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Comptroller of the Currency  
Administrator of National Banks

**LARGE  
BANK**

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Northeastern District  
1114 Avenue of the Americas, Suite 3900  
New York, New York 10036

## **Public Disclosure**

October 5, 1998

# **Community Reinvestment Act Performance Evaluation**

**National Penn Bank  
Charter Number: 2137**

**Philadelphia & Reading Avenues  
Boyertown, Pennsylvania 19512**

**Comptroller of the Currency  
Eastern Pennsylvania Field Office  
4 Greenwood Square, Suite 120  
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 **National Penn Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of October 5, 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**.

The following major factors support this rating.

- A substantial majority of loans are made in the assessment areas, with lending levels reflecting an overall good responsiveness to credit needs.
- An extensive array of loan products are available to low/moderate income areas and individuals, and to small businesses.
- There is an overall good distribution of loan originations both geographically, and among retail customers of different income levels and businesses of various sizes.
- There is an adequate level of qualified community development loans.
- There is a good level of qualified community development investments, including complex and innovative investments, that are responsive to the needs of each assessment area.
- Retail services are reasonably accessible to all segments of each assessment area.
- The bank is a leader in providing qualified community development services in each assessment area.

The following table indicates the performance level of **National Penn Bank** with respect to the lending, investment, and service tests.

Performance Levels	National Penn Bank Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High satisfactory	x	x	x
Low satisfactory			
Needs to improve			
Substantial noncompliance			

\* Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

## Scope of Review

This evaluation covers the period January 1996 through October 5, 1998. Information sources include Home Mortgage Disclosure Act - Loan Activity Reports (HMDA-LARs) and small business and small farm loan registers. Specific loan products reviewed were home mortgage loans, home improvement loans, small commercial loans (original amounts \$1 million or less), small farm loans (original amounts \$500 thousand or less), loans to small businesses and farms (annual gross revenues \$1 million or less), and qualified community development loans. Also, at management's request we reviewed the following consumer loan categories: home equity, motor vehicle, other secured and unsecured. The review of HMDA, consumer, and small business and farm loans covered the period January 1996 through June 30, 1998, with remaining loan categories and investment activity covering the period January 1996 through October 5, 1998.

## **Description of Institution**

National Penn Bank (NPB), Boyertown, Pennsylvania is the wholly owned subsidiary of National Penn Bancshares, Inc. NPB operates as four divisions: National Penn Bank, Chestnut Hill National Bank, 1st Main Line Bank, and National Asian Bank. These divisions are for marketing purposes, and do not represent separate bank charters. NPB is a full service retail bank and operates 53 offices covering eight counties in Southeastern Pennsylvania. Affiliates include: Investors Trust Company, National Penn Investment Company, and National Penn Life Insurance Company. Also, NPB has a wholly-owned subsidiary, Link Financial Services, Inc., which is authorized to sell life insurance and fixed annuities.

As of June 30, 1998, total assets of NPB were \$1.67 billion, including loans of \$1.17 billion and investments of \$407 million. Real estate related credit comprised 85% of loans, with 1-4 family residential real estate loans and non-farm/non-residential real estate loans representing 43% and 30% of total loans, respectively. Commercial and industrial loans accounted for 12% of loans, and loans to individuals comprised 3% of total loans. The loan-to-deposit ratio was 101% as of June 30, 1998. NPB sells residential loans in the secondary market. For 1996 and 1997, respectively, the bank sold 34% and 64% of the residential loans it originated.

The most recent deposit data available from the FDIC, dated June 30, 1997, shows NPB with 1.5% of the deposits in its combined assessment areas. On a county level, the bank's largest market share of deposits is in Berks County at 11.2%. Deposit market shares for remaining counties range from 2.4% in Lehigh County to .3% in Northampton County.

Southeastern Pennsylvania has maintained a strong economy over the past five years, although performing at a level somewhat lower than national averages. The economy is diverse, with a mix of manufacturing and service based businesses. Numerous Fortune 500 companies are located in the market as well as large numbers of closely held businesses.

NPB, consistent with its size and resources, has the ability to help meet the credit needs of its communities, including low and moderate income areas. There are no financial or legal matters which impede NPB's ability to meet its CRA obligations. The bank competes with several larger interstate and regional banking companies, and local community bank and thrift institutions.

## Description of Assessment Area

NPB has three assessment areas in Southeastern Pennsylvania consisting of the entire Reading MSA (6680), parts of the Allentown-Bethlehem-Easton MSA (0240), and portions of the Philadelphia CMSA (6160). The assessment areas comply with regulatory guidelines and do not arbitrarily exclude low or moderate income geographies. The following table shows the distribution of census tracts for each assessment area by income category.

CENSUS TRACT DISTRIBUTION					
MSA/COUNTY	TOTAL CENSUS TRACTS	% LOW INCOME	% MODERATE INCOME	% MIDDLE INCOME	% UPPER INCOME
6680/Berks*	76	5%	20%	63%	11%
0240/Lehigh*,Northampton	82	2%	13%	56%	26%
6160/Bucks, Chester, Delaware, Montgomery*, Philadelphia	377	0%	5%	42%	51%
Total	535	1%	9%	47%	41%

\* Entire county included in assessment area.

Low income census tracts are found in the City of Reading, Berks County (4 tracts); and the City of Allentown, Lehigh County (2 tracts). Moderate income census tracts are concentrated in the cities of Reading (15 tracts), Allentown (11 tracts), and Philadelphia (10 tracts). In Montgomery County, there are concentrations of moderate income census tracts in Norristown (4 tracts) and Pottstown (3 tracts).

The median family income for the assessment areas combined is \$49,487. The City of Reading has the lowest median family income at \$27,111, followed by Allentown at \$32,910. Twelve percent of the families in the combined assessment areas are low income, and 16% are moderate income. Montgomery County accounts for the highest percentage of low income families (28%) and moderate income families (32%). Berks County also has higher percentages of low income families (23%) and moderate income families (21%), with concentrations in the City of Reading. Lehigh County shows 19% of families in the low income category and 17% of families with moderate incomes, with concentrations in the City of Allentown.

The combined assessment areas contain a total of 776,439 housing units, with 1% located

in low income tracts and 8% located in moderate income tracts. Sixty-seven percent of housing units in low income tracts are within the City of Reading, with the remaining 33% in the City of Allentown. The cities of Philadelphia and Reading each have approximately 30% of the total housing units in moderate income census tracts. Eighty-one percent of the assessment areas' housing units are 1-4 family structures and 16% are multifamily units. Sixty-eight percent are owner occupied and 27% are renter occupied. The percentage of units which are owner occupied in low income and moderate income census tracts are 27% and 45%, respectively. The percentage of units which are renter occupied in low income and moderate income census tracts are 63% and 46%, respectively. The median housing value for the combined assessment area is \$133,386. For the City of Reading, the median housing value drops to \$39,589.

There are similar needs for each assessment area which are primarily housing related, including single family and rental housing rehabilitation, home buyer and rental assistance for low and moderate income individuals and families, and affordable housing in low and moderate income areas. Economic development is also a pressing need for distressed areas, such as affordable loans for small businesses, rehabilitation of commercial buildings, infrastructure improvements and job creation for low income individuals. Needs were determined through contacts with community groups and available studies.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS**

### **LENDING TEST**

#### **Lending Activity**

NPB's lending activity reflects overall good responsiveness to the credit needs of its assessment areas. The bank's loan-to-deposit ratio as of June 30, 1998 was 101%, well exceeding the average for peer financial institutions. The following table contains data on HMDA reportable, consumer, and small business and farm loan originations for NPB's combined assessment areas.

LOAN ORIGINATIONS - COMBINED ASSESSMENT AREAS						
LOAN CATEGORY	1996		1997		1998(Jan-June)	
	#	\$000's	#	\$000's	#	\$000's
HMDA	1,141	88,222	1,077	68,253	723	71,993
Consumer*	2,342	54,873	2,167	59,197	1,175	27,140
Small Business&Farm**	590	76,510	630	73,951	379	51,447
<b>Total Loans</b>	<b>4,105</b>	<b>219,605</b>	<b>3,874</b>	<b>201,401</b>	<b>2,277</b>	<b>150,580</b>

\* Consists of home equity, motor vehicle, other secured and unsecured loans.

\*\*Small business loans defined as commercial loans with original amounts of \$1 million or less reported on the Consolidated Report of Condition and Income ("Call Report") as either loans secured by nonfarm or nonresidential real estate or Commercial and Industrial loans. Small farm loans defined as those with original amounts of \$500 thousand or less reported on the Call Report as either loans to finance agricultural production or loans secured by farmland. Source of data: Small Business/Farm Loan Register.

The number of HMDA loan originations declined 5.6% from 1996 to 1997, due primarily to a drop in mortgage loan refinancing activity which offset increases in home purchase and home improvement loans. For the first six months of 1998, mortgage loan refinancing activity rose sharply, with remaining loan categories at levels similar to 1997. For 1996 and 1997, NPB ranked among the top 15 financial institutions in its combined assessment areas for total number of HMDA reportable loan originations, with market shares approximating 2% each year.

Consumer loan originations declined 8.1% from 1996 to 1997, dominated by home equity loans which fell 11% from 1,107 loans originated in 1996 to 990 loans originated in 1997. Home equity loans make up almost half of consumer loan originations each year, followed by unsecured loans which account for almost 40% of loan originations in 1996 and in 1997. For the first six months of 1998, all consumer loan categories except unsecured are showing moderate increases from 1997 levels.

Originations of small business and farm loans increased 6.8% from 1996 to 1997, and increased 20% in the first half of 1998 on an annualized basis. NPB also extends small business loans secured by residential real estate. The bank originated 121 loans totaling \$7.04 million in 1996, and 95 loans totaling \$5.03 million in 1997 within its assessment areas. For the first six months of 1998, 34 loans totaling \$914 thousand were originated in the assessment areas. In 1997, NPB ranked eleventh for its number of small business and farm loan originations in its combined assessment areas, with a 2% market share. By dollar volume, the bank ranked seventh for its originations of small business and farm loans, with a market share of 3.39%.

### Assessment Area Concentration

The substantial majority of NPB's loans are within its assessment areas. Since 1996, greater than 80% of the total number of HMDA, consumer, and small business and farm loan originations were within NPB's combined assessment areas.

### Innovative and Flexible Loan Products

NPB makes extensive use of innovative and/or flexible lending practices. The bank offers a broad variety of special mortgage loan programs that include flexible features such as reduced rates, low down payments, access to closing cost and down payment assistance, and use of enhanced underwriting guidelines. The bank offers PHFA (Pennsylvania Housing Finance Agency) loan programs for first time home buyers, participates in NHS (Neighborhood Housing Service) programs in Reading and Allentown, offers FHA and VA financing, and essentially all of FHLMC's "Affordable" programs, including their Affordable 97, Affordable Rehabilitation, and Affordable 3/2 Program. Since 1996, the bank has originated 144 loans totaling \$8.3 million under special mortgage lending programs. The following table contains a breakdown by assessment area. All of the lending is accounted for in HMDA totals.

LENDING UNDER SPECIAL MORTGAGE PROGRAMS						
MSA/COUNTY	1996		1997		1998(Jan-June)	
	#	\$	#	\$	#	\$
6680/Berks	26	846,363	41	2,246,890	24	1,400,431
0240/Lehigh, Northampton	3	193,159	2	99,723	3	233,579
6160/Bucks, Chester, Delaware, Montgomery, Philadelphia	17	1,112,876	17	1,457,144	11	689,833
<b>Total</b>	<b>46</b>	<b>2,152,398</b>	<b>60</b>	<b>3,803,757</b>	<b>38</b>	<b>2,323,843</b>

NPB also actively sponsors loan applications to the Federal Home Loan Bank of Pittsburgh under their Affordable Housing Program. Since 1996, the bank sponsored five applications totaling \$517,500 involving loan programs or housing projects in Allentown, Bethlehem and Philadelphia. Of this total, NPB has funded \$337,000 which is accounted for in applicable HMDA or community development loan totals.

Through its SHARE Deposit/Mortgage program, NPB will contribute up to 2% of the balances in special SHARE deposit accounts opened by individuals and groups desiring

to promote home ownership in Berks and Montgomery counties. One of the prime activities of the fund is to provide 0% interest rate loans to home buyers to cover closing costs and/or a portion of down payment money. During the evaluation period, the bank made a total of thirteen, 0% interest rate loans with current outstandings of \$28,258 utilizing the bank's contributions. These loans are included in consumer loan totals. In addition, no fees are charged and the bank must absorb the cost to service these loans.

NPB has several loan products tailored to small businesses that offer flexible features including streamlined underwriting guidelines and extended renewal periods. The bank also offers US Small Business Administration (SBA) guaranteed loans. In 1998, NPB advanced to certified lender status under SBA's guaranteed loan program. Since 1996, the bank originated 30 SBA loans totaling \$4,257,534 within its assessment areas. All of the loans are in amounts of less than \$1 million and are included in small business loan totals.

**Geographic Distribution**

The geographic distribution of NPB's loan originations reflects good penetration throughout its assessment areas.

The following tables present the distribution of HMDA, consumer, and small business and farm loan originations by census tract income classification for the combined assessment areas. The accompanying analysis focuses on lending in low and moderate income census tracts.

<b>HMDA LOAN ORIGINATIONS - COMBINED ASSESSMENT AREAS</b>						
<b>Census Tract Income Level</b>	<b>1996</b>		<b>1997</b>		<b>1998(Jan-Jun)</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	8	1%	2	.2%	4	.6%
<b>Moderate</b>	96	8%	63	6%	23	3%
<b>Middle</b>	704	62%	716	67%	463	64%
<b>Upper</b>	333	29%	296	28%	233	32%
<b>N/A</b>	0	0%	0	0%	0	0%

N/A - Tracts with no reported income.

The percentage of HMDA loans originated in low income and in moderate income census tracts has approximated or exceeded the proportion of owner-occupied housing units in low income tracts (less than 1%), and in moderate income tracts (5%).

For 1996, NPB's market share of HMDA loan originations was 4.06% in low income census tracts and 3.57% in moderate income census tracts, well exceeding the bank's overall market share of 1.87%. For 1997, NPB's market share of HMDA loan originations in low income census tracts declined to 1.09%, although its was not significantly below its overall market share of 1.74%. The bank's market share of HMDA loans in moderate income census tracts also declined to 2.37%, but continued to compare favorably to its overall market share.

<b>CONSUMER LOAN ORIGINATIONS - COMBINED ASSESSMENT AREAS</b>						
<b>Census Tract Income Level</b>	<b>1996</b>		<b>1997</b>		<b>1998(Jan-Jun)</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	43	2%	28	1%	6	1%
<b>Moderate</b>	161	7%	115	5%	70	6%
<b>Middle</b>	1,487	63%	1,380	64%	767	65%
<b>Upper</b>	651	28%	644	30%	332	28%
<b>N/A</b>	0	0%	0	0%	0	0%

N/A - Tracts with no reported income

The percentage of consumer loans originated in low income census tracts has equaled or exceeded the population percentage for low income tracts (1%). In moderate income census tracts consumer loan origination percentages have approximated the population percentages for moderate income tracts (7%).

<b>SMALL BUSINESS &amp; FARM LOAN ORIGINATIONS - COMBINED ASSESSMENT AREAS</b>						
<b>Census Tract Income Level</b>	<b>1996</b>		<b>1997</b>		<b>1998(Jan-Jun)</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	8	1%	8	1%	3	1%
<b>Moderate</b>	31	5%	41	7%	30	8%
<b>Middle</b>	315	53%	303	48%	196	52%
<b>Upper</b>	236	40%	278	44%	150	40%
<b>N/A</b>	0	0%	0	0%	0	0%

N/A - Tracts with no reported income

Less than 1% of small businesses and farms are located in low income census tracts, and 6% are within moderate income census tracts. NPB's lending to small businesses and

farms in low and moderate income census tracts is consistent with the proportion of small businesses and farms within each respective tract income category.

### **Borrowers' Profile**

NPB's lending patterns reflect good penetration among retail customers of different income levels, and business and farm customers of different sizes within its assessment areas. The following tables present the distribution of HMDA and consumer loans by borrower income classification, with the accompanying analysis focused on lending to low and moderate income borrowers.

<b>HMDA LOAN ORIGINATIONS - COMBINED ASSESSMENT AREAS</b>						
<b>Borrower Income Level</b>	<b>1996</b>		<b>1997</b>		<b>1998(Jan-Jun)</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	88	8%	88	8%	43	6%
<b>Moderate</b>	171	15%	225	21%	108	15%
<b>Middle</b>	323	28%	295	27%	197	27%
<b>Upper</b>	512	45%	431	40%	348	48%
<b>N/A</b>	47	4%	38	4%	27	4%

N/A - Income not available.

The percentage of HMDA loans originated to low income and moderate income borrowers has approximated or exceeded the proportion of families that are low income (12%) and moderate income (16%).

<b>CONSUMER LOAN ORIGINATIONS - COMBINED ASSESSMENT AREAS</b>						
<b>Borrower Income Level</b>	<b>1996</b>		<b>1997</b>		<b>1998(Jan-Jun)</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	495	21%	464	21%	212	18%
<b>Moderate</b>	393	17%	398	18%	228	19%
<b>Middle</b>	466	20%	440	20%	253	22%
<b>Upper</b>	715	31%	675	31%	388	33%
<b>N/A</b>	273	12%	190	9%	94	8%

The percentage of consumer loans originated to low income and moderate income

borrowers has consistently exceeded the proportion families that are low income (12%) and moderate income (16%).

The following table presents the distribution of small business and farm loan originations to entities with gross annual revenues of \$1 million or less.

<b>SMALL BUSINESS &amp; FARM LOAN ORIGINATIONS - COMBINED ASSESSMENT AREAS ANNUAL REVENUES &lt;= \$1 MILLION</b>						
<b>Original Loan Amount</b>	<b>1996</b>		<b>1997</b>		<b>1998(Jan-Jun)*</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>&lt;=\$100,000</b>	301	66%	334	71%	96	55%
<b>\$101,000-\$250,000</b>	88	19%	77	16%	47	27%
<b>\$251,000-\$1 million</b>	68	15%	61	13%	32	18%
<b>Total</b>	457	100%	472	100%	175	100%

\*A recent system conversion problem resulted in 82 loans originated in 1998 placed in “unknown revenue” fields. The bank is currently researching its records to determine the appropriate revenue categories for these loans.

A total of 80,352 businesses and farms are located in the combined assessment areas. Of the businesses and farms reporting annual revenues, 58,602 or 73% have revenues of \$1 million or less. In comparison, of NPB’s small business/farm loans, 77% in 1996, and 75% in 1997 had annual gross revenues of \$1 million or less. The majority (66% or greater) of small business loans originated in 1996 and 1997 have been in amounts of \$100,000 or less.

**Community Development Loans**

NPB has made an adequate level of community development loans. The bank originated 26 loans totaling \$10.8 million which qualify as community development. Of these loans, five totaling \$778,300 were within the bank’s assessment area (all were within the CMSA 6160 assessment area). The remaining loans, while outside the bank’s assessment areas, are within the broader MSAs as follows: 3 loans totaling \$779,000 in MSA 0240; and 15 loans totaling \$9,254,143 in CMSA 6160. In addition, while reported as a small business loan, NPB is a 10% participant in a \$3.5 million loan to a renovation project in MSA 6680. The project has a community development purpose since it contributes to the revitalization of a moderate income area in the City of Reading, and contains rental units restricted to elderly individuals. The project also involved substantial funding from HUD and the City of Reading.

In addition, NPB made commitments totaling \$1.1 million during 1997 to the following

loan pools in Lehigh County: *Bethlehem Economic Development Corporation (BEDCO)*; and *Easton Economic Development Corporation (EEDC)*. The BEDCO and EEDC loan pools assist and foster the development, renewal and improvement of business in the cities of Bethlehem and Easton. The bank has advanced \$27,267 under the BEDCO loan pool, and no advances have been requested under the EEDC loan pool. Also, the bank has \$74,230 remaining on a \$100,000 commitment made previous to 1996 to the *Lehigh Valley Small Business Loan Pool*. The loan pool supports small businesses in the Lehigh Valley, addressing their financial needs, and providing workshops and seminars in conjunction with the Small Business Development center. The bank has funded loans totaling \$20,850 under this loan pool since 1996. These loans are accounted for in small business loan totals.

## **INVESTMENT TEST**

NPB has a good level of qualified community development investments and grants, occasionally in a leadership position, particularly those that are not provided by private investors. Most investments made are complex and some contain innovative features. Since 1996, NPB and its affiliates have made commitments totaling \$2.9 million to invest in qualified community development projects directly benefitting its assessment areas or broader areas that include its assessment areas. The bank has invested \$1.1 million under its commitments during the evaluation period. In addition, \$2.4 million in qualified community development investments made previous to 1996 are in bank and affiliate investment portfolios. Since 1996, NPB has contributed a total of \$86,148 to over 35 qualified community development organizations and projects throughout its assessment areas. Qualified investments and grants are responsive to the identified credit and community development needs in each assessment area. The following are examples of investments and grants made within each assessment area during the evaluation period.

### **Community Development Investments**

- NPB made investments in several community loan funds and pools within its assessment areas. In 1997, the bank made commitments totaling \$140,000 to three separate micro loan funds which provide financing to very small businesses in Bucks County, Chester and Delaware counties, and Montgomery County. NPB is the lead bank participant in the Bucks County micro loan fund, and provides the servicing for these loans as well as certain loans funded under the Montgomery County program. During the evaluation period, the bank funded 26 loans totaling \$74,189 under its investment commitments.
- NPB's affiliate, National Penn Investment Company, has committed to investing \$2.725 million in *Argosy Investment Partners, LP*, with \$912,584 invested to date.

Argosy is a private investment partnership licensed as a Small Business Investment Company (SBIC). Argosy's strategy is to provide funding to small and lower middle market, later stage companies whose access to capital is constrained. The SBIC targets the Eastern United States, with 41% invested to date in Pennsylvania.

- NPB has a \$346,708 equity partnership in *Inglis Cottages at Berks County*, with \$87,178 invested to date. This is a scattered site project which will provide modified housing to low income handicapped persons in Berks County. The investment represents a project that took over two years to negotiate; involved negotiation and support from a number of municipalities; and required the identification of an appropriate, qualified management firm (Inglis House). NPB has been an active participant in all phases of this project. The project also required layered financing from the following sources: HOME, HDAP loan, AHP/FHLB; and the general partner's equity. In addition, developer fees were deferred to assist in project feasibility.

### **Community Development Grants**

- Contributions totaling \$6,000 were made to *Hispanic American Organization, Allentown* to assist in their capital campaign to purchase and develop a larger facility. The organization works with the Latino population in Allentown, an area with concentrations of low and moderate income families, to provide education, including education on affordable home buying.
- \$5,000 in grants were given to *Berks County Incubator Program* towards their programs for small businesses.
- Grants totaling \$4,350 to *Berks Community Action Program* for budget and pre-purchase homebuyer counseling programs.
- Contributions totaling over \$30,000 were provided to *Neighborhood Housing Service* organizations in Berks County, Allentown and Philadelphia.
- Technical assistance grants totaling \$5,000 were made to three micro loan funds: *Bucks County micro loan fund*; *Chester/Delaware Counties micro loan fund*, and *Montgomery County micro loan fund*.

### **SERVICE TEST**

### **Retail Banking Services**

NPB's retail banking services are accessible to all segments of the assessment areas. As of September 30, 1998, the bank has forty-seven branch facilities located throughout Southeastern Pennsylvania, as distributed in the following table (the final column represents the distribution of census tracts by income throughout the area).

The percentage of total branches in each income category is consistent with the percentage of census tracts within each income category. While there are no branches located in low income census tracts, some offices are in close proximity to low income areas.

<b>COMBINED ASSESSMENT AREAS - BRANCH DISTRIBUTION</b>			
<b>Census Tract Income</b>	<b>Number of Branches</b>	<b>Percent of Total Branches</b>	<b>Percent of Tracts in Areas*</b>
<b>Low</b>	0	0%	1%
<b>Moderate</b>	4	9%	9%
<b>Middle</b>	24	51%	47%
<b>Upper</b>	19	40%	41%
<b>N/A**</b>	0	0%	2%
<b>Total</b>	47	100%	100%

\*Source: 1990 US Census Bureau

\*\* Census tracts with no reported income

*In addition to the above branch facilities*, NPB has four commercial loan centers that are chartered as branches, but focus solely on business and commercial lending. Three of the commercial loan facilities are located in upper income census tracts and one is situated in a middle income area. In addition, the bank has one facility, although chartered as a branch, which focuses on trust operations and private banking. This facility is located in an upper income area. Finally, the bank operates one loan production office situated in a middle income area in Media, Pennsylvania. Its primary focus is business loans in the \$100 thousand to \$2.5 million range for working capital, term loans for equipment and general expansion, and commercial mortgage for property acquisition. The facility does not offer consumer or personal loans, residential mortgages, or provide deposit services.

Retail banking services (including, where appropriate, business hours) do not vary in a way that inconvenience certain portions of the assessment area(s), particularly low and moderate income geographies and/or individuals.

Since the last evaluation, NPB opened sixteen branch offices and closed nine branch

facilities, for a net gain of seven offices, throughout its assessment areas. Ten offices were opened in upper income areas, including one *de novo* branch, and six in middle income census tracts, which included two *de novo* facilities. In the same period, six offices were closed in middle income tracts and three offices were also closed in upper income areas.

In July 1998, NPB formed a new independent banking division (chartered as a branch of NPB), National Asian Bank, and located in an upper income census tract in Montgomery County. This facility is full service and supported by a Korean-speaking staff. It will focus on serving nearly 3,000 Asian small business owners in the greater Philadelphia area.

The bank's branching hours of operation are reasonably consistent throughout its network and are extended during the week at supermarket branch locations and drive-ins, and on weekends. Management annually reviews business hours for adjustment, if necessary. When hours are expanded, the bank monitors transactions during additional hours to determine if increased hours are warranted. In fact, the trend for banking hours has been increasing throughout the branching system particularly for Saturday banking at traditional offices, and Saturday and Sunday banking at facilities located in supermarkets. The institution also offers after-hours banking by appointment at nine area branch locations.

Most of the bank's branches are open from 8:00 or 9:00 in the morning, Monday through Thursday, and close at 5:00 or 6:00 o'clock in the evening. Banking hours are extended on Fridays from 8:00 or 9:00 in the morning until 6:00 or 7:00 o'clock in the evening. The bank also provides twelve branch offices in area supermarkets with favorable hours ranging from 9:00 or 10:00 a.m. to 7:00 p.m. Monday through Friday. Saturday hours are generally from 9:00 or 10:00 in the morning to 4:00 in the afternoon, and Sunday hours of operation are 10:00 a.m. to 2:00 p.m.

Hours of operation for the Reading Buttonwood IGA facility, a community loan center located in a moderate income tract, were expanded with its relocation. The previous branch located nearby operated only three days each week and offered banking hours from 2 p.m. to 7 p.m. on Monday, Wednesday, and Friday. When the office moved to the supermarket location, branch hours were increased from noon to 6 p.m. on Monday, and on Wednesday and Friday 10 a.m. to 6 p.m. The supermarket also closes at 6 p.m. (Tuesday and Thursday hours are not offered), and Saturday hours from 9 a.m. to noon were added.

Twenty-five of the 53 offices have drive-through facilities. Banking hours are similar to the branch hours of operation described above, although in some instances the facilities

close at 7:00 in the evening. For the most part, Saturday hours range from 9:00 in the morning to 1:00 in the afternoon, though in a few cases hours are extended to 4:00 in the afternoon. The Pottstown Downtown and East Falls branches are located in moderate income tracts and the remaining twenty-three drive-in branches are located in middle and upper income tracts.

### **Alternative Delivery Systems**

The bank has a total of 58 proprietary Automatic Teller Machines (ATMs). Thirty-eight of the bank's 53 offices have on-site ATMs which are accessible 24 hours a day. The ATMs are situated in middle and upper income census tracts, and none are located in low income areas. One ATM is located in a moderate income tract at the East Falls Branch in Philadelphia. Twenty ATMs are designated as remote facilities. Two provide 24-hour service and two, located at local colleges, offer service during school hours. The remaining eighteen ATMs, situated in local businesses, are in operation during business hours. Although none are situated in low income census tracts, four are located in moderate income areas and the remaining fourteen are situated in middle and upper income census tracts.

At the Reading Buttonwood IGA Branch, the bank installed an ATM to assist food stamp and cash assistance welfare recipients to access their benefits electronically as the bank's marketing studies indicated a high incidence of these recipients. A second ATM was added at the Pottstown Redner's Quick Shoppe when the electronic welfare benefits program was introduced in Montgomery County. These facilities are located in moderate income areas and adjoin nearby moderate income tracts which are readily accessible to individuals in need of this service. The bank extends this benefit at no expense to recipients of this service. The Reading Buttonwood IGA Branch also provides a Spanish speaking staff for its Hispanic customers.

The bank offers an extensive array of deposit products and loan services appropriate for an institution of its size and financial capacity. Consumer products include nineteen different types of demand deposit accounts and money market accounts priced to meet the needs of a variety of customers, including those maintaining minimal balances or those with infrequent transactions. The bank offers a non-interest bearing checking account, requiring no minimum balances, and charges no transaction fees which could appeal to low and moderate income customers. NPB also offers a similar checking account to non-profit organizations. The bank also offers five types of savings accounts, nine IRA programs, five types of ROTH IRAs, five education IRAs, and seventeen types of certificates of deposit.

Consumer loan products include:

- Standard fixed rate unsecured loans (from \$500 to \$5,000);
- Overdraft protection linked to checking accounts;
- Revolving Master Card and Visa credit card lines;
- Automobile loans;
- Loans for college education;
- Fixed/Variable rate home equity loans (minimum amount of \$5,000); and
- Residential mortgages including conventional, jumbos, and loans designed to meet the needs of low and moderate income borrowers with down payment requirements as low as three percent, flexible options for the source of down payment, alternative credit consideration, and pre-purchase borrower education classes.

NPB offers a variety of deposit products to small businesses as well, including:

- BottomLine Banking checking account with no minimum balance requirement which includes 75 deposit items and 75 checks paid with no fee;
- Business Checking 101 designed for companies that prefer to maintain low monthly account balances;
- Traditional business checking accounts;
- Interest checking accounts available to sole proprietorships, independent school districts, municipalities, and non-profit organizations;
- Statement Savings which is an interest bearing account requiring a \$500 minimum balance;
- Money Market Savings which is a tiered interest account requiring a \$1000 minimum balance; and
- Certificates of Deposit requiring a deposit of \$1,000 and higher.

The bank also provides corporate services for businesses which include employee benefit plans such as 401(k) programs, profit-sharing plans, pension plans, and corporate investment programs. Commercial Lending programs include time loans, lines of credit, business equity lines, term loans for equipment financing, Small Business Administration Guaranteed Loans, Pennsylvania Industrial Development Authority Loans, CashFlow Manager loans which are secured by accounts receivable, Asset Based Lending which offers credit extensions up to \$750,000, and indirect lending which specializes in manufactured and modular homes. Other loan programs to businesses include cash management services, commercial mortgages with fixed rates of interest and extended term fixed-rate mortgages, corporate credit cards, merger and acquisition services.

NPB introduced *Empower PC Banking* which allows businesses to generate electronic funds transfers including wire payments, direct deposit of payroll, stop payments, issue checks electronically, generate tax payments to governmental authorities, transfer funds

between accounts, and initiate wire transfers. In conjunction with local businesses, the bank offers employees bank at work with direct deposit of their payroll. NPB provides no-fee checking accounts with no minimum balance requirements, free first order of checks, and no limits on the number of deposits or withdrawals.

### **Community Development Services**

The bank is a leader in providing community development services, including educational outreach to first-time home buyers with low or moderate incomes, small business owners, and technical assistance to community development organizations; and, by way of board or committee representation, services to organizations performing community development work. The following is a partial list of organizations which have benefited from bank representatives providing technical expertise.

#### **Reading MSA 6680**

- Greater Berks Development Fund - this agency promotes economic development in the county and a commercial lender from the bank provides technical expertise to the organization for business financing.
- Berks Women Network - the bank provides a lender from the small business division of the bank to assist in credit underwriting and explaining bank policies for business loans.
- Berks Community Housing Resource Board - in the Fall of 1996, NPB sponsored a four-week home buyer's workshop presenting the application process, underwriting, and qualifying for residential loans.
- Homebuyers Club/Reading Neighborhood Housing Services - presented a home buyer education workshop, which included underwriting aspects of mortgage lending and escrow analysis for the post-purchase home buyer.
- Berks County Chamber of Commerce - in March 1997, a representative from the business lending division sponsored seminar to women on small business lending. The instruction included credit underwriting, documentation, and types of business loans available from NPB.
- Berks Community Action Program/Budget Counseling Center - the bank assisted in development of a tenant training program offered to clients participating in the organization's rental assistance program. The program emphasized the importance of satisfactory rental payments when applying for a home loan. In addition, it

also provided a budgeting program for participants interested in home ownership.

- Neighborhood Housing Services/Home Ownership Program Loan Administration Committee - bank lending representative chairs the Loan Administration Committee which is responsible for the development and monitoring of the agency's mortgage loan program.

#### **Allentown-Bethlehem-Easton MSA 0240**

- Bethlehem Economic Development Corporation and Easton Economic Development Corporation - these agencies promote economic development in the county and a commercial lenders from the bank provides technical expertise to the organization for business financing.
- Allentown Neighborhood Housing Services - a bank representative is a member of the board and the loan administration committee.
- Home ownership Counseling Program - bank representative hosted a seminar which provided information on the mortgage application process and underwriting standards/philosophy.

#### **Philadelphia CMSA 6160**

- PCTV (public access television) - in January 1997, the bank provided an infomercial on its First Time Homebuyer Programs, including affordable programs, which discussed loan qualifications, underwriting, and credit standards.
- "How to Shop/Inspect a Home for Purchase" educational sessions - in March 1997, NPB coordinated and presented a session on determining housing needs, including lending, location, and home inspections for purchase.
- Bucks, Chester/Delaware, and Montgomery Micro-Loan Funds - the bank provides technical knowledge through its representation on the board of each fund which review loans to small businesses.
- Chester County Development Council - a senior business lender is a member of the organization's board which reviews loans to small business entrepreneurs.
- 2/28/98 Korean Business Meeting: conducted a seminar on underwriting and credit standards for home mortgage lending.

- Throughout 1998 the bank has provided approximately seventeen educational seminars to various Korean business organizations on small business lending, construction financing for housing and churches, commercial lending, and other lending programs NPB offers. All sessions were conducted in Korean or English with appropriate translations.
- Mt. Airy USA - a loan officer provides financial expertise to this community development corporation which is organized for commercial revitalization and housing construction and rehabilitation.

### **RECORD OF COMPLIANCE WITH ANTIDISCRIMINATION LAWS**

No violations of the substantive provisions of antidiscrimination laws and regulations were identified through our concurrent fair lending examination.

## METROPOLITAN STATISTICAL AREAS

### READING MSA 6680

#### Description of Institution's Operations in MSA 6680

Refer to the description for the combined assessment areas at the beginning of this evaluation for information on the bank's assessment area comprising MSA 6680.

#### Conclusions with Respect to Performance in MSA 6680

NPB's performance in helping to meet the credit needs of its assessment area comprising MSA 6680 is consistent with the bank's overall performance.

### LENDING TEST

#### Lending Activity

The following table contains data on HMDA reportable, consumer, and small business and small farm loan originations within MSA 6680.

LOAN ORIGINATIONS - READING MSA 6680						
LOAN CATEGORY	1996		1997		1998(Jan-June)	
	#	\$000's	#	\$000's	#	\$000's
HMDA	519	32,401	506	29,566	314	23,565
Consumer*	1,102	25,089	894	21,073	502	11,002
Small Business/Farm**	191	25,566	195	19,709	121	13,469
<b>Total Loans</b>	<b>1,812</b>	<b>83,056</b>	<b>1,595</b>	<b>70,348</b>	<b>937</b>	<b>48,036</b>

\* Consists of home equity, motor vehicle, other secured and unsecured loans.

\*\*Small business loans defined as commercial loans with original amounts of \$1 million or less reported on the Consolidated Report of Condition and Income ("Call Report") as either loans secured by nonfarm or nonresidential real estate or Commercial and Industrial loans. Small farm loans defined as those with original amounts of \$500 thousand or less reported on the Call Report as either loans to finance agricultural production or loans secured by farmland. Data Source: Small Business/Farm Loan Register.

Loan trends in MSA 6680 parallel the trends for the assessment areas combined. Approximately 50% of the total number of HMDA reportable loans originated each year have been within MSA 6680. For 1996 and 1997, the bank ranked among the top five financial institutions in MSA 6680 for its total number of HMDA reportable loan

originations, with market shares of slightly over 5% each year. This MSA also accounts for almost half of the number of consumer loans originated (47% in 1996, and 41% in 1997). Slightly over one third of small business and farm loan originations each year have been within MSA 6680. For 1997, four of the five small farm loans were originated in the MSA (there were no small farm loans originated in 1996 and the first six months of 1998). NPB ranked fourth for its number of small business/farm loan originations in MSA 6680, with a 7% market share. By dollar volume, the bank ranked second behind CoreStates (now First Union) with a 10.77% market share of small business/farm loans. In addition, approximately 30% of the residential real estate secured small business loans were attributed to MSA 6680 each year: 1996 - 35 loans totaling \$1.81 million; 1997 - 29 loans totaling \$1.58 million and 1998 (first six months) - 6 loans totaling \$210 thousand.

**Innovative and Flexible Loan Products**

Refer to the description for the combined assessment areas at the beginning of this evaluation for information on innovative and flexible loan products extended to MSA 6680.

**Geographic Distribution**

NPB’s geographic distribution of loan originations reflects good penetration throughout MSA 6680.

The following tables present the distribution of HMDA, consumer, and small business and farm loan originations by census tract income classification. The accompanying analysis focuses on lending in low and moderate income census tracts.

<b>HMDA LOAN ORIGINATIONS - READING MSA 6680</b>						
<b>Census Tract Income Level</b>	<b>1996</b>		<b>1997</b>		<b>1998(Jan-Jun)</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	8	2%	2	.4%	4	1%
<b>Moderate</b>	56	11%	26	5%	8	3%
<b>Middle</b>	378	73%	403	80%	245	78%
<b>Upper</b>	77	15%	75	15%	57	18%
<b>N/A</b>	0	0%	0	0%	0	0%

N/A - Tracts with no reported income

For 1996, the percentage of HMDA loans originated in low income census equaled the

proportion of owner-occupied housing units in low income tracts (2%), and the percentage of HMDA loans originated in moderate income census tracts exceeded the proportion of owner-occupied units housing units in these tracts (9%). For 1997 and the first six months of 1998, percentages for HMDA loan originations in low and in moderate income census tracts were below the percentages for owner-occupied housing units within each tract income category.

For 1996, NPB's market share of HMDA loan originations was 5.93% in low income census tracts and 6.99% in moderate income census tracts, exceeding the bank's overall market share of 5.07%. For 1997, NPB's market share of HMDA loan originations in low income census tracts declined to 1.54%, significantly below its overall market share of 5.13%. The bank's market share of HMDA loans in moderate income census tracts declined to 3.71%, also below its overall market share.

<b>CONSUMER LOAN ORIGINATIONS - READING MSA 6680</b>						
<b>Census Tract Income Level</b>	<b>1996</b>		<b>1997</b>		<b>1998(Jan-Jun)</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	43	4%	23	3%	6	1%
<b>Moderate</b>	94	9%	58	6%	36	7%
<b>Middle</b>	784	71%	653	73%	388	77%
<b>Upper</b>	181	16%	160	18%	72	14%
<b>N/A</b>	0	0%	0	0%	0	0%

N/A - Tracts with no reported income

The percentage of consumer loans originated in low income census tracts has equaled or approximated the percentage of the population in low income tracts (4%), and within moderate income census tracts was somewhat below the population percentage of 12%.

SMALL BUSINESS & FARM LOAN ORIGINATIONS - READING MSA 6680						
Census Tract Income Level	1996		1997		1998(Jan-Jun)	
	#	%	#	%	#	%
Low	8	4%	8	4%	3	3%
Moderate	13	7%	12	6%	17	14%
Middle	135	71%	139	71%	80	66%
Upper	35	18%	36	18%	21	17%
N/A	0	0%	0	0%	0	0%

N/A - Tracts with no reported income

Four percent (4%) of small businesses and farms are located in low income census tracts, and 11% are within moderate income census tracts. Percentages for small business and farms loans in low income census tracts equaled or approximated the percentage of small businesses and farms within low income tracts. In moderate income tracts, the percentage of loans originated fell below the proportion of small businesses and farms, except for the first six months of 1998.

### **Borrowers' Profile**

The following tables present the distribution of HMDA and consumer loans by borrower income classification with the accompanying analysis focused on lending to low and moderate income borrowers.

HMDA LOAN ORIGINATIONS - READING MSA 6680						
Borrower Income Level	1996		1997		1998(Jan-Jun)	
	#	%	#	%	#	%
Low	48	9%	38	8%	21	7%
Moderate	90	17%	105	21%	44	14%
Middle	141	27%	141	28%	87	28%
Upper	222	43%	202	40%	155	49%
N/A	18	4%	20	4%	7	2%

N/A - Income not available.

The percentage of HMDA loans originated to low income borrowers is below the proportion of families that are low income (16%), while the percentage of loans

originated to moderate income borrowers has approximated or exceeded the proportion of families that are moderate income (19%).

<b>CONSUMER LOAN ORIGINATIONS - READING MSA 6680</b>						
<b>Borrower Income Level</b>	<b>1996</b>		<b>1997</b>		<b>1998(Jan-Jun)</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	250	23%	195	22%	101	20%
<b>Moderate</b>	198	18%	163	18%	93	19%
<b>Middle</b>	212	19%	206	23%	111	22%
<b>Upper</b>	328	30%	263	29%	160	32%
<b>N/A</b>	114	10%	67	8%	37	7%

N/A - Income not available.

The percentage of consumer loans originated to low income and moderate income borrowers has approximated or exceeded the percentage of families that are low income (16%) and moderate income (19%).

The following table presents the distribution of small business and farm loan originations to entities with gross annual revenues of \$1 million or less.

<b>SMALL BUSINESS AND FARM LOAN ORIGINATIONS - READING MSA 6680</b>						
<b>ANNUAL REVENUES &lt;= \$1 MILLION</b>						
<b>Original Loan Amount</b>	<b>1996</b>		<b>1997</b>		<b>1998(Jan-Jun)*</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>&lt;=\$100,000</b>	97	69%	105	74%	30	68%
<b>\$101,000-\$250,000</b>	23	16%	25	18%	10	23%
<b>\$251,000-\$1 million</b>	21	15%	11	8%	4	9%
<b>Total</b>	141	100%	141	100%	44	100%

\*A recent system conversion problem resulted in 30 loans originated in 1998 placed in "unknown revenue" fields. The bank is currently researching its records to determine the appropriate revenue categories for these loans.

A total of 10,658 businesses and farms are located in the assessment area. Of the businesses and farms reporting annual revenues, 7,901 or 89% have revenues of \$1 million or less. In comparison, in 1996 and 1997, respectively, 74% and 80% of NPB's small business and farm loans were to entities with annual gross revenues of \$1 million or less. The majority (69% or greater) of small business loans originated in 1996 and 1997

have been in amounts of \$100,000 or less.

### **Community Development Loans**

Refer to the discussion under the Lending Test for the combined assessment areas at the beginning of this evaluation for information on community development loans in MSA 6680.

### **INVESTMENT TEST**

#### **Community Development Investments and Grants**

Refer to the discussion under the Investment Test for the combined assessment areas at the beginning of this evaluation for detailed information on community development investments and grants. NPB made qualified community development investments totaling \$99,678, and grants totaling \$47,197 in MSA 6680 since 1996.

### **SERVICE TEST**

#### **Retail Banking Services**

As of September 30, 1998, sixteen branch facilities are located in MSA 6680. The MSA contains four low income and fifteen moderate income census tracts. None of the bank's offices are located in low income census tracts. However, two branches are located in moderate income tracts which are the Reading Branch at 21 North Sixth Street and the Reading Buttonwood IGA Branch at 200 West Buttonwood Street. The 21 North Sixth Street Branch is adjacent to census tract 0022.00 which is designated as a low income area and the Reading Buttonwood IGA office is next to census tract 0013.00, also a low income area. Middle and upper income tracts contain nine and four branches, respectively.

Refer to the discussion under Service Test for the combined assessment areas at the beginning of this evaluation for additional information on retail services, including alternative delivery systems.

## **Community Development Services**

Refer to the discussion under Service Test for the combined assessment areas at the beginning of this evaluation for information on community development services in MSA 6680.

## ALLENTOWN-BETHLEHEM-EASTON MSA 0240

### Description of Institution's Operations in MSA 0240

Refer to the description for the combined assessment areas at the beginning of this evaluation for information on the bank's assessment area within MSA 0240.

### Conclusions with Respect to Performance in MSA 0240

NPB's performance in helping to meet the credit needs of its assessment area within MSA 0240 is not entirely consistent with the bank's overall performance.

### LENDING TEST

#### Lending Activity

The following table contains data on HMDA reportable, consumer, and small business and small farm loan originations within the bank's assessment area in MSA 0240.

LOAN ORIGINATIONS - ALLENTOWN-BETHLEHEM-EASTON MSA 0240						
LOAN CATEGORY	1996		1997		1998(Jan-June)	
	#	\$000's	#	\$000's	#	\$000's
HMDA	76	4,644	104	7,200	78	9,507
Consumer*	195	2,880	281	9,568	149	3,386
Small Business/Farm**	40	4,796	45	5,272	30	4,464
<b>Total Loans</b>	<b>311</b>	<b>12,320</b>	<b>430</b>	<b>22,040</b>	<b>257</b>	<b>17,357</b>

\* Consists of home equity, motor vehicle, other secured and unsecured loans.

\*\*Small business loans defined as commercial loans with original amounts of \$1 million or less reported on the Consolidated Report of Condition and Income ("Call Report") as either loans secured by nonfarm or nonresidential real estate or Commercial and Industrial loans. Small farm loans defined as those with original amounts of \$500 thousand or less reported on the Call Report as either loans to finance agricultural production or loans secured by farmland. Data Source: Small Business/Farm Loan Register.

Loan trends in the MSA 0240 assessment area differ from the trends for the assessment areas combined, with loan originations representing a small percentage of the total. Total HMDA reportable loans increased 37% from 1996 to 1997, with increases noted in all loan categories. Loan trends for the first six months of 1998 parallel the trends for all assessment areas combined. Approximately 10% of the total number of HMDA reportable loans originated each year were within the bank's assessment area in MSA

0240. For 1996 and 1997, the bank ranked 31st and 25th, respectively, among reporting lenders for HMDA loan originations in the MSA 0240 assessment area. MSA 0240 also accounts for a small portion of the consumer loans originated (8% in 1996, and 13% in 1997). Approximately 10% of small business loan originations each year have been within the bank's assessment area in MSA 0240. NPB ranked twelfth for its number of small business loan originations in MSA 0240, with a 7% market share. By dollar volume, the bank ranked sixth with a 4% market share of small business loans. In addition, a small percentage (7% or less) of the residential real estate secured small business loans were attributed to MSA 0240 each year: 1996 - 9 loans totaling \$845 thousand; 1997 - 5 loans totaling \$210 thousand; and 1998 (first six months) - 1 loan totaling \$10 thousand.

**Innovative and Flexible Loan Products**

Refer to the description for the combined assessment areas at the beginning of this evaluation for information on innovative and flexible loan products extended to the bank's assessment area within MSA 0240.

**Geographic Distribution**

NPB's geographic distribution of loan originations reflects adequate penetration throughout its assessment area in MSA 0240.

The following tables present the distribution of HMDA, consumer, and small business and farm loan originations by census tract income classification for the assessment area. The accompanying analysis focuses on lending in low and moderate income census tracts.

<b>HMDA LOAN ORIGINATIONS - ALLENTOWN-BETHLEHEM-EASTON MSA 0240</b>						
<b>Census Tract Income Level</b>	<b>1996</b>		<b>1997</b>		<b>1998(Jan-Jun)</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	0	0%	0	0%	0	0%
<b>Moderate</b>	2	3%	7	7%	3	4%
<b>Middle</b>	53	70%	62	60%	40	51%
<b>Upper</b>	21	28%	35	34%	35	45%
<b>N/A</b>	0	0%	0	0%	0	0%

N/A - Tracts with no reported income

No HMDA loans have been originated in low income census tracts, with less than 1% of owner-occupied housing units in low income tracts. For 1996 and the first six months of

1998, the percentage of HMDA loans originated in moderate income census tracts fell below the proportion of owner-occupied housing units in moderate income tracts (7%). For 1997, loan origination percentages in moderate income tracts equaled the percentage of owner-occupied housing units.

For 1996, NPB's market share of HMDA loan originations was .35% in moderate income census tracts, below the bank's overall market share of .91%. For 1997, NPB's market share of HMDA loan originations in moderate income census tracts increased to 1.23%, in line with its overall market share of 1.18%.

<b>CONSUMER LOAN ORIGINATIONS - ALLENTOWN-BETHLEHEM-EASTON MSA 0240</b>						
<b>Census Tract Income Level</b>	<b>1996</b>		<b>1997</b>		<b>1998(Jan-Jun)</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	0	0%	5	2%	0	0%
<b>Moderate</b>	6	3%	5	2%	3	2%
<b>Middle</b>	120	62%	153	54%	70	47%
<b>Upper</b>	69	35%	118	42%	76	51%
<b>N/A</b>	0	0%	0	0%	0	0%

N/A - Tracts with no reported income

No consumer loans were originated in low income census tracts for 1996 and the first six months of 1998. For 1997, the percentage of consumer loans originated in low income census tracts equaled the percentage of the population in low income tracts (2%). For moderate income census tracts, origination percentages consistently fell below the population percentage of 10%.

SMALL BUSINESS LOAN ORIGINATIONS* - MSA 0240						
Census Tract Income Level	1996		1997		1998(Jan-Jun)	
	#	%	#	%	#	%
Low	0	0%	0	0%	0	0%
Moderate	3	8%	8	18%	6	20%
Middle	31	77%	18	40%	13	43%
Upper	6	15%	19	42%	11	37%
N/A	0	0%	0	0%	0	0%

N/A - Tracts with no reported income.

\*No farm loans were originated in the assessment area.

Two percent (2%) of small businesses and farms are located in low income census tracts, and 11% are within moderate income census tracts. NPB made no small business/farm loans in low income census tracts. In moderate income tracts, the percentage of loans originated approximated or exceeded the proportion of small businesses.

### **Borrowers' Profile**

The following tables present the distribution of HMDA and consumer loans by borrower income classification with the accompanying analysis focused on lending to low and moderate income borrowers.

HMDA LOAN ORIGINATIONS - MSA 0240						
Borrower Income Level	1996		1997		1998(Jan-Jun)	
	#	%	#	%	#	%
Low	6	8%	3	3%	6	8%
Moderate	11	15%	23	22%	10	13%
Middle	29	38%	34	33%	25	32%
Upper	28	37%	42	40%	33	42%
N/A	2	3%	2	2%	4	5%

N/A - Income not available.

The percentage of HMDA loans originated to low income borrowers is below the proportion of families that are low income (15%), while the percentage of loans originated to moderate income borrowers has approximated or exceeded the proportion of

families that are moderate income (18%).

<b>CONSUMER LOAN ORIGINATIONS - MSA 0240</b>						
<b>Borrower Income Level</b>	<b>1996</b>		<b>1997</b>		<b>1998(Jan-Jun)</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	39	20%	51	18%	19	13%
<b>Moderate</b>	36	19%	43	15%	27	18%
<b>Middle</b>	39	20%	52	19%	29	20%
<b>Upper</b>	49	25%	78	28%	42	28%
<b>N/A</b>	32	16%	57	20%	32	21%

N/A - Income not available.

The percentage of consumer loans originated to low income and moderate income borrowers has exceeded the percentage of families that are low income (15%) and moderate income (18%).

The following table presents the distribution of small business loan originations to entities with gross annual revenues of \$1 million or less.

<b>SMALL BUSINESS LOAN ORIGINATIONS* - MSA 0240</b>						
<b>ANNUAL REVENUES &lt;= \$1 MILLION</b>						
<b>Original Loan Amount</b>	<b>1996</b>		<b>1997</b>		<b>1998(Jan-Jun)</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>&lt;=\$100,000</b>	25	73%	28	82%	7	41%
<b>\$101,000-\$250,000</b>	3	9%	1	3%	6	35%
<b>\$251,000-\$1 million</b>	6	18%	5	15%	4	24%
<b>Total</b>	34	100%	34	100%	17	100%

\*No farm loans were originated in the assessment area.

A total of 11,312 businesses are located in the assessment area, with 7,991 or 71% having revenues of \$1 million or less. In comparison, for 1996 and 1997, respectively, 89% and 79% of NPB's small business loans were to entities with annual gross revenues of \$1 million or less. The majority (73% or greater) of small business loans originated in 1996 and 1997 have been in amounts of \$100,000 or less. For the first six months of 1998, the percentage of small business loans originated to entities with revenues of \$1 million or less declined to 61%, and less than a majority were in amounts of \$100,000 or less.

### **Community Development Loans**

Refer to the discussion under the Lending Test for the combined assessment areas at the beginning of this evaluation for information on community development loans in MSA 0240.

### **INVESTMENT TEST**

#### **Community Development Investments and Grants**

Refer to the discussion under the Investment Test for the combined assessment areas at the beginning of this evaluation for detailed information on community development investments and grants. NPB made qualified community development grants totaling \$16,250 in MSA 0240 since 1996.

### **SERVICE TEST**

#### **Retail Banking Services**

As of September 30, 1998, eight branch facilities are located in MSA 0240. The bank's assessment area within the MSA contains two low income and eleven moderate income census tracts. Although the bank does not operate facilities in these areas, the bank's branching trend in Lehigh County is to locate facilities in area supermarkets that are accessible to all segments of the community. The bank also operates a facility in a supermarket in Allentown which is less than two miles from a low income and a moderate income census tract. The bank's assessment area in Northampton county does not have any low and moderate income census tracts. Middle and upper income tracts each contain 4 branch facilities.

Refer to the discussion under the Service Test for the combined assessment areas at the beginning of this evaluation for additional information on retail services, including alternative delivery systems.

#### **Community Development Services**

Refer to the discussion under the Service Test for the combined assessment areas at the beginning of this evaluation for information on community development services in MSA 0240.

## PHILADELPHIA CMSA 6160

### Description of Institution's Operations in CMSA 6160

Refer to the description for the combined assessment areas at the beginning of this evaluation for information on the bank's assessment area within CMSA 6160.

### Conclusions with Respect to Performance in CMSA 6160

NPB's performance in helping to meet the credit needs of its assessment area within CMSA 6160 is consistent with the bank's overall performance

### LENDING TEST

#### Lending Activity

The following table contains data on HMDA reportable, consumer, and small business and farm loan originations within the bank's assessment area in CMSA 6160.

LOAN ORIGINATIONS - PHILADELPHIA CMSA 6160						
LOAN CATEGORY	1996		1997		1998(Jan-June)	
	#	\$000's	#	\$000's	#	\$000's
HMDA	546	51,177	467	31,487	331	38,921
Consumer*	1,045	26,907	992	28,560	524	12,757
Small Business/Farm**	359	46,148	390	48,970	228	33,514
<b>Total Loans</b>	<b>1,950</b>	<b>124,232</b>	<b>1,849</b>	<b>109,017</b>	<b>1,083</b>	<b>85,192</b>

\* Consists of home equity, motor vehicle, other secured and unsecured loans.

\*\*Small business loans defined as commercial loans with original amounts of \$1 million or less reported on the Consolidated Report of Condition and Income ("Call Report") as either loans secured by nonfarm or nonresidential real estate or Commercial and Industrial loans. Small farm loans defined as those with original amounts of \$500 thousand or less reported on the Call Report as either loans to finance agricultural production or loans secured by farmland.

Loan trends in CMSA 6160 parallel the trends for the assessment areas combined. Approximately 50% of the total number of HMDA reportable loans originated each year have been within CMSA 6160. This MSA also accounts for almost half of the number of consumer loans originated (44% in 1996, and 46% in 1997). The bank had markets shares of slightly over 1% for its HMDA loan originations in its assessment area. Slightly over 60% of small business and farm loan originations each year have been within CMSA 6160. In addition, over 60% of the residential real estate secured small

business loans were attributed to CMSA 6160 each year: 1996 - 77 loans totaling \$4.39 million; 1997 - 61 loans totaling \$3.25 million and 1998 (first six months) - 24 loans totaling \$694 thousand.

### **Innovative and Flexible Loan Products**

Refer to the description for the combined assessment areas at the beginning of this evaluation for information on innovative and flexible loan products extended to the bank's assessment area within CMSA 6160.

### **Geographic Distribution**

NPB's geographic distribution of loan originations reflects good penetration throughout its assessment area in CMSA 6160.

The following tables present the distribution of HMDA, consumer, and small business and farm loan originations by census tract income classification for the assessment area. The accompanying analysis focuses on lending in low and moderate income census tracts.

<b>HMDA LOAN ORIGINATIONS - PHILADELPHIA CMSA 6160</b>						
<b>Census Tract Income Level</b>	<b>1996</b>		<b>1997</b>		<b>1998(Jan-Jun)</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low*</b>	-	-	-	-	-	-
<b>Moderate</b>	38	7%	30	6%	12	4%
<b>Middle</b>	273	50%	251	54%	178	54%
<b>Upper</b>	235	43%	186	40%	141	43%
<b>N/A</b>	0	0%	0	0%	0	0%

\*The assessment area contains no low income tracts.

N/A - Tracts with no reported income.

The percentage of HMDA loan originations in moderate income census tracts approximates or exceeds the proportion of owner-occupied housing units in moderate income tracts (4%).

For 1996, NPB's market share of HMDA loan originations was 2.88% in moderate income census tracts, exceeding the bank's overall market share of 1.28%. For 1997, NPB's market share of HMDA loan originations in moderate income census tracts was 2.16%, above its overall market share of 1.08%.

<b>CONSUMER LOAN ORIGINATIONS - PHILADELPHIA CMSA 6160</b>						
<b>Census Tract Income Level</b>	<b>1996</b>		<b>1997</b>		<b>1998(Jan-Jun)</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low*</b>	-	-	-	-	-	-
<b>Moderate</b>	61	6%	52	5%	31	6%
<b>Middle</b>	583	56%	574	58%	309	59%
<b>Upper</b>	401	38%	366	37%	184	35%
<b>N/A</b>	0	0%	0	0%	0	0%

\*The assessment area contains no low income tracts.

N/A - Tracts with no reported income.

Except for 1996, the percentage of consumer loans originated in moderate income census tracts equals or approximates the percentage of the population in moderate income tracts (6%) .

<b>SMALL BUSINESS &amp; FARM LOAN ORIGINATIONS - PHILADELPHIA CMSA 6160</b>						
<b>Census Tract Income Level</b>	<b>1996</b>		<b>1997</b>		<b>1998(Jan-Jun)</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low*</b>	-	-	-	-	-	-
<b>Moderate</b>	15	4%	21	6%	7	3%
<b>Middle</b>	149	42%	146	37%	103	45%
<b>Upper</b>	195	54%	223	57%	118	52%
<b>N/A</b>	0	0%	0	0%	0	0%

\* The assessment area contains no low income tracts.

N/A - Tracts with no reported income.

Five percent (5%) of small businesses and farms are located in moderate income census tracts. The percentage of loans originated in moderate income tracts approximated or equaled the proportion of small businesses and farms.

## **Borrowers' Profile**

The following tables present the distribution of HMDA and consumer loans by borrower income classification with the accompanying analysis focused on lending to low and moderate income borrowers.

<b>HMDA LOAN ORIGINATIONS - CMSA 6160</b>						
<b>Borrower Income Level</b>	<b>1996</b>		<b>1997</b>		<b>1998(Jan-Jun)</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	34	6%	47	10%	16	5%
<b>Moderate</b>	70	13%	97	21%	54	16%
<b>Middle</b>	153	28%	120	26%	85	26%
<b>Upper</b>	262	48%	187	40%	160	48%
<b>N/A</b>	27	5%	16	3%	16	5%

N/A - Income not available.

The percentage of HMDA loans originated to low income borrowers is below the proportion of families that are low income (11%), except for 1997 when the percentage of loans approximated the proportion of families. The percentage of HMDA loans originated to moderate income borrowers has approximated or exceeded the proportion of families that are moderate income (15%).

<b>CONSUMER LOAN ORIGINATIONS - CMSA 6160</b>						
<b>Borrower Income Level</b>	<b>1996</b>		<b>1997</b>		<b>1998(Jan-Jun)</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	206	20%	218	22%	92	18%
<b>Moderate</b>	159	15%	192	19%	108	21%
<b>Middle</b>	215	21%	182	18%	113	22%
<b>Upper</b>	338	32%	334	34%	186	35%
<b>N/A</b>	127	12%	66	7%	25	5%

N/A - Income not available.

The percentage of consumer loans originated to low income and moderate income borrowers has exceeded the percentage of families that are low income (11%) and moderate income (15%).

<b>SMALL BUSINESS AND FARM LOAN ORIGINATIONS - CMSA 6160</b>						
<b>ANNUAL REVENUES &lt;= \$1 MILLION</b>						
<b>Original Loan Amount</b>	<b>1996</b>		<b>1997</b>		<b>1998(Jan-Jun)*</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>&lt;=\$100,000</b>	179	63%	201	68%	59	52%
<b>\$101,000-\$250,000</b>	62	22%	51	17%	31	27%
<b>\$251,000-\$1 million</b>	41	15%	45	15%	24	21%
<b>Total</b>	282	100%	297	100%	114	100%

\*A recent system conversion problem resulted in 50 loans originated in 1998 placed in "unknown revenue" fields. The bank is currently researching its records to determine the appropriate revenue categories for these loans.

A total of 58,124 businesses and farms are located in the assessment area. Of the businesses and farms reporting annual revenues, 42,472 or 87% have revenues of \$1 million or less. In comparison, in 1996 and 1997, respectively, 83% and 79% of NPB's small business and farm loans were to entities with annual gross revenues of \$1 million or less. The majority (63% or greater) of small business loans originated in 1996 and 1997 have been in amounts of \$100,000 or less.

### **Community Development Loans**

Refer to the discussion under the Lending Test for the combined assessment areas at the beginning of this evaluation for information on community development loans in CMSA 6160.

## **INVESTMENT TEST**

### **Community Development Investments and Grants**

Refer to the discussion under the Investment Test for the combined assessment areas at the beginning of this evaluation for detailed information on community development investments and grants. NPB made community development investments totaling \$1,011,773, and grants totaling \$22,701 in CMSA 6160 since 1996.

## **SERVICE TEST**

### **Retail Banking Services**

As of September 30, 1998, 24 branch facilities are located in CMSA 6160. The bank's assessment area within CMSA 6160 has no low income tracts and eighteen moderate income tracts. The bank has one office, Pottstown Downtown, in a moderate income area which is contiguous to an adjoining moderate income tract; and one office in East Falls, also in a moderate income tract. NPB also operates a branch in Norristown bordering a moderate income tract approximately one mile from this office. In Bucks County, the bank has a branch in Warminster which is approximately one mile from a moderate income census tract. In Chester County, the West Chester branch is located in a census tract which is contiguous to a moderate income tract.

Refer to the discussion under the Service Test for the combined assessment areas at the beginning of this evaluation for additional information on retail services, including alternative delivery systems.

### **Community Development Services**

Refer to the discussion under Service Test for the combined assessment areas at the beginning of this evaluation for information on community development services in CMSA 6160.

## Appendix A: Scope of Examination

This evaluation covers the period January 1996 through October 5, 1998. Information sources include Home Mortgage Disclosure Act - Loan Activity Reports (HMDA-LARs) and small business and small farm loan registers. Specific loan products reviewed were home mortgage loans, home improvement loans, small commercial loans (original amounts \$1 million or less), small farm loans (original amounts \$500 thousand or less), loans to small businesses and farms (annual gross revenues \$1 million or less), and qualified community development loans. Also, at management's request we reviewed the following consumer loan categories: home equity, motor vehicle, other secured and unsecured. The review of HMDA, consumer, and small business and farm loans covered the period January 1996 through June 30, 1998, with remaining loan categories and investment activity covering the period January 1996 through October 5, 1998.

<b>Time Period Reviewed</b>	1/1/96 to 10/05/98		
<b>Financial institution</b> National Penn Bank, Boyertown, PA			<b>Products reviewed</b> Home Mortgage, home improvement, consumer (home equity, motor vehicle, other secured and unsecured), Small business, and Small farm.
<b>Affiliate(s)</b>	<b>Affiliate relationship</b>		<b>Products reviewed</b>
National Penn Investment Co.	Subsidiary of National Penn Bancshares		Community Development Investments
<b>List of Assessment Areas and Type of Examination</b>			
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Branches Visited</b>	<b>Other Information</b>
Southeastern Pennsylvania: MSA 6680/Berks* MSA 0240/Lehigh*, Northampton MSA 6160/Bucks, Chester, Delaware, Montgomery*, Philadelphia  *Entire county included in assessment area	on-site on-site on-site	None	