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Comptroller of the Currency  
Administrator of National Banks

Small Bank

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Northeastern District  
Eastern Pennsylvania Field Office  
Four Greenwood Square, Suite 120  
3325 Street Road  
Bensalem, PA 19020

## **Public Disclosure**

**November 16, 1998**

# **Community Reinvestment Act Performance Evaluation**

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

**King Street and Warren Avenue  
Malvern, Pennsylvania 19355**

**Comptroller of the Currency  
Eastern Pennsylvania Field Office  
Four Greenwood Square, Suite 120  
3325 Street Road  
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 CRA performance of **The National Bank of Malvern** prepared by the **Comptroller of the Currency**, the institution's supervisory agency, as of **November 16, 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 C.F.R. Part 25.

**Institution's CRA Rating:** This institution is rated **"Satisfactory."**

Primary factors supporting the bank's overall rating include:

- ▶ The average loan-to-deposit ratio of 65% is considered sufficient based on the bank's size, financial condition, and assessment area credit needs.
- ▶ The majority of the bank's residential real estate and business loans are made within the assessment area.
- ▶ There is a good distribution of loans among borrowers of different income levels, particularly low- and moderate-income borrowers.
- ▶ Lending levels to small businesses are good which reflects responsiveness to the credit needs of the assessment area.

The following table indicates the performance level of **The National Bank of Malvern** with respect to each of the five performance criteria.

**Table I. Results of Performance Tests**

<b>SMALL INSTITUTION ASSESSMENT CRITERIA</b>	<b>THE NATIONAL BANK OF MALVERN PERFORMANCE LEVELS</b>		
	<b>Exceeds Standards for Satisfactory Performance</b>	<b>Meets Standards for Satisfactory Performance</b>	<b>Does Not Meet Standards for Satisfactory Performance</b>
<b>Loan to Deposit Ratio</b>		X	
<b>Lending in Assessment Area</b>		X	
<b>Lending to Borrowers of Different Incomes and to Businesses of Different Sizes</b>		X	
<b>Geographic Distribution of Loans</b>	Not Meaningful.		
<b>Response to Complaints</b>	No complaints received since the prior examination.		

## **Scope of the Examination**

This evaluation of The National Bank of Malvern's (NBM) performance covers the period from January 1, 1996 through November 16, 1998. The evaluation includes an analysis of NBM's sole assessment area, which covers the northeast portion of Chester County. We reviewed data from the bank's Home Mortgage Disclosure Act Loan Application Registers (HMDA-LAR) and found the data not sufficiently accurate for purposes of this analysis. Therefore, the analysis disclosed within this evaluation is based primarily on results of loan file testing performed during the examination. During our loan file review, we determined each borrowers' income level and whether the respective loan is in or out of the assessment area for all HMDA-reportable loans (i.e., home purchase mortgage, refinance, and home improvement loans) originating in 1996, 1997, and through August 1998.

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 tested all business loans originating in 1997 and through August 1998 for assessment area purposes and to determine the gross annual revenues of each business. The revenue information was then used to determine whether the business qualified as a small business for purposes of this examination. We did not review consumer loans during this examination. NBM does not track data regarding consumer loans because this is not required under the regulation. Additionally, the bank did not extend any farm loans during the examination period.

## **Description of Institution**

NBM is a \$53 million independent bank located approximately 30 miles northwest of Philadelphia, Pennsylvania. NBM's main office is located in Malvern, Pennsylvania, and its only branch office is in nearby Frazer, Pennsylvania. Each location is within the Philadelphia Metropolitan Statistical Area. This area is also one of the westernmost points of the affluent "Main Line" section of the Philadelphia suburbs. There are no operating subsidiaries of the bank.

No branches have opened or closed since our last examination. NBM offers 24 hour banking via automated teller machines at both locations. Major competitors primarily are several large local community banks, all of which are larger than NBM and provide intense competition. Additionally, several larger regional banks have local branch offices. NBM's size and legal restrictions on maximum loan amounts affect its ability to compete within their local market due to high real estate values. NBM focuses on remaining a niche lender concentrating on serving the needs of local small businesses and

consumer borrowers. There are no financial or legal impediments impacting NBM's ability to help meet its community credit needs.

The following table illustrates the composition of NBM's loan portfolio as September 30, 1998.

<b>Loan Type</b>	<b>\$ Amount (000)</b>	<b>% of Portfolio</b>
First Mortgage Residential Loans	18,499	56%
Business Loans	12,371	37%
Other Mortgage Loans	1,628	5%
Consumer Loans	601	2%
<b>Totals</b>	<b>33,099</b>	<b>100%</b>

### **Description of Assessment Areas**

NBM has defined its assessment area as 38 contiguous census tracts located within the northeast portion of Chester County (MSA #6160). There are 5,737 companies which qualify as small businesses which equate to 69% of the total businesses within the assessment area. There are only 161 farms which qualify as small farms which equate to 90% of the total farms within the assessment area. NBM's assessment area meets the requirements of the CRA regulation, and does not arbitrarily exclude any low- or moderate-income areas.

Detail of the demographics of the assessment area is included in the following table.

<b>Assessment Area Demographics</b>			
<b>Income Designation</b>	<b># of Census Tracts</b>	<b>% of Total Tracts</b>	<b>% of Households Residing in the Census Tracts</b>
<b>Low</b>	0	0%	0%
<b>Moderate</b>	1	3%	2%
<b>Middle</b>	9	24%	23%
<b>Upper</b>	27	71%	75%
<b>NA</b>	1	3%	0%
<b>Total</b>	<b>38</b>	<b>100%</b>	<b>100%</b>

Based on 1990 census data, NBM's assessment area has a population of 156,452 which includes total households of 58,435. As seen in the above table, only 2% of all households within the assessment area are located in low- and moderate-income tracts.

The median family income for the assessment area averages \$52,900. Housing units total 61,144 of which 78% are one-to-four family units. Owner-occupied housing is 67% of the total, and rental housing is 29% of the total. Vacant housing units equal 4% of the total units.

The local economy remains stable and very diverse. The major employers in the area are service-oriented companies including Vanguard, Wyeth-Ayerst, Vishay Intertechnology, and Sanchez Computer Associates, Inc. The unemployment rate for Philadelphia, including Chester County, is 4.3% for the second quarter of 1998. This figure represents a continued decline in unemployment rates for the region over the past several quarters.

Credit needs of the community were determined during this examination through discussions with management and by reviewing local community contacts made by other regulatory agencies during the examination period. Both indicated that small business loans are a primary credit need within the assessment area. As noted earlier in this evaluation, NBM focuses on serving the needs of local small businesses and consumer borrowers.

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

### **Loan to Deposit Ratio**

NBM's average loan-to-deposit ratio of 65% for the last ten consecutive quarters is considered reasonable given the bank's size, financial condition, and assessment area credit needs. This ratio is only slightly below the national peer average of 68% for the same time frame.

### **Lending in Assessment Area (AA)**

As noted earlier in this evaluation, most of the loans originated by NBM have been business and residential real estate secured loans. Therefore, we focused our analysis on these types of loans when determining the extent of NBM's lending inside versus outside of its AA. We sampled 100% of HMDA-reportable loans originated in 1996, 1997, and through August of 1998 to determine the location of each loan origination. Additionally, we sampled 100% of business loans originated in 1997 and through August of 1998 for

the same reason. As the tables below indicate, the bank originated the majority of both residential real estate and business loans within its AA.

<b>HMDA Loan Originations Within The Assessment Area During Examination Period</b>				
<b>Number of Loans</b>				
	1996 HMDA Loans	1997 HMDA Loans	1998 HMDA Loans	Total
# of Loans Made in AA	23	16	18	57
Total Loans	29	23	21	73
% Originations in AA	79%	70%	86%	78%
<b>Dollar Amount of Loans (\$000)</b>				
\$ Amount of Loans Made in AA	1,546	1,324	1,308	4,178
Total \$ Amount of Loans	2,351	2,601	1,778	6,733
% \$ Amount in AA	66%	51%	74%	62%

Note: 1998 totals are through August.

<b>Business Loan Originations Within The Assessment Area During Examination Period</b>			
<b>Number of Loans</b>			
	1997 Business Loans	1998 Business Loans	Total
# of Loans Made in AA	13	15	28
Total Loans	16	19	35
% Originations in AA	82%	79%	80%
<b>Dollar Amount of Loans (\$000)</b>			
\$ Amount of Loans Made in AA	1,906	1,504	3,410
Total \$ Amount of Loans	1,989	2,129	4,118
% \$ Amount in AA	96%	71%	83%

Note: 1998 totals are through August; 1996 data was not obtained.

## Lending to Borrowers of Different Incomes

We reviewed 100% of HMDA-reportable loans originated during 1996, 1997, and up through August of 1998 to determine NBM's record of lending to borrowers' of different income levels. Overall, our review revealed good lending penetration to borrowers of different income levels, particularly low- and moderate-income borrowers. Specifically, the data within the table below illustrates a very high level of HMDA loan originations to low- and moderate-income borrowers when compared to the percentages of such families residing within the AA.

<b>HMDA Loan Originations to Borrowers of Different Income Levels by Number and Dollar Amount</b>										
Income Category	Low		Moderate		Middle		Upper		Total	
	# of Loans	%								
1996	4	17%	7	31%	9	39%	3	13%	23	100%
1997	1	6%	3	18%	6	38%	6	38%	16	100%
1998	2	11%	1	6%	2	11%	13	72%	18	100%
	\$ Amt. (000)	%								
1996	85	6%	320	21%	912	59%	229	14%	1,546	100%
1997	18	1%	41	3%	381	29%	884	67%	1,324	100%
1998	41	3%	69	5%	216	17%	982	75%	1,308	100%
Total Families	8%		12%		19%		61%		100%	

Note: 1998 HMDA loan data is through August 1998.

## Lending to Small Businesses

We reviewed 100% of business loans originated during 1997 and up through August of 1998 to determine NBM's record of lending to small businesses. Data for 1996 was not obtained. A small business is defined as a business with less than or equal to \$1 million in gross annual revenues.

The bank is very responsive to the credit needs of small businesses within its AA. During 1997, 77% of NBM's business loans by number and 63% by dollar amount were made to small businesses. Through August of 1998, 73% of NBM's business loans by number

and 64% by dollar amount were made to small businesses. In comparison, 69% of total businesses in the AA qualify as small businesses. Additionally, 50% of all business loans made during the examination period were for amounts less than \$100 thousand and 97% were for amounts less than \$500 thousand.

The following two tables provide a detailed breakdown of NBM's lending patterns to small businesses.

<b>Small Business Loans Originated in 1997 within the Assessment Area</b>				
<b>Original Loan Amounts to Businesses with Revenue &lt;= \$1 Million</b>	<b>Small Business Loans Made to Small Businesses</b>			
	<b># of Loans</b>	<b>%</b>	<b>\$ Amount (000)</b>	<b>%</b>
<b>Less than \$100,000</b>	5	50%	282	24%
<b>\$100,000 to \$250,000</b>	4	40%	639	53%
<b>\$250,001 to \$500,000</b>	1	10%	275	23%
<b>\$500,001 to \$1,000,000</b>	0	0%	0	0%
<b>Total</b>	10	100%	1,196	100%
<b>Original Loan Amounts to Businesses with Revenue &gt;= \$1 Million</b>	<b>Additional Business Loans ***</b>			
	<b># of Loans</b>	<b>%</b>	<b>\$ Amount (000)</b>	<b>%</b>
<b>Less than \$100,000</b>	1	33.3%	25	4%
<b>\$100,000 to \$250,000</b>	1	33.3%	125	18%
<b>\$250,001 to \$500,000</b>	0	0%	0	0%
<b>\$500,001 to \$1,000,000</b>	1	33.3%	560	78%
<b>Total</b>	3	100%	710	100%

\*\*\* These loans are considered small loans because they are less than \$1 million. These loans were not extended to small businesses.

<b>Small Business Loans Originated in 1998 within the Assessment Area</b>				
<b>Original Loan Amounts to Businesses with Revenue &lt;= \$1 Million</b>	<b>Small Business Loans Made to Small Businesses</b>			
	<b># of Loans</b>	<b>%</b>	<b>\$ Amount (000)</b>	<b>%</b>
<b>Less than \$100,000</b>	6	55%	257	27%
<b>\$100,000 to \$250,000</b>	4	36%	423	43%
<b>\$250,001 to \$500,000</b>	1	9%	288	30%
<b>\$500,001 to \$1,000,000</b>	0	0%	0	0%
<b>Total</b>	11	100%	968	100%
<b>Original Loan Amounts to Businesses with Revenue &gt;= \$1 Million</b>	<b>Additional Business Loans ***</b>			
	<b># of Loans</b>	<b>%</b>	<b>\$ Amount (000)</b>	<b>%</b>
<b>Less than \$100,000</b>	2	50%	143	27%
<b>\$100,000 to \$250,000</b>	2	50%	394	73%
<b>\$250,001 to \$500,000</b>	0	0%	0	0%
<b>\$500,001 to \$1,000,000</b>	0	0%	0	0%
<b>Total</b>	4	100%	537	100%

Note: Data is through August 1998.

\*\*\* These loans are considered small loans because they are less than \$1 million. These loans were not extended to small businesses.

## **Geographic Distribution of Loans**

NBM's AA includes no low-income census tracts. Additionally, the sole moderate-income tract is not in close proximity to the bank's two branch offices. During our loan file review of HMDA-reportable and business loans, we determined only one loan was extended in the bank's moderate-income tract during the examination period. Based on these facts, we determined our analysis of NBM's geographic distribution of credit does not provide any meaningful data.

## **Compliance with Antidiscrimination Laws**

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