Test. Please refer to the Appendix for details on the Lending Test and Community Development Test criteria.

Examiners performed a full-scope review of the bank’s performance for each assessment area. The bank’s performance in each assessment area contributed equal weight to the overall conclusion. Although the bank made a higher percentage of loans in the Carlisle MSA, the number of branches and volume of deposits in each assessment area is the same.

<b>Assessment Area Breakdown of Loans, Deposits, and Branches</b>						
<b>Assessment Area</b>	<b>Loans*</b>		<b>Deposits</b>		<b>Branches</b>	
	<b>\$(000s)</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>	<b>#</b>	<b>%</b>
Carlisle MSA	45,417	68.9	268,571	48.2	5	50.0
Non-MSA	20,481	31.1	288,205	51.7	5	50.0
<b>Total</b>	<b>65,898</b>	<b>100.0</b>	<b>556,776</b>	<b>100.0</b>	<b>10</b>	<b>100.0</b>

*Source: Bank Data; FDIC Summary of Deposits (6/31/2021)  
\* HMDA Loan information from 2019 to 2021, and only 2021 small business lending.*

### Activities Reviewed

Examiners determined that the bank’s major product lines are home mortgage and small business loans. This conclusion considered the bank’s business strategy and the number and dollar volume of loans originated during the evaluation period. As of June 30, 2022, residential real estate represent 42.9 percent of the bank’s loan portfolio. Commercial loans, consisting of nonfarm nonresidential real estate and commercial and industrial loans represent 34.7 percent of the portfolio. During the evaluation period, Pennian Bank referred 61 home mortgage loans totaling \$10.7 million through a broker relationship that are not reflected in the loan portfolio totals. These referrals are specific to the underwriting and servicing of government assured programs, such as Veteran’s Affairs home loan program, the U.S. Department of Agriculture’s Rural Service lending program, and Federal Housing Administration lending programs. Small farm loans and consumer loans represented a nominal portion of the bank’s loan portfolio; therefore, they provided no material support for conclusions or ratings and are not considered in this analysis.

The bank’s record of originating home mortgage loans contributed more weight to overall conclusions due to the larger loan volume when compared to small business lending. Bank records indicated that the home mortgage lending focus and product mix remained consistent throughout the evaluation period. This evaluation considered all home mortgage loans reported on the bank’s 2019, 2020, and 2021 Home Mortgage Disclosure Act (HMDA) Loan Application Registers (LARs). In 2019, the bank reported 90 loans totaling \$15.2 million; in 2020, the bank reported 160 loans totaling \$42.7 million; and in 2021, the bank reported 201 loans totaling \$48.9 million. For comparative purposes, the evaluation will present 2020 aggregate HMDA data and 2015 ACS data,

Examiners reviewed bank records to determine the number of small business loans originated or purchased from June 25, 2019, to August 29, 2022. Pennian Bank originated 12 small business loans in 2019 for \$3.5 million. In 2020, the bank originated or purchased 249 small business loans totaling \$21.7 million, of which 203 totaling \$13.1 million were PPP loans. In 2021, the bank originated or purchased 184 small business loans totaling \$18.5 million, of which, 131 totaling \$5.4 million were PPP loans. As an Intermediate Small Institution, Pennian Bank is not required to report small business lending activities. However, management collected small business loan data in 2021 on 53 loans and captured some information on the PPP loans. Using the agency guidelines, examiners selected a sample set of 51 to test for accuracy and presented the entire universe for the lending performance. Because the bank does not report small business data, examiners did not compare bank performance to aggregate small business lending data. Examiners compared the bank's small business lending performance to 2021 Dun & Bradstreet (D&B) data.

For the Lending Test, examiners reviewed the number and dollar volume of home mortgage and small business loans. While number and dollar volume of loans are presented, examiners emphasized performance by number of loans because the number of loans is a better indicator of the number of individuals and businesses served.

For the Community Development Test, bank management provided data on community development loans, qualified investments, and community development services since the prior CRA evaluation dated June 24, 2019.



## CONCLUSIONS ON PERFORMANCE CRITERIA

### LENDING TEST

Pennian Bank demonstrated satisfactory performance under the Lending Test. Borrower Profile performance primarily supports this conclusion. The following sections detail the bank's performance under each Lending Test criterion.

#### Loan-to-Deposit Ratio

The LTD ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. The bank's LTD ratio, calculated from Call Report data, averaged 74.8 percent over the past 13 calendar quarters from June 30, 2019 to June 30, 2022. The ratio ranged from a low of 68.5 percent as of December 31, 2021, to a high of 79.5 percent as of September 30, 2019. The decrease during the review period reflects the industry as a whole during the continuing COVID-19 pandemic.

The following table compares the bank's LTD ratio to similarly situated institutions, which examiners selected based on asset size, geographic location, and lending focus. As shown in the table, Pennian Bank maintained a ratio compared reasonably to similarly situated financial institutions.

<b>Loan-to-Deposit Ratio Comparison</b>		
<b>Bank</b>	<b>Total Assets as of 6/30/22 \$(000s)</b>	<b>Average Net LTD Ratio (%)</b>
<b>Pennian Bank</b>	<b>697,014</b>	<b>74.8</b>
Mifflinburg Bank and Trust	551,898	79.9
Susquehanna Community Bank	555,690	64.3
The Juniata Valley Bank	809,566	66.3
The Northumberland Nation	695,091	68.0
<i>Source: Reports of Condition and Income 06/30/2019 through 06/30/2022</i>		

#### Assessment Area Concentration

Pennian Bank originated a majority of home mortgage and small business loans, by number and dollar volume, within its combined assessment area. As shown in the table below, Pennian Bank's home mortgage lending activity increased from 2019 to 2021. This is primarily due to noted industry-wide increased refinancing activity and organic growth due to a focus on home mortgage lending. Small business lending experienced significant increased activities in 2020 and 2021, primarily due to the bank's participation in PPP lending.

Lending Inside and Outside of the Combined Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2019	70	77.8	20	22.2	90	9,736	64.0	5,481	36.0	15,217
2020	112	70.0	48	30.0	160	23,069	54.0	19,622	46.0	42,691
2021	141	70.1	60	29.9	201	29,488	60.4	19,365	39.6	48,853
<b>Subtotal</b>	<b>323</b>	<b>71.6</b>	<b>128</b>	<b>28.4</b>	<b>451</b>	<b>62,293</b>	<b>58.3</b>	<b>44,468</b>	<b>41.7</b>	<b>106,760</b>
Small Business										
2019	7	58.3	5	41.7	12	1,332	37.8	2,195	62.2	3,527
2020	207	83.1	42	16.9	249	12,752	58.7	8,970	41.3	21,722
2021	141	76.6	43	23.4	184	7,783	42.0	10,742	58.0	18,525
<b>Subtotal</b>	<b>355</b>	<b>79.8</b>	<b>90</b>	<b>20.2</b>	<b>445</b>	<b>21,867</b>	<b>50.0</b>	<b>21,907</b>	<b>50.0</b>	<b>43,774</b>
<b>Total</b>	<b>678</b>	<b>75.7</b>	<b>218</b>	<b>24.3</b>	<b>896</b>	<b>84,160</b>	<b>55.9</b>	<b>66,375</b>	<b>44.1</b>	<b>150,534</b>

Source: Bank Data. Due to rounding, totals may not equal 100.0%

### **Geographic Distribution**

Geographic distribution of loans reflects reasonable penetration throughout the combined assessment area. The bank's reasonable performance of home mortgage and small business lending within the Carlisle MSA assessment area primarily supports this conclusion.

The Non-MSA assessment area does not include any low- and moderate-income geographies, and a review of the Geographic Distribution criterion would not result in meaningful conclusions. Therefore, this evaluative factor relies primarily on the Carlisle MSA assessment area performance.

### **Borrower Profile**

The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels and businesses of different revenue sizes in the combined assessment area. Lending to low- and moderate-income borrowers and businesses with revenues less than or equal to \$1 million is consistent throughout the combined assessment area. The bank's reasonable performance of home mortgage and small business lending in the Carlisle MSA and the Non-MSA assessment area supports this conclusion.

An observation of the combined assessment area data for small business lending shows a significant quantity of loans to businesses without revenue information available for 2020 and 2021.

### **Response to Complaints**

The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

**COMMUNITY DEVELOPMENT TEST**

Pennian Bank demonstrated adequate responsiveness to the combined assessment area community development needs through community development loans, qualified donations, and community development services considering the institution’s capacity and the need and availability of such opportunities for community development.

**Community Development Loans**

During the evaluation period, the bank originated four community development loans totaling approximately \$6.8 million. This level of activity represents 1.1 percent of average total assets and 1.7 percent of average total loans since the prior CRA evaluation. This is an increase from the prior CRA evaluation where community development loans totaled approximately \$3.5 million, representing 0.7 percent of average total assets and 1.0 percent of average total loans. The institution’s community development lending demonstrates adequate responsiveness to community development needs.

The following table illustrates the bank’s community development lending activity by assessment area and by community development purpose. Additional details and specific examples are contained within the sections for the individual assessment areas.

<b>Community Development Lending by Assessment Area</b>										
<b>Assessment Area</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
Non-MSA	0	0	0	0	0	0	2	2,948	2	2,948
Carlisle MSA	0	0	1	3,778	1	100	0	0	2	3,878
Statewide Activities	0	0	0	0	0	0	0	0	0	0
Regional Activities	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>3,778</b>	<b>1</b>	<b>100</b>	<b>2</b>	<b>2,948</b>	<b>4</b>	<b>6,826</b>

*Source: Bank Data*

**Qualified Investments**

Qualified investments and donations total \$3.4 million and include four existing qualified investment totaling approximately \$3.3 million and 11 new donations or grants to unique entities totaling approximately \$67,000. This total equates to 0.6 percent of average total assets and 1.9 percent of average total securities during the evaluation period. This is an increase from the previous CRA evaluation where investments totaled approximately \$2.9 million, representing 0.6 percent of average total assets and 2.5 percent of average total securities. Since Pennian Bank was responsive to community development needs and opportunities within its assessment area, examiners considered community development investments totaling \$3.3 million that benefitted the broader regional or statewide area. The majority of investment and donation activity benefitted the broader statewide area.

The following table shows the bank’s qualified investments by assessment area and purpose. Additional details by year are contained within the sections for the individual assessment areas.

Community Development Investments by Assessment Area )										
Assessment Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Non-MSA	0	0	10	17	0	0	0	0	10	17
Carlisle MSA	4	5	20	30	0	0	0	0	24	35
Statewide Activities	6	2,941	7	11	4	396	0	0	17	3,349
Regional Activities	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>10</b>	<b>2,946</b>	<b>37</b>	<b>58</b>	<b>4</b>	<b>396</b>	<b>0</b>	<b>0</b>	<b>51</b>	<b>3,401</b>

*Source: Bank Data*

- Pennian Bank maintains a \$99,000 one-year certificate of deposit (CD) with a Community Development Financial Institution in Pennsylvania. This specialized community based bank has a primary mission to promote economic development by providing financial products and services to people and communities underserved by traditional financial institutions. The bank is also a Minority Depository Institution. Pennian Bank has renewed the CD every year since opening it in 2009.
- The bank invested \$450,000 in an investment fund to support affordable housing needs with a local area-housing program. This investment prompted the development of more than 206 units directly benefitting low- and moderate-income individuals and families, throughout Adams, Cumberland, Dauphin, Franklin, Lancaster, Lebanon, Perry and York Counties. This investment allows the organization to deliver additional affordable housing to address critical housing needs, educate borrowers, and advocate for equitable housing development throughout the assessment area.
- The bank continued to maintain two prior-period investments in mortgage backed securities, with a book value to date of \$2.5 million. The securities themselves support broader Statewide affordable housing lending to low- and moderate-income individuals and families.

### **Community Development Services**

During the evaluation period, bank employees provided 442 total hours of financial expertise or technical assistance to 14 different community development-related organizations in the combined assessment area. The previous CRA evaluation reported instances of community development services rather than total hours. Based upon the number of organizations assisted, this is an increase in activities from the previous evaluation period, during which the bank engaged seven different organizations. The following table illustrates the services by assessment area and purpose. A majority of services benefitted the Carlisle MSA assessment area. Additional details by year are contained within the sections for the individual assessment areas.

<b>Community Development Services by Assessment Area</b>					
<b>Assessment Area</b>	<b>Affordable Housing</b>	<b>Community Services</b>	<b>Economic Development</b>	<b>Revitalize or Stabilize</b>	<b>Totals</b>
	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>
Non-MSA	0	67	48	0	115
Carlisle MSA	26	179	5	25	235
Statewide Activities	21	0	51	20	92
Regional Activities	0	0	0	0	<b>0</b>
<b>Total</b>	<b>47</b>	<b>246</b>	<b>104</b>	<b>45</b>	<b>442</b>

*Source: Bank Data. Note: All data presented by hours served at organization.*

- A senior employee of the bank taught a home ownership workshop in 2019 through the Lancaster Housing Opportunity Partnership (Lancaster City), now known as Tenfold. Tenfold is an organization aiming to prevent homelessness through active affordable housing counseling assisting low- and moderate-income individuals and families, offering low rent housing, and developing new affordable units throughout the state.

**Other Community Development Services**

Pennian Bank participates in the Interest on Lawyers’ Trust Accounts (IOLTA) program. Under the IOLTA program, lawyers maintain nominal and short-term funds of clients in interest-bearing IOLTA accounts. Lawyers remit the interest income generated on these accounts to the IOLTA Board to support the provision of free legal assistance to low-income citizens in civil matters where a basic human need, such as access to shelter, nutrition, or health care, is at stake. As of evaluation, Pennian Bank maintained eight IOLTAs with \$197,000 on deposit.

Although not directly targeted to low- and moderate-income individuals, the bank offers a free checking account that is an affordable and beneficial account option for those individuals.

**DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore, this consideration did not affect the bank’s overall CRA rating.

## **NON-MSA ASSESSMENT AREA – Full-Scope Review**

### **DESCRIPTION OF INSTITUTION’S OPERATIONS IN NON-MSA ASSESSMENT AREAS**

The institutions Non-MSA assessment area includes the entire Juniata County. Pennian Bank operates five of its ten branches (50.0 percent) in this assessment area.

#### **Economic and Demographic Data**

Pennian Bank’s Non-MSA assessment area includes all five census tracts in Juniata County. The Federal Financial Institutions Examination Council (FFIEC) designated all census tracts in Juniata County as remote rural and underserved middle-income census tracts from 2019 to 2021. These census tracts meet criteria for population size, density, and dispersion indicating the area’s population is sufficiently small, thin, and distant from a population center, which are likely to have difficulty financing the fixed costs of meeting essential community needs. Community development activities occurring in this area receive greater consideration, especially those qualifying as revitalization and/or stabilization efforts.

All five-census tracts in Juniata County are middle-income census tract representing a change since the previous evaluation, when the area consisted of one moderate-, one upper-, and three middle-income census tracts. Due to the absence of low-or moderate-income census tracts in this assessment area, examiners did not consider the bank’s performance under the geographic distribution criteria for this area.

The following table illustrates select demographic characteristics of the Non-MSA assessment area.

Demographic Information of the Assessment Area						
Assessment Area: Non-MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	5	0.0	0.0	100.0	0.0	0.0
Population by Geography	24,829	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	10,982	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	7,078	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	2,315	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	1,589	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	1,538	0.0	0.0	100.0	0.0	0.0
Farms by Geography	147	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	6,414	18.0	17.2	24.5	40.2	0.0
Household Distribution by Income Level	9,393	20.6	17.5	18.8	43.2	0.0
Median Family Income Non-MSAs - PA		\$56,172	Median Housing Value			\$141,062
Median Gross Rent		\$601	Families Below Poverty Level			8.4%

Source: 2015 ACS and 2021 D&B Data. Due to rounding, totals may not equal 100.0%  
 (\*) The NA category consists of geographies that have not been assigned an income classification.

Examiners used the 2020 and 2021 FFIEC-updated median family income to analyze home mortgage loans under the Borrower Profile criterion. The following table presents the low-, moderate-, middle-, and upper-income categories.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
PA NA Median Family Income (99999)				
2019 (\$63,200)	<\$31,600	\$31,600 to <\$50,560	\$50,560 to <\$75,840	≥\$75,840
2020 (\$64,900)	<\$32,450	\$32,450 to <\$51,920	\$51,920 to <\$77,880	≥\$77,880
2021 (\$65,100)	<\$32,550	\$32,550 to <\$52,080	\$52,080 to <\$78,120	≥\$78,120

Source: FFIEC

According to 2021 D&B data, there were 1,538 businesses. The analysis of small business under the Borrower Profile criterion compares the distribution of businesses by Gross Annual Revenue (GAR) level. GARs for these businesses are below.

- 86.5 percent have \$1 million or less;
- 4.9 percent have more than \$1 million; and
- 8.6 percent have unknown revenues.

Service industries represent the largest portion of businesses at 32.3 percent; followed by non-classifiable establishments (14.2 percent); retail trade (12.8 percent); and agriculture, forestry & fishing industries (8.7 percent). In addition, 69.7 percent of area businesses have four or fewer employees, and 92.9 percent operate from a single location.

Data obtained from the U. S. Bureau of Labor and Statistics indicates that the May 2022 PA statewide unemployment rate (not seasonally adjusted) was 4.6 percent. Unemployment rates within the Non-MSA assessment area ranged from a low of 3.3 percent in May 2022 (current) to a high of 17.6 percent in April 2021. Unemployment rates increased during the review period, with the highest unemployment rates in April through July 2020 due to the COVID-19 pandemic.

### **Competition**

As noted, the FFIEC designates the Non-MSA assessment area as underserved for financial services. According to the FDIC Deposit Market Share data as of June 30, 2021, there were 3 financial institutions operating 11 branches within Juniata County, representing a relatively low level of competition. Of these institutions, Pennian Bank ranks 1<sup>st</sup> with a 49.1 percent deposit market share.

There is a moderate level of competition for home mortgage loans among banks, credit unions, and non-depository mortgage lenders. In 2020, 79 lenders reported 487 residential mortgage loans originated or purchased. Pennian Bank ranked 4<sup>th</sup> out of this group of lenders, with a market share of 9.9 percent.

### **Credit Needs**

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that home mortgage loans, particularly those for low- and moderate-income borrowers, represent a primary credit need for the assessment area.

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN NON-MSA ASSESSMENT AREA**

### **LENDING TEST**

Pennian Bank demonstrated reasonable performance under the Lending Test. The Borrower Profile performance supports this conclusion.

### **Geographic Distribution**

The assessment area does not include any low- and moderate-income geographies, and a review of the Geographic Distribution criterion would not result in meaningful conclusions. Therefore, this criterion was not evaluated.



### **Borrower Profile**

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes in the assessment area. The bank's reasonable performance of home mortgage lending and small business lending supports this conclusion. Examiners focused on the percentage by number of home mortgage loans to low- and moderate-income borrowers. Examiners also focused on the percentage by number of small business loans to businesses with GARs of \$1 million or less.

### ***Home Mortgage Loans***

The distribution of borrowers reflects reasonable penetration among individuals of different income levels. Examiners compared the bank's home mortgage lending to demographic and aggregate lending data.

As shown in the following table, the bank's distribution of home mortgage loans to low-income borrowers exceeded peer aggregate performance in 2020. In 2021, the bank's level of lending activity to low-income borrowers decreased and fell below demographic data. Although the bank's level of lending activity is well below demographic data, a low-income family in the assessment area, with an income less than \$32,550, would not likely qualify for a mortgage under conventional underwriting standards, especially considering the median housing value of \$141,062.

Additionally, 8.4 percent of families in the assessment area are below the poverty level. Consequently, the demand and opportunity for lending to low-income families is relatively limited. These factors help explain the disparity between lending to low-income families and the percentage of families that earn this income level.

The bank's performance to moderate-income borrowers in 2020 was below peer aggregate performance. The bank significantly increased the performance to these borrowers in 2021, which slightly exceeded the demographic data.

Distribution of Home Mortgage Loans by Borrower Income Level						
Non-MSA Assessment Area						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2020	18.0	5.3	4	8.3	275	3.5
2021	18.0	--	3	4.5	446	5.3
Moderate						
2020	17.2	15.4	6	12.5	524	6.6
2021	17.2	--	12	17.9	958	11.4
Middle						
2020	24.5	29.4	15	31.3	1,970	24.9
2021	24.5	--	29	43.3	3,623	43.0
Upper						
2020	40.2	38.4	18	37.5	3,350	42.4
2021	40.2	--	20	29.9	3,046	36.2
Not Available						
2020	0.0	11.5	5	10.4	1,788	22.6
2021	0.0	--	3	4.5	349	4.1
<b>Totals</b>						
<b>2020</b>	<b>100.0</b>	<b>100.0</b>	<b>48</b>	<b>100.0</b>	<b>7,906</b>	<b>100.0</b>
<b>2021</b>	<b>100.0</b>	<b>--</b>	<b>67</b>	<b>100.0</b>	<b>8,422</b>	<b>100.0</b>
<i>Source: 2015 ACS; Bank Data, 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

### ***Small Business Loans***

As shown in the following table, the distribution of small business loans, given the demographics of the assessment area, reflects a reasonable penetration of loans to businesses with GARs of \$1 million or less.

While this performance is significantly less than demographic data, it is not unusual given the significant number of loans to businesses with unknown revenues. Since the PPP did not require lenders to collect business revenue information, a significant portion of the bank's small business loans does not include revenue information. When excluding the PPP loans without revenue information available from total lending, the bank made 90.0 percent of small business loans to businesses with GARs less than or equal to \$1 million for 2021.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category</b>					
<b>Non-MSA Assessment Area</b>					
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<=\$1,000,000	86.5	9	10.8	1,004	32.1
>\$1,000,000	4.9	1	1.2	150	4.8
Revenue Not Available	8.6	73	88.0	1,974	63.1
<b>Total</b>	<b>100.0</b>	<b>83</b>	<b>100.0</b>	<b>3,128</b>	<b>100.0</b>
<i>Source: 2021 D&amp;B Data, Bank Data. Due to rounding, totals may not equal 100.0%</i>					

## **COMMUNITY DEVELOPMENT TEST**

Pennian Bank’s community development performance demonstrates adequate responsiveness to community development needs in the Non-MSA assessment area through community development loans, qualified investments, and community development services, considering the institution’s capacity and the need and availability of such opportunities for community development in the Non-MSA assessment area.

### **Community Development Loans**

Pennian Bank originated two community development loans totaling \$2.9 million within the Non-MSA assessment area. Both loans support revitalization efforts in underserved non-metropolitan middle-income geographies. The number and dollar volume of community development loans remains relatively the same since the previous CRA evaluation where the bank had two qualifying activities for \$3.0 million in this area during the prior evaluation.

- In 2022, the bank originated a \$250,000 loan that funded a general tax obligation note to a local government municipality in Juniata County to finance a project for a public sewage system, which expects to receive public funds through State and Federal grants. Per the Pennsylvania Sewage Facilities Act (Act 537), the identified township requires a wastewater treatment facility to mitigate public health risks and reduce water systems pollution. The municipality is an underserved non-metropolitan middle-income geography, which received funding from the American Rescue Plan Act of 2021 for these revitalization efforts.
- In 2022, the bank originated a \$2.7 million loan that funded a general tax obligation note to a local government municipality in Juniata County to finance the design and construction of an Emergency Operations Center. This is a partial rehabilitation and expansion of the existing operations infrastructure, which currently serves the entirety of Juniata County, an area fully designated as underserved non-metropolitan middle-income geography.

### **Qualified Investments**

Pennian Bank made 10 qualifying donations during the performance evaluation period. All donations were for a community service organization, the Juniata County Food Pantry, for a total of approximately \$17,000. The organization serves all individuals within the community with the intent to provide emergency sustenance to anyone in need. This is similar to the prior evaluation, where Pennian Bank made seven donations for a total of \$18,000.

### **Community Development Services**

Pennian Bank provided 115 hours of financial expertise or technical assistance to community development-related organizations that specifically benefit the Non-MSA assessment area. The prior evaluation noted four instances of qualified service activities; comparatively, during the current evaluation period eight individuals provided qualified services to two separate organizations. This represents an increase from the prior evaluation.

The following table illustrates the bank’s qualified community development services by activity year and by purpose.

<b>Community Development Services</b>					
<b>Activity Year</b>	<b>Affordable Housing</b>	<b>Community Services</b>	<b>Economic Development</b>	<b>Revitalize or Stabilize</b>	<b>Totals</b>
	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>
2019 (partial)	0	3	3	0	<b>6</b>
2020	0	38	14	0	<b>52</b>
2021	0	26	31	0	<b>57</b>
YTD 2022	0	0	0	0	<b>0</b>
<b>Total</b>	<b>0</b>	<b>67</b>	<b>48</b>	<b>0</b>	<b>115</b>
<i>Source: Bank Data</i>					

- During the review period, the President served 48 hours on the Board of a local economic development organization (2019 through 2021). The organization serves a broader market; however, it has a focus at the county level for key economic activities benefitting those communities specifically. The organization coordinated infrastructure improvements, cooperated municipal zoning to optimize commerce, and facilitated small business lending, among other ancillary efforts.

## CARLISLE MSA ASSESSMENT AREA – Full-Scope Review

### DESCRIPTION OF INSTITUTION’S OPERATIONS IN HARRISBURG-CARLISLE MSA #25420

The Carlisle MSA assessment area includes all census tracts in Cumberland and Perry Counties, in the Harrisburg-Carlisle MSA #25420. Pennian Bank operates five (50 percent) of its ten branches in this assessment area.

#### Economic and Demographic Data

Pennian Bank’s Carlisle MSA assessment area includes all census tracts in Perry and Cumberland Counties. The demographics of these census tracts include:

- 3 low-income tracts;
- 8 moderate-income tracts;
- 33 middle-income tracts;
- 13 upper-income tracts; and
- 2 census tracts with no income designation.

The following table illustrates select demographic characteristics of the Carlisle MSA assessment area.

<b>Demographic Information of the Assessment Area</b>						
<b>Carlisle MSA Assessment Area</b>						
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>NA* % of #</b>
Geographies (Census Tracts)	59	5.1	13.6	55.9	22.0	3.4
Population by Geography	287,104	3.2	9.9	60.0	24.8	2.1
Housing Units by Geography	122,559	3.5	10.5	62.5	23.5	0.0
Owner-Occupied Units by Geography	82,067	1.2	6.8	63.5	28.5	0.0
Occupied Rental Units by Geography	31,968	8.7	18.1	59.8	13.3	0.0
Vacant Units by Geography	8,524	6.9	17.6	62.6	12.9	0.0
Businesses by Geography	27,102	3.7	8.3	61.6	26.3	0.1
Farms by Geography	1,083	0.9	7.4	72.1	19.6	0.0
Family Distribution by Income Level	74,993	16.8	17.9	22.8	42.4	0.0
Household Distribution by Income Level	114,035	19.8	16.5	19.6	44.2	0.0
Median Family Income MSA - 25420 Harrisburg-Carlisle, PA MSA		\$71,723	Median Housing Value			\$181,099
Median Gross Rent		\$873	Families Below Poverty Level			5.7%
<small>Source: 2015 ACS and 2021 D&amp;B Data. Due to rounding, totals may not equal 100.0%                      (*) The NA category consists of geographies that have not been assigned an income classification.</small>						

The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units. Of the 122,559 housing units, 67.0 percent are owner-occupied, 26.1 percent are occupied rental units, and 6.9 percent are vacant. Owner-occupied housing units provide an indication of the opportunity institutions have to originate home mortgage loans. As shown in the table above, only 1.2 percent of owner-occupied housing units are located in low-income geographies and 6.8 percent are located in the moderate-income geographies. This affects the opportunities lenders have to originate home mortgage loans in these areas.

Examiners used the 2020 and 2021 FFIEC-updated median family income to analyze home mortgage loans under the Borrower Profile criterion. The following table presents the low-, moderate-, middle-, and upper-income categories.

<b>Median Family Income Ranges</b>				
<b>Median Family Incomes</b>	<b>Low &lt;50%</b>	<b>Moderate 50% to &lt;80%</b>	<b>Middle 80% to &lt;120%</b>	<b>Upper ≥120%</b>
<b>Harrisburg-Carlisle, PA MSA Median Family Income (25420)</b>				
2019 (\$81,100)	<\$40,550	\$40,550 to <\$64,880	\$64,880 to <\$97,320	≥\$97,320
2020 (\$85,000)	<\$42,500	\$42,500 to <\$68,000	\$68,000 to <\$102,000	≥\$102,000
2021 (\$84,900)	<\$42,450	\$42,450 to <\$67,920	\$67,920 to <\$101,880	≥\$101,880
<i>Source: FFIEC</i>				

According to 2021 D&B data, there were 27,102 non-farm businesses. The analysis of small business under the Borrower Profile criterion compares the distribution of businesses by GAR level. GARs for these businesses are below.

- 87.0 percent have \$1 million or less;
- 3.9 percent have more than \$1 million; and
- 9.1 percent have unknown revenues.

Service industries represent the largest portion of businesses at 40.7 percent; followed by non-classifiable establishments (16.2 percent); retail trade (11.8 percent); and finance, insurance, and real estate (10.0 percent). In addition, 65.8 percent of area businesses have four or fewer employees, and 90.7 percent operate from a single location.

Data obtained from the U. S. Bureau of Labor and Statistics indicates that the May 2022 PA statewide unemployment rate (not seasonally adjusted) was 4.6 percent. Unemployment rates within the Carlisle MSA assessment area ranged from a low of 2.9 percent in May 2022 (current, for both Perry and Cumberland County) to a high of 11.8 and 12.9 percent, for Cumberland and Perry County, respectively, each in April 2021. Unemployment rates increased during the review period, with the highest unemployment rates in April through July 2020 due to the COVID-19 pandemic.

### **Competition**

The assessment area is highly competitive in the market for financial services. According to the FDIC Deposit Market Share data as of June 30, 2021, there were 24 financial institutions operating 85 branches within Perry and Cumberland Counties. Of these institutions, Pennian Bank ranked 14<sup>th</sup> with a 2.3 percent deposit market share.

There is a high level of competition for home mortgage loans among banks, credit unions, and non-depository mortgage lenders. In 2020, 382 lenders reported 15,429 residential mortgage loans originated or purchased. Pennian Bank ranked 47<sup>th</sup> out of this group of lenders, with a market share of 0.4 percent.

### **Credit Needs**

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that home mortgage loans, particularly those for low- and moderate-income borrowers, represent a primary credit need for the assessment area.

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN THE CARLISLE MSA ASSESSMENT AREA**

### **LENDING TEST**

Pennian Bank demonstrated reasonable performance under the Lending Test. The Geographic Distribution and Borrower Profile performance supports this conclusion.

### **Geographic Distribution**

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. The bank's reasonable performance of home mortgage and small business lending supports this conclusion.

### ***Home Mortgage Loans***

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the assessment area. Examiners compared the bank's home mortgage lending to demographic and aggregate lending data.

As shown in the following table, the bank did not make any home mortgage loans to borrowers within low-income census tracts. The bank made one loan in 2021, which slightly exceeded the demographic data. This performance is not unusual given the fact that only 1.2 percent of owner-occupied housing units are located in low-income tracts, which limits the bank's lending opportunities in these geographies. Further, the relative distance of branch operations in the eastern portion of Cumberland County compared to the location of low-income census tract areas in the central and western portion of the county is significant (15 and 35 miles, approximately). The expectation to serve and effectively originate home mortgage loans in these areas is low. Considering these factors, the bank's performance to low-income areas is reasonable.

The geographic distribution of home mortgage loans in moderate-income census tracts significantly exceeded aggregate and demographic data in 2020. While the lending performance in moderate-

income census tracts decreased in 2021, it exceeding demographic data. The overall lending performance to moderate-income areas is excellent. Bank management attributes their excellent performance to the fact that Pennian Bank is one of a few area lenders providing mobile home financing options, an observed community credit need for low- and moderate-income areas.

<b>Geographic Distribution of Home Mortgage Loans</b>						
<b>Assessment Area: Carlisle MSA</b>						
<b>Tract Income Level</b>	<b>% of Owner-Occupied Housing Units</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>Low</b>						
2020	1.2	1.5	0	0.0	0	0.0
2021	1.2	--	1	1.4	122	0.6
<b>Moderate</b>						
2020	6.8	5.9	11	17.2	1,865	12.3
2021	6.8	--	7	9.5	1,923	9.1
<b>Middle</b>						
2020	63.5	56.8	49	76.6	11,027	72.7
2021	63.5	--	60	81.1	11,643	55.3
<b>Upper</b>						
2020	28.5	35.8	4	6.3	2,271	15.0
2021	28.5	--	6	8.1	7,379	35.0
<b>Not Available</b>						
2020	0.0	0.0	0	0.0	0	0.0
2021	0.0	--	0	0.0	0	0.0
<b>Totals</b>						
<b>2020</b>	<b>100.0</b>	<b>100.0</b>	<b>64</b>	<b>100.0</b>	<b>15,163</b>	<b>100.0</b>
<b>2021</b>	<b>100.0</b>	<b>--</b>	<b>74</b>	<b>100.0</b>	<b>21,066</b>	<b>100.0</b>
<i>Source: 2015 ACS; Bank Data, 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

***Small Business Loans***

The geographic distribution of small business loans reflects reasonable dispersion throughout the assessment area. Examiners compared the bank’s small business lending to D&B demographic data.

As shown in the following table, the bank did not originate any small business loans in 2021 in low-income census tracts. The relative distance of branch operations in the eastern portion of Cumberland County is a barrier to reaching low-income areas in the central and western portions of the county. The expectation to originate small business loans to these areas, given the fact that only 3.7 percent of small businesses are located in low-income census tract, is low.



For 2021, the bank lending performance to moderate-income areas remained below the demographic data. Although Pennian Bank does not report small business lending information, for evaluative purposes examiners may consider peer data available for benchmark levels of lending. In 2020, the most current year data is available; lenders reported making 438 loans to small businesses in moderate-income areas. The average loan size of all 438 loans from all lenders was approximately \$59,000. The Pennian Bank average loan size for 2021 was \$64,000. Compared to the average loan size of \$59,000, the bank is reasonably meeting the needs of small businesses in moderate-income areas.

<b>Geographic Distribution of Small Business Loans</b>					
<b>Assessment Area: Carlisle MSA</b>					
<b>Tract Income Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Low	3.7	0	0.0	0	0.0
Moderate	8.3	4	6.9	255	5.5
Middle	61.6	54	93.1	4,400	94.5
Upper	26.3	0	0.0	0	0.0
Not Available	0.1	0	0.0	0	0.0
<b>Totals</b>	<b>100.0</b>	<b>58</b>	<b>100.0</b>	<b>4,655</b>	<b>100.0</b>

*Source: 2021 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%*

### **Borrower Profile**

The distribution of borrowers reflects, given the demographic of the assessment area, reasonable penetration among individuals of different income levels and businesses of different sizes in the assessment area. The bank’s reasonable performance of home mortgage lending and small business lending supports this conclusion. Examiners focused on the percentage by number of home mortgage loans to low- and moderate-income borrowers. Examiners also focused on the percentage by number of small business loans to businesses with GARs of \$1 million or less.

### ***Home Mortgage Loans***

The distribution of borrowers reflects reasonable penetration among individuals of different income levels. Examiners compared the bank’s home mortgage lending to demographic and aggregate lending data.

As shown in the following table, the bank’s distribution of home mortgage loans to low-income borrowers greatly exceeded (almost doubled) peer aggregate performance in 2020.

In 2021, the bank’s level of lending activity to low-income borrowers decreased and fell well below demographic data. Although the bank’s level of lending activity is below demographic data, a low-income family in the assessment area, with an income less than \$42,450, would not likely qualify for a mortgage under conventional underwriting standards, especially considering the median housing value of \$181,099.

The bank’s performance to moderate-income borrowers in 2020 was slightly less than the peer aggregate performance and demographic data. The bank’s performance increased in 2021, but remained slightly below demographic data.

The bank’s performance to low-and moderate-income families may be partially explained by the high percentage of families (33.7 percent) located in low- and moderate- census tracts and the percentage of families living below the poverty level in the assessment area, which limits the bank’s lending opportunities in these geographies.

<b>Distribution of Home Mortgage Loans by Borrower Income Level</b>						
<b>Assessment Area: Carlisle MSA</b>						
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>Low</b>						
2020	16.8	7.2	9	14.1	755	5.0
2021	16.8	--	3	4.1	345	1.6
<b>Moderate</b>						
2020	17.9	17.6	9	14.1	1,477	9.7
2021	17.9	--	12	16.2	1,911	9.1
<b>Middle</b>						
2020	22.8	22.0	16	25.0	2,720	17.9
2021	22.8	--	13	17.6	2,408	11.4
<b>Upper</b>						
2020	42.4	36.6	16	25.0	2,914	19.2
2021	42.4	--	28	37.8	6,980	33.1
<b>Not Available</b>						
2020	0.0	16.6	14	21.9	7,296	48.1
2021	0.0	--	18	24.3	9,422	44.7
<b>Totals</b>						
<b>2020</b>	<b>100.0</b>	<b>100.0</b>	<b>64</b>	<b>100.0</b>	<b>15,163</b>	<b>100.0</b>
<b>2021</b>	<b>100.0</b>	<b>--</b>	<b>74</b>	<b>100.0</b>	<b>21,066</b>	<b>100.0</b>

*Source: 2015 ACS; Bank Data, 2020 HMDA Aggregate Data, "--" data not available.  
Due to rounding, totals may not equal 100.0%*

***Small Business Loans***

As shown in the following table, the distribution of loans reflects a reasonable penetration of loans to businesses with GARs of \$1.0 million or less.

While this performance is less than demographic data, it is not unusual given the significant number of loans to businesses with unknown revenues. Since the PPP did not require lenders to collect business revenue information, a significant portion of the bank’s small business loans does not include revenue information. When excluding these loans, the bank made approximately 92.9 percent of small business loans to businesses with GARs of \$1.0 million or less

Performance to businesses with revenues <\$1 million for 2021 demonstrates a reasonable rate of lending compared to the demographic presence.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category</b>					
<b>Assessment Area: Carlisle MSA</b>					
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<=\$1,000,000	87.0	13	22.4	1,498	32.2
>\$1,000,000	3.9	1	1.7	953	20.5
Revenue Not Available	9.2	44	75.9	2,204	47.3
<b>Total</b>	<b>100.0</b>	<b>58</b>	<b>100.0</b>	<b>4,655</b>	<b>100.0</b>
<i>Source: 2021 D&amp;B Data, Bank Data. Due to rounding, totals may not equal 100.0%</i>					

## COMMUNITY DEVELOPMENT TEST

Pennian Bank’s community development performance demonstrates adequate responsiveness to community development needs in the Carlisle MSA assessment area through community development loans, qualified investments, and community development services, considering the institution’s capacity and the need and availability of such opportunities for community development in the Carlisle MSA assessment area.

### Community Development Loans

Pennian Bank originated two community development loans totaling \$3.9 million within the Carlisle MSA assessment area. The number and dollar volume of community development loans has increased since the previous CRA evaluation during which the bank had no qualifying activities in this assessment area. The following table illustrates the bank’s community development lending activity in the Carlisle MSA assessment area by activity year and by community development purpose.

<b>Community Development Lending</b>										
<b>Activity Year</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
2019 (partial)	0	0	0	0	0	0	0	0	0	0
2020	0	0	0	0	0	0	0	0	0	0
2021	0	0	1	3,778	1	100	0	0	2	3,878
YTD 2022	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>3,778</b>	<b>1</b>	<b>100</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>3,878</b>
<i>Source: Bank Data</i>										

- In 2021, the bank made a \$3,778,000 loan to an area school district to support essential community services to continue through the pandemic, particularly to those low- and moderate-income residents reliant upon such services. Throughout the duration of the pandemic, the school districts provided free meal service to all attendees and extended their summer sustenance support programs to mitigate economic stressors on communities.

**Qualified Investments**

Pennian Bank made 24 qualifying donations through the review period. Four donations were for an affordable housing organization, for a total of \$5,000, while the remaining 20 donations were made to various community service organizations for a total of \$30,000. This is an increase by number of donations from the prior evaluation during which Pennian Bank made 13 total donations and no investments, but represents a decrease in dollar volume from \$44,000.

Qualified Investments										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Qualified Grants & Donations	4	5	20	30	0	0	0	0	24	34

*Source: Bank Data*

- In 2020, the bank donated \$6,250 to a food pantry that provides community services primarily to low- and moderate-income Perry County residents through emergency short-term food needs and education on food preparation and nutrition.
- In 2021, the bank contributed \$2,500 to a non-profit organization that provides rental assistance and temporary housing for low- and moderate-income individuals. The donation supports affordable housing for low- and moderate-income individuals.

**Community Development Services**

Pennian Bank provided 235 hours of financial expertise or technical assistance to 10 community development-related organizations that specifically benefit the Carlisle MSA assessment area. This is an increase from the previous evaluation, where bank personnel assisted four qualified organizations. The following table illustrates the bank’s qualified community development services by activity year and by purpose.

Community Development Services					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
2019 (partial)	2	11	2	0	15
2020	14	82	3	0	99
2021	10	86	0	25	121
YTD 2022	0	0	0	0	0
<b>Total</b>	<b>26</b>	<b>179</b>	<b>5</b>	<b>25</b>	<b>235</b>

*Source: Bank Data*

- During the review period, two senior managers served 25.5 hours on the Board of a local affordable housing organization (2019 through 2021). The program is the only emergency housing manager within the county, working to provide temporary housing vouchers to the unhoused in the county. The program is responsible for managing both portfolio held

residences either to rent or to rehabilitate for resale as an affordable housing outlet to qualified borrowers.

In addition, Pennian Bank opened one full-service branch in a middle-income census tract area which is within close proximity (<0.75 miles) of an abutting moderate-income tract. This branch opening demonstrates the expanded availability of banking services to low- and moderate-income individuals.

## APPENDICES

### INTERMEDIATE SMALL BANK PERFORMANCE CRITERIA

#### **Lending Test**

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The geographic distribution of the bank's loans;
- 4) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

#### **Community Development Test**

The Community Development Test considers the following criteria:

- 1) The number and amount of community development loans;
- 2) The number and amount of qualified investments;
- 3) The extent to which the bank provides community development services; and
- 4) The bank's responsiveness through such activities to community development lending, investment, and service needs.

## GLOSSARY

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**American Community Survey (ACS):** A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

**Area Median Income:** The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

**Assessment Area:** A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

**Census Tract:** A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

**Combined Statistical Area (CSA):** A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

**Community Development:** For loans, investments, and services to qualify as community development activities, their primary purpose must:

- (1) Support affordable housing for low- and moderate-income individuals;
- (2) Target community services toward low- and moderate-income individuals;
- (3) Promote economic development by financing small businesses or farms; or
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies.

**Community Development Corporation (CDC):** A CDC allows banks and holding companies to make equity type of investments in community development projects. Institution CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Institution CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

**Community Development Financial Institutions (CDFIs):** CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

**Community Development Loan:** A loan that:

- (1) Has as its primary purpose community development; and
- (2) Except in the case of a wholesale or limited purpose institution:
  - (i) Has not been reported or collected by the institution or an affiliate for consideration in the institution's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
  - (ii) Benefits the institution's assessment area(s) or a broader statewide or regional area including the institution's assessment area(s).

**Community Development Service:** A service that:

- (1) Has as its primary purpose community development;
- (2) Is related to the provision of financial services; and
- (3) Has not been considered in the evaluation of the institution's retail banking services under § 345.24(d).

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Core Based Statistical Area (CBSA):** The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.



**Distressed Middle-Income Nonmetropolitan Geographies:** A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or
- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

**FFIEC-Estimated Income Data:** The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

**Full-Scope Review:** A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g, innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

**Home Mortgage Loans:** Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

**Housing Unit:** Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

**Limited-Scope Review:** A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area.

Performance under applicable tests is often analyzed using only quantitative factors (e.g, geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

**Low Income Housing Tax Credit:** The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Median Income:** The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

**Metropolitan Division (MD):** A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

**Metropolitan Statistical Area (MSA):** CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

**Multi-family:** Refers to a residential structure that contains five or more units.

**Nonmetropolitan Area** (also known as **non-MSA**): All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated Area:** A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

**Rural Area:** Territories, populations, and housing units that are not classified as urban.

**Small Business Investment Company (SBIC):** SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

**Small Business Loan:** A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

**Small Farm Loan:** A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

**Underserved Middle-Income Nonmetropolitan Geographies:** A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

**Upper-Income:** Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

**Urban Area:** All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, "urban" consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

"Urban" excludes the rural portions of "extended cities"; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.