



Small Bank

Comptroller of the Currency
Administrator of National Banks

Public Disclosure

December 3, 2001

Community Reinvestment Act Performance Evaluation

**The First National Bank of Elmer
Charter Number: 6707**

**Broad & Main Streets
P. O. Box 980
Elmer, New Jersey 08318**

Office of the Comptroller of the Currency

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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 the **First National Bank of Elmer (FNBE)** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of December 3, 2001. 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**.

Primary factors supporting the bank's overall rating include:

- The average loan-to-deposit ratio is reasonable at 72% based on the bank's size and financial condition.
- The majority of the loan originations are within the bank's assessment area.
- There is good distribution of loans among borrowers of different income levels and geographies within the assessment area.
- Lending levels to small businesses are good which reflects responsiveness to the credit needs of the assessment area.

Scope of Examination

This CRA evaluation of The First National Bank of Elmer (FNBE) covers the period from January 1, 1997 through June 30, 2001. The evaluation includes an analysis of FNBE's assessment area (AA), which includes the entire counties of Cumberland, Gloucester and Salem in the southwest region of New Jersey. This analysis is based upon the bank's Home Mortgage Disclosure Act Loan Application Registers (HMDA - LARs) and Community Reinvestment Activity (CRA) small business loan data reports. These reports were tested for accuracy prior to this review and found to be sufficient for the purpose of this analysis. We used Small Bank CRA

Procedures from the *Comptroller's Handbook* to complete this examination.

Description of Institution

FNBE is a \$155 million wholly owned subsidiary of Elmer Bancorp, a recently formed bank holding company as of January 2, 2001. Located in Elmer, NJ, FNBE is a full service bank including trust services. FNBE has one operating subsidiary, First Elmer Investment Corporation, an investment holding company located in Delaware. The bank has four branch offices. The main office and two branches are located in Salem County. The remaining branch is located in Gloucester County. Each branch location is equipped with an automated teller machine (ATM) and drive-up banking facilities. Extended banking hours are available at all locations on Thursday and Friday. All branch locations are also opened Saturday mornings. No branches have been opened or closed since the prior CRA examination in January 1997.

As of September 30, 2001, FNBE reported total assets of \$155 million. The balance sheet reflects \$111 million in loans and \$137 million in deposits. The loan portfolio is comprised of \$60 million in commercial credits (54%), \$43 million in mortgages and home equity loans (39%) and \$7 million in installment loans (7%). As of September 30, 2001 FNBE reported Tier 1 capital of \$16.5 million. There are no known legal, financial or other factors impeding FNBE's ability to help meet the credit needs of its community.

The bank's primary business focus is small business lending. Major lending competition is provided by numerous locally based national, state and savings banks as well as branches of several regional institutions. As of January 2, 2000, FNBE initiated a program to broker the majority of its mortgage loan applications to secondary market mortgage investors. Management reports 184 originations and \$19 million in sales since the inception of mortgage sale activity in 2000. This breakdown reflects management's decision over the prior two years to emphasize commercial lending.

The last CRA assessment of FNBE was performed as of January 24, 1997. The bank received a "Satisfactory" rating.

Description of Assessment Area -

FNBE has defined the counties of Cumberland, Gloucester and Salem in their entirety as its AA.

This designation reflects an expansion of the AA to remain consistent with the bank's revised lending territories. Gloucester and Salem counties are located in MSA 6160, while Cumberland County is part of MSA 8760. The bank's AA totals 112 census tracts. It is comprised of 2 low-income tracts (1.8%), 14 moderate-income tracts (12.5%), 77 middle-income tracts (68.6%), 17 high-income tracts (15.3%), and 2 census tracts classified as N/A (1.8%). Eighty-three (74%) of the census tracts are located in MSA 6160 with the remaining 29 (24%) census tracts in MSA 8760. The bank's AA complies with the regulation and does not arbitrarily exclude low- or moderate-income areas.

Based upon 1990 US Census data, the population of the AA is approximately 433,429. The AA contains 114,495 families and 149,818 households. Updated median family income is \$57,122 and the median value of a home is \$89,840. There are approximately 13,990 households below

the poverty level standard. Housing units within the AA total 158,102. This total reflects 70% owner occupied, 25% rental and 5% vacant housing units. The unemployment rate for the AA is 2.85%. The local economy is stable and diverse with retail, manufacturing, and service industries providing the majority of employment opportunities. The bank's AA is also located within commutable distances to employment sources in Pennsylvania and Delaware.

Management indicates that the primary credit needs of its AA are housing and small business lending. We also contacted the Salem Community Economic Development Corporation to ascertain information on AA credit needs. It was identified that small business lending and housing are the primary credit needs of the AA.

Loan-to-Deposit Ratio

FNBE's average loan-to deposit ratio of 72% (for the eighteen-quarter period covering January 1, 1997 through June 30, 2001) is satisfactory given the bank's size, financial condition and assessment area credit needs. This ratio is only slightly below the national peer average of 74% for the same timeframe.

Lending in Assessment Area (AA)

FNBE meets the standard for satisfactory performance for lending within its assessment area. We reviewed the bank's HMDA-LAR covering the timeframe of this review to determine the location of FNBE's loan originations. As indicated in the chart below, the majority of FNBE's HMDA reportable loans are originated within its assessment area.

| Distributions of HMDA Originations 1/1/97 - 12/31/00 | | |
|-----------------------------------------------------------------|--------|---------|
| | Number | \$(000) |
| Total Originations | 482 | 25,518 |
| HMDA Originations within AA | 460 | 23,924 |
| Percent of Originations within AA | 95% | 94% |

To assess the level of business lending within the assessment area we sampled 25 commercial loans originated during the review period. The 25 five loans amounted to \$4.1 million. Twenty-two of the 25 loans totaling \$2, 850 million, representing 88% of the sample and 69% of the dollar volume, were extended within the assessment area. We assume these results are indicative of the entire of the portfolio.

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

FNBE meets the standards for satisfactory performance for lending to borrowers of different incomes and businesses of different sizes. The bank's record of lending was evaluated using HMDA reportable and commercial loans originated during the years 1997- 2000. As illustrated below, there was good penetration to borrowers of different income levels including low- and moderate- income borrowers.

| Lending to Borrowers of Different Income Levels | | | | | |
|--------------------------------------------------------|------------|---------|----------------------|---------|----------------|
| HMDA Loans from 1/1/97 - 12/31/00 | | | | | |
| Income | # of Loans | Percent | \$ of Loans (000) | Percent | Total Families |
| Low | 63 | 13% | 1,692 | 7% | 18% |
| Moderate | 109 | 23% | 4,103 | 16% | 18% |
| Middle | 138 | 29% | 6,868 | 23% | 26% |
| Upper | 166 | 34% | 12,300 | 48% | 38% |
| N/A | 6 | 1% | 555 | 2% | |
| Total | 482 | 100% | 25,518 | 100% | 100% |

We also reviewed commercial loan originated during the review period. We determined that the bank originated 440 loans during the review period approximating \$36 million dollars.

We further determined that the commercial loan portfolio is substantially comprised of small business loans as 399 or 90% of the loans originated during the review period were in amounts less than \$500 thousand dollars. The remaining 21 loans originated during the review period reflects 5 loans of \$1 million dollars or more and 16 loans in originated in amounts \$500,000-\$999,999.

Geographic Distribution of Loans

The geographical distribution of loans throughout the bank's AA is reasonable. As indicated in the table below, the level of lending in low- and moderate-income geographies is below the geographic distribution of census tracts by income level. However, the low- and moderate-income geographies within the bank's AA have low levels of owner-occupied housing units, thereby limiting lending opportunities. The low- and moderate-income geographies are located throughout the 3 county AA near older cities where erosion in employment opportunities has diminished and population migration to more suburban surroundings has taken place.

| Geographic Distribution of HMDA Loans within AA | | | | | | |
|--------------------------------------------------------|-------------------------------|----------------------------|------------|--------------------|---------------------------------|----------------------|
| 1/1/97-12/31/00 | | | | | | |
| Income level of Census Tract | Amount of Loans (000's) | % of Amount of loans | # of Loans | % of # of Loans | Geo Dist of Census Tracts | % Owner Occupancy |
| Low | 221 | 1% | 5 | 1% | 2% | 0.33% |
| Moderate | 874 | 3% | 13 | 3% | 12% | 7.94% |
| Middle | 23,468 | 92% | 447 | 93% | 69% | 72.34% |
| Upper | 955 | 4% | 17 | 3% | 15% | 19.39% |
| NA | | | | | 2% | |
| Total | 25,518 | 100% | 482 | 100% | 100% | 100% |

Responses to Complaints

FNBE has not received any complaints regarding its performance in helping to meet the assessment area needs during this evaluation period.

Compliance with Antidiscrimination Laws

An analysis of HMDA, consumer complaint information and public comments was performed according to the OCC's risk-based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation. The latest comprehensive fair lending examination was performed in 1997.