



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

October 27, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Pennsville National Bank
Charter Number 15733**

**170 Broadway
Pennsville, NJ 08070**

**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.

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 **Pennsville National Bank (PNB)** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of October 27, 2003. The agency rates the CRA performance of an institution consistent with the provisions set forth in appendix A to 12 CFR Part 25.

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

Major factors supporting the bank's overall rating include:

- A substantial majority (93%) of home mortgage loans are originated within the bank's assessment area (AA);
- There is a reasonable distribution of loans among borrowers of different income levels and geographies throughout its assessment area;
- Lending levels to small businesses are good which reflect good responsiveness to the credit needs of the assessment area; and
- While the average loan-to-deposit ratio is low at 41%, PNB's market share in originating home mortgage loans in the assessment area is good. The sale of mortgage loans in the secondary market has adversely impacted the loan-to-deposit ratio. In addition, competitive factors and limited commercial lending activity contribute to the relatively low ratio.

SCOPE OF EXAMINATION

This CRA evaluation of PNB's Home Mortgage Disclosure Act (HMDA) data covers the period from January 1, 1998 through December 31, 2002. The evaluation includes an analysis of PNB's AA, which includes the entire county of Salem and the southern portion of Gloucester County, both within the southwest region of New Jersey. This analysis is based upon the bank's HMDA Loan Application Registers (HMDA-LAR). The accuracy of the HMDA-LAR was tested prior to this review and found to be sufficient for the purpose of this analysis. Financial data is as of June 30, 2003. We used Small Bank CRA Procedures to complete this examination.

DESCRIPTION OF INSTITUTION

PNB is a full service financial institution with trust services. The bank was chartered in 1969 and is located in Pennsville, New Jersey. The bank operates four full service branch offices and one off site automated teller machine (ATMs) located at Salem County Community College. All branches are located in Salem County. Each branch office is equipped with ATMs and drive-up facilities. Extended banking hours are offered at all locations on Thursday and Friday. Each branch location also offers Saturday morning hours. No branches have been opened or closed during the evaluation period.

PNB is a wholly owned subsidiary of Penn Bancshares, Inc., a one bank holding company. There have been no changes in corporate structure since the previous examination. As of June 30, 2003, PNB reported total assets of \$172 million. Total loans were \$66 million, or 38% of total assets, total investments were \$93 million and total deposits were \$157 million. The loan portfolio is primarily centered in loans secured by first liens on 1-4 family residential properties, which comprised 80% of the loan portfolio, or \$52.5 million. Commercial and commercial real estate loans accounted for 17% or \$11.3 million and consumer loans represented 3% of the loan portfolio or \$1.9 million. Additionally, PNB sold 105 residential mortgage loans totaling approximately \$12.1 million to the Federal Home Loan Mortgage Corporation over the evaluation period. Tier 1 Capital as of June 30, 2003 was \$9.8 million. The bank's primary business focus is residential mortgage lending. Competition in the area is strong and includes numerous locally based state chartered and savings banks, regional banks, and mortgage companies.

There are no known legal, financial or other factors impeding PNB's ability to help meet the credit needs of its community. PNB last CRA Performance Evaluation was dated March 2, 1998 and the overall rating assigned was "Satisfactory."

DESCRIPTION OF ASSESSMENT AREA

PNB has defined the county of Salem, and the southern portion of Gloucester County as its AA. This designation reflects an expansion of the AA to remain consistent with the bank's revised lending territories. The AA is part of the New Jersey portion of MSA 6160. The area is comprised of 29 contiguous census tracts with 23 tracts in Salem County and 6 tracts in Gloucester County. Of the 29 tracts, 1 is low-income (3.5%), 5 are moderate-income (17.2%), 22 are middle-income (75.8%) and 1 is upper-income (3.5%). The AA meets the requirements of the regulation and does not arbitrarily exclude low-or moderate-income census tracts.

According to the 1990 US Census data, the population of the AA is 84,346. The AA contains 22,952 families and 30,152 households. The median family income for the AA is \$41,908. In 2002, the adjusted annual median family income for the AA, as reported by the U.S. Department of Housing and Urban Development (HUD), increased to \$63,300. The median value of a home is \$88,377. Of the total number of families in the AA, 19.8% and 19.1% of the families are designated as low- and moderate-income, respectively. Families living below the poverty level represented 9.7% of the total households living in the AA. The unemployment rate for the AA is 2.4%. This is below the State average of 5.8% (as of 9/2003).

The AA contains 32,106 housing units, of which 70.1% are owner-occupied, 23.9% are rental and 6% are vacant units. In low- and moderate-income census tracts, the level of owner-occupancy is 47.1%, while rental occupied-units account for 44% of all housing. Based on the 1990 Census, one-to-four family units comprise 85.9% of the housing units, while multi-family units comprise 8.4%.

The local economy is stagnant. Manufacturing, retail trade, warehousing and utilities companies provide the majority of employment. Major employers in the AA include PSE&G, DuPont, Mannington Mills, Memorial Hospital of Salem County, Connectiv, and several community banks. McClain, a food distribution warehouse currently under construction, will create approximately 300 new jobs in the area. The bank's AA is located within commutable distance to employment sources in Pennsylvania and Delaware.

Management indicates that the primary credit needs of its AA are affordable housing and home improvement loans. We also contacted the Salem County Economic Development Corporation to ascertain information on AA credit needs. The contact identified that both affordable housing units and programs for first time homebuyers as the primary credit needs in the area. Small business lending is also a recognized credit need, particularly Small Business Administration lending.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

PNB's average quarterly loan-to-deposit ratio of 41% for the evaluation period is below the level for satisfactory performance. However, the loan-to-deposit ratio is adversely impacted by management's decision to sell fixed rate loans in the portfolio to manage interest rate and credit risks. If the mortgage loans were not sold, the average loan-to-deposit ratio would have been 8% higher. Lending capacity has also been impacted by strong competition in the AA and the bank's limited commercial lending activity.

Lending in Assessment Area

PNB exceeds the standards for satisfactory performance for lending within its AA. We reviewed the HMDA-LAR covering the timeframe of this review to determine the location of PNB's loan originations. As indicated in the chart below, a substantial majority of PNB's HMDA reportable loans are originated within its AA. According to the 2001 Peer Mortgage Data, PNB ranks 2nd out of 243 lenders for home mortgage loan originations with an overall market share of 6%. PNB ranks 15th out of 167 lenders for home purchase loans with a 2% market share, ranks 2nd out of 51 lenders for home improvement loans with a 12% market share, and ranks 2nd out of 201 lenders for refinance loans with an 8% market share.

Table 1 - Lending in PNB's AA										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		#	%	#	%	
Home Mortgage Loans	1,414	93.2	103	6.8	1517	68,046	89.2	8,248	10.8	76,294
Totals	1,414	93.2	103	6.8	1,517	68,046	89.2	8,248	10.8	76,294

Source: Data reported under HMDA from 1/1/98 to 12/31/02.

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

PNB meets the standard for satisfactory performance for lending to borrowers of different income levels. As indicated in the table below, there was good penetration to borrowers of different income levels including low-and moderate-income borrowers.

Table 2 - Borrower Distribution of Residential Real Estate Loans in PNB's 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 Mortgage Loans	19.8	11.7	19.1	21.2	27.5	30.7	33.5	34.9

Source: Data reported under HMDA from 1/1/98 to 12/31/02.

We also reviewed loans to small businesses originated during the review period as reported in the Reports of Condition. A small business is defined as a business with annual revenue less than \$1 million. We determined that PNB reported originating 268 loans during the review period approximating \$26 million. We further determined that the commercial loan portfolio is substantially comprised of loans to small businesses as 223 or 83% of the loans originated during the review period were in amounts of \$250 thousand or less. Another 45 loans to small businesses or 17% of the loans originated during the review period were between \$250 thousand and \$1 million. There were no loans made to small farms.

Geographic Distribution of Loans

The geographic distribution of HMDA loans throughout the bank's AA is reasonable. As indicated in the table below, the number of loans made in low-income geographies is insignificant. The number of loans in moderate-income geographies is near to the percentage of owner-occupied units within the AA. The low- and moderate-income geographies within the bank's AA have low levels of owner-occupied housing units, thereby limiting lending

opportunities.

Table 3 – Geographic Distribution of Residential Real Estate Loans in PNB’s AA								
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 Mortgage Loans	1.5	0.4	11.1	7.1	81.9	91.9	5.5	0.6

Source: Data reported under HMDA from 1/1/98 to 12/31/02.

Responses to Complaints

PNB has not received any complaints regarding its performance in helping to meet the credit needs of its AA during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

An analysis of HMDA, consumer complaint information and public comments was performed according to the OCC’s risk-based fair lending approach. We found no evidence of illegal discrimination or other illegal credit practices.