



PUBLIC DISCLOSURE

December 08, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Pennsville National Bank
Charter Number 15733

170 South Broadway
Pennsville, NJ 08070

Office of the Comptroller of the Currency

1150 Northbrook Drive
Suite 303
Trevese, PA 19053

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 major factors that support this rating include:

- The bank's quarterly average net loan-to-deposit ratio is reasonable given the bank's size, financial condition, lending-related activities, and Assessment Area ("AA") credit needs;
- A substantial majority of the bank's loans are made within its AA;
- The distribution of loans reflects reasonable penetration among borrowers of different incomes;
- The bank's geographic distribution of loans within its AA reflects reasonable dispersion throughout the AA; and,
- The bank has received no complaints about its performance in helping to meet the credit needs of its AA.

SCOPE OF EXAMINATION

Pennsville National Bank ("PNB") has been evaluated under the Small Bank evaluation procedures. Under these procedures, the bank is subject to a streamlined CRA evaluation that focuses primarily on the Lending Test. The Lending Test evaluates the institution's record of meeting the credit needs of its AA based on the following five criteria:

- Loan-to-deposit ratio,
- Lending in assessment area,
- Lending to borrowers of different incomes,
- Geographic distribution of loans, and,
- Responsiveness to complaints.

Bank management specifically chose not to be examined on qualified investments and services. No other lending-related activities, such as community development loans, or lending-related qualified investments, were included under the first four criteria of the Lending Test. The Lending Test for PNB covers its performance from January 1, 2012 through December 31, 2013. The residential mortgage loan analysis is based upon the bank's Home Mortgage Disclosure Act-Loan Application Registers (HMDA-LAR). The HMDA-LARs were tested prior to this review and found to be reliable for the purposes of our analysis.

Changes, which affect the data used to evaluate CRA performance, have been phased in over several years as federal banking agencies adapt to the most recent census data. These changes continue to impact CRA performance evaluation analysis. Beginning on January 1, 2012, the Office of Management and Budget ("OMB") revised the definition

and boundaries of Metropolitan Area (MA) census tracts. Thus, a CRA Performance Evaluation would require two separate analysis, i.e. one for the Jan. 1, 2011 to December 31, 2011, and another for the January 1, 2012 to December 31, 2013 performance period. However, this PE was reviewed using a Limited Data Analysis, evaluating only the data from January 1, 2012 to December 31, 2013. The OCC considers this approach reasonable for PNB based on its activity. Bank management concurs with the exclusion of the 2011 data.

The bank's AA spans Salem and Gloucester Counties. Both of these counties are in different Metropolitan Divisions (MDs), which would normally require they be reviewed separately. However, we gave no weight and did not include an analysis of Gloucester County activity in our performance evaluation. PNB received seven home loan applications during the evaluation period in the Gloucester County AA. None of the applicants were from low- or moderate-income families. An analysis of distribution of loans to low- and moderate-income families could not be performed. In addition, there are no low- or moderate-income census tracts within the Gloucester County AA. An analysis of loans made to low- or moderate-income geographies could not be performed.

DESCRIPTION OF INSTITUTION

PNB is a \$182 million locally owned community bank headquartered in Pennsville, New Jersey. The bank is a full service, intrastate institution offering a standard array of traditional loan and deposit products as well as trust services. The bank's website at www.pennsvillenb.com provides a listing and description of all deposit, loan, and trust services. PNB is a wholly owned subsidiary of Penn Bancshares, Inc., a one-bank holding company. Both the bank and the holding company are located at the same location in Pennsville, Salem County, New Jersey. The bank has one subsidiary, Denn and Company, which is a Delaware chartered company that holds the bank's investment securities. No merger or acquisition activity has occurred since the last CRA performance evaluation, neither has the bank opened or closed any branches since the last CRA performance evaluation.

The bank's performance context is to service the banking needs of Salem County, where economic activity is weak. The market is mostly rural, being the least populated county in New Jersey, with the lowest number of housing units per square mile in the State. Forty-three percent of Salem County is cultivated farmland. Loan demand is weak, and the bank has historically maintained at least sixty percent of their balance sheet in the investment portfolio. A major Canadian based national bank recently closed a branch office in Pennsville due to low activity. PNB's core business is comprised of local customers' retail deposits, consumer loans, and a minimal amount of commercial loans. Management is community conscious, and is active in municipal lending to local townships within its footprint. The bank services some of the credit needs of low- and moderate-income individuals in its AA by the following:

- The bank does not require a minimum loan amount for personal loans. In this manner, it offers a sensible alternative to payday loan programs. It also provides low- and moderate-income borrowers, and especially senior citizens, a vehicle to borrow smaller amounts with a reasonable amortization.
- The bank provides reduced rate mortgages to low- and moderate-income borrowers who qualify under means testing.

Deposit products and services that address the needs of the low- and moderate-income community are:

- E-checking: this product provides free electronic debit card checking for direct deposit of government checks. The bank also provides free bill pay, and ATM usage.
- Business Freedom Checking: this product provides free checking with a minimum average balance of \$300, which assists small businesses.
- Student checking: this product is totally free with no minimum requirement.
- No minimum amount is required for statement saving accounts with free ATM access.
- Interest tiered money market accounts are offered.
- IRA, Roth IRA and Coverdell Student Savings accounts are offered.
- Cemetery trust services for small denominational religious organizations are offered.
- Phone banking, internet banking, nationwide ATM access, and utility bill payment are all available.

Bank locations and hours of operation provide adequate access to all retail and commercial customers, including low- and moderate-income individuals. Four of the branches open at 8:30AM, Monday through Saturday. Pedricktown opens 9:00AM on Monday through Friday. While branch hours vary slightly, a depositor can have lobby access until 5:00PM on Monday through Wednesday and until 6:00PM on Thursday and Friday. All branches, with the exception of Pedricktown are open on Saturday from 8:30AM until noon. All of the branches have drive-ins, which are open until 6:00PM, Monday through Friday and Saturday mornings 8:30AM until noon, with the exception of Pedricktown, which is closed on Saturday. ATMs are available 24 hours a day. Low- and moderate-income customers have adequate access to banking facilities. The Carney's Point Office is located in a low-income census tract, while the main office in Pennsville is located in a moderate-income census tract. The remaining three branches, Elmer, Pedricktown, and Woodstown are all located in middle-income census tracts.

As of September 30, 2014, PNB reported total assets of \$181.6 million, deposits of \$163.6 million, net loans of \$62 million, and Tier-1 Capital of \$17.0 million. Residential mortgages are PNB's primary lending product. Fifty-five percent of all loans are secured by 1st mortgages on 1-4 family residences. Other lending products include home equity loans, commercial real estate loans, construction and improvement loans, consumer loans, and loans to municipalities.

The FFIEC September 30, 2014 Call Report information stated total net loans of \$62 million, and total assets of \$181.6 million, resulting in a total loan-to-total asset ratio of 34.15%. Based upon the FFIEC September 30, 2014 Custom Peer Uniform Bank Performance Report, the average total loan-to-total asset ratio for six commercial banks of similar size, within PNB’s trade area is 55.81%.

Table 1 provides more details.

Table 1 - Loan Portfolio Summary by Loan Product Pennsville National Bank September 30, 2014			
Loan Category	Amount (\$000's)	Percent of Total Loans	Percent of Total Assets
Construction Loans	\$377	0.5%	0.2%
Revolving Line secured by 1-4 family properties	\$2,006	3.2%	1.1%
Mortgages secured by 1 st liens on 1-4 family properties	\$34,762	55.4%	19.1%
Loans secured by junior liens on 1-4 family properties	\$2,417	3.9%	1.3%
Commercial Real Estate (Owner and non-owner occ.)	\$10,148	16.2%	5.6%
Commercial and Industrial Loans	\$1,291	2.0%	0.7%
Consumer Loans	\$2,108	3.4%	1.2%
Loans to Municipalities	\$9,690	15.4%	5.3%
Total	\$62,799	100%	34.5%

Source: September 30, 2014 Call Report

PNB’s total assets increased 2% since the last evaluation. On December 31, 2008, total assets were \$178 million compared to \$181.6 million on September 30, 2014. Total loans decreased 9% since the last evaluation. On December 31, 2008, total loans were \$68 million compared to \$62.8 million as of September 30, 2014.

The institution has no financial or legal impediments to meeting the credit needs of the community. The institution was rated “**Satisfactory**” at the last CRA evaluation dated March 23, 2009.

DESCRIPTION OF ASSESSMENT AREA(S)

PNB has defined the entire county of Salem and the southern portion of Gloucester County as its AA. These counties are located in the southwest region of New Jersey, anchored by the cities of Salem and Woodbury. Salem County is part of the Wilmington, DE-MD-NJ Metropolitan Division (MD) #48864 and consists of 24 census tracts. All 24 census tracts are part of the bank’s AA. Gloucester County is part of the Camden, NJ MD #15804 and consists of 59 census tracts. However, only seven of the 59 census tracts are part of the bank’s AA. Given both counties are from different MDs, we will review each county separately as the Salem County AA and the Gloucester County AA for our analysis.

Salem County AA

Pennsville National Bank - Salem County

Demographic Information for Pennsville National Bank - Salem County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA % of #
Geographies (Census Tracts/BNAs)	24	12.50	16.67	62.50	8.33	0.00
Population by Geography	66,083	9.56	13.28	63.82	13.34	0.00
Owner-Occupied Housing by Geography	18,649	5.00	10.22	69.64	15.14	0.00
Business by Geography	4,296	6.96	11.55	65.90	15.60	0.00
Farms by Geography	379	1.06	2.90	77.84	18.21	0.00
Family Distribution by Income Level	17,268	21.81	19.30	23.18	35.72	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	7,098	15.22	18.33	56.97	9.48	0.00
Median Family Income HUD Adjusted Median Family Income for 2013 Households Below Poverty Level		76,834 79,300 10%	Median Housing Value Unemployment Rate (2014 Bureau of Labor Statistics)		\$202,797 6.1%	

Source: 2010 US Census and 2013 HUD updated MFI

PNB’s Salem County AA totals 24 census tracts. It is comprised of 3 low- income tracts (13%), 4 moderate- income tracts (17%), 15 middle- income tracts (62%), and 2 upper- income tracts (8%). There has been an increase of 1 low- income tract and 2- upper- income tracts, and a decrease of 1 moderate- income tract and 2 middle- income tracts since the prior evaluation. None of the census tracts are distressed or underserved. The bank’s Salem County AA complies with the regulation and does not arbitrarily exclude low- or moderate-income areas.

According to the 2010 US Census data, the population of this AA is 66,083. This AA contains 25,117 households, and 17,268 households that are families. Approximately 22% of the families are categorized as low-income, 19% as moderate-income, 23% as middle-income, and 36% as upper-income. Approximately 2,511 or 10% of households are below the poverty level. The 2013 HUD updated median family income was \$79,300 for this AA and the median value of a home was \$202,797 or an increase of 95% over the \$104,401 median value of a home at the prior evaluation. There are 27,293 housing units with owner-occupied units at 68%, rental-occupied units at 24%, and vacant units at 8% in this AA.

Based upon the 2010 census, Salem County is the least populated of the 21 counties in the State of New Jersey but the tenth largest county in square miles. The county is comprised of large agriculture plots and open space, where 42.6 percent of the land is under active farm cultivation. The county’s rural footprint is defined by its’ six rivers, 34,000 acres of meadow and marshland, and 40 lakes and ponds. In addition,

according to the 2010 U.S. Census Data, Salem County has less housing units per square mile than any other county in the State of New Jersey, and falls well below the region's average.

The economy for Salem County is showing a slow to moderate rebound. General sales showed moderate growth. Manufacturing, construction, lending activity, and tourism all showed moderate growth. Corporate capital expenditures are modest, while employment growth remains cautious. Lending quality shows slight improvement. The projected rebound in home sales and construction, anticipated to occur in 2013 and early 2014, did not materialize.

According to the U.S. Bureau of Labor Statistics, the November 2014 unemployment rate for Salem County was 6.20%, which is equal to the State of New Jersey's rate of 6.20% as of December 2014. Both rates are higher than the national unemployment rate of 5.60%. The county's top five industries by distribution of employees were healthcare and social services, manufacturing, retail trade, utilities, and transportation and warehouse. The top five employers for the county included: PSEG, E.I. DuPont, Mannington Mills, Memorial Hospital of Salem County, and Atlantic City Electric.

According to the most recent FDIC Summary of Deposit Report dated June 2014, there are 8 banks with 27 branches in Salem County competing for \$977 million of deposits. Six are community banks, one is a regional bank, and one is a nationwide bank. PNB ranked third in deposit market share with a 16.52% penetration. Fulton Bank was ranked first at 27.32% and Harvest Community Bank was ranked second with a 17.06% market share.

Based upon peer mortgage data derived from the 2010 US Census Data, there were 213 lending institutions competing for 3,286 mortgage applications in Salem County in 2012. The top three institutions had a 28.09% market share. Wells Fargo ranked first with a market share of 17.04%; JP Morgan Chase ranked second with a market share of 5.63%; and the subject bank, PNB, ranked third with a market share of 5.42%.

During this evaluation, we contacted a federally designated Community Action Partnership, which services Salem and Gloucester Counties, as well as other Southern New Jersey geographies. According to this community contact, there is an overall need for affordable housing for low- to moderate-income individuals and families as well as programs for first time home-buyers. Affordable housing is lacking in the AA due to rising real estate costs and development costs. The contact indicated a need for local lenders to donate home sites for the development of affordable housing, to provide construction financing for affordable housing development, and to participate in down payment programs for first time homebuyers.

In addition, there is a growing need for more modern, clean, and affordable rental units for an aging population of low- and moderate-income individuals and families. The need results from increasing high costs of home ownership, and real estate taxes.

Gloucester County AA

Demographic Information for Limited Scope Area: Pennsville National Bank - Gloucester County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA % of #
Geographies (Census Tracts/BNAs)	7	0.00	0.00	28.57	71.43	0.00
Population by Geography	38,621	0.00	0.00	17.61	82.39	0.00
Owner-Occupied Housing by Geography	10,282	0.00	0.00	18.31	81.69	0.00
Business by Geography	2,963	0.00	0.00	15.83	84.17	0.00
Farms by Geography	136	0.00	0.00	20.59	79.41	0.00
Family Distribution by Income Level	9,597	13.21	12.15	20.67	53.96	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	2,434	0.00	0.00	33.98	66.02	0.00
Median Family Income HUD Adjusted Median Family Income for 2013 Households Below Poverty Level		83,092 86,200 6%	Median Housing Value Unemployment Rate (2014 Bureau of Labor Statistics)		311,447 6.1%	

Source: 2010 US Census and 2013 HUD updated MFI

The bank’s Gloucester County AA totals 7 census tracts. It is comprised of 2 middle-income tracts (29%) and 5 upper-income tracts (71%). There are no low- or moderate-income tracts. None of the census tracts are distressed or underserved. The bank’s Gloucester County AA complies with the regulation and does not arbitrarily exclude low- or moderate-income areas.

According to the 2010 US Census Data, the population of this AA is approximately 38,621. This AA contains 11,760 households and 9,597 households that are families. Approximately 13% of the families are categorized as low-income, 12% as moderate-income, 21% as middle-income, and 54% as upper-income. Approximately 468 or 6% of households are below the poverty level. The 2013 HUD updated median family income was \$86,200 for this AA and the median value of a home was \$311,47. There are 10,282 housing units with owner-occupied units at 83%; there are 1,478 rental-occupied units at 12%, and 697 vacant-housing units at 6% in this AA.

The economy for Gloucester County has remained fairly stable in spite of the nation’s economic slowdown over the past several years. According to the Bureau of Labor Statistics, the November 2014 unemployment rate for Gloucester County was 6.10% compared to the State of New Jersey unemployment rate of 6.20% and higher than the national unemployment rate of 5.60%. The county’s top five industries by distribution of employees were educational services, health care, retail trade, professional and management, and financial and insurance. According to the Gloucester County website

the major employers are Underwood Memorial Hospital, Kennedy Memorial Hospital, Rowan University, Missa Bay, LLC, and US Food Service.

PNB has no branches in Gloucester County, therefore it has no market share or deposits in Gloucester. There are 22 banks with 80 branches competing for \$5 billion in deposits. TD Bank ranks first with a 27.64% market share, Fulton Bank ranks second with a 14.32% market share, and Wells Fargo ranks third with a 9.81% market share.

Based upon peer mortgage data derived from the 2010 US Census Data, there were 254 lending institutions competing for 3,594 mortgage applications in Gloucester County in 2012. The top three institutions had a 32.03% market share. Wells Fargo ranked first with a market share of 20.23%; JP Morgan Chase ranked second with a market share of 6.68%; and TD Bank ranked third with a market share of 5.12%. PNB is ranked one hundred and seventy ninth with a market share of 0.06%.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's overall lending performance is "**Satisfactory**." This conclusion is based upon the results of the following lending tests used to determine if the bank is meeting the credit needs of the AA. All criteria of the specific lending tests are documented below:

Loan-to-Deposit Ratio (LTD)

PNB's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, lending-related activities, and AA credit needs. The bank's quarterly average net loan-to-deposit ratio over the twenty-four quarters since the last CRA evaluation was 36.49%. During this time-period, the ratio ranged from a quarterly low of 33.47% to a quarterly high of 40.28%. The quarterly average net loan-to-deposit ratio for a custom peer group of seven similarly sized national banks in the state of New Jersey was 75.72% over the same twenty-four quarters. While the bank's quarterly average net loan-to-deposit ratio is significantly lower than the custom peer group, it is reasonable when taking into consideration the bank's lending market share, and the competition for loans. In addition, the bank sells mortgage loans in the secondary market as a way to manage interest rate risk and credit risk.

Lending in Assessment Area

The bank's lending in its AA exceeds the standard for satisfactory performance. A substantial majority of PNB's residential mortgage loans were originated inside the bank's AA. During the evaluation period, 94.98% of the residential mortgage loans originated by the bank were made within the bank's AA.

Lending to Borrowers of Different Incomes

The distribution of loans reflects reasonable penetration among borrowers of different income levels, and PNB’s record of lending to borrowers of different income levels meets the standard for satisfactory performance.

Salem County AA

The following, **Table 2**, shows the distribution of home loan products among borrowers of different income levels for the period of January 1, 2012 through December 31, 2013 as compared to the percent of families in each income category.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Salem County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	21.81	18.52	19.30	7.41	23.18	33.33	35.72	40.74
Home Improvement	21.81	19.57	19.30	25.00	23.18	28.26	35.72	27.17
Home Refinance	21.81	10.19	19.30	17.59	23.18	40.74	35.72	31.48

Source: HMDA LARs 2012-2013

The distribution of loans reflects reasonable penetration among borrowers of different income levels, and PNB’s record of lending to borrowers of different income levels meets the standard for satisfactory performance.

In our analysis, we considered how affordable it was for low- and moderate-income individuals to purchase a home and we considered the poverty rate. The average median housing value in this section of the AA was \$202,797. The 2013 HUD updated median family income was \$79,300. This means that low-income individuals earn less than \$39,650, while moderate-income families earn less than \$63,192. The ability of low- and moderate-income families to obtain home loans to support a median housing value of \$202,797 can be somewhat curtailed.

The percentage of home purchase loans made to low-income borrowers is near to the percentage of low-income families in the AA. The percentage of home purchase loans made to moderate-income borrowers is lower than the percentage of moderate-income families in the AA.

The percentage of home improvement loans made to low-income borrowers is near to the percentage of low-income families in the AA. The percentage of home improvement loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

The percentage of home refinance loans made to low-income borrowers is lower than the percentage of low-income families in the AA. The percentage of home refinance loans made to moderate-income borrowers is near to the percentage of moderate-income families in the AA.

Gloucester County AA

We gave no weight to this portion of the Lending Test. The bank received only seven home loan applications in the Gloucester County AA. None of the applicants were low- or moderate-income families.

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout census tracts of different income levels, and PNB’s performance meets the standard for satisfactory performance. There were no conspicuous gaps identified within PNB’s AA.

Salem County AA

The geographic distribution of loans in the Salem County AA reflects reasonable dispersion throughout census tracts of different income levels, and PNB’s performance meets the standard for satisfactory performance.

The following, **Table 3**, details the bank’s performance as compared to the percentage of owner-occupied housing units in each census tract income level for the period of January 1, 2012 through December 31, 2013.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Salem County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	5.00	3.70	10.22	11.11	69.64	77.78	15.14	7.41
Home Improvement	5.00	5.38	10.22	13.98	69.64	73.12	15.14	7.53
Home Refinance	5.00	1.83	10.22	8.26	69.64	82.57	15.14	7.34

Source: HMDA LARs 2012 and 2013

The percentage of home purchase loans made in low-income geographies is near to the percentage of owner-occupied housing units in these geographies. The percentage of home purchase loans made in moderate-income exceeds the percentage of owner-occupied housing units in these geographies.

The percentage of home improvement loans made in low- and moderate-income geographies exceeds the percentage of owner-occupied housing units in these geographies.

The percentage of home refinance loans made in low-income geographies is lower than the percentage of owner-occupied housing units in these geographies. The percentage of home refinance loans made in moderate-income geographies is near to the percentage of owner-occupied housing units in these geographies.

Gloucester County AA

This portion of the Lending Test was omitted from the evaluation, since there are no low- or moderate-income geographies in the Gloucester County AA.

Responses to Complaints

PNB did not receive any CRA related complaints during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.