SMALL BANK

PUBLIC DISCLOSURE

April 04, 2016

COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION

The First National Bank of Absecon
Charter Number 10823

106 New Jersey Avenue
Absecon, NJ 08201

Office of the Comptroller of the Currency

1150 Northbrook Drive
Suite 303
Trevose, PA 19053

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 major factors supporting the institution's rating are:

- The bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition, lending-related activities, and Assessment Area (AA) credit needs;
- A substantial majority of the bank's home mortgage loans were originated within its AA;
- The borrower distribution of loans reflects a reasonable distribution among individuals of different income levels;
- The bank has not received any complaints about its performance in helping to meet the credit needs of its AA.

SCOPE OF EXAMINATION

This evaluation assesses the performance of the First National Bank of Absecon (FNBA or bank) pursuant to the Community Reinvestment Act (CRA) for the review period from January 1, 2013 through December 31, 2015. We evaluated the bank using the small bank performance criteria, which consists of a lending test. The lending test evaluates the bank's record of helping to meet the credit needs of its AA through its lending activities. The bank's primary loan product based on originations and purchases during the evaluation period is residential mortgages. This evaluation considers FNBA's HMDA-reportable loans (home purchase, home improvement, and home refinance) for the calendar years 2013, 2014, and 2015. Our analysis took into consideration the economic, financial, and environmental factors that impact the bank's CRA performance.

In order to ensure that FNBA's public lending information was accurate and reliable, we performed a data integrity examination during the first quarter of 2016. During the data integrity examination, we evaluated FNBA's processes to ensure the accuracy of collected Home Mortgage Disclosure Act (HMDA) data and tested a sample of FNBA's reported HMDA loans. Specifically, we tested the accuracy of HMDA loan data by comparing it against FNBA's loan file documentation. The data integrity examination revealed that FNBA's publicly available HMDA loan data could be relied upon for the purposes of this CRA performance evaluation (PE).

DESCRIPTION OF INSTITUTION

FNBA is an independently owned community bank headquartered in Absecon, New Jersey, located six miles west of Atlantic City. The bank is a full service, intrastate institution offering a standard array of traditional loan and deposit products. FNBA is a wholly owned subsidiary of Absecon Bancorp, a one-bank holding company. Both the bank and the holding company are located in Absecon, New Jersey. FNBA has one subsidiary, Absecon Investment Corporation, which holds a portion of the Bank's investment securities.

FNBA services eastern Atlantic County through its main office and three branches. The main office and all three branches are equipped with drive-in facilities. Each location is within the Atlantic City, New Jersey Metropolitan Statistical Area (MSA) 12100. All are located in upper- or middle-income geographies. The main office lobby is open 9:00AM to 1:00PM Monday through Friday, and the drive-in is open Monday through Friday from 8:30AM to 1:00PM. The other three branch lobbies are open Monday through Thursday from 9:00AM to 4:00PM, Friday from 9:00AM to 6:00PM and on Saturday from 9:00AM until 12:00PM. The drive-ins are open Monday through Thursday from 8:30AM to 5:00PM, Friday from 8:30AM to 6:00PM and Saturday 9:00AM to 12:00PM. The bank offers 24-hour telephone banking, on-line banking, and bill payment services to its customers. The bank currently does not maintain automated teller machines (ATMs) and does not intend to install ATMs in any of its branches. Competition is strong in the AA with competitor ATMs in banks, financial institutions, food stores, retail stores and convenience stores. No branches were opened or closed since the prior CRA PE, and there were no mergers or acquisitions.

As of December 31, 2015, FNBA reported total deposits of $135.8 million, total assets of $151.7 million, and Tier one leverage capital of $14.5 million. As of the same date, FNBA reported net loans and leases of $45.1 million or 29.72 percent of total assets. The loan portfolio is comprised of 98.97 percent of residential real estate loans, 1.45 percent of commercial loans, and 0.80 percent of loans to individuals.

Competition for loans and deposits is strong in the bank's AA. Based on the June 30, 2015 FDIC Summary of Deposit Market Share report, FNBA's deposit market share within the Atlantic City–Hammonton NJ MSA is 2.58 percent, ranking FNBA 10 out of 16 institutions in the MSA. FNBA's primary competitors are: TD Bank, N.A. (8 offices, 21.10 percent market share), Bank of America, N.A. (10 offices, 14.27 percent market share), Wells Fargo Bank, N.A. (10 offices, 14.20 percent market share), Ocean City Home Bank (9 offices, 10.36 percent market share), and Cape Bank (8 offices, 8.49 percent market share).

Based upon the most recent 2014 Peer Mortgage Data, there were 182 lending institutions within FNBA's AA competing for mortgage applications. The top five lenders dominate the market with overall market share of approximately 23.84 percent. The top five lenders are: Wells Fargo Bank, N.A., Aurora Financial Group Inc., Meridian Bank, Quicken Loans, and American Neighborhood Mortgage. FNBA ranks 13th with a market share of 1.71 percent by number of loans originated within its AA.

There are no financial or legal impediments to hinder FNBA's ability to help meet the credit needs of the communities it services. FNBA received a "Satisfactory" rating under the "Small Bank" rating criteria at the previous CRA PE dated August 30, 2010.

DESCRIPTION OF ASSESSMENT AREA(S)

FNBA has defined 31 census tracts (CT) in the eastern portion of Atlantic County, NJ as its AA. Atlantic County is located in the southeastern portion of the state of New Jersey and comprises the entire Atlantic City-Hammonton, NJ MSA #12100. The CTs in the bank's AA are contiguous in geography and are surrounded on three sides by natural boundaries. The northern portion of the AA ends at The Great Egg Bay and Mullica River. The eastern portion of the AA ends at the Intra-Coastal Water Way and the Atlantic Ocean, while the AA's southern boundary is the Egg Harbor River and Egg Harbor Bay. The western portion of the AA incorporates the Naval Air Transportation Experimental Center, Atlantic City International Airport, and rural portions of the New Jersey Pinelands. FNBA's AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

FNBA's AA was not impacted by 2014 MSA changes. Therefore, the information in the following table was used in our borrower distribution and geographic distribution analysis for 2013, 2014, and 2015. The following demographic information for the AA is based on 2010 census data:

Table 1 - Demographic Information for Assessment Area

Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	31	0.00	22.58	38.71	35.48	3.23
Population by Geography	142,096	0.00	24.10	40.19	34.01	1.70
Owner-Occupied Housing by Geography	38,502	0.00	17.89	43.84	38.25	0.02
Business by Geography	8,946	0.00	17.56	43.30	39.07	0.07
Farms by Geography	272	0.00	12.13	36.76	51.10	0.00
Family Distribution by Income Level	34,054	16.50	17.05	22.38	44.07	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	11,426	0.00	36.23	39.72	24.05	0.00
Median Family Income (MFI) HUD Adjusted MFI for 2015 Households Below Poverty Level		66,920 67,300 8%	Median Housing Value Unemployment Rate (2010 US Census)		265,785 5.00%	

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2010 US Census and 2015 Department of Housing and Urban Development (HUD) updated MFI

Of the 31 CTs, seven are moderate-income geographies, 12 are middle-income geographies, 11 are upper-income geographies, and one is not assigned an income classification. There are no low-income geographies in the AA.

The 2010 U.S. Census reported the total population of the AA at 142,096. Within the AA, there are 48,301 households and 34,054 families. There are 53,747 housing units, of which, 71.64 percent are owner-occupied, 18.23 percent are rental-occupied, and 10.13 percent are vacant housing units. Approximately 17.89 percent of owner-occupied housing is in moderate-income geographies, 43.84 percent in middle-income geographies, and 38.25 percent in upper-income geographies. The median housing cost is $265,785.

The 2010 median family income for the AA was $66,920 and the 2015 HUD updated median family income is $67,300. Approximately 16.50 percent of families are low-income, 17.05 percent are moderate-income, 22.38 percent are middle-income, and 44.07 percent are upper-income. There are 8.19 percent of households below the poverty level.

Local economic conditions are depressed with high levels of unemployment and foreclosures. According to Moody's Analytics, Atlantic City-Hammonton is at risk of recession because of a declining gaming industry and the area’s weak and worsening fiscal situation. A number of casinos closed in 2014, and the metro area is experiencing lost tax revenue and jobs. Leisure/hospitality still accounts for about one-third of employment and industry payrolls, but growth has been flat over the last year because of gaming weakness. Employment growth on a year-to-year basis is among the slowest in New Jersey.

The housing market is poor and will contribute little to economic growth. Foreclosure inventory is a significant problem, with 51 foreclosures per 1,000 households. In comparison, the national level is seven foreclosures per 1,000 households. While the surplus of distressed properties is due in part to a weak labor market, the state’s lengthy judicial foreclosure process is also a factor. As more foreclosures hit the market, the number deeply discounted sales is expected to increase causing a continued decline in home prices. The area’s near-term growth prospects are also negative as the local government manages insolvency pressures. In the long term, weak demographics and the concentration in one industry is expected to result in underperformance relative to the state and nation.

According to the Bureau of Labor Statistics, the national unemployment rate was 5.0 percent as of March 31, 2014. The February 29, 2016 unemployment rate for the state of New Jersey was 4.3 percent, and the preliminary unemployment rate for the Atlantic City-Hammonton, NJ MSA was 7.7 percent. High unemployment rates can affect a bank’s ability to extend credit.

We conducted a community contact with one local government agency to determine the credit and development needs in the AA. The agency administers several programs for home ownership and neighborhood rehabilitation. Identified credit and community development needs include support for programs for small businesses and entrepreneurs, workforce development and job training programs - particularly for young adults, and education programs, including literacy and basic skills.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNBA's performance under the lending test is Satisfactory. FNBA's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, lending-related activities, and AA credit needs. A substantial majority of the institution's home mortgage loans were within the bank's AA. The borrower distribution portion of the test received the majority of the weight. FNBA has reasonable penetration among borrowers of different income levels. FNBA's geographical distribution of loans was not as meaningful and did not receive significant weight because the AA does not contain any low-income geographies. The following presentation discusses FNBA's performance relative to the performance criteria:

Loan-to-Deposit Ratio

FNBA's quarterly average loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, performance context, and the credit needs of the AA. The bank's quarterly average net loan-to-deposit ratio over the twenty quarters since the last CRA evaluation was 32.18 percent. The ratio ranged from a quarterly low of 29.67 percent to a quarterly high of 35.33 percent during that period. The quarterly average net LTD ratio for a custom peer group of four similarly sized and situated banks was 52.84 percent over the same period. The average LTD ratio for these institutions ranged from a quarterly low of 36.13 percent to a quarterly high of 100.07 percent during that period.

Lending in Assessment Area

A substantial majority of FNBA's home mortgage loans were originated inside the bank's assessment area and the bank meets the standard for satisfactory performance. During the evaluation period, 82.14 percent of the number and 82.67 percent of the dollar amount of total home mortgage loans were originated within the bank's AA.

The following table illustrates loans made inside and outside of the bank's AA by number and dollar amount of loans:

Table 2 - Distribution of Loans Inside and Outside of Assessment Area

Loan Category of Type	Number of Loans					Dollar Volume				
	Inside		Outside		Total #	Inside		Outside		Total $(000s)
	#	%	#	%		$(000s)	%	$(000s)	%	
Home Purchase	14	79.31	1	6.67	15	1,807	94.02	115	5.98	$1,922
Refinance	46	82.09	12	20.69	58	4,284	82.16	930	17.84	$5,214
Home Improvement	55	80.80	12	17.91	67	2,781	77.34	815	22.66	$3,596
Totals	115	82.14	25	17.86	140	8,872	82.67	1,860	17.33i	$10,732

Source: 2013, 2014 and 2015 HMDA Loan Application Register (LAR)

Lending to Borrowers of Different Incomes

The distribution of home loans reflects reasonable distribution among individuals of different income levels, and FNBA's record of lending to borrowers of different incomes meets the standard for satisfactory performance.

In our analysis, we took into consideration the lack of affordability for a low- or moderate-income (LMI) family to purchase a home. Based on the 2010 census data, the median cost of housing is $265,785. The 2015 HUD updated median family income is $67,300, which means a low-income family earned less than $33,650. Additionally, moderate-income families earned at least $33,650 but less than $53,840. Given the median cost of a home, low- and moderate-income borrowers would have difficulty qualifying for home mortgage loans. In addition, 8.19 percent of households in the AA are below the poverty level. This also limits opportunities to lend to LMI borrowers.

The opportunity to lend to LMI borrowers is also limited as many of the LMI families rent as opposed to own their own homes. The 2010 U.S. Census data reported that renter occupied units represent 18.23 percent, and vacant housing units represent 10.13 percent, while owner-occupied units represent 71.64 percent of the total housing units available in the AA. In addition, there are numerous financial institutions competing for the market share of residential home purchase, home refinancing, and home improvement loan products. These factors make lending to LMI individuals challenging. In consideration of these mitigating factors, performance in lending to low- and moderate-income borrowers is adequate.

The distribution of home purchase loans to low-income borrowers is significantly below the percentages of low-income families in the AA. The percentage of home purchase loans made to moderate- income borrowers is slightly below the percentage of moderate-income families in the AA. The 2014 HMDA aggregate data indicates FNBA ranks 59 out of 145 lenders in the AA with a 0.22 percent market share in home purchase lending. Large nationwide banks and mortgage companies dominate the market for this product.

FNBA did not originate or purchase home refinance loans to low-income borrowers. The percentage of home refinance loans made to moderate income borrowers is near the percentage of moderate-income families in the AA. Based on the 2014 HMDA aggregate data, FNBA ranked 15 out of 145 lenders in the AA with a 1.43 percent market share in home refinance lending.

The distribution of home improvement loans to low-income borrowers was near the percentage of low-income families in the AA. The percentage of home improvement loans made to moderate-income borrowers exceeded the percentage of moderate-income families in the AA.

The following table illustrates the percentage of residential real estate loan originations in the AA by borrower income level as compared to the percent of AA families at each level:

Table 3 - Borrower Distribution of Residential Real Estate Loans

Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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	16.50	7.14	17.05	14.29	22.38	21.43	44.07	57.14
Home Refinance	16.50	0.00	17.05	15.22	22.38	30.43	44.07	54.35
Home Improvement	16.50	14.55	17.05	18.18	22.38	30.91	44.07	36.36

Source: HMDA – reported data report 01/01/13 – 12/31/15; 2010 U.S. Census data.

Geographic Distribution of Loans

As previously noted, according to 2010 U.S. Census data, there are no low-income geographies in the bank's AA, therefore the analysis is not as meaningful and this criteria is not weighted as heavily in the overall CRA rating.

FNBA did not originate or purchase home purchase loans in moderate-income geographies. The percentage of home refinance and home improvement loans in moderate-income geographies is significantly lower than the percentage of owner-occupied housing units in these geographies.

The following table details the bank's performance as compared to the percentage of owner-occupied housing units in each CT income level:

Table 4 - Geographic Distribution of Residential Real Estate Loans

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00	0.00	17.89	0.00	43.85	35.71	38.25	64.29
Home Refinance	0.00	0.00	17.89	4.35	43.85	34.78	38.25	60.87
Home Improvement	0.00	0.00	17.89	3.64	43.85	36.36	38.25	60.00

Source: HMDA – reported data report 01/01/13 – 12/31/15; 2010 U.S. Census data.

Responses to Complaints

FNBA did not receive any complaints regarding its performance in helping to meet the credit needs in the bank's AA during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.