



PUBLIC DISCLOSURE

March 13, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Honesdale National Bank
Charter Number: 644

733 Main St.
Honesdale, PA 18431

Office of the Comptroller of the Currency

Philadelphia Field Office
1150 Northbrook Drive Suite 303
Trevose, PA. 19053

NOTE: 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.

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

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The major factors supporting this rating include:

- The Honesdale National Bank's (HNB or bank) quarterly average net loan-to-deposit ratio is more than reasonable and meets the standards for outstanding performance;
- A substantial majority of the bank's loans were originated in the bank's assessment area;
- The bank's distribution of loans represents a reasonable penetration among individuals of different income levels;
- The bank's distribution of loans represents a reasonable dispersion throughout census tracts of different income levels;
- HNB's responsiveness to community development needs and opportunities in its assessment area is adequate in light of its capacity and area opportunities.

Scope of Examination

HNB was evaluated under the Intermediate Small Bank evaluation procedures, which include a lending test and a community development (CD) test. The lending test evaluates the bank's record of meeting the credit needs of its assessment area (AA) through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AA through CD lending, qualified investments, and community development services.

The evaluation period under the Lending Test covers the bank's performance from January 1, 2012 through December 31, 2013, as this is representative of its lending strategy since the last Community Reinvestment Act (CRA) evaluation. We did not include 2014 due to the revisions in metropolitan areas and census tracts. We discussed this with the bank and concurred that activity in 2014 was similar to 2012 and 2013. The evaluation period for the Community Development Test is from November 29, 2011 through March 13, 2015.

HNB's primary loan product is home mortgage loans. HNB reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). Prior to this evaluation, we tested the accuracy of HNB's HMDA data. The results of this testing indicated the data was reasonably accurate and could be relied upon. Therefore, we utilized the HMDA data from January 1, 2012 through December 31, 2013 for this evaluation. CD loans, investments, and services submitted by management were verified to ensure that

they met the regulatory definition for CD.

Description of Institution

HNB is an independent, intrastate community bank, established in 1836, with its main office and headquarters in Honesdale, Pennsylvania. Honesdale is the county seat of Wayne County in northeastern Pennsylvania. As of September 30, 2014, HNB had total assets of \$591 million and tier one capital of \$81.6 million. HNB is a wholly owned subsidiary of HONAT Bancorp, Inc., a one-bank holding company headquartered in Honesdale, Pennsylvania. HONAT Bancorp, Inc. has no other subsidiaries. HNB does not have any subsidiaries or affiliates.

As of September 30, 2014, HNB operates ten full service offices located in Wayne, Pike, Susquehanna, Lackawanna, and Luzerne counties and an operations center in Wayne County. HNB also operates a mortgage loan production office in Luzerne County. All ten offices have on-site automated teller machines (ATMs). Four of the branch on-site ATMs (733 Main Street, Hamlin, Route 6 Plaza, and Lake Wallenpaupack Branches) are full service. The remaining six branch ATMs (Eyon, Forest City, Kingston, Lackawaxen, Lakewood, and Montdale Branches) do not accept deposits. All of the branch offices except the Lackawaxen Branch offer drive-in banking. HNB also maintains an off-site ATM at a local hospital, which does not accept deposits, and a mobile ATM by appointment for events, which also does not accept deposits. All branches offer extended Friday hours and Saturday morning hours. There were no branches closed, and there were no mergers or acquisitions during the evaluation period.

HNB is a full service community bank offering a standard range of retail banking, commercial banking, and trust services. Its retail services include checking accounts, savings programs, money-market accounts, certificates of deposit, consumer loan programs, and residential mortgages. Its commercial services include business checking accounts, money-market accounts, commercial mortgages, lines or letters of credit, credit cards, and loans for equipment or capital improvements. In addition, HNB offers trust and investment services.

As of December 31, 2013, HNB reported net loans and leases of \$405 million or 70% of total assets. The loan portfolio is comprised as follows:

Loan Portfolio Summary by Loan Product December 31, 2013	
Loan Category	% of Outstanding Loans
Residential Real Estate	43.73%
Non-Farm/Non-Residential	29.69%
Commercial & Industrial	13.99%
Consumer Loans	7.29%
Construction Loans	2.53%
Municipal Loans	1.95%
Agriculture & Farmland Loans	0.73%
Multifamily Loans	0.25%

Competition is average and includes local community banks and branches of larger regional and national banks. HNB’s main competitors are: Wells Fargo Bank, PNC Bank, JPMorgan Chase Bank, Dime Bank, Peoples Bank, Fidelity Deposit & Discount Bank, NBT Bank, and Wayne Bank.

There are no financial or legal impediments to hinder HNB’s ability to help meet the credit needs of the communities it services.

HNB’s last Public Evaluation (PE), dated November 28, 2011, was rated Satisfactory.

Description of Assessment Area(s)

HNB has three assessment areas (AAs) located in northeastern Pennsylvania. The AAs are described below.

The Scranton - Wilkes-Barre-Hazleton MSA #42540 AA

HNB’s first assessment area is the Scranton – Wilkes-Barre – Hazleton MSA #42540 AA.

Scranton-Wilkes-Barre-Hazleton MSA AA

Demographic Information for Full Scope Area: Scranton Wilkes Barre Hazelton MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	170	2.35	20.59	59.41	17.06	0.59
Population by Geography	563,631	2.16	18.36	58.38	21.09	0.00
Owner-Occupied Housing by Geography	157,034	0.68	14.42	61.66	23.24	0.00
Business by Geography	51,520	5.60	15.61	57.40	21.28	0.12
Farms by Geography	1,073	0.75	7.64	65.52	26.10	0.00
Family Distribution by Income Level	147,130	20.34	18.03	21.66	39.97	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	56,448	2.58	25.50	58.47	13.45	0.00
Median Family Income		56,045	Median Housing Value		123,891	
HUD Adjusted Median Family Income for 2012		58,900	Unemployment Rate (2010 US Census)		3.36%	
Households Below Poverty Level		13%				

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2010 US Census and 2012 HUD updated MFI

The Scranton - Wilkes-Barre- Hazleton MSA #42540 AA is comprised of Lackawanna, Luzerne, and Wyoming Counties. HNB designated all the census tracts in Lackawanna, Luzerne, and Wyoming Counties as its AA. The bank’s original AA excluded some census tracts in the city of Scranton. We determined that those census tracts should be included to ensure compliance with the technical requirements of the CRA regulation. This AA now meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

Of the 170 census tracts, 4 or 2.35% are low-income geographies, 35 or 20.59% are moderate-income geographies, 101 or 59.41% are middle-income geographies, 29 or 17.06% are upper-income geographies, and 1 or 0.59% has not been assigned an income classification.

The 2010 U.S. Census reported the total population of the AA at 563,631. Within the AA, there are 147,130 families and 228,196 households. There are 258,520 housing units, of which, 60.74% are owner-occupied, 27.53% are rental-occupied, and 11.73% are vacant housing units. Approximately 0.68% of owner-occupied housing is located in the low-income geography, 14.42% is located in moderate-income geographies, 61.66% is located in middle-income geographies, and 23.24% is located in upper-income geographies. The median housing cost is \$123,891.

The 2010 median family income was \$56,045, and the 2012 HUD updated median family income for 2011 is \$58,900. Approximately 20.34% of the families are low-income, 18.03% are moderate-income, 21.66% are middle-income, and 39.97% are upper-income. Approximately 9.62% are below the poverty level.

There are three full service branches and a loan origination office located in this AA. The three branches are in Kingston, Montdale, and Eynon, PA. All three branches offer full lines of traditional banking products and services, have extended hours on Friday evening, and have Saturday morning hours. Eynon has extended hours for Thursday evening as well. All three branches have ATMs and drive-up teller facilities.

According to the June 30, 2014 FDIC Summary of Deposit Market Share report, HNB's deposit market share within this AA is 0.76%, ranking HNB 19 out of 23 institutions in the AA. HNB's primary competitors are: PNC Bank, NA (32 offices, 26.5% market share), Wells Fargo Bank, NA (15 offices, 9.34% market share), Manufacturers and Traders Trust Company (14 offices, 8.95% market share), Community Bank, NA (27 offices, 8.73% market share), and Peoples Security Bank and Trust Co (15 offices, 7.96% market share).

The economy is characterized as stable. The major employment sectors in Lackawanna County are health care and social assistance, retail trade, manufacturing, accommodation and food services, and local government. The major employers are Allied Services Foundation, Community Medical Center, Scranton School District, and Lackawanna County. The major employment sectors in Luzerne County are health care and social assistance, retail trade, manufacturing, and accommodation and food services. The major employers are Geisinger Wyoming Valley Medical Center, Amazon.com, Wilkes Barre Hospital Company, and Luzerne County Government. The major employment sectors in Wyoming County are retail trade, local government, health care and social assistance, and accommodation and food services. The major employers are Procter & Gamble Paper Products Co., Tunkhannock Area School District, Wal-Mart Associates Inc., and Somerset Regional Water Resources.

According to the September 2014 Bureau of Labor Statistics data, the unemployment rates for the counties within the bank's AA are as follows: Lackawanna County is 5.8%,

Luzerne County is 6.3%, and Wyoming County is 5.6%. The Pennsylvania state unemployment rate was 5.3%, and the national unemployment rate was 5.9%.

Wayne & Susquehanna Counties - Non-MSA AA

HNB’s second AA is the Wayne & Susquehanna Counties – Non-MSA AA.

Wayne Susquehanna Counties Non MSA-AA

Demographic Information for Full Scope Area: Wayne Susquehanna Counties Non-MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	20	0.00	10.00	90.00	0.00	0.00
Population by Geography	75,579	0.00	8.46	91.54	0.00	0.00
Owner-Occupied Housing by Geography	22,997	0.00	7.17	92.83	0.00	0.00
Business by Geography	6,675	0.00	17.09	82.91	0.00	0.00
Farms by Geography	386	0.00	4.92	95.08	0.00	0.00
Family Distribution by Income Level	19,822	18.40	19.04	23.82	38.73	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	7,423	0.00	11.18	88.82	0.00	0.00
Median Family Income		52,966	Median Housing Value		161,907	
HUD Adjusted Median Family Income for 2012		55,600	Unemployment Rate (Bureau of Labor and Statistics)		2.79%	
Households Below Poverty Level		11%				

(*) The NA category consists of geographies that have not been assigned an income classification.
 Source: 2010 US Census and 2012 HUD updated MFI

This AA contains all 14 census tracts in Wayne County and six of the eleven census tracts in Susquehanna County. The five census tracts not designated as part of the bank’s AA are in the western part of Susquehanna County and cannot be reasonably serviced by the bank’s nearest branch location. Of the 20 census tracts, two or 10% are moderate-income geographies, and 18 or 90% are middle-income geographies. The AA meets the requirements of the regulation and does not arbitrarily exclude any low-or moderate-income areas.

The 2010 U.S. Census reported the total population of the AA at 75,579. Within the AA, there are 19,822 families and 28,820 households. There are 44,230 housing units, of which, 51.99% are owner-occupied, 13.17% are rental-occupied, and 34.84% are vacant housing units. The median housing value is \$161,907.

The 2010 median income was \$52,966, and the 2012 HUD updated median family income is \$55,600. Approximately 18.40% of the families are low-income, 19.04% are moderate-income, 23.82% are middle-income, and 38.73% are upper-income. Approximately 11% are below the poverty level.

There are six full service branches located in this AA and the Corporate Center. All six branches have ATMs, offer a full line of traditional banking products and services, have extended hours on Friday evening, and have Saturday morning hours. There is no ATM located at the Corporate Center, but there is a full service branch directly across the

street.

According to the June 30, 2014 FDIC Summary of Deposit Market Share report, HNB’s deposit market share within this AA is 17.80%, ranking it second out of 12 institutions in the AA. HNB’s primary competitors are: Peoples Security Bank and Trust Company (5 offices, 19.63% market share), The Dime Bank (5 offices, 17.13% market share), NBT Bank, NA (10 offices, 15.20% market share), and Wayne Bank (5 offices, 11.84% market share).

The economy in this AA is characterized as stable. The major employment sectors in Wayne County are health care and social assistance, retail trade, and accommodation and food services. The major employers are Wayne County Memorial Hospital, Wayne County Commissioners, and Wayne Highlands School District. The major employment sectors for Susquehanna County are local government, retail trade, and health care and social assistance. The major employers are Barnes-Kasson Hospital, Montrose Area School District, and Elk Lake School District.

According to the September 2014 Bureau of Labor Statistics data, the unemployment rate for Wayne County was 7.2% and the unemployment rate for Susquehanna County was 6.4%. The Pennsylvania state unemployment rate was 5.3%, and the national unemployment rate was 5.9%.

During the evaluation, we contacted one community organization whose primary purpose is economic development. We determined through this community contact and through our internal research that opportunities exist for community development lending, investments, and services. According to the community contact, Wayne County has a higher percentage of small businesses than the state average, and most businesses in the county have fewer than five employees. The contact sees opportunities for banks to provide funding to these small businesses. There are also many community events such as festivals that the banks can sponsor. The community contact indicated that all local financial institutions are active in the community and are meeting the area’s needs; HNB was identified by name as a frequent promoter of local charitable activities.

Newark-Union NJ-PA MD #35084 AA

The bank’s third AA is a portion of the Newark-Union NJ-PA MD #35084, which is part of the broader New York–Newark–Jersey City, NY–NJ–PA MSA #35620.

Newark-Union NJ-PA MD AA

Demographic Information for Limited Scope Area: Pike County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	6	0.00	100.00	0.00	0.00	0.00
Population by Geography	13,125	0.00	100.00	0.00	0.00	0.00
Owner-Occupied Housing by Geography	4,720	0.00	100.00	0.00	0.00	0.00

Business by Geography	1,106	0.00	100.00	0.00	0.00	0.00
Farms by Geography	26	0.00	100.00	0.00	0.00	0.00
Family Distribution by Income Level	3,955	33.07	25.92	22.48	18.53	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	2,333	0.00	100.00	0.00	0.00	0.00
Median Family Income		87,598	Median Housing Value		234,410	
HUD Adjusted Median Family Income for 2014		91,900	Unemployment Rate (Bureau of Labor and Statistics)		4.77	
Households Below Poverty Level		6%				

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2010 US Census and 2012 HUD updated MFI

The Newark-Union NJ-PA MD #35084 is comprised of Pike County in Pennsylvania and Essex, Hunterdon, Morris, Sussex, and Union Counties in New Jersey. HNB designated six of the 18 census tracts in Pike County, Pennsylvania as its AA. Of the six census tracts, all six or 100% are moderate-income. There were no low-income, middle-income, or upper-income geographies in the AA. The counties of Essex, Hunterdon, Morris, Sussex, and Union Counties in New Jersey were excluded because the bank does not operate in the state of New Jersey. This AA meets the requirements of the regulation and does not arbitrarily exclude any low-or moderate-income areas.

The 2010 U.S. Census reported the total population of the AA at 13,125. Within the AA, there are 3,955 families and 5,483 households. There are 12,313 housing units, of which, 38.33% are owner-occupied, 6.20% are rental-occupied, and 55.47% are vacant housing units. The median housing cost is \$234,410.

The 2000 median income was \$87,598, and the 2012 HUD updated median family income is \$91,900. Approximately 33.07% of the families are low-income, 25.92% are moderate-income, 22.48% are middle-income, and 18.53% are upper-income. Approximately 6% of households are below the poverty level.

There are two full service branches located in moderate-income geographies in this AA. Both branches have ATMs, offer a full line of traditional banking products and services, have extended hours on Friday evening, and have Saturday morning hours. The Lackawaxen branch does not have a drive-up, but does have a walk-up ATM.

According to the June 30, 2014 FDIC Deposit Market Share report, HNB's deposit market share within the New York–Newark–Jersey City, NY–NJ–PA MSA #35620 is 0.0% and HNB is ranked 205 out of 226 institutions in this MSA. According to June 30, 2014 FDIC Summary of Deposit Market Share report, HNB's deposit market share within their AA, Pike County is 6.68%, ranking HNB six out of seven institutions in the AA. HNB's primary competitors in Pike County are: Wells Fargo Bank, NA (4 offices, 32.64% market share), The Dime Bank (2 offices, 20.76% market share), Wayne Bank (3 offices, 18.34% market share), Citizens Bank of PA (2 offices, 12.38% market share), and NBT Bank, NA (1 office, 9.02 % market share).

The economy in this AA is characterized as stable. The major employment sectors in Pike County are local government, accommodation and food services, retail trade, and health care and social assistance. The major employers are Delaware Valley School District, Woodloch Pines, Inc., Wallenpaupack Area School District, and Wal-Mart

Associates Inc.

According to the September 2014 Bureau of Labor Statistics data, the unemployment rate for Pike County was 7.4%. The Pennsylvania state unemployment rate was 5.3%, and the national unemployment rate was 5.9%.

During the evaluation, we contacted one community organization whose primary purpose is to promote community activities and tourism. We determined through this community contact and through our internal research that opportunities exist for community development donations and services. According to the community contact, there are opportunities for banks to become involved with sponsoring local festivals and events. These festivals and events are either free or low-cost to the community. This benefits residents (especially those who are low- or moderate-income), and attracts tourists to boost the local economy. The community contact indicated the local financial institutions are active in the community and have been helping to meet the needs of the area; HNB was identified by name as one of the local banks that is very involved.

Conclusions with Respect to Performance Tests

HNB's performance under the Lending Test is Satisfactory. HNB's quarterly average net loan-to-deposit ratio is more than reasonable. A substantial majority of HNB's home mortgage loans were made within the bank's AA. HNB was found to have a reasonable penetration among borrowers of different income levels. HNB was found to have reasonable dispersion throughout census tracts of different income levels.

All criteria of the Lending Test are documented below:

LENDING TEST

Loan-to-Deposit Ratio

HNB's quarterly average net loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and the credit needs of the AA. HNB's loan-to-deposit ratio exceeds the standards for satisfactory performance. The bank's quarterly average net loan-to-deposit ratio over the eight quarters captured in our evaluation period was 81.3%. During this period, the ratio ranged from a quarterly low of 78.8% to a quarterly high of 83.9%. At the last CRA evaluation, the average loan-to-deposit ratio was 84.5%. HNB's quarterly average net loan-to-deposit ratio compares favorably with other Pennsylvania financial institutions of similar size. The quarterly average net loan-to-deposit ratio for Pennsylvania financial institutions of similar size was 71.4% over the same eight quarters. The ratios ranged from a quarterly low of 70.4% to a quarterly high of 74.9% during that period.

Lending in Assessment Area

A substantial majority of home mortgage loans was made within the bank's AA, and this exceeds the standard for satisfactory performance. During the evaluation period,

90.98% of the number and 90.37% of the dollar amount of home mortgage loans were made within the bank's AA. The following table details the bank's lending within the AA by number and dollar amount of loans.

Table 1 - Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	1,105	89.47	130	10.53	1,235	\$139,369	89.66	\$16,069	10.34	\$155,438
Home Improvement	274	95.80	12	4.20	286	\$23,043	95.87	\$992	4.13	\$24,035
Home Refinance	1,143	91.37	108	8.63	1,251	\$135,055	90.23	\$15,065	9.77	\$154,120
Totals	2,522	90.98	250	9.02	2,772	\$301,467	90.37	\$32,126	9.63	\$333,593

Source: HNB's HMDA data 1/1/12-12/31/13

Lending to Borrowers of Different Incomes

The distribution of loans reflects reasonable penetration among individuals of different income levels. HNB's record of lending to borrowers of different incomes meets the standard for satisfactory performance.

The Scranton - Wilkes-Barre MSA #42540 AA

The distribution of loans reflects reasonable penetration among individuals of different income levels, and HNB's record of lending to borrowers of different incomes meets the standard for satisfactory performance. The percentage of home loans to moderate-income borrowers is higher than the percentage of AA families for home purchase and home refinance, and only slightly less for home improvement loans. The percentage of home loans to low-income borrowers is below the percentage of AA families for all categories. However, the bank does not have any branches in the city of Scranton, which has many of the low-income census tracts. There were 371 home purchase loans, 74 home improvement loans, and 376 home refinance loans.

The following table shows the distribution of home loan products among borrowers of different income levels for the period of January 1, 2012 through December 31, 2013 as compared to the percentage of families in each income category.

Table 2 - Borrower Distribution of Residential Real Estate Loans in The Scranton - Wilkes-Barre MSA #42540 AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	20.34	9.17	18.03	25.83	21.66	31.67	39.97	33.33
Home Improvement	20.34	2.78	18.03	16.67	21.66	25.00	39.97	55.56
Home Refinance	20.34	4.08	18.03	18.21	21.66	23.91	39.97	53.80

Source: HNB's HMDA data 1/1/2012- 12/31/2013; 2010 U.S. Census data

In our analysis, we considered the lack of affordability for a low-income family to purchase a home in the AA. We noted that lending opportunities to this group are limited given the median home price in the AA of \$123,891. Low-income borrowers may have difficulty qualifying for a home purchase loan. The 2012 HUD updated median family income is \$58,900, which means that low-income borrowers make less than \$29,450 per year. In addition, 13% of households are below the poverty level. This lack of affordability limits opportunities to afford a home. Table 3 depicts the maximum income amount for each income range in the bank's AA.

Table 3 - Definition of Income Ranges Used in the Evaluation					
Income Category	Income Ranges				2012 Median Family Income (MFI)
	Low	Moderate	Middle	Upper	
% Range of MFI	<50%	50%-<80%	80%-<120%	≥120%	
Assessment Area	<\$29,450	<\$47,120	<\$70,680	≥\$70,680	\$58,900

Source: 2010 US Census data, 2012 HUD updated MFI

Wayne & Susquehanna Counties - Non-MSA AA

The distribution of loans reflects reasonable penetration among individuals of different income levels, and HNB's record of lending to borrowers of different incomes meets the standard for satisfactory performance. The percentage of home loans to moderate-income borrowers is higher than the percentage of AA families for all three loan types. The percentage of home loans to low-income borrowers is below the percentage of AA families for all categories. There were 224 home purchase loans, 82 home improvement loans, and 401 home refinance loans.

The following table shows the distribution of home loan products among borrowers of different income levels for the period of January 1, 2012 through December 31, 2013 as compared to the percentage of families in each income category.

Table 2 - Borrower Distribution of Residential Real Estate Loans in The Wayne & Susquehanna Counties Non-MSA AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	18.40	6.51	19.04	20.47	23.82	27.91	38.73	45.12
Home Improvement	18.40	3.66	19.04	23.17	23.82	21.95	38.73	51.22
Home Refinance	18.40	5.70	19.04	19.43	23.82	23.83	38.73	51.04

Source: HNB's HMDA data 1/1/2012- 12/31/2013; 2010 U.S. Census data

In our analysis, we considered the lack of affordability for a low-income family to

purchase a home in the AA. We noted that lending opportunities to this group are limited given the median home price in the AA of \$161,907. Low-income borrowers may have difficulty qualifying for a home purchase loan. The 2012 HUD updated median family income is \$55,600, which means that low-income borrowers make less than \$27,800 per year. In addition, 11% of households are below the poverty level. This lack of affordability limits opportunities to afford a home. Table 3 depicts the maximum income amount for each income range in the bank's AA.

Income Category	Income Ranges				2012 Median Family Income (MFI)
	Low	Moderate	Middle	Upper	
% Range of MFI	<50%	50%-<80%	80%-<120%	≥120%	
Assessment Area	<\$27,800	<\$44,480	<\$66,720	≥\$66,720	\$55,600

Source: 2010 US Census data, 2012 HUD updated MFI

Newark-Union NJ-PA MD #35084 AA

The distribution of loans reflects reasonable penetration among individuals of different income levels, and HNB's record of lending to borrowers of different incomes meets the standard for satisfactory performance. The percentage of home loans to moderate-income borrowers is higher than the percentage of AA families for home refinance, but lower for home purchase and improvement. The percentage of home loans to low-income borrowers is below the percentage of AA families for all categories. There is only one branch located in this AA, and there were fewer total loans originated in this AA. There were 27 home purchase loans, 11 home improvement loans, and 38 home refinance loans. That is a total of 76 home loans compared to 821 and 707 in the larger AAs.

The following table shows the distribution of home loan products among borrowers of different income levels for the period of January 1, 2012 through December 31, 2013 as compared to the percentage of families in each income category.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	33.07	11.11	25.92	14.81	22.48	22.22	18.53	51.85
Home Improvement	33.07	18.18	25.92	18.18	22.48	36.36	18.53	27.27
Home Refinance	33.07	18.42	25.92	28.95	22.48	26.32	18.53	26.32

Source: HNB's HMDA data 1/1/2012- 12/31/2013; 2010 U.S. Census data

In our analysis, we considered the lack of affordability for a low-income family to

purchase a home in the AA. We noted that lending opportunities to this group are limited given the median home price in the AA of \$234,410. Low-income borrowers may have difficulty qualifying for a home purchase loan. The 2012 HUD updated median family income is \$91,900, which means that low-income borrowers make less than \$45,950 per year. In addition, 6% of households are below the poverty level. Although the median family income in this AA is higher than the other AAs serviced by the bank, the median housing value is also significantly higher. This lack of affordability limits opportunities to afford a home. Table 3 depicts the maximum income amount for each income range in the bank’s AA.

Table 3 - Definition of Income Ranges Used in the Evaluation					
Income Category	Income Ranges				2012 Median Family Income (MFI)
	Low	Moderate	Middle	Upper	
% Range of MFI	<50%	50%-<80%	80%-<120%	≥120%	
Assessment Area	<\$45,950	<\$73,520	<\$110,280	≥\$110,280	\$91,900

Source: 2010 US Census data, 2012 HUD updated MFI

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout census tracts of different income levels. HNB’s performance meets the standard for satisfactory performance. There were no conspicuous gaps identified within HNB’s AA.

The Scranton - Wilkes-Barre MSA #42540 AA

The geographic distribution of loans reflects reasonable dispersion throughout census tracts of different income levels, and HNB’s performance meets the standard for satisfactory performance.

There are only 1,062 owner-occupied housing units located in low-income geographies in the AA; therefore, lending opportunities are extremely limited and an analysis of lending in low-income geographies would not be meaningful and was not performed.

The percentage of home purchase loans made in moderate-income geographies is near to the percentage of owner-occupied housing units in these geographies. The percentage of home improvement loans made in moderate-income geographies is significantly lower than the percentage of owner-occupied housing units in these geographies. The percentage of home refinance loans made in moderate-income geographies is significantly lower than the percentage of owner-occupied housing units in these geographies.

The following table details the bank’s performance as compared to the percentage of owner-occupied housing units in each census tract income level for the period of January 1, 2012 through December 31, 2013.

<p>Table 4 – Geographic Distribution of Residential Real Estate Loans: The Scranton - Wilkes-Barre MSA #42540 AA</p>

Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.68	0.81	14.42	11.86	61.66	59.57	23.24	27.76
Home Improvement	0.68	0.00	14.42	1.35	61.66	45.95	23.24	52.70
Home Refinance	0.68	0.00	14.42	5.05	61.66	60.90	23.24	34.04

Source: HNB's HMDA data 1/1/2012 – 12/31/2013; 2010 U.S. Census data

Wayne & Susquehanna Counties - Non-MSA AA

The geographic distribution of loans reflects excellent dispersion throughout census tracts of different income levels. HNB's performance exceeds the standard for satisfactory performance.

There are no low-income geographies in the AA; therefore, an analysis of lending in low-income geographies would not be meaningful and was not performed.

The percentage of home purchase loans made in moderate-income geographies exceeds the percentage of owner-occupied housing units in these geographies. The percentage of home improvement loans made in moderate-income geographies greatly exceeds the percentage of owner-occupied housing units in these geographies. The percentage of home refinance loans made in moderate-income geographies is greater than the percentage of owner-occupied housing units in these geographies.

The following table details the bank's performance as compared to the percentage of owner-occupied housing units in each census tract income level for the period of January 1, 2012 through December 31, 2013.

Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00	0.00	7.17	10.71	92.83	89.29	0.00	0.00
Home Improvement	0.00	0.00	7.17	18.29	92.83	81.71	0.00	0.00
Home Refinance	0.00	0.00	7.17	8.73	92.83	91.27	0.00	0.00

Source: HNB's HMDA data 1/1/2012 – 12/31/2013; 2010 U.S. Census data

Newark-Union NJ-PA MD #35084 AA

The geographic distribution of loans reflects reasonable dispersion throughout census tracts of different income levels, and HNB's performance meets the standard for

satisfactory performance.

There are no low-income geographies in the AA; therefore, an analysis of lending in low-income geographies would not be meaningful and was not performed.

All six census tracts in Pike County are designated moderate-income, which means 100% of the home loans originated in Pike County are in moderate-income geographies.

The following table details the bank’s performance as compared to the percentage of owner-occupied housing units in each census tract income level for the period of January 1, 2012 through December 31, 2013.

Table 4 – Geographic Distribution of Residential Real Estate Loans Newark-Union NJ-PA MD #35084 AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans						
Home Purchase	0.00	0.00	100.00	100.00	0.00	0.00	0.00	0.00
Home Improvement	0.00	0.00	100.00	100.00	0.00	0.00	0.00	0.00
Home Refinance	0.00	0.00	100.00	100.00	0.00	0.00	0.00	0.00

Source: HNB’s HMDA data 1/1/2012 – 12/31/2013; 2010 U.S. Census data

Responses to Complaints

HNB has not received any CRA complaints during the evaluation period.

COMMUNITY DEVELOPMENT TEST

The Community Development Test is rated Satisfactory. HNB’s CD activities demonstrate adequate responsiveness to the CD needs of its AA, when considering the bank’s capacity, its performance context, and the availability of community development opportunities in the bank’s AA.

Bank officers and employees provide community services to organizations operating within each AA, as well as some organizations that cover all three or two of the three AA. Over 15 employees volunteered their time and skills to support multi-county organizations that benefit low- and moderate-income families and children.

HNB waives the fees for savings accounts for individuals that qualify for a program where clients must meet income and need requirements. The bank also allows Department of Welfare benefit recipients to use any HNB ATM to withdraw their funds without paying a foreign surcharge fee.

The Scranton - Wilkes-Barre MSA #42540 AA

Number and Amount of Community Development Loans

On December 21, 2011 and June 29, 2012, HNB made two separate loans for water system enhancements for a city composed primarily of moderate-income census tracts.

On April 25, 2013, HNB originated a letter of credit to an organization that provides housing specifically for low-income seniors in the community.

Number and Amount of Qualified Investments

No qualified investments were made during the evaluation period.

HNB made two donations totaling \$500 to an organization whose primary purpose is to provide community services to low- and moderate-income individuals.

Extent to Which the Bank Provides Community Development Services

During the evaluation period, three employees volunteered their time at a soup kitchen, and one employee and an officer participated in different local coat drives.

Responsiveness to Community Development Needs

HNB's CD activities, as a whole, demonstrate adequate responsiveness to the community development needs of its Scranton – Wilkes-Barre MSA #42540 AA, when considering the bank's capacity, its performance context, and the availability of CD opportunities in the bank's AA.

Wayne & Susquehanna Counties - Non-MSA AA

Number and Amount of Community Development Loans

On August 30, 2012, HNB made a loan for the replacement of a flooded grocery store in a low-income area.

On October 2, 2012, HNB issued a line of credit to a local chapter of an organization that constructs houses for low-income individuals.

On January 22, 2013, HNB originated a loan for the renovation of housing units for low-income borrowers.

Number and Amount of Qualified Investments

No qualified investments were made during the evaluation period.

HNB made several donations totaling \$81 thousand to numerous different non-profit organizations that provide affordable housing and community services to low- and moderate-income individuals and families.

Extent to Which the Bank Provides Community Development Services

During the evaluation period, six bank employees and eight bank officers participated in multiple programs to provide low-income families and children with gifts, winter coats, and gloves.

Three bank employees and one bank officer provided support in various capacities to an organization that provides housing to low-income families.

Five bank employees and two bank officers supplied meals to low-income individuals and families through donations to a local food pantry or volunteering at local soup kitchens.

One bank employee and five bank officers supported a variety of other programs and organizations to benefit low- and moderate-income families and children. Two of the bank officers supported multiple organizations (two organizations and four organizations, respectively).

Responsiveness to Community Development Needs

HNB's CD activities, as a whole, demonstrate excellent responsiveness to the CD needs of its Wayne & Susquehanna Counties – Non-MSA AA, especially when considering the bank's capacity, its performance context, and the availability of CD opportunities in the bank's AA.

Newark-Union NJ-PA MD #35084 AA

Number and Amount of Community Development Loans

In 2013, HNB originated two loans to volunteer fire companies in Pike County to purchase new fire trucks. The Pike County census tracts included in the AA are all designated as moderate-income.

Number and Amount of Qualified Investments

No qualified investments were made during the evaluation period.

HNB donated \$100 to a volunteer fire department that serves moderate-income areas. Some of the organizations in Wayne County that serve low- and moderate-income individuals and received donations from the bank also serve Pike County.

Extent to Which the Bank Provides Community Development Services

During the evaluation period, one officer served as a member of an organization to target elder abuse in a moderate-income area.

Three employees conducted sessions at a local high school in a moderate-income area

covering topics such as credit scores, electronic banking, and savings accounts.

HNB has two full service branches in this AA. Both of these branches are located in moderate-income geographies. By operating these two moderate-income branches, HNB is helping to provide retail and CD services to this county.

Responsiveness to Community Development Needs

HNB's CD activities, as a whole, demonstrate poor responsiveness to the community development needs of its Newark-Union NJ-PA MD #35084 AA, especially when considering the bank's capacity, its performance context, and the availability of CD opportunities in the bank's AA.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.