



PUBLIC DISCLOSURE

December 21, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Neffs National Bank
Charter Number 12471

5629 Pennsylvania Route 873
Neffs, PA 18065

Office of the Comptroller of the Currency

1150 Northbrook Drive Suite 303
Trevese, PA 19053

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

INSTITUTION'S CRA RATING: This institution is rated Satisfactory

- The bank's loan-to-deposit ratio is reasonable;
- A majority of home mortgage loans originated during the evaluation period were within the bank's assessment area (AA);
- The distribution of home mortgage loans reflects reasonable penetration among borrowers of different income levels in the AA; and,
- The distribution of home mortgage loans reflects reasonable dispersion to geographies of different income levels throughout the AA.

SCOPE OF EXAMINATION

We evaluated The Neffs National Bank (NNB) using the Small Bank examination procedures. The Small Bank examination procedures include a lending test, which evaluates the bank's record of meeting the credit needs of its assessment area (AA) through its lending activities. Our analysis of the bank's lending activities during the evaluation period revealed that home mortgage loans are the bank's primary product. NNB reports home mortgage data under the requirements of the Home Mortgage Disclosure Act (HMDA). Prior to this evaluation, we tested the accuracy of NNB's HMDA data. The results of this testing indicated the data was reasonably accurate and could be relied upon.

Changes affecting the data used to evaluate CRA performance have been phased in over several years as federal banking agencies analyzed and adapted to the most recent census data. With the 2010 Census, the U.S. Census Bureau revised its approach to collecting most of the population and demographic data used in the CRA performance evaluation process. The Office of Management and Budget (OMB) revised Metropolitan Area (MA) and census tract geographic definitions and boundaries in February 2013. CRA performance evaluations are impacted by the 2010 census data changes beginning January 1, 2012, and the MA changes beginning January 1, 2014. Thus, NNB's CRA performance evaluation required two separate analyses for the periods: January 1, 2013 through December 31, 2013; and January 1, 2014 through September 30, 2015.

DESCRIPTION OF THE INSTITUTION

NNB is a \$327.4 million intrastate community bank founded in 1923, with its main office and headquarters in Neffs, Pennsylvania. Neffs is located in Lehigh County in eastern Pennsylvania, northwest of the Allentown metropolitan area. NNB is a wholly owned subsidiary of Neffs Bancorp, Inc. This holding company has no other subsidiaries or affiliates.

The bank operates a full service office from its one location. The bank also has two ATMs and five drive-up facilities located at this site. This office is located in an upper-income geography. During the evaluation period, NNB did not engage in any mergers or acquisitions, nor has NNB opened or closed any branch offices. The bank's website offers information on branch hours of

service and bank products. The bank offers traditional products and services such as checking accounts, savings accounts, certificates of deposit, and consumer and commercial loans. The bank also offers a 24-hour telephone banking system for transaction verifications and transfers between accounts, as well as Internet and mobile banking with bill pay. Additionally, the bank offers retail non-deposit investment services through Cetera Financial Specialists LLC and Cetera Investment Advisors LLC.

As of September 30, 2015, NNB has \$56.9 million in tier 1 capital, and reported \$169.0 million in net loans and \$251.9 million in total deposits. The bank's loan portfolio is comprised of 51% retail loans and 49% commercial loans. The breakdown of loan types as a percentage of the bank's entire loan portfolio is: 47.8% residential real estate, 37.6% commercial real estate, 7.7% state and political subdivisions, 3.2% consumer, 2.4% commercial and industrial, < 1% secured by farmland, and < 1% construction and development (including 1-4 family construction).

NNB's last CRA public evaluation (PE) was dated January 2, 2013. The overall CRA rating assigned was "Satisfactory". NNB does not have any legal or financial condition restrictions that would impede its ability to help meet the credit needs of the community.

DESCRIPTION OF ASSESSMENT AREA

NNB's AA consists of 36 census tracts (CTs) in Carbon, Lehigh, and Northampton Counties. Twenty-four of the CTs are in Lehigh County, where the bank is headquartered, seven CTs are in Northampton County, and five CTs are in Carbon County. This AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies. Of the 36 CTs in the AA, 21 are middle-income (58.33%), nine are upper-income (25.0%), and six are moderate-income (16.67%). There are no low-income census tracts in the AA. These tracts are located in a mostly rural, but still developing area. The urbanized Lehigh Valley is approximately twelve miles south of Neffs, and the bank's AA is the home of many commuters who work in the Allentown and Bethlehem areas, as well as in New Jersey, Philadelphia, and New York City.

The total population in the AA was 172,054 as of the 2010 U.S. Census. Within the AA, there are 48,244 families and 67,674 households. There are 71,432 housing units, of which 76.08% are owner-occupied, 18.65% are rental-occupied, and 5.26% are vacant. The breakdown of owner-occupied housing units located in moderate, middle, and upper-income geographies is 11.03%, 63.13%, and 25.83% respectively. The weighted average of the median housing cost in the AA is \$211,732.

The U.S. Department of Housing and Urban Development (HUD) updated median family income for 2013 and 2015 are \$71,400 and \$71,200, respectively. Approximately 15.32% of families in the AA are low-income, 19.10% are moderate-income, 23.78% are middle-income, and 41.80% are upper-income. Approximately 6.39% of households are below the poverty level.

Major AA industries include health care, professional and business services, leisure and hospitality, government, and manufacturing. According to the Center for Workforce Information & Analysis, as of the first quarter of 2015, the largest three employers in Carbon County are Blue Mountain Ski Area; Kovatch Partners, LP; and Gnaden Huetten Memorial Hospital. The largest three employers in Lehigh County are Lehigh Valley Hospital; Saint Luke’s Hospital; and Air Products and Chemicals, Inc. In Northampton County, the largest three employers are Sands Bethworks Gaming, LLC; Northampton County; and Lehigh University.

National, state, and local unemployment statistics have been improving since the end of the economic recession in 2009. A trend analysis comparing December 2013, December 2014, and October 2015 unemployment statistics shows unemployment rates nationally, in the State of Pennsylvania, and in the counties of Carbon, Lehigh, and Northampton declining since 2013. Unemployment rates nationally and in Carbon County have shown modest declines year-over-year, while unemployment rates in the state of Pennsylvania, Lehigh County, and Northampton County declined from 2013 to 2014, and leveled off as of October 2015.

The following chart shows national; State of Pennsylvania; and Carbon, Lehigh, and Northampton County unemployment rates (not seasonally adjusted) in 2013 – 2015.

National; State of PA; and Counties of Carbon, Lehigh, and Northampton Unemployment Rates 2013 – 2015					
	National	State	Carbon	Lehigh	Northampton
Dec. 2013	6.5%	6.2%	7.9%	6.6%	6.1%
Dec. 2014	5.4%	4.6%	5.6%	4.7%	4.6%
Oct. 2015	4.8%	4.6%	5.1%	4.7%	4.6%

Source: Bureau of Labor Statistics Unemployment Rate Data 2013 – 2015

There is intense competition for deposits among community banks, as well as branches of regional and national financial institutions in the bank’s AA. According to the June 30, 2015 FDIC Summary of Deposit Market Share Report, NNB was ranked 17th out of 28 financial institutions in Carbon, Lehigh, and Northampton Counties, with 1.78% of total deposits. Wells Fargo Bank, N.A. ranked 1st with 37 offices in the AA and 20.98% of total deposits. Other financial institutions include National Penn Bank in 2nd place with 33 offices and 17.22% of total deposits, and Bank of America N.A., ranked 3rd with 12 offices and 8.65% of total deposits.

Competition for home mortgage loans is strong in the AA. According to the HMDA Peer Mortgage Data, in 2014, a total of 112 lenders originated HMDA loans in Carbon County. NNB ranked 42nd in Carbon County with a market share of 0.40%. In Lehigh County, a total of 214 lenders originated HMDA loans in 2014. NNB ranked 18th in Lehigh County with a market share of 1.32%. In 2014, NNB ranked 21st out of 124 lenders in Northampton County, with a market share of 1.19% of total HMDA loan originations. Wells Fargo Bank, N.A., was ranked first in Lehigh and Northampton Counties with market shares of 15.05% and 13.0%, respectively. First Northern Bank and Trust ranked 1st in Carbon County with a market share of 16.75%. Other top competitors consisted of large national banks and mortgage brokers with nationwide sources of funding.

During the examination, we contacted one community organization. The primary functions of this organization are community development and affordable housing. The organization is based in Allentown, Pennsylvania and serves a six county area including Lehigh, Northampton, Carbon, Berks, Schuylkill, and Monroe. The organization receives funding through grants and donations provided by local financial institutions, as well as the cities and counties in which the organization services. An officer from this organization identified affordable housing as a primary community development need. There are opportunities for local financial institutions to help meet the affordable housing needs of the community by making grants and donations to this organization, as well as by making loans and investments in low- and moderate-income housing projects. The community contact specifically named two larger financial institutions, with significantly larger branch-networks than NNB, as being the top institutions to provide funding to this organization.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

NNB's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and credit needs of the AA. The bank's average net loan-to-deposit ratio was calculated using quarterly Call Report data filed with the Federal Deposit Insurance Corporation (FDIC) since the previous CRA examination. NNB's loan-to-deposit ratio averaged 62.79% for the 11 quarters beginning March 31, 2013 through September 30, 2015. The bank's loan-to-deposit ratio ranged from a quarterly low of 58.56% at March 31, 2013 to a quarterly high of 67.09% at September 30, 2015.

The bank's average net loan-to-deposit ratio is less than the average loan-to-deposit ratio of financial institutions with similar asset sizes and operating profiles. The average net loan-to-deposit ratio for 12 state and federally chartered banks and thrifts with asset sizes between \$200 million and \$400 million, operating within the bank's AA or contiguous counties, was 85.55% during these same 11 quarters. NNB's lower ratio can be attributed to the bank's one office location in rural Lehigh County.

Lending in Assessment Area

A majority of NNB's home mortgage loans originated during the evaluation period were within the AA. An analysis of the bank's HMDA data disclosed that in 2013, 68.91% of the total number and 65.19% of the total dollar amount of home mortgage loans were originated within the AA. In 2013, the bank originated the following number of home mortgage loans within the AA: 61.40% home purchase, 76.60% home refinance, and 73.33% home improvement. An analysis of the bank's HMDA data disclosed that in 2014 and 2015, 73.91% of the total number and 70.75% of the total dollar amount of home mortgage loans were originated in the AA. In 2014 and 2015, the bank originated the following number of home mortgage loans within the AA: 67.50% home purchase, 79.37% home refinance, and 83.33% home improvement.

The following table is an analysis of the distribution of home mortgage loans originated by the bank in 2013.

Lending in NNB's AA										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	35	61.40	22	38.60	57	5,674	63.64	3,242	36.36	8,916
Home Refinance	36	76.60	11	23.40	47	4,654	64.91	2,516	35.09	7,170
Home Improvement	11	73.33	4	26.67	15	1,163	75.42	379	24.58	1,542
Total	82	68.91	37	31.09	119	11,491	65.19	6,137	34.81	17,628

Source: 2013 NNB HMDA-LARs

The following table is an analysis of the distribution of home mortgage loans originated by the bank in 2014 and 2015.

Lending in NNB's AA										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	54	67.50	26	32.50	80	8,271	59.34	5,668	40.66	13,939
Home Refinance	50	79.37	13	20.63	63	9,770	82.80	2,029	17.20	11,799
Home Improvement	15	83.33	3	16.67	18	1,252	81.72	280	18.28	1,532
Total	119	73.91	42	26.09	161	19,293	70.75	7,977	29.25	27,270

Source: 2014 – 2015 NNB HMDA-LARs

Lending to Borrowers of Different Incomes

The distribution of home mortgage loans reflects reasonable penetration among borrowers of different income levels in the AA, considering the bank's performance context.

2013

Home Mortgage Loans

The distribution of home mortgage loans in the bank's AA in 2013 reflects reasonable penetration among borrowers of different income levels. The analysis of NNB's record of originating home mortgages among AA borrowers of different income levels considers affordability of home ownership for low- and moderate-income AA families. The average median AA housing value is \$211,732 and a low-income family earns less than \$35,700 annually. Additionally, 6.39% of AA households are below the poverty level and considered very low-income. Lack of home ownership affordability limits opportunities for home loan lending to low-income AA families. The bank's record of lending to moderate-income borrowers in the AA received more weight than the bank's record of lending to low-income borrowers in the AA due to the lack of home affordability of low-income borrowers. Additionally, the bank's record of originating home purchase and home refinance loans to moderate-income borrowers received the most weight because these loans each comprise 42.7%, respectively, of total home loans originated in the AA during the evaluation period.

Home Purchase Loans

The bank originated 11.76% of home purchase loans to low-income borrowers in the AA, which is lower than the percentage of AA families classified as low-income at 15.32%. The bank originated 26.47% of home purchase loans to moderate-income borrowers in the AA, which exceeds the percentage of AA families classified as moderate-income at 19.10%.

Home Refinance Loans

The bank originated 21.21% of home refinance loans to low-income borrowers in the AA, which exceeds the percentage of AA families classified as low-income at 15.32%. The bank originated 27.27% of home refinance loans to moderate-income borrowers in the AA, which exceeds the percentage of AA families classified as moderate-income at 19.10%.

Home Improvement Loans

The bank originated 9.09% of home improvement loans to low-income borrowers in the AA, which is lower than the percentage of AA families classified as low-income at 15.32%. The bank originated 9.09% of home improvement loans to moderate-income borrowers in the AA, which is significantly lower than the percentage of AA families classified as moderate-income at 19.10%.

The following table shows the distribution of NNB’s home loan originations and purchases to borrowers of different income levels compared to the percent of families in each income category in the AA.

Borrower Distribution of Residential Real Estate Loans NNB’s AA (2013)								
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	15.32	11.76	19.10	26.47	23.78	23.53	41.80	38.24
Home Refinance	15.32	21.21	19.10	27.27	23.78	24.24	41.80	27.27
Home Improvement	15.32	9.09	19.10	9.09	23.78	36.36	41.80	45.45

Source: 2013 NNB HMDA-LAR and 2010 U.S. Census data

2014 – 2015

Home Mortgage Loans

The distribution of home mortgage loans in the bank’s AA in 2014 – 2015 reflects reasonable penetration among borrowers of different income levels. The analysis of NNB’s record of originating home mortgages among AA borrowers of different income levels considers affordability of home ownership for low-income AA families. The average median AA housing value is \$211,732 and a low-income family earns less than \$35,600 annually. Additionally, 6.39% of AA households are below the poverty level and considered very low-income. Lack of home ownership affordability limits opportunities for home loan lending to low-income AA

families. The bank’s record of lending to moderate-income borrowers in the AA received more weight than the bank’s record of lending to low-income borrowers in the AA due to the lack of home affordability of low-income borrowers. Additionally, the bank’s record of originating home purchase and home refinance loans to moderate-income borrowers received the most weight because these loans comprise 45.4% and 41.2%, respectively, of total home loans originated in the AA during the evaluation period.

Home Purchase Loans

The bank originated 12.50% of home purchase loans to low-income borrowers in the AA, which is lower than the percentage of AA families classified as low-income at 15.32%. The bank originated 25.00% of home purchase loans to moderate-income borrowers in the AA, which exceeds the percentage of AA families classified as moderate-income at 19.10%.

Home Refinance Loans

The bank originated 10.64% of home refinance loans to low-income borrowers in the AA, which is lower than the percentage of AA families classified as low-income at 15.32%. The bank originated 23.40% of home refinance loans to moderate-income borrowers in the AA, which exceeds the percentage of AA families classified as moderate-income at 19.10%.

Home Improvement Loans

The bank did not originate any home improvement loans to low-income borrowers in the AA. The bank originated 13.33% of home improvement loans to moderate-income borrowers in the AA, which is lower than the percentage of AA families classified as moderate-income at 19.10%.

The following table shows the distribution of NNB’s home loan originations and purchases to borrowers of different income levels compared to the percent of families in each income category in the AA.

Borrower Distribution of Residential Real Estate Loans in NNB’s AA (2014 – 2015)								
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	15.32	12.50	19.10	25.00	23.78	27.08	41.80	35.42
Home Refinance	15.32	10.64	19.10	23.40	23.78	34.04	41.80	31.91
Home Improvement	15.32	0.00	19.10	13.33	23.78	46.67	41.80	40.00

Source: 2014 – 2015 NNB HMDA-LARs and 2010 U.S. Census data

Geographic Distribution of Loans

The distribution of home mortgage loans reflects reasonable dispersion to geographies of different income levels throughout the bank's AA, in light of the bank's performance context.

There are no low-income geographies located in the bank's AA. Therefore, the geographic distribution of home mortgage loans in the AA is based entirely upon the bank's record of lending in moderate-income geographies. The bank's distribution of home mortgage loans to moderate-income AA geographies in 2013 was significantly lower than the percentage of owner-occupied housing units in moderate-income geographies. The bank's distribution of home mortgage loans to moderate-income AA geographies in 2014 – 2015 was lower than percentage of owner-occupied housing units in moderate-income geographies. The bank's distribution of home mortgage loans to moderate-income geographies in 2014 – 2015 received more weight than in 2013, since a majority (59.2%) of total home mortgage originations during the evaluation period were made in 2014 – 2015.

There are some restrictive factors limiting the bank's ability to lend significantly in moderate-income geographies in the AA. NNB's only banking location is located in an upper-income census tract in the AA. None of the six moderate-income census tracts in the bank's AA are adjacent to the census tract in which this office is located. Further, branches of larger financial institutions are located in each of the moderate-income census tracts.

Additionally, the following adverse demographic information results in limited opportunities to grant home loans in moderate-income census tracts in the AA:

- Only 5,995 or 11.03% of all owner-occupied housing units in the AA are in moderate-income census tracts.
- Approximately 4,432 or 40.21% of total housing units in moderate-income census tracts are renter occupied and 5,929 or 5.38% are vacant.
- Approximately 2,970 or 28.48% of total households in moderate-income census tracts are low-income.
- Approximately 1,136 or 10.89% of total households in moderate-income census tracts are below the poverty level.
- Approximately 1,460 or 23.56% of total families in moderate-income census tracts are low-income.

2013

Home Mortgage Loans

The distribution of home mortgage loans in 2013 reflects poor dispersion to geographies of different income levels throughout the AA. The bank did not originate any home purchase or

home improvement loans in moderate-income geographies. Additionally, the percentage of home refinance loans originated was lower than the percentage of owner-occupied housing units in moderate-income geographies.

Home Purchase Loans

The bank did not originate any home purchase loans in moderate-income geographies in the AA.

Home Refinance Loans

The bank originated 5.71% of home refinance loans in moderate-income geographies in the AA, which is lower than the percentage of owner-occupied housing units in moderate-income geographies at 11.03%.

Home Improvement Loans

The bank did not originate any home improvement loans in moderate-income geographies in the AA.

The following table shows NNB’s distribution of home loan originations and purchases to geographies of different income levels compared to the percentage of owner-occupied housing units in each income level geography in the AA.

Geographic Distribution of Residential Real Estate Loans in the bank’s AA (2013)								
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	0.00	0.00	11.03	0.00	63.13	62.86	25.83	37.14
Home Refinance	0.00	0.00	11.03	5.71	63.13	65.71	25.83	28.57
Home Improvement	0.00	0.00	11.03	0.00	63.13	81.82	25.83	18.18

Source: 2013 NNB HMDA-LARs and 2010 U.S. Census data

2014 – 2015

Home Mortgage Loans

The distribution of home mortgage loans in 2014 – 2015 reflects reasonable dispersion to geographies of different income levels throughout the AA, given the bank’s performance context. The percentage of home purchase and home improvement loans originated was lower than the percentage of owner-occupied housing units in moderate-income geographies. The percentage of home refinance loans originated was significantly lower than the percentage of owner-occupied housing units in moderate-income geographies. There are no low-income geographies located in this AA. Therefore, the geographic distribution of home loans in the AA is based entirely upon the bank’s record of lending in moderate-income geographies.

Home Purchase Loans

The bank originated 9.26% of home purchase loans in moderate-income geographies in the AA, which is lower than the percentage of owner-occupied housing units in moderate-income geographies at 11.03%.

Home Refinance Loans

The bank originated 2.04% of home refinance loans in moderate-income geographies in the AA, which is significantly lower than the percentage of owner-occupied housing units in moderate-income geographies at 11.03%.

Home Improvement Loans

The bank originated 6.67% of home improvement loans in moderate-income geographies in the AA, which is lower than the percentage of owner-occupied housing units in moderate-income geographies at 11.03%.

The following table shows NNB’s distribution of home loan originations and purchases to geographies of different income levels compared to the percentage of owner-occupied housing units in each income level geography in the AA.

Geographic Distribution of Residential Real Estate Loans in the bank’s AA (2014 – 2015)								
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	0.00	0.00	11.03	9.26	63.13	59.26	25.83	31.48
Home Refinance	0.00	0.00	11.03	2.04	63.13	63.27	25.83	34.69
Home Improvement	0.00	0.00	11.03	6.67	63.13	66.67	25.83	26.67

Source: 2014 – 2015 NNB HMDA-LARs and 2010 U.S. Census data

Responses to Complaints

The bank has not received any CRA-related consumer complaints since the last CRA examination. Therefore, we cannot assess the bank’s responsiveness to complaints and this criterion is not applicable.

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.