



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

January 14, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Hatboro Federal Savings, FA
Charter Number 704859

221 South York Road
Hatboro, PA 19040-3429

Office of the Comptroller of the Currency

60 Public Square, Suite 602
Wilkes-Barre, PA 18701

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: Outstanding

The Community Development Test is rated: Satisfactory

Summarize the major factors supporting the institution's rating.

- The bank's loan-to-deposit ratio is more than reasonable based on the institutions size, financial condition, and the assessment area's credit needs;
- The bank originated a substantial majority of its loans to borrowers within its assessment area;
- The bank's distribution of home loans to borrowers reflects excellent penetration among moderate-income borrowers and a reasonable penetration among low-income borrowers;
- The bank's distribution of home loans to borrowers reflects reasonable dispersion among moderate-income geographies;
- The bank demonstrated adequate responsiveness to the community development needs in its assessment area.

Scope of Examination

Hatboro Federal Savings, FA ("HFS", "Hatboro" or "the bank") was evaluated under the Intermediate Small Bank (ISB) 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 evaluation period under the lending test covers the bank's performance from October 1, 2009 through December 31, 2011, as this is representative of its strategy since the last CRA Examination and is consistent with 2000 Census Demographic Data. The evaluation period for the CD test is from December 15, 2009 through January 14, 2013.

Hatboro's primary loan product is home mortgage loans. The bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). Prior to this evaluation, we tested the accuracy of Hatboro's HMDA data and found it to be reliable. Therefore, HMDA data from October 1, 2009 to December 31, 2011 was used to evaluate the bank's lending performance. CD loans, investments, and services submitted by management were verified to ensure that they met the regulatory definition for community development.

Table 1 depicts the maximum income amount for each income range in the bank’s AA. The income ranges below were used during our lending test analysis to determine the borrower’s income level for each sampled loan.

Table 1 - Definition of Income Ranges Used in the Evaluation					
Income Category	Maximum Income in for Income Range				2011 Median Family Income (MFI)
	Low	Moderate	Middle	Upper	
% Range of MFI	<50%	50%-<80%	80%-<120%	≥120%	
Bucks and Montgomery County	\$39,049	\$62,479	\$93,719	\$93,720	\$78,100

Source: 2000 US Census; 2011 HUD updated MFI

Description of Institution

HFS is a federally chartered mutual thrift institution headquartered in Hatboro, Pennsylvania. The bank is located in southeastern Pennsylvania, approximately 25 miles north of center city Philadelphia. As of December 31, 2012, HFS had total assets of \$528 million and total capital of \$96 million.

As of December 31, 2012, HFS operates four full-service offices in Montgomery and Bucks counties in the state of Pennsylvania. The main office is located in Hatboro, Montgomery County. Three other branches are located in Jamison, Warminster, and Warrington, all within Bucks County. All branches have on-site automated-teller machines (ATMs). All branches offer extended hours on Fridays. The Warminster and Jamison offices offer Saturday morning hours. There were no branches opened or closed. No mergers or acquisitions occurred during this period as well. The Jamison, Warminster, and Warrington branches are located in upper-income census tracts (CT). The main office in Hatboro is located in a middle-income CT. Table 2 represents the branch and deposit distribution by CT income category.

Table 2 - Distribution of Branch Offices in the Assessment Area		
Census Tract Income Category	Branch Distribution	
	% of Branches	% of Deposits
Low	0%	0%
Moderate	0%	0%
Middle	25%	51%
Upper	75%	49%
Total #	4	438,761

Source: FDIC Deposit Market Share Report

HFS attracts retail depositors and offers a number of loan products and deposit services through its branch network. HFS offers several residential loan products including loans for the purchase and refinance of a home, home equity installment loans, and home equity lines of credit. Deposit products include personal checking accounts, personal

savings and certificates of deposit accounts, and retirement savings accounts. Hatboro provides ATM/debit card services with an ATM at each branch office.

As of September 30, 2012, HFS reported net loans and leases of \$365 million or 69% of total assets. Table 3 depicts the bank's balance sheet composition as of September 30, 2012.

Table 3 - Major Components of Assets, Liabilities, and Capital as of September 30, 2012		
Balance Sheet Component	Balance Sheet \$ Amount (000)'s	% of Total Assets/LC
Loans	\$364,574	69.0%
Residential Mortgage Loans	\$342,313	64.8%
Non-Residential Mortgage Loans	\$680	0.1%
Commercial Nonmortgage loans	\$0	0.0%
Consumer Loans	\$21,581	4.1%
Investments	\$129,486	24.5%
US Agencies	\$72,116	13.6%
Mortgage backed Securities	\$0	0.0%
Cash	\$984	0.2%
Total Assets	\$528,370	100%
Deposits	\$429,615	81.3%
Total Liabilities	\$432,574	81.9%
Retained Earnings	\$95,720	18.1%
Total Capital	\$95,796	18.1%
Liabilities & Capital (LC)	\$528,370	100%

Source: September 30, 2012 Call Report

There were no financial or legal impediments to hinder Hatboro's ability to help meet the community's credit needs. HFS was rated "Satisfactory" at its last CRA Performance Evaluation dated December 14, 2009.

Description of Assessment Area

Hatboro's AA consists of 19 municipalities in northeast Montgomery County, PA, and 24 municipalities in central Bucks County, PA. The AA is located in the Philadelphia, PA Metropolitan Division (MD) #37964. The contiguous area contains 140 census tracts (CTs). This AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

Of the 140 CTs, 3 or 2.14% are moderate-income, 51 or 36.43% are middle-income, and 86 or 61.43% are upper-income. There are no low-income CTs in the bank's AA.

The 2000 U.S. Census reported the total population of the AA at 574,338. Within the AA, there are 156,385 families and 214,078 households. There are 219,828 housing units, of which 167,560 are owner-occupied, 46,405 are rental-occupied, and 5,863 are

vacant housing units. Approximately 0.63% of owner-occupied housing is located in the moderate-income geographies, 29.67% is located in middle-income geographies, and 69.69% is located in upper-income geographies. The median housing cost is \$183,363.

The 2000 median family income was \$56,993. The HUD updated median family income for 2011 is \$78,100. Approximately 9.45% of the families are low-income, 13.34% are moderate-income, 20.99% are middle-income, and 56.22% are upper income. Approximately 4% are below the poverty level.

HFS faces strong competition for assessment area deposits and loans. According to the June 30, 2012 FDIC Summary of Deposit Market Share Report, Hatboro’s deposit market share within Montgomery and Bucks County is 1.12%; ranking the bank 22nd out of 61 institutions in the AA. Hatboro’s primary competitors are Wells Fargo, NA (75 offices; 19.23% market share), TD Bank, NA (43 offices; 11.82% market share), and Citizens Bank of PA (62 offices; 10.99% market share).

HFS ranks 31st out of 483 lenders in mortgage lending in the AA, according to 2011 Peer Mortgage Data. HFS originated 263 mortgage loans in 2011 in the AA which accounted for a 0.63% market share. Competition comes primarily from larger banks; specifically, Wells Fargo Bank, NA (19.18% market share), JP Morgan Chase Bank, NA (6.21% market share), and Bank of America, NA (5.19% market share).

Tables 4 and 5 summarize the AA’s demographics:

Table 4: Demographic Information for Bucks and Montgomery County AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	34	5.88	20.59	44.12	20.59	8.82
Population by Geography	574,338	5.07	17.50	54.11	23.32	0.00
Owner-Occupied Housing by Geography	33,392	1.56	10.01	59.09	29.35	0.00
Business by Geography	0	0.00	0.00	0.00	0.00	0.00
Farms by Geography	0	0.00	0.00	0.00	0.00	0.00
Family Distribution by Income Level	156,385	21.78	17.56	20.35	40.31	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	13,915	5.12	23.84	55.33	15.70	0.00
Median Family Income		45,377	Median Housing Value		87,791	
HUD Adjusted Median Family Income for 2011		78,100	Unemployment Rate (Bucks)		6.7%	
Households Below Poverty Level		4%	Unemployment Rate (Montgomery)		6.2%	

(*) The NA category consists of geographies that have not been assigned an income classification.
 Source: 2000 US Census; 2011 HUD updated MFI; The U.S. Bureau of Labor Statistics November, 2012.

Table 5 - Assessment Area Demographic Information								
Income Category	% Family Distribution	Census Tract Data Distributions						
		# Tracts	% Housing Units	% Owner Occupied Units	% Rental Occupied Units	% Single Family Units	Median Housing Value	Median Housing Age
Low	9.45%	0	0.00%	0.00%	0.00%	0.00%	N/A	N/A
Moderate	13.34%	3	2.03%	0.63%	7.19%	1,78%	\$76,622	38
Middle	20.99%	51	33.00%	29.67%	44.97%	31.41%	\$147,026	30
Upper	56.22%	86	64.97%	69.69%	47.84%	66.81%	\$205,337	18
Total #	100%	140	100%	100%	100%	100%	\$183,363	22

Source: 2000 U.S. Census Data

The current local economy for the AA is characterized as stable. The AA fared better than national averages during the recent economic crisis. Home prices, unemployment rates, and poverty levels were not affected as drastically as national averages. Economic activity in the area is relatively diverse with services, health care, retail trade and manufacturing being the primary activities. The November 2012 unemployment rate is 6.7% for Bucks County and 6.2% for Montgomery County. Both are below the national average of 7.8%, and the PA state average of 7.9%.

During the examination, we contacted two community organizations whose primary purpose is to promote affordable housing. The first contact was located in Bucks County. The area was described as financially stable and somewhat insulated from the economic downturn as the area is largely employed by three major hospitals. The contact stated that they do see banking institutions involved in community development, specifically at charity events, but they would like to see more attention given to lending. Our second community contact was located in Montgomery County. This contact also described the area as being quite affluent, but that there have been pockets where economic conditions have notably worsened. The contact specified that some “moderate-income families” do not qualify for their affordable housing aid program but also do not make enough money to meet many of the bank’s underwriting guidelines and are stuck in a stage of limbo. The contact understood that banks must adhere to their underwriting standards, but would like to see more attention given to those moderate-income individuals. Both contacts specified that there are adequate opportunities for community development for the institutions from both a community involvement and a lending perspective.

Conclusions with Respect to Performance Tests

LENDING TEST

Hatboro’s performance under the Lending Test is Outstanding. The bank’s quarterly average loan-to-deposit ratio is more than reasonable. A substantial majority of Hatboro’s home mortgage loans were made in the bank’s AA. The distribution of home loans to borrowers reflects excellent penetration among individuals of different income levels. The distribution of home loans to borrowers reflects reasonable dispersion among moderate-income geographies. Hatboro has not received any CRA complaints during this evaluation period.

Loan-to-Deposit Ratio

Hatboro’s quarterly average net loan-to-deposit ratio is more than reasonable given the bank’s size, financial condition, and the credit needs of the AA. The bank’s loan-to-deposit ratio exceeds the standards for satisfactory performance. The bank’s quarterly average net loan-to-deposit ratio over the twelve quarters since the last CRA examination was 88.84%. During this time period, the ratio ranged from a quarterly low of 84.45% to a quarterly high of 93.07%. The bank’s quarterly average net loan-to-deposit ratio compares more favorably to other financial institutions of similar size. The quarterly average net loan-to-deposit ratio for financial institutions of similar size was 77.79% over the same twelve quarters. The ratios ranged from a quarterly low of 70.68% to a quarterly high of 82.74% during that time period.

Lending in Assessment Area

A substantial majority of Hatboro’s home mortgage loans were made within the bank’s AA, exceeding the standards for satisfactory performance. During the evaluation period, 89.01% of the number and 87.46% of the dollar amount of total home mortgage loans were made in the bank’s assessment area. Table 6 illustrates the bank’s lending within the AA and dollar amount of loans.

Table 6 - Concentration of Mortgage Loans Originated In and Outside of the Assessment Area						
Loan Type	% Inside Area		% Outside Area		Total	
	#	\$(000)	#	\$(000)	#	\$(000)
Mortgage Loans	510	\$62,083	63	\$8,902	573	\$70,985

Source: Hatboro 10/1/2009 – 12/31/2011 HMDA Data

Lending to Borrowers of Different Incomes

The distribution of home loans to borrowers reflects excellent penetration among individuals of different income levels. The percentage of HMDA loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the AA; however, the percentage of HMDA loans made to low-income families is lower than the percentage of low-income families in the AA. HFS also exceeds the peer aggregate ratio for lending to low- and moderate-income borrowers for both the number and volume of loans. When combining the two income categories, 26.47% of the bank’s mortgage loans in the AA were originated to low- or moderate-income borrowers. This exceeds the percentage of low- and moderate-income families in the AA (22.79%) and significantly exceeds the peer bank aggregate percentage of loans made to those income categories (15.50%).

Lending opportunities to the low-income group are limited given the median home price in the AA of \$183,363. Low-income borrowers would have difficulty affording a home in this AA as their income would be less than \$39,049. Table 7 shows the distribution of HMDA loans among borrowers of different income levels for the period of October 1, 2009 through December 31, 2011, as compared to the percent of families in each income category as well as the aggregate peer performance.

Table 7 - Distribution of Mortgage Loans By Borrower Income Level in the Assessment Area				
Borrower Income Category	% of Loans	% of \$ Volume (\$000)	% Family Distribution	% of Aggregate (or Peers)
Low	7.25%	3.41%	9.45%	3.43%
Moderate	19.22%	15.17%	13.34%	12.07%
Middle	26.08%	27.13%	20.99%	22.43%
Upper	47.45%	54.29%	56.22%	56.50%
Not Available	0.00%	0.00%	0.00%	5.57%
Total # and \$	510	\$62,083	156,385	21,250

Source: Hatboro 10/1/2009 – 12/31/2011 HMDA Data; 2000 U.S. Census Data; 2011 Peer Mortgage Data

Geographic Distribution of Loans

The distribution of home loans to borrowers reflects reasonable dispersion among moderate-income geographies. The percentage of HMDA loans made in moderate-income geographies is similar to the percentage of owner-occupied housing in the moderate-income geographies in the AA. The percentage is also similar to the peer aggregate ratio for lending in moderate-income geographies. Opportunities for lending in these areas are limited as only 3 of the bank’s 140 CTs (2%) are designated as moderate-income. During the evaluation period, the bank received only one application from a borrower in their moderate income CTs, and that loan was approved. There are no low-income geographies in this AA. Table 8 details the bank’s performance as compared to the percentage of owner-occupied housing in each CT income category as well as the aggregate peer performance.

Table 8 - Distribution of Mortgage Loans By Census Tract Income Level in the Assessment Area				
Census Tract Income Category	% of Loans	% of \$ Volume	% Owner Occupied	% of Aggregate (or Peers)
Low	0.00%	0.00%	0.00%	0.00%
Moderate	0.20%	0.33%	0.63%	0.49%
Middle	41.18%	37.10%	29.67%	25.18%
Upper	58.63%	62.57%	69.69%	74.33%
Total # and \$	510	\$73,646	167,560	21,250

Source: Hatboro 10/1/2009 – 12/31/2011 HMDA Data; 2000 U.S. Census Data; 2011 Peer Mortgage Data

Responses to Complaints

During the evaluation period there were no complaints related to the bank’s performance in meeting the credit needs of the AA.

COMMUNITY DEVELOPMENT TEST

The Community Development (CD) Test is rated Satisfactory. The bank's level of CD activities is considered adequate given the size, capacity, and limited CD opportunities available in its AA. Qualified CD loans and donations total approximately \$962 thousand or 1% of Tier One Capital. Qualifying CD opportunities are limited given the bank's AA (largely middle- or upper-income). The bank also does not do any commercial lending, in particular small business lending, which often qualifies under community development lending. This also limits its CD opportunities.

Number and Amount of Community Development Loans

During the evaluation period, HFS originated one community development loan in the amount of \$250 thousand. The loan was extended to a local, non-profit organization committed to providing affordable rental housing for low-income qualified families.

Number and Amount of Qualified Investments

During the evaluation period, the bank did not make any qualifying investments. However, HFS made 27 qualified donations and contributions totaling \$712 thousand to 16 organizations that help to provide economic development, affordable housing, or educational and community services to low- or moderate-income individuals and families in the AA.

Extent to Which the Bank Provides Community Development Services

During the evaluation period in the bank's AA, five officers and employees provided technical services and support to 10 qualified community development organizations.

Responsiveness to Community Development Needs

Given the bank's capacity and availability of community development opportunities in the AA, HFS demonstrates adequate responsiveness to community development needs in its AA through community development loans, qualified donations, and community services.

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.