



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

February 14, 2011

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

DNB First, National Association  
Charter Number: 661

4 Brandywine Avenue  
Downingtown, PA 19335

Office of the Comptroller of the Currency

Eastern Pennsylvania Field Office  
1150 Northbrook Drive, Suite 303  
Trevese, 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 Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

The major factors that support this rating include:

- DNB First, National Association's (DNB) distribution of loans reflects reasonable penetration among borrowers of different incomes and businesses of different sizes;
- DNB's geographic distribution of loans reflects reasonable dispersion throughout its assessment area (AA);
- Although a majority of DNB's primary loan products are outside of its AA, this was due to the number of home purchases made during the evaluation period. The majority of all the other loan types, however, were made within the bank's AA;
- DNB's overall loan-to-deposit ratio is reasonable; and
- DNB's responsiveness to community development (CD) needs and opportunities in its AA is adequate.

## **Scope of Examination**

DNB was evaluated under the Intermediate Small Bank Community Reinvestment Act (CRA) examination procedures, which include a lending test and a CD test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AA through CD lending, qualified investments, and CD services.

The lending test for DNB covers its performance from January 1, 2008 through December 31, 2010, as this is representative of its lending strategy since the last CRA examination. The evaluation period for the CD test is from January 8, 2008 through February 14, 2011. CD loans, qualified investments, and CD services submitted by management were verified to ensure that they met the regulatory definition for community development.

DNB's primary loan products are home mortgage loans and small business loans. The home mortgage loan analysis is based upon the bank's Home Mortgage Disclosure Act-Loan Application Registers (HMDA-LAR). The HMDA-LAR data was tested prior to this review and found to be reliable for the purposes of our analysis. The small business loan analysis is based upon the bank's CRA-LAR. The CRA-LAR data was also tested prior to this review and found to be reliable as well for the purposes of this analysis. Therefore, we used both the HMDA data and the CRA data to evaluate the bank's home mortgage loan and small business loan performance.

## Description of Institution

DNB is a \$603 million locally owned community bank headquartered in Downingtown, Pennsylvania (PA). The bank is a full service, intrastate institution offering a standard array of traditional loan and deposit products as well as trust services. The bank's website at [www.dnbfirst.com](http://www.dnbfirst.com) provides a listing and description of all deposit, loan, and trust services. DNB is a wholly owned subsidiary of DNB Financial Corporation, a one-bank holding company. The bank has one subsidiary, DNB Financial Services, Inc. The subsidiary offers non-depository products and services, such as securities brokerage, mutual funds, life insurance, and annuities. Subsidiary activities are not considered in this evaluation and do not impact the bank's capacity for community reinvestment. There have been no significant changes to DNB's corporate structure, including merger and acquisition activities, since the last CRA examination.

DNB services all of Chester County and the northwestern portion of Delaware County with 13 branches. DNB operates 11 full service branches and two limited service branches (the Media branch and the Tel Hai branch). The main branch in Downingtown, along with the Caln, Downingtown East End, Exton, Kenneth Square, Lionville, Little Washington, Ludwig's Corner, West Chester, West Goshen, and Tel Hai branches are all located in Chester County. Six of these branches are located in a middle-income census tract while five are located in an upper-income census tract in Chester County. The Chadds Ford and Media branches are the only two branches located in Delaware County. The Chadds Ford branch is located in an upper-income census tract while the Media branch is located in a middle-income census tract in Delaware County. Although there are no branches in a moderate-income census tract, two of the 13 branches are located near a majority of the moderate-income census tracts in the bank's AA. The bank's AA does not have any low-income census tracts. Since the last CRA exam, no branches have been opened or closed. Extended banking hours are available during the weekdays at all 11 full service branches. Eight of the 11 also offer extended weekend hours. Automated Teller Machines (ATMs) are also available at all locations; however, the Tel Hai limited service branch is limited for use to only the residents and staff of the Tel Hai Retirement Community.

As of December 31, 2010, DNB reported \$390 million in net loans, \$494 million in total deposits, and \$56 million in Tier One capital. The net loans and leases to total assets ratio was 65 percent. The bank's loan portfolio consists of home mortgage loans (26 percent), commercial and commercial real estate loans (59 percent), construction and development loans (nine percent), consumer loans (three percent), and other loans (three percent). Within the home mortgage loan portfolio, the bank originates long-term mortgage loans for sale on the secondary market. According to the bank's strategic plan, home mortgage loans and small business loans are the bank's primary loan products. Numerous national, state, and savings banks, as well as branches of several regional institutions, provide major deposit and lending competition. According to the June 30, 2010 Federal Depository Institution Corporation's (FDIC) Deposit Market Share Report, DNB ranked 12 out of 56 institutions in Chester and Delaware Counties with a 2.27 percent deposit market share. Competitors in Chester and Delaware

Counties include: Wells Fargo Bank, ranking first with a 14.89 percent deposit market share, Citizens Bank of PA, ranking second with a 10.95 percent deposit market share, and TD Bank, ranking third with a 10.25 percent deposit market share.

There are no known legal, financial, or other factors impeding DNB's ability to help meet the needs of its community. DNB's last CRA evaluation was dated January 8, 2008, and DNB was rated "Satisfactory".

## **Description of Assessment Area(S)**

DNB has one AA in southeastern PA, which is described below.

### **Chester - Delaware County AA**

DNB has defined the entire county of Chester and the northwestern portion of Delaware County as its AA. These counties are located in the southeastern region of PA, anchored by the county seats of West Chester and Media. Both Chester County and Delaware County are part of the Philadelphia, PA Metropolitan Division (MD) #37964. This MD is part of the Philadelphia-Camden-Wilmington, PA-NJ-DE-MD Metropolitan Statistical Area (MSA) #37980. The bank's AA totals 129 census tracts. It is comprised of eight moderate-income census tracts (six percent), 38 middle-income census tracts (29 percent), 81 high-income census tracts (63 percent), and two census tracts (two percent) that have not been assigned an income classification. The AA does not have any low-income census tracts. In addition, the AA does not have any census tract designated as distressed or underserved tracts. The overall AA is not considered a distressed or underserved area. The bank's AA complies with the regulation and does not arbitrarily exclude low- or moderate-income areas.

According to the 2000 U.S. Census data, the population of the AA is 510,305. The AA contains 133,583 families and 184,801 households. Demographics indicate that approximately ten percent of the families are categorized as low-income, 12 percent as moderate-income, 19 percent as middle-income, and 59 percent as upper-income. Updated 2010 median family income was \$75,500 for the AA and the median value of a home was \$195,435 for the AA. There are 196,451 housing units with owner-occupied units at 72 percent, rental-occupied units at 22 percent, other occupied units at three percent, and vacant-housing units at three percent in the AA. Approximately 9,008 or five percent of households are below the poverty level.

The economy for the AA has slowed somewhat, reflective of the nation's economic slowdown over the past few years. According to the Bureau of Labor Statistics, the December 2010 unemployment rate for the Philadelphia-Camden-Wilmington, PA-NJ-DE-MD MSA was 8.40 percent compared to the state unemployment rate of 8.50 percent and the national unemployment rate of 9.40 percent. The December 2010 unemployment rate for the individual counties of Chester and Delaware was 5.80 percent and 7.80 percent, respectively. According to the 2000 U.S. Census data, there were 52,201 non-farm businesses located in the AA, of which 2,111 are located in moderate-income census tracts, 10,421 are located in middle-income census tracts,

39,659 are located in upper-income census tracts, and ten are located in census tracts that have not been assigned an income classification. Approximately 39,157 or 75 percent have revenues less than \$1 million. The AA is diverse with service, retail, construction, wholesale, and finance, insurance, and real estate industries providing the majority of employment opportunities. According to the Chester County Chamber of Business and Industry, the five top employers for Chester County in 2010 include Vanguard Group, Siemens Medical Solutions, QVC, County of Chester, and Chester County Intermediate Unit. According to the Delaware County Commerce Center, the top five employers for Delaware County in 2010 include Crozer Keystone Health Systems, Jefferson Health Systems, Boeing Company, Delaware County Community College, and Elwyn Incorporated.

During this evaluation, we contacted a private non-profit organization. The organization's primary mission is to develop affordable housing for low- to moderate-income individuals and families in the bank's AA. The organization also offers numerous other programs including, but not limited to, programs for first time home buyers, home rehabilitation, and home maintenance. According to this community contact, there is an overall need for first time home buyer and affordable housing loans and community services to the many low- and moderate-income individuals and families. These include assistance with home rehabilitation and maintenance, fair housing education, and credit and foreclosure counseling. In addition, the organization has received fewer donations of funds due to the economic slowdown. These donations sustain the organization. The organization itself, as well as many other similar non-profit organizations that help low- to moderate-income individuals and families, can also benefit from donations of funds and volunteers to assist with credit and foreclosure counseling. Small business lending is also a recognized credit need. According to the contact, many of the organization's partners are small businesses. Many of these small businesses have informed the contact that many of their unused lines of credit for working capital have been cancelled due to no use. There is a need for small businesses to have access to working capital.

## **Conclusions with Respect to Performance Tests**

### **LENDING TEST**

DNB's performance under the lending test is satisfactory. DNB's loan-to-deposit ratio is reasonable. Although a majority of DNB's primary loan products are outside of the bank's AA, this was due to the number of home purchases made during the evaluation period. The majority of all the other loan types, however, were made within the bank's AA. DNB was found to have reasonable penetration among borrowers of different income levels and businesses of different sizes. DNB's geographical distribution of loans was reasonable, and took into account that the AA does not contain any low-income census tracts. All criteria of the lending test are documented below:

## Loan-to-Deposit Ratio

DNB's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, lending-related activities, and AA credit needs. The bank's quarterly average net loan-to-deposit ratio over the 12 quarters since the last CRA examination was 75.11 percent. During this time period, the ratio ranged from a quarterly low of 68.38 percent to a quarterly high of 79.95 percent. The bank's quarterly average net loan-to-deposit ratio is reasonable when taking into consideration the bank's lending market share, the competition for loans, and the fact that the bank sells home mortgage loans in the secondary market as a way to manage interest rate risk and credit risk. During the evaluation, DNB sold over \$13MM of its home mortgage loans to the secondary market. If DNB had retained these loans, their net loan-to-deposit ratio would have been somewhat higher.

DNB's net loan-to-deposit ratio compares reasonably with other financial institutions of similar size, location, and product offerings. The quarterly average net loan-to-deposit ratio for the custom peer group of nine similarly-sized national community banks in the state of PA was 77.44 percent over the same 12 quarters. During this time period, the peer ratios ranged from a quarterly low of 57.75 percent to a quarterly high of 99.71 percent.

## Lending in Assessment Area

A majority of DNB's primary loan products were originated or purchased outside the bank's AA. During the evaluation period, 44 percent of the number of loans originated or purchased in these primary loan products were made within the bank's AA, while 56 percent of the number of loans originated or purchased in these primary loan products were made outside the bank's AA. According to the table below, this was due to the number of home purchases made during the evaluation period. The majority of all the other loan types, however, were made within the bank's AA.

According to management, the bank purchased two pools of manufacturing housing loans in 2008 for approximately \$14 million. DNB does not service these loans. Servicing remains with the company from which the bank purchased these pools of loans. At the time, this was a strategic purchase to help overall earnings as these loans were and continue to be high yielding assets. DNB recognized these assets as loans and reported them as HMDA reportable home purchases. Although the borrowers of these manufacturing housing loans are moderate-income individuals, the loans themselves originated from 18 different states within the Mid-Atlantic and Southeastern regions of the U.S., mainly outside of the bank's AA. Per management, the bank has no plans to purchase anymore pools. No additional purchases have been made since 2008. At the last CRA evaluation, the bank did not purchase any of these loans. From that CRA evaluation, a majority of the bank's primary loan products were made within the bank's AA. It was noted that 78 percent of the number of loans in the bank's primary loan products were made within the bank's AA.

The following table details the bank's lending within the AA by number and dollar amount of home and business loans.

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	18	5.08	336	94.92	354	3,704	12.80	25,242	87.20	28,946
Home Improvement	81	96.43	3	3.57	84	3,776	78.49	1,035	21.51	4,811
Home Refinance	172	85.15	30	14.85	202	28,848	61.07	18,392	38.93	47,240
Small Business	97	53.01	86	46.99	183	26,688	46.69	30,470	53.31	57,158
Totals	368	44.71	455	55.29	823	63,016	45.61	75,139	54.39	138,155

Source: HMDA data and CRA small business loan data from 1/1/2008-12/31/2010.

**Lending to Borrowers of Different Incomes and to Businesses of Different Sizes**

The distribution of loans reflects reasonable penetration among borrowers of different incomes and businesses of different sizes and meets the standards for satisfactory performance. More emphasis was placed on lending to businesses, as this makes up the largest portion of the bank’s loan portfolio.

*Home Loans*

The distribution of home loans reflects reasonable penetration among borrowers of different income levels. DNB’s record of lending to borrowers of different incomes meets the standards for satisfactory performance. In our analysis of lending to low-income borrowers, we took into consideration the lack of affordability for low-income individuals to purchase a home. Based on the 2000 U.S. Census data, the average median housing value in the AA was \$195,435. The updated median family income was \$75,500, based on the 2010 data from the U.S. Department of Housing and Urban Development (HUD). This means that low-income individuals earn less than \$37,750. Furthermore, approximately five percent of households are below the poverty level. In addition, the unemployment rate was 5.80 percent in Chester County and 7.80 percent in Delaware County. Based on the affordability of housing in the AA, the percentage of households below the poverty level, and the unemployment statistics, it would be difficult for low-income individuals to purchase housing in the AA. Therefore, we placed more emphasis on the bank’s moderate-income performance. No home purchases were originated to low-income borrowers. The percentage of all home loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

The following table details the bank’s performance in lending to borrowers of different income levels in the AA.

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	10.12	0.00	12.38	13.33	19.11	26.67	58.38	60.00
Home Improvement	10.12	15.38	12.38	17.95	19.11	19.23	58.38	47.44
Home Refinance	10.12	12.03	12.38	17.72	19.11	25.95	58.38	44.30

Source: HMDA data from 1/1/08-12/31/10; 2000 U.S. Census data.

**Business Loans**

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. DNB’s record of lending to businesses of different sizes meets the standards for satisfactory performance. Compared to the percentage of AA businesses with gross annual revenues less than \$1 million, DNB’s performance is lower in terms of the number of loans originated. DNB’s performance is considered reasonable when taking into consideration the strong competition from larger financial institutions in the AA. In addition, 65 percent of DNB’s business loans were loans under \$250 thousand. This is a good indication that business lending is primarily to small businesses.

The following table details the bank’s performance in lending to businesses of different sizes in the AA.

<b>Table 2A - Borrower Distribution of Loans to Businesses in Chester/Delaware County AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	75.01	6.05	18.94	100%
% of Bank Loans in AA by #	38.14	46.40	15.46	100%

Source: CRA small business loan data from 1/1/2008-12/31/2010; 2009 Dun and Bradstreet data.

**Geographic Distribution of Loans**

The bank’s geographic distribution of loans reflects reasonable dispersion throughout the AA. No conspicuous gaps were identified. The bank’s AA contains no low-income census tracts. Therefore, the evaluation of lending activity in low-income census tracts is not applicable. More emphasis was placed on the geographic distribution of business loans, as business loans make up the largest portion of the bank’s loan portfolio.

**Home Loans**

The geographic distribution of home loans reflects reasonable dispersion throughout the AA. When taking into consideration the relatively low level of owner-occupied housing units in moderate-income census tracts, the strong competition from larger institutions in the AA, and the location of the bank’s branches in relation to the moderate-income geographies, the bank’s performance is considered reasonable. All of the bank’s branches are located in middle-income census tracts and upper-income census tracts. As a result, the majority of the bank’s loans are distributed primarily to middle-income and upper-income geographies.

The following table details the bank’s performance as compared to the percentage of owner-occupied housing units in each census tract income level.

<b>Table 3 - Geographic Distribution of Residential Real Estate Loans in Chester/Delaware County AA</b>								
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	N/A	N/A	2.68	0.00	22.31	25.00	75.01	75.00
Home Improvement	N/A	N/A	2.68	3.80	22.31	31.65	75.01	64.56
Home Refinance	N/A	N/A	2.68	2.42	22.31	29.20	75.01	67.88

Source: HMDA data from 1/1/08-12/31/10; 2000 U.S. Census data.

**Business Loans**

The geographic distribution of business loans reflects excellent dispersion throughout the AA. Demographics indicate that four percent of the businesses were located in moderate-income census tracts, 20 percent were located in middle-income census tracts, and 76 percent were located in upper-income census tracts. DNB’s performance in the moderate-income census tracts exceeds the percentage of businesses in those tracts.

The following table details the bank’s performance as compared to the percentage of businesses in each census tract income level.

<b>Table 3A - Geographic Distribution of Loans to Businesses in Chester/Delaware County AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business	N/A	N/A	4.04	8.25	19.96	23.71	75.97	68.04

Source: CRA small business loan data from 1/1/08-12/31/10; 2000 U.S. Census data.

**Responses to Complaints**

DNB did not receive any CRA related complaints during this evaluation period.

**COMMUNITY DEVELOPMENT TEST**

The CD Test is rated satisfactory. The bank’s level of CD activities is considered adequate given its size and capacity, and considering the CD needs and opportunities of its AA. During the evaluation period, DNB’s one CD loan, along with the extent to which the bank provides CD services, and the \$440 thousand worth of qualified grants and donations made, more than offset the lack of any CRA qualified investments.

## **Number and Amount of Community Development Loans**

During this evaluation period, DNB originated one CD loan to a private non-profit organization within its AA. This \$115 thousand CD loan was used to finance affordable housing for low- and moderate-income individuals within the AA.

DNB also originated a Small Business Administration (SBA) loan that has a community development purpose during the evaluation period. This SBA loan is included in DNB's CRA small business loan data. The loan promotes economic development by financing a small business in the AA. It was for \$325 thousand to finance the purchase of equipment and inventory.

## **Number and Amount of Qualified Investments**

During the evaluation period, DNB made 83 qualifying grants and donations totaling over \$440 thousand to 23 different organizations in the AA. These grants and donations provide economic development by financing small businesses and provide affordable housing and educational and community services to low- and moderate-income individuals and families within the AA.

DNB made no qualifying investments during the evaluation period. Investment opportunities are limited in the AA and are extremely hard to come by given DNB's small size and the fierce competition for such opportunities.

## **Extent to Which the Bank Provides Community Development Services**

DNB's service delivery systems are accessible to geographies and individuals of different income levels in the AA. No branches have been opened or closed since the last CRA evaluation. Branch locations are in upper- and middle-income geographies; however, are in close proximity of the AA's few populated moderate-income geographies with access available via main thoroughfares and public transportation. There are no low-income geographies within the bank's AA.

DNB provides banking services throughout the entire AA with 11 full service branches and two limited service branches. As a percent of the total number of branches, 54 percent of the branches (or five full service branches and two limited service branches) are located in the middle-income geographies where 29.46 percent of the population resides, while 46 percent of the remaining branches (or six full service branches) are located in upper-income geographies where 62.79 percent of the population resides. 1.55 percent of the population resides in census tracts that have not been assigned an income classification. None of the full service or limited service branches is located in moderate-income geographies. However, two of the full service branches are adjacent to six of the eight moderate-income geographies. DNB's Caln Branch is adjacent to five moderate-income census tracts in the Coatesville area and DNB's Downingtown West Chester Branch is adjacent to one moderate-income census tract within West Chester. With 6.20 percent of the population residing in moderate-income geographies, the distribution of DNB's branches adjacent to moderate-income geographies exceeds the percent of the population residing in such geographies. The presence of full-service

branches in these locations is an indication that the bank is helping to provide retail and community development services to the lower-income areas of the AA.

DNB's service hours also provide convenience and reasonable access for the entire community. Services offered to all customers are consistent with, and do not preclude convenient access to low- to moderate-income individuals living within the AA. All of the full service branches offer ATM services with weekdays evening hours and extended Friday evening hours. Eight of the full service branches offer extended weekend banking hours. Of the two limited service branches, only the Tel Hai limited service branch is limited for use to only the residents and staff of the Tel Hai Retirement Community. In addition, DNB has an assortment of products that assist low- to moderate-income individuals and families. DNB offers a free checking account with no minimum balance that offers free online banking and bill pay, and a free statement savings account, which requires a minimum balance of \$150 to earn interest. With a five percent poverty rate and 22 percent of the families' considered low- and moderate-income, the provision of these services is considered favorably under the CRA review.

During the evaluation period, 24 bank employees provided financial expertise and/or leadership services to 18 different qualifying community development organizations serving the AA.

### **Responsiveness to Community Development Needs**

DNB's CD activities, as a whole, demonstrate adequate responsiveness to the needs and opportunities in the AA. Identified needs include loans to low- and moderate-income borrowers, including first time home buyer and affordable housing loans, and access to financing for small businesses. DNB met these needs by originating one CD loan totaling \$115 thousand that helped finance affordable housing within the AA. DNB also originated an SBA loan that has a community development purpose. The loan promotes economic development by financing a small business in the AA. In total, \$440 thousand worth of qualifying grants and donations were extended by the bank to 23 different organizations that target affordable housing, community services to low- and moderate-income individuals and families, and economic development. Additionally, 24 bank employees served on 18 different organizations that promote economic development or provide services targeted to low- to moderate-income individuals and families.

### **Fair Lending or Other Illegal Credit Practices Review**

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