



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

January 03, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank in Fleetwood
Charter Number 13927**

**Main and Franklin Streets
P.O. Box 159
Fleetwood, PA 19522**

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

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

This institution is rated Satisfactory.

The overall rating is based on the following factors:

- The loan-to-deposit ratio meets the standards for satisfactory performance;
- A substantial majority of the bank's loans are originated in its assessment area (AA);
- The bank's record of lending to borrowers of different incomes meets the standards for satisfactory performance;
- The geographic distribution of loans in the Metropolitan Statistical Area (MSA) AA meets the standards for satisfactory performance; and
- The bank has had no consumer complaints regarding its community reinvestment performance.

DESCRIPTION OF INSTITUTION

The First National Bank in Fleetwood (FNBF) is an independent intrastate community bank, founded in 1934, with its main office located in Fleetwood, Pennsylvania. FNBF is located in south central Pennsylvania in Berks County. FNBF is a wholly owned subsidiary of the parent holding company, Fleetwood Bank Corporation. FNBF and Fleetwood Bank Corporation have similar total assets of \$156 million as of September 30, 2004.

FNBF is a full service bank. The bank operates seven branches and one loan production office (LPO), all located in Berks County, part of the Reading Metropolitan Statistical Area (MSA). All branches have drive-up facilities with extended hours two nights per week, and Saturday hours except for the Lyons branch. Each branch also has extended lobby hours on Thursday and Friday. The Hamburg LPO is open on Monday, Wednesday, and Friday from 9 am to 12 pm. The remainder of the week is by appointment only. Automated teller machines (ATMs) are located at all branches except West Reading and the Hamburg LPO. There are also three non-branch ATMs: Kutztown University, a mini-market in Fleetwood, and a restaurant in Kutztown.

FNBF's primary competition is from Leesport Bank and Sovereign Bank. Leesport Bank's headquarters is located in Leesport, about 10 miles west of Fleetwood. Sovereign Bank's headquarters is located in Reading, about 16 miles southwest of Fleetwood. The asset size and branch network of each of these competitors is considerably larger than FNBF.

At September 30, 2004, FNBF reported \$78 million in net loans and \$139 million in total deposits. Net loans represent 50% of total assets. Major loan products include fixed rate residential mortgages, commercial loans and consumer loans. The primary lending product is

residential mortgage loans. Residential real estate loans represent 54% of the loan portfolio, followed by commercial loans at 30%, and 5% in consumer installment loans. Net Tier 1 Capital is \$16 million as of that same date.

FNBF is very community-oriented and their lending philosophy is conservative. The bank has a website which offers information on branch hours of service, and bank products and rates. Telephone and Internet banking, including on-line bill payment, are also available. FNBF offers a personal Basic Checking account with no minimum balance or monthly fees, and unlimited number of checks. FNBF offers a variety of mortgage and consumer products. Unlike many of their competitors, FNBF has made their niche in the community by offering non-conforming residential mortgages. FNBF does not have any legal or financial condition restrictions that would impede their ability to help meet the credit needs of their communities.

According to the June 30, 2004 FDIC/OTS Summary of Deposits Market Share Report, FNBF ranked 10th out of 21 institutions in the Reading, PA MSA with 2.21% of deposits. Sovereign Bank ranked first with 14 offices in the MSA and 29.61% of the deposits. Other financial institutions include Wachovia Bank NA in second place, with 21 offices and 14.72% of the deposits, and National Penn Bank, ranked third with 20 offices and 14.28% of the deposits.

The evaluation period for home mortgages reported under the Home Mortgage Disclosure Act (HMDA) is from January 1, 2002 through September 30, 2004.

FNBF's last Public Evaluation (PE) was dated April 19, 1999 and the overall CRA rating assigned was **Satisfactory**. Since the last evaluation, FNBF opened the Hamburg LPO (2004) and three branches: Airport and West Reading (2003), and Temple (2004). In 2002, the Moselem Springs branch closed due to the lease space being sold to new owners. None of the opened or closed branches are located in low- or moderate-income geographies.

DESCRIPTION OF ASSESSMENT AREA

FNBF's assessment area (AA) includes all of Berks County or all seventy-six census tracts (CTs) in the Reading MSA (MSA 6680) based on the pre-2004 MSA changes. The AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies. *Based on 1990 Census data*, FNBF's AA included four low-income CTs (5%), fifteen moderate-income CTs (20%), forty-eight middle-income CTs (63%), eight upper-income CTs (11%) and one N/A CT (1%). The total population in the AA is 336,523 and the median cost of housing in the AA is \$78,993. The percentage of households below the poverty level is 8%. The AA's population was comprised of 92,046 families with the following family income distribution: 16% are low-income, 19% are moderate-income, 28% are middle-income, and 37% are upper-income. The Updated Median Family Income for 2002 is \$53,300.

In 2004, HUD redefined some MSA AA boundaries. The Reading MSA AA boundaries did not change, however, the Reading MSA AA number is now 3974 and there are eighty-two CTs in the AA. *Based on 2000 Census data*, the AA includes nine low-income CTs (11%), sixteen moderate-income CTs (20%), forty-eight middle-income CTs (58%) and nine upper-income CTs

(11%). The total population in the AA is 373,638 and the median cost of housing in the AA is \$99,209. The percentage of households below the poverty level is 8%. The AA's population is comprised of 98,882 families with the following family income distribution: 18% are low-income, 19% are moderate-income, 24% are middle-income, and 39% are upper-income. The Updated Median Family Income for 2004 is \$61,200.

As of November 30, 2004, the Pennsylvania seasonally adjusted average state unemployment rate is 5.4%. The Reading MSA rate falls below the state average at 5.1%. The major employers in Berks County are East Penn Manufacturing Co., The Reading Hospital & Medical Center, and Berks County Services Center. The majority of local residents travel to Reading or Allentown areas for employment. The local area is primarily agricultural and employment in the immediate area is in the farming industry.

Based on the most recent HMDA Peer Mortgage Data, 315 lenders originated HMDA loans in the Reading MSA AA. FNBF ranked thirty-sixth in the MSA AA with a market share of 1.0%. Sovereign Bank ranked first with a market share of 8%. ABN AMRO Mortgage Group, Inc., ranked second with a market share of 7%. Thirty percent of FNBF's loans originated were to low- and moderate-income applicants.

Community Contact

Credit needs of the community were determined during this examination by making two community contacts. Both described the AA as having a generally stable economy with a shift from manufacturing to retail and service jobs. Both contacts identified a need for additional affordable housing, daycare and transportation throughout Berks County. Our first contact was a representative from an organization in the city of Reading that provides low- and moderate-income individuals and families the tools to become self-sufficient through job training, affordable childcare, and finding transitional and permanent housing. This contact also indicated the need to rehabilitate the existing low- and moderate-income housing in the city. Our second contact was a representative of a local real estate appraisal firm. The representative described FNBF as a local community bank with a good rapport with customers and a focus on locality. This contact also identified the need for affordable housing for individuals over age 55. Both contacts could not identify unmet credit needs, as financial institutions are perceived as being able to meet the various credit needs in the community. FNBF participates in community development projects, when available, and sponsors radio advertisements for numerous community activities.

During the evaluation period, FNBF did not originate any community development loans.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The evaluation period covered lending activity for home mortgage loans (purchase money, refinance, and home improvement loans) reported under the Home Mortgage Disclosure Act (HMDA) from January 1, 2002 through September 30, 2004. These loans were the only

products reviewed due to the business focus of the bank during this evaluation period.

Loan-to-Deposit Ratio

An analysis of FNBF's loan-to-deposit ratio from the first quarter of 2002 through the third quarter of 2004 reveals that the bank meets the standards for satisfactory performance. The bank's average loan-to-deposit ratio for these 11 quarters was 58.87%, ranging from 55.3% to 62.32%. This ratio is below the average quarterly ratios of similarly situated banks in Pennsylvania with similar asset size. The custom peer average was 73.83%, with average ratios during the period ranging from 72.34% to 74.83%. The local peer consisted of Pennsylvania banks with total assets between \$100 million and \$200 million.

The ratio is reasonable (considering the seasonal variations and taking into account lending-related activities) given the bank's size, financial condition, and assessment area's credit needs. FNBF is competing with 315 mortgage and commercial lenders in the AA. In addition, the downward trend relates to the 14% deposit growth during the evaluation period compared to minimal loan growth.

Lending in Assessment Area

A substantial majority of the home mortgage loans originated during the evaluation period were within the AA. FNBF exceeds the standards for satisfactory performance for lending in their AA. An analysis of the HMDA data from both evaluation periods disclosed that 98% and 97% of the loans, respectively, were originated in the AA.

The following tables are an analysis of the distribution of home mortgage loans inside and outside of the bank's AA.

HOME MORTGAGE LOANS ORIGINATED DURING EVALUATION PERIOD 01/01/02 THROUGH 12/31/02				
	INSIDE ASSESSMENT AREA		OUTSIDE ASSESSMENT AREA	
	# Loans	\$(000)	# Loans	\$(000)
Home Purchase Loans	26	3,145	1	152
Home Refinance Loans	35	3,895	1	148
Home Improvement Loans	29	539	0	0
Multifamily	0	0	0	0
Total Loans	90	7,579	2	300
Percentage	98%	96%	2%	4%

Source: 2002 FNBF HMDA-LAR

HOME MORTGAGE LOANS ORIGINATED DURING EVALUATION PERIOD 01/01/03 THROUGH 09/30/2004				
	<i>INSIDE ASSESSMENT AREA</i>		<i>OUTSIDE ASSESSMENT AREA</i>	
	# Loans	\$(000)	# Loans	\$(000)
Home Purchase Loans	49	7,237	0	0
Home Refinance Loans	125	14,368	4	807
Home Improvement Loans	48	1,190	2	5
Manufactured	1	86	0	0
Multifamily	0	0	0	0
Total Loans	223	22,881	6	812
Percentage	97%	97%	3%	3%

Source: 2003 - 2004 FNBF HMDA-LAR

Lending to Borrowers of Different Incomes

FNBF's record of lending to borrowers of different incomes meets the standard for satisfactory performance. *Based on the 1990 Census Data*, the level of home mortgage loans originated to low-income borrowers in the MSA AA is much less than the percentage of low-income families for the MSA AA. The level of home mortgage loans originated to moderate-income borrowers in the MSA AA is slightly above the percentage of moderate-income families. When considering the affordability of housing in the MSA AA, this performance is satisfactory. The median cost of housing in the MSA AA is \$78,993 based on 1990 U.S. Census data. The HUD updated median family income for 2002 is \$53,300. This means that a low-income person earns less than \$26,650 in the MSA AA.

Based on 2000 Census Data, the level of home mortgage loans originated to low-income borrowers in the MSA AA is half of the percentage of low-income families for the MSA AA. The level of home mortgage loans originated to moderate-income borrowers in the MSA AA is now well above the percentage of moderate-income families. When considering the affordability of housing in the MSA AA, this performance is excellent. The median cost of housing increased twenty-five percent in the MSA AA and is \$99,209 based on 2000 U.S. Census data. The HUD updated median family income for 2004 is \$61,200. This means that a low-income person earns less than \$30,600 in the MSA AA. Based on both these statistics, it would be difficult for a low-income individual to purchase housing in the MSA AA.

The following tables are an analysis of the distribution of home mortgage loans by borrower income level.

Borrower Distribution of Home Mortgage Loans					
Reading MSA AA (Berks County)					
01/01/02 THROUGH 12/31/02					
Income Level	# of Loans	% of Loans	\$ (000) of Loans	% of \$ of Loans	Income Level of Families in AA
Low	8	9%	352	4%	16%
Moderate	19	21%	1,133	15%	19%
Middle	27	30%	1,945	26%	28%
Upper	36	40%	4,149	55%	37%
Total	90	100.00%	7,579	100.00%	100.00%

Source: 2002 FNBF HMDA-LAR/1990 Census Data

Borrower Distribution of Home Mortgage Loans					
Reading MSA AA (Berks County)					
01/01/03 THROUGH 09/30/04					
Income Level	# of Loans	% of Loans	\$ (000) of Loans	% of \$ of Loans	Income Level of Families in AA
Low	21	9%	779	3%	18%
Moderate	58	26%	4,035	18%	19%
Middle	65	34%	7,069	31%	24%
Upper	69	31%	10,998	48%	39%
Total	223	100.00%	22,881	100.00%	100.00%

Source: 2003 -2004 FNBF HMDA-LAR/2000 Census Data

Geographic Distribution of Loans

The geographic distribution of loans in the MSA AA reflects reasonable dispersion throughout the AA and meets the standards for satisfactory performance. *Based on 1990 Census Data*, there are four low-income and fifteen moderate-income tracts MSA AA. From 1/1/02 to 12/31/02, FNBF did not extend any loans in these tracts. *Based on 2000 Census Data*, there are nine low-income and sixteen moderate-income tracts in the MSA AA. From 1/1/03 to 9/30/04, FNBF did not extend any loans in these tracts. All but one of these low- and moderate-income tracts is located in the city of Reading and FNBF does not have a branch in the city of Reading. Lending opportunities for FNBF in these low- and moderate-income tracts has been very rate competitive with several of the other 315 mortgage lenders in MSA AA.

Please refer to the following table for the geographic distribution of home mortgage loans in the MSA AA.

Geographic Distribution of Home Mortgage Loans Reading MSA AA (Berks County) 01/01/02 THROUGH 12/31/02					
Census Tract	# of Loans	% of Total Loans	\$ (000) of Total Loans	% of \$ of Total Loans	% of Owner-Occupied Units
Low	0	0	0	0	2%
Moderate	0	0	0	0	9%
Middle	90	100%	7,579	100%	72%
Upper	0	0	0	0	17%
Total	90	100.00%	7,579	100.00%	100.00%

Source: 2002 FNBF HMDA-LAR/1990 Census Data

Geographic Distribution of Home Mortgage Loans Reading MSA AA (Berks County) 01/01/03 THROUGH 09/30/04					
Census Tract	# of Loans	% of Total Loans	\$ (000) of Total Loans	% of \$ of Total Loans	% of Owner-Occupied Units
Low	0	0	0	0	3%
Moderate	0	0	0	0	10%
Middle	199	89%	20,592	90%	70%
Upper	24	11%	2,289	10%	17%
Total	223	100.00%	22,881	100.00%	100.00%

Source: 2003-2004 FNBF HMDA-LAR/2000 Census Data

Responses to Complaints

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

Fair Lending Review

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