

Northeastern District
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PUBLIC DISCLOSURE

April 19, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank in Fleetwood
Charter Number 13927

**Main and Franklin Streets
Fleetwood, Pennsylvania 19522**

**Office of the Comptroller of the Currency
Northern Pennsylvania Field Office
100 Hazle Street, Suite 202
Wilkes-Barre, Pennsylvania 18702**

NOTE: 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.

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **The First National Bank in Fleetwood** prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of **April 19, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

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

The primary factors supporting the bank's overall rating include:

- ! the average loan to deposit ratio of 62% is reasonable;
- ! a substantial majority of Home Mortgage Disclosure Act (HMDA) reportable loans originated during the examination period are in the bank's assessment area;
- ! there is a reasonable penetration of loans to families of different income levels; and
- ! a majority of the bank's commercial lending is to small businesses.

The following table indicates the performance level of The First National Bank in Fleetwood with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>First National Bank in Fleetwood</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans	Not Meaningful		
Response to Complaints	No Complaints Received		

DESCRIPTION OF INSTITUTION

The First National Bank in Fleetwood (FNBF) is a \$124 million institution situated in south central Pennsylvania. FNBF is a subsidiary and the sole asset of Fleetwood Bank Corporation. The bank operates four full service offices and six automated teller machines (ATMs), all located in Berks County. All of the offices have drive-in facilities; three of the offices have weekend hours, and one office has extended evening hours. In May 1999, FNBF is scheduled to open a fifth branch in Blandon, also in Berks County. Primary loan products include fixed rate residential mortgages, small business loans, and consumer installment loans. The loan portfolio represents 60% of total assets, broken down as of December 31, 1998 as follows: 65% residential mortgages, 22% commercial loans, 8% consumer installment loans, and 5% other loans. Residential mortgage originations over this evaluation period (January 1, 1996 to December 31, 1998) consisted of 31% home purchase loans, 33% home improvement loans, and 36% refinanced loans.

FNBF's major competitors are local community banks that include First National Bank of Leesport, Bernville Bank, N.A., Berks County Bank, and East Penn Bank. First Union National Bank also has a considerable presence in the area; it is this market's top HMDA lender with 6% market share. FNBF holds 2% market share, which compares favorably to the other community banks. According to bank management, loan demand in their market is relatively weak. Senior citizens account for 14% of the population of the assessment area. In addition, historically, their customer base is disinclined to borrowing because of cultural beliefs.

There are no legal or financial impediments to hinder the bank's ability to help meet the credit needs of its community. FNBF was rated satisfactory at its last CRA examination on April 17, 1996.

DESCRIPTION OF ASSESSMENT AREA

FNBF's assessment area (AA) meets the requirements of CRA and does not arbitrarily exclude low- or moderate-income (LMI) geographical areas. The AA consists of thirteen census tracts (CTs) in northwestern Berks County and four contiguous CTs on the southeastern border of Lehigh County. The population totals 93,489 and the median family income is \$46,759. The median housing value is \$95,883 and 78% of housing in the area is owner-occupied. Other demographic characteristics of the AA are included in the discussion that follows.

ASSESSMENT AREA DEMOGRAPHICS			
Designation	# Census Tracts	% of Total	% of Families Within AA
Low	0	0	14
Moderate	0	0	19
Middle	15	88	29
Upper	2	12	38
Total	17	100	100

The CTs in Berks County represent a portion of the Reading Metropolitan Statistical Area (MSA) 6680. All of FNBF's offices are located in this MSA. These thirteen CTs include twelve middle-income and one upper-income tracts. The population of these thirteen CTs is 73,438 and the median family income is \$46,500.

The remaining four CTs are in Lehigh County and represent a very small portion of the Allentown, Bethlehem, Easton (ABE) MSA 0240, which consists of a total of 144 CTs (72 of these CTs are in Lehigh County). Therefore, this area has not been designated as a separate AA. Three of these CTs are designated as middle-income and the other is an upper-income tract. The population of these four CTs is 20,051 and the median family income is \$47,600.

The local economy is stable. The AA is largely rural. Most employment opportunities are in the more industrialized Allentown or Reading areas. Major employers in the area are Lucent Technologies, Air Products and Chemical, Inc., Lehigh Valley Hospital, St. Luke's Hospital, Kutztown University, and East Penn Manufacturing Co., Inc. The local employment rate of 4.5% is lower than the state average of 4.9%.

Determination of Community Credit Needs

We contacted a representative from an organization that helps with crisis management for LMI families in Berks County. This contact indicated that the primary needs of the community are affordable, appropriate housing and affordable day care and transportation.

Management believes that they are meeting the credit needs of the community by offering a wide variety of products, including a first time home buyer program. They also participate in community development projects, when available, and sponsor an annual Fun and Fitness Fair where health, technology, and other informational services are provided.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

SCOPE OF REVIEW

This examination assessed the bank's lending performance from January 1, 1996 through December 31, 1998. All HMDA loans originated during the period were reviewed. The HMDA loans, broken out by year, are as follows:

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1996 - 182 loans totaling \$11.9 million
1997 - 120 loans totaling \$ 8.7 million
1998 - 168 loans totaling \$14.2 million

Our analysis of small business lending was based on a sample of commercial loans originated during the same time period. We reviewed twenty-three loans totaling \$3.9 million to determine the revenue size and location of the business. This sample represents 30% of the number and 26% of the dollar of all commercial loan originations.

All dollar amounts in the tables in this report are in thousands unless otherwise indicated.

LOAN TO DEPOSIT RATIO

FNBF's quarterly average loan to deposit (LTD) ratio since the last CRA examination of 62% is reasonable. This ratio improved since the last evaluation period when it averaged 57%. It remains lower than the average of 70% for national peer banks and similarly sized banks in Pennsylvania because of the relatively weak local loan demand mentioned earlier. Additionally, FNBF's pricing of residential mortgages tends to be higher than other area banks because they do not sell any mortgages.

Lending in Assessment Area

FNBF's record of lending in their AA is excellent. This conclusion is based on our analysis of all HMDA loans and our sample of small business loans. The following table indicates that a substantial majority these loans were granted in the assessment area.

Lending in Assessment Area				
	#	%	\$	%
HMDA Reportable:				
Inside AA	440	94	31,289	90
Outside AA	30	6	3,586	10
Total	470	100	34,875	100
Small Business Loans:				
Inside AA	22	96	3,867	100
Outside AA	1	4	5	0
Total	23	100	3,872	100

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The bank's record of lending to borrowers of different income levels is commensurate with the AA's demographics. We compared HMDA loan originations to borrowers of different income levels to the percentage of families in the AA within the same income categories. The number of all HMDA loans granted to low-, moderate-, middle-, and upper-income families totals 7%, 18%, 28%, and 46%, respectively, while the percentage of families in the AA within these same income categories equals 13%, 18%, 28%, and 40%, respectively. The following table plots the same loans by product type.

Borrower Distribution of HMDA Loan Originations												
Income Category	Home Purchase				Home Improvement				Refinancing			
	#	%	\$	%	#	%	\$	%	#	%	\$	%
Low	7	5	289	2	14	10	137	4	9	6	355	2
Moderate	26	19	1,694	13	33	23	552	19	20	12	1,258	8
Middle	40	30	3,265	26	41	28	816	28	44	28	3,082	20
Upper	62	46	7,665	59	57	39	1,435	49	82	51	10,340	67
N/A	0	0	0	0	0	0	0	0	5	3	401	3
Total	135	100	12,913	100	145	100	2,940	100	160	100	15,436	100

FNBF is responsive to the credit needs of the small businesses in its community. We sampled commercial loans that were granted during this evaluation period to determine whether FNBF lends to small businesses. A small business is defined as one with \$1 million or less in gross annual revenues. The following table shows that, based on our sample, a majority of commercial loan originations were to small businesses. The original amount of

these loans ranged from \$5,000 to \$750,000. Of all nonfarm businesses in the bank's AA, 72% are considered small businesses.

Distribution of Small Business Loans by Business Size				
Gross Annual Revenues	#	%	\$	%
≤ \$1 million	18	78	2,322	60
> \$1 million	5	22	1,550	40
Totals	23	100	3,872	100

Geographic Distribution of Loans

A geographic distribution of loans was not performed because of the homogeneous nature of the bank's AA. There are no low- or moderate-income CTs.

Responses to Complaints

No CRA related complaints were received during this period.

Fair Lending Review

A fair lending review, in conjunction with this CRA examination, was performed using the Alternative Fair Lending examination procedures. We did not identify any substantive violations of antidiscrimination laws and regulations.

Scope of Examination

Time Period Reviewed	1/1/96 to 12/31/98		
Financial institution First National Bank in Fleetwood	Products reviewed HMDA Reportable Loans, Small business		
List of Assessment Areas and Type of Examination			
Assessment Area	Type of Exam	Branches Visited	Other Information
Pennsylvania MSA - 6680 - Reading Metropolitan Area MSA - 0240 - Allentown/Bethlehem/Easton Area	on-site	Fleetwood Office	Not applicable