



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

February 16, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First United National Bank
Charter Number 9480

19535 Route 208
Fryburg, PA 16326

Office of the Comptroller of the Currency

Western Pennsylvania (Pittsburgh) Field Office
4075 Monroeville Boulevard Building 2, Suite 300
Monroeville, PA 15146-2529

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.

First United National Bank's (FUNB) performance under the Lending Test is "Satisfactory." FUNB's lending activity compares favorably to a peer group of similarly situated banks. FUNB, over the evaluation period, originated a substantial majority of sampled residential mortgage loans within its AA. FUNB has demonstrated a reasonable record of originating residential mortgages among AA borrowers and geographies of different income levels.

- The bank's lending activity compares favorably to a peer group of similarly situated banks;
- The bank originated a substantial majority of its' residential mortgage loans within its assessment area (AA);
- The bank has demonstrated a reasonable record of originating residential mortgage loans to AA borrowers of different income levels;
- The bank has demonstrated a reasonable record of originating residential mortgage loans throughout AA geographies.

SCOPE OF EXAMINATION

FUNB was evaluated under the Small Bank Community Reinvestment Act (CRA) examination procedures. Our review encompasses the bank's performance from January 1, 2008 to February 16, 2010, as this time period was representative of its lending strategy since the last CRA examination. Residential mortgages are the bank's primary loan product and were reviewed as part of this examination. In order to assess the bank's record of lending we analyzed a random sample of thirty (30) residential mortgage loans originated by FUNB between January 1, 2008 and February 16, 2010.

DESCRIPTION OF INSTITUTION

FUNB is a \$222 million, intrastate community bank, chartered in 1909 and is headquartered in Fryburg, Pennsylvania. The town of Fryburg is located in Clarion County, Pennsylvania. Clarion County is situated in north western Pennsylvania. Specifically, Fryburg is located north of Interstate 80, approximately eighty (80) miles south of Erie, Pennsylvania. FUNB operates six full-service branch offices. One of the branch offices is located at FUNB's main office in Fryburg, Pennsylvania. The other five branch offices are located in Oil City, New Bethlehem, Franklin, Clarion, and Cranberry, Pennsylvania.

FUNB operates seven automated teller machines (ATMs). Six of the ATMs are located in conjunction with branch office sites. The remaining ATM is situated at an off-site location. FUNB operates its branches during regular business hours. On Fridays, extended lobby hours are offered at three branches, each which remain open until 6:00 p.m. and 7:00 p.m. respectively. Saturday mornings, full-service banking and drive-up services are offered at two branches and drive-up services are offered at another branch. FUNB is a wholly owned subsidiary of Fryburg Banking Company, a one-bank holding company located in Fryburg, Pennsylvania. FUNB opened a new branch office in Cranberry, Pennsylvania on January 16, 2007. The Cranberry branch opening represents the only branch opening or closing since the last CRA evaluation.

FUNB is a full service community bank offering a range of traditional deposit and loan services. FUNB primarily focuses on local residential and commercial real estate lending. FUNB's retail products include checking accounts, savings programs, and individual retirement accounts. FUNB's commercial products include commercial, agricultural, and small business loans. FUNB also offers services including telephone and internet banking. Additional information regarding the bank's products and services is offered via its website: www.fun-bank.com.

As of September 30, 2009, FUNB reported net loans of \$139.6 million, total deposits of \$204.1 million, and tier one capital of \$16.8 million. Net loans represented 62.8% of total assets. FUNB's loan portfolio consists of: residential real-estate loans (66%), commercial loans (18%), consumer loans (14%), construction and development loans (1%), and municipal loans (1%). There are no financial or legal circumstances impeding the bank's ability to help meet the credit needs in its assessment area. FUNB received a satisfactory rating as a result of the previous Community Reinvestment Act (CRA) evaluation which was conducted as of October 4, 2004.

DESCRIPTION OF ASSESSMENT AREA

FUNB's Assessment Area (AA) is located in north western Pennsylvania. FUNB includes within its AA, in their entirety, the Pennsylvania counties of Clarion, Venango, and Forest. FUNB's AA also includes contiguous whole Census Tracts (CTs) or geographies within the Pennsylvania counties of Crawford and Jefferson. FUNB's AA contains a total of thirty-six geographies. According to 2000 U.S. Census data, of the thirty-six AA geographies, two are designated as moderate-income and the remaining thirty-four are designated as middle-income. FUNB's AA does not contain any geographies designated as low- or upper-income. FUNB's AA meets regulatory requirements and does not arbitrarily exclude low and moderate-income geographies. The geographies comprising FUNB's AA are not located within a Metropolitan Statistical Area (MSA).

The following table details AA demographic data:

Demographic Information for Full Scope Area: FUNB AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	36	0.00	5.56	9.44	0.00	0.00
Population by Geography	140,663	0.00	3.08	96.92	0.00	0.00
Owner-Occupied Housing by Geography	41,990	0.00	2.46	97.54	0.00	0.00
Business by Geography	8,836	0.00	4.19	95.81	0.00	0.00
Farms by Geography	457	0.00	0.22	99.78	0.00	0.00
Family Distribution by Income Level	38,387	20.27	20.84	24.60	34.30	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	15,780	0.00	4.23	95.77	0.00	0.00
Median Family Income HUD Adjusted Median Family Income for 2009 Households Below Poverty Level		38,937 53,800 13.32%	Median Housing Value Unemployment Rate (through September 2009 from the Bureau of Labor Statistics)	61,494 9.1% for Clarion County, 9.2% for Venango County, 10.8% for Forest County		

Source: 2000 US Census and 2009 HUD updated MFI

For FUNB’s AA the 2000 U.S. Census reports a total population of 140,663, total families of 38,387 and total households of 54,982. Of total AA households, 13.32% subsist below the poverty level. Of the 38,387 AA families, 7,780 and 8,000 were classified as low-and moderate-income respectively. The 2000 U.S. Census reports the AA median income to be \$38,937 and HUD, updated for 2009, reports AA median family income to be \$53,800. Of AA families, 20%, 21%, 25%, and 34% are classified as low-moderate-middle-and upper-income respectively.

Clarion County is primarily rural in nature and has been experiencing economic decline. The Bureau of Labor Statistics, as of September 2009, reported the unemployment rate in Clarion County to be 9.1%. This represents higher unemployment than the 8.5% rate reported for the State of Pennsylvania. This rate of unemployment also reflects a significant increase from a rate of 5.9% reported for September 2008. Top employers as of March 2009 include: The State System of Higher Education, Clarion Hospital, Owens-Brockway Glass Container, Wal-Mart, Clarion County Courthouse, New Era Building Systems, and the Commodore Corporation. Major area industries include health and social services, manufacturing, retail trade, and accommodation and food services.

Forest County is also primarily rural in nature and has also been experiencing economic decline. The Bureau of Labor Statistics, as of September 2009, reported the unemployment rate in Forest County to be 10.8%. This represents higher unemployment than the 8.5% rate reported for the State of Pennsylvania. This rate of unemployment for the county also reflects a significant increase from a rate of 7.1% reported in September 2008. Top employers as of March 2009 include: The Pennsylvania Department of Corrections, the Cornell Abraxas Group, Snyder Memorial, Industrial Timber and Land Company, Highland Forest Resources, Forest County, Pennsylvania General Energy, U.S. Department of Agriculture, the Forest Area School District, and the Pennsylvania Department of Transportation. Major area industries include manufacturing, health and social services, retail trade, and government.

Venango County is primarily rural in nature as well and has similarly been experiencing economic decline. The Bureau of Labor Statistics, as of September 2009, reported the unemployment rate in Venango County to be 9.2%. This represents higher unemployment than the 8.5% rate reported for the State of Pennsylvania. This rate of unemployment for the county also reflects a significant increase from a rate of 5.7% reported for September 2008. Top employers as of March 2009 include: Department of Public Welfare, Joy Mining Machinery, UPMC Northwest, Wal-Mart, and Venango County. Major area industries include manufacturing, health and social services, retail trade, and accommodation and food service.

FUNB includes only a small portion of Crawford and Jefferson County geographies within its AA. These geographies are situated within rural sections of the counties away from population centers. Economically, these geographies exhibit similar characteristics to the geographies located within Clarion and Venango Counties. Forest County is the least populated county in Pennsylvania and is comprised of state and national forest lands.

Banking competition within FUNB's AA is considered to be strong. According to the FDIC Deposit Market Share Report as of June 30, 2009, within Clarion County, FUNB is ranked third in market share, garnering 18.6% of county deposits. Of FUNB's six branches, three are located in Clarion County. Area competitors include: S&T Bank (S&T), National City Bank (NCB), Northwest Savings Bank (Northwest), Farmers National Bank of Emlenton (Farmers NB), and Clarion County Community Bank (CCCB). S&T operates three branch offices in the county, is ranked first and has garnered 22.24% of county deposits. NCB operates five branches in the county, is ranked second and has garnered 19.47% of county deposits. Northwest operates five branch offices in the county, is ranked fourth and has garnered 17.37% of county deposits. Farmers NB operates three branches in the county, is ranked fifth and has garnered 11.58% of county deposits. CCCB operates all three of its branch offices in the county, is ranked sixth and has garnered 10.76% of county deposits.

According to the FDIC Deposit Market Share Report as of June 30, 2009, within Venango County, FUNB is ranked fifth in market share, garnering 10.01% of county deposits. Of FUNB's six branch offices, three are located in Venango County. Area competitors include: Northwest Savings Bank (Northwest), National City Bank (NCB), First National Bank of Pennsylvania (FNB of PA), Citizens Bank of Pennsylvania

(Citizens) and Farmers National Bank of Emlenton (Farmers NB). Northwest operates six branches in the county, is ranked first and has garnered 30.65% of county deposits. NCB operates four branches in the county, is ranked second and has garnered 22.94% of county deposits. FNB of PA operates two branches in the county, is ranked third and has garnered 12.84% of county deposits. Citizens operates two branches in the county, is ranked fourth and has garnered 12.08% of county deposits. Farmers NB operates two branches in the county, is ranked sixth and has garnered 9.07% of county deposits.

According to the FDIC Deposit Market Share report, Northwest Savings Bank is the only institution to operate branches in Forest County. Northwest accounts for 100% of Forest County deposits. FUNB operates a deposit-taking ATM within Forest County.

During the examination a local housing organization serving Clarion and Forest counties was contacted. The organization provides affordable housing for low-income residents and offers rental assistance programs. The contact stated that the local economy has declined significantly in recent months. Specifically, a local glass plant closed resulting in a loss of more than 400 jobs. Local modular home builders, a source of significant area employment, have been downsizing. Economic decline has limited area opportunities for financial institutions. According to the contact, demand for home loans is low as a result of affordability constraints. The contact stated that local financial institutions, especially the community banks, have continued to meet the credit needs of the community. FUNB has participated in credit counseling and budget counseling sessions that the housing organization sponsors for low-income residents.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FUNB's performance under the Lending Test is "Satisfactory". FUNB's lending activity compares favorably to a peer group of similarly situated banks. FUNB, over the evaluation period, originated a substantial majority of sampled residential mortgage loans within its AA. FUNB has demonstrated a reasonable record of originating residential mortgages among AA borrowers and geographies of different income levels.

Loan-to-Deposit Ratio

FUNB's lending activity, as measured by its Loan-to-Deposit (LTD) ratio, meets the standard for satisfactory performance. FUNB's LTD is considered to be reasonable considering the context in which FUNB operates, including its size and lending capacity, in addition to AA lending opportunities and economic conditions.

FUNB's lending activity over the evaluation period was measured by calculating a twenty-quarter average LTD ratio and comparing it to the average LTD ratio reported for a group of nine peer banks. The banks selected to represent FUNB's peer group are considered to be similarly situated to FUNB since they are of a similar asset size and located within the ten-county area that includes FUNB's AA and surrounding counties. The twenty-quarter average LTD ratio was calculated using financial data reported since the previous evaluation and was inclusive of each quarter-end from October 1, 2004 to September 30, 2009. FUNB's LTD ratio over this period averaged 76.26% and

compares favorably to the peer group LTD ratio which over the same time period averaged 77.46%.

Lending in Assessment Area

FUNB's record of originating residential mortgages within its AA exceeds the standard for satisfactory performance. Of all the residential mortgage loans originated by FUNB over the evaluation period, a substantial majority were originated within its AA. Specifically, an analysis of a random sample of residential mortgage loans originated by FUNB over the evaluation period revealed that 97% (29 out of 30 loans) were originated within FUNB's AA.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

FUNB's record of originating residential mortgages among AA borrowers of different income levels meets the standard for satisfactory performance. The distribution of FUNB's residential mortgage originations reflects good penetration among AA borrowers, considering the context in which FUNB operates.

FUNB's record of originating residential mortgage loans to low-income AA borrowers is slightly below the percentage of AA-families classified as low-income. However, FUNB's record of originating residential mortgage loans to moderate-income AA borrowers exceeds the percentage of AA families classified as moderate-income.

Opportunities to originate residential mortgages within FUNB's AA may be impacted by demographic factors include the extent to which AA population is age 65 or older, retired, eligible for social security and/or at or below poverty level. Opportunities to originate residential mortgages within the AA may also be impacted by housing affordability and banking competition. U.S. Census data for 2000 reports the median housing value within FUNB's AA to be \$61,494. The 2009 HUD updated median family income is \$53,800, indicating that low-income AA families by definition are families with annual incomes below \$26,895. Additionally, 13.32% of AA families subsist below the poverty level and area unemployment has been rising and exceeds the Pennsylvania State employment rate.

FUNB's has demonstrated its commitment to originating more affordable residential mortgage loans to low-and moderate-income AA borrowers through the internal development and adoption of an affordable mortgage program. The affordable mortgage program serves the credit needs of low-income and moderate-income borrowers by offering reduced rates, reduced fees, and reduced down payment options.

The volume of loans FUNB originates through the program increased over the evaluation period. Specifically, over the evaluation period, FUNB originated 38 loans totaling \$1.35 million through its affordable mortgage program

The following table details the distribution of residential mortgage loans originated by FUNB during the evaluation period among AA borrowers.

Table 2 - Borrower Distribution of Residential Real Estate Loans in FUNB 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
Residential Mortgage	20.27	17.24	20.84	24.14	24.60	20.69	34.30	37.93

Source: Loan sample and 2000 U.S. Census data

Geographic Distribution of Loans

FUNB’s record of originating residential mortgage loans among AA geographies of different income levels meets the standard for satisfactory performance. The distribution of FUNB’s residential mortgage originations reflects reasonable dispersion among the AA geographies considering the context in which MNB operates.

FUNB’s AA contains no low-income geographies and just two moderate-income geographies. Of all owner-occupied housing available within FUNB’s AA, 2000 U.S. census data reports that less than 2.5% (1,033 of 41,990 units) are located within the AA’s moderate-income geographies. Conversely, the vast majority, more than 97.5% of all AA owner-occupied housing is located within the AA’s middle- and upper-income geographies. The limited availability of owner-occupied housing within the AA’s moderate-income geographies adversely impacts FUNB’s opportunity to originate residential mortgage loans within those moderate-income geographies.

The following table details the distribution of residential mortgage loans originated by FUNB during the evaluation period among AA geographies.

Table 3 - Geographic Distribution of Residential Real Estate Loans in FUNB AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% 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
Mortgage Loans	0.00	0.00	2.46	0.00	97.54	100	0.00	0.00

Source: Loan Sample and 2000 U.S. Census Data

Responses to Complaints

FUNB did not receive any complaints about its performance in helping to meet credit needs in the assessment area during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

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