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Comptroller of the Currency  
Administrator of National Banks

**LARGE BANK**

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## **Public Disclosure**

**May 11, 1998**

### **Community Reinvestment Act Performance Evaluation**

**Keystone Bank N.A.  
Charter #20221  
601 Dresher Road  
Horsham, Pennsylvania 19044**

**Comptroller of the Currency  
Mid-Size/Credit Card Banks  
New Jersey Field Office  
830 Morris Turnpike, Second floor  
Short Hills, New Jersey 07078**

**NOTE:** 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.

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## **Definitions and Common Abbreviations**

The following terms and abbreviations are used throughout this Performance Evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a legal definition.

**Community Reinvestment Act (CRA)** - The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of the local community, consistent with safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Metropolitan Statistical Area (MSA)** - An area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

**Census Tract (CT)** - Small, locally defined statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogeneous populations. A CT contains an average population of 4,000 and may have its boundaries defined with every ten-year census.

**Home Mortgage Disclosure Act (HMDA)** - A statute that requires certain mortgage lenders that do business or have banking offices in an MSA to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and income of applicants, the amount of the loan request, and its disposition (e.g., approved, denied, withdrawn).

**Median Family Income (MFI)** - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of census tracts. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level of category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

**Low-Income** - Income levels that are less than 50% of the MFI.

**Moderate-Income** - Income levels that are at least 50% and less than 80% of the MFI.

**Middle-Income** - Income levels that are at least 80% and less than 120% of the MFI.

**Upper-Income** - Income levels that are 120% or more of MFI.

**Small Business Loans** - Loans with an original amount of \$1 million or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

**Small Farm Loans** - Loan with an original amount of \$500 thousand or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

## **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 **Keystone Bank N.A.** prepared by Office of the Comptroller of the Currency, the institution's supervisory agency, as of **May 11, 1998**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

**Institution's CRA Rating:** This institution is rated **Satisfactory**.

The factors supporting Keystone Bank N.A.'s overall rating include:

- ▶ Adequate responsiveness to credit needs within the assessment area;
- ▶ A majority of home mortgage loans and a high percentage of small business loans are within the assessment area;
- ▶ A reasonable geographic distribution of HMDA reportable loans and small business loans;
- ▶ An adequate level of HMDA reportable loans distributed among borrowers of different income levels;
- ▶ Lending to small businesses is adequate.
- ▶ A good mix of loan products with flexible underwriting practices that address credit needs within the assessment area;
- ▶ Delivery systems are reasonable accessible to all portions of the assessment area;
- ▶ A high level of community development services;

The following table indicates the performance level of **Keystone Bank N.A.** with respect to the lending, investment, and service tests.

| Performance Levels        | Keystone Bank N.A.<br>Performance Tests |                 |              |
|---------------------------|---|-----------------|--------------|
|                           | Lending Test*                           | Investment Test | Service Test |
| Outstanding               |   |                 |              |
| High satisfactory         |   |                 | <b>X</b>     |
| Low satisfactory          | <b>X</b>                                |                 |              |
| Needs to improve          |   | <b>X</b>        |              |
| Substantial noncompliance |   |                 |              |

\* Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

## Description of Institution

Keystone Bank N.A. (KB) is a subsidiary of Keystone Financial, Inc. (KFI), the fourth largest bank holding and financial services company headquartered in Pennsylvania. KFI operates six bank subsidiaries in Pennsylvania and one in Maryland. KFI is headquartered in Harrisburg, Pennsylvania and as of March 31, 1998 had total assets of \$6.9 billion.

KB is a full service institution offering a variety of deposit products, consumer loans, trust and investment services, business deposits/cash management services, commercial loans, and equipment leasing. As of March 31, 1998, Keystone Bank N.A. had total assets of \$1 billion, of which net loans represented 58% and securities 39% of the asset structure. A distribution of the loan portfolio reflects the following: 1-4 family residential (33%); home equity loans (5%); multifamily (2%); consumer loans (14%); and commercial loans (46%).

KB is headquartered in Horsham, Pennsylvania and operates twenty-seven branches throughout southeast Pennsylvania. Offices are located in the following counties: Bucks, Chester, Delaware, Montgomery, and Philadelphia. Twenty-two of the branch locations are in middle and upper census tracts. All but three of the branches have ATMs. There are no remote location ATMs. In addition to the ATMs, there are sixteen drive-in facilities. Five offices are located in low- and moderate-income census tracts within Philadelphia County. The majority of the AA's low income census tracts are located within the City of Philadelphia. Fifty-five low income census tracts in the City are not close to the bank's offices and cannot be readily serviced by the bank. Keystone Financial Leasing Corporation is an operating subsidiary of KB. This subsidiary activities had no impact on the bank's capacity to serve its community. We did not include the subsidiary activities in the institution's evaluation.

Competition within KB's market area is strong, with competition from larger regional institutions including First Union Bank N.A., PNC, and Mellon Bank N.A. In addition, strong competition is also provided by mid-size and community banks, and non bank financial service providers.

There are no financial or legal impediments that would prevent the bank from meeting the credit needs of the community.

### **Description of Assessment Areas (AA)**

KB has one assessment area defined as parts of Bucks, Chester, Delaware, Montgomery, and Philadelphia counties in the Philadelphia, Pennsylvania/ New Jersey MSA (6160). In general, the AA can be described as the southeast corner of Pennsylvania. The assessment area is a mix of urban, and older inner and newer suburban communities. The economy in the AA has been improving, as reflected by increased employment, new commercial construction and housing starts.

Demographic information, based on 1990 census data indicates that the AA population is 2,931,000. The population in low income tracts totals 306,000 or 10% of AA population and 599,000 in moderate income tracts or 20% of the AA population. The updated median family income is \$52,900. The median age of the housing stock is 38 years and the median cost is \$103,625. The housing unit breakdown for the AA is as follows: 63% owner occupied; 29% rental units; and 8% vacant units. Total occupied housing units is 92%.

The major employers in the AA are Allegheny University Hospital, Bell Atlantic, the University of Pennsylvania, PECO Energy, Temple University and First Union Bank N.A. While major employers are large entities, small businesses dominate the AA. Approximately 80,991 small businesses are reported by the U.S. Census Bureau as operating in the AA, of which 70,998 or 88% are reporting annual revenues of one million or less and 12% or 9,993 have annual revenues greater than one million.

The Philadelphia MSA unemployment rate for March and April 1998 is 4.5% and 4.2%, respectively, according to the U.S. Department of Labor.

The AA meets regulatory guidelines and does not arbitrarily exclude any low- or moderate-income areas (LMI). LMI is referred throughout this document to describe low- and moderate-income individuals' and/or geographies. Table 1 that follows reflects the demographic data for the assessment area.

**Table 1**

| <b>ASSESSMENT AREA DEMOGRAPHICS</b> |                       |                          |                                      |
|-------------------------------------|-----------------------|--------------------------|--------------------------------------|
| <b>Designation</b>                  | <b>#Census Tracts</b> | <b>% of Total Tracts</b> | <b>% of Households in the Tracts</b> |
| <b>Low</b>                          | 73                    | 10%                      | 9%                                   |
| <b>Moderate</b>                     | 140                   | 19%                      | 20%                                  |
| <b>Middle</b>                       | 273                   | 38%                      | 43%                                  |
| <b>Upper</b>                        | 230                   | 32%                      | 28                                   |
| <b>*NA</b>                          | 12                    | 1%                       | 0%                                   |
| <b>Total</b>                        | 728                   | 100%                     | 100%                                 |

\* No income reported

### **Determination of Community Credit Needs**

KB works with a variety of community development/service organizations throughout the AA. Interaction with the community groups has lead management to determine that the credit needs of the AA are financing for homes (including flexible loan terms), budget counseling, and loans for economic development.

### **Community Contacts**

During the examination two community groups were contacted and community contact reports generated by bank regulators with community groups within the AA were reviewed to determine credit needs within the AA. These organizations identified housing rehabilitation programs, multi-family housing programs, flexible first time home buyer programs in terms of interest rates and underwriting, and the development of underwriting that will service the needs of the urban communities instead of a uniform lending criteria for both rural and urban areas, as credit needs in the assessment area.

## **Conclusions with Respect to Performance Tests**

### **Scope of Review**

**Note:** Keystone Bank's 1997 HMDA data was filed inaccurately. The incorrect HMDA data has been published. Management provided us with the correct HMDA data during the examination, which we used in our analysis. The corrected HMDA data will be placed in the bank's public file, and Keystone Bank has resubmitted the correct 1997 HMDA data.

This review covers the time period from January 1, 1996 through March 31, 1998. The Lending Test is based on information contained in the bank's Home Mortgage Disclosure Act reports (*HMDA*), and Small Business/Small Farm reports for this time period.

Keystone Financial Mortgage Corporation (KFMC), a subsidiary of Keystone National Bank, Lancaster, Pennsylvania originated an additional 226 mortgage loans during the evaluation period in the AA, totaling \$27 million, that were not sold to KB and were either sold in the secondary market or retained in KFMC's portfolio. The lending activity of KFMC in KB's AA was not considered in the lending concentration analysis. These loans were considered in the lending analysis for geographic distribution and borrower income. The investments test and analysis of services were also reviewed for the same time period.

## **LENDING TEST**

### **Lending Activity**

Lending activity of KB and KFMC during the evaluation period within the AA is adequate in terms of responding to identified community credit needs. KB and its affiliate, KFMC, have, through the use of flexible lending programs, provided access to mortgage loans for low- and moderate-income residents. The consumer loan products that was created to establish credit also addresses community credit needs. Lending to small businesses in the AA is at adequate levels in 1997 and first quarter 1998. Loans to businesses one million or less in annual revenues represented 61% (1997) and 62% (first quarter 1998) of the number of loans granted to small businesses during the evaluation period. HMDA and small business loans originated within the AA are at a reasonable level for HMDA originations and a high level for business lending.

### **Concentration of Lending Activity**

KB's overall lending reflects an adequate level of lending activity in their assessment area. Tables 2 and 3 that follow reflect a reasonable level of HMDA loans and a very high level of small business lending being originated within the assessment area during the evaluation period.

KB originated or purchased (within and outside of the AA) a total of 1,366 HMDA loans, for \$99.9 million, during the evaluation period. Within the assessment area, the bank originated 650 HMDA reportable loans for \$17 million and purchased an additional 257 loans for \$31 million from KFMC. KB also originated 951 small business loans, totaling \$125 million. Of these loans, 913 loans totaling \$118 million were in the assessment area.

KB has a majority of its HMDA loans originated or purchased within the assessment area representing 66% of loans originated and 48% of the dollar volume of HMDA reportable loans. A substantial majority (1996-100%, 1997-92%, first quarter 1998-100%) of the small business loans were made within the assessment area. Tables 2 and 3 detail the loan activity, by year, for HMDA loans and small business loans.

**Table 2**

| <b>HMDA Loan Originations January 1, 1996 through March 31, 1998</b> |                        |            |               |            |                         |            |               |            |
|--|------------------------|------------|---------------|------------|-------------------------|------------|---------------|------------|
| Loan Type  | Inside Assessment Area |            |               |            | Outside Assessment Area |            |               |            |
|  | # loans                | %          | \$ Amount     | %          | # loans                 | %          | \$ Amount     | %          |
| 1996   | 452                    | 64%        | 19,891        | 41%        | 263                     | 36%        | 28,264        | 59%        |
| 1997   | 372                    | 67%        | 23,960        | 52%        | 181                     | 33%        | 22,498        | 48%        |
| *1998  | 83                     | 85%        | 4,485         | 85%        | 15                      | 15%        | 821           | 15%        |
| <b>Total</b>   | <b>907</b>             | <b>66%</b> | <b>48,336</b> | <b>48%</b> | <b>459</b>              | <b>34%</b> | <b>51,583</b> | <b>52%</b> |

Source: KB 1996, 1997 & 1998 HMDA LAR

\* First quarter 1998

**Table 3**

| <b>Small Business Loan Originations - January 1, 1996 through March 31, 1998</b> |                        |            |                |            |                         |           |              |           |
|--|------------------------|------------|----------------|------------|-------------------------|-----------|--------------|-----------|
| Loan type  | Inside Assessment Area |            |                |            | Outside Assessment Area |           |              |           |
|  | # loans                | %          | \$ Amount      | %          | # loans                 | %         | \$ Amount    | %         |
| <b>Small Business</b>  |                        |            |                |            |                         |           |              |           |
| 1996   | 424                    | 100%       | 58,090         | 100%       | 0                       | 0%        | 0            | 0%        |
| 1997   | 450                    | 92%        | 52,358         | 88%        | 38                      | 8%        | 7,179        | 12%       |
| *1998  | 39                     | 100%       | 7,751          | 100%       | 0                       | 0%        | 0            | 0%        |
| <b>Total</b>   | <b>913</b>             | <b>96%</b> | <b>118,199</b> | <b>94%</b> | <b>38</b>               | <b>4%</b> | <b>7,179</b> | <b>6%</b> |

Source: 1996, 1997 & 1998 and Small Business/Small Farm Data Collection Register

\* First quarter 1998

## **Geographic Distribution**

### **Home Loans:**

Table 4 that follows illustrates that the overall distribution of HMDA loans by census tract income is reasonable for middle and upper census tracts. The U.S. Census Bureau reports that 70% of the tracts are classified as middle and upper and that 60% of families in the AA reside in those tracts. The bank originated 86% of HMDA loans in middle and upper tracts during the evaluation period and its performance mirrors the location of the majority of the bank's offices.

For the evaluation period, 1% of the HMDA loans were originated in low- income census tracts. The bank's lending performance in these census tracts is low in relation to the 10% of census tracts designated as low- income. Low- income tracts in the AA have a 7% owner occupancy rate which reduces opportunities for HMDA reportable lending. However, in 1996, the most recent year which market share data is available, 141 lenders reported originating 2,117 loans in low- income census tracts with four large regional lenders reporting a combined 28% market share.

The majority of low income tracts are located in the city of Philadelphia where competition for loans is very strong. In 1996, four lenders originated 44% of all loans in low- income tracts in Philadelphia. KB has one office located in a low tract. Lending in moderate- income geographies is reasonable with 13% of HMDA loans during the evaluation period originated to borrowers residing in moderate tracts. Moderate tracts represent 19% of all tracts within the AA.

Improvement is noted in originating HMDA loans in low and moderate tracts in each of the years in the evaluation period. KFMC hired a loan originator to concentrate on low- and moderate- income geographies, as well as the establishment of target performance goals that have contributed to the improvement.

**Table 4**

| <b>Geographic Distribution of HMDA Loans<br/>Includes KFMC Loans In Assessment Area<br/>January 1, 1996 through March 31, 1998<br/>Within Assessment Area</b> |                                   |  |                         |                         |                           |   |
|---|-----------------------------------|--|-------------------------|-------------------------|---------------------------|---|
| <b>Geography<br/>Income Level</b>   | <b>% of Total<br/>Geographies</b> | <b>% of Owner<br/>Occupied<br/>Housing</b> | <b>% loans<br/>1996</b> | <b>% loans<br/>1997</b> | <b>% loans<br/>**1998</b> | <b>% loans over the<br/>evaluation period</b> |
| Low   | 10%                               | 7%   | 1%                      | 2%                      | 4%                        | 1%  |
| Moderate  | 19%                               | 19%  | 12%                     | 16%                     | 18%                       | 13%   |
| Middle  | 38%                               | 42%  | 47%                     | 42%                     | 48%                       | 43%   |
| Upper   | 32%                               | 32%  | 40%                     | 40%                     | 30%                       | 43%   |
| *N/A  | 1%                                | 0%   | 0%                      | 0%                      | 0%                        | 0%  |
| Total   | 100%                              | 100%                                       | 100%                    | 100%                    | 100%                      | 100%  |

Source: 1996, 1997 & 1998 KB HMDA LARs \* No income reported \*\* First quarter 1998

### Small Business Loans:

KB has a good geographic distribution of small business loans as reflected in Table 5. Sixteen percent of small business loans were made in low and moderate income census tracts, in comparison to the 19% of small businesses located in low and moderate income tracts.

**Table 5**

| <b>Geographic Distribution of Small Business Loans Originations<br/>January 1, 1996 through March 31, 1998</b> |                        |                                     |             |               |              |                                  |
|--|------------------------|-------------------------------------|-------------|---------------|--------------|----------------------------------|
| <b>Geography<br/>Income Level</b>  | <b>% of<br/>tracts</b> | <b>% of KB Small Business Loans</b> |             |               |              | <b>% of small<br/>businesses</b> |
|  |                        | <b>1996</b>                         | <b>1997</b> | <b>**1998</b> | <b>Total</b> |                                  |
| Low  | 10%                    | 4%                                  | 3%          | 0%            | 3%           | 6%                               |
| Moderate   | 19%                    | 16%                                 | 9%          | 5%            | 13%          | 13%                              |
| Middle   | 38%                    | 35%                                 | 33%         | 33%           | 34%          | 42%                              |
| Upper  | 32%                    | 45%                                 | 54%         | 62%           | 50%          | 39%                              |
| *N/A   | 1%                     | 0%                                  | 1%          | 0%            | 0%           | 0%                               |
| Total  | 100%                   | 100%                                | 100%        | 100%          | 100%         | 100%                             |

Source: 1996, 1997 and 1998 Small Business/Small Farm Data Collection Registers \*No income reported\*\* First quarter 1998

### Borrower Characteristics

## **Home Loans:**

The overall distribution of HMDA loans, based on the income level of the borrowers is reasonable. Approximately 12% of the number of HMDA loans, and 15% of the dollar volume of HMDA loans were to low- income borrowers. This performance is considered adequate in comparison to the 22% of low- income families in the assessment area.. Nineteen percent of the originations were to moderate income borrowers. This is good in comparison to the percentage of moderate income families (18%) in the AA. The majority, 69% of HMDA originations, were to middle and upper income borrowers who comprise 60% of the families in the AA.

The origination of home purchase mortgages is conducted by KFMC, an affiliate of the bank. The origination of mortgage products to low income borrowers has steadily improved since 1996. The improvement that resulted in 1997 and the first quarter of 1998 can be contributed to the hiring of a dedicated mortgage originator to serve the low- and moderate-income areas, and the establishment of production goals. Competition in the marketplace for mortgage lending is strong, with major regional banks dominating the market for mortgage originations.

Table 6 that follows details the distribution of HMDA loans to borrowers of different income levels by HMDA product type.

## **Table 6**

**Borrower Distribution of HMDA Loans - January 1, 1996 through  
Includes KFMC Loans In Assessment Area  
March 31, 1998 Originations  
Within Assessment Area**

| Borrower<br>Income<br>Level | % of<br>Families<br>by Income<br>Level | 1996       |      | 1997    |      | **1998  |       | Evaluation<br>Period |      |
|-----------------------------|--|------------|------|---------|------|---------|-------|----------------------|------|
|                             |  | # of loans | %    | # loans | %    | # loans | %     | # loans              | %    |
| Home Purchase               |  |            |      |         |      |         |       |                      |      |
| Low                         | 22%                                    | 0          | 0%   | 22      | 15%  | 13      | 15%   | 35                   | 11%  |
| Moderate                    | 18%                                    | 11         | 13%  | 25      | 17%  | 13      | 15%   | 49                   | 15%  |
| Middle                      | 23%                                    | 19         | 22%  | 21      | 14%  | 17      | 20%   | 57                   | 18%  |
| Upper                       | 37%                                    | 55         | 65%  | 80      | 54%  | 43      | 50%   | 178                  | 56%  |
| Total                       | 100%                                   | 85         | 100% | 148     | 100% | 86      | 100%  | 319                  | 100% |
| Home Improvement            |  |            |      |         |      |         |       |                      |      |
| Low                         | 22%                                    | 44         | 16%  | 26      | 13%  | 6       | 14%   | 76                   | 15%  |
| Moderate                    | 18%                                    | 60         | 22%  | 40      | 20%  | 9       | 20.5% | 109                  | 21%  |
| Middle                      | 23%                                    | 66         | 24%  | 46      | 22%  | 9       | 20.5% | 121                  | 22%  |
| Upper                       | 37%                                    | 102        | 37%  | 93      | 45%  | 19      | 43%   | 214                  | 42%  |
| *N/A                        |  | 2          | 1%   | 0       | 0%   | 1       | 2%    | 3                    | 0%   |
| Total                       | 100%                                   | 274        | 100% | 205     | 100% | 44      | 100%  | 523                  | 100% |
| Refinance                   |  |            |      |         |      |         |       |                      |      |
| Low                         | 22%                                    | 17         | 9%   | 8       | 9%   | 2       | 28.6% | 27                   | 9%   |
| Moderate                    | 18%                                    | 36         | 19%  | 15      | 16%  | 1       | 14.2% | 52                   | 18%  |
| Middle                      | 23%                                    | 50         | 26%  | 22      | 24%  | 2       | 28.6% | 74                   | 25%  |
| Upper                       | 37%                                    | 88         | 46%  | 48      | 51%  | 2       | 28.6% | 138                  | 48%  |
| Total                       | 100%                                   | 191        | 100% | 93      | 100% | 7       | 100%  | 291                  | 100% |

Source: KB 1996, 1997 and 1998 HMDA LARs \*No income reported \*\* First quarter 1998

**Small Business Lending:**

KB's distribution of lending to small businesses by revenue size reflects adequate penetration of lending to small businesses. For the evaluation period, 46% of the number and 33% of the dollar amount of originations were to businesses with annual revenues of \$1 million or less.

The number of KB's small business loans during the evaluation period was almost evenly divided between small and larger size businesses. Table 7 details the distribution performance by size for small business loans made in the assessment area. In 1997 and first quarter of 1998, there was an increase in the percentage of loans originated to businesses with annual revenues of one million or less.

**Table 7**

| <b>Distribution of Small Business Loans by Size</b> |      |      |      |      |       |      |       |      |
|---|------|------|------|------|-------|------|-------|------|
| Business Revenue Size                               | 1996 |      | 1997 |      | *1998 |      | Total |      |
|   | #    | %    | #    | %    | #     | %    | #     | %    |
| 0 < \$1 million                                     | 114  | 27%  | 278  | 62%  | 27    | 69%  | 419   | 46%  |
| > \$1 million                                       | 310  | 73%  | 115  | 26%  | 12    | 31%  | 437   | 48%  |
| Unknown Revenues                                    | 0    | 0%   | 57   | 12%  | 0     | 0%   | 57    | 6%   |
| Totals  | 424  | 100% | 450  | 100% | 39    | 100% | 913   | 100% |

Source: 1996, 1997 & 1998 Small Business/Small Farm Data Collection Registers \* **First quarter 1998**

Table 7-a illustrates that lending to small businesses with annual revenues of one million or less represents 46% of total number of loans originated to small businesses during the evaluation period. In 1997 and first quarter of 1998 the dollar volume of loans to small businesses represented a majority of the loan volume to small businesses.

**Table 7-a**

| <b>Distribution of Small Business Loans by Size of Business</b> |      |            |      |            |       |            |       |            |
|---|------|------------|------|------------|-------|------------|-------|------------|
| Business Revenue Size   | 1996 |            | 1997 |            | *1998 |            | Total |            |
|   | #    | \$ (000's) | #    | \$ (000's) | #     | \$ (000's) | #     | \$ (000's) |
| 0 < \$1 million   | 114  | 12.4       | 278  | 24.9       | 27    | 2.9        | 419   | 40.2       |
| > \$1 million   | 310  | 45.7       | 115  | 23.8       | 12    | 1.0        | 437   | 70.5       |
| Unknown Revenues  | 0    | 0          | 57   | 3.7        | 0     | 0          | 57    | 3.7        |
| Totals  | 424  | 58.1       | 450  | 52.4       | 39    | 3.9        | 913   | 114.4      |

Source: 1996, 1997 & 1998 Small Business/Small Farm Data Collection Registers \* **First quarter 1998**

The majority of KB's small business loans (70%) were less than \$100,000. Table 8 shows the percentage distribution of KB's small business loans by dollar amounts.

**Table 8**

| <b>Small Business Loan Originations by Dollar Loan Size</b> |                     |                     |                      |                                  |
|---|---------------------|---------------------|----------------------|----------------------------------|
| Origination Amount  | 1996 Distribution % | 1997 Distribution % | *1998 Distribution % | Evaluation Period Distribution % |
| Less Than \$100,000   | 65%                 | 75%                 | 62%                  | 70%                              |
| \$100,001 - \$250,000                                       | 18%                 | 13%                 | 10%                  | 16%                              |
| Greater Than \$250,000                                      | 17%                 | 12%                 | 28%                  | 14%                              |
| Total   | 100%                | 100%                | 100%                 | 100%                             |

Source: 1996, 1997 & 1998 Small Business/Small Farm Data Collection Registers \* **First quarter 1998**

## **Community Development Lending**

The bank has made no community development loans that meet the definition of the regulation. However, during the evaluation period, KB originated six loans totaling \$324 thousand and provided seven lines of credit totaling \$1 million that meet the definition of community development lending. Additionally, KB provided two letters of credit totaling \$810 thousand for two community development projects. These loans are reported in the bank's small business loan register and are included in a prior discussion regarding small business lending.

## **Innovative or Flexible Lending Practices**

KB offers several flexible loan programs that are described below:

**Affordable Consumer Instalment Loan** - This product is specifically designed for low and moderate income borrowers. A borrower with low income is given a 1% discount, and a borrower with moderate income is given a 1/2% discount off regular consumer loan rates. Loan amounts from \$500 to \$25,000 are available. To obtain the lower rates borrowers are required to establish a checking account from which loan payments are automatically deducted.

**Key Opportunity Mortgage Program** - This KFMC product is available only to borrowers whose income is 100% or less of the area median family income. Interest rate discounts are offered to low- income and moderate- income borrowers. Low income and moderate income borrowers receive a 1.5% and 1% discount off the bank's regular mortgage rates, respectively. Borrowing is permitted for up to 95% of the value of the purchased property, and no points are charged. A special accommodation loan is available to these borrowers to cover closing costs and up to 2% of the 5% down payment. The interest rate on the accommodation loan is the same as the mortgage loan rate. The borrower's debt to income ratio is allowed to exceed the bank's regular ratio by as much as 4%.

**Credit Establishment Loan Program** - The purpose of this loan is to help individuals, including low- and moderate-income, develop a credit history. A borrower can obtain small instalment loans ranging from \$250-\$1,500 at the bank's regular interest rates. No collateral or co-maker is required. The borrower is required to open a checking or savings account from which loan payments are automatically deducted.

**Lease/Purchase Mortgage Program** - This program is designed for first time home buyers who do not have the funds for closing costs or down payments. Individuals rent homes from an approved community group for a 2-5 year period, with the intent to assume the mortgage (mortgage obtained from the KFMC) after the rental period. During the rental period, the tenants build equity and learn the responsibilities of a homeownership.

## **INVESTMENT TEST**

KB made a low level of qualified investments and donations in relation to its size, financial capacity, and the availability of investment opportunities in the AA. Management works with a number of community groups but qualified investments and donations are modest. Investment opportunities are significant within the bank's assessment area. Management has elected not to become involved with statewide programs that offer qualified investments. KB made qualified investments/donations totaling \$368,500 during the evaluation period.

Investments totaling \$150,00 were made to three organizations for construction of affordable housing.

Contributions/grants totaling \$218,500 were made to 19 community organizations that support affordable housing and economic development within the AA.

## **SERVICE TEST**

KB's delivery systems are reasonably accessible to all portions of their AA. There are 27 branch offices and 24 ATMs. Sixteen branches have drive-up facilities. All but three branch offices have ATMs. Fifteen ATMs have enhanced capabilities such as, the exact dollar amount of cash withdrawals and check cashing. Additionally, split deposits/withdrawal on checks, and statement printing.

Branch hours are reasonable and convenient to all customers. All branches have extended hours, beyond 5:00 p.m., one night a week and most branches maintain Saturday hours. Management conducts an annual survey of branch activity and competitive factors to determine operating hours and days of operation.

KB's record of opening and closing offices has not affected the accessibility to bank services. There have been no branch openings since January 1995. Six offices were closed during the evaluation period. The accounts were consolidated into other branch offices. Two of the offices were located in moderate income census tracts and the remaining four were in middle income tracts. The two offices located in moderate income census tracts were consolidated into branch offices that border moderate income census tracts. These closings have not adversely affected the accessibility of the institution's delivery systems.

KB offers a common set of financial services to all of its customers. Services include a wide range of loan and deposit products, and trust services. Additionally, bank by mail and electronic banking is available. An KFI's Internet website provides general information about KB and its other affiliate banks regarding bank services, products and hours and locations. Banking Transactions cannot be conducted over the website.

The holding company’s mortgage subsidiary offers several products designed to help meet the identified credit needs of LMI individuals in the AA. Their “Direct Response Center” department allows mortgage applicants to apply for a loan via the telephone, mail, fax and electronic mail.

Table 9 below indicates where KB’s branch offices and ATMs are located throughout the five counties in the MSA. KB maintains a reasonable distribution of branches in comparison to the demographic of the AA.

The majority of low income census tracts are located in the City of Philadelphia. The five branch offices in Philadelphia are in the eastern and southeastern sections of the city. One office is in a low income tract and four are in moderate tracts. Fifty-five low income census tracts in Philadelphia are not located within close proximity to KB’s branch offices which reduces the ability to effectively service those areas using traditional delivery services.

**Table 9**

| <b>DISTRIBUTION OF DELIVERY SYSTEMS</b> |                 |              |                       |
|---|-----------------|--------------|-----------------------|
| <b>Census Tracts</b>                    | <b>Branches</b> | <b>ATMs</b>  | <b>CTs in the AAs</b> |
|   | <b># / %</b>    | <b># / %</b> | <b># / %</b>          |
| <b>Low</b>                              | 1 / 4%          | 0 / 0 %      | 73 / 10%              |
| <b>Moderate</b>                         | 4 / 15%         | 4 / 16%      | 140 / 19%             |
| <b>Middle</b>                           | 12 / 44%        | 10 / 42%     | 273 / 38%             |
| <b>Upper</b>                            | 10 / 37%        | 10 / 42%     | 230 / 32%             |
| <b>*NA</b>                              | 0 / 0%          | 0 / 0%       | 12 / 1%               |
| <b>Total</b>                            | 27 / 100%       | 24 / 100%    | 100%                  |

**\*No income reported**

### **Community Development Services**

KB provides a high level of community development services. Primary services include providing financial expertise to a variety of community service and development organizations through board and committee memberships. KB’s employees use their financial skills in providing assistance to sixteen community organizations. The groups support housing and economic development that benefit low-and moderate-income individuals in the bank’s AA. The community development services are responsive to the needs in the assessment area. Examples of some of the sixteen community development services are listed below.

One KB employee is involved with the Community Action Agency of Delaware County

(CAADC) serving on the Board of Directors sub committee in a capacity using his banking area of expertise. KB has structured a money management program for clients of CAADC who are in the agency's transitional housing program. KB co-sponsored two sessions per month.

Since 1993, KB has been active with the FHLB Affordable Housing Program. This program allows the bank to work with community groups to meet the housing needs for first-time and single head of household home buyers, who are primarily low-income. Participation with FHLB has allowed the bank to work with organizations in providing rental units for low-income and mentally disabled individuals. KB's CRA officer dedicates approximately 10% of his time to this program.

KB jointly sponsors' four first-time home buyer seminars each month in conjunction with community-based groups. The first time home buyer's sessions are directed toward low- and moderate-income individuals and as many as 30 to 40 people attend each of these sessions.

The CRA officer also serves on the Board of Directors of the organizations that follow:

Philadelphia Industrial Development Corporation. The organization is supportive of urban industrial development and redevelopment designed to attract new employers to urban areas and provide employment for low- and moderate-income residents.

The Community Development Corporation of the Frankford Group Ministry and is a working member of the groups finance committee.

Residential Living Options, Inc. is an organization that was established through the Housing Partnership of Chester County and provides assistance primarily to low-and moderate-income individuals with development disabilities and their families in developing housing options by providing alternatives, incentives, and education.

## **FAIR LENDING EXAMINATION**

A concurrent fair lending review did not identify any violations of the various anti-discrimination laws and regulations. An effective system is in place to comply with fair lending regulations.

### Scope of Examination

|   |  |                          |                          |
|---|--|--------------------------|--------------------------|
| <b>Time Period Reviewed</b>                             | 1/1/96 to 3/31/98  |                          |                          |
| <b>Financial institution</b><br>Keystone Bank N.A.      | <b>Products reviewed</b><br>Mortgage loans, small<br>business and farm loans, investments and services |                          |                          |
| <b>Affiliate(s)</b>                                     | <b>Affiliate relationship</b>  | <b>Products reviewed</b> |                          |
| Keystone Financial Leasing Corp.                        | Bank Subsidiary  | None                     |                          |
| Keystone Financial Mortgage Corporation                 | Subsidiary of affiliate bank of KFI, Inc.  | Mortgage loans           |                          |
| <b>List of Assessment Areas and Type of Examination</b> |  |                          |                          |
| <b>Assessment Area</b>                                  | <b>Type of Exam</b>  | <b>Branches Visited</b>  | <b>Other Information</b> |
| Pennsylvania<br><br>MSA Philadelphia,<br>PA/New Jersey  | On-site  | Two                      | Not applicable           |