



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

January 07, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

DNB First, National Association
Charter Number: 661

4 Brandywine Avenue
Downingtown, PA 19335

Office of the Comptroller of the Currency

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

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory

The major factors that support this rating include:

- DNB First, National Association's (DNB) distribution of loans represents a reasonable penetration among individuals and geographies of different income levels and businesses of different sizes.
- DNB's loan-to-deposit ratio is reasonable.
- A majority of DNB's primary loan products were originated within the bank's assessment area.
- DNB's responsiveness to community development needs and opportunities in its assessment area is adequate.

Scope of Examination

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

The lending test for DNB covers its performance from January 1, 2005 through September 30, 2007, as this is representative of its lending strategy since the last CRA examination. The evaluation period for the CD test is from July 26, 2005 through January 7, 2008. CD loans, investments and services submitted by management were verified to ensure that they met the regulatory definition for community development.

DNB's primary loan products are home mortgage and small business loans. The bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). The reported HMDA data was tested and found to be reliable. Therefore, HMDA data was used to evaluate the bank's home mortgage performance. To evaluate the bank's small business lending performance, we selected a sample of Community Reinvestment Act (CRA) small business loans made from January 1, 2005 through September 30, 2007. While DNB is not required to collect and submit CRA loan data, the bank had collected the data for the evaluation period. However, we were unable to use the data because 25.4% of the sampled loans were not deemed to be CRA loans. All data within this report is based upon the sample.

Description of Institution

DNB is a full-service intrastate bank headquartered in Downingtown, PA. As of September 30 2007, DNB had total assets of \$513 million and tier one capital of \$40 million. DNB is wholly owned by DNB Financial Corporation, a one-bank holding company with consolidated assets of \$513 million. The bank has a subsidiary DNB Financial Services, Inc. The subsidiary makes available certain non-depository products and services, such as securities brokerage, mutual funds, life insurance and annuities. Subsidiary activities are not considered in this evaluation and do not impact the bank's capacity for community reinvestment. There have not been any significant changes to DNB's corporate structure, including merger or acquisition activities, since the last CRA examination.

In addition to the main office, DNB operates ten full-service branches, all with a deposit-taking ATM, and two limited service branches. One of the limited service branches is not for use by the general public. That branch also has an ATM. The other limited service branch does not have an ATM. None of the branches are located in the moderate-income census tracts; however, two branches are located near a majority of the moderate-income census tracts. Since the previous CRA exam, two branches have been opened and none have closed.

The bank offers a full range of deposit and loan products and services. Residential mortgage and small business lending are DNB's primary loan products. Within the residential mortgage portfolio, the bank originates long-term mortgage loans for sale on the secondary market. Deposit products and services include free basic checking accounts and electronic transfer capabilities.

As of September 30, 2007, DNB reported net loans of \$316 million and had a net loans and leases to total assets ratio of 61.6 %. The loan portfolio composition is as follows:

Loan Portfolio Summary by Loan Product September 30, 2007	
Loan Category	% of Total Loans and Leases
Home Mortgage Loans	33.6%
Business Loans	44.0%
Construction and Land Development	14.8%
Lease Financing Receivables	4.7%
Other Loans	2.9%

There are no legal or financial impediments to DNB's ability to meet the credit and CD needs of its AA. The bank was rated Satisfactory at its last CRA examination dated July 25, 2005.

Description of Assessment Area

DNB has one assessment area in Southeastern Pennsylvania, which is described below.

Chester - Delaware Assessment Area

The Chester - Delaware AA is comprised of one complete county, Chester, and the Northwestern portion of Delaware County. These counties are located in Southeastern Pennsylvania and are located within the Philadelphia, PA Metropolitan Division (MD), #37964. This MD is part of the Philadelphia-Camden-Wilmington, PA-NJ-DE-MD Metropolitan Statistical Area (MSA), #37980. This AA meets the requirements of the regulation and does not arbitrarily exclude any low-or moderate-income areas.

Here is a summary of some demographic information for the AA:

Demographic Information for the Chester-Delaware AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	129	0%	6.20%	29.46%	62.79%
Population by Geography	510,305	0%	4.63%	23.59%	71.15%
Owner-Occupied Housing by Geography	141,788	0%	2.68%	22.31%	75.01%
Businesses by Geography	38,701	0%	4.39%	19.60%	75.98%
Farms by Geography	1,419	0%	1.69%	29.18%	69.13%
Family Distribution by Income Level	133,583	10.12%	12.38%	19.11%	58.38%
Household Distribution by Income Level	184,801	12.92%	11.85%	15.85%	59.39%
Census Median Family Income (MFI)		\$56,993	Median Housing Value		\$195,435
HUD-Adjusted MFI: 2007		\$69,200	Families Below the Poverty Level		4.87%
			Unemployment Rate		2.9%*

Source: 2000 U.S. Census Data

* Chester County 11/07 unemployment rate, not seasonally adjusted

The current local economy for the AA is characterized as good and expanding. Economic activity in the areas is relatively diverse, with services, retail trade, and manufacturing being the primary economic activities. Average unemployment for the area is low and average employee wages are increasing. Major employers for Chester County are the following companies: Vanguard Group, QVC, United States Government, Chester County and Siemens Medical Solutions.

DNB is located in a highly competitive market, with competition from other financial institutions. The bank's competitors include several local community banks, branches of large regional institutions, and several mortgage/finance companies.

We held discussions with bank management to determine what they felt were the lending needs in the community. There is a lack of affordable housing in the area,

especially for professionals such as police officers, firefighters, and teachers who have been priced out of this higher real estate market. The bank hopes to provide affordable housing opportunities for these potential borrowers. DNB also feels that the borrowing needs of small businesses may not be satisfied. The bank has joined an organization that will allow their borrowers to obtain more Small Business Administration (SBA) loans in the future. There is also a new lending officer who is exclusively designated as a small business lender.

In conducting the assessment of the bank's performance, we contacted a local government organization. The contact indicated there was a need for more small business lending and affordable housing for low- and moderate-income individuals and families. The contact stated there are multiple non-profit organizations in the community who would benefit from donations of funds, space and volunteers. In addition, the community development needs include affordable housing loans and community services to the many low- and moderate-income families. These include assistance with home rehabilitation, fair housing education, and job training for the homeless.

Conclusions with Respect to Performance Tests

LENDING TEST

DNB's performance under the lending test is satisfactory. DNB's loan-to-deposit ratio is reasonable. A majority of DNB's primary loan products are within the bank's assessment area. DNB was found to have reasonable penetration among borrowers of different income levels and businesses of different sizes. DNB's geographical distribution of loans was reasonable, and took into account the AA does not contain any low-income census tracts.

All criteria of the lending test are documented below:

Loan-to-Deposit Ratio

DNB's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AAs' credit needs. The bank's net loan-to-deposit ratio averaged 84.8% over the last nine quarters since the last CRA examination. This ratio ranged from a quarterly low of 79.5% to a quarterly high of 89.76% during the time period. The bank sells mortgages to Aurora Mortgages. During the evaluation period, DNB sold over \$10 million of their home loans to Aurora. If DNB had retained the loans, their loan to deposit ratio would have been approximately 2.5% higher based on the original amount of the mortgages and the September 30, 2007 deposit amount.

The bank's net loan-to-deposit ratio compares favorably with other financial institutions of similar size, location and product offerings. The average net loan-to-deposit ratio for the nation-wide peer over the same nine quarters was 86.78%. The peer ratio ranged from a quarterly low of 85.43% to a quarterly high of 88.58% during the time period.

Lending in Assessment Area

A majority of DNB's primary loan products were made within the bank's assessment area. The following table details the bank's lending within the AA by number and dollar amount of loans. Seventy-eight percent of the number of loans originated in these primary loan products were made within the AA.

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	78	41.05	112	58.95	190	15,032	30.67	33,973	69.33	49,005
Home Refinance	274	84.83	49	15.17	323	25,595	67.25	12,466	32.75	38,061
Home Improvement	248	95.75	11	4.25	259	13,147	83.4	2,616	16.6	15,763
Business	38	86.36	6	13.64	44	6,443	84.45	1,186	15.55	7,629
Totals	638	78.19	178	21.81	816	60,217	54.52	50,241	45.48	110,458

Source: HMDA data and sampled business loan data 1/1/2005-9/30/2007

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

The distribution of loans for the bank's AA reflects a reasonable penetration among individuals of different income levels and businesses of different sizes.

Home Loans

The distribution of home loans to borrowers reflects reasonable penetration among borrowers of different income levels.

The percent of home improvement loans originated to low-income borrowers is near the percent of low-income families in the AA. The percent of home purchases and refinances is significantly lower than the percent of low-income families in the AA. Lending opportunities to this group are limited given the median home price in the AA of \$195,435. Low-income borrowers would have difficulty qualifying for a home purchase loan.

The percent of all home loans to moderate-income borrowers exceeds the percent of moderate-income families in the AA.

The following table shows the distribution of home loan products among borrowers of different income levels for the period of January 1, 2005 through September 30, 2007 as compared to the percent of families in each income category.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Chester/Delaware AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	10.12	3.03	12.38	16.67	19.11	13.64	58.38	66.67
Home Improvement	10.12	7.63	12.38	16.53	19.11	23.31	58.38	52.54
Home Refinance	10.12	5.41	12.38	13.51	19.11	23.94	58.38	57.14

Source: HMDA data for 2005-9/30/2007 and HUD-updated 2000 U.S. Census data

Business Loans

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. During the loan sampling period, 55% of bank loans made to businesses were made to small businesses. Small businesses are businesses with gross annual revenues of one million dollars or less. This is considered reasonable compared to demographic data that shows 69% of the area's businesses are considered small businesses. Another indication the bank is lending to small businesses is the size of the loans. We found that 68% of the business loans in our sample were loans under \$250 thousand and the average loan amount was \$173 thousand, which provides additional support for a reasonable distribution of loans to small businesses.

The following table shows the distribution of commercial loans among different sized businesses in the AA.

Table 2A - Borrower Distribution of Loans to Businesses in Chester – Delaware AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	68.59	8.49	22.92	100%
% of Bank Loans in AA by #	54.55	36.36	9.09	100%
% of Bank Loans in AA by \$	69.20	22.55	8.25	100%

Source: small business loans sampled from 2005 - 9/30/07

Geographic Distribution of Loans

The distribution of loans reflects a reasonable dispersion throughout the bank's AA. More weight was placed on the bank's home loan distribution due to the very limited number of businesses located in the moderate-income census tract.

There were no conspicuous gaps identified within DNB's AA.

The bank's AA contains no low-income census tracts. Therefore, the evaluation of lending activity in low-income census tracts is not applicable.

Home Loans

The bank's geographic distribution of home loans in DNB's AA reflects a reasonable dispersion throughout the moderate-income census tracts.

The percent of lending for home purchase loans in the moderate-income geographies exceeds the percent of owner-occupied housing in these geographies. The percent of lending for home improvement and refinancing in the moderate-income geographies is significantly lower than the percent of owner-occupied. Lending in these moderate-income geographies is limited given that 62% of the population is low- or moderate-income families. It may be difficult for these families to qualify for a home loan with an average median family income of \$36,451, given the weighted average median housing price is \$89,841 in these geographies. Another factor is 21% of households in the moderate-income census tracts are below the poverty level.

Following is a table that details the bank's performance as compared to the percentage of owner-occupied housing units in each census tract income level.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	N/A	N/A	2.68	6.76	22.31	35.14	75.01	58.11
Home Refinance	N/A	N/A	2.68	1.47	22.31	27.21	75.01	71.32
Home Improvement	N/A	N/A	2.68	1.21	22.31	27.82	75.01	70.97

Source: HMDA data for 2005-9/30/2007 and 2000 U.S. Census data

Business Loans

The bank's geographic distribution of business loans reflects poor dispersion throughout the moderate-income census tracts. DNB made no loans to small businesses in moderate-income geographies based upon our sample. Through information provided by the bank, we were able to identify three loans to small businesses made within the moderate-income geographies. Management provided a listing of 175 small business loans made during the evaluation period. While this is a rough estimate of the lending volume, the identified three loans within the moderate-income geographies represents 1.7% of small business loans. This percentage is still below the percent of small businesses in the moderate-income geographies.

Opportunities for the bank to make business loans are limited because of the low number of small businesses (1,698) in the moderate-income census tracts. In addition, fierce competition from large national and credit card banks make it difficult for a bank of DNB's size to generate loans of this type.

Following is a table that details the bank's performance as compared to the percentage of businesses in each census tract income level.

Table 3A – Geographic Distribution of Loans to Businesses in Delaware/Chester AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business	N/A	N/A	4.39%	0.00%	19.60%	31.82%	75.98%	68.18%

Source: small business loans sampled from 2005-9/30/2007

Responses to Complaints

DNB did not receive any CRA complaints during the evaluation period.

COMMUNITY DEVELOPMENT TEST

The Community Development Test is rated satisfactory. The bank's level of CD activities is considered adequate given its size and capacity, considering the CD needs and opportunities of its AA. During the evaluation period, DNB's CRA qualified investments and donations at 6.6% of tier one capital demonstrated excellent responsiveness to community development needs of its AA. That performance and the adequate responsiveness through bank personnel providing financial expertise to 15 community development organizations serving the AA offset the lack of any community development loans.

Number and Amount of Community Development Loans

DNB did not originate any community development loans during our evaluation period. During 2006, DNB originated one small business loan that has a community development purpose. This loan is included in DNB's CRA small business loan data and is highlighted below.

A \$76 thousand term loan was extended to a local area organization whose purpose is to address the shortage of affordable housing in Southern Chester County. The organization primarily serves low-income Mexican and Puerto Rican immigrants who are in need of affordable housing.

Number and Amount of Qualified Investments

During the evaluation period, DNB made 76 qualifying grants, donations and investments totaling almost \$2.7 million in the AA.

During 2007, DNB purchased two pools of mortgage-backed securities. Each pool is comprised of seven conventional loans to low- and moderate-income families in Chester County. The total amount of both pools is \$2,373,159.

In addition, DNB continued to have one outstanding investment from May 2000, with a

current balance of \$200,890. DNB had committed to a \$788,000 equity investment in a 66-unit housing project located in Coatesville, PA. This renovation project is part of the Coatesville Hope VI Revitalization program developed by The Housing Authority of the County of Chester. The renovated building will provide housing to low-income and elderly individuals. The project qualifies for Federal low-income housing tax credits for equity investors.

During the evaluation period, DNB made 73 qualifying grants and donations totaling about \$290,000 to 18 organizations that help to provide economic development, affordable housing, and educational and community services to low- and moderate-income individuals and families. As part of the above total, DNB's donations and grants for educational purposes during the same period totaled over \$250,000.

Extent to Which the Bank Provides Community Development Services

Although DNB does not have any branches in moderate-income census tracts, two full-service branches are located in middle-income census tracts which are in close proximity to six of the eight moderate-income census tracts within the AA. DNB's Caln Branch is adjacent to five moderate-income census tracts in the Coatesville area and DNB's Downtown West Chester Branch is adjacent to one moderate-income census tract within West Chester. The presence of a full-service branch in these two locations is an indication that the bank is helping to provide retail and community development services to the lower-income areas of the AA. This is also evidenced by the fact DNB offers a free checking account with no minimum balance, a low-cost savings account, as well as electronic transfer accounts. These services generally help to increase access to financial services for low- and moderate-income individuals. With a 5% poverty rate and 23% of the families' considered low- and moderate-income, the provision of these services is considered favorably under the CRA review.

During the evaluation period, nine bank employees provided financial expertise and leadership services to fifteen different qualifying community development organizations serving the AA. The following are the CD services provided by DNB in which employees hold key positions:

Alliance for Better Housing (strives to improve quality of life for lower-income residents by developing, managing, and marketing affordable housing)

- President

Brandywine Health Foundation (strives to improve the health of the residents of central and western Chester County especially lower income areas such as Coatesville)

- Marketing Chair

Chester County Chamber Foundation (dedicated to the enhancement of the quality of life throughout Chester County by focusing on education, workforce development, youth development and leadership programs)

- Financial Advisor

Chester County Economic Development Council (full service economic development organization which has been encouraging balanced economic growth in Chester County)

- Two Board Members

Chester County Industrial Development Authority (committed to the environmental preservation of scenic Chester County primarily through the redevelopment of Brownfield sites)

- Chairman of the Board
- Board Member

Chester County Workforce Development (coordinates and improves employment, training, and education systems by developing and ensuring the implementation of a unified and effective strategy for addressing local workforce development issues and meeting local area workforce needs)

- Board Member

Community Action Agency of Delaware County (assists families and individuals to move toward economic self-sufficiency and reduce their dependence on public support through innovative approaches to programs)

- Board Member

Delaware County Chamber of Commerce (strives to enhance businesses throughout the region and promote the economic well-being of the county)

- Board Member

Delaware County Industrial Development Authority (encourages economic growth and development within Delaware County by issuing revenue bonds and notes for the financing of industrial and commercial projects through third party sources)

- Board Member
- Secretary
- Treasurer

Delaware County Workforce Development (same mission as the Chester County Workforce Development)

- Board Member

Downingtown Chamber of Commerce (strives to compliment and expand existing services that benefit the community by working to unify and support local area businesses and to better serve our citizens)

- Board Member

Downingtown Salvation Army Service Unit (strives to bring Christian salvation to lower-income individuals by meeting their spiritual and physical needs)

- Treasurer

Housing Partnership of Chester County (seeks innovative ways to develop affordable housing for low- and moderate-income families who do not have the resources to qualify for conventional forms of financing in order to purchase a home)

- President

La Comunidad Hispánica (strives to improve the quality of life, health and well being of low-income Hispanics and other under-served groups)

- Board Member

United Way of Southeast Delaware County (strives to provide leadership in a united effort in order to promote the health and well being of the community and citizens of Delaware County)

- Board Member

Responsiveness to Community Development Needs

DNB's community development activities, as a whole, demonstrate adequate responsiveness to the needs and opportunities in this AA. Identified needs include additional affordable housing, fair housing education and social services for low- and moderate-income individuals and families. In total the bank has over \$2.6 million (6.56% of tier one capital) in grant donations and investments which benefit low- and moderate-incomes individuals and families. The majority of the investments represent mortgages to low- and moderate-income borrowers. Officers and employees provided technical assistance to 15 different qualified organizations that provide needed community services to the low- and moderate-income population in the AA and work to improve economic development.

The bank attempted to join the Community Lenders Community Development Corporation (CLCDC), which is a pool of banks that come together to serve as a vehicle for community revitalization by taking direct action through the financing of, and investment in, housing and related activities designed to address the needs of low- to moderate-income persons and areas. However, the bank was precluded from joining the organization due to the fact that their assessment area had limited opportunities to assist low- and moderate-income individuals and families.

During the prior evaluation period, DNB committed \$500 thousand to the Housing Partnership of Chester County First Time Home Buyers Programs. The commitment is still available for funding. This program is intended to assist low- and moderate-income individuals and families. No loans were extended during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

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

