



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

July 20, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The National Bank of Malvern
Charter Number 3147

King Street and Warren Avenue
Malvern, PA 19355-2410

Office of the Comptroller of the Currency

Eastern Pennsylvania Field Office
4 Greenwood Square
3325 Street Road Suite 120
Bensalem, PA. 19020-2025

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 major factors supporting the institution's rating include:

- The bank's quarterly average net loan-to-deposit ratio is reasonable given the bank's size, financial condition, lending-related activities, and assessment area credit needs;
- A substantial majority of the bank's loans are made within the assessment area;
- The distribution of loans reflects excellent penetration among borrowers of different incomes;
- The bank's geographic distribution of loans within its assessment area reflects poor dispersion throughout the assessment area; and
- The bank has received no complaints about its performance in helping to meet the credit needs of its assessment area.

SCOPE OF EXAMINATION

The National Bank of Malvern (NBM) was evaluated under the Small Bank Community Reinvestment Act (CRA) examination procedures. Our review covered the bank's CRA performance from January 1, 2007 through March 31, 2009. The bank's primary lending focus is on residential mortgage loans. Small-business loans were not included in the review. The residential mortgage loan analysis is based upon the bank's Home Mortgage Disclosure Act- Loan Application Registers (HMDA-LAR). The HMDA-LARs were tested prior to this review and found to be reliable for the purposes of our analysis. Therefore, we used the HMDA data from January 1, 2007 through March 31, 2009 to evaluate the bank's home mortgage loan performance.

DESCRIPTION OF INSTITUTION

NBM is a \$121 million family-owned, independent bank located approximately 25 miles northwest of the city of Philadelphia, Pennsylvania. The bank received its national charter on December 18, 1883 and moved to its present location in the borough of Malvern in 1887. In 1973, the bank opened the lone branch approximately three miles away from the main office.

The bank is a full service, intrastate institution offering a standard array of traditional loan and deposit products, as well as trust services. The bank's website at www.natbankmal.com provides a listing of all deposit and loan services. NBM is a wholly owned subsidiary of Malvern Bk Corp., a one-bank holding company. Both the bank and the holding company are located in Chester County, PA. There are no operating subsidiaries of the bank. There has been no merger or acquisition activity since the last CRA exam.

NBM services Chester County through its main office and one branch, both of which are located in upper income census tracts. Full service banking is provided at both locations, which include a drive through and lobby services. Extended hours are provided on Friday at both the main office and the branch. In addition, both locations offer limited Saturday hours. Automated Teller Machines (ATMs) are also available at the main office location. No branches were opened or closed during the evaluation period.

As of March 31, 2009, NBM reported \$87 million in net loans, \$109 million in total deposits, and Tier One capital of \$16 million. The net loan and leases to total assets ratio was 69%. The bank's loan portfolio consists of residential real estate (78%), commercial and commercial real estate (21%) and consumer loans (1%). The bank's lending philosophy is conservative and focuses on home loans and serving the needs of local businesses.

Numerous national, state and savings banks, as well as branches of several large regional institutions provide average deposit and lending competition. According to the June 30, 2008 Federal Depository Institution Corporation's (FDIC) Deposit Market Share Report, NBM ranked 18 out of 43 institutions in Chester County with a 1.09% deposit market share. Competitors in Chester County include: Wachovia Bank (15.91%); Citizen's Bank PA (9.58%) and National Penn Bank (9.23%). NBM reported no market share outside of Chester County.

There were no legal, financial or other factors impeding NBM's ability to help meet the needs of its community. NBM's last CRA evaluation was performed in June 2004, and NBM was rated "Satisfactory".

DESCRIPTION OF ASSESSMENT AREA(S)

NBM has defined its assessment area (AA) as all of the census tracts (CTs) in Chester County, Pennsylvania. The bank's AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. Chester County consists of 113 CTs. There are no low-income tracts, eight moderate-income tracts (7%), 37 middle-income tracts (33%) and 66 upper-income tracts (58%). In addition, there are two tracts without an income designation. The county is not considered a distressed or underserved area.

According to 2000 US Census data, the population of the Chester County AA is 433,501 comprised of 114,091 families and 158,025 households. Approximately 11% of families are categorized as low-income, 13% as moderate-income, 20% as middle-income and 57% as upper-income. Approximately five percent or 7,884 households are below the poverty level. The 2008 HUD updated median family income was \$72,400 and the median value of a home in the AA is \$184,117. There are 163,773 housing units with owner-occupied units at 74%, rental occupied 23%, and vacant-housing units at three percent in Chester County.

The economy for Chester County has slowed down somewhat, reflective of the nation's economic slowdown over the past year. According to the Bureau of Labor Statistics, the June 2009 unemployment rate for Chester County was 6.6% compared to the June 2008 unemployment rate of 3.9%. The national unemployment rate in June 2009 was 9.7% and the state unemployment rate was 8.4%. Major employers for Chester County are the following companies: Vanguard Group, QVC, United States Government, Chester County and Siemens Medical Solutions.

During the examination we contacted a Chester County Housing Partnership agency. The agencies mission is to assist low- and moderate-income individuals and families acquire and maintain decent, affordable housing. According to the contact there are a select number of local community banks that have been responsive to the agencies various programs and projects; however, there is still a significant need for affordable housing and opportunities for residential lending. The contact discussed how support is needed for seniors in the community. The seniors can not afford the up-keep on their homes, as many of the homes are older. They also struggle with high taxes, but they cannot afford to sell their homes as they cannot afford rent elsewhere and there is limited demand for home purchases. In addition, the county is losing the younger generation. The contact stated the young people are moving out of Chester County because they cannot afford to purchase a home in the county, nor can they afford the rent.

Demographic Information for the Chester County AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	113	0.00	7.08	32.74	58.41
Population by Geography	433,501	0.00	5.45	26.96	66.85
Owner-Occupied Housing by Geography	163,773	0.00	3.16	25.28	71.56
Businesses by Geography	38,293	0.00	5.39	23.61	70.97
Farms by Geography	1,353	0.00	0.37	31.93	65.71
Family Distribution by Income Level	114,091	10.59	12.78	19.57	57.06
Household Distribution by Income Level	158,025	0.00	5.73	27.56	66.71
Census Median Family Income (MFI)		56,993	Median Housing Value		184,117
HUD-Adjusted MFI: 2008		80,813	Unemployment Rate*		6.30%
Families Below the Poverty Level		4.99%			

Source: 2000 US Census; 2008 HUD updated MFI; *Chester County unemployment rate as of May 2009

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's overall lending performance is "Satisfactory". This conclusion is based upon the results of the following lending tests used to determine if the bank is meeting the

credit needs of the AA. All criteria of the specific lending tests are documented below:

Loan-to-Deposit Ratio

NBM’s net loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and AA’s credit needs. The bank’s net loan-to-deposit ratio averaged 89.20% over the last 21 quarters since the last CRA examination. This ratio ranged from a quarterly low of 79.89% to a quarterly high of 98.11% during the time period.

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 national peer over the same 21 quarters was 84.44%. The peer ratio ranged from a quarterly low of 82.90% to a quarterly high of 87.82% during the time period.

Lending in Assessment Area

The bank’s lending in its AA exceeds the standard for satisfactory performance. A substantial majority of NBM’s residential mortgages were originated within the bank’s AA. During the evaluation period over 95% of the number of residential mortgage loans originated by the bank were made within the AA.

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

Table 1 – Lending in Chester County AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	15	93.75	1	6.25	16	4,676	87.86	646	12.14	5,322
Home Refinance	22	95.65	1	4.35	23	2,230	97.38	60	2.62	2,290
Home Improvement	24	96.00	1	4.00	25	7,226	95.25	360	4.75	7,586
Totals	61	95.13	3	4.69	64	14,132	92.98	1,066	7.01	15,198

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

The distribution of loans reflects excellent penetration among borrowers of different income levels.

The percentage of all home loans made to low-income borrowers significantly exceeds the percentage of low-income families in the AA.

The percentage of home purchase loans for moderate-income borrowers significantly exceeds the percentage of moderate-income families in the AA. The percentage of

home improvement loans made to moderate-income borrowers equals the percentage of moderate-income families in the AA. However, for the home refinance loans, the percentage of loans originated to moderate-income borrowers is significantly below the percentage of moderate-income families in the AA.

The following, Table 2, shows the distribution of home loan products among borrowers of different income levels for the period of January 1, 2007 through March 31, 2009 as compared to the percent of families in each income category.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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	10.59	18.75	12.78	31.25	19.57	25.00	57.06	25.00
Home Improvement	10.59	26.09	12.78	13.04	19.57	21.74	57.06	39.13
Home Refinance	10.59	20.00	12.78	4.00	19.57	12.00	57.06	56.00

Source: HMDA data 1/1/07-3/31/09, Dunn and Bradstreet data.

Geographic Distribution of Loans

The geographic distribution of loans reflects a poor geographic dispersion throughout the CTs of difference income levels.

The bank’s AA contains no low-income census tracts. Therefore, we did not evaluate lending in these areas.

Less than two percent of the bank’s overall home loans originated during the evaluation period was made in moderate-income geographies. The two percent equates to one loan out of the 64 originated. The one loan was a home purchase loan.

The percent of lending for home purchase loans in the moderate-income geographies significantly exceeds the percent of owner-occupied housing in these geographies. The bank did not originate any home improvement or home refinance loans in moderate-income CTs during the evaluation period.

Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
Loan type								

Home Purchase	0.00	0.00	3.16	6.25	25.28	50.00	71.56	43.75
Home Improvement	0.00	0.00	3.16	0.00	25.28	26.09	71.56	73.91
Home Refinance	0.00	0.00	3.16	0.00	25.28	20.00	71.56	80.00

Source: HMDA data 1/1/07-3/31/09; 2008 Dunn and Bradstreet data.

Responses to Complaints

NBM did not receive any CRA related complaints during this 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.