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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

January 9, 1998

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**First National Bank and Trust Company of Newtown  
Charter Number 324**

**40 South State Street  
Newtown, Pennsylvania, 18940**

**Comptroller of the Currency  
Eastern Pennsylvania Office  
Four Greenwood Square, Suite 120  
Bensalem, Pennsylvania 19020**

**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.

## GENERAL INFORMATION

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 **First National Bank and Trust Company of Newtown** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **January 9, 1998**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.Z.

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

- Lending levels reflect good responsiveness to the credit needs of the assessment area.
- A substantial majority 95% of loans are made within the assessment area.
- ▶ Lending to borrowers of different income levels and to businesses of different sizes is good.
- The geographic distribution of HMDA reported and small business loans reflect reasonable penetration throughout the assessment area.
- ▶ The bank has a good level of community development lending activity which is responsive to the credit needs in the assessment area.
- Service delivery systems are reasonably accessible to individuals of different income levels.

The following table indicates the performance level of **First National Bank and Trust Company of Newtown** with respect to the lending, investment, and service tests.

**Table I. Results of Performance Tests**

Performance Levels	First National Bank and Trust Company of Newtown		
	Performance Tests		
	Lending Test *	Investment Test	Service Test
Outstanding			
High Satisfactory	X		
Low Satisfactory			X
Needs to improve		X	
Substantial noncompliance			

\* Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

**Scope of the Examination**

This evaluation of First National Bank and Trust Company’s (FNB) CRA performance covers the period from October 1995 through January 1998. The analysis is based on the bank’s Home Mortgage Disclosure Act - Loan Activity Reports (HMDA-LAR) and Loan Registers. Specific loan products evaluated include: HMDA-reportable loans (i.e. home purchase mortgage, refinance, and home improvement loans), and loans to small businesses. This review incorporated bank management’s compilation of data as required by the regulation.

## **DESCRIPTION OF INSTITUTION:**

FNB is a \$355 million institution located approximately 30 miles northeast of Philadelphia in Bucks County, Pennsylvania. FNB is a subsidiary of FNB Bancorp, Inc. The bank is an independent community bank which serves the lower and central portion of the County with fourteen offices. In addition to its main office in Newtown, Pennsylvania, FNB operates nine full-service branches throughout its assessment area. FNB also operates four limited-service offices located within retirement communities. The bank has automated teller machines at seven of their full-service branches. Cash dispensers are available at two of the retirement village locations and at a local restaurant/dairy bar in Newtown. Five branches are located within middle-income Census Tracts (CT). The remaining nine branches are in upper-income CTs. One office, the Levittown branch, was opened during the review period and is located in a middle-income CT. There are no financial or legal impediments impacting FNB's ability to help meet its community's credit needs.

At September 30, 1997, total bank assets were \$355 million, including loans at \$195 million, \$132 million in investments and total deposits of \$307 million. The bank's loan portfolio is primarily real estate loans (87% of total loans); the balance is in installment loans at 10% and commercial loans at 3%. Strong competition is provided by community banks and other larger regional institutions with branch offices in the area. A lender market analysis report using 1996 HMDA peer information ranks FNB's market share fifth out of the top twenty-five lenders serving the bank's assessment area with a 2.5% market share.

## **DESCRIPTION OF ASSESSMENT AREA**

FNB has defined one assessment area which is a portion of MSA # 6160, consisting of the lower and central portion of Bucks County. This assessment area contains 99 contiguous CTs. There is one low-income CT (1%) and four moderate-income CTs (4%) contained in the bank's assessment area. There are forty-eight middle-income CTs (48%), and forty-five (45%) upper-income CTs. One CT does not have income information available (1%). FNB's assessment area meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income CTs. The bank is located and conducts business in the Greater Philadelphia MSA #6160.

Based on 1990 census data, FNB's assessment area has a population of 455,484 which includes total families of 122,802. The median family income for the assessment area averages \$46,135. The HUD adjusted family income is \$51,300. Housing units total 167,470 of which 79% are one-to-four family units. Owner-occupied housing is 71% of the total, and rental-occupied housing is 23% of the total. Vacant housing units equal 3% of the total units.

The Bucks County area is a rapidly expanding bedroom community of Philadelphia. In a survey conducted by the Bucks County Planning Commission of the twelve surrounding counties, Bucks County had the highest population increase between 1990 and 1995, about 6%. It also had the fourth highest median household income, the highest number of building permits for nonresidential buildings and the third highest number of building permits for houses. This study found the median home price to be \$144,000. A family making the median household income could afford a house costing \$133,600. This "affordability gap" for early 1996 was \$10,400, up from \$7,900 in 1995.

The Bucks County Planning Commission concluded that of the 2,221 homes sold during the first half of 1996, only 42% were considered affordable according to the above figures.

Nearly half of all local workers work outside of the county. Major local employers include Rohm & Haas, USX Corp., Woods Services, St. Mary Medical Center, Union Fidelity Life Insurance Co., BetzDearborn Inc., and Charming Shoppes, Inc. The County's predominate industry types are service, retail trade and manufacturing. Management indicated that primary credit needs in their area are one-to-four family residential housing and small business loans.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

### **Lending Test**

#### **Lending Activity**

FNB's rating under the lending test is based on a good responsiveness to the credit needs in the assessment area through, its lending to low- and moderate-income borrowers, community development and small business lending.

In 1996, six hundred sixteen (616) HMDA reportable loans for a total of \$25,839,000 were made in the bank's assessment area. In 1997, five hundred thirteen (513) HMDA reportable loans for a total of \$20,473,000 were made in the bank's assessment area.

FNB originates a substantial majority of loans in its assessment area. For 1996, 95% of the total number and 92% of the total dollar volume of HMDA-reported and small business loans were within the bank's assessment area. Through the third quarter of 1997, 95% of the total number and 94% of the total dollar volume of HMDA-reported loans were within the bank's assessment area. For January 1, 1997 through September 30, 1997, 95% of the total number and 95% of the total dollar volume of small business loans originations were within the assessment area. No small farm loans were generated during the review period. FNB's loan-to-deposit ratio averaged 63% over the past two years and has remained stable over this time period. The peer group average for banks of similar size is 76%.

The following table provides a breakdown of the percentage of loans within FNB's assessment area by type.

**Table II. Lending Volumes within Assessment Area by Percentage**

	1995		1996		1997	
	#	\$ 000's	#	\$ 000's	#	\$000's
<b>HMDA:</b>						
<b>Home Purchase</b>	90%	81%	91%	89%	90%	87%
<b>Refinance</b>	100%	100%	94%	94%	97%	97%
<b>Home Improvement</b>	90%	93%	96%	94%	95%	95%
<b>Multifamily</b>	0%	0%	0%	0%	0%	0%
<b>Total HMDA</b>	91%	89%	95%	93%	95%	94%
<b>Small Business</b>	NA	NA	97%	97%	95%	95%
<b>Small Farm</b>	NA	NA	0%	0%	0%	0%
<b>Total Business &amp; Farm</b>	NA	NA	97%	97%	95%	95%
<b>Overall Total</b>	91%	89%	95%	92%	95%	94%

NA = Data not available.

1997 information is year-to-date through 11/30/97.

FNB has a 2.5% overall market share in their assessment area. Market share by the income level of borrowers indicates that FNB captures a 5.76% market share of low-income borrowers and a 4.06% share of moderate-income borrowers. By census tract income level, the bank captures 2.38% of the low-income CTs and 0.51% of the moderate-income CTs. These ratios indicate that the bank services both low- and moderate-income borrowers in excess of their overall market share.

### **Geographical Distribution of HMDA and Small Business Loans**

The geographical dispersion of HMDA loans throughout the bank's assessment area is reasonable given the income characteristics of those CTs. The majority, 49% of CTs are middle-income, with 46% designated as upper-income. The majority of loan penetration exists between the middle- and upper-income CTs.

For 1995, 41% of the total number of HMDA reported loans were in middle-income CTs, with 59% falling into high-income CTs.

For 1996, 39% of HMDA reported loans were in middle-income CTs, with 61% in upper-income CTs.

Similarly, for January 1, 1997 through September 30, 1997, 38% of HMDA loans were in middle-income CTs, and 62% were upper-income CTs. These figures approximate the proportion of CTs in the assessment area that are either middle- or upper-income.

Lending is very modest in the low- and moderate-income CTs. There is one low-income CT that contains 24 housing units, which 75% are owner occupied. However, the income in this tract as a percent of MSA median is 21% or less than \$10,000.

Housing units in the four moderate-income CTs range from 199 to 1,701 and the percent of owner occupied units range from 20% to 61%. The income in these tracts as a percent of the MSA median range from 69% to 79%, an average of 73% or \$33,700. The median cost of housing is \$144,000. The opportunity for housing loans in the low- and moderate-income CTs is limited based on availability, income and cost of housing.

Additionally, we determined that 20% of low-income families and 28% of moderate-income families in the assessment area live in middle- and upper-income CTs.

In 1996, 35% of small business loans were originated in middle-income CTs, and 65% in upper-income CTs. In 1997, 48% of the small business loans were originated in middle-income CTs, and 52% in upper-income CTs.

## **Borrower Characteristics**

Our review of HMDA loans revealed good lending penetration to borrowers of different income levels during this time frame, and is presented within Table III, which follows. The bank's record of lending to borrowers of different income levels was evaluated using HMDA reported loans originated in 1995, 1996, and the first three quarters of 1997.

As illustrated in Table III, 10% of all families in the bank's assessment area are low-income. The bank's record of HMDA lending shows that 9% of all HMDA loans in 1995 were to low-income borrowers, with 6% in 1996 and 8% in 1997. This compares favorably to the 10% low-income families in the assessment area.

Fifteen percent (15%) of total families are moderate-income in the bank's assessment area. The bank's record of HMDA lending to this income group shows that 15% of all HMDA loans in 1995 were to moderate-income borrowers, with 16% in 1996 and 17% in 1997. These percentages compare very favorably with the 15% of moderate-income families found in the bank's assessment area. Loans to middle- and upper-income families also compare very favorably for the same time periods.

**Table III. Lending to Borrowers of Different Income Levels**

HMDA Loans - 1995, 1996, and First Three Quarters 1997							
	1995		1996		1997		
Income Level	#	%	#	%	#	%	Total Families
Low	20	9%	39	6%	39	8%	10%
Moderate	35	15%	100	16%	85	17%	15%
Middle	53	23%	160	26%	132	25%	25%
Upper	113	49%	301	49%	233	45%	50%
Income NA *	11	4%	16	3%	24	5%	---
<b>Total</b>	<b>232</b>	<b>100%</b>	<b>616</b>	<b>100%</b>	<b>513</b>	<b>100%</b>	<b>100%</b>

\*Income NA = Income not available for these loan originations

1997 data includes information through 9/30/97.

Thirty-nine percent of FNB's commercial loans are made to small businesses in the assessment area, a business with revenues of \$1 million or less. A high majority of these loans are for less than \$100,000. Based on activity through September 1997, FNB should realize about the same level of small business loan originations for 1997 as they did for 1996. The following two tables provide a breakdown by the original loan amount of small business loans originated to small businesses in the bank's assessment area during 1996 and from January 1, 1997 to September 30, 1997.

**Table IV.****Small Business Loans Originated in 1996 - To Businesses with Revenues of \$ 1Million or Less**

Original Loan Amounts	Small Business Loans			
	#	%	\$ (000)	%
Less than \$100,000	47	72	1,769	28
\$100,000 to \$250,000	12	18	1,814	29
\$250,000 to \$1,000,000	6	10	2,670	43
<b>Total</b>	<b>65</b>	<b>100</b>	<b>6,253</b>	<b>100</b>



**Table V. Small Business Loans Originated from Jan. 1 to Sept. 30, 1997  
To Businesses with Revenues of \$ 1Million or Less**

Original Loan Amounts	Small Business Loans			
	#	%	\$ (000)	%
Less than \$100,000	37	84	1,051	33
\$100,000 to \$250,000	5	11	810	26
\$250,000 to \$1,000,000	2	5	1,300	41
<b>Total</b>	44	100	3,161	100

**Small Business Loans Originated in 1996 and 1997 to Businesses with Revenues greater than \$1 Million**

In 1996, ninety-nine loans were originated in amounts less than \$100,00, six loans were made between \$100,000 and \$250,000, and one loan was made for \$250,000.

In 1997, sixty-four loans were made for less than \$100,000, two loans between \$100,000 and \$250,000, and two loans were made between \$250,000 and \$1,000,000 in size.

**Community Development Lending**

FNB has made \$1,910,500 in community development loans during the review period. These loans are responsive to the credit needs in the bank's assessment area.

Construction financing was made on thirty-one (31) fee simple town homes in the bank's assessment area. The study on affordable housing conducted by the Bucks County Planning Commission found the median home price to be \$144,000. These houses are targeted to low- to moderate-income families with prices ranging from \$99,900 to \$117,500. Construction commenced in early 1996. To date, the bank has financed \$1,550,000 in construction costs.

Two loans have been granted to the Delaware Valley Community Reinvestment Fund (DVCRF) for the Bucks County Collaborative for Affordable Housing. The Bucks County Collaborative for Affordable Housing is a partnership of banks, community groups and the DVCRF which created a designated loan pool of more than \$1,000,000 for affordable housing projects. One loan, dated January 3, 1995, is for \$25,000 with a maturity of December 31, 1999. The other loan was granted January 1, 1996 in the amount of \$25,000 and matures December 31, 2000. The affordable housing is targeted to low- to moderate-income families and benefits the bank's assessment area.

FNB supports Interfaith Housing Development of Bucks County by granting loans to them for property acquisition. Interfaith operates a long-term transitional housing program for homeless

families, permanent affordable rental housing subsidized and unsubsidized, and sale of homes on a rent-to-buy program. In 1996 the bank originated six (6) loans to Interfaith for a total of \$260,000. One loan for \$50,500 was granted in 1997. There are currently eleven (11) loans with outstanding balances of \$515,331 on the bank's books. These programs benefit low- to moderate-income families in the bank's assessment area.

## **Product Innovation**

The bank initiated a First-Time Home Buyers Program in March of 1995. The program benefits credit worthy borrowers who are not able to meet the bank's regular mortgage requirements. Under this program, the applicant(s) must complete mortgage counseling by an outside agency and have debt to income ratios not greater than 38%. The maximum purchase price of the house cannot exceed \$141,650 and up to 95% financing is available. The bank has established maximum income levels per given family size to qualify for the program.

As of September 1997, twenty-three (23) loans for \$1,880,325 were outstanding under the First-Time Home Buyers Program. Loan origination by year is: \$107,500 in 1995; \$1,450,750 in 1996; and \$449,900 year to date in 1997.

In July of 1997, the bank started offering student loans under the Keystone Rewards, a low-cost Stafford Loan program for Pennsylvania students. This program features lower fees and the potential for a reduced interest rate if the first 48 payments are made on time. To date, 468 loans have been made for \$1,037,067.

## **Investment Test**

The bank has a low level of qualified community development investments or grants. FNB is a member of the Bucks County Collaborative For Affordable Housing. The bank provided a grant of \$2,500 in 1996 to the organization to be used for operational expenses and mortgage counseling.

FNB provides office space at reduced rent for the Credit Counseling Center (CCC), a nonprofit community service organization, serving Bucks County. CCC offers budget counseling, debt management and educational programs. The discount is \$4,800 annually. Bank President & CEO John T. Parry serves on the Board of Directors of this organization.

Opportunities to participate in community development investments exist in Bucks County. Qualified investments include a deposit, membership share, or grant that has as its primary purpose community development. The southern portions of the County, such as Bristol and Morrisville, were cited by community development activists as areas in need of affordable housing and economic development. Investment opportunities could be gleaned from a number of community and governmental agencies serving this area, including but not limited to the following: Better Homes Incorporated, Bucks County Housing Group, Interfaith Housing, Habitat for Humanity (Bucks County) and housing programs through the Federal Home Loan Bank Board. The bank has

participated, to varying degrees, with some of these agencies in community development lending and soft-dollar support.

## **Service Test**

### **Retail Banking Services**

The bank opened one new branch in the past two years. No branches were closed during this time frame. Of the fourteen branch offices, five are located in middle-income CTs, and nine offices are located in upper-income CTs. No offices are located in low- or moderate-income CT's. However, offices are reasonably accessible to all parts of the assessment area. Full banking services are available at ten locations. Business hours are extended on Fridays to either 7:00 P.M. or 8:00 P.M. at the full-service branches. The bank is closed at all locations on Saturdays. Hours of operation are reasonable to serve customers in the assessment area. Four offices are located within retirements communities and provide limited services over limited hours. The services provided by these offices are restricted to the residents of the retirement community only. The majority of low- and moderate-income families reside within middle- and upper-income CTs. Specifically, low- and moderate-income families comprise 33% of total families living in middle- income CTs, and approximately 15% low/moderate-income families live in upper-income tracts. Services do not vary in any way that would inconvenience low- or moderate-income individuals living within the assessment area.

The bank provides alternative systems for delivering retail banking services to its community, including bank-by-mail and limited bank-by-phone. Customers may call the bank to handle transactions such as the transfer of funds among FNB accounts, request payment to an FNB loan, and receive account balance information during regular business hours. FNB has seven automated teller machines and three cash dispensers. The bank has a website on the Internet.

FNB offers the *Classic Checking* account which features no minimum deposit or balance. The bank charges \$0.25 per check processed on this account. Students are granted free checking as long as a parent holds an account at the bank.

### **Community Development Services**

None.

### **Compliance with Antidiscrimination Laws**

A fair lending review performed in conjunction with this CRA examination revealed that FNB is complying with fair lending regulations. We noted no practices intended to discourage or impede potential borrowers from applying for credit.