

Northeastern District  
1114 Avenue of the Americas, Suite 3900  
New York, New York 10036

## **PUBLIC DISCLOSURE**

November 23, 1998

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The First National Bank of Palmerton  
Charter Number: 8930**

**Post Office Box 217, Fourth Street and LaFayette Avenue  
Palmerton, Pennsylvania 18071**

**Office of the Comptroller of the Currency  
Northern Pennsylvania Field Office  
100 Hazle Street, Suite 202  
Wilkes-Barre, Pennsylvania 18702**

**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.

**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 Community Reinvestment Act (CRA) performance of **The First National Bank of Palmerton** prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of November 23, 1998. 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**.

The primary factors supporting the bank's overall rating include:

- The average loan to deposit ratio of 75% compares favorably with local peer group averages;
- A substantial majority of Home Mortgage Disclosure Act (HMDA) reportable loans originated during the examination period are in the bank's assessment area;
- The geographic distribution of HMDA loans in the assessment area is reasonable; and
- There is a good penetration of loans to individuals of different income levels, and substantially all of the bank's commercial lending is to small businesses and small farms.

The following table indicates the performance level of The First National Bank of Palmerton with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>First National Bank of Palmerton</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in AA	X		
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints received since the prior examination.		

## **DESCRIPTION OF INSTITUTION**

First National Bank of Palmerton (FNB) is a \$271 million institution situated in eastern Pennsylvania. It is a wholly owned subsidiary of Palm Bancorp, Inc., a one bank holding company. The bank has no operating subsidiaries. FNB operates eight full service offices and eight automated teller machines located in Carbon, Lehigh, Northampton and Monroe counties. Two of the offices were opened since June of 1996. FNB's headquarters are located in Carbon County. All of the offices have drive-in facilities and all have extended evening and weekend hours. FNB also offers a telephone banking services system and maintains a Website for informational purposes only.

Major competitors include First Union, PNC, Mellon, and many regional and small community banks. As of June 30, 1997, FNB's market share of all deposits held by FDIC-insured institutions operating in Pennsylvania was 0.11%. Also as of that date, the bank's deposit market share in Carbon County was 10.14%, 0.07% in Lehigh County, 0.32% in Northampton County, and 9.60% in Monroe County.

Primary loan products include fixed rate and adjustable rate residential mortgages, small business loans, and consumer installment loans. The loan portfolio represents 60% of total assets. A breakdown of the portfolio as of September 30, 1998 is as follows: 61% residential mortgages, 34% commercial and commercial real estate loans, and 5% consumer installment loans. Agricultural lending is minimal.

There are no legal or financial impediments which would hinder the bank's ability to help meet the credit needs of its community. As of the last CRA examination, dated March 5, 1996, the institution was rated satisfactory.

## **DESCRIPTION OF ASSESSMENT AREA**

FNB's assessment area (AA) meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income (LMI) geographical areas. The AA includes 54 census tracts (CTs) and block numbering areas (BNAs) located in portions of Carbon, Lehigh, Northampton, and Monroe counties. The population of the AA is 285,462; 14% of the families residing in the AA are low-income, 17% are moderate-income, 26% are middle-income, and 43% are upper-income.

The CTs in Carbon, Lehigh, and Northampton counties are part of the Allentown-Bethlehem-Easton Metropolitan Statistical Area (MSA 0240). FNB's headquarters are located in this MSA. Population in these tracts is 189,753. The income levels of these CTs include two moderate-income, thirty-two middle-income, and six upper-income tracts. There are no low- income tracts.

Another part of the AA is a non-MSA consisting of all of Monroe County. Fourteen BNAs make up this county, which has a population of 95,709. Five of the BNAs are middle-

income and the remaining nine are upper-income tracts. Eleven percent of the families residing in the AA are low-income, 14% are moderate-income, 21% are middle-income, and 54% are upper-income. The statewide non-metropolitan median family income of \$35,200 applies to this area. The average housing cost is \$115,642. The median year homes were built is 1974. FNB operates four full service branches and four automated teller machines in this county.

The local area is primarily rural or suburban. Many residents travel to the Lehigh Valley for work, where employment opportunities exist predominantly in services and industry. According to the Pennsylvania Department of Labor and Industry, unemployment in Carbon County is consistently above state and national averages. As of September 30, 1998, the Pennsylvania state unemployment rate was 4.3% while Carbon County was 6.5%. In Lehigh County, the unemployment rate was 4.3%, with the Northampton County rate at 4.5%;in Monroe County, the unemployment rate was 5.9%.

Major employers in Carbon County area include John & Joseph Kovatch, the Gnadon Huetten Memorial Hospital, county government, Vacations Charters LTD, and Blue Ridge Cable Television. In Lehigh County, major employers include Lucent Technologies, Air Products & Chemicals, the Lehigh Valley Hospital Center, St. Luke's Hospital, and Lehigh County. Northampton County's major employers include Lehigh University, Northampton County, the Easton Hospital, the federal government, and Supervalu Operations. In Monroe County, major employers are the federal government, Roadway Express, Pocono Medical Center, Connaught Laboratories, and the Pocono Mountain School District.

<b>AA DEMOGRAPHICS</b>		
<b>Designation</b>	<b># Census Tracts</b>	<b>% of Total Tracts</b>
<b>Low</b>	<b>0</b>	<b>0</b>
<b>Moderate</b>	<b>2</b>	<b>4</b>
<b>Middle</b>	<b>37</b>	<b>68</b>
<b>Upper</b>	<b>15</b>	<b>28</b>
<b>Total</b>	<b>54</b>	<b>100</b>

## Determination of Community Credit Needs

### Community Contacts

Credit needs in the local area were determined during this examination by contacting the director of a local county's economic development council. This contact indicated that the need for more job creation in the area is a significant problem. While the housing situation was relatively stable, first time home buyers needed special assistance. Bank management had also stated that these are the most important issues in the area. The contact also stated that FNB had taken the lead in the county's program to aid first time home buyers.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### SCOPE OF REVIEW

Please note that for purposes of this review the examination period covers all Home Mortgage Disclosure Act (HMDA) reportable loan activity from January 1, 1997 through September 30, 1998. Small business loan data is based on the information found within the call report dated June 30, 1998. All dollar amounts in the tables within this report are in thousands unless otherwise noted.

### LOAN TO DEPOSIT RATIO

Our analysis of FNB's loan to deposit ratio indicates that the quarterly average ratio of 75%, which has been maintained over the past two years since the previous examination, is good. This ratio has remained stable, ranging between 70% and 80%. The ratio is slightly lower than local peer banks which have an average ratio of 79%.

### Lending in AA

We analyzed the bank's record of lending in their AA using information on the HMDA Loan Application Registers (HMDA-LARs) for 1997 and the year-to-date 1998. The following table indicates that a substantial majority of HMDA reportable loan originations during the examination period are in FNB's AA. This reflects a good response to local community housing needs.

HMDA Reportable Loan Originations								
	1997				1/1/98-9/30/98			
	#	%	\$	%	#	%	\$	%
Inside AA	361	86	15,693	88	345	98	15,907	99
Outside AA	59	14	2,208	12	7	2	116	1
Total	420	100	17,901	100	352	100	16,023	100

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

The bank's record of lending to borrowers of different income levels was evaluated using the same HMDA information as in the above analysis. We analyzed the distribution of lending for the AA and compared it to the demographics of that area. The following tables show that FNB's volume of lending is representative of the demographic composition of the entire AA, except for low-income borrowers. However, we noted that in 1997, FNB's overall market share, based on HMDA originations, was 1.90%. During that time, the bank's market share, also based on HMDA originations, for low-income borrowers was 4.31%. Of the 226 lenders in the AA, FNB was ranked as the third largest lender to low-income applicants. Therefore, market share data compares favorably for low-income borrowers. Overall, FNB's record of lending to borrowers of different income levels is satisfactory.

HMDA Reportable Loan Originations by Level of Borrower Income in the AA									
Income Category	1997				1/1/98-9/30/98				% of Families Within AA
	#	%	\$	%	#	%	\$	%	
Low	22	6	419	3	22	6	402	3	14
Moderate	77	21	2,194	14	51	15	1,586	10	17
Middle	117	33	5,591	36	113	33	4,591	29	26
Upper	145	40	7,489	47	159	46	9,328	58	43
Total	361	100	15,693	100	345	100	15,907	100	100

FNB offers a first time home buyers program. This program offers a thirty year maximum term, fixed rate mortgage with a loan-to-value ratio of up to 97%. Below market interest rates are offered and no points or origination fees are collected. Private mortgage insurance may be required and the prospective borrower must complete a course in home ownership. The bank was also responsible for the formation of a community bank consortium which offers a home ownership outreach program.

FNB is responsive to the credit needs of small businesses and farms in its community. We used the "currently outstanding" loan data from the June 30, 1998 call report to evaluate the bank's record of lending to small businesses and farms. For this analysis, a small business loan is defined as a loan with an original amount of less than \$1 million and a small farm loan is an agricultural loan made for less than \$500 thousand. The following

table shows FNB's record of lending to small businesses and small farms. Note that a large majority are very small loans with original amounts of less than \$100 thousand.

<b>Distribution of Small Business/Small Farm Loans by Loan Size from June 30, 1998 Call Report</b>				
<b>Loan Size</b>	<b>Small Business</b>		<b>Small Farm</b>	
	<b>#/%</b>	<b>\$/%</b>	<b>#/%</b>	<b>\$/%</b>
<b>≤ \$100M</b>	<b>329/75</b>	<b>8,103/25</b>	<b>3/100</b>	<b>132/100</b>
<b>&gt; \$100M ≤ \$250M</b>	<b>62/14</b>	<b>7,603/24</b>	<b>0/0</b>	<b>0/0</b>
<b>&gt; \$250M ≤ \$1,000M</b>	<b>49/11</b>	<b>16,302/51</b>	<b>0/0</b>	<b>0/0</b>
<b>Total</b>	<b>440/100</b>	<b>32,008/100</b>	<b>3/100</b>	<b>132/100</b>

### **Geographic Distribution of Loans**

The following table depicts the geographic distribution of HMDA loans. As was stated previously, there are no low-income census tracts and only two moderate-income census tracts in the bank's AA. Competition for these loans is strong with many community banks offering special "affordable housing programs" and, given the bank's market share, their lending to all census tracts is considered satisfactory.

<b>Geographic Distribution of HMDA Reportable Loan Originations by Census Tract Characteristic in AA</b>					
<b>Census Tracts</b>	<b>1997</b>		<b>1/1/98-9/30/98</b>		<b>% Owner-Occupied Households in AA</b>
	<b>#/%</b>	<b>\$/%</b>	<b>#/%</b>	<b>\$/%</b>	
<b>Low</b>	<b>0/0</b>	<b>0/0</b>	<b>0/0</b>	<b>0/0</b>	<b>0</b>
<b>Moderate</b>	<b>42/12</b>	<b>1,587/10</b>	<b>28/8</b>	<b>795/5</b>	<b>4</b>
<b>Middle</b>	<b>195/54</b>	<b>9,303/59</b>	<b>178/52</b>	<b>8,643/54</b>	<b>64</b>
<b>Upper</b>	<b>124/34</b>	<b>4,803/31</b>	<b>139/40</b>	<b>6,469/41</b>	<b>32</b>
<b>Total</b>	<b>361/100</b>	<b>15,693/100</b>	<b>345/100</b>	<b>15,907/100</b>	<b>100</b>

### **Responses to Complaints**

No complaints were received during this period by FNB regarding its performance in meeting the credit needs of its AA.

### **Fair Lending Review**

A Fair Lending Review was performed in conjunction with this CRA examination and did not identify any violations of antidiscrimination laws and regulations.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MSA 0240

FNB defines its AA within the Allentown-Bethlehem-Easton MSA as 40 CTs in Carbon, Lehigh, and Northampton counties. Two of the CTs are moderate-income tracts, thirty-two are middle-income tracts, and six are upper-income tracts. Fifteen percent of the households in this MSA are geographically located in the low-income tracts, 19% are in the moderate-income tracts, 28% are in the middle-income tracts, and 38% are in the upper-income tracts.

Sixty-six percent of the population in the bank's AA resides in this MSA. The median family income in this MSA is \$47,600. Average housing costs are \$103,333 with 1961 as the median year built. The bank operates four full service offices and four automated teller machines in these counties.

The bank's performance with respect to HMDA loan originations in this MSA is illustrated in the following table. FNB's loan activity in this MSA represents 51% of the total number of HMDA originations within its AA reported in 1997, and 41% of the year-to-date 1998 HMDA originations. The originations are reasonably representative of the demographics in the MSA.

HMDA Reportable Loan Originations by Level of Borrower Income in MSA 0240									
Income Category	1997				1/1/98-9/30/98				% of Families Within AA
	#	%	\$	%	#	%	\$	%	
Low	15	8	299	4	15	11	298	4	15
Moderate	47	25	1,486	16	31	22	1,171	16	19
Middle	72	39	4,002	43	48	34	2,238	31	28
Upper	51	28	3,430	37	46	33	3,595	49	38
Total	185	100	9,217	100	140	100	7,302	100	100

### Geographic Distribution

The following table depicts the lending pattern throughout the MSA based on the level of income for each CT compared to the owner occupied housing within those areas. The level of lending within low- and moderate-income tracts is good for 1997 and year-to-date 1998, and is in line with the percentage of owner-occupied households when compared to the number of loans originated.

Geographic Distribution of HMDA Loans in MSA 0240					
Census Tracts	1997		1/1/98-9/30/98		% Owner-Occupied Households in AA
	# Loans / %	\$ Amt / %	# Loans / %	\$ Amt / %	
Low	0/0	0/0	0/0	0/0	0
Moderate	42/23	1,587/17	28/20	795/11	5
Middle	139/75	6,858/75	108/77	6,055/83	80
Upper	4/2	772/8	4/3	452/6	15
Total	185/100	9,217/100	140/100	7,302/100	100

## Scope of Examination

<b>Time Period Reviewed</b>	1/1/97 to 9/30/98		
<b>Financial institution</b>  First National Bank of Palmerton	<b>Products reviewed</b>  Small business, Small farm, HMDA Reportable 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  MSA - 0240 - Allentown/Bethlehem/Easton Non-MSA - Monroe County	on-site	Main Office	Not applicable