

PUBLIC DISCLOSURE

March 5, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Hometown Bank of Pennsylvania
Certificate Number: 58470

638 East Pitt Street
Bedford, Pennsylvania 15522

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.

TABLE OF CONTENTS

Institution Rating	1
Scope of Evaluation	2
Description of Institution	3
Description of Assessment Area	4
Conclusions on Performance Criteria	8
Discriminatory or Other Illegal Credit Practices Review	12
Glossary	13

INSTITUTION'S CRA RATING

INSTITUTION'S CRA RATING: The institution's rating is **Satisfactory**. An institution in this group has an adequate record of helping to meet the credit needs of its assessment area, in a manner consistent with its resources and capabilities. Examiners did not identify any evidence of discriminatory or other illegal credit practices. The following points summarize the bank's performance.

- The average loan-to-deposit (LTD) ratio is more than reasonable given the bank's size, financial condition, and assessment area credit needs.
- The bank made a majority of its home mortgage, small business, and small farm loans in the assessment area.
- This evaluation did not evaluate the geographic distribution of loans since there are no low- or moderate-income census tracts in the assessment area.
- The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the rating.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated April 30, 2012, to the current evaluation dated March 5, 2018. Examiners used the Interagency Small Institution Examination Procedures to evaluate Hometown Bank of Pennsylvania's (Hometown Bank) CRA performance. These procedures include the following performance criteria:

- LTD Ratio
- Assessment Area Concentration
- Geographic Distribution
- Borrower Profile
- Response to CRA-related Complaints

Loan Products Reviewed

Hometown Bank's major product lines, considering the bank's business strategy and the number and dollar volume of loans originated during the evaluation period, are home mortgage and small business loans. This evaluation considered the bank's home mortgage and small business loans originated in 2016 and 2017. The bank's record of originating home mortgage loans contributed more weight to overall conclusions due to the larger loan volume when compared to small business lending. The bank originated 35 small farm loans during 2016 and 2017. Due to the bank's limited volume, this evaluation does not include a detailed analysis of small farm loans, and therefore small farm loans are only included in the analysis of the bank's in-assessment area lending. Additionally, no other loan type represents a major product line or provides material support for conclusions or ratings; therefore, this evaluation does not include any other loan types. The bank does not have any affiliates engaged in lending.

Hometown Bank is not subject to the Home Mortgage Disclosure Act (HMDA) or the CRA reporting requirements; therefore, the analysis of home mortgage loans and small business loans does not include comparisons against aggregate lending data. Although the bank is not a HMDA or CRA reporter, it voluntarily provided examiners with this loan information. As a result, examiners used all of the bank's 2016 and 2017 home mortgage and small business loan originations for the analysis. The following table includes the total numbers and dollar amounts for home mortgage, small business, and small farm loans that the bank originated during 2016 and 2017.

Loan Products Originated				
Loan Category	2016		2017	
	#	\$(000s)	#	\$(000s)
HMDA	92	10,738	105	12,321
Small Business	57	7,054	86	9,280
Small Farm	23	2,183	12	1,610
<i>Source: Bank data</i>				

Examiners reviewed the number and dollar volume of home mortgage and small business loans. While this evaluation presents number and dollar volume of loans, examiners emphasized performance by number of loans because it is a better indicator of the number of individuals and businesses served.

DESCRIPTION OF INSTITUTION

Background

Hometown Bank is a full-service bank headquartered in Bedford, Pennsylvania. The bank is a stock savings bank that does not operate with any affiliates or subsidiaries. The bank received a Satisfactory CRA rating at the previous FDIC Performance Evaluation using Interagency Small Bank Examination Procedures.

Operations

Hometown Bank offers a wide selection of deposit and loan products for both consumers and businesses. The bank's deposit products include checking, savings, money market, and certificate of deposit accounts. The bank's loan products include residential and commercial real estate loans, commercial loans, construction loans, farm loans, and secured and unsecured consumer loans.

The bank operates three full-service branches in southwestern Pennsylvania. Two branches are located in Bedford County and one branch is located in Blair County. All three branches are located in middle-income census tracts. The bank opened its Blair County branch during the evaluation period and it did not close any branches during this timeframe. The bank maintains one automated teller machine (ATM) in each branch. The bank waives transaction fees for Hometown Bank customers that use ATM machines located in Sheetz convenience stores. This arrangement gives bank customers' access to nearly 600 ATMs in six states without having to pay a transaction fee. The bank also offers multiple alternative delivery services including telephone, online, and mobile banking.

Ability and Capacity

As reflected in the December 31, 2017 Consolidated Reports of Condition and Income (Call Report), the bank reported total assets of \$158.9 million. Loans totaled \$134.1 million and represented approximately 84.4 percent of total assets, and approximately 94.1 percent of total deposits (\$142.5 million). Interest-bearing balances due from depository institutions totaled approximately \$4.5 million and securities totaled approximately \$11.2 million. The bank's assets increased \$54.9 million (52.8 percent) since December 31, 2011. During this same timeframe, the bank's loans increased \$49.9 million (59.3 percent).

The following table illustrates the loan portfolio as of December 31, 2017.

Loan Portfolio Distribution as of December 31, 2017		
Loan Category	\$ (000s)	%
Construction and Land Development	3,355	2.5
Secured by Farmland	8,411	6.3
1-4 Family Residential	66,540	49.6
Multi-family (5 or more) Residential	5,854	4.4
Commercial Real Estate	33,706	25.1
Total Real Estate Loans	117,866	87.9
Commercial and Industrial	13,345	10.0
Consumer	1,672	1.2
Agricultural	729	0.5
Obligations of U.S. states and political subdivisions	469	0.4
Other	47	<0.1
Total Loans	134,128	100.0

Source: Reports of Condition and Income

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

DESCRIPTION OF THE ASSESSMENT AREA

The CRA requires financial institutions to define one or more assessment areas within which the bank will concentrate its CRA activity and lending efforts. Prior to September 2017, Hometown Bank's assessment area included the entire County of Bedford (11 census tracts), a non-metropolitan area situated in the southwestern portion of Pennsylvania. On September 21, 2017, the bank opened a new branch office in Blair County, which is located in the Altoona, PA MSA 11020, also in Pennsylvania. At that time, the bank expanded its assessment area to include all of Bedford and Blair Counties (45 census tracts).

This evaluation analyzed the bank's performance using the bank's former assessment area (Bedford County) since, as of the evaluation date, the bank did not have six months of lending data in the expanded assessment area. Bedford County is part of Pennsylvania NA (99999). The following sections discuss demographic and economic information for the assessment area.

Economic and Demographic Data

The bank's assessment area contains 11 census tracts, all designated as middle-income according to the 2010 U.S. Census and the 2015 American Community Survey (ACS). The following table illustrates select demographic characteristics of the assessment area.

Demographic Information of the Assessment Area						
Assessment Area: Bedford County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	11	0.0	0.0	100.0	0.0	0.0
Population by Geography	49,086	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	24,012	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	15,930	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	4,070	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	4,012	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	2,983	0.0	0.0	100.0	0.0	0.0
Farms by Geography	260	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	13,911	20.3	17.6	24.2	37.9	0.0
Household Distribution by Income Level	20,000	23.8	15.8	18.4	42.0	0.0
Median Family Income Non-MSAs - PA		\$56,172	Median Housing Value			\$124,615
			Median Gross Rent			\$627
			Families Below Poverty Level			10.4%
<i>Source: 2015 ACS U.S. Census and 2016 D&B Data</i> <i>Due to rounding, totals may not equal 100.0</i> <i>(*)The NA category consists of geographies that have not been assigned an income classification</i>						

The bank's assessment area includes 24,012 housing units, of which 66.3 percent are owner-occupied, 17.0 percent are occupied rental units, and 16.7 percent are vacant. The percent of owner-occupied units correlates to a financial institution's opportunity to make housing-related loans. The median housing value of the bank's assessment area is \$124,615, while the median gross rent is \$627.

The table above indicates that 20.3 percent of the assessment area's families are low-income and 17.6 percent are moderate-income. In addition, 10.4 percent of the families in the assessment area have incomes below the poverty level. Families in these income categories often find it difficult to qualify for a home mortgage loan or to support a monthly payment, especially considering the assessment area's median home value of \$124,615. This limits the bank's opportunity to originate loans to low- or moderate-income borrowers.

According to 2016 D&B data, there were 2,983 non-farm businesses within the bank's assessment area. Gross annual revenues (GARs) for these businesses are below:

- 83.3 percent have \$1.0 million or less.
- 4.9 percent have more than \$1.0 million.
- 11.8 percent have unknown revenues.

The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by GAR level. Service industries represent the largest portion of businesses in the assessment area at 44.0 percent followed by retail trade (15.0 percent); construction (8.5 percent); agriculture, forestry, and fishing (8.0 percent); and transportation and communication (6.8 percent). In addition, 76.5 percent of area businesses have four or fewer employees, and 89.6 percent operate from a single location.

This evaluation used the 2016 and 2017 FFIEC-updated median family income levels to analyze home mortgage loans under the Borrower Profile criterion. The following table contains the low-, moderate-, middle-, and upper-income categories for Pennsylvania NA (99999).

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
PA NA Median Family Income (99999)				
2016 (\$56,000)	<\$28,000	\$28,000 to <\$44,800	\$44,800 to <\$67,200	≥\$67,200
2017 (\$57,500)	<\$28,750	\$28,750 to <\$46,000	\$46,000 to <\$69,000	≥\$69,000

*Source: FFIEC
Due to rounding, totals may not equal 100.0*

According to U.S. Bureau of Labor and Statistics data, the unemployment rate in Bedford County steadily declined during the evaluation period. However, unemployment rates in Bedford County have trended above the state and national rates. Since 2015, annual state unemployment rates in Pennsylvania have also trended above the national average. The following table outlines the annual unemployment rates for Bedford County and, for comparison purposes, the State of Pennsylvania and national unemployment rates.

Unemployment Rates				
Area	December 2014 %	December 2015 %	December 2016 %	October 2017 %
Bedford	6.2	6.1	6.0	5.3
State of Pennsylvania	5.4	5.2	5.3	4.8
National Average	5.6	5.0	4.7	4.1

Source: Bureau of Labor Statistics; County rates not seasonally adjusted.

Competition

There is a relatively high level of competition to provide financial services within the bank's assessment area. According to the 2016 aggregate Deposit Market Share data, 11 financial institutions operated 24 full-service branches in Bedford County. Of these institutions, Hometown Bank ranked 3rd by total dollars deposited with a 1.5 percent deposit market share.

The marketplace for home mortgage lending is also competitive among banks, credit unions, and non-depository mortgage lenders serving the assessment area. In 2016, the latest year for which aggregate lending data was available, 133 lenders reported 1,053 HMDA-reportable mortgage loans. The five most prominent home mortgage lenders, First National Bank of Pennsylvania, Somerset Trust Company, First Commonwealth Bank, Wells Fargo Bank, and

Quicken Loans accounted for 35.5 percent of total market share by number of loans. Hometown Bank is not included within this ranking since it is not subject to the HMDA loan reporting requirements.

There is also a relatively high level of competition for small business loans among depository institutions serving the assessment area. In 2016, 44 lenders reported 608 small business loans. The five most prominent small business lenders, American Express, Somerset Trust Company, Branch Banking and Trust Co., Capital One Bank, and Chase Bank accounted for 48.4 percent of total market share by number of loans. Hometown Bank is not included within this ranking since it is not subject to the CRA reporting requirements.

Community Contact

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

Examiners contacted a local non-profit community service organization located in Bedford County. The organization, along with several partner organizations, provides essential services and programs to Bedford County residents. Several of these services and programs target low- and moderate-income individuals and families. The organization also raises money for other local non-profits. The contact identified a critical need for senior and affordable housing options. The contact stated that there is an insufficient stock of affordable rental units in the area. The contact also stated that the high-cost of living makes homeownership difficult for many low- and moderate-income individuals. The contact identified an additional need for small dollar loan programs and stated that transportation is difficult in the area. Many low- and moderate-income working individuals cannot afford to purchase a reliable used vehicle, and these individuals would benefit from small dollar loan programs with more flexible credit requirements. Finally, the contact identified a need for financial education. The contact stated that many low- and moderate-income individuals do not understand the credit process. The contact stated that their organization has worked with local banks and they have been responsive.

Examiners also reviewed a recent contact with a representative of a local economic development organization that operates in Blair County. Blair County is part of the bank's newly expanded assessment area, and it is directly adjacent to Bedford County. This contact stated that the local area needs improved recreational facilities and programs, additional social services for the elderly, and improvements in infrastructure, public safety, transportation, and public services. The contact stated that local banks are generally responsive to credit and community development needs of the area.

Credit and Community Development Needs and Opportunities

Affordable housing is a primary credit need. Economic and demographic data support the housing affordability issues that the community contact identified and indicate an opportunity for banks to assist residents with flexible loan products. A competitive rental market, combined with the high cost of housing relative to the area's median family incomes, make it difficult for low- and moderate-income borrowers to purchase or rent a home. Low- or moderate-income

individuals in the assessment area can benefit from first-time homebuyer, financial education, and rental security-deposit assistance programs. In addition, small dollar loan products can help low- and moderate-income individuals afford reliable transportation so that they can maintain employment. Increased bank participation with community development groups is a recognizable opportunity for banks to become more involved throughout the assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

Loan-to-Deposit Ratio

The LTD ratio is more than reasonable given the institution's size, financial condition, and assessment area credit needs. The bank's LTD ratio, calculated from Call Report data, averaged 94.7 percent over the past 23 calendar quarters from June 30, 2012, to December 31, 2017. The ratio ranged from a low of 91.0 percent on December 31, 2016, to a high of 98.3 percent on June 30, 2014. The LTD ratio remained generally stable during the evaluation period.

There are no other banks headquartered in Bedford County. However, there are three comparable institutions in Blair County, which is directly adjacent to Bedford County. These institutions are similar to Hometown Bank in size and lending focus. Hometown Bank's LTD ratio exceeded all three banks, as shown in the table below.

Loan-to-Deposit Ratio Comparison		
Institution	Total Assets \$(000s)	Average LTD Ratio (%)
Hometown Bank	158,912	94.7
PennCrest Bank	172,068	85.4
Altoona First	218,751	76.5
Investment	105,529	66.6
<i>Source: Reports of Condition and Income 06/30/12 through 12/31/17</i>		

Assessment Area Concentration

The bank made a majority of loans in its assessment area. The following table illustrates the distribution of home mortgage, small business, and small farm loans by number and dollar volume.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total ¹ #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2016	85	92.4	7	7.6	92	9,999	93.1	739	6.9	10,738
2017	99	94.3	6	5.7	105	11,748	95.3	573	4.7	12,321
Subtotal	184	93.4	13	6.6	197	21,747	94.3	1,312	5.7	23,059
Small Business										
2016	46	80.7	11	19.3	57	4,233	60.0	2,821	40.0	7,054
2017	73	84.9	13	15.1	86	6,112	65.9	3,168	34.1	9,280
Subtotal	119	83.2	24	16.8	143	10,345	63.3	5,989	36.7	16,334
Small Farm										
2016	17	73.9	6	26.1	23	1,341	61.4	842	38.6	2,183
2017	11	91.7	1	8.3	12	1,576	97.9	34	2.1	1,610
Subtotal	28	80.0	7	20.0	35	2,917	76.9	876	23.1	3,793
Total	331	88.3	44	11.7	375	35,009	81.1	8,177	18.9	43,186

Source: 2016-2017 Bank Records Due to rounding, totals may not equal 100.0

Geographic Distribution

As the assessment area does not include any low- or moderate-income census tracts, a review of the Geographic Distribution criterion would not produce meaningful conclusions. Accordingly, examiners did not perform analysis of the geographic distribution of home mortgage loans or small business loans.

Borrower Profile

The distribution of borrowers reflects, given the product lines offered by the institution, reasonable penetration among individuals of different income levels and businesses of different sizes. The bank's home mortgage and small business lending performance supports this conclusion.

Home Mortgage Loans

The distribution of borrowers reflects reasonable penetration among individuals of different income levels in the assessment area. Examiners compared the bank's home mortgage lending to the percentage of low- and moderate-income families in the assessment area. Since the bank is not a HMDA reporter, aggregate lending data was not used for comparison.

The following table depicts the distribution of home mortgage loans within the bank's assessment area for calendar years 2016 and 2017.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low					
2016	17.5	5	5.9	338	3.4
2017	20.3	10	10.1	657	5.6
Moderate					
2016	21.0	10	11.8	932	9.3
2017	17.6	16	16.2	1,241	10.6
Middle					
2016	25.2	20	23.5	1,882	18.8
2017	24.2	20	20.2	1,576	13.4
Upper					
2016	36.3	47	55.3	6,481	64.8
2017	37.9	49	49.5	7,729	65.8
Not Available					
2016	0.0	3	3.5	366	3.7
2017	0.0	4	4.0	545	4.6
Total					
2016	100.0	85	100.0	9,999	100.0
2017	100.0	99	100.0	11,748	100.0
<i>Source: 2010 US Census; 2013 ACS U.S. Census, 2016-2017 Bank Records Due to rounding totals may not equal 100.0</i>					

In 2016, Hometown Bank originated 5.9 percent of its home mortgage loans to low-income borrowers and 11.8 percent to moderate-income borrowers. The bank's performance compares unfavorably to the area demographics when compared to low- and moderate-income families (17.5 percent and 21.0 percent, respectively). However, the bank's performance improved in 2017 when it originated 10.1 percent of home mortgage loans to low-income borrowers and 16.2 percent to moderate-income borrowers. This performance still compares unfavorably to the area demographics for low-income families (20.3 percent), but is reasonable when compared to the area demographics for moderate-income families (17.6 percent).

While the bank's performance compares unfavorably to the low- and moderate-income families, low median incomes and high poverty rates make it difficult for these families to qualify for home mortgage loans in the assessment area. In 2017, low- and moderate-income families earned less than \$28,750 and \$46,000, respectively. In addition, 10.4 percent of the assessment area population had incomes below the poverty level. These income levels make it difficult to qualify for a mortgage under conventional underwriting standards, especially when considering the median housing value of \$124,615. This helps explain the difference between the bank's performance and the area demographics.

Furthermore, while the bank is not a HMDA-reporter, aggregate lending data is helpful in providing insight on the demand for home mortgage loans among borrowers of different income levels. According to 2016 aggregate lending data, only 6.8 percent of all home mortgage loans

in the assessment area were originated to low-income borrowers. Only 3 out of 133 HMDA-reporters originated more than five loans to low-income borrowers, and all of these lenders are much larger local, statewide, and regional institutions. This level of lending indicates that banks have limited opportunities originating loans to low-income borrowers. Therefore, examiners considered the bank's overall performance reasonable given the limited opportunities, the bank's size and capacity, the competitive assessment area, and the bank's improvement in the number and dollar volume to low- and moderate-income borrowers from 2016 to 2017.

Small Business Loans

The distribution of small business loans reflects reasonable penetration of loans to businesses with GARs of \$1 million or less. The following table illustrates the distribution of small business loans based on the GAR level compared to the percentage of businesses.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
≤ \$1,000,000					
2016	83.3	33	71.7	1,819	43.0
2017	--	61	83.6	4,735	77.5
> \$1,000,000					
2016	4.9	8	17.4	2,314	54.7
2017	--	6	8.2	1,175	19.2
Revenue Not Available					
2016	11.8	5	10.9	100	2.3
2017	--	6	8.2	202	3.3
Total					
2016	100.0	46	100.0	4,233	100.0
2017	--	73	100.0	6,112	100.0
<i>Source: 2016 D&B Data 2016-2017 Bank Data Due to rounding, totals may not equal 100.0</i>					

In 2016, the bank's record of originating loans to businesses with GARs of \$1 million or less (71.7 percent) compared unfavorably to the demographic data (83.3 percent); however, it is still reasonable given the competition in the area. In 2017, the bank's lending performance to businesses with GARs of \$1 million or less improved to 83.6 percent. Considering the improvement in the number and dollar volume of loans to businesses with GARs of \$1 million or less over the evaluation period, the bank's small business lending is reasonable.

Response to Complaints

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

**DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES
REVIEW**

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

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.

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.

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.

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).

Family Income: Includes the income of all members of a family that are age 15 and older.

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 (for example, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (for example, 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 Disclosure Loan Application Register (HMDA LAR): The HMDA LARs record all applications received for residential purchase, refinance, home improvement, and temporary-to-permanent construction loans.

Home Mortgage Loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multi-family (five or more families) dwelling loans, loans to purchase manufactured homes, and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Household Income: Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households are only one person, median household income is usually less than median family income.

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 (for example, 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.

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.

Micropolitan Statistical Area: CBSA associated with at least one urbanized area having a population of at least 10,000, but less than 50,000.

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: 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.

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 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.

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.



Federal Deposit Insurance Corporation
350 Fifth Avenue, Suite 1200, New York NY 10118

Division of Depositor and Consumer Protection

April 23, 2018

Board of Directors
Hometown Bank of Pennsylvania
638 East Pitt Street
Bedford, Pennsylvania 15522

Dear Members of the Board:

Enclosed please find the Compliance Report of Examination and the Community Reinvestment Act (CRA) Performance Evaluation prepared by Compliance Examiner Sean K. Dixon, as of March 5, 2018. The examination included a review of the bank's compliance with applicable consumer protection and fair lending laws and regulations, as well as an evaluation of the institution's CRA performance.

We accorded your institution a Consumer Compliance Rating of "1." The bank maintains a strong compliance management system (CMS) and takes action to prevent violations of law and consumer harm. We direct your attention to the Examiner's Comments and Conclusions pages, where you will find detailed information regarding our analysis of your bank's CMS.


We accorded your institution a CRA rating of "Satisfactory" using Small Bank CRA Examination Procedures. An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including individuals of different income levels and businesses of different sizes, in a manner consistent with its resources and capabilities. Please refer to the enclosed CRA Performance Evaluation for a complete discussion of the bank's CRA performance.

The results of the compliance examination, including the Consumer Compliance Rating, are subject to the confidentiality restrictions of Part 309 of the FDIC Rules and Regulations. However, within 30 business days of its receipt, you must place the enclosed CRA Performance Evaluation in the bank's CRA Public File. You may not alter or abridge the format and content of this evaluation in any manner. Upon request, you must provide a copy of your current evaluation to the public. You may charge a fee not to exceed the cost of reproduction and mailing (if applicable).

Please review the enclosed report at an official meeting of the Board and note that review in the minutes. Given the satisfactory ratings and the lack of violations, we do not require a written response to the report.

We appreciate the cooperation extended by the bank's officers and staff during this examination. If you have any questions concerning this letter or the enclosed documents, please contact Field Supervisor Kimberly Powell at (717) 671-8463 ext. 4333, or Review Examiner Michelle Ganong at (781) 794-5562.

Sincerely,

A handwritten signature in black ink, appearing to read "Dominick Sciamè Jr.", written over a horizontal line.

Dominick Sciamè Jr.
Regional Examination Specialist

Enclosures

cc: Pennsylvania Department of Banking and Securities