



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

June 01, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The National Bank of Malvern
Charter Number 3147**

**King And Warren Streets
Malvern, PA 19355**

**Office of the Comptroller of the Currency
Eastern Pennsylvania (Philadelphia)
3325 Street Road Suite 120
Bensalem, PA 19020**

NOTE: 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.

INSTITUTION'S CRA RATING:

The National Bank of Malvern is rated Satisfactory.

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

- The average loan to deposit ratio during the evaluation period is 75.56% and meets the standards for satisfactory performance.
- The origination of loans within the bank's assessment area (AA) exceeds the standards for satisfactory performance.
- The distribution of loans among borrowers of different income levels, particularly low- and moderate-income borrowers and small business borrowers of different revenues, meets the standards for satisfactory performance.
- The geographic distribution of originated loans does not meet the standards for satisfactory performance. However, there are reasonable mitigating factors that inhibit the bank from satisfactory performance in this area.

DESCRIPTION OF INSTITUTION

The National Bank of Malvern (NBM) is a \$98 million family-owned, independent bank located approximately 30 miles northwest of Philadelphia, Pennsylvania. The bank received its national charter on December 18, 1883, and moved to its present location in 1887. NBM's main office is located on the corner of Warren and King Streets in the center of the Borough of Malvern, Pennsylvania. Its only branch office, opened in 1973, is located approximately three miles away on Rt. 30 in Frazier, Pennsylvania. There are no operating subsidiaries of the bank.

The main office is within walking distance of most businesses in the borough, and accessible via public transportation offered by SEPTA (Southeastern Pennsylvania Transportation Authority). The branch in Frazier is also accessible by public transportation offered by SEPTA. Each location is within the Philadelphia Metropolitan Statistical Area. (M.S.A.). No branches have opened or closed since our last examination, nor does the bank have any plans to open new branches within the foreseeable future. NBM offers 24-hour banking via automated teller machines, and drive-up facilities at both locations.

The loan portfolio comprises eighty percent of total assets, and consists mostly of real estate secured loans. Fifty-nine percent of the portfolio (\$43.6 million) is secured by liens on 1-4 family real estate, while thirty-four percent of the portfolio (\$25.7 million) is small business loans, also secured by other forms of real estate collateral. The bank's lending philosophy is conservative and focuses on home loans and serving the needs of local small businesses. According to the June 30, 2003, FDIC Summary of Deposits Market Share Report, NBM ranked seventeenth out of thirty-six institutions in Chester County with a 1.14% market share of deposits. Wachovia Bank, N.A. ranked first with twenty-four offices and a 16.31% market share. It should be noted that the NBM shows no out-of-market deposits. There are no financial or legal impediments impacting NBM's ability to help meet its

community credit needs. The evaluation period for this examination is from January 1, 2001 through December 31, 2003 for home mortgage products, and January 1, 1999 through December 31, 2003 for small business lending. The time limit was extended back to January 1, 1999 in order to meet the minimum requirement of at least twenty small business loans for sampling purposes. NBM's previous CRA examination was conducted as of November 16, 1998, and the bank was assigned an overall rating of Satisfactory.

DESCRIPTION OF CHESTER COUNTY (MSA-6160)

NBM's assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The bank's AA includes all of the CTs in Chester County, Pennsylvania. Based upon the 1990 Census-based demographic data, the AA had 113 CTs of which there was one low-income tract (1%), eight moderate-income tracts (7%), forty-four middle-income tracts (39%), fifty-four upper-income tracts (48%) and six are N/A (5%). The 2000 Census-based demographic data shows the elimination of the one low-income tract, while the eight moderate-income tracts (7%) remain. However, there is a decrease of 9% in the middle-income tracts to a new total of forty CTs (35%) offset by an increase of 16.6% in the upper-income tracts to a new total of sixty-three CTs (56%).

The population of the AA has shown a growth of 15.1% since the 1990 Census to a present total of 433,501, which consists of 158,025 households and 114,091 families. In 1990, 10.9% of the total families were low-income. This figure remained the same at 10.9% in 2000. However, 2000 Census data showed a decrease of 1.11% in moderate-income families to 13.1%, and a decrease of 1.83% in middle-income families to 20%. However, there was an overall increase of 2.92% in upper-income families to 56%. The median price of housing is \$184,117 and has increased 14.8% above the 1990 Census based price of \$160,354, while the updated non-MSA median family income has increased 7.7% from \$63,300 to \$68,200. Owner occupied housing has increased from 71.17% in the 1990 Census to 75.38% in the 2000 Census. Conversely, the 2000 Census data shows a decrease in the 1-4 family rental units from 24.29% with a 5% vacancy in 1990 to its present 22.84% with a 4% vacancy. Based upon outreach discussions, one of the AA's primary needs is low-cost rental facilities for lower-income families.

There are thirty-six financial institutions competing in the AA with a total of one hundred and eighty-three branches for \$6.8 billion in deposits. These institutions consist of local community banks, savings and loans, credit unions, and numerous branches of large regional banks. The competition for deposits and loans is high. The economy remains stable and highly diverse. There is a vast diversity of employment in the AA with no dominant employers. The service industry and retail trade industry provide for over fifty percent of the employment. The rate of unemployment is 2%, and has continued to remain well below the Commonwealth average of 5.2%.

COMMUNITY CONTACT

One community contact telephone discussion was held with the Construction Manager of a local community development organization. This discussion detailed the support from the community for low-income housing. Independent builders and private financial institutions support lower-

income housing, in conjunction with subsidies provided by the Pennsylvania Housing Funding Authority (PHFA). The need for low-income housing is most obvious in the Coatesville area. Some of the banks involved in this program are Coatesville Savings Bank, First Financial Bank, and Downingtown National Bank. This community development organization also sponsors a Small Business Assistance Program, whereby loans are made to small businesses in an amount up to \$50 thousand.

There is a need for reasonably priced residential rental units. The county is experiencing an increase in population and in home ownership. Due to the high level of middle- and upper-income families, there is increased demand for owner occupied properties. This demand for owner occupied properties, combined with lower interest rates has diminished the availability of affordable starter homes, and has reduced the number of 1-4 family rental units. The reduction in rental units has pushed up the fair market rent to \$1,115 per month for a three-bedroom unit. Thus, there is a strain on low- and moderate-income families for affordable rental housing units.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Our examination focused on home mortgage loans originating between January 1, 2001 and December 31, 2003, and small business loans originating between January 1, 1999 and December 31, 2003. When determining conclusions for the Lending Test, we placed the majority of the weight on home mortgage products, which comprised 86.86%, by number, of loans originated during the evaluation period. Home purchase loans comprised 30.3% of home mortgage loans, while home improvement loans comprised 33.3% and home refinance loans comprised 36.4%.

Small business loans comprised 13.14% by number of total loans originated during the evaluation period.

NBM is not required to collect data for small businesses or farms since the bank's asset size is less than \$250 million. Therefore, we selected a sample of 22 business loans that were originated between January 1, 1999 and December 31, 2003. We selected our sample in accordance with the OCC's sampling guidelines, which require a minimum of twenty originations per primary product within the AA. Revenue information was then used to determine whether the businesses qualified as small businesses for the purpose of this evaluation.

NBM is not required to track data regarding consumer loans. Additionally, the bank did not grant any farm loans during the examination period. When we evaluated the bank's lending performance, more emphasis was weighted on the bank's lending to borrowers of different incomes and businesses of different sizes, rather than geographic distribution. This was done since there are no low-income geographies in the AA, while the intervening distance in miles between the moderate-income CTs and the bank is considerable.

Loan-to-Deposit Ratio

NBM's average loan-to-deposit ratio is 75.56% (for the twenty-quarter period covering from March 31, 1999 to December 31, 2003) and meets the standards for satisfactory performance. The loan-to-deposit ratio increased to 89.93% on December 31, 2003. NBM's average ratio is

equal to the national peer group average loan-to-deposit ratio of 75.67%. The December 31, 2003 ratio of 89.93% exceeds the national peer loan-to-deposit ratio of 76.64%.

Lending in Assessment Area

NBM exceeds the standards for satisfactory performance for lending in the AA. A substantial majority of all home mortgage and small business loans, originated during the evaluation period, were within the AA.

Table 1 - Lending in Chester County										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	65	90.28	7	9.72	72	14,075	90.51	1,475	9.49	15,550
Home Improvement	74	93.67	5	6.33	79	4,288	89.07	526	10.93	4,814
Home Refinance	84	97.67	2	2.33	86	16,460	97.67	393	2.33	16,853
Total Real Estate	223	94.10	14	5.91	237	34,823	93.57	2,394	6.43	37,217
Small Business	21	95.45	1	4.55	22	8,203	99.82	15	.18	8,218

Source: HMDA data based on loans reported and Small Business Data based on a sample of loans.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSSINESS OF DIFFERENT SIZES

NBM’s lending to borrowers of different incomes and to businesses of different sizes meets the standards for satisfactory performance.

For home purchase, home improvement and home refinance mortgages, loans sampled from January 1, 1999 through December 31, 2002 were compared to 1990 Census data, and loans sampled from January 1, 2003 through December 31, 2003 were compared to 2000 Census data. Comparisons of data were performed in accordance with the OCC’s Census transitional guidance. Please refer to the below summarized data.

1990 Census Data - Compared To Loan Data From January 1, 1999 through December 31, 2002

The data, when compared to the 1990 Census data, indicated that the level of home purchase mortgage loans, home improvement mortgage loans, and home refinance mortgage loans originated to low-income borrowers in the AA exceeded the percentage of low-income families within the AA.

The level of originations to moderate-income borrowers in the AA for home purchase mortgage loans, and home-improvement mortgage loans is below the percentage of moderate-income

borrowers. However, the level of home refinance mortgage loans made in the AA exceeds the percentage of moderate-income borrowers.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	10.9	23.68	14.2	13.16	21.8	18.42	53.1	44.74
Home Improvement	10.9	17.78	14.2	11.11	21.8	26.67	53.1	44.44
Home Refinance	10.9	16.33	14.2	16.33	21.8	10.20	53.1	57.14

Source: Data reported under HMDA; 1990 U.S Census data.

NBM extends a high percentage of small business loans to actual small businesses, as 80% of small business loans being made in the AA are to businesses with annual revenues of \$1 million or less.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	56.49	6.11
% of Bank Loans in AA by #	80.00	20.00
% of Bank Loans in AA by \$	82.86	17.14

Source: Loan sample; Dunn and Bradstreet data. *37.40% of AA businesses did not report revenue data.

2000 Census Data – Compared To Loan Data From January 1, 2003 Through December 31, 2003

The level of lending to low-income borrowers for home purchase mortgage loans made in the AA exceeds the percentage of low-income borrowers. In addition, the level of home improvement mortgage loans and home refinance mortgage loans made in the AA materially exceeds the percentage of low-income borrowers.

The level of lending to moderate-income borrowers for home purchase mortgage loans and home refinance mortgage loans made in the AA is below the percentage of moderate-income borrowers. Conversely, the level of home improvement mortgage loans made in the AA exceeds the percentage of moderate-income borrowers.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Loan Type								

Home Purchase	10.9	18.52	13.1	7.41	20.0	22.22	56.0	40.74
Home Improvement	10.9	31.03	13.1	17.24	20.0	17.24	56.0	27.59
Home Refinance	10.9	20.00	13.1	5.71	20.0	22.86	56.0	40.00

Source: Data reported under HMDA; 2000 U.S. Census data.

NBM extends a high percentage of small business loans to actual small businesses, as 77.78% of small business loans being made in the AA are to businesses with annual revenues of \$1 million or less.

Table 2A - Borrower Distribution of Loans to Businesses in Chester County 2003		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	61.15	6.03
% of Bank Loans in AA by #	77.78	22.22
% of Bank Loans in AA by \$	84.55	15.45

*Source: Loan sample; Dunn and Bradstreet data. * 32.82% of AA businesses did not report revenue data*

GEOGRAPHIC DISTRIBUTION OF LOANS

Geographic distribution of home mortgage loans and small business loans does not meet the standards for satisfactory performance.

1990 Census Data – Compared To Loan Data From January 1, 1999 Through December 31, 2002

No loans were originated in low- to-moderate income CTs during the evaluation period.

2000 Census Data – Compared To Loan Data From January 1, 2003 Through December 31, 2003

There are no low-income CTs in the AA based upon the 2000 Census demographic data. The number of home mortgage loans originated in moderate-income CTs was not meaningful and below the level of moderate-income borrowers. No small business loans were originated in the moderate-income CTs.

Though the bank’s geographic lending distribution does not meet the standards for satisfactory performance, there are strong mitigating factors that inhibit the bank from originating home mortgage loans and small business loans in low- and moderate-income CTs. There was only one low-income tract (3056) in the AA based upon the 1990 Census demographic data. This CT is located a distance of 21 miles from the bank. The 2000 Census demographic data eliminated this low-income CT. The remaining eight moderate-income CTs are a considerable distance from the bank. West Chester (3026) is the closest in proximity to the bank with a distance of 11.3 miles, while the CTs (3054, 3055, 3056, 3058, 3059 and 3082) in Coatsville/Modena/West Nottingham are approximately 20.2 miles distance, Avondale (3064) is 29.5 miles, and Oxford Borough (3080) is 39.1 miles. There is a large concentration of competitive home mortgage and small business lending institutions located in the intervening distance between the moderate-

income CTs and the bank. Therefore, it is improbable that many prospective borrowers would bypass so many nearby lending institutions, and travel such a distance to apply at NBM.

Responses to Complaints

The bank has not received any CRA-related consumer complaints since the last CRA examination.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.