

PUBLIC DISCLOSURE

December 13, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Luzerne Bank
Certificate Number: 7586

118 Main Street
Luzerne, Pennsylvania 18709

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 substantial majority of loans are in the institution's assessment area.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels and businesses of different sizes.
- The institution has not received any written complaints regarding its CRA performance; therefore, this criterion did not affect the Lending Test rating.

The Community Development Test is rated Satisfactory.

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

DESCRIPTION OF INSTITUTION

Background

The Luzerne Bank (Luzerne Bank) is a full-service community bank, headquartered in Luzerne, Pennsylvania (PA) that operates throughout Luzerne County in Northeastern PA. Luzerne Bank is a wholly owned subsidiary of Penns Woods Bancorp, Inc., a multi-bank holding company headquartered in Williamsport, PA that owns both Luzerne Bank and Jersey Shore State Bank. Luzerne Bank does not operate any subsidiaries. The bank received a Satisfactory rating at its previous Federal Deposit Insurance Corporation (FDIC) Performance Evaluation, dated November 26, 2018, based on Interagency Intermediate Small Institution Examination Procedures.

Operations

Luzerne Bank operates eight full-service branches in Luzerne County. Luzerne Bank offers loan products including commercial, agricultural, home mortgage, and consumer loans. The bank

provides a variety of deposit services including checking, savings, money market deposit accounts, and certificates of deposit. Luzerne Bank also offers insurance services. Alternative banking services include internet and mobile banking, telephone banking, and electronic bill pay. The bank operates eight ATMs at its branch locations and one in a supermarket location. During the evaluation period, the bank opened two branches. The bank opened its Pittston branch (middle-income census tract) in January 2019 and its Forty Fort branch (upper-income census tract) in March 2019. Luzerne Bank also closed three branches. The bank closed its Swoyersville branch (moderate-income census tract) and Wyoming branch (upper-income census tract) in March 2019, and its Plains Township branch (middle-income census tract) in December 2020. There have not been any mergers or acquisitions since the last evaluation.

In response to the pandemic, the bank offered its COVID-19 Payment Relief Program and participated in the U.S. Small Business Administration's (SBA's) Paycheck Protection Program (PPP). The Payment Relief Program allowed customers to defer their loan payments up to six months with no questions asked or fee charged. The borrowers could take the six payment deferments all at once or piecemeal. In 2020, the bank originated 143 PPP loans totaling \$8.0 million. In 2021, the bank originated 127 PPP loans totaling \$9.5 million. PPP loans helped businesses and organizations with expenses related to payroll, rent, and utilities. While examiners included most PPP loans under the Lending Test, some PPP loans qualified under the Community Development Test.

Ability and Capacity

Bank assets totaled \$581.3 million as of September 30, 2021, which includes total loans of \$365.4 million and total securities of \$37.8 million. Luzerne Bank reported total deposits of \$502.1 million. Since the prior evaluation, total assets, loans, and deposits have increased by 36.2 percent, 6.9 percent, and 45.3 percent, respectively.

The following table illustrates Luzerne Bank's loan portfolio as of September 30, 2021:

Loan Portfolio Distribution as of September 30, 2021		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	10,902	3.0
Secured by Farmland	85	0.0
Secured by 1-4 Family Residential Properties	144,998	39.7
Secured by Multifamily (5 or more) Residential Properties	10,547	2.9
Secured by Nonfarm Nonresidential Properties	112,519	30.8
Total Real Estate Loans	279,051	76.4
Commercial and Industrial Loans	45,506	12.5
Agricultural Production and Other Loans to Farmers	26	0.0
Consumer Loans	30,356	8.3
Obligations of State and Political Subdivisions in the U.S.	1,425	0.4
Other Loans	9055	2.5
Total Loans	365,419	100.0
<i>Source Reports of Condition and Income</i>		

The loan portfolio composition remained consistent since the prior evaluation. The majority of the bank's loan portfolio consists of commercial loans (43.2 percent) and residential loans (42.6 percent). Luzerne Bank does not sell loans on the secondary market.

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 AREA

The Community Reinvestment Act (CRA) requires each financial institution to define one or more assessment areas to evaluate its CRA performance. Luzerne Bank designated a single assessment area, which includes all of Luzerne County, in the Scranton—Wilkes-Barre, PA Metropolitan Statistical Area (MSA) 42540. The bank did not change the assessment area since the prior evaluation. The following sections discuss demographic and economic information for the assessment area.

Economic and Demographic Data

Luzerne Bank operates eight branch offices within its assessment area. One branch is in a moderate-income census tract, two are in middle-income census tracts, four are in upper-income census tracts, and one is in a census tract with no income designation.

The assessment area includes all 104 census tracts in Luzerne County. The tracts reflect the following income designations according to 2015 American Community Survey (ACS) data:

- 4 low-income census tracts,
- 28 moderate-income census tracts,

- 49 middle-income census tracts,
- 21 upper-income census tract, and
- 2 census tracts with no income designation.

The following table shows the demographic information of the assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	104	3.8	26.9	47.1	20.2	1.9
Population by Geography	320,095	3.2	24.3	46.3	25.4	0.9
Housing Units by Geography	148,441	3.3	24.1	49.0	22.9	0.6
Owner-Occupied Units by Geography	87,053	1.5	17.3	51.4	29.7	0.1
Occupied Rental Units by Geography	41,639	6.8	35.7	42.9	12.9	1.7
Vacant Units by Geography	19,749	4.0	29.7	51.1	14.3	1.0
Businesses by Geography	25,384	3.3	20.6	45.6	26.5	3.9
Farms by Geography	552	1.1	13.6	47.8	37.0	0.5
Family Distribution by Income Level	81,766	22.3	17.3	20.2	40.2	0.0
Household Distribution by Income Level	128,692	25.5	16.0	16.4	42.1	0.0
Median Family Income Non-MSAs - PA		\$59,887	Median Housing Value			\$121,082
Families Below Poverty Level		11.8%	Median Gross Rent			\$702
Source 2015 ACS and 2020 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.						

There are 148,441 total housing units in the assessment area. Of these, 58.6 percent are owner-occupied, 28.0 percent are occupied rental units, and 13.3 percent are vacant. The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units. As shown above, 1.5 percent and 17.3 percent of the total owner-occupied housing units are located in low- and moderate-income census tracts, respectively. This data reflects the opportunities lenders have to originate home mortgage loans within these income geographies.

Examiners use the FFIEC-updated median family income level to analyze home mortgage loans under the Borrower Profile criterion. The following table illustrates the low-, moderate-, middle-, and upper-income categories for the Scranton—Wilkes-Barre, PA MSA for 2019 and 2020.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Scranton--Wilkes-Barre, PA MSA Median Family Income (42540)				
2019 (\$67,000)	<\$33,500	\$33,500 to <\$53,600	\$53,600 to <\$80,400	≥\$80,400
2020 (\$71,700)	<\$35,850	\$35,850 to <\$57,360	\$57,360 to <\$86,040	≥\$86,040
Source FFIEC				

The Geographic Distribution criterion for small business lending compares small business loans to the distribution of businesses within the assessment area, while the Borrower Profile criterion considers the gross annual revenue (GAR) of these businesses. According to 2020 D&B data, there were 25,384 non-farm businesses within the assessment area. The GARs of these businesses are as follows:

- 85.3 percent have GARs of \$1.0 million or less,
- 4.4 percent have GARs of more than \$1.0 million, and
- 10.3 percent have unreported GARs.

Service industries represent the largest percent of businesses at 36.6 percent, followed by non-classifiable establishments (17.7 percent); retail trade (14.8 percent); finance, insurance, and real estate (9.3 percent); and construction (6.4 percent). Within the assessment area, 62.4 percent of businesses have four or less employees, and 89.6 percent of businesses operate from a single location. This information reflects the potential demand for, and the opportunity to originate, small business loans in the assessment area.

According to PA's Department of Labor & Industry, top employers within Luzerne County include the federal government, Amazon Services, Inc., state government, and Geisinger Wyoming Valley Medical Center.

The following table details the unemployment data from the Bureau of Labor Statistics for the assessment area and related areas. The 2020 unemployment rates increased due to the COVID-19 pandemic.

Unemployment Rates			
Area	2019	2020	October 2021
	%	%	%
Luzerne County, PA	5.8	8.6	6.4
State of PA	4.4	6.9	4.9
National Average	3.6	6.7	4.6
Source Bureau of Labor Statistics			

Competition

The assessment area is a moderately competitive market for financial and credit services. According to the FDIC Summary of Deposits as of June 30, 2021, there were 19 FDIC-insured institutions operating 96 branch offices within the assessment area. Of these institutions, Luzerne Bank ranked 7th with a 6.5 percent market share by total deposits and 5th with an 8.3 percent market share by total branches.

There is a high level of competition for home mortgage loans among the banks, credit unions, and non-depository mortgage lenders. According to 2020 Peer Mortgage Data, there are 311 mortgage lenders operating within the assessment area. Luzerne ranked 3rd with a 4.7 percent market share by number of home mortgages originated and/or purchased. The top home mortgage lenders in the assessment area included Quicken Loans, LLC with a 6.6 percent market share and Wells Fargo Bank, NA, with a 5.6 percent market share.

Luzerne is not required to collect or report its small business loan data, and it has not elected to do so. Therefore, the analysis of small business loans under the Lending Test does not include aggregate data comparisons. The aggregate data, however, reflects the level of demand for small business loans and is therefore included. Aggregate data for 2019 shows that 82 institutions originated and/or purchased 5,288 small business loans in the assessment area, indicating a high level of competition for this product.

Community Contact

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying the credit and community development needs of the community. This information helps examiners determine whether local financial institutions are responsive to those needs.

For this evaluation, examiners contacted a representative of an organization that provides grants and connects donors to nonprofit organizations operating in Northeastern PA. The contact identified a significant need for financing of affordable rental units and mortgage lending, citing increased population growth due to an influx of jobs. According to the contact, numerous corporations have opened offices and warehouses in Luzerne County and surrounding areas, which has increased rents and led to a shortage of entry-level homes for first-time home buyers. The contact also identified a significant need for financing of small businesses, particularly for start-up business or businesses trying to expand. Overall, the contact indicated that local financial institutions have been responsive to the credit and community development needs of the communities within the assessment area.

Credit and Community Development Needs and Opportunity

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that affordable housing programs, programs designed to assist first-time homebuyers with closing costs, and home improvement loans are primary credit

needs within the assessment area. In addition, flexible and low-cost small business loan programs, particularly loan programs for start-up businesses, are community needs as well.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated November 26, 2018, to the current evaluation dated December 13, 2021. Examiners used the Interagency Intermediate Small Institution Examination Procedures to evaluate Luzerne Bank's CRA performance. These procedures include the Lending Test and Community Development Test. Please refer to the Appendices for a complete description of these tests.

Activities Reviewed

Examiners determined Luzerne's major product lines are home mortgage and small business loans. This conclusion considered the bank's business strategy, as well as the number and dollar volume of loans originated during the evaluation. The volume of home mortgage loans exceeded that of small business loans during the review period. Therefore, examiners gave more weight to home mortgage lending in the overall conclusion. The bank originated a low volume of farm and consumer loans during the evaluation period. This evaluation did not consider small farm or consumer loans, as neither represented a major product line.

This evaluation considered all home mortgage loans reported on the bank's 2018, 2019, and 2020 HMDA Loan Application Register. Due to asset size, Luzerne Bank is not required to collect or report small business loans; however, the bank collected sufficient data for analysis except for Borrower Profile. To analyze Borrower Profile, examiners sampled GAR data from 47 small business loans totaling \$7.4 million originated in 2019, and 55 small business loans totaling \$7.7 million originated in 2020. For comparative purposes, the evaluation will present 2019 and 2020 aggregate HMDA, 2015 ACS data, and 2019 and 2020 D&B data.

Bank management provided information on community development loans, investments, and services since the prior CRA evaluation dated November 26, 2018.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

The institution's overall Lending Test performance is rated "Satisfactory." Luzerne Bank's reasonable performance under the Loan-to-Deposit Ratio, Geographic Distribution, and Borrower Profile criteria supports the rating. The following sections present the institution's overall performance under the Lending Test.

Loan-to-Deposit Ratio

The LTD ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. Luzerne Bank's LTD ratio, calculated from Call Report data, averaged 84.1 percent over the past twelve calendar quarters from December 31, 2018 to September 30, 2021. The LTD ratio fluctuated during the evaluation period, ranging from a low of 70.6 percent as of June 30, 2021 to a high of 95.6 percent as of December 31, 2018. The bank's average LTD ratio is lower than the 89.9 percent average LTD ratio reported at the prior evaluation.

Luzerne Bank also maintained a reasonable average net LTD ratio compared to that of similarly situated institutions, as shown in the table below. Examiners selected these institutions based on geographic location, lending focus, and asset size.

Loan-to-Deposit (LTD) Ratio Comparison		
Bank	Total Assets as of 9/30/2021 (\$000s)	Average Net LTD Ratio (%)
The Luzerne Bank	581,271	84.1
American Bank	798,613	105.5
The Dime Bank	967,564	91.4
Mauch Chunk Trust	612,681	59.0
New Tripoli Bank	561,826	91.8
<i>Source Reports of Condition and Income 9/30/2018 - 9/30/2021</i>		

Assessment Area Concentration

A substantial majority of loans in the bank's assessment area. The following table shows the assessment area concentration of home mortgage and small business loans by number, dollar amount, and percentage

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2018	444	93.7	30	6.3	474	44,544	92.4	3,679	7.6	48,222
2019	407	91.3	39	8.7	446	37,996	86.6	5,870	13.4	43,865
2020	417	90.1	46	9.9	463	42,456	88.2	5,680	11.8	48,136
Subtotal	1,268	91.7	115	8.3	1,383	124,995	89.1	15,228	10.9	140,223
Small Business										
2018	96	83.5	19	16.5	115	17,515	73.7	6,256	26.3	23,770
2019	112	91.1	11	8.9	123	15,381	88.6	1,985	11.4	17,366
2020	219	88.7	28	11.3	247	21,680	80.8	5,136	19.2	26,816
Subtotal	427	88.0	58	12.0	485	54,576	80.3	13,376	19.7	67,952
Total	1,695	90.7	173	9.3	1,868	179,571	86.3	28,604	13.7	208,175
Source Bank Data Due to rounding, totals may not equal 100.0%										

The volume of small business loans significantly increased in 2020 due to the bank's participation in SBA's PPP. In 2020, the bank originated 129 PPP loans totaling \$7.4 million that were included in the bank's small business lending. Of these PPP/small business loans, 121 loans totaling \$7.1 million were in the assessment area.

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. Luzerne's reasonable performance of home mortgage and small business lending supports this conclusion. Examiners focused on the number of loans in low- and moderate-income census tracts.

Home Mortgage Loans

As shown in the following table, the geographic distribution of home mortgage loans reflects reasonable dispersion throughout the assessment area. In 2019, the bank's performance in low- and moderate- income census tracts was similar to demographic and aggregate data. The opportunity to lend in low-income census tracts is limited as only 1.5 percent of owner-occupied housing units are in low-income census tracts. In 2020, the bank's performance in low- and moderate-income census tracts slightly declined and trailed demographic and aggregate data.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	1.5	1.4	3	0.7	215	0.6
2020	1.5	1.3	1	0.2	14	0.0
Moderate						
2019	17.3	16.9	64	15.7	4,964	13.1
2020	17.3	15.7	54	13.0	4,205	9.9
Middle						
2019	51.4	46.1	166	40.8	13,566	35.7
2020	51.4	45.1	190	45.6	19,116	45.0
Upper						
2019	29.7	35.6	173	42.5	18,791	49.5
2020	29.7	37.9	171	41.0	19,066	44.9
Not Available						
2019	0.1	0.1	1	0.2	460	1.2
2020	0.1	0.0	1	0.2	56	0.1
Totals						
2019	100.0	100.0	407	100.0	37,996	100.0
2020	100.0	100.0	417	100.0	42,456	100.0
Source 2015 ACS; Bank Data, 2019 & 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 geographic distribution of small business loans reflects reasonable dispersion throughout the assessment area. In 2019, the bank's percentage of small business loans in low- and moderate-income census tracts trailed demographic data. In 2020, the bank's percentage of small business loans in low-income census tracts remained stable while its performance in moderate-income census tracts improved but trailed demographic data. The bank has a business relationship with an automobile dealership that attributes to the difference between the demographics and the bank's performance in the tract income levels. In 2019 and 2020, the bank originated 20 and 29 of its loans to this automobile dealership, respectively, which is located in a middle-income census tract.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low					
2019	3.1	2	1.8	280	1.8
2020	3.3	3	1.4	273	1.3
Moderate					
2019	20.1	7	6.2	1,147	7.5
2020	20.6	21	9.6	2,370	10.9
Middle					
2019	46.2	69	61.6	9,829	63.9
2020	45.6	122	55.7	12,379	57.1
Upper					
2019	26.7	32	28.6	3,725	24.2
2020	26.5	61	27.9	5,632	26.0
Not Available					
2019	3.9	2	1.8	400	2.6
2020	3.9	12	5.5	1,026	4.7
Totals					
2019	100.0	112	100.0	15,381	100.0
2020	100.0	219	100.0	21,680	100.0
<i>Source 2019 & 2020 D&B Data; Bank Data; "--" data not available.. Due to rounding, totals may not equal 100.0%</i>					

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 sizes. The bank's reasonable performance in home mortgage and small business lending supports this conclusion. Examiners focused on the number of home mortgage loans to low- and moderate-income borrowers and the number of small business loans to businesses with GARs of \$1.0 million or less.

Home Mortgage Loans

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate-income borrowers, is reasonable. As shown in the following table, while the penetration of home mortgage loans to low-income borrowers in 2019 and 2020 trailed demographic data, the bank's performance equaled the aggregate in 2019 and trailed the aggregate in 2020. A low-income family in the assessment area is not likely to qualify for a mortgage under conventional underwriting standards considering the median housing value of \$121,082. Therefore, the opportunities to lend to low-income families are limited. This fact helps explain the difference between bank and aggregate performance in lending to low-income borrowers compared to the percentage of families at this income level. While

the bank's percentage of home mortgage loans to moderate-income borrowers in 2019 and 2020 trailed demographic and aggregate data, its volume of loans to such borrowers is reasonable.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	22.3	10.6	43	10.6	2,390	6.3
2020	22.3	9.0	20	4.8	1,199	2.8
Moderate						
2019	17.3	21.2	64	15.7	4,316	11.4
2020	17.3	17.4	53	12.7	3,794	8.9
Middle						
2019	20.2	21.8	85	20.9	6,179	16.3
2020	20.2	20.0	96	23.0	8,461	19.9
Upper						
2019	40.2	31.6	134	32.9	16,582	43.6
2020	40.2	33.3	165	39.6	19,787	46.6
Not Available						
2019	0.0	14.8	81	19.9	8,529	22.4
2020	0.0	20.4	83	19.9	9,216	21.7
Totals						
2019	100.0	100.0	407	100.0	37,996	100.0
2020	100.0	100.0	417	100.0	42,456	100.0
<i>Source 2015 ACS; Bank Data, 2019 & 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 borrowers reflects, given the demographics of the assessment area, reasonable penetration among businesses of different sizes. Based on small business loan samples for 2019 and 2020, the bank's penetration of loans to businesses with GAR of \$1.0 million or less significantly trailed demographic data. In 2020, the bank's percentage of loans to businesses with revenue not available increased. This is primarily due to the bank originating PPP loans, as the collection of GAR information is not required on these loans.

As previously mentioned, Luzerne Bank is not required to report its small business loans; therefore, aggregate data is not included in the table below. However, aggregate data reflects the level of demand for small business loans. The 2019 aggregate small business lending data reflected 43.4 percent penetration of loans to businesses with GARs of \$1.0 million or less. Overall, the bank's performance of lending to businesses with GARs of \$1.0 million or less reflects reasonable performance.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000					
2019	82.9	20	42.6	1,915	25.9
2020	85.3	18	32.7	2,500	32.3
>\$1,000,000					
2019	5.3	23	48.9	4,337	58.6
2020	4.4	15	27.3	1,313	17.0
Revenue Not Available					
2019	11.8	4	8.5	1,151	15.5
2020	10.3	22	40.0	3,929	50.7
Totals					
2019	100.0	47	100.0	7,403	100.0
2020	100.0	55	100.0	7,742	100.0
<i>Source 2019 & 2020 D&B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i>					

Response to Complaints

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

COMMUNITY DEVELOPMENT TEST

The institution's overall Community Development Test performance is rated "Satisfactory." Luzerne Bank's community development performance demonstrates adequate responsiveness to community development needs in its assessment area through community development loans, qualified investments, and community development services. Examiners considered the bank's capacity and the need and availability of community development opportunities within the assessment area.

Community Development Loans

During the evaluation period, Luzerne originated 49 community development loans totaling \$4.6 million. Of this volume, 42 loans totaling \$4.2 million are located within the bank's assessment area. Since Luzerne was responsive to community development needs and opportunities within its assessment area, examiners considered an additional seven community development loans totaling \$406,241 that benefitted the broader regional or statewide area. This overall level of activity represents 0.9 percent of average total assets and 1.3 percent of average total loans since the prior evaluation. At the prior evaluation, the bank originated 53 community development loans totaling \$23.5 million, representing 6.1 percent of average total assets and 8.0 percent of average total loans at that evaluation. Despite the decrease in community development lending since the prior

evaluation, Luzerne demonstrated adequate responsiveness to the community development needs through loans originated in the assessment area and broader regional or statewide area. The following table illustrates the bank's community development lending activity by year and purpose.

Community Development Lending										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
11/26/2018 – 12/31/2018	0	0	0	0	0	0	0	0	0	0
2019	6	861	1	50	1	34	4	920	12	1,865
2020	3	305	0	0	0	0	8	605	11	910
YTD 2021	1	120	0	0	0	0	25	1,722	26	1,842
Total	10	1,286	1	50	1	34	37	3,247	49	4,617
<i>Source Bank Data</i>										

The following is a sample of community development loans that benefit the assessment area and broader regional or statewide area.

- In 2020 and 2021, the bank originated 30 PPP loans totaling \$1.9 million to businesses located in low- or moderate-income census tracts. These loans revitalize or stabilize these census tracts by supporting businesses struggling during the COVID-19 pandemic.
- In 2019, the bank provided a \$100,000 commercial mortgage loan and a \$500,000 line-of-credit to a non-profit organization in Hazleton, PA. The organization's mission is to revitalize the downtown Hazleton area that substantially consists of low- and moderate-income census tracts.
- In 2019, the bank originated a \$548,000 loan for the purchase of a 16-unit apartment building in Exeter, PA. All of the units are rented below the U.S. Department of Housing and Urban Development's (HUD's) fair market rent. This loan supports affordable housing initiatives for low- and moderate-income families.
- In 2020, the bank provided a \$106,500 loan for the purchase of a mixed-use property in a low-income census tract in Plains, PA. The property contains retail space and three apartments that are rented below HUD's fair market rent. This loan supports affordable housing for low- and moderate-income families in the assessment area.

Qualified Investments

Luzerne Bank made 37 qualified investments totaling over \$7.6 million. This volume includes 11 new qualified investments totaling nearly \$7.6 million and 29 grants and donations totaling \$74,250. Of the \$7.6 million, only four investments totaling \$1.3 million (16.8 percent) benefitted the assessment area. The remaining investments totaling \$6.3 million benefitted areas outside the assessment area including \$4.4 million geared to New York City. The bank did not maintain any prior period qualified investments that were still outstanding as of this evaluation.

Qualified investments equates to 1.5 percent of average total assets and 24.5 percent of average total securities since the prior evaluation. Luzerne Bank's level of qualified investments increased in dollar volume since the prior evaluation. At the prior evaluation, Luzerne Bank had 45 qualified investments totaling approximately \$969,000. This amount included one prior period investment of \$330,000, one new qualified investment of \$500,000, and 43 donations totaling \$139,000. The increase in dollar volume can be contributed to the bank purchasing a higher level of municipal and school district bonds during the evaluation period. The following table illustrates the bank's qualified investment activity by year and purpose.

Qualified Investments										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	0	0	0	0	0	0	0	0	0	0
11/26/2018 – 12/31/2018	0	0	0	0	0	0	0	0	0	0
2019	2	1,500	0	0	1	3,361	1	750	4	5,611
2020	0	0	1	310	0	0	1	325	2	635
YTD 2021	0	0	3	1,035	0	0	2	275	5	1,310
Subtotal	2	1,500	4	1,345	1	3,361	4	1,350	11	7,556
Qualified Grants & Donations	1	1	27	71	0	0	1	2	29	74
Total	3	1,501	31	1,416	1	3,361	5	1,352	40	7,630
<i>Source Bank Data</i>										

The following is a sample of qualified investments and donations that benefit the assessment area.

- In 2020, the bank purchased a \$310,000 bond from a school district in Luzerne County. The school district used bond proceeds to refund prior outstanding general obligation bonds. A majority of the school district students are eligible for the free or reduced-price lunch program.
- In 2021, the bank purchased a \$150,000 bond from a municipality in Luzerne County. The municipality used bond proceeds to update infrastructure including sewers. Of the municipality's eight census tracts, seven are low- and moderate-income. This investment supports the revitalization or stabilization of low- and moderate-income census tracts in the assessment area.
- During the evaluation period, the bank made 13 contributions totaling \$60,500 to eligible non-profits through the PA Educational and Improvement Tax Credit (EITC) program. Organizations under this program include scholarship, educational improvement, and pre-kindergarten scholarship organizations. An "innovative educational program" is an advanced academic or similar program that is not part of the regular academic program of a public school, but it enhances the curriculum or academic program of the public school. The organizations support community development by providing community services and programs to support low- and moderate-income persons and families in the assessment area and broader regional and statewide area.

- In 2020, the bank donated \$1,000 to a nonprofit organization that serves Luzerne County. The organization used the funds to support its food pantry program. The food pantry provides necessities to low- and moderate-income persons, particularly those affected by the COVID-19 pandemic.

Community Development Services

During the evaluation period, Luzerne Bank’s staff provided 913 hours of financial expertise or technical assistance to 10 different community development-related organizations in the assessment area and broader regional or statewide area. The level of community development service declined since the prior evaluation. This decline is mainly attributed to the effects of the COVID-19 pandemic. During the prior evaluation period, Luzerne Bank report 2,511 hours to 19 different community development organizations. The following table illustrates the bank’s community development service hours by year and purpose.

Community Development Service Hours					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
11/26/2018 – 12/31/2018	0	0	0	0	0
2019	0	150	196	0	346
2020	0	150	196	0	346
YTD 2021	0	122	99	0	221
Total	0	422	491	0	913
<i>Source Bank Data.</i>					

Below are notable examples of the bank’s community development service activities in the assessment area:

- During the evaluation period, several bank staff served as a Board member, committee member, and/or officer of a non-profit economic development organization that serves the greater Hazleton area. The organization focuses on creating and retaining a full range of employment opportunities by providing an array of functions to bring small businesses into the Hazleton area. The bank’s participation in this organization supports economic development in the assessment area.
- Two loan officers of the bank served on a loan committee of a community development financial institution (CDFI). The CDFI provides loans, training, and counseling to entrepreneurs within nine counties in Northeastern PA. The bank’s participation in this CDFI supports economic development in the assessment area and regional area.
- A lending officer is a Board member of a community library located in Wilkes-Barre, PA. As a Board member, the bank representative provides financial and budgeting expertise. The bank’s participation in this non-profit organization supports community development

services in the assessment area.

In addition to its community development services, the bank operates its Hazleton branch in a moderate-income census tract. This branch is in close proximity to other low- and moderate-income census tracts in the greater Hazleton area. This branch provides banking services to a high level of low- and moderate-income families in this community.

Furthermore, the bank employs a nationwide education company to conduct financial literacy to students in the assessment area, particularly those living in low- and moderate-income areas. During the evaluation period, the company provided various financial literacy courses to low- and moderate-income students from schools including Hazleton Area High School and Hanover Area Memorial Elementary School. A high majority of the students at these schools qualify for the free or reduced-price school lunch program. During the COVID-19 pandemic, the company presented the courses virtually.

Luzerne Bank participates in the Federal Home Loan Bank (FHLB) of Pittsburgh's Home4Good program. This program helps those who are homeless or at risk of homelessness by channeling dollars to local service organizations that know how to assist. As an FHLB member bank, Luzerne Bank participates in the Home4Good application process. During the evaluation period, Luzerne Bank supported over 40 approved projects that provided homeless prevention within the Northeastern PA area.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners reviewed the bank's compliance with the laws relating to discrimination and other illegal credit practices, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any discriminatory or other illegal credit practices; therefore, this consideration did not affect the institution's overall CRA rating.

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.