

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Nazareth National Bank and Trust Company prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency.

The evaluation represents the OCC's current assessment and rating of the institution's CRA performance based on an examination conducted as of July 15, 1996. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low-and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under 5 performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating:

Based on the findings presented below, this institution is rated: Satisfactory record of meeting community credit needs.

Background Information

Nazareth National Bank and Trust Company (NNB) is a community bank with \$309 million in total assets as of June 30, 1996. NNB has twelve branches located throughout Monroe, Northampton, and Lehigh counties. Northampton and Lehigh counties are part of Metropolitan Statistical Area (MSA) 240. Northampton and Lehigh counties consist of 131 census tracts; four are low-income, seventeen are moderate-income, eighty-six are middle-income, and twenty-four are upper-income census tracts. Monroe County is not part of an MSA, but consists of 14 census tracts. There are five middle-income and nine upper-income census tracts in Monroe. The HUD MSA median family income for Northampton and Lehigh counties is \$43,000 and for Monroe County the statewide non-MSA median family income is \$32,800.

Management's philosophy has been to focus on 1-4 family lending, which represents 67% of average gross loans. Loans to individuals comprise 11% of average gross loans; the remainder of the portfolio is commercial credits. Competition is strong, not only from branches of regional banks, but also from several community banks. There are a number of major employers in the area, as well as numerous smaller retail businesses. General economic conditions are stable. NNB is a wholly owned subsidiary of First Colonial Group, a one bank holding company.

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

Senior management is proactive in its efforts to ascertain credit needs. In the spring of 1994 management participated in an eight bank, sixteen community leader focus group directed at minority and low-to-moderate income individuals. Management is involved with other community groups that include: Lehigh Valley Small Business Loan Pool, Valley Housing Development Corporation, Bethlehem Economic Development Corporation, Small Business

Administration Lending Program, Small Business Development Corporation \$50M and under, Home Ownership Outreach Program, Northampton County Development Corporation, Community Action Committee of the Lehigh Valley, Easton Economic Development Corporation, Easton Area Industrial Development Corporation, and Easton Area Neighborhood Center Credit Union. Management is also active in doing needs assessment planning through various programs including customer surveys, mystery shopper program, community outreach survey, closed account surveys, HMDA data analysis, and a zip code analysis of loans and deposits.

Management has identified and responded to a number of community needs. There was an identified need for affordable housing-related credit. In response, management now offers the following products: zero point mortgages, Opportunity Loan Program, and Opportunity Mortgage Program. Under the Opportunity Loan Program, qualified customers may receive as much as 100% loan-to-value on a home equity loan, maximum of \$10,000, ten year term, with no application fee. The Opportunity Mortgage Program offers greater flexibility in the lending decision process and on rates and fees to qualified applicants; maximum term is 30 years. All applicants of the Opportunity Mortgage must attend a session of the Home Ownership Counseling Program (HOCP) before settlement. Also identified was a need for bilingual capabilities to more effectively reach the Hispanic population. Bilingual advertising is now in effect and bilingual employees were hired. Another identified need was for products and services that would meet the basic banking requirements of the low- and moderate-income population. More affordable checking account products are now available to the community such as “Just Checking” for customers who maintain low checking account balances and “Value Checking” for customers who maintain low checking account balances and desire a MAC card. Finally, a need to educate potential customers of the banking services available to the community was identified. Management has responded by having outreach programs through lunches with community leaders.

Assessment Factor C - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

The Board of Directors monitors CRA activities through the CRA Committee. The CRA Committee consists of employees representing various departments throughout the bank. The CRA committee meets quarterly and maintains minutes which are reviewed and approved by the Board. The Board ensures technical compliance with the Act and has adopted a CRA policy. Members of the Board are active in the local community through various service and social organizations.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

The marketing program is overseen by senior management and reviewed by the Board of Directors. Marketing efforts promote both the “image” of the bank and specific lending and deposit products. Management makes an effort to inform the Hispanic community of available products by advertising special programs and products in both English and Spanish. Advertising consists of print and radio media. Printed ads appear in local and regional newspapers, including: The Express Times, The Morning Call, Pocono Record, and El Hispano.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

The bank has a good loan-to-deposit ratio. As of March 31, 1996 the loan-to-deposit ratio was 75%; the ratio has remained fairly stable since year-end 1993. Management has sold 1-4 family loans totaling \$19,926M, \$6,336M, and \$1,332M for year end 1994, 1995, and as of April 1996, respectively. The sale of mortgages provided additional funding to extend to the local community.

Management analyzes HMDA data annually. The 1993 analysis revealed that 584 applications were received and 544 loans were originated. During 1994, a statewide program was offered to customers who wished to purchase mobile homes. The bank received 1,294 applications and originated 616 loans. While less than one half of all applications became an originated loan in 1994, bank data indicates that of the 543 applications received from within the delineated community, 460 loans were originated. From the 1995 HMDA-LAR report, the bank received 550 applications totaling \$32,538,000 and 438 were approved totaling \$26,865,000. Through May 1996, the bank received 371 applications totaling \$25,367,000 and 304 were approved totaling \$21,380,000.

Outstanding loans, by dollar size, to businesses borrowing less than \$1 million are reflected in the table below. The loans in the table represent the majority of the bank’s credits secured by non-farm/non-residential property and commercial and industrial loans.

DATA AS OF JUNE 30, 1996

	<\$100M		\$100M-\$250M		\$250M-\$1,000M	
	#	\$	#	\$	#	\$
Loans secured by non-farm/non-residential	99	\$3,554M	68	\$8,175M	46	\$14,449M
Commercial & Industrial Loans	175	\$3,380M	10	\$1,078M	8	\$1,087M

Assessment Factor J - The institution's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

Management participates in loan programs with the Small Business Administration (SBA). As of May 28, 1996 SBA loans totaled \$1,691,000. The bank does not participate with either the Veterans Administration or the Farmers' Home Administration. As noted, there is a zero point mortgage and two home equity plans for low- and moderate-income individuals.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Reasonableness of Delineated Community

The delineated community consists of Northampton, Lehigh and Monroe counties and was established at the beginning of 1995. In 1994, the delineated community was Northampton and Monroe Counties and in 1993, the delineated community was Northampton County. The current delineation is reasonable. HMDA data, by dollar volume of loans, indicates that 84% and 78% of all applications were from within the assessment area for 1995 and 1996, respectively. No low- and moderate-income areas are arbitrarily excluded from the current or prior delineation.

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

The table below represents the percentage of loans originated to individuals of different incomes within the delineated community.

DATA FROM HMDA-LAR REPORTS FOR 1995 and 1996

	LOW INCOME	MODERATE INCOME	MIDDLE INCOME	UPPER INCOME	No income data
1995	9%	17%	23%	36%	15%
1996	6%	12%	21%	43%	18%

The distribution of lending to individuals of different incomes appears reasonable. Management does most of its lending to middle- and upper-income individuals; the demographics of the delineated community indicates that it is primarily composed of middle- and upper-income individuals.

Assessment Factor G - Institution's record of opening and closing offices and providing services at offices.

Since 1993, the bank has opened four full service branches, two in Monroe County, one in Lehigh County, and one in Northampton County. All offices offer convenient hours and services. The bank has a branch closing and opening policy; no branches have been closed. There are twelve branches and three separate ATM locations. Two branches and one ATM are located in low-to-moderate income areas.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

An examination of the bank's compliance with Fair Lending regulations was conducted in conjunction with this CRA review. No violations of the Home Mortgage Disclosure Act or the Equal Credit Opportunity Act were cited.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES-Cont

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

We found no evidence of discrimination on a prohibited basis or other disparate treatment of applicants.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

Management is generally aware of development and redevelopment projects in the local community. The bank participates in the following community development projects: Lehigh Valley Small Business Loan Pool, Valley Housing Development Corporation, Bethlehem Economic Development Corporation, Small Business Administration Lending Program, Small Business Development Corporation, and Home Ownership Outreach Program. Also, the bank has invested in several local bond issues and sewer projects.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

NNB is not limited by any financial or legal impediments at this time. The Board supports development in the local community consistent with its size, location, and local economic conditions.

Assessment Factor L - Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

No comment.