

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Quakertown National Bank prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency.

The evaluation represents the OCC's current assessment and rating of the institution's CRA performance based on an examination conducted as of December 2, 1996. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which

are grouped together under 5 performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet

the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating:

Based on the findings presented below, this institution is rated: "Satisfactory Record of Meeting Community Credit Needs."

BANK PROFILE

Quakertown National Bank(QNB), headquartered in Quakertown, PA, is a wholly owned subsidiary of QNB Corp. QNB is a full service bank offering a wide array of loan and deposit products. QNB has six full service banking locations offering extended hours on Fridays and Saturday mornings. Each location is equipped with automated teller machines (ATM's). The bank's operation center is also equipped with an ATM which is accessible during its hours of operation. As of September 30, 1996, QNB had total assets of \$286 million centered in loans of \$158 million. The loan portfolio consists of residential and home equity loans 32%, commercial real estate loans 49%, commercial loans 15% and consumer loans 4%. There are no other operating subsidiaries at either the bank or holding company levels.

COMMUNITY PROFILE

The assessment area of QNB is primarily comprised of Quakertown, PA and the adjacent communities surrounding each branch office. Communities serviced include portions of Berks (Metropolitan Statistical Area (MSA)

6680), Bucks (MSA 6160), Lehigh (MSA 0240) and Montgomery (MSA 6160) counties. The assessment area contains 64 census tracts (Cts). According to 1990 census information, the bank's assessment area contains zero low-or moderate-income Cts, 50 middle-income Cts and 14 upper-income Cts. The population for the assessment area is 225,643 with 80,201 households. Owner occupied units totaled 62,436 and represented 74% of the assessment areas housing units. The assessment area MSA Median Family income was \$41,501 and the median home value was \$139,050. The local economy is stable and diverse. The assessment area is considered a bedroom community for the metropolitan Philadelphia area with an increasing number of daily commuters. Assessment area employment is retail based with industrial and manufacturing concerns also evident. The assessment area is highly competitive with branches of several national, state and thrift institutions.

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

Ascertainment of community credit needs is conducted on an annual basis. Each calendar year, branch managers are required to contact five community representatives within their branching territories to discuss community credit needs. Community contacts are completed using prepared ascertainment surveys (questionnaires) as guides in conducting community outreach meetings. Individuals contacted represent a cross section of religious, business interests, local government and community organizations existing within the bank's assessment area. Information gathered through this process is summarized by the CRA Officer and reported to the compliance committee and the board of directors for review. While the annual community contact process

is the bank's formal ascertainment process, information generated through management and staff involvement in community activities is also used to enhance overall ascertainment efforts.

The response of the Board and management to ascertainment efforts has been satisfactory. As a result, the bank has developed a low income mortgage product and various non-lending services to address community needs. Services provided include seminars and counseling programs on various credit related topics.

Assessment Factor C - The extent of participation by the institution's Board of Directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

The Board of Directors, through its approval of the bank's CRA Statement, has established guidelines for compliance with CRA. The CRA Statement, a broad based document, is approved annually. It contains the policy statement, management's objectives, Compliance Officer's responsibilities, and an overview of lending, marketing and community development activities. The CRA committee meets quarterly and provides oversight of all CRA activities. It is responsible for monitoring CRA compliance. Annually, Internal Audit will review and assess bank compliance with regulatory as well as internal CRA requirements. The results of these reviews are reported to the CRA committee and the Board of Directors. The bank is in compliance with the technical requirements of CRA.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

The institution's marketing and advertising efforts are effective. Management and staff has participated in numerous community events and seminars to make the community aware of products and services offered by QNB.

Advertisements are designed to inform all segments of the community. The primary media used by QNB to inform the community of available services and products are radio, newspaper and direct mail. In addition, marketing efforts are enhanced by a bank generated newsletter, bank sponsored financial and credit seminars and management/staff community involvement. Based on the extent and usage of different advertising alternatives, it is evident that marketing uniformly penetrates the bank's trade area.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

All of the products offered coincide with the types of credit listed in the CRA statement. As discussed above, (see Bank Profile) most of the loans originated by the bank have been residential and real estate secured commercial loans. We therefore focused our analysis on these types of loans to determine the extent of QNB's lending inside versus outside the assessment area.

As the table below indicates, the bank originates the majority of its HMDA loans within the assessment area. We reviewed data from the 1994-5 Home Mortgage Disclosure Act Loan Application Register (HMDA LAR) and found that data accurate for the purpose of this analysis.

Distribution of HMDA Originations 1/1/94 -12/31/95

Number
\$(000)

Total HMDA Originations

533
34,420

HMDA Originations within AA

491
29,706

Percent of Originations within AA

92%
81%

As of September 30, 1996, the bank had a 61% loan-to-deposit ratio. While this ratio ranks below the bank's

national peer average, it also reflects the effects of the sale of mortgages by the bank in the secondary market. QNB sold 113 mortgages for \$10.4 million and 29 mortgages for \$2.8 million to the Federal Home Loan Mortgage Corporation during 1994 and 1995, respectively.

Assessment Factor J - The institution's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

This institution does not participate in governmentally-insured, guaranteed, and subsidized loan programs. The wide array of lending services offered by this institution effectively accommodates local housing and small business credit needs.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Reasonableness of Delineated Community

This assessment complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income areas. Please refer to the Community Profile comment for additional detail.

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

The bank's assessment area contains zero low-or moderate-income Cts. Therefore, an analysis of the geographic distribution of credit would not provide any meaningful data.

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

QNB has never closed any branch offices. The branch closing policy provides adequate guidance to management and appropriately addresses community concerns should such an event arise. The seven banking locations are accessible to all segments of the local community. Banking hours and services satisfy community needs. The bank also provides automated teller machine (ATM) services at each branch location.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to

discourage applications for types of credit set forth in the institution's CRA Statement(s).

QNB solicits credit applications from all segments of its delineated community. No evidence of prescreening or discouraging applicants from obtaining credit was noted. Policies and procedures relative to anti-discrimination laws and regulations are satisfactory.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

A concurrent Fair Lending examination was conducted and disclosed no evidence of prohibited discrimination or any practice which would have the effect of discriminating on a prohibited basis.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

Opportunities for traditional low-to-moderate income community development programs are very limited. However, QNB participates in several local development and redevelopment programs within its assessment area. Current activities include Old Towne Manor, a \$200,000 equity investment in a joint venture for the acquisition and rehabilitation of rental space for the elderly located in Perkasio, PA. Other projects include the financing for the expansion and construction of a local retirement home (\$1.7 million) and a nursing home (\$1.4 million). Active involvement with industrial and economic development associates, local Chambers of Commerce and various other types of local government projects are evident.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

QNB is not subject to any financial, legal, or regulatory restrictions or any other impediment that would preclude the bank from helping to meet the credit needs of its assessment area.

Assessment Factor L - Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

Other factors which reasonably support the bank's efforts include various donations and participation in and/or sponsorship of various community events throughout the year.

ADDITIONAL INFORMATION

The findings stated above were based on a review of information obtained from bank records as well discussions with management.