



PUBLIC DISCLOSURE

May 06, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Phoenixville Federal Bank and Trust
Charter Number 704504

Main and Hall Street, Phoenixville, PA 19460

Office of the Comptroller of the Currency
Philadelphia Field Office
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 Outstanding.

The Lending Test is rated: Outstanding

The Community Development Test is rated: Satisfactory

The major factors supporting this rating include:

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

Scope of Examination

Phoenixville Federal Bank and Trust ("PFBT," "Phoenixville Federal," or "the bank") was evaluated under the Intermediate Small Bank (ISB) examination procedures, which include a lending test and a community development (CD) test. The lending test evaluates the bank's record of meeting the credit needs of its assessment area (AA) through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AA through CD lending, qualified investments, and community development services.

The evaluation period under the lending test covers the bank's performance from January 1, 2010 through December 31, 2011, as this is representative of its strategy since the last CRA Examination and is consistent with 2000 Census Demographic Data. The evaluation period for the CD test is from May 4, 2010 through May 6, 2013.

Phoenixville Federal's primary loan product is home mortgage loans. The bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). Prior to this evaluation, we tested the accuracy of Phoenixville Federal's HMDA data and found it to be reliable. Therefore, HMDA data from January 1, 2010 to December 31, 2011 was used to evaluate the bank's lending performance. CD loans, investments, and services submitted by management were verified to ensure that they met the regulatory definition for community development.

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

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

Source: 2000 US Census; 2011 HUD updated MFI

Description of Institution

PFBT is a federally chartered mutual thrift institution headquartered in Phoenixville, Pennsylvania. The bank is located in southeastern Pennsylvania, approximately 25 miles northwest of center city Philadelphia. As of December 31, 2011, PFBT had total assets of \$405 million and tier one capital of \$43.5 million.

As of December 31, 2011, PFBT operated five full-service offices in Chester and Montgomery counties in the state of Pennsylvania. The main office is located in Phoenixville, Chester County. One other branch is located in Pikeland, Chester County. Three other branches are located in Collegeville, Limerick, and Royersford, all within Montgomery County. All branches have on-site automated-teller machines (ATMs). All branches offer extended hours on Fridays and Saturday mornings. There were no branches opened or closed during the review period. No mergers or acquisitions occurred during this period either. The Collegeville, Limerick, and Pikeland branches are located in upper-income census tracts (CT). The main office in Phoenixville and Royersford branch are located in middle-income CTs.

Table 2 represents the branch and deposit distribution by CT income category.

Table 2 - Distribution of Branch Offices in the Assessment Area		
Census Tract Income Category	Branch Distribution	
	% of Branches	% of Deposits
Low	0%	0%
Moderate	0%	0%
Middle	40%	52%
Upper	60%	48%
Total #	5	356,961

Source: FDIC Deposit Market Share Report

Phoenixville Federal attracts retail depositors and offers a number of loan products and deposit services through its branch network. PFBT offers several residential loan products including loans for the purchase and refinance of a home, home equity installment loans, and home equity lines of credit. Deposit products include personal checking accounts, personal savings, certificates of deposit accounts, and retirement savings accounts. PFBT provides ATM/debit card services with an ATM at each branch office.

As of December 31, 2011, PFBT reported net loans and leases of \$283 million or 69.9 percent of total assets.

Table 3 depicts the bank's balance sheet composition as of December 31, 2011.

Table 3 - Major Components of Assets, Liabilities, and Capital as of December 31, 2011		
Balance Sheet Component	Balance Sheet \$ Amount (000)'s	% of Total Assets/LC
Loans	\$283,231	69.9%
Residential Mortgage Loans	\$173,340	42.8%
Non-Residential Mortgage Loans	\$84,255	20.8%
Commercial Nonmortgage loans	\$24,985	6.1%
Consumer Loans	\$651	0.2%
Investments	\$96,540	23.9%
US Agencies	\$9,070	2.2%
Municipal Securities	\$10,419	2.6%
Mortgage Backed Securities	\$26,464	6.5%
Cash	\$50,587	12.5%
Total Assets	\$405,163	
Deposits	\$357,737	88.3%
Total Liabilities	\$361,401	89.2%
Retained Earnings	\$42,980	10.6%
Total Capital	\$43,762	10.8%
Liabilities & Capital (LC)	\$405,163	100%

Source: December 31, 2011 Thrift Financial Report

The bank has no financial impediments that would affect its ability to meet the credit needs of its assessment areas. However, the bank's ability to lend and participate in community development activities in its assessment areas has been somewhat impacted by the terms of a formal enforcement action with its primary regulatory agency. The bank received an "Outstanding" rating at the prior CRA examination performed May 3, 2010.

Description of Assessment Area

Phoenixville Federal's AA consists of all of Chester and Montgomery Counties, PA. The AA is located in the Philadelphia, PA Metropolitan Division (MD) #37964. The

contiguous area contains 323 census tracts (CTs). This AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

Of the 323 CTs, one or 0.31 percent is low-income, 19 or 5.88 percent are moderate-income, 111 or 34.37 percent are middle-income, and 189 or 58.51 percent are upper-income.

The 2000 U.S. Census reported the total population of the AA at 1,183,598. Within the AA, there are 312,962 families and 444,280 households. There are 461,207 housing units, of which 330,737 are owner-occupied, 113,266 are rental-occupied, and 17,204 are vacant housing units. Approximately 0.09 percent of owner-occupied housing is located in the low-income geographies, 2.94 percent is located in the moderate-income geographies, 27.35 percent is located in middle-income geographies, and 69.61 percent is located in upper-income geographies. The median housing cost is \$175,825.

The 2000 median family income was \$56,993. The HUD updated median family income for 2011 is \$78,100. Approximately 10.98 percent of the families are low-income, 13.62 percent are moderate-income, 20.51 percent are middle-income, and 54.89 percent are upper income. Approximately 5 percent are below the poverty level.

PFBT faces strong competition for assessment area deposits and loans. According to the June 30, 2012 FDIC Summary of Deposit Market Share Report, Phoenixville Federal's deposit market share within Chester and Montgomery Counties is 1.04 percent; ranking the bank 21st out of 58 institutions in the AA. Phoenixville Federal's primary competitors are Wells Fargo Bank, NA (58 offices, 17.14 percent market share), Citizens Bank of PA (60 offices, 11.99 percent market share), and TD Bank, NA (34 offices, 11.27 percent market share).

PFBT ranks 65th out of 590 lenders in mortgage lending in the AA, according to 2011 Peer Mortgage Data. PFBT originated 256 mortgage loans in 2011 in the AA which accounted for a 0.29 percent market share. Competition comes primarily from larger banks, specifically, Wells Fargo Bank, NA (20.11 percent market share), JP Morgan Chase Bank, NA (6.33 percent market share), and Bank of America, NA (4.91 percent market share).

Tables 4 and 5 summarize the AA's demographics:

Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	323	0.31	5.88	34.37	58.51	0.93
Population by Geography	1,183,598	0.26	4.98	29.31	65.17	0.28
Owner-Occupied Housing by Geography	330,737	0.09	2.94	27.35	69.61	0.00
Business by Geography	170,551	0.25	3.99	24.29	71.45	0.01
Farms by Geography	3,577	0.00	2.12	31.14	66.73	0.00

Family Distribution by Income Level	312,962	10.98	13.62	20.51	54.89	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	76,994	0.62	10.76	40.60	48.02	0.00
Median Family Income	56,993	Median Housing Value		175,825		
HUD Adjusted Median Family Income for 2011	78,100	Unemployment Rate (Chester)		5.5%		
Households Below Poverty Level	5%	Unemployment Rate (Montgomery)		6.3%		

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

Table 5 - Assessment Area Demographic Information								
Income Category	% Family Distribution	Census Tract Data Distributions						
		# Tracts	% Housing Units	% Owner Occupied Units	% Rental Occupied Units	% Single Family Units	Median Housing Value	Median Housing Age
Low	10.98%	1	0.29%	0.09%	0.66%	0.30%	\$74,500	51
Moderate	13.62%	19	5.69%	2.94%	12.54%	5.34%	\$80,829	47
Middle	20.51%	111	30.58%	27.35%	39.52%	29.22%	\$127,922	30
Upper	54.89%	189	63.44%	69.61%	47.28%	65.13%	\$207,902	19
NA	0%	3	0%	0%	0%	0%	\$0	0
Total #	100%	323	100%	100%	100%	100%	\$175,825	24

Source: 2000 U.S. Census Data

The current local economy for the AA is characterized as stable. The AA fared better than national averages during the recent economic crisis. Home prices, unemployment rates, and poverty levels were not affected as drastically as national averages. Economic activity in the area is relatively diverse with services, health care, retail trade, and manufacturing being the primary activities. The December 2011 unemployment rate was 5.5 percent for Chester County and 6.3 percent for Montgomery County. Both are below the national average of 8.5 percent, and the PA state average of 7.7 percent.

During the examination, we contacted a local community organization whose primary purpose is to represent the best interests of businesses in Chester and Montgomery counties. The contact is located in Chester County. The contact described the area as improving “due to the draw to the affluence of Chester County.” The contact stated, “there has been growth in the real estate market” and specifically mentioned \$160 million in approved development projects. The contact stated, “there are some opportunities for banks to finance portions of these projects or make donations, though a large majority have private investors.” It is the contact’s opinion that due to regulatory pressure on financial institutions, it is more difficult for small businesses to obtain equity financing as a result of enhanced underwriting criteria.

Conclusions with Respect to Performance Tests

LENDING TEST

Phoenixville Federal’s performance under the Lending Test is Outstanding. The bank’s quarterly average loan-to-deposit ratio is more than reasonable. A substantial majority of Phoenixville Federal’s home mortgage loans were made in the bank’s AA. The

distribution of home loans to borrowers reflects reasonable penetration among individuals of different income levels. The distribution of home loans to borrowers reflects excellent dispersion among low-income and moderate-income geographies. Phoenixville Federal has not received any CRA complaints during this evaluation period.

Loan-to-Deposit Ratio

Phoenixville Federal’s quarterly average net loan-to-deposit ratio is more than reasonable given the bank’s size, financial condition, and the credit needs of the AA. The bank’s loan-to-deposit ratio exceeds the standards for satisfactory performance. The bank’s quarterly average net loan-to-deposit ratio over the eight quarters ended December 31, 2011 was 94.42 percent. During this time period, the ratio ranged from a quarterly low of 87.31 percent to a quarterly high of 100.44 percent. The bank’s quarterly average net loan-to-deposit ratio compares more favorably to other financial institutions of similar size. The quarterly average net loan-to-deposit ratio for financial institutions of similar size was 79.66 percent over the same eight quarters. The ratios ranged from a quarterly low of 77.25 percent to a quarterly high of 81.19 percent during that time period.

Lending in Assessment Area

A substantial majority of Phoenixville Federal’s home mortgage loans were made within the bank’s AA, exceeding the standards for satisfactory performance. During the evaluation period, 90.90 percent of the number and 89.21 percent of the dollar amount of total home mortgage loans were made in the bank’s assessment area.

Table 6 illustrates the bank’s lending within the AA and dollar amount of loans.

Table 6 - Concentration of Mortgage Loans Originated In and Outside of the Assessment Area						
Loan Type	% Inside Area		% Outside Area		Total	
	#	\$(000)	#	\$(000)	#	\$(000)
Mortgage Loans	410	\$67,931	41	\$8,218	451	\$76,149

Source: Phoenixville 1/1/2010 – 12/31/2011 HMDA Data

Lending to Borrowers of Different Incomes

The distribution of home loans to borrowers reflects reasonable penetration among individuals of different income levels. The percentage of HMDA loans made to low-income borrowers is 8.29 percent, which is lower than the percentage of low-income families at 10.98 percent. The bank originated 87.18 percent of applications received from low-income borrowers in the AA or 34 out of 39 applications. The bank exceeds the peer aggregate for lending to low-income borrowers at 4.99 percent versus peer of 3.88 percent. The percentage of HMDA loans made to moderate-income borrowers, 13.17 percent, is similar to the percentage of moderate-income families at 13.62

percent. The bank originated 83.08 percent of applications received from moderate-income borrowers within the AA or 54 out of 65 applications.

Lending opportunities to the low-income group are limited given the median home price in the AA of \$175,825. Low-income borrowers would have extreme difficulty affording a home in this AA as their income would be less than \$39,049.

Table 7 shows the distribution of HMDA loans among borrowers of different income levels for the period of January 1, 2010 through December 31, 2011, as compared to the percent of families in each income category as well as aggregate peer performance.

Table 7 - Distribution of Mortgage Loans By Borrower Income Level in the Assessment Area				
Borrower Income Category	% of Loans	% of \$ Volume (\$000)	% Family Distribution	% of Aggregate (or Peers)
Low	8.29%	4.99%	10.98%	3.88%
Moderate	13.17%	8.22%	13.62%	13.14%
Middle	24.15%	21.61%	20.51%	21.55%
Upper	52.20%	62.65%	54.89%	55.76%
Not Available	2.20%	2.53%	0.00%	5.66%
Total # and \$	410	\$67,931	312,962	44,096

Source: Phoenixville 1/1/2010 – 12/31/2011 HMDA Data; 2000 U.S. Census Data; 2011 Peer Mortgage Data

Geographic Distribution of Loans

The distribution of home loans to borrowers reflects excellent dispersion among moderate-income geographies. The percentage and volume of HMDA loans made in moderate-income geographies, 9.51 percent and 6.63 percent, far exceeds the percentage of owner-occupied housing in the moderate-income geographies in the AA of 2.94 percent. The bank’s figures also far exceed the aggregate peer percentage of 2.29 percent lending in moderate income geographies.

The bank did not make any HMDA loans in the low-income geographies during the review period. Opportunities for lending in these areas are very limited as only one of the bank’s 323 CTs (0.30 percent) are designated as low-income. The median family income in this CT is \$27,786 and 26.94 percent of households are below the poverty level. It would be difficult for a low-income individual to purchase housing in the CT.

Table 8 details the bank’s performance as compared to the percentage of owner-occupied housing in each CT income category as well as aggregate peer performance.

Table 8 - Distribution of Mortgage Loans By Census Tract Income Level in the Assessment Area				
Census Tract Income Category	% of Loans	% of \$ Volume	% Owner Occupied	% of Aggregate (or Peers)
Low	0.00%	0.00%	0.09%	0.04%
Moderate	9.51%	6.63%	2.94%	2.29%
Middle	30.58%	24.75%	27.35%	22.50%
Upper	59.51%	68.62%	69.61%	75.17%
Total # and \$	410	\$67,931	330,737	44,056

Source: Phoenixville 1/1/2010 – 12/31/2011 HMDA Data; 2000 U.S. Census Data; 2011 Peer Mortgage Data

Responses to Complaints

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

COMMUNITY DEVELOPMENT TEST

The Community Development (CD) Test is rated Satisfactory. The bank’s level of CD activities is considered adequate given the size, capacity, and limited CD opportunities available in its AA. Qualified CD loans total approximately \$610 thousand or 1.4 percent of Tier One Capital. Qualified CD investments and donations total approximately \$60 thousand or 0.14 percent of Tier One Capital. Qualifying CD opportunities are limited given the bank’s AA (largely middle- or upper-income) and participation was somewhat impacted by the terms of a formal enforcement action with its primary regulatory agency. Therefore, PFBT’s level of CD activities is considered adequate given its size and capacity, when considering the CD needs and opportunities of its AA.

Number and Amount of Community Development Loans

During the evaluation period, PFBT originated 25 community development loans totaling approximately \$610 thousand or 1.4 percent of Tier One Capital. The majority of loans were originated through a Community Development Corporation, Community Lenders Community Development Corporation (“CLCDC”). CLCDC is a non-profit consortium whose mission is to provide long term financing to organizations that work to improve their community. CLCDC promotes and facilitates community revitalization financing or investment in housing and community development activities, which address the needs of LMI individuals. During the review period, the bank participated in 23 loan projects totaling \$468 thousand. Remaining CD loans were made to organizations whose purpose is to provide affordable housing to low or moderate-income individuals in the AA.

Number and Amount of Qualified Investments

During the evaluation period, the bank did not make any new qualifying investments. However, there were 14 qualifying donations made totaling \$10.7 thousand.

Prior period qualifying investments included two qualifying investments totaling \$49.3 thousand. These investments consisted of mortgage-backed securities in which the mortgages were made to low-income or moderate-income borrowers within the AA. They also made 14 qualifying donations and contributions totaling \$10.7 thousand to 10 organizations that help to provide economic development, affordable housing, or educational and community services to low- or moderate-income individuals and families in the AA. In addition, the bank provided an in-kind donation of the use of free space at one of its branches for a community group. This group offers some services to low and moderate-income individuals within the AA.

Extent to Which the Bank Provides Community Development Services

During the evaluation period in the bank's AA, a total of nine directors, officers and employees provided technical services and support to 12 qualified community development organizations. Two organizations are aimed at providing affordable housing to low-income and moderate-income individuals; eight organizations provide community services, such as healthcare or shelter, to low-income and moderate-income individuals; and two organizations are geared toward promoting economic development by providing financing to small businesses. In aggregate, the bank provided 17 CD services, due to involvement by some individuals in more than one organization.

Responsiveness to Community Development Needs

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

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), or 12 CFR 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 GSA's lending performance.

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